

**PUBLIC ACCOUNTS COMMITTEE
(1972-73)**

(FIFTH LOK SABHA)

EIGHTY-SECOND REPORT

[Paragraphs contained in Audit Report (Defence Services),
1970 and Report of Comptroller and Auditor General
of India for the year 1969-70, Central Government
(Defence Services)]



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 23-4-1973 (FN)

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PUBLIC ACCOUNTS COMMITTEE
(1972-73)

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SECRETARIAT

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

INTRODUCTION

1. The Chairman of P.A.C., as authorised by the Committee do present on their behalf this Eighty-Second Report of the Committee (Fifth Lok Sabha) on the paragraphs contained in Audit Report (Defence Services), 1970 and Report of Comptroller and Auditor General of India for the year 1969-70, Central Government (Defence Services).

2. The Audit Report (Defence Services) 1970 and Report of Comptroller and Auditor General of India for the year 1969-70, Central Government (Defence Services) were laid on the Table of the House on 1st April, 1970 and 7th June, 1971 respectively.

3. The Committee examined paragraphs relating to the Ministry of Defence from 17th to 21st July, 1972. Written information was also obtained from Government on certain points arising out of the Audit paragraphs through questionnaires issued to the Ministry before and after the sittings. This Report was considered and finalised by the Public Accounts Committee (1972-73) at their sittings held on 4th April, 1973, 13th April, 1973 and 23rd April, 1973 Minutes of these sittings form Part II* of the Report.

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

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

6. The Committee would also like to express their thanks to the officers of the Ministry of Defence for the co-operation extended by them in giving information to the Committee.

NEW DELHI;
April 23rd, 1973.

ERA SEZHIYAN,
Chairman,

Vaisakha 3, 1895 (S.)

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MINISTRY OF DEFENCE

Delay in execution of a project

Audit Paragraph

1.1. In March 1963 Government sanctioned construction of accommodation and services for a signal unit at a station (where it was to be shifted from its existing location) at the estimated cost of Rs. 44 lakhs. The project was to be executed as an emergency work.

1.2. Construction of main transmitter and some ancillary buildings (Rs. 11.18 lakhs) was taken up in November 1965. Soon after completion in November 1967, it was found in May 1968 that a number of cracks had developed in portal and subsidiary beams in the main transmitter building and these were attributed by the department to bad workmanship; the contractor has, however, contended that the design of the buildings was faulty but took up the work of rectifications subject to his right to seek arbitration. The rectification work was completed in December 1969. While the arbitrator has been appointed in May 1969 the case is also being investigated by the Special Police Establishment (November 1969).

1.3. The other technical administrative and residential buildings included in the project were to be constructed to temporary specifications. After issue of the sanction Army Headquarters decided to construct all buildings to permanent specifications and also later to revise the design of some of the technical buildings to protect them from aerial attacks. The new designs of the buildings have been finalised only in December 1969.

1.4. Work on provision of aerial masts for the signal equipment was taken up in October 1968, and construction of domestic and administrative buildings was taken up in September 1969.

1.5. The Ministry stated (November 1969) that efforts are being made to complete the project as early as possible and that it is anticipated that works necessary to enable the unit to shift to its new location will be completed in 1970.

[Paragraph 12, Audit Report (Defence Service 1970.)]

1.6. According to the information furnished by the Ministry, the Project was originally contemplated to be completed in 1966.

1.7. ~~As per~~ the Administrative Approval given in 1963 the construction of the main transmitter and ancillary buildings was to cost Rs. 4.52 lakhs. The contract amount was however Rs. 8.81 lakhs. The period of completion of the work stipulated in the contract was 12 months.

1.8. It is understood from Audit that the defects noticed in the construction were :

- (a) The casting of the main portal and subsidiary beams was defective and the soffit of the beams was not straight. The surface was uneven and its finish was not smooth. This defect was mainly due to use of bad shuttering which appeared to have yielded during placing and compaction of concrete.
- (b) The main and subsidiary beams had cracked at a number of places which have been covered at some places with patchy plaster.
- (c) The concrete in the beams and slabs appeared not to have been cured properly. The concrete as seen in the cracked portion was dry and the reinforcement was not properly covered all round with concrete due to insufficient compaction during laying.

1.9. As regards the decision of the arbitrator who was appointed in May, 1969, the Defence Secretary stated: ".....the conclusion that we draw from the arbitrator's award is that the arbitrator has not accepted the contractor's view that it was due to the fault in design. If the arbitrator had accepted that view, then the whole of the expenditure will have been awarded against us. The arbitrator on the other hand went by what additional work was necessary.....The claim was for 4½ lakhs and the final decision was for one lakh and few thousands."

1.10. The Committee understood from Audit that the SPE had stated that its investigations had revealed that the cracks in the portal and subsidiary beams were due to use of short lengths bars and had suggested departmental action against certain officers and subordinates. The Ministry, in a note, furnished the findings of the SPE as follows:—

"The conclusion of the S.P.E. inquiry was that there was negligence on the part of six suspects and that there was sufficient material for taking action against them. The recommendations of the SPE were :—

- (i) that regular departmental action be taken against the Asstt. Executive Engineer, the Senior Barrack Stores Officer and the Superintendent B/R Gde. I;

- (ii) that Administrative action under the Army Act be taken against the Garrison Engineer and the Staff Officer I (Planning);
- (iii) that no action be taken against the C.W.E. as he had already retired from service;
- (iv) that business dealing with the firm be suspended as they are responsible for bad workmanship which resulted in the failure of the Wireless Transmitting Station."

1.11. During evidence, the Additional Secretary, Ministry of Defence deposed: "We are quite conscious about the various things which have happened not merely because there are reports but also because it had been gone through by a technical board. We ourselves know as a result of an investigation by an expert body constituted by the Engineer in chief composed of four technical experts from different areas. In their report they have clearly pointed out that there has been inadequate workmanship. This really goes against the contractor initially. But it is also the responsibility of the engineer in charge and his personnel, having supervised it and not found it or having not pointed it out to him. The expert body found the supervision faulty. All these points have now been given to the Commissioner of departmental enquiries and they have started the work. I suggest that we wait until we get the recommendations of the Commission. We are going to take disciplinary action in the light of the report of the Commissioner of departmental enquiries."

1.12. Regarding the report of the Commissioner of departmental enquiries, the Ministry stated:

"The report is not yet available as the enquiry is still in progress by the Inquiry Officer. Action against the Officers concerned will be considered by the Government as soon as the enquiry report is received."

1.13. The Committee drew attention to the audit paragraph which stated that designs of the technical buildings were finalised only in December 1969 and enquired the reasons for the delay. The Ministry furnished the following information in this regard:

"The designs of only B, E and F buildings were reviewed with an idea to change specifications from temporary to permanent. In the course of reviewing the design of technical and other additional requirements, e.g. necessity for additional measures to protect the buildings against air attack a factor noticed after Indo-Pak conflict of 1965 necessitated extensive revision of designs. Some time was taken in collecting sufficient material for finalisation of the revised designs. The entire material became available only in May 1967. It was also visualised that

it would suffice if the completion of the buildings was to be synchronised with the completion of feeder routes, stabilised main power supply and aerial masts.

The construction drawings were thereafter taken in hand and alternative designs for over and under-ground constructions were prepared to ensure the degree of protection required for buildings of this type and their relative economics were examined. Thus the set of designs could be finalised only in March, 1969. Government sanction was finally issued in December 1969."

1.14. According to Audit, the Ministry stated in August 1970 that the transmitter building has been taken over by the Signal Regiment and that an installation and mast construction team has been located at the station to carry out various tasks in a phased manner.

1.15. Asked whether the transmitter was working, the Defence Secretary stated during evidence: "Yes. It functioned during the war extremely well. In retrospect, in my personal view, the delay has been advantageous to Government. If the delay had not occurred we would not have derived lessons from the 1965 conflict and we would not have made the modifications which we made. Finally everybody is very happy. However, we had intended it to be functioning in 1966 but it was really functioning only in 1970."

1.16. The Committee regret to note serious delay irregularities and deficiencies in the construction of the Signal Project taken up as an emergency work. The Project which was proposed to be completed in 1966 was actually completed four years later. The construction of the main transmitter and ancillary buildings as part of the project was commenced by the contractor in November, 1965 on the understanding that it would be completed in 12 months. The contract amount was Rs. 8.81 lakhs against the estimated cost of Rs. 4.52 lakhs. However, the work was actually completed only in November, 1967. The Committee feel that the very tight construction schedule originally prescribed must have pushed up the rates by 95 per cent over the estimated rates. In actual fact, the contractor was not able to adhere to the schedule. A heavy penalty should have therefore been imposed for the delay involved. The Committee would like to know whether any penalty was levied.

1.17. As a result of bad workmanship and sub-standard materials, improper ratios of cement and steel and poor supervision cracks had developed in the portal and subsidiary beams in the main transmitter building. The SPE which investigated this case has besides recommending suspension of business dealings with the contractor concerned, suggested departmental action against certain officers and subordinates. A technical board appointed to go into the question had also found supervision faulty. The

case is stated to have been handed over to the Commissioner of departmental enquiries. The Committee may be informed of the disciplinary action taken against the persons concerned as a result of the enquiry and also the steps taken to plug loopholes, if any, in the work execution procedures. The Committee regret that although the defects in the construction was noticed as early as May 1968, conclusive departmental action is yet to be taken. They desire that there should be no further delay in the matter.

Irregularities in acquisition of land

Audit Paragraph

1.18. To meet Defence requirements of land a State Government was requested (after consultation) in 1964 to acquire 4,500 acres. As certain difficulties presented themselves in making the land available, a joint reconnaissance by the State Government and Army officials was conducted in June 1964 and it was agreed to take over an area which included a tea estate. There was an embargo from the Ministry of Defence on taking over tea garden land as the compensation payable for tea estate would be very high. The State Government had, however, pointed out that the tea estate was virtually defunct and that it was preferable to an alternative site (consisting mainly of paddy fields but without the tea estate) as it would mean eviction of people on a much smaller scale. The land including 2,540 acres forming part of the tea estate was requisitioned and taken over by the Army during the period November, 1964 to May 1965.

1.19. The tea estate belonged to a private party who had purchased it in January 1960 for Rs. 4.41 lakhs and had established a tea factory at a cost of Rs. 3.40 lakhs. The annual compensation for this land (including tea bushes) estimated by the civil authorities was Rs. 0.74 lakh. Under the Defence of India (Acquisition and Requisition of Immovable Property) Rules, 1962, in the event of delay in fixing compensation for properties taken over by Government, 'on account' payments upto 80 per cent of the probable compensation can be made to the owner, half yearly in arrears. On this basis Rs. 0.30 lakh were payable to the owner, half yearly. However, 'on account' payments of Rs. 13.57 lakhs were made by the civil authorities to the owner, on behalf of Government of India, in three instalments during November 1964—November, 1965. Out of this, Rs. 3.57 lakhs were paid on 23rd November, 1964, when only one-third of the area had been taken over. The advance payment actually made was more than 22 times the authorised amount and exceeded 18 years' rental compensation. The debit of Rs. 13.57 lakhs has not yet been accepted by the Defence department (November, 1969).

1.20. In May-July, 1968, based on the original estimate given by the State Government in 1964, Ministry of Defence accorded sanction to acquire this land at the estimated cost of Rs. 12.63 lakhs. But in the meantime, in March 1967 the Deputy Commissioner of the district expressed the opinion that the tea bushes in the area should be revalued at Rs. 4,150 per acre and sought the views of the Military Estates Officer (as this was at variance with the earlier assurance that the tea estate was defunct). The acquisition cost of the land would on this basis be about Rs. 78.23 lakhs—Rs. 60 lakhs in excess of the initial assessment; in addition solatium at 15 per cent of the acquisition cost may also be payable to the owner.

1.21. The Ministry of Defence stated (November 1969) that it has not accepted the revaluation of the land; nor has the State Government so far approached it for revising the amount mentioned in the acquisition sanctions.

[Paragraph 14, Audit Report (Defence Services) 1970.]

1.22. The Committee learnt from Audit that "in February, 1970 Government of West Bengal intimated that an enquiry was being conducted to the alleged excess payments and other allied issues arising out of the requisition of tea garden lands. Pending completion of the enquiry, the State Government has not offered any comments on this particular case. It has also been stated that the Deputy Commissioner, Darjeeling, has been directed not to proceed with the permanent acquisition of the requisitioned lands pending finalisation of proceedings under section 6(3) of West Bengal Estate Acquisition Act, which proceedings have now been stayed pursuant to a civil rule issued by the High Court."

1.23. During evidence the Defence Secretary stated: "The... general point which I wish to mention and which perhaps is not available to you, and which became available to me only recently, is that in the history of the case, an important point which is missing is, on 11th November, 1954, a notification was published under section 4 of West Bengal Estates Acquisition Act, vesting all estates and the rights of every intermediary in each estate situated in the district concerned with effect from the 1st day of Bengali year 1362, corresponding to 15th April, 1955. This particular legislation is called the West Bengal Estates Acquisition Act, 1953. Once this notification is issued under Section 5 of the Act, all transfers which are *mula fide*, can be declared *mala fide*. The law does not recognise such transfers. Our view is that this particular estate which is the subject of discussion this afternoon, stands vested by this notification in the West Bengal Government. The transfer which took place in favour of Messrs... I think in 1960 is not *bona fide*... (the firm) had no right whatever to compensation of any kind. But this view of our legal advisers could not be put into effect first because there have been tremendous delays on the part of the West Bengal Government and secondly because the party had

obtained an injunction, a writ, from the High Court. The West Bengal Government has not yet filed an appeal. The West Bengal Government now is going to file an appeal and hopefully there will be a decision in their favour and the problem will be happily resolved; Rs. 13 lakhs which have been paid to... (the firm) have been paid against a guarantee on an indemnity bond. Whether he is in a position to pay back that money or not, I do not know; but so far as the Defence Ministry is concerned, we have not accepted the debit of that figure to our account.

1.24. Dealing with the one-man committee, the witness went on to say: "The West Bengal Government were good enough to appoint an enquiry Committee to go into this matter, and the one-man enquiry committee's report was received only a few days ago. . . . I would only say that we do not wholly agree with the conclusions arrived at by the one-man committee. But, by and large, many of the conclusions on the facts which have been arrived at are correct. But this interpretation on the legal point, in our view, is not correct."

1.25. Asked to state the points of dispute, the Ministry submitted the following information:

(i) "The Committee held the view that under Section 30(iii) of the Defence of India Act, 1962 initial compensation was payable for the damage done to the tea bushes at the time of entry. Ministry of Defence do not share this view. The Deputy Commissioner stated on 24th June, 1968 that payments were made keeping no reference to the land acquisition cases. He had not stated that the payment had been made under Section 30(iii) ibid. Further, the recurring compensation for the tea bushes was assessed in 1966 by the Deputy Commissioner, Darjeeling. If initial compensation had been made to compensate for the alleged damage done to tea bushes, then no recurring compensation would be payable under Section 30(iii) of the Defence of India Act, 1962, for the same. Again, in the various writ petitions filed by the owners, there had been no mention that the payments of Rs. 13.57 lakhs was under Section 30(iii) towards initial compensation.

(ii) Again the enquiry committee does not seem to accept the position that the entire Rohini Tea Estate had vested in West Bengal Government by the Gazette Notification, dated 11th November, 1954, though this has not been specifically so stated in the report. The legal position according to the Ministry of Defence, is that even in 1964-65 when Rohini Tea Estate land was requisitioned, the entire land had already vested in State Government and the State Government could have directly transferred the land required by the Defence Department to the Central Government and could have taken steps to allot the remainder only to the Tea Estate.

The views of the Ministry of Defence have been communicated to the State Government who presumably are considering them."

1.26. The Committee enquired whether the statement made by the State Government about the tea estate being defunct, was verified. The Additional Secretary, Ministry of Defence replied: "There was a reconnaissance and our people went round to see whether it will be suitable for the project we had in view, not in order to verify whether the tea estate was defunct or not. On that matter we accepted the assessment of the West Bengal Government."

1.27. Reading out a portion from the minutes of the meeting held between Defence authorities and the State Government officials at Calcutta, the Defence Secretary stated: "... It says that the army officers pointed out that there was a directive from the Defence department laying down categorically that lands bearing tea estates or similar expensive lands must be avoided. At that stage, the minute says, the Deputy Commissioner pointed out that Rohini tea estate was more or less defunct and had not been worked as a tea garden and therefore, the embargo put by the Defence department, in the opinion of the D.C. would not apply in the case of this garden."

1.28. The Committee pointed out that "on account" payment of Rs. 13.57 lakhs were made by the civil authorities to the owner, on behalf of Government of India. Asked why no protest was made when the D.C. offered to give compensation, the Defence Secretary replied: "We were not even issued notice. We did not know until (the firm) wanted to take us for a ride. He wrote a letter to my minister saying, "I have been given Rs. 13 lakhs payment on account. Please give me the rest." It is only at that stage that we got to know that this payment had been made. Since then we are protesting."

1.29. In connection with the payment of Rs. 13.57 lakhs as compensation to the owner, it is seen from the Report of the one-man investigation committee that: "The rough estimate which was prepared by the then Special Land Acquisition Collector, Darjeeling, indicated that compensation towards the tea bushes alone would amount to Rs. 14.28 lakhs approximately which compensation could be paid under the provision of section 30(iii) of the Defence of India Act as interpreted by the District authorities. The D.C. Darjeeling, therefore, passed orders on three occasions in order to enable the owners of the garden to fulfil their financial commitments towards the payment of wages, bonus, etc., to the workers and meet up other pressing liabilities to the Allahabad Bank Ltd., and others. A total sum of Rs. 13.57 lakhs was thus paid on obtaining indemnity bonds furnished by (the firm)."

1.30. The Additional Secretary, Ministry of Defence deposed: "I can only go by what we have got in the report of the West Bengal Government inquiring officer. The report indicates the estimated cost at a meeting

which was held in Writers Building, the Deputy Commissioner appears to have changed his view later. Secondly, the Special Land Acquisition Officer had prepared an estimate regarding the cost of that entire area with a view to decide the annual compensation, which is at a percentage over the cost of our requisitioned property. In that estimate, we know that the figure of compensation for tea bushes was Rs. 14.28 lakhs in all. The Inquiring Officer has stated that that particular statement is missing from the West Bengal Government file. Therefore, we have no information on the basis of which we can make any suggestion."

1.31. Asked to state the present position of acquisition of the tea estate, the Ministry stated as follows:—

"The Government of West Bengal served a notice dated 26th August, 1969 on the owners of the Rohini Tea Estate stating that lands measuring more or less 4995.57 acres comprised in Rohini Tea Estate have vested in the State Government free from encumbrances under Section 5 of the West Bengal Estate Acquisition Act, 1953, and that the State Government propose to pass orders as to the quantum of land that should be allowed to be retained by the said Tea Gardens and requiring them, if they so desire, to present their case before the Darjeeling District Tea Estate (Resumption of Land) Advisory Committee on 15th September, 1969.

The owners of the Tea Estate moved the High Court and obtained an injunction restraining the State Government from taking any further action. The State Government have advised the Deputy Commissioner, Darjeeling, not to proceed with the acquisition of the requisitioned land of the Tea Estate pending disposal of the proceedings for resumption under the provisions of the West Bengal Estates Acquisition Act. Acquisition proceedings have, therefore, not made any progress. The Court is likely to hear the case in November, 1972."

Subsequently (April 1973) the Ministry have intimated that the present position of the acquisition of the tea estate as follows:

"The High Court at Calcutta has vacated the civil rule and disposed of the writ petition with the order that the Government of West Bengal should complete the proceedings under section 6(3) of the West Bengal Estates Acquisition Act, 1953 within two months, which period will be over by the end of this month. Acquisition proceedings if required, can be initiated only after final orders regarding retention of lands are made".

1.32. The Committee are concerned to note the irregularities in the requisition of the land including 2540 acres forming part of a tea estate for Defence requirements during 1964-65 through the Government of West Bengal. Although the annual compensation payable for the portion of the tea estate was Rs. 0.74 lakh, 'on account' payments of Rs. 13.57 lakhs were made by the State Government to the owner of the estate during November, 1964—November, 1965. It is of interest to note in this connection that the tea estate was purchased in 1960 for Rs. 4.41 lakhs and a tea factory established at a cost of Rs. 3.40 lakhs only. An enquiry committee constituted to go into the alleged excess payments and other allied issues arising out of the requisitioning of the tea garden lands has held that under Section 30(iii) of the Defence of India Act, 1962 initial compensation was payable for the damages done to the tea bushes at the time of entry. The Ministry of Defence are, however, not in agreement with this view. According to them if initial compensation had been paid to compensate for the alleged damage done to tea bushes, no recurring compensation would be payable under Section 30(iii) of the Defence of India Act, 1962. The Committee would urge that this should be settled soon to avoid further complication. Because of lack of care and irregularities committed it should be noted that the Public Exchequer has suffered financial loss. But what is surprising is that when a decision has been taken to requisition the land as a matter of urgency, the same sense of urgency has not been displayed in completing the transaction.

1.33. According to the Defence Secretary, the tea estate stands vested in the West Bengal Government by a notification dated 11th November, 1954, under Section 4 of West Bengal Estates Acquisition Act, 1953 and once this notification is issued, under Section 5 of the Act all transfers can be declared mala fide. Hence the Committee are given to understand that the transfer which took place in favour of the present 'owner' in 1960 is not bona fide and he will not be entitled to any compensation. The Committee would like to be informed of the final decision taken in the matter.

Delay in acquisition of land

Audit Paragraph

1.34. To meet the training requirements of Air Force, Government sanctioned in January 1962, acquisition of necessary land in two adjoining districts (A and B) at an estimated cost of Rs. 24.50 lakhs. Since finalisation of the acquisition proceedings seemed likely to entail some delay, the land was requisitioned as an interim measure in April 1963 on a rental of Rs. 2.24 lakhs per annum.

1.35. In April, 1964 the State Government issued preliminary notifications for acquisition of an area of 1,702 acres in district A. However, awards for only a part of this land have been given so far (November 1970) at a total cost of Rs. 20 lakhs.

1.36. The State Government did not initially agree to acquisition of lands (measuring 1,975 acres) in district B on the ground that they were very fertile, and had suggested an alternative site (April 1964). This suggestion was, however, not accepted by Air Headquarters (August 1964). The State Government thereupon withdrew its suggestion, but enquired in March 1965 whether the land should be acquired under the Land Acquisition Act, 1894 or under the Defence of India Act, 1962. This point and certain other matters remained under consideration of Government of India till August 1968, when it was decided to progress the acquisition under the Land Acquisition Act, 1894. Thereafter, Government issued a sanction in February, 1970 revising the estimated cost of acquisition of lands in both the districts to Rs. 84 lakhs. Demand for acquisition of land in district B has since been placed on the civil authorities, but the awards can be given only after notifications are issued by the State Government and all other formalities are completed.

1.37. In district A, even though there has been considerable delay in completing the acquisition, the price payable for the land to be acquired would be with reference to the notifications issued in 1964. But in district B there has been much delay in issuing notifications for acquisition, and this delay would entail extra expenditure of at least Rs. 25 lakhs beyond what Government would have paid had the land been acquired in, say, 1966.

[Paragraph 12 of Report of Comptroller and Auditor General of India for the year 1969-70, Central Government (Defence Services).]

1.38. The Committee desired to know the area of the land proposed to be acquired in 'A' and 'B' districts. The Ministry submitted the following information:—

District 'A'—1702.05 acres.

District 'B'—1974.8625 acres.

1.39. According to the audit paragraph, only a part of the land had been given till November, 1970 at a total cost of Rs. 20 lakhs. Asked to state the area of the above-mentioned land, the Ministry stated:

"An area of 662.55 acres of land in District 'A' was acquired till 31st October, 1970. The compensation awarded in respect of the land in question was Rs. 20,26,696.78. A further 201.04 acres was acquired on 2nd November, 1970 at a cost of Rs 4,50,781.58.

1.40. The Committee enquired why the provisions of the Defence of India Rules could not be invoked to acquire these lands. The Additional Secretary replied:

"...the position was that, if we had got it under the emergency provisions we would have had to pay 15 per cent more as

solatium. Actually, when this was discussed in the government we all felt that we might be able to save this. But what has happened is that we have paid much more in the long run."

1.41. As regards the total amount so far paid as rent of land, the Ministry intimated that it was Rs. 14.37 lakhs.

1.42 The Committee pointed out that although sanction was issued by Government to acquire lands in districts 'A' and 'B' in January, 1962, decision to acquire the land in District 'B' was taken only in August, 1968. The Committee asked why there was such a delay. The Additional Secretary, Ministry of Defence replied: "In the case of (District 'B'), there was a little difficulty because the State Government had some doubts about the matter. Thereafter, we got involved in a little difficulty. As the time had passed, the total expenditure for which a sanction was given had undergone a change and that particular sanction had to be reviewed. Even when we had sanctioned it, the State Government took nearly 13 months to issue the Form 'J.'" The Defence Secretary continued: "In short, there were a number of objections raised by the State Government and a number of objections were raised internally. The objections raised internally were: Does the Air Force need as much as that? Can we do with less? What exactly is the price? When private persons are involved, an assessment is made. That was made in 1964. In 1965, because of escalation, the value changed. When you go to the Ministry of Finance, they say, "you make a further investigation." When the value becomes more, they ask, "Why do you want so much? Can't you do with less?" We had to provide for two ranges. Then they asked, "Why can't you do with one range?" It is a consideration of all these questions and objections which they have a right to raise. The Government found themselves involved into all this in coming to a decision to acquire the land.

The main reason is that under the financial code, you cannot decide to acquire the land until the funds are provided. You cannot have a provision of funds until everybody is satisfied that the assessment is correct. As a result of this system and procedure during a period when land values are increasing, this thing happened."

1.43. To a question, the witness stated: "It is correct that if the decision to acquire it had been reached earlier, we would have had to pay less. If the decision to acquire it was reached two years later than it had been reached, then also because of the operation of the ceiling laws, we would have again had to pay less. So, it is a question of judgment involved." Elaborating further, the witness continued "... This problem is a very serious one for the Government of India, that we take some time in taking a decision on acquisition, that the State Government raises objections; that

our Ministry of Finance raises objections and that some private people raise objections. We go on considering these objections. We meet the immediate need through requisition. We do not arrive at a decision to acquire until all the objections have been settled.

Then, this problem was not there before. This problem is not in all the States. But the escalation of prices in Punjab has been very heavy. So, what I am suggesting to the Ministry of Finance and to ourselves is, irrespective of the objections, as soon as the operational need is established, we must persuade the State Government to issue a notification under Section 4 of the Land Acquisition Act. That is the first thing to do. If that notification is issued, then the compensation which is payable is based on the date of the issue of that notification."

1.44. The Committee enquired whether the notification for the acquisition of land in 'B' district has since been issued. In a note submitted to the Committee the Ministry stated: Notification in form 'J' under RAIP Act, 1952, has since been published for the lands in District 'B' on the following dates:

Area in acres	Date of Publication
406·55625	12-3-71
1561·80000	25-6-71
<u>1968·35625</u>	

1.45. To meet the training requirements of Air Force, land was to be acquired in two adjoining districts. Owing to procedural delays the preliminary notification under the Land Acquisition Act could not be issued in time with the result that the compensation payable went up considerably and in the meantime the property was requisitioned temporarily for which rent had to be paid. The delay in issuing notifications for acquisition of land in this case meant extra expenditure of over Rs. 25 lakhs to the Government. The Committee consider that once operational need is established there should be normally no delay in getting the relevant notification issued as the compensation payable is determined with reference to the date of the issue.

Encroachment on requisitioned land

Audit Paragraph

1.46. Forty-eight acres of land out of 148 acres requisitioned at a station during the second world war were encroached upon by unauthorised

persons between 1948 and 1950. It has not been possible to find means to evict the persons in unauthorised occupation of the lands, and so far (September 1969) Government had paid Rs. 16 lakhs as recurring compensation for the lands without deriving any corresponding benefit.

1.47. The Ministry of Defence has stated that action is on hand to derequisition a small part of the lands to owners who have agreed to accept their properties without eviction of encroachments and that the manner in which the remaining areas should be dealt with is being considered in consultation with Ministries of Rehabilitation and Finance.

[Paragraph 15 of Audit Report, (Defence Services) 1970.]

1.48 The Committee were informed that the Audit Paragraph referred to forty eight acres of land requisitioned in Calcutta during the Second World War which encroached upon by the displaced persons from East Pakistan between 1948 and 1950.

1.49 The Ministry in a note stated that an area measuring 0.092 acre in Shahpur Camp was derequisitioned and handed back to the owner on 11-2-1970.

1.50 Asked whether any action had been taken on the remaining area encroached upon, the Ministry submitted the following note:

"The proposal received from the Government of West Bengal for offering financial inducement to the encroachers to vacate the requisitioned land was examined. It was held that the expenditure to be incurred on such financial inducement cannot be a legitimate charge on the Defence Estimates. The State Government were requested to take immediate action to de-requisition the land in question in the condition in which it is, namely, with the encroachers. On derequisitioning, the liability of this Ministry for payment of recurring rentals compensation would cease. In this connection, it was also mentioned that according to legal advice it was not a condition precedent to the de-requisitioning that the encroachers be evicted from the land.

2. The State Government informed this Ministry in June, 1970, that the land in W.T. Station Bagjola measuring 17.976 acres under encroachment was proposed to be required by the State Government. The State Government was informed that its proposal to acquire the land at its cost should not stand in the way of de-requisitioning the land, as the Ministry of Defence is anxious to free itself of the legal liability to pay the rental compensation during the period the land continued under requisition.

3. The State Government was reminded in June 1970, September 1970 and December 1970, to take necessary action and intimate results to the Ministry of Defence. The last reminder was sent by the Additional Defence Secretary to the Revenue Secretary to the Government of West Bengal with a copy to the then Principal Adviser, Government of West Bengal, Calcutta.

4. As there was no encouraging response from the State Government the question was simultaneously examined in consultation with the Ministry of Law and the Ministry of Works and Housing as to whether the land could be de-requisitioned otherwise than through the State Government Agency i.e. through the local authorities of the Ministry of Defence. Ministry of Law have advised that if necessary authorization under the RAIP Act, 1952 could be given, the Military Estates Officer, Calcutta, can take action for the de-requisitioning of land. Necessary notification for so authorizing MEO Calcutta have been got vetted from the Ministry of Law by the Ministry of Works and Housing. The issue of the notification has, however, been held up in the hope of persuading the State Government to take action under the existing delegated powers through further efforts.

5. In February, 1971, the State Government reiterated their stand that before de-requisitioning, the land should be reverted to its original condition after vacating the encroachments. According to the State Government the encroachments could be vacated only by rehabilitating the squatters elsewhere, for which purpose the State Government requested for financial assistance in the form of loan assistance of approximately Rs. 17 lakhs.

6. In April 1971, the State Government was informed that the question of offering financial inducement/assistance had been examined earlier, and the decision was taken after full consideration of the State Government's proposal. The State Government was again urged to proceed to de-requisition the land immediately.

7. In July 1971, the Additional Defence Secretary discussed the matter with the Secretary, Land and Land Revenue Department West Bengal Government at Calcutta. The latter agreed to do the needful. However, the State Government again did not take any concrete action. The Chief Secretary, Government of West Bengal was then reminded by the Additional Secretary (Defence) in September, 1971. The Chief Secretary was also requested to stop making further payment of recurring compensation in respect of the land in question.

8. In November 1971, the Chief Secretary to the Government of West Bengal replied to say that the requisitioned properties have always been

de-requisitioned without encumbrance. According to the Chief Secretary the suggestion of the Ministry of Defence to de-requisition the land with encroachments will not only create a bad precedent but is likely to involve the Government in unnecessary litigation. The Chief Secretary felt that the best practical course would be to persuade the squatters to vacate by offering them alternative accommodation.

9. In March 1972, the Additional Defence Secretary informed Chief Secretary, Government of West Bengal that there was no further scope to consider the question of grant of financial assistance. The Chief Secretary was also informed that in view of the reluctance of the State Government to advise the local revenue authorities to de-requisition the land with encroachment, it was proposed to authorise MEO Calcutta to take necessary action in the matter. It was further pointed out that the Ministry of Defence were extremely reluctant to take this step. Therefore, the State Government were requested again to issue necessary directions to the District authorities.

10. The matter was again discussed by the Additional Defence Secretary, with the Chief Secretary, Government of West Bengal at Calcutta in May 1972. The Additional Defence Secretary requested the Chief Secretary to reconsider the State Government stand. The Chief Secretary promised that he would do so and discuss the matter with the Chief Minister and communicate the views of the State Government to the Ministry of Defence at an early date. Further communication from the State Government is awaited."

1.51. The Committee enquired whether there were any other cases where Government requisitioned lands were under occupation of unauthorised persons. If so, they desired to have the following details: (i) area under unauthorised occupation; (ii) period for which the land had been under unauthorised occupation; (iii) purpose for which the land was originally requisitioned; (iv) compensation paid by Government and (v) steps taken to evict the unauthorised persons. The Ministry have furnished the following reply (December, 1970) in this regard:

"There are other cases also where requisitioned lands are in unauthorised occupation. Information on the points desired will however have to be collected and compiled."

1.52. The Committee are concerned to note that 48 acres of lands requisitioned in Calcutta for the use of the Defence Department during the Second World War which were encroached upon unauthorisedly by displaced persons from East Pakistan between 1948 and 1950 could not be derequisitioned as yet except a small portion of land measuring 0.092

acre, which was handed back to the owner on 11th February, 1970, and that Government have to pay recurring compensation for the lands at the rate of about Rs. 0.75 lakhs per annum without deriving any corresponding benefit. The compensation paid till September, 1969, totalled upto Rs. 16 lakhs. The State Government who were requested to take action to derequisition the property in the condition in which it was, seemed to have consistently held the view that before derequisitioning the land should be reverted to its original condition after vacating the encroachments. According to them, the encroachments could be vacated only by rehabilitating the squatters elsewhere. The Defence Ministry are of the view that the financial assistance required for rehabilitation of the squatters cannot be legitimate charge on Defence estimates. The matter should, therefore, be taken up further with the State Government in consultation with the Ministry of Rehabilitation to see that a solution is found for this problem expeditiously and the property derequisitioned without any further loss of time so as to save unnecessary recurring compensation being paid by the Defence Department. The action taken in this regard may be intimated to the Committee within a period of six months.

1.53. The case dealt with above is admittedly not an isolated one. There are other cases also where requisitioned lands are in unauthorised occupation. Although it was stated in December, 1970, that the details of such cases were under collection, the Ministry have not as yet furnished the details to the Committee. This shows that all these years no attempts have been made to review the position comprehensively with a view to taking suitable action. The Committee consider this to be highly unsatisfactory. They trust that necessary data in this regard would be collected without any further delay and reported to them. They would also be interested in knowing the action taken or proposed to be taken by Government to put such lands to effective use or to derequisition them after evicting the unauthorised persons.

Avoidable purchase of equipment

Audit Paragraph

1.54. In August 1964 Army Headquarters placed an order on a public sector undertaking for 70 sets of an equipment at a total cost of Rs. 5.44 lakhs (subsequently reduced in November 1969 to Rs. 4.20 lakhs i.e. @ Rs. 6,000 per set). The delivery date, initially fixed as June 1965, was later extended to April 1967. Only 31 sets were, however, delivered by that date and the remaining 39 in January 1970.

1.55. In September 1965, Army Headquarters placed an indent for another 100 sets of the same equipment with the Director General, Supplies and Disposals, who concluded a contract with a private firm in

August 1966 for the requisite supply at a total cost of Rs. 4.775 lakhs, wt. @ Rs. 4,775 per set. These sets were offered within the stipulated period i.e., by February 1967, and accepted after inspection in March 1967.

1.56. In February 1967, when the public sector undertaking had not yet delivered any set, a Central Ordnance Depot had intimated to Army Headquarters that it could assemble 32 of these sets from its existing stock of components. Efforts made thereafter in April 1967 (by which time 31 sets had been supplied) to cancel the outstanding order for 39 sets then pending with the public sector undertaking were not successful. In April 1968 the Central Ordnance Depot further intimated that it could assemble 180 sets from its existing stock of components, if only certain deficient items of the total value of Rs. 40,565 were procured for it. Accordingly, in July 1968 the Central Ordnance Depot was entrusted with the assembly of 56 sets, which it accomplished by September 1970 after spending Rs. 5,600 approximately on procuring the deficient components.

1.57. Of the total of 226 sets (received from the public sector undertaking, the private firm and the Central Ordnance Depot), 155 sets have been issued for use. Thus, 71 sets are lying in stock. No indent is pending. Government expects to put to some use the components for 124 sets lying in the Central Ordnance Depot.

1.58. At least 124 sets ordered from the public sector undertaking and the private firm at an approximate cost of Rs. 6.77 lakhs could have been got assembled by the Central Ordnance Depot itself, had its capacity to manufacture them been assessed before placing the orders elsewhere.

[Paragraph 4 of Report of the Comptroller and Auditor General of India for the year 1969-70, Central Government (Defence Services)].

1.59. In a note submitted to the Committee, the Ministry intimated that before 1963 the requirements of this equipment, were met out of the stock of equipment which was received from U.K. during 1945-46. Asked whether any attempt was made to obtain the equipment from any other source before placing the order on the public sector in August 1964, the Ministry stated:

"The necessity to obtain the equipment arose only in February 1963. Accordingly an indent for the procurement of 70 sets was placed by the MGO Branch on the DGS&D in February, 1963. The DGS&D invited tenders from the trade and only one quotation from M/s. Garden Reach Workshops was received in August, 1963. Meanwhile, in June, 1963 a

policy decision was taken that all orders for the supply/construction/manufacture/repair of vessels/craft should be placed on Garden Reach Workshops and/or Mazagaon Dock Limited. Thus, there was no question of making attempt to obtain this equipment from any other source."

1.60. The Committee desired to know the reasons for such wide variation in the price of the equipment supplied by the Public Undertaking. The Ministry furnished the following note in this regard :

"Initially it was envisaged that the procurement of 70 sets should be made through the DGS&D and an indent was also placed accordingly in February, 1963. The DGS&D invited tenders from the trade to cover this demand and only a quotation from M/s. Garden Reach Workshops was received in August 1963. Meanwhile in June 1963, a policy decision was taken by the Government that all orders for the supply/construction/manufacture/repair of vessel craft should be placed on M/s. Garden Reach Workshops and/or Mazagaon Dock Limited. only. Accordingly the indent placed on DGS&D was withdrawn and a supply order dated 3rd August, 1964 was placed on M/s. Garden Reach Workshops for the manufacture and supply of 70 sets.

By the time the next demand for 100 sets arose, the above policy decision had undergone a change. As it appeared that M/s. Garden Reach Workshops and Mazagaon Dock Limited were overloaded with orders, it was decided on 6th March, 1964 that for the next two years tenders should be invited not only from these public undertakings but also simultaneously from other shipyards in the private sector and orders should be placed on the basis of date of delivery and cost. In pursuance of this decision; quotations were invited not only from the Public Undertakings but also from the trade; and an A/T was placed on 18th August, 1966 on the private firm.

In view of the foregoing, it would be observed that the two orders were placed in conformity with the Government's policies obtaining at the respective points of time and a comparison of the prices paid to M/s. Garden Reach Workshops and to the private firm would be inappropriate."

1.61. As regards the reason for delay by the Public Undertaking in supplying the equipment, the Ministry furnished a statement containing a chronological account of action taken which is found at Appendix 'T'.

1.62. In reply to a question, the Ministry intimated that the COD Jabalpur had no past experience prior to February 1967, in assembling the complete equipment from the Components available in its stock.

1.63. Asked why its capacity to assemble the equipment was not ascertained before placing the order in August, 1964 for 70 sets and in September, 1965 for 100 sets, the Ministry, in a note, stated that the COD, Jabalpur was not aware of the possibility of assembling of components into a main equipment, and that the idea occurred to the Depot authorities only when the main equipment started arriving in February, 1967.

1.64. The Committee understood that the entire stock of components for 180 sets referred to in the audit paragraph was available in the COD before 1947, being war-time surplus. The Committee enquired how then the COD offered to assemble only 32 sets in February, 1967. In their reply, the Ministry stated:

"Against the order dated 3rd August, 1964 placed on M/s. Garden Reach Workshops, Calcutta, for the supply of 70 sets only 31 Nos. were received at COD Jabalpur, during the period from February to March 1967. On an examination of the main equipment, the depot made an assessment in February, 1967 that they were in a position to assemble 32 sets of the equipment from the existing stock of components except for three deficient components.

After obtaining necessary clarifications from the Research and Development Establishment (Engineers) Poona, the then existing stocks of components were rechecked by the Depot. On the basis of this re-assessment, the Depot stated in April, 1968 that a total of 180 sets of the equipment could be assembled taking into account 90 per cent of the repairable stocks of components valued at Rs. 40,565 are procured."

1.65. Asked why the feasibility of assembling and fabricating from spares held by the C.O.D. were not ascertained before orders for manufacture of the equipment were placed, the Ministry stated:

"The components held in COD Jabalpur, were received with the main equipment from U.K. during 1945-46 as maintenance spares. The M.G.O. has stated in April 1971 that spares are provided for maintenance and not for assembling of complete equipment. The instance where spares are available for assembly of complete equipment is rarely come across."

1.66. The Committee enquired how it was proposed to utilise the components for 124 sets lying with the COD. The Ministry in their reply, stated as follows:

“The available components in the COD Jabalpur, would be utilised as maintenance spares for the main equipment in service as well as for the assembly of the main equipment for meeting deficiencies. In this connection it may be mentioned that on the basis of the provision Review as on 1st October, 1971 a deficiency of 29 sets of the main equipment was revealed.”

1.67. The Committee regret that although the Central Ordnance Depot, Jabalpur had the capacity to assemble 180 sets of a certain type of equipment with the components held in stock by them since 1945-46, only 56 sets were assembled by September, 1970 and as many as 170 sets were procured from M/s. Garden Reach Workshop and a private firm which entailed avoidable expenditure of about Rs. 6.77 lakhs on 124 sets. The statement of the Ministry that the Depot was not aware of the possibility of assembling of components into main equipment and that the idea occurred to the authorities only when the main equipment started arriving in February, 1967 from M/s. Garden Reach Workshop, is not convincing, as such equipments were in use for a long time in the past. The Committee, therefore, regard it a clear lapse on the part of the authorities in not having considered the possibility of assembling the equipment especially when it was in urgent need and there was delay in getting it from other sources. The responsibility for the lapse should be fixed. The Ministry have intimated that “the instance where spares are available for assembly of complete equipment is rarely come across”. The Committee desire that the position in this regard in all the ordnance factories should be examined thoroughly with a view to exploring the possibilities of meeting Defence requirements of various equipments without resorting to unnecessary purchases from outside. The Committee would like to be informed of the concrete action taken in the matter.

Deteriorated foodstuff

Audit Paragraph

1.68. In December 1963 Government introduced a new item of emergency food ration, called ‘soft bars’. The Army Purchase Organisation concluded four contracts with a firm between April 1965 and April 1966 and three other contracts with another firm during January—August 1967, and in all 18.38 lakh bars were supplied by these firms. These contracts provided for a warranty period of 6 months, the supplier to be informed within 45 days of the expiry of the warranty period if any consignment was condemned.

1.69. On a report from one Command in April 1967 that a large stock of these bars (1 lakh numbers, value Rs. 1.10 lakhs) received between September 1965 and August 1966 against the contracts concluded in 1965 had deteriorated within a short period of their receipt, a Court of Inquiry was ordered in May 1967 to investigate the circumstances in which these stocks had deteriorated and to ascertain why the loss was not claimed from the suppliers within the warranty period. The Court concluded in October 1967 that the stores had deteriorated due to their poor 'keeping qualities' and that the storage conditions in the stocking area did not contribute to their deterioration. The Court observed, however, that the prescribed instructions for sampling had not been followed and that inordinate delay had occurred in the Food Laboratory in reporting on the condition of the stores, the report having been given only after expiry of the warranty period. Five officers were held responsible for various lapses and it was recommended that Rs. 4,000 be recovered from them and that the balance of the loss might be borne by the State. Similar deterioration was also observed in the supplies made against the contracts concluded in 1967.

1.70. The suppliers, with whom the matter was taken up by the purchasing agency in June 1968, agreed to replace free of cost the deteriorated stuff which might be returned to them, even though the warranty period had already expired. On this consideration, penal recovery from the officers was not insisted upon and, instead, the displeasure of the Chief of Army Staff was conveyed to them. Out of a total of deteriorated 2.19 lakh bars, 1.04 lakh bars were returned to the suppliers for replacement, of which only 36,826 bars have been replaced so far (October 1970). Of the balance deteriorated 1.15 lakh bars, 1.05 lakh bars (value Rs. 1.09 lakhs) had already been destroyed or fed to animals under orders of the local authorities, and no replacement thereof was possible. Another Court of Inquiry was, therefore, ordered on 24th May 1969 to enquire into the circumstances in which 1.82 lakh bars (including 0.67 lakh returned to the firms but not yet replaced) valuing Rs 2.00 lakhs had been disposed of without either consuming them within the warranty period of returning the deteriorated stock within the warranty period of the suppliers.

1.71. The result of this Court of Inquiry is still awaited (October 1970).

[Paragraph 5 of the Report of Comptroller and Auditor General of India for the year 1969-70, Central Government (Defence Services).]

1.72. The Committee were informed that the soft bars conforming to ASC specification No. 180 only were accepted after proper sampling and analysis.

1.73. Asked as to what was the extent of delay on the part of the Food Laboratory in reporting on the bars, the Ministry stated:

"The dates of manufacture, dates of expiry of warranty period.

dates of despatch of samples by the depots and the corresponding dates on which the results were given by Composite Food Laboratory, Jammu (compiled by three Courts of Inquiry, held by 26 Inf. Div., 10 Inf. Div. and 3 Inf. Div.) are shown in Appendix II' attached "

1.74. The Committee desired to know whether the working of the Food Laboratory had been looked into and if so, what steps were proposed to be taken to see that such delay did not occur in future. The Ministry intimated as follows:—

"Yes. Necessary instructions on the subject have been issued vide Army Headquarters' letter No. 49241/Q/ST3, dated the 13th May, 1969. . . Also the Officer Commanding of the Laboratory was one of the five officers, to whom displeasure of the Chief of the Army Staff was conveyed for lapses on his part. This would act as a deterrent to others."

1.75. A copy of the instructions referred to by the Ministry is reproduced in Appendix II.

1.76. The Committee learnt that according to the revised figures intimated to audit by the Ministry on 15th March 1971 the total number of deteriorated bars was 2.06 lakhs and that returned to the Suppliers for replacement was about 92 thousand of which 36,826 bars had been replaced. The Committee desired to know the present position of replacement/recovery of cost of deteriorated food stuff returned to suppliers. In a note furnished to the Committee, the Ministry stated:

"Against the balance quantity, yet to be replaced a sum of Rs. 60,000 has been withheld from the payments, due to them. Further, against the claims preferred on the suppliers on account of soft bars gone bad and declared unfit, a sum of Rs. 1,44,117.16 has been recovered from them. The final position regarding the bars declared unfit and the amounts recovered/withheld from the suppliers is, therefore, as follows:—

(a) Total quantity declared unfit	2,06,485	Bars
(b) Quantity replaced by suppliers	36,826	Bars
(c) Balance	1,69,659	Bars
(d) Cost of bars at (a) above	Rs. 1,89,419.03	
(e) Amount recovered by the PAO to cover the cost and freight incurred thereon	Rs. 1,44,117.16	
(f) Amount withheld	Rs. 60,000.00	
(g) Total amount recovered/withheld	Rs. 2,04,117.16	

1.77. The Committee enquired about the findings of the second Court of Inquiry and also the action taken by Government thereon. The Ministry submitted the following reply in this regard:

"After the first Court of Inquiry, ordered in May 1967 (and held in 3 Inf. Div.), two (and not one) more Courts of Inquiry were held in 10 and 26 Inf. Divs.... After considering the same, the GOC-in-C Command, recommended that the loss involved might be written off and be borne by the State. However, action has been taken to avoid loss to Government." The Courts of Inquiry held in 10 and 26 Infantry Divisions inter alia found the following:

- (i) Laboratory report relating to a stock of 6,048 soft bars was erroneously despatched to a Unit other than to the Unit concerned.
- (ii) The Laboratory report relating to a stock of 3,564 soft bars did not reach the Unit.
- (iii) The claim was not preferred in time before it became time-barred.
- (iv) In some cases there was failure to comply with Departmental instructions.
- (v) In some cases instructions regarding return/disposal of deteriorated stuff were not received by the Units.
- (vi) 31,968 numbers of soft bars were received by the depot after the expiry of warranty period.
- (vii) In some cases warranty period was not intimated to the depots.
- (viii) In certain cases there appeared to have been no checks exercised to ensure firstly timely sending of samples and secondly sending proper quantities for testing.
- (ix) The courts have also held some officers responsible for various lapses that occurred.

1.78. Out of 18.38 lakh units of emergency food ration, called 'soft bars', procured from two firms on orders placed between April, 1965 and August, 1967, as many as 2.06 lakhs had deteriorated within a short period of their receipt. The Committee note that although the suppliers had agreed to replace free of cost the deteriorated stuff even after the expiry of

the warranty period, only 91802 bars were returned getting replacements for 36826. Of the remaining quantity of 1.15 lakh bars, 1.05 lakh bars valuing about Rs. 1.09 lakhs had already been destroyed or fed to animals under orders of local authorities. According to the Ministry, action has been taken to avoid loss to Government inasmuch as a sum of Rs. 1.44 lakhs has been recovered and another sum of Rs. 0.60 lakhs withheld against 1.70 lakh deteriorated bars which were not either returned or replaced. The Committee would like to know the final settlement of the firms' bills.

1.79. The Committee have been given to understand that after the Court of Inquiry ordered in May, 1967, in one Infantry Division, 2 more Courts of Inquiry were held in two other Divisions. The latter two courts have found a number of officers responsible for various lapses. Although disciplinary action has been taken against 5 officers held responsible by the first Court of Inquiry, no such action appears to have been taken on the basis of the subsequent inquiries. The Committee would await a report in this regard.

1.80. A number of procedural irregularities brought out by the Courts of Inquiry cause concern to the Committee. While the Committee note that necessary instructions have been issued by the Army Headquarters on 13th May, 1969, to prevent such lapses, they wish to emphasise that steps should be taken to see that the food supplies reach the units concerned in time and are consumed within the warranty period in the interest of the health of the health of the Armed Forces.

Surplus, Obsolete and Repairable Stores

Audit Paragraph

I. Surplus and obsolete stores

1.81. Mention was made in paragraph 25 of Audit Report, Defence Services 1967 of the extent of surplus and obsolete stores held in stock by the Defence formations and the progress of their disposal. In its Nineteenth Report (Fourth Lok Sabha) 1967-68, the Public Accounts Committee remarked, *inter alia*, that it would like Government to keep a close watch on the disposal of surplus and obsolete stores. Further progress in the disposal of such stores is indicated below.

1.82. The technical terms, which were set up to examine obsolete, obsolescent and surplus stores, have so far (July 1970) examined stores of the value of Rs. 115.70 crores out of stores worth Rs. 128.87 crores listed for scrutiny by them. Of these stores, the technical teams have recommended upto July 1970 disposal of stores valuing Rs. 98.26 crores. Additionally, stores valued at Rs. 23.36 crores have been recommended

by other competent agencies for similar disposal. Out of the stores valuing Rs. 121.62 crores thus recommended for disposal, stores valuing Rs. 82.15 crores have since been disposed of till July, 1970. The position of the remaining stores valuing Rs. 39.47 crores is as follows:

	(Rupees in crores)
(i) Awaiting disposal	21.58
(ii) Approved by Government to be disposed of but not yet declared to DGS&D for disposal	7.19
(iii) Awaiting Government approval	10.70
TOTAL	39.47

Bulk of the surplus/obsolete stores are stated to have been procured during the last war/pre-Independence period. They are no longer required due to (a) change in the size, composition or role of the armed forces, (b) meagre consumption in the past and (c) having become obsolete/obsolescent because of passage of time. The floor area of covered accommodation to be released by stores yet to be disposed of is 47,037 sq. metres (July 1970).

II. Repairable stores

1.83. Naval Store Depots have accumulated over the years a large number of repairable stores. The extent of holdings in July 1970 and the period during which they have been held by each of the depots without carrying out the required repairs are indicated below:—

Depots	Total held		Held for over					
			10 years		5 years and upto 10 years		2 years and upto 5 years	
	Item	Qty.	Item	Qty.	Item	Qty.	Item	Qty.
A . . .	6,265	57,860	567	2,961	1,528	9,556	1,915	14,410
B . . .	586	2,108	209	987	295	899
C . . .	1,298	4,355	105	276	428	968	470	1,096
D . . .	3,296	10,132	1,477	4,743	821	2,386	547	1,572
	11,445	74,465	2,149	7,980	2,986	13,897	3,228	17,977

1.84. These stores occupy valuable storage space and their storage entails substantial recurring expenditure. The space occupied by such stores in Depots A and D alone is 54,000 sq. ft. of covered accommodation. At a rate of 25 paise per sq. ft. per month the rental value of this accommodation comes to Rs. 1,63,200 per annum. The annual expenditure incurred on the establishment employed on their storage in Depot A alone is Rs. 1.35 lakhs. Some of the stores are already obsolete and some others are beyond economical repair. The accumulation of repairable stores in the Naval Depots is stated to be due to limited capacity available with the Naval agencies for repair of these items and also paucity of the requisite spares.

[“Paragraph 7 of Report of Controller and Auditor General of India for the year 1969-70, Central Government (Defence Services)].

1.85. The Committee desired to know the balance of surplus stores to be listed for scrutiny by the technical teams. The Ministry, in a note, stated that as on 31st May 1972, 256 lists containing 2824 items worth Rs. 5.29 crores were outstanding awaiting scrutiny by the Inter-Services Technical Team.

1.86. As regards the position of disposal of surplus and obsolete stores in respect of Army, Navy and Air Force, as on 30-4-1972, the Ministry furnished the following data:—

	(Rs. in crores)
(i) (a) Book value of stores recommended for disposal by the Technical Team; and	113.89
(b) Other competent agencies	31.70
	<u>145.59</u>
(ii) Book value of stores disposed of	100.95
(iii) Awaiting approval for disposal by the competent authority	11.67
(iv) Approved by Government to be disposed of but not declared to DGS&D for disposal	4.92
(v) Awaiting disposal	28.05
	<u>145.59</u>

*Note : These do not include figures relating to DGOFF and D. G. A. F. M. S

In this connection it may be stated that a Study Team under the chairmanship of JS(P&C) was constituted in September 1971 to go into the existing disposal procedures to identify the areas which impede expeditious disposal. The Study Team is expected to render their Report shortly."

1.87. The Committee were informed that the repairable stores were occupying valuable storage space at Naval Store Depots at Chatkopa, Vishakapatnam, Cochin and Spare Parts Distribution Centre, Bombay. Asked how many of these had become surplus/obsolete beyond economical repairs, the Ministry stated that there were 4219 such items. As regards the present position of repairs of the remaining items, the Ministry submitted the following note:

"In order to improve the Material Management Organisation in the Indian Navy, Administrative Staff College of India were appointed as Consultants and were requested to give recommendations, *inter alia*, in respect of stream-lining the procedure regarding review of the repairable items and ensuring quick repairs. The recommendations of the Consultants have been received and are under examination. In the meantime, Western, Eastern and Southern Naval Commands have been instructed to set up Standing Committees to draw up annual programme of repairs and lay down priorities for repairs. A close watch is being kept on the progress made and in all cases where it is found that repairs are not possible due to difficulties in the procurement of spares, action will be taken to declare the repairable items as scrap and their disposal effected.

During the period November 1971 to May 1972, the Repair Cell of the Spare Parts Distribution Centre, Bombay (SPDC) took in hand 538 items (2033 in quantity) for repairs and repairs of 71 items (226 in quantity) were completed. During the same period, the Technical Cell of Naval Stores Depot, Bombay took in hand 804 items (13057 in quantity) for repairs and repairs of 473 items (6102 in quantity) were completed.

Repairs through the civil trade, particularly in respect of SPDC items dues to specialised nature of equipment and exacting designs, etc. have been negligible.

All efforts are being made to increase the tempo of repairing the stores which can be repaired."

1.88. The Committee desired to know the annual expenditure on the establishment employed on the storage of repairable stores. In their reply, the Ministry stated:

"The annual expenditure on the establishment employed in the repairable stores is Rs. 1,49,841.00. The expenditure cannot be determined with any degree of accuracy as establishments are not separately sanctioned any staff exclusively for store-keeping duties of repairable stores. Sanction for each depot is consolidated and it is left to the discretion of the Officer-in-Charge of the Depot to allocate the staff to the store houses depending upon the workload in each store house."

1.89. As per the Audit paragraph the technical teams which were set up to examine obsolete, obsolescent and surplus stores held in stock by the Defence formations had, upto July, 1970, examined stores worth Rs. 115.70 crores out of Rs. 128.87 crores listed for scrutiny by them. From the information furnished by the Ministry, it is seen that subsequently during a period of about 2 years stores worth about Rs. 8 crores only were examined. The Committee consider this to be undesirably slow progress. They trust the rate would be speeded up and the examination of the rest of the stores completed with the maximum possible expedition.

1.90. At the end of April, 1972, stores of the value Rs. 100.95 crores have been disposed of as against Rs. 82.15 crores till July, 1970. Thus, the progress in the disposal of these unwanted stores, which occupy valuable storage space, has been slow. The Committee had earlier in their 19th Report (Fourth Lok Sabha) 1967-68 stressed the need to keep a close watch on the rates of disposal of surplus and obsolete stores. As the bulk of these stores are stated to have been procured during the pre-Independence period, the Committee are unable to appreciate the undue delay in their disposal. The Committee understand that a study team has been constituted in September, 1971, to go into the existing disposal procedures to identify the areas which impede expeditious disposal and that it is expected to submit its report shortly. They trust that action on the basis of this belated study, would help in the disposal of these surplus and obsolete stores expeditiously.

1.91. The Committee are concerned to learn that the Naval Store Depots have accumulated over the years as many as 11,445 items of repairable stores (74,465 Nos.) upto July, 1970. The expenditure on storage of these items works out to more than Rs. 3 lakhs per annum. The Ministry have intimated that 4,219 such items are beyond economical repairs. The Committee do not see any reason why these items could not be disposed of so far. In their view, it is essential to lay down a reasonable time-table for the disposal of unwanted items and then to evolve a suitable programme of action to adhere to it. Action taken or proposed to be taken in this regard may be reported to them.

1.92. Although there were 7,226 items which could be repaired and put to use, the progress made in repairing them appears to be practically negligible. The Committee have been given to understand that in order to improve the Material Management Organisation in the Indian Navy, Administrative Staff College of India have been appointed as consultants and requested to give recommendations, inter-alia, in respect of streamlining the procedure for reviewing the repairable items and ensuring quick repairs. The recommendations of the consultants which have already been received are stated to be under examination. The Committee desire that the examination should be completed speedily and concrete steps proposed to be taken as the basis thereof reported to them within 6 months. They would like to watch the progress in repairs through future Audit Reports.

Hired accommodation remaining vacant

Audit Paragraph

1.93. When sufficient residential accommodation owned by Government is not available to house Officers of the Armed Forces, it is permissible to hire private accommodation to meet urgent requirements. Such hired accommodation should not, however, remain unoccupied ordinarily for more than 15 days after its vacation by the outgoing allottee. In one station, during November 1966 to 31st December 1969, out of 212 hired buildings, about 93 remained vacant at a stretch for periods ranging from 2 months to 1 year, as follows:—

Period	No. of cases	Rent
		Rs.
2 months and above but less than 4 months	44	44,246.00
4 months and above but less than 6 months	28	48,748.00
6 months and above but less than 8 months	10	25,594.00
8 months and above but less than 10 months	6	18,011.00
10 months and above but less than 1 year	5	18,155.00
TOTAL	93	1,55,754.00

1.94. The rent paid for these building during the periods they remained unoccupied was Rs. 1.55 lakhs. In addition, expenditure of Rs. 70,000

(approximately) was incurred on wages of chowkidars kept for the watch and ward of these vacant buildings.

[Paragraph 15 of Report of Comptroller and Auditor General of India for the year 1969-70, Central Government (Defence Service)].

1.95. The Committee were informed that the 212 buildings mentioned in the Audit paragraph, were hired in Delhi. The average rent per month per hired building for each of the five different periods given therein works out as follows:—

Period	Average Rent/ month
	Rs.
2 months and above but less than 4 months	335·3
4 months and above but less than 6 months	348·2
6 months and above but less than 8 months	380·0
8 months and above but less than 10 months	333·5
10 months and above but less than one year	330·0

From the above, the Committee find that for the period November 1966—31st December, 1969, Government had to incur an average expenditure on rent of Rs. 345·4/month for one hired accommodation, remaining vacant.

1.96. Asked why the quarters could not be allotted within the prescribed period of 15 days, the Ministry stated as follows:—

“These quarters constituted the houses on hire which were meant mostly for allotment to separated families i.e., where the officer is posted to the field area. The offer of allotment had, therefore, to be sent to the officer concerned at the Unit address. In the Unit itself, the officers are dispersed depending upon the operational necessity and the letter of allotment had to reach the officer concerned before he could communicate his acceptance or refusal. The time-lag between the issue of the letter of allotment and the receipt of communication was, therefore, very wide. In fact, in some cases, the officer received the communication even after the date of acceptance had expired. In certain cases, the officers wanted to confirm suitability of the houses before giving their acceptance but because of various factors like inability to get leave

etc., they requested for extension of time which, in the circumstances, could not be refused. Incidentally in case of Serving Officers also the delay in reply takes place when the office happens to be away on annual leave, training, course and temporary duty etc."

1.97. The Committee desired to know in how many of these cases, the allotments were later cancelled. The Ministry stated that the houses were offered to other officers on the waiting list without formally cancelling the allotment orders except in isolated cases. It was further stated that complete statistics about cancellation cases had not been maintained.

1.98. The Committee enquired whether reimbursement of house rent was made to any of these officers, who failed to occupy the quarters allotted, during the period when these hired buildings remained vacant. In this connection, the Ministry submitted the following note:

"No reimbursement of house rent was allowed to officers who failed to occupy the quarters allotted during the period when these houses remained vacant. It may be mentioned that orders permitting separated families to hire houses in DELHI on reimbursement basis were issued only in December 1968 and prior to that only hired houses could be allotted to them."

1.99. The Committee note that the Defence Department had hired 212 buildings in Delhi for allotment to the serving officers or their separated families on the ground that sufficient Government residential accommodation was not available. Out of these, as many as 93 remained vacant for periods ranging from 2 months to 1 year during November, 1966 to December, 1969, although such hired accommodation should not have remained unoccupied ordinarily for more than 15 days. The expenditure on rent and other charges in respect of these buildings during the periods they remained unoccupied was Rs. 2.26 lakhs. Having regard to the fact that the allotment is made in response to an application, if the allotment is made quickly and the allotment is of the type of the house asked for, there should be no question of 'offer and acceptance'. Acceptance must be assumed where the allotment is of the type to which the officer is entitled. The Committee is of the view that in these matters a certain degree of discipline and rigidity is essential. The Committee therefore desire that the period of vacancy should be reduced to the lowest minimum by rationalising the procedures for allotment with an adequate degree of firmness and rigidity.

1.100. Incidentally, the Committee find that buildings were hired at an average rent of about Rs. 345 per month. On this basis the rent payable for the 212 hired buildings by the Defence Department to the owners

works out to about Rs. 8.78 lakhs per annum. The Committee would suggest that the necessity for hiring private accommodation with the attendant heavy rent liability should be carefully gone into by Government with a view to seeing whether it will be economical for the Defence Department to put up their own buildings on the lands that may be available with them especially when they have the necessary organisation for the purpose. The position in this regard in stations other than Delhi would also require similar examination. The results of such comprehensive examination should be reported to the Committee.

MINISTRY OF DEFENCE (DEPARTMENT OF DEFENCE
PRODUCTION)

Manufacture of a weapon

Audit Paragraph

2.1. In pursuance of a decision to introduce a new weapon developed indigenously for use by the Army, Government sanctioned in December 1963 Rs. 36.58 lakhs for procurement of plant and machinery required to produce 10 sets per month of two components (parts A and B) of the weapon in an Ordnance factory in two shifts of 10 hours each. 60 machines required for the purpose were received between 1964 and 1966 and installed. The other components of the weapon were proposed to be manufactured in other Ordnance factories with existing facilities and the output of 10 weapons a month was to be achieved from January 1967. Orders for 358 weapons had been placed by the services between September 1961 and March 1963 (in anticipation of manufacture).

2.2. In the meantime, in June 1964 development of an improved version of the weapon was undertaken and the new model was ready for production by the end of 1967. Out of the 358 weapons ordered earlier 83 were to be of the original model while the remaining 275 and a further requirement of 392 weapons projected between June and November 1966 were to be of the new model.

2.3. As the production capacity of 10 weapons per month was considered inadequate to meet the increased requirement of the services, Government, in November 1966 sanctioned at an estimated cost of Rs. 47.04 lakhs (revised to Rs. 51.54 lakhs), augmentation of production of part A of the weapon from 10 to 25 numbers per month in two 10-hour shifts. The additional requirement of part B of the weapon at the rate of 15 per month was to be met by supply from a public sector undertaking. It was anticipated that requirement of other components for producing 25 weapons per month would be met with the existing facilities in the Ordnance factories or with trade assistance. The increased output of 25 numbers of part A per month was expected to commence from January 1968. Out of 42 machines required for this augmentation, 36 machines were received and excepting one, all were installed by April, 1968.

2.4. Production of the original version of the weapon commenced in March 1964 and 83 weapons were produced by 1968. Production of the

improved version on a limited scale also commenced in 1966 (simultaneously along with development) but up to October 1969, 176 weapons only were produced. The expectation that 15 numbers of part B would be available per month from the public sector undertaking has also not materialised; that undertaking has produced only eight numbers of part B so far (December 1969).

2.5. The maximum rate of production attained is six to seven weapons per month which falls short of even the original target of 10 weapons per month by more than 30 per cent. Production in 1969-70 is expected by the Director General, Ordnance Factories, to reach 100 weapons but even at this rate it will take another five years to complete manufacture of the remaining weapons. In the meantime, to meet urgent requirements for equipping Army units Government had to import 150 similar weapons (with connected ammunition to suit the slightly different imported version) during 1968 at a cost of Rs. 7.33 crores.

2.6. The Ministry stated that the limiting factors in achievement of the production target of the weapon are springs and castings required for Part B. It has been proposed to increase facilities in Ordnance factories for production of castings to improve the present supply. The public sector undertaking is expected to maintain a firm supply of only three numbers of Part B per month.

[Paragraph 4, Audit Report (Defence Services) 1970]

2.7. The Committee were informed that in February 1960 Scientific Research and Development Committee approved completion of the weapon.

2.8. During evidence the Secretary, Defence Production stated that the Research and Development Organisation of the Ministry of Defence undertook development and research of various things viz. ammunition, armament, weaponry, clothings etc. Asked when the task of designing and developing the new weapon was assigned to this organisation, the Ministry have stated:

"The original design of this weapon was British and after some work on it by Canada, the further development work was transferred to India in 1956 for finalisation. A list of equipment drawings and Canadian Reports on development were also received in India.

A Steering Committee was appointed in 1956 for clearing the project expeditiously. Even though the basic characteristic of the weapon was retained, in all other aspects a tremendous amount of development work had to be undertaken to suit our material and technological availability as also to meet the quantitative requirements of the Army. This was carried out by the Research and Development Organisation of the Ministry of Defence in association with the DGOF Organisation. For this project, a sum of Rs. 50 lakhs was sanctioned between 1957-58 and 1963-64 in four instalments.

The Steering Committee held several meetings between July 1956 and September 1961 during which they first cleared the drawings for DGOF to undertake manufacture of pilot samples, examined the defects that were noticed during trials and suggested improvements for adoption by DGOF. As a result of this exercise, the drawings were finally sealed in July 1963 when the Army gave an indication of their requirement of 875 Nos. of Mk. I of the weapon. However, formal indent for this weapon was only for 358 Nos. against orders placed between September 1961 and March 1963 as mentioned in sub-para I of the audit para. As, however, Mk. I of the weapon was not fully satisfactory, work was concurrently taken on the development of Mk. II.

The user trials of Mk. II prototype were completed in October 1965 and the Steering Committee announced in October 1965 that the weapon withstood all the rigorous trials satisfactorily and production thereof would be justifiable. In November 1965, it was decided to take up the production of Mk. II type and the first weapon was issued by DGOF in December 1966."

2.9. The Committee desired to know the target date fixed for commencement of production of the weapon, when the completion of development of it was approved in February 1960 as well as when the sanction of Government was issued in December 1963 for procurement of plant and machinery. The Ministry stated as follows:

"The Government letter sanctioning Rs. 36.58 lakhs for procurement of plant and machinery to produce 10 sets per month of the two components (Part 'A' and 'B') did not indicate the target date by which the rated capacity was expected to be achieved though DGOF had mentioned that it would take from 3 to 4 months after receipt of plant and machinery."

2.10. The Committee wanted to know the reasons for the delay in the issue of sanction for the procurement of plant and machinery as also the source of procurement. The Ministry have replied:

“Government sanction in this case is dated 7-12-1963. 57 Nos. of plant and machinery were required to be procured against this sanction out of which 41 machines were through DGS&D and the balance 16 Nos. through local purchase. Indents and Supply Orders for all the plant and machinery were placed from January 1964 to September 1964. Supplies against these orders were effected from June 1964 to December 1966. Thus taking into consideration the normal lead time required to obtain the plant and machinery which is normally between 18 to 24 months, there has been no undue delay in placement of supply orders and indents or in the receipt of plant and machinery.”

2.11. The Committee pointed out that an output of 10 weapons per month was to be achieved from January 1967 and enquired on what basis production rate was estimated. The Secretary, Department of Defence Production replied: “The services project a certain requirement of these guns. In this particular case, the total number of weapons ordered was 358; but we planned on the basis of a certain number of weapons to be made available over a period of time and the planning was done on the basis of supplying them ten weapons per month over a period of a few years.”

2.12. To a question, it was stated that when an order was placed by the army, the date by which these items were to be supplied was not generally indicated. Asked to furnish details of the requirements of the Army, the production programme and the quantity of weapon actually supplied for each of the years, till April 1972, the following information has been furnished by the Ministry:

“The year-wise details regarding requirements of the Army for this weapon, the production programme, the quantity of weapons actually supplied and the reasons for any short-fall are given below. The information is furnished from 1964-65 when the production of Mk. I type was first commenced, upto 1971-72:—

Year	Requirements of Army	Production Programme	Quantity supplied	Reasons for shortfalls if any
1964-65	32 Nos.	32	30	Due to priority given for manufacture of Mk. II development version there was a slight shortfall in the production of Mk. I

Year	Requirements of Army	Production Programme	Quantity supplied	Reasons for Shortfall if any
1965-66	59	59	38	Shortfall due to limitation in capacity and bottlenecks in obtaining certain essential critical castings for the saddle.
1966-67	89	89	27	The significant shortfall in production is due to diversion of capacity for simultaneous establishment of Mk. II equipment. Out of 27 Nos. produced, the first lot of 9 Nos. of Mk. II version was issued. As the Army authorities had reduced their demand for Mk. I type to 83 Nos. only, and this had been completed this year, thus limited production.
1967-68	75	75	54	The Mk. II version contains a set of equilibrator Springs. Known Spring manufacturers failed to meet this requirements. It had to be developed in one of the Ordnance Factories. There was also difficulty in production of the required number of Recoil Systems due to lack of capacity for the reasons mentioned earlier.
1968-69	100	100	76	From this year onwards, part of the production programme was to be met by the public Sector Undertaking against a contracted supply of 15 carriages for the weapons per month by the public sector undertaking, they supplied only one number during the year. This accounted for the shortfall in production.
1969-70	100	100	84	The shortfall in production was due to inadequate supply of Carriages from public sector undertaking.
1970-71	100	100	102 (80 from OFs & 22 from public sector undertaking)	
1971-72	100	100	112 (88 from GCF & 24 from public sector undertaking)	

2.13. The Secretary, Department of Defence Production stated during evidence: "I admit we have not been able to produce even 10 a month from 1968 onwards for a number of reasons. What we have been able to achieve was an average of 6 to 7 weapons per month." The witness added: "...we had a plan to produce ten sets of weapons. These ten sets of weapons, I have no doubt, would have been produced if certain changes had not been made. Before we could reach that production, the Army said that they did not want this but wanted an improved version. A considerable developmental effort had to be done on the improved version. The capacity which was set up for producing Mark I had to be utilised for Mark II. The fact is that, before we could establish production of Mark I at the rate of ten, we were asked to supply Mark II. On an average we had reached production of seven guns per month as against ten which was sanctioned earlier."

2.14. The Committee drew attention of the witness to the audit paragraph wherein it was stated that in November 1966, Government decided to increase production of the weapon from 10 to 25 weapons per month. The Committee enquired whether, before increasing the capacity, any study was made that the original capacity of 10 per month was reachable. The witness replied that the weaknesses of not being able to reach the existing capacity of 10 weapons were not realised in 1966 but later on. Asked why they could not be realised at that time, the witness stated: "In 1966, this capacity had hardly come into existence. The project was sanctioned at the end of 1966. Even with this new capacity which was sanctioned towards the end of 1966, we were producing weapons with old facilities which were already there. It is only after 1966 that we realised that with our difficulties of castings and forgings and the (Public Undertakings) failure to supply 15 carriages. We will not be able to produce more than 10 carriage."

2.15. Referring to the augmentation of production of part 'A' of the weapon from 10 to 25, the Committee pointed out that 36 out of 42 machines were installed and desired to know the present position. The Ministry have replied that out of 42 machines required, 41 have been received as on 1st October 1970 and that remaining one machine viz. Vertical Boring Machine was awaited from the public undertaking. The Committee pointed out that although Government had sanctioned augmentation of production of the weapon from 10 to 25 per month in November 1966 the increased output of 25 numbers of part 'A' of the weapon per month was expected to commence only from January 1968 and wanted to know the reason for the delay. The Ministry have stated:

"The second Government sanction for augmenting production of Part-A of the weapon to 25 Nos. per month was issued in

November 1966. The requirement of Plant and Machinery against this sanction was 42 machines. The break-up in the receipt of plant and machinery against these 42 Nos. is as below:

- (a) Indents for 16 Nos. of machines were placed during 1967 on DGS&D and supplies effected from May 1967 to December, 1968.
- (b) An indent for 4 Nos. of Universal Horizontal Boring Machines was placed in June 1968 and received in October/November 1969. The small delay in the placement of this indent was due to the decision to go for indigenous machines (HMT Pegard) in preference to imported machines.
- (c) An indent for one Single Column Vertical Turret Lathe was placed on DGS&D in January 1967 and the approved tender was concluded by DGS&D with the public sector undertaking in October, 1967. The schedule delivery date was October 1969 but the machine was received in the factory only in June 1971, erected in October 1971 and commissioned by the firm's engineers in March 1972.
- (d) Supply orders for local purchase of 13 Nos. of machines were placed between December 1966 and February 1967 and supplies effected between May 1967 and August 1969.
- (e) An indent for the balance 8 machines (Centre Lathes) was placed on DGS&D in January 1967 which was later cancelled as the rates offered were much higher and outside the sanctioned amount. It was later observed that the machines offered by M/s HMT were competitive and well within the sanctioned amount. A Supply Order was accordingly placed in July 1967 on M/s HMT against rate contract. These machines were received between December 1967 and November 1968.

From the above it would be seen that indenting action had been taken promptly, soon after the issue of the Government sanction and any incidental delay that had taken place either in the placement of order or in the receipt of machines was due to certain special circumstances as mentioned above."

2.16. The Committee asked whether the production of 'A' part of the weapon had reached 25 p.m. In this connection, the Ministry have replied as follows:—

“Even though under the two sanctions given in December 1963 and November 1966, the Ordnance Factories were required to produce 25 Nos. of Part-A of the weapon, and the Ordnance Factories had capacity to produce this number of Part-A, actual production as per rated capacity was contingent on the ability of the (public sector undertaking) to produce Part-B of the weapon in matching number. Unless the public sector undertaking was able, to establish this rate of matched production of Part-B, there was little purpose in the Ordnance Factories rolling out Part-A as per rated capacity. The public sector undertaking, for various reasons, was not able to establish even trickle production of Part-B until 1970-71. During 1968-69, the production was only 1 number and during 1969-70, it increased to 7. During 1970-71 and 1971-72, the public sector undertaking was able to manufacture 22 and 24 number respectively which works out to just 2 Nos. per month as against the originally contracted 15 numbers per month and later revised after technical scrutiny of the public sector undertaking capabilities to 4 numbers per month.

In view of the public sector undertaking's inability to come up with matching numbers of Part-B, it became necessary to divert the capacity available in Ordnance Factories for manufacture of Part-A to other lines of production. In the instant case the excess unutilised capacity was utilised for development of 105 mm IFG which is again an important weapon for the army completely indigenously developed.”

2.17. Referring to the manufacture of 15 numbers of part 'B' of the weapon from the public sector undertaking, the Committee enquired whether any investigations were made into the capacity of the public undertaking. The Secretary, Defence production stated: “Letters were exchanged between the—(Public undertaking) and the Secretary, Defence Production and assurances were given that the capacity existed. In fact, the very first letter said that they would be able to supply 30 per month.”

2.18. In reply to a question, asked in advance of evidence, the Ministry, in a note, have given the following details of expected output as

well as actual production of part 'B' of the weapon by the public undertaking, during the 5 years ending 1970.

	1966	1967	1968	1969	1970
Expected output		180	180	180	180
Actual Production	..	Nil	Nil	8	12

2.19. When pointed out that from the year 1966 to 1968, the output of Part-B by the public undertaking was nil, its representative replied: "We received no forgings or castings of the nature with which we could complete a single weapon for the first three years." Elaborating further, he stated: "We received a letter of intent in the year 1966 which stated 'We received a letter of intent in the year 1966 which stated very clearly that all those special castings and forgings were to be done by the ordnance factory.... In 1968, the understanding changed and it became clear that the public undertaking must develop its own castings and forgings.'" The Secretary, Department of Defence Production, however, stated: "At a meeting held on 11th April, 1968, the Works Manager, (HMBP) mentioned that (the part 'B' of the weapon) could be done by them; however he requested that in order to avoid hold up in production, the DGOF may be requested to supply certain castings and gear boxes at the rate of five per month till such time as production of these are established.... We have on record on our file that ten sets of castings etc. were supplied but we did not get a single part upto the beginning of 1969.... They pleaded again: please give us some more; we agreed to release 24 more sets of castings to them; they were all supplied by the end of 1968. So there cannot be this contention that we have not supplied the castings and forgings as promised by us." The Managing Director of the public sector undertaking further informed the Committee: "... In February 1968, there was no doubt in anybody's mind that from that date onwards the (public sector undertaking) was to make its own castings and forgings."

2.20. Subsequently, the Ministry of Steel and Mines submitted a note regarding supply of Part 'B' of the weapon to the Defence. Therein it has been stated that: "The establishment of manufacture process for castings and forgings by Public Sector Undertaking took a period of 14 to 18 months from February 1968 onwards. Nonferrous castings and forgings for which orders were placed in August 1968 were supplied by the Undertaking during the period from 27th March 1970 to 24th

October 1970. It is however noteworthy that production facilities in the Undertaking were not fully established and when the Undertakings were working only one full shift and one partial shift, the supply of (part 'B' of the weapon) was as follows:—

Upto December, 1969	8
April 1970—March, 1971	22
April 1971—3rd January, 1973	34
TOTAL	64

This performance has to be judged against the background that the Undertaking's capacity to supply Part 'B' was evaluated at 5 per month and that frequent changes in drawings were made by the DGOF with consequent changes in gauges, apart from lack of experienced personnel in the Undertaking to undertake this work."

2.21. The Committee were informed that according to the Ministry, the original assessment of the Public Sector Undertaking's capacity as 15 per month seemed to have been overpitched and according to the present indications a firm capacity of three carriages per month could be assumed as feasible.

2.22. Asked whether the rate of procurement from the Public Sector Undertaking has been finally fixed, the Ministry, in a note, intimated that the case was with Associate Finance for finalisation of the rate.

2.23. The Committee were also informed that according to the Ministry, the limiting factors in production of the weapon were springs and castings required for part 'B' weapons and that the restricted output of equilibrator springs (2 per weapon) continued to be a serious limiting factor in the production of carriages. It was further stated that the bottleneck in respect of the Equilibrator spring had been resolved with the commissioning of a new Spring Coiling Machine. As regards Saddle castings when it was observed that the Ordnance Factory 'A' was unable to meet the (ordnance factory B's) requirement with existing facilities, it was expected that the Public Undertaking would be able to supplement the deficiencies. But owing to delay in establishment of castings at the undertaking a tender was floated and M/s. . . . was entrusted with the supply. In spite of their best efforts M/s. . . . could not produce a single casting of acceptable quality and the supply order had to be cancelled. The order for 72 castings had since been placed on the Public Sector Undertakings. Although the Undertaking had promised supply at the rate of 2 Nos. per month, they had (till 18th December 1970) supplied only 2 Nos. against Ordnance factory B).

2.24. The Committee enquired whether, in the letter of intent, the price of Part 'B' of the weapon was fixed before the contract was finalised. The Secretary, Department of Defence Production replied:

"No price has so far been settled for these."

2.25. As regards the cost of production of Part 'B' of the weapon by the Public Sector Undertaking, the following information has been submitted by the Ministry of Steel and Mines:

UNITS COST OF PRODUCTION

(Rs. in lakhs)

	Production at 30 per year	Production at 60 per year
1. Material cost	0.15	0.15
2. Direct Manufacturing expenses	0.83	0.51
3. Indirect charges and Overheads	0.92	0.47
4. Development charges	0.42	0.42
	<u>2.32</u>	<u>1.55</u>

2.26. Regarding the actual cost of production of Part 'B' by the Ordnance Factory, the Ministry of Defence intimated that it was Rs. 53142.

2.27. The Committee enquired about the reason for the Public Sector Undertaking's high manufacturing cost. The representative from the Undertaking replied: "The basic reasons is low productivity and not having set up manufacture to the double shift level." Asked what is the utilisation of the capacity created, the witness stated: "In the manufacture of these weapons, we have now reached a little over 55 per cent capacity against the general utilisation of 33 per cent."

2.28. Referring to the weapons which were imported, the Committee desired to know their cost of import and also the cost of indigenous production of the weapon. In reply, the Ministry have stated:

"The cost of 150 weapons including ammunition, etc., imported in 1968 amounted to Rs. 7.33 crores.* The cost of one imported weapon alone was Rs. 89,625 each. The imported weapon is somewhat different in range and specification from the weapon manufactured in the Ordnance Factories. As such a strict cost comparison would not be possible. The actual cost of indigenous weapons in 1967-68 was Rs. 103,988."

*As vetted by Audit.

2.29. As early as 1960 completion of development of a weapon was approved and the drawings were finalised in July, 1963. An output of 10 weapons a month was to be achieved from January, 1967. In the meantime in June, 1964 development of an improved version of the weapon was undertaken and the new model was ready for production by the end of 1967. As the production capacity of 10 weapons per month was considered inadequate to meet the increased requirements of the Services, production of a part of the weapon was to be augmented to 25 per month from January, 1968 and the increased requirement of another part was to be met by supply from a Public Sector undertaking. The actual production was, however, only at an average rate of 7 weapons per month even as late as 1969-70. In the meantime, to meet urgent requirements for equipping Army Units 150 weapons with connected ammunitions had to be imported in 1968 at a cost of Rs. 7.33 crores. While the Committee can understand the initial difficulties in achieving indigenisation of armament production, they are satisfied from the facts supplied and explanations tendered before the Committee that there has been complete and almost reprehensible failure to ensure the degree of coordination that is essential for the efficient realisation of such a project. Thus, they would like to point out that the requirements of this project from various sources with regard to plant and machinery and raw materials were not properly tied up. Further, there appears to have been no effective watch and control over the implementation of the project at the Government level. In this connection it is seen that no target date was fixed by Government for achieving the rated capacity. The Committee hope that taking a lesson from these lapses Government will take suitable steps to see that such projects, important as they are from the point of view of achieving self-reliance in armament production, are pushed through with the requisite vigour and imagination. There should be integrated planning and an annual review of progress in the implementation of the projects at the Government levels so that self-reliance could be achieved within the minimum possible time which would obviate the need for foreign exchange being spent on imports.

2.30. The main bottleneck in achieving the rated capacity was with the H&C (Public Sector Undertaking) which was to supply a part of the weapon required for matching the production of the other part in the ordnance factory. As against the expected supply of 15 parts per month, the undertaking could supply at the rate of only one part per month as late as 1970. It is unfortunate that there was some confusion about meeting the requirement of forgings and castings for the production of this part by the undertaking. It was only in 1968 that it became clear that the Public Sector Undertaking must develop its own castings and forging. Further, according to the Ministry of Steel and Mines, the undertakings'

capacity to supply the part of the weapon was only 5 per month and frequent changes in drawings had partly accounted for the lower rate of production. All those require to be gone into to find out as to what went wrong. Considering the present capacity of the undertaking steps have also to be taken to augment the production of the part of the weapon to reach the production capacity of 25 weapons per month.

2.31. One more aspect which the Committee would like to refer to is the high cost of production of the part of the weapon by the Public Sector Undertaking. The cost of production by the undertaking is Rs. 2.32 lakhs per part as against the ordnance factory cost of Rs. 0.53 lakh. The difference to the extent of about 340 per cent is obviously unjustified. Efforts should, therefore, be made first to ascertain why there is this big difference and then to take steps to bring down the cost of production in the Public Sector Undertaking.

Indigenous production of components of a truck Audit Paragraph

2.32. Government took a decision in September 1962 to create certain additional facilities in two Ordnance Factories (A and B) for manufacturing indigenously certain components*, viz., transfer case, gear box and axles, of a truck, which is being produced progressively in India with the collaboration of its foreign manufacturers. There has, however been considerable delay in establishment of production of these components. The main reasons are:

- (i) delay in positioning the whole set of machines required in Factory A; and
- (ii) delay in placing orders for and in receipt of gauges, castings and forgings for both the Factories A and B.

2.33. The civil works in Factory A (sanctioned in 1964 and 1965) were completed by July 1967 at a cost of Rs. 8.40 lakhs. The requisite plant comprised of 72 machines. (There were considerable delays in placing orders for them. Thus 69 of them, costing Rs. 71.18 lakhs ordered between June 1963 and February 1968, were received between November 1963 and February 1969. Sixtyeight of them have since been installed, the last of them (a high value machine, costing Rs. 2.61 lakhs, which was ordered only in February 1968) having been installed in October 1969. One of the machines costing Rs. 0.78 lakh was found to be defective at the time of its receipt in November 1965, but this has not been repaired so far (October 1970). Orders for necessary castings and forgings, comprising of 7 items valuing Rs. 10.80 lakhs, were placed on the collaborator between September 1967 and August 1968. Although these castings and forgings were expected to be received between

*The delay in utilisation of machines intended for the production of another component was commented upon in paragraph 8, Audit Report 1969.

February 1968 and November 1968, they have been only partially received so far (October 1970). In this Factory, which was expected to produce 100 to 125 sets per month of transfer case and gear box, production of only transfer case has commenced from August 1970 and that too at the rate of 75 sets only per month. The gear box line has not been established at all. For production of this item a low priority has been given, as an order for its manufacture has already been placed on a private firm.

2.34. Similarly, in Factory B which was to produce 16 components of the axle and its assembly, 25 machines costing Rs. 24.29 lakhs were ordered between December 1962 and March 1965 and were received between January 1964 and March 1966. The requisite gauges, castings and forgings etc., were ordered partly from the collaborator between July 1967 and April 1970 at a cost of Rs. 13.76 lakhs and partly from within India between September 1967 and December 1968 at a cost of Rs. 49.45 lakhs. These have been received only partially till October 1970—Rs. 5.33 lakhs worth from abroad against the stipulated period of delivery of December 1967 to October 1970 and Rs. 2.70 lakhs worth from within the country against the stipulated period of delivery of November 1968 to May 1970. Production of the 16 components of the axle and its assembly has not accordingly been established so far (October 1970).

2.35. As a result of the above delays:

- (a) a number of machines were/are lying idle (4 machines costing Rs. 8.76 lakhs were idle for 4 years or over in Factory A and 4 machines costing Rs. 3.06 lakhs are still idle in Factory B though they were procured in 1965);
- (b) a number of machines (*viz.*, all machines intended for manufacture of gear box in Factory A and 15 machines costing Rs. 8.29 lakhs in Factory B) have been diverted to other uses;
- (c) raw materials, jigs, gauges etc., worth Rs. 6.08 lakhs ordered between April 1966 and March 1970 and received in Factory A from February 1967 onwards are lying in stock there; and
- (d) the components have continued to be ordered from abroad between March 1967 and March 1970. The value of these imports during that period was Rs. 179.70 lakhs. At least 60 per cent of the quantities so ordered fell within the capacity which was planned to be created in the two Ordnance Factories.

Government intimated in November 1970 that :

- (i) gear box line in Factory A has not been established, partly because of diversion of capacity to higher priority items and partly because of the delay in getting the complete set of machines;
- (ii) it has not been possible to establish the axle line in Factory B so far due to delays in getting the castings and forgings from abroad and from within the country; and
- (iii) the machines are being utilised according as the forgings/castings are being received from abroad and from within the country.

[Paragraph 3 of Report of the Comptroller and Auditor General of India for the year 1969-70, Central Government (Defence Services)].

2.36. The Committee pointed out that the civil works in Factory 'A' although sanctioned in 1964 and 1965, were completed by July 1967 and enquired the reason for the delay of about three years. The Secretary, Department of Defence Production, in reply, stated: "When this project was sanctioned, the DGOF asked for sanction for civil works. The civil works were not sanctioned because simultaneously the Defence Ministry were thinking of setting up a vehicle factory at ('B' Station). Then the question arose whether it should be done at ('A') factory. Then the argument was used that until the ('B') factory work is completed, the machine would remain in the open, so ultimately the civil works were sanctioned in 1965."

2.37. The Committee were informed that the machine costing Rs. 0.78 lakh which was found defective at the time of receipt in November 1965 and which had not been repaired till October, 1970, was a Salt Bath Furnace. The Committee desired to be furnished with a brief note on the purchase of the Salt Bath Furnace. In reply, the Ministry have furnished the following note:—

"The Salt Bath Furnace was purchased in November, 1965. A supply order for this item was placed on M/s. . . on 12-11-1963. The cost of the Furnace was Rs. 41,922 (excluding spare pots) and this amount was paid in two instalments, 90 per cent amounting to Rs. 37,729.80 in January 1966 and the balance 10 per cent amounting to Rs. 4192.20 in June, 1966. According to supply order, 90 per cent payment was to be made on proof of despatch and the balance 10 per cent when the item of supply is declared to be in good condition. Salt Bath Furnace was collected by the factory on 3-11-1965. Earlier, the Director of Inspection

had inspected the Furnace on 13-9-1965 and the Furnace was demonstrated with salt on 22-9-1965 and was approved by the Director of Inspection *vide* his inspection certificate dated 11-10-1965."

"The first discrepancy in the Furnace was noticed on 22-2-1966 by the Factory. Thereafter the Factory has been in continuous correspondence with the firm and the DGOF. Among themselves, nearly 100 letters had been exchanged between 22-2-1966 and 5-7-1972, principally with the view to get the Furnace properly commissioned.

"During this period, the firm has mentioned that it has spent Rs. 12,000/- in the replacement of heating elements, Rs. 10,000/- in the replacement of furnace lining and another Rs. 1,500/- for replacement of an Air Brake Magnetic Contractor besides expenditure incurred by the firm in the various visits of its engineers and others to the factory to set the Furnace right. When the factory was unable to compel the firm to repair the Furnace and commission it satisfactorily, DGOF addressed the firm on 2-4-1970 requiring it to rectify the defects and commission the Furnace failing which action to recover full amount paid to the firm would be taken. The DGOF again addressed the firm on 23-5-1972 that the firm should arrange for replacement of the Furnace within one month failing which necessary action to recover the amount paid to the firm would be taken. DGOF is also now examining the feasibility of with-holding payment to the firm for either supplies made to other Ordnance Factories or to other Government departments through DGS&D."

"*Prima facie* It would be clear that on efforts have been spared either at the Factory level or at the DGOF level to see that the supplying firm repair the Furnace and commission it successfully. On this account there is no failure on the part of any one in the DGOF organisation or in the Factory who can be blamed for inaction. Once the Director of Inspection had certified the soundness of the Furnace, there was no question of with-holding payment of 90 per cent of the cost of the Furnace to the firm. Some blame could be attached however, to the release of balance 10 per cent cost (Rs. 4,192.20) by the DGOF Organisation in June 1966 after knowing clearly that the Furnace was not functioning despite efforts by the supplier firm. The payment of 10 per cent could have been stopped completely till such time the Furnace is commissioned satisfactorily. To this extent, there has been

some error of judgement and the Department of Defence Production has instructed DGOF to deal with the matter suitably."

2.38. The Committee drew attention of the witness to the fact that although supplies against seven orders placed for necessary castings and forgings on the foreign collaborator between September 1967 and August 1968, were expected to be received between February and November 1968, they had been only partially received till October 1970. The witness agreed that this was a serious lapse. Asked whether the collaborators were obliged to supply the castings and forgings under the agreement and if so, whether any action could be taken for the delay in supply, the Ministry submitted the following:

"Vide Clause 10 of the Agreement dated 2nd February, 1960 executed between the President of India (Licensee) and the collaborator (Licensor) the Licensor was required to supply to the Licensee components for his production programme as and when produced in India. The wording of Clause 10 referred to above is reproduced below:—

"The Licensor shall supply to be Licensee components (either in rough or in finished stage) which may be required by the Licensee for his production programme until such time as these parts are produced in India."

Apart from the obligation to supply vehicle components to the Licensee as and when demanded, there is no provision in the Agreement for imposition of any penalty for delayed supplies against the orders placed on the Licensor. Invariably, in all Collaboration Agreements entered into with a view to obtain technical expertise, there is no provision for imposition of any penalty in such Agreements for delayed supply of components, etc."

2.39. The Committee pointed out that the value of the components that were imported between March 1967 and March 1970 was Rs. 179.70 lakhs, and desired to know the total value of the components imported which could have been produced by the two factories but for delays in getting the machines etc. In a note, the Ministry have state:

"This relates to Gear Box, Transfer Case and Axles for Nissan 1-Ton Vehicles, production of which was planned in the Ordnance Factories and for which machines had been procured. The total cost of import amounted to Rs. 179.70 lakhs. This is in respect of 4975 Nos. Gear Boxes, 2900 Transfer Cases and 3290 Nos. Axles between March 1967 and March 1970."

"According to the planned capacity, it was required that the Ordnance Factories would have produced 100 Nos. each of these items per month. For various reasons explained in the explanatory note to the Audit Para and during the deposition of evidence by Secretary (DP) before the PAC, the actual utilisation of these machines for manufacture of the three components enumerated above could not be undertaken earlier than the dates mentioned in the report."

"While assessing the value of components imported which could have been produced by the two Ordnance Factories but for delays in getting the machines etc., it would be relevant to relate it to the production programme planned for these items during this period in the two factories. On this basis, it has been estimated that the said value of the components would be as under:—

Name of Components	Production Programme per month	Total Number	Number imported	Number that could have been produced but for delayed utilisation	Cost (CIF) thereof with reference to column 4
1	2	3	4	5	
					Rs.
Gear Box	300—500*	4975	(6 Supply Orders)	1222	11,95,309.00
Transfer case	300—500*	2900	(4 Supply Orders)	660	1,68,458.00
Axle	300—500*	3290	(4 Supply Orders)	738	19,80,217.00
			TOTAL		33,23,984.00"

*Note Production programme refers to planning at the time of placement of Supply Orders. The actual monthly production during the three years, 1967-68, 1968-69 and 1969-70 averaged, however, only 173 vehicles as against the above production programme of 300—500 vehicles per month.

In this connection, we would like to reiterate that except for eight machines which are idle for over 4 years the machines procured for manufacture of these components had never remained idle but have been usefully and continuously utilised for production of various other strategic Defence items. As such the avoidability of any import of these components by effective commissioning of the machines for the purposes for which they were intended can only be hypothetical and not really so.

In as much as these machines had been utilised for production of other essential Defence items, it is considered that there has been no loss to the Government. What has been spent in excess in the import of Gear Boxes, Transfer Cases and Axles for Nissan 1-Ton should be taken as having been sufficiently compensated, by the production of alternate, urgent and strategic Defence items."

2.40. The Committee regret that having taken a decision in 1962 to create additional facilities in two ordnance factories for manufacturing indigenously transfer case, gear box and axles of Nissan trucks with the collaboration of their foreign manufacturers, production of transfer case alone has been established by August, 1970 and that too only to the extent of 75 per cent of what was expected. In the meantime components continued to be imported—the value of the imports during the period March 1967 to 1970 being Rs. 179.70 lakhs. This is hardly the way to achieve self-reliance in defence production. The Committee would, therefore, urge that steps should be taken to establish expeditiously the production of all these essential items. The Committee find in this connection that the production of gear box has been accorded low priority and an order for its manufacture has been placed on a private firm diverting all the machines intended for the manufacture to other uses. The Committee trust that sufficient indigenous production of this item has been firmly established.

2.41. The non-establishment of gear-box line in one of the ordnance factories is explained as due partly to the delay in getting complete set of machines. The Committee deprecate the delay in placing orders for the machines. They further find that a Salt Bath Furnace which was found to be defective is yet to be repaired. It is surprising that although it was found defective in February, 1966, the firm's bill was settled in full in June, 1966. The responsibility for this lapse needs to be fixed. The progress in regard to either getting the replacement from the supplier or recovering the cost from them may be reported to the Committee. The time taken to settle matter has been long. Further the Committee are at a loss to understand how the Director of Inspection could pass the defective furnace. His responsibility in the matter should be examined.

2.42. The delay in establishing the axle line in the other ordnance factory is attributed to delays in getting the castings and forgings partly from the collaborators. The Committee find that there is no provision in the collaboration agreement for imposition of any penalty for delayed supplies. This is stated to be a general feature of all the collaboration agreements. Thus there is a lacuna which may encourage dilatory tactics on the part of the collaborators. The Committee desire that Government should examine as to what safeguards can be written into collaboration agreements so that the collaborator acquires a stake in establishing production in India in time.

Transport Aircraft

Audit Paragraph

2.43. (i) An agreement concluded with a foreign company in July 1959 for indigenous manufacture of a transport aircraft stipulated *inter alia* that the company would make available, within 12 months of the date of the agreement, a complete itemised price list of all the components, bought out and proprietary items, of the (basic) aircraft which it would supply at a cost not exceeding £158,000 per aircraft. The itemised price list was, however, received from the company in October 1964 for series I and in October 1965 for series II of the aircraft.

(ii) Meanwhile sanctions for purchase of basic parts of 16 aircraft at a total provisional cost of £2,048,217 were issued by Government between August 1959 and June 1964. It was further decided (in 1962) to have 5 of these aircraft modified to VVIP version and 10 to Executive version. No firm estimate of the likely cost of additional equipment required for this purpose could be given by the foreign company at that stage. However, on grounds of urgency and after obtaining only a rough indication from the company, sanctions were issued for the desired modifications at an additional cost of £454,065. The total amount payable to that company according to these sanctions was thus £2,502,282.

(iii) The supplies were received in India between 1963 and 1965. The invoices followed in September 1965 and January 1966. As against the sanctioned amount of £2,502,282, the amount claimed by the company was £3,413,633. A complete verification of all the items and costs detailed in those invoices could not be made, principally because the accounts of the stores and the prices payable for them were found to have not been maintained properly.

2.44. However, an analysis of the difference of £911,351 between the amounts billed by the foreign supplier and the amounts of relative Government sanction indicated that—

- (a) an amount of £85,393 was due to the supplier when the prices of basic components were finalised with reference to the itemised price lists furnished by the supplier;
- (b) an amount of £281,881 billed by the company pertained to certain other items forming part of the basic aircraft which had not been provided for in Government sanctions;
- (c) another amount of £173,644 billed by the company related to items of modifications/improvements omitted to be included in Government sanctions; and
- (d) yet another amount of £45,766 billed by the company was attributable to escalation in prices since the Government sanctions were issued.

2.45. However, even after allowing for these factors, there was still a difference of £324,667 which could not be explained.

(iv) On the matter being taken up with the foreign company it offered in May 1966 certain discounts which were estimated by Government to amount to £412,573 for 28 aircraft which it had already ordered by that time. Out of the discounts so offered, £90,000 represented rebates in the cost of modifications and the balance in that of the basic components. This offer was accepted by Government in July 1966 because, as stated by Government, the total discount offered (for the 28 aircraft) exceeded the unexplained difference of £324,667 (for the 16 aircraft). Taking into account the orders placed for 13 additional aircraft subsequently, the total value of discount works out to £512,400.

2.46. Government has explained that the company was not prepared to give any quotations for the modifications, the design and standards of which had not in fact been finalised at that stage; all that the company had indicated was a budgetary price; in those circumstances, there were only two options open; either the sanctions could be issued on the basis of budgetary prices indicated by the company or Government could have waited till the design of the modified equipment was finalised and the company was in a position to quote. The latter alternative could not be accepted as for fulfilment of the programme approved by Government, placement of orders could not be deferred.

(v) The original amounts provisionally sanctioned by Government and the amounts paid are shown below:—

Category	Amount initially sanctioned by Government	Amount finally paid by Government*	Difference between columns (3) and (2)	Percentage which column (3) bears to column (2)
1	2	3	4	5
(a) Basic components etc. for 16 aircraft	£ 20,48,217	£ 23,56,524	£ 3,08,307	15.05
(b) Modifications:				
(i) Additional and optional equipment for 16 aircraft	29,859	1,64,959	1,35,100	452.46
(ii) 3—crew layout for 15 aircraft	3,02,100	4,05,317	1,03,217	34.17
(iii) VIP/Executive layout for 15 aircraft	1,22,106	3,40,110	2,18,004	178.54
TOTAL (b)	4,54,065	9,10,386	4,56,321	
GRAND TOTAL (a+b)	25,02,282	32,66,910	7,64,628	

*£ 281881 which was included by the company in its invoices for modifications was said to represent value of basic aircraft and has, therefore, been added to the figures at (a) by deleting it from figures at (b).

2.47. It will be seen from the above that the principal reason for ordering the equipment for modifications, without securing in advance firm estimate of the cost, was urgency of need. Actually, only 11 such aircraft (9 Executive type and 2 VVIP type) were delivered upto January 1969 @2-3 each year while the remaining 4 such aircraft are still awaited (November 1970) even though the components for these aircraft have been lying in store since 1965. The Ministry stated that in addition, 14 aircraft have been given in the meanwhile by the factory to Indian Airlines to meet more urgent requirement.

(vi) Of the total discount of £4,12,573 offered by the company and accepted by Government in 1966, £90,000 only were for the optional and additional equipment, 3—crew layout, and Executive/VVIP layout. Thus, the total amount paid for these three modifications was £9,10,386 as against £4,54,065 sanctioned by Government; the biggest increase in cost was on account of the Executive/VVIP layout. Per aircraft this expenditure was about £22,700 (after allowing for the rebate allowed and other factors), as against Government's estimate of £8,140 per aircraft.

(vii) The (all inclusive) estimated cost of each of the nine Executive type aircraft (after modification) was Rs. 71 lakhs approximately. They were handed over to the Air Force authorities, one in 1964, three in 1965, two in 1966 and three in 1967. Originally they were 40 seater aircraft. After conversion, each has 22 seats and a sofa set, and these aircraft are meant for journeys by senior officers, apart from Ministers. A sample study (for four months) of the use of the four Executive type aircraft based in Delhi disclosed that, on the average, each flight carried 5.4 passengers only, not more than one or two of whom were senior officers and the others juniors. The average monthly flying hours of the Executive types (since they were delivered to the Air Force authorities and after excluding the periods spent on repairs) have been as follows:—

2 aircraft	Not more than 20 hours
1 aircraft	More than 20 hours but not more than 30 hours
4 aircraft	More than 30 hours but not more than 40 hours.
2 aircraft	More than 40 hours but not more than 45 hours.
<u>9 aircraft</u>	

[Paragraph 9 of Report of Comptroller and Auditor General of India for the year 1969-70, Central Government (Defence Services.)]

2.48. The Committee drew attention to the audit paragraph wherein it was stated that the itemised price list, which was to have been made available within 12 months from the date of agreement, was received from the company after more than 4 years from that date. The Committee enquired why this was so. The Secretary, Department of Defence Production stated: "When this agreement was signed in July 1959, this Avro aircraft was itself in the design stage. And so far as we are given to understand, the company was not in a position to make any detailed itemized price list, until they had manufactured one aircraft or two. Actually, they gave us some sort of price list in November 1960. That was for major sub-assemblies. It was not what can be called an itemized price list. So, it was not accepted by us. Then there was a lot of correspondence. A team was sent to the United Kingdom in 1962. They gave another itemized price list, which was also not accepted. It was only in 1964 that we got what was acceptable to us. *i.e.* itemized price list."

2.49. Referring to the 37th Report of Public Accounts Committee (3rd Lok Sabha) wherein it was noted that the airworthiness of the aircraft was obtained in January 1962 itself, the Committee pointed out that soon after this, the itemized price list could have been submitted. To this, the witness replied: "I do not know whether they were in a position to give itemised price list on the basis of the prototype aircraft." He further stated: "They promised us entirely unrealistic things. In their place, I would not have said that the list would be given so soon especially when the aircraft itself had not flown."

2.50. When the Committee pointed out that this was equivalent to an open order on a foreign company, on which there could not be any control, the witness informed: "There was a ceiling prescribed, that the price will not exceed £158,000. The price was broken up and details given subsequently. We would pay only for those items for which we placed orders."

2.51. The witness further stated that the price of £158,000 as ceiling was the one prevailing in June or July 1959. He added: "There was a provision for escalation from year-to-year, based on the wage index there. That escalation had to be paid by us."

2.52. The Committee enquired whether any comparison was made between the prices given in the list of November 1960 and in the final list of 1964 and 1965. The Secretary, Department of Defence Production in reply, stated: "As far as I remember, the list which we received in 1960, was a very sketchy list which contained only the broad-assemblies; and not at all an itemised price list. When the itemised price list was received, there was no possibility of comparing it with the so-called list which they gave in 1960. The total, of course, remained the same."

2.53. Drawing attention of the witness to the fact that sanctions for purchase of basic parts of 16 aircraft at a provisional cost of £2,048,217 were issued by Government between August 1959 and June 1964, the Committee enquired on what basis this amount was arrived at. The witness had the following to say: "A calculation was made on the basis of the ceiling of £ 158,000 per aircraft some of these parts would be made in India by us. So, a guess was made as to how much it will cost. We multiplied 158 by 16 and made a rough calculation." The Committee desired to know the components that would be manufactured in India. The witness stated: "I do not think any detailed examination was made as to which part we manufacture. They merely estimated some parts would be manufactured and so a lumpsum deduction was made." He further stated: "A very rough calculation was made and certain cuts were made from that figure." The Committee desired to know how the calculations were made. To this, the witness replied: "I think it was only a guesswork and nothing beyond that."

2.54. The Committee desired to know the date of placement of orders for the basic parts of the 16 aircrafts and its cost. The Secretary, Department of Defence Production replied: "The first aircraft was ordered on 3-8-59—£157,000. The second, third and fourth were ordered on 28th April 1961—£502,440; the fifth, sixth and seventh were ordered on 15-6-62—£386,577; eighth, ninth and tenth were ordered on 11-9-62—£633,900 and the rest six were ordered on 5-9-63 at a total cost of £667,800." The Committee pointed out that the cost per aircraft, ordered in 1961 worked out to about £167,000. The witness stated: "A certain escalation had taken place at that time." Asked how the price had come down subsequently, he added: "They hoped that some parts would be made and they made a rough calculation. . . . the escalation came all along but more and more deletions were being made."

2.55. The Committee referred to the decision taken in 1962 to have 5 of the aircrafts modified to VVIP version and 10 to Executive version and enquired when and by whom this decision was taken. The witness could not give this information. He however stated: ". . . . Prior to the decision to go into the production of Avro, we had, what is called, a Communications squadron in the Air Force for the carriage of VIPs, senior officers, Ministers and foreign dignitaries which consisted of a fleet of ten Dakota aircraft. This was in accordance with the policy effective during that period. Out of these, seven aircraft were in the Air Headquarters squadron and those were divided into two fleet; one was called the VIP's fleet consisting of four Dakotas and the other. . . . as Executive, consisting of three Dakotas. . . ."

When the Government took a decision, the Air Headquarters proposed that the Dacotas, having become very old, the entire Dakota fleet should be replaced by the production of Avro aircraft. At that time the Dakota fleet consisted of roughly 100 aircraft. On 20th May, 1959, the Deputy Chief of Air Staff proposed that Government should agree in principle to replace the Dakota fleet, from 1960 by a total of 181 transport aircraft to meet the Air Force requirements over a period of ten years. Out of these 181 aircraft, 29 were required to be passenger carrier version. Of 29 passenger carrier version were to include the VVIP aircraft for communication flight, navigator trainer type and signaller trainer type. Accordingly when this proposal was received, the Ministry of Defence prepared a paper on 4th June 1959 which was submitted to the Defence Committee of the Cabinet which met on 9th June, 1959. The Defence Committee agreed that it was desirable to consider indigenous manufacture of suitable transport aircraft to replace the Dacota fleet. For this purpose, however, before taking the decision, the DCC appointed a committee under the chairmanship of the Chief of Air Staff to consider the various offers from foreign manufacturers which had been received in the Ministry and to decide upon the suitable aircraft to replace the Dacota fleet in the Indian Airlines and the Indian Air Force.

The Report of the Committee which recommended indigenous manufacture of HS-748 aircraft was considered by the DCC at its meeting on 26th June 1959 and the proposal was accepted. In the paper which we put up to the DCC, a reference was made to these aspects in the following words:

“While Avro 748 would meet the Air Force requirements for their VIP and communication aircraft for which there is the requirement of 29 aircraft over a period of ten years.”

The requirement of 29 aircraft of the passenger version was to sustain the actual strength of 16 aircraft over a period 1963-72; adding the requirement of MR and SOW, the total worked out to 29 aircraft. The break up of 16 aircraft required for actual strength was also given; this involved a strength of nine aircraft of Executive/VVIP type and seven aircraft of Navigator/Singnaller trainer type; including SOW and MR it would require 16 aircraft of Executive/VVIP type and 13 aircraft of Navigator/Singnaller trainer type.”

2.56. As regards the modifications to the VVIP/Executive aircraft, the witness stated: “What we really did was to provide certain amenities and facilities which included certain safety devices which normally would not be supplied with the basic aircraft. As for the cost of modification, you would be surprised to know that the VVIP lay out has cost us slightly less than the Executive layout. We have paid the HSAL a certain sum of

money for the modifications, which is less than the cost of the modifications which had to be incorporated in the IAC aircraft to make them passenger aircraft. The IAC had to pay £94,000 to £94,800 per aircraft."

2.57. Asked how the Dakota fleet of 10 VVIP/Executive aircraft was sought to be replaced by 15 Avros, the witness deposed: "Because we were buying a new aircraft, if we did not provide for the maintenance and strike-off wastage, if one plane is out of order, the availability of the planes would be reduced to that extent, whereas in the case of the Dakotas that was not so because they had other Dakotas from which they could replace. In the case of Avros, if we purchased only 10, we would not have had enough spare aircraft available."

2.58. Asked whether there was any phased programme for induction of this VVIP version, the witness replied: "Actually, after the first seven aircraft were ordered, a meeting was held to decide whether more of the navigator and signaller type or more of the passenger type should be produced first. Hawker Siddeley themselves said that they had not finalised the design of the navigator and signaller type. A meeting was held at the level of the Secretary, Defence Production, and it was decided that after 7 aircraft were ordered, numbers 8 to 16 should be the Executive VVIP version aircraft and not the signaller type because the latter were not likely to be ready. Hawker Siddeley themselves suggested our taking 6 or 7 of the normal version."

2.59. The Committee enquired why it was not possible for the Department to have the prices fixed for the normal version of the aircraft, before ordering the VVIP/Executive versions. The witness stated: "The only explanation is that we did not need even one aircraft of this normal version, but HSAL insisted that we must buy, otherwise they would not be able to give us for quite some time a design for modification and the subsequent aircraft." Asked why the modifications could not be carried out on the original version, the witness stated: "The basic design does not consist of internal fittings. That is a different thing. It was included in the 1959 agreement itself that IAF would have its own standard for the interior. Price for these have to be separately negotiated. It was anticipated from the very beginning that IAF would require a different kind of fixtures."

2.60. Referring to the Audit Paragraph wherein it was stated that there was a difference of £911,351 between the amount billed by the company and that sanctioned by Government, the Committee pointed out that one of the items leading to this difference was the cost of certain equipment not provided in Government sanctions. The Secretary, Department of Defence Production stated: "It does not mean that we had not ordered these. It was not included through oversight in Government's sanction. It

it not that the company sent us anything which we had not ordered. . . . We had asked for certain additional and optional equipment. For the first aircraft, we bought all the additional and optional equipment through HSAL. For that we issued sanction for 29,859 pounds. That was the quotation of HSAL and we sanctioned that amount. But that was for only one aircraft. After the first aircraft, Government took decision that these items which were proprietary items should not be bought through HSAL but should be bought direct from the firm. For that purpose sanctions should have been issued for purchase of those items which were to be obtained from HSAL. An estimate was sent by our officer from London to the headquarters for a sum of about 9,300 pounds per aircraft. . . . till this matter was finally settled in 1966, no sanction for these 15 aircraft at 9,300 pounds per aircraft was issued. Supplies were made but sanction had not been issued. Payments were also withheld."

2.61. To a question, the witness stated: "The sanction does not represent the correct price that should have been charged to us. M/s Hawker Siddeley Aviation Co. Ltd., made quite clear to us that this was only a rough indication of price. That is for Series I. For Series II, they refused to give even a rough indication of price."

2.62. The Committee were informed that Government had appointed two Committees (1) to look into the reasonableness of the claims made by the foreign company and (2) to enquire into the circumstances in which the modifications to the aircraft were decided upon. The first Committee had stated that it was unable to "make an assessment on the inherent reasonableness of the excess claimed by M/s HSAL over the budgetary costs." The second Committee observed that there had been failure of procedure in that the issues had not been brought to focus and orders of the appropriate authority were not obtained in time and commitments were entered into without realising the financial implications of the modifications ordered. The Committee referred to a certain observation made by the first Committee that "many of the assumptions were made without proper confirmation of the firms." The Secretary, Department of Defence Production, stated: "So far as the optional and other modifications are concerned, their actual prices are not higher than the estimates that were given to us. . . . It is only in the case of crew lay out and the executive lay out that their estimates have gone on the high side and the actual prices have been higher. In regard to series II aircraft, they had not given any estimate at all. In regard to series I aircraft, they had no doubt given an estimate. They had made it clear that it was for budgetary purpose and that they could not give any firm estimate. I agree that they had agreed to a ceiling. The Government had issued sanctions. The only question is: When the Government got these bills, what could the Government have done? Could the Government had said, "No. We do not want to

pay you. The Government could have negotiated and settled the matter. . . . There were only 4 aircraft in Series I." Asked whether even for Series I aircraft, the ceiling was observed, the witness replied, "Now, when we got these bills, they were consolidated bills for all the three items, that is, additional and optional modifications, crew lay out and executive lay out. It was not split up separately for Series I, Series II, additional or optional equipment. When we found that the difference was of the order, according to us, of £ 324, 000, the best alternative that we had was to negotiate and save as much as possible." He further continued: "For Series I aircraft, there was the ceiling indicated by them. When we asked them about their bills, they said that their bills were for Series I and II. Our own Chakravarty Committee pointed out that the reasonable price should not have been 12,000 but 18,000 pounds. The Chakravarty Committee, for Series I aircraft, had come to the conclusion that the price could have been 18,000 pounds. It also pointed out that the negotiation with HSAL covered the whole range of equipment—serial numbers 1 to 11 and that it might not be desirable to insist that they should be committed to a ceiling in respect of Series I aircraft only. The Committee said that, since we had gone for the whole package deal, the negotiations were to be conducted on the basis of a package deal. It is possible that they went back on their commitment for the three aircraft. But for the remaining 12 aircraft there was no ceiling."

2.63. As regards the findings of the first Committee, the witness went on to say: ". . . we had accepted the findings of this Committee. . . . There were defaults. . . . This. . . . Committee found that one officer who was posted abroad without getting confirmation from HSAL merely reported that there would be a marginal difference in the price of Series I and Series II. That was his fault. We are accepting that position." Asked what action was taken on the findings of the Committee, the witness replied that a letter was addressed asking him to be more cautious in future.

2.64. The terms of reference of the two Committees viz. Chakravarty Committee and Sen Committee approved by Government and their conclusions are reproduced in Appendix IV.

2.65. The Committee drew attention to the following observations made in the Report of the Second Committee (Sen Committee):

"It was clearly incumbent on the Air Headquarters to have brought this major change in the estimate to the pointed notice of the Government. The omission in this regard is to be taken as a lapse for which the Headquarters have to bear the blame."

2.66. Asked whether any action had been taken by Government on this lapse, the Joint Secretary, Ministry of Finance stated: "I will read from the file dealing with this report, which may be of interest. It says:

"As regards the point raised about disciplinary action, the Avro Project Officer who dealt with the question of optional modification has retired from service...."

2.67. The witness continued reading from the file:

"Similarly,....., the leader of the IAF Team who said that the difference in the cost of the layout plan would not be significant, has also retired from the Indian Air Force: But he is still in service in the Hindustan Aeronautic Ltd. It is, however, felt that this was a lapse or an error of judgement. In a separate enquiry, he had indicated that the report he made was based on the discussion with the Avro manufacturers. It is doubtful whether he could have done anything better when the Avros had clearly indicated that they would not be in a position to quote a price. All the same, it is proposed to bring to the notice of the HAL and to.....the need for greater caution in dealing with such matters."

The witness further stated: "There was some discussion and also further consideration given as to what should be the other improvements in procedure that must be made to avoid recurrence of this type of failures. In the concluding portion of the report, it is said:

"It is proposed to close this case after taking action as follows: issue suitable instructions to ensure that where a particular sanction is proposed to be taken, the matter must be brought to the notice of the authorities concerned at the earliest opportunity. Bring the laps to the notice of the HAL and request them to ensure that a similar situation does not arise again."

2.68. To a query as to what further action was taken to ensure greater strictness, the witness replied that in the 19th December, 1969, a circular was issued to the authorities bringing this to their notice. A copy of the circular is reproduced at Appendix V. The Committee pointed out that while the Second Committee Report was submitted in December, 1966, the Circular was issued only in December 1969 viz. after a lapse of 3 years. The Committee desired to know the reason for this delay. In a note furnished to the Committee, the Ministry have stated:

"Regarding the reasons for the delay in dealing with the Report, it may be stated that the follow up action on the Report

could not be taken up in time, as the concerned Joint Secretary desired to deal with the case personally but could not attend to it on account of preoccupations with the Aeronautics Committee's proceedings. The matter was brought to the notice of the Minister of Defence Production and it was accepted that the delay was inadvertent."

2.69. The Committee asked to know whether the irregularities in this case was detected by the Defence Accounts Department. The Controller General of Defence Accounts stated: "I must confess that we did not detect anything in the course of our audit. It came to our notice only when it came out in the Audit Report. I accept our responsibility for our failure."

2.70. The Committee drew attention to the Audit Paragraph wherein it was stated that a sample study of the use of four executive type aircraft based in Delhi disclosed that on an average each flight carried 5.4 passengers only and their average monthly flying hours were low. The Committee desired to know the steps taken to utilise the aircraft fully. The Ministry have furnished the following information: "Security, flight safety considerations and the requirements of the VVIP for whom the flight is flown, dictate the extent of the capacity of the Executive Type of aircraft which can be utilised. The average number of passengers per flight is dependent upon these constraints. When the aircraft proceed to a particular station in VVIP commitment, they are at times required to stay there for a day or two. This affects Squadron utilisation.

The flying task allotted per aircraft per month is 45 hours. This allotment has been made with a view to permitting availability of a certain degree of cushion for spares in the Squadron so as to ensure a high rate of serviceability of these aircraft. The month-wise utilisation of 5 aircraft for 1971-72 shows that the average utilisation is 55 hours approximately per aircraft per month. Further improvement in the utilisation is possible only by overriding the constraints mentioned above, which may not be desirable."

2.71. Asked about the performance of the VVIP type aircraft, the Vice-Chief of Air Staff replied: "There were anything between 7 to 9 aircraft in Air Headquarters Communications Squadron. The average availability of serviceable VIP/VVIP aircraft was five....". He added: "If we take the average utilisation per aircraft annually, one can see that for the year 1970-71 we have flown 2213 hours. In 1971-72, during the same period we have flown 3387 hours." The Committee enquired how there was an increase of about 50 per cent in 1971-72 over 1970-71. The witness stated: "We have improved the utilisation. Initially we did not have adequate experience of maintenance; now our maintenance has improved and utilisation has gone up."

2.72. In reply to a question the Ministry intimated that "Total number of flights of IAF HS-748 VIP aircraft undertaken during the three years 1969-70 to 1971-72 was 822. This figure, however, does not include the flights undertaken by the P.M. by IAF HS-748 aircraft for unofficial purposes, as the matter is *sub-judice*."

2.73. The Ministry also intimated that a sum of Rs. 1,28,35.69 was recoverable from persons who were not entitled to the use of VIP (Avro) aircraft but used them during 1969-70 to 1971-72 out of which a sum of Rs. 1,03,139.99 was recovered. The Ministry further stated: "As regards information about the recovery effected from those who were authorised but used them otherwise than an official purpose, it may be pointed out that only the Prime Minister is entitled to use the VIP aircraft otherwise than on official purpose. As already stated, the matter is *sub-judice*."

Subsequently at the instance of the Committee, the Ministry furnished the details of flights undertaken by the Prime Minister for unofficial purposes. The total number of such flights during the period 1969-70 to 1971-72 was 21 and the charges recoverable and recovered were Rs. 62,456.08 and Rs. 61,988.09 respectively."

2.74. The Committee regret that in the purchase of parts of 16 AVRO aircraft of which 5 were to be modified to VVIP version and 10 to executive version, between 1963 and 1965 from a foreign company various lapses occurred as detailed below:

- (1) The sanction issued by the Government for the purchase was strangely enough on the basis of a mere 'guess work' as admitted by the Secretary, Defence Production.
- (2) Although under the agreement concluded in July, 1959 the company was to furnish a complete list of all the components within 12 months, the itemised price list was received only in October, 1964 for series I and in October, 1965 for series II of the aircraft. No action appears to have been taken against the company for this delay.
- (3) At the time when the agreement was executed the aircraft was only at the design stage. The company's promise regarding the supply of itemised price list was thus admittedly unrealistic.
- (4) As against the sanctioned amount of £ 2,502,282, the amount claimed by the company was £ 3,413,633. No further approval of Government was obtained sanctioning this increase.
- (5) The difference in cost of modifications alone was £ 4,56,321. Even a rough indication of the cost of modifications was not obtained for series II of the aircraft (i.e. 12 out of 16) from the company.

- (6) A committee appointed by Government (Sen Committee) had reported in December, 1966 that there had been a failure of procedure in the Ministry of Defence in that the issues involved had not been brought to a focus and orders of appropriate authorities obtained in time.
- (7) As regards the additional and optional equipments for the aircraft the basis of sanction was an indication of £ 2,000 per aircraft. An IAF team had pointed out that the figure would be around £ 9,300. Clarification had been sought by Air Headquarters and the IAF team had intimated that detailed lists were being worked out by the company. This had not been brought to the notice of Government. According to the Sen Committee, it was clearly incumbent on Air Headquarters to have brought this major change in the estimates to the pointed notice of Government and the omission in this regard is to be taken as a lapse for which the Headquarters have to bear the blame.
- (8) The Defence Accounts Department had not, regrettably, detected the irregularities in the course of audit. The Controller General of Defence Accounts accepted that there was failure in his organisation.

This is hardly the way to process the purchase proposals involving crores of rupees in foreign exchange. All that the Government has done in the matter so far has been to caution one ex-Air forces Officer and to issue a simple circular and that too in December, 1969 to the effect that "it should be ensured that where a particular sanction is proposed to be exceeded the matter is brought to the notice of authorities concerned at the earliest opportunity". The explanation given for the delay in taking follow-up action on the Sen Committee report is not convincing. The Committee are also not satisfied with the perfunctory nature of the action taken. They desire that the case should be reviewed in all its aspects and comprehensive instructions issued besides taking appropriate disciplinary action against the officers concerned for the various lapses and failures including those of the Accounts organisation.

2.75. The principal reason for ordering the equipments for modifications without securing in advance a firm estimate of cost was stated to be the urgency of our need. The Committee fail to understand what urgency was there in regard to the requirement of VVIP/Executive aircraft. The old Dakota transport planes were to be replaced by Avros in a phased manner. There were 4 VVIP and 6 Executive aircraft to be replaced. Hence even granting that there was urgency there was no need to have increased the number from 10 to 15 at that time. That this was done in order to provide for spare aircraft does not appear to be a sound argument especially in

view of the fact that these aircraft were not put to optimum use on receipt. It is clear that there was no proper assessment of the requirement. This aspect too, therefore, should be gone into.

2.76. While examining the utilisation of aircraft, the Committee have found that a sum of Rs. 25,211 is outstanding for recovery from persons who were not entitled to use the aircraft but used them for official purposes during the years 1969-70 to 1971-72. Further a sum of Rs. 468 is outstanding for recovery in respect of the use of aircraft by the Prime Minister for unofficial purposes. The progress of the recoveries may be reported to the Committee.

Idle Labour in Ordnance Factories

Audit Paragraph

2.77. Following the Chinese aggression in 1962, increased capacity for production of garments was built up and additional labour employed for the purpose in three ordnance factories. The workload, however, started falling off after 1965, rendering considerable staff surplus to requirements. To meet this situation, overtime work was stopped, production was diversified, and surplus labour was transferred to other factories to the extent found feasible. But in spite of these measures, about 3,000 workers have had to be retained without any work for them from June 1969 onwards. The idle time wages paid to such workers during the period from June 1969 to February 1970 was Rs. 30 lakhs. Government intimated (in September 1970) that constant efforts are being made to find additional or alternative work for the surplus hands and that it is not considered desirable for socio-economic reasons to retrench these workers and that some surplus of workers is likely to continue upto 1975-76.

2.78. If in the foreseeable future and in peace time labour is likely to remain excessively surplus in these ordnance factories, Government should examine whether labour would accept voluntary premature retirement—in a phased way, if need be, and to the extent labour is excessively surplus—on payment of reasonable compensation, or, in the alternative, whether such labour can be usefully retrained in other trades and transferred to other ordnance factories or public sector undertakings which may need such labour.

[Paragraph 13 of Report of Comptroller and Auditor General of India for the year 1969-70, Central Government (Defence Services)].

2.79. The Committee enquired about the requirement of labour in the Ordnance Factories prior to the year 1962. The Secretary, Department of Defence Production, stated: "In 1962 prior to the emergency, the labour force employed in these three factories was as follows: Clothing Factory Shajahanpur 6,088 Clothing Factory, Avadi 371 and Ordnance Factory, Kanpur 1,178 making a total of 7,637. At this time the workload on the basis of the orders placed by the army was of the order of about 130 lakh man-hours. In 1962-63 the total man-hour requirement increased to roughly 326 lakhs and in 1963-64 it went up to 675 lakh man-hours. Correspondingly, the number of workers rose from 7,637 in 1962 to 18,104 by September 1963 and to 19,937 by September 1964."

2.80. The Committee enquired whether, before the decision was taken to increase the capacity for production of garments in the Ordnance Factories, any assessment was made about the nature and duration of the increased requirement. The witness stated that an assessment was made that this increased workload would last for about two to three years. He added: "At the time the demands were raised, we had no other alternative but to increase the man-power and to meet the requirement of the army within the time stipulated by them."

2.81. Asked how many shifts were being worked when it was decided to increase the production capacity of the Ordnance factories, the witness replied that the clothing factories were working one shift only of 10 hours. He added: "We increased the working hour of a shift by one hour, that is, 11 hours per shift. We started working two shifts of 11 hours each and 28 days a month, that is, only two Sundays as holidays."

2.82. The Committee desired to know the number of labourers who have been absorbed in other factories. The witness, in reply, stated: "After the close of 1964 when we realised that the total requirements of the army have been met, we started on a programme of re-absorbing these people in different factories in different manners. Between 1965 and 1967 we were able to absorb a total of 5,526 people. Of these 790 were transferred for retraining in other factories, 2,525 were transferred on reversion to labour B or in the existing grade in other factories and 2,211 were wastages due to retirement, death, discharge, resignation etc." When the Committee pointed out that the reduction in labour force would also result in the machines remaining idle, the witness replied: "That is true. Some machines had to remain idle. That could not be helped." To a question, the Committee were informed by the Secretary, Department of Defence Production that the amount paid to the idle labour between August 1969 and June 1971 was Rs. 69.16 lakhs.

2.83. Referring to diversification of production as one of the steps to cope up with the idle labour, the Secretary, Department of Defence Production stated: "We took several steps. One was to secure orders from other Departments of the Government. The second was to book orders from the civil trade. The third was to start building up exports." The Committee pointed out that some sick mills had been taken over by Government and enquired whether any efforts were made for producing garments in these mills. The representative from the Ministry of Defence had the following to say in this regard:

"We had right from 1964, well before the 1968-69 and 1969-70 position was to come, foreseen what was likely to happen and we had launched systematic, continuous attempts. We had gone into the trade to try and secure work for the civil market, including the NCCF. We had also gone to the Binnys and Mafatlals. At that time, Mafatlals were not quite keen. Later they put up their own factory. The reasons for what were different. We went to the Binnys and they were so afraid that if we were to be tied up with them, their own little factory might get submerged, and so we did not get much comfort out of that.

Therefore, we started producing things in our own name and trying to find markets for them initially through our own consumer cooperative societies, that is, consumer cooperative societies of the defence services and other factories. We went to the other departments of Government and we were successfully negotiating with them for some orders, but a peculiar difficulty was caused because of the following reason. In the case of the ordnance factories, we are a captive capacity. The first charge and responsibility is that we have to supply first to the defence services. We have to supply first whatever they require in time. At that time, if we have any civil orders, they just have to go by the board. In the meantime, the other consumers such as the civil departments or other consumers who have given orders to us have to do without them. They cannot do so because they are under pressure from their own employees for whom uniforms to be given and so they have to make other arrangements. Therefore, the civil orders from the other departments are not of a type which could be switched off and on; so, they are very chary about it.

Further, in the case of Defence Service factories which are a captive capacity, a certain amount of idle capacity and idle time has to be taken as inherent. We have taken action to diversify the production in several fields. For example, in

the ordnance parachute factory, we have gone into rubber technology for producing floats for the Kruppan bridges. We have also taken up the manufacture of tents, and that is how we managed to keep down the incidence of the idle time which could well have been very nearly 4000 to 5000 men. Simultaneously, we were also taking other steps which have been detailed in the audit para. For example, we were thinking of voluntary retirement, and we were trying to send them out to other departments of government or other factories and we have met with some success. The thing to realise is that we have made efforts in all these directions.

Talking about the sick mills, we have contacted Messrs. Muir Mills which is one of the sick mills. Unfortunately, they produce only the coarser variety. We have also tried to get touch with some other sick mills but they being sick are not able to guarantee to us or give to us material of the quality and quantity which we require."

2.84. The Committee pointed out that by the undertaking to manufacture uniforms and garments of employees of Government Departments, the idle workers could be gainfully employed and also the capacity would be fully utilised. To this, the Secretary, Department of Defence Production replied: "This is one of our constant endeavours for the last several years. But it has not been always possible for the Department to persuade other Ministries of the Government to place the orders on us. For example, the Railways say that they have their own workshop where the wives of railway employees stitch uniforms for the railway workers and that they would not like to throw them out. So far as the P. & T. is concerned, we had certain orders from them. Recently, they told us that they cannot place orders because our cost is slightly higher than the cost in the trade outside." He added: "The difficulty was that they got lower quotations from the trade. I will give you the reasons why the trade costs are lower than ours. They do not work under factory regulations; they work in a shed; they are not governed by ESI contributions; they are not governed by minimum and maximum hours of work. That is why their costs are lower. When their costs are slightly lower, then we also go down. In fact, we have adopted a formula under which only a part of the overheads is covered. Even then our prices are higher. But our quality is much better."

2.85. Asked whether any scientific cost study was made in respect of items produced both by the Ordnance Factories as compared with the open market cost, the Ministry, in a note, intimated:

"Clothing items that Ordnance Factories manufacture are not normally obtained from the trade and as such the question of comparison of cost in respect of these items does not arise.

However, consequent on the placement of orders on the Ordnance Clothing Factories for Tents 180 lbs. and Tents Pvt. Mk. III, which were previously being obtained from trade, a comparative study was carried out in respect of these items regarding estimates of material utilisation and making charge in the Ordnance Factories *vis-a-vis* trade cost. The results are indicated below:

	Items	Trade	Ordnance	Remarks
		Scale	Factory Scale	
Making Charges	Tents 180 lbs. Flies inner	Rs. 20	Rs. 19.44	Reduced to Rs. 19.01 when piecework rate was fixed in October, 1967.
	Tents 180 lbs. Flies outer	10	17.15	Reduced to Rs. 16.69 when piecework rate was fixed in October, 1967.
	Tents Mk. 3 Flies inner	20	28.25	Reduced to Rs. 24.76 when piecework was fixed in 1967.
	Tents Mk. 3 Flies outer	20	31.50	Reduced to Rs. 23.00 in Feb., 1970 due to improvement in production method.

2.86. The Committee pointed out that the ordnance factories might be facing this problem of sudden spurt in production of garments and steep decline after some time, time and again and asked whether any long-range plan has been thought of. The Secretary, Department of Defence Production, stated: "We are trying to build up that cushion in three ways. Firstly, we are now trying to say that all orders for the Army tents should go to the DGOF. Secondly, in the case of tents, a certain spreadover is acceptable to the Army. We are also diversifying in a number of civil items, and we are trying to push our items to the civil trade. When the Army requirements are high, we shall be able to taper off the civil trade items and meet the Army requirements.

The third proposal which we have now put up to the Cabinet is that all demands of Government should be placed on the ordnance factories. If that is accepted by Government, then we shall have to evolve a plan by which a certain expansion will have to be made because the requirements of the other civil departments also will have to be met, they just cannot be thrown overboard when the Army's requirements came to us suddenly. We shall have to give them a schedule of deliveries. So, a planned programme can be drawn up provided we get this assurance that all the requirements of the civil departments would come to us. Today we do not know, and we are just making an effort. They sometimes place

their orders and sometimes they do not. If this Cabinet directive could be given, then we have confidence that in future we shall never have to face a situation in which we shall have idle labour."

2.87. Asked to state the decision of Government in the matter, the following written information has been submitted by the Ministry:

"A Paper containing the proposal was forwarded to the Cabinet Secretariat for submission to the Cabinet. The Cabinet Secretariat, advised that, before the same is placed before the Cabinet, the proposals contained in the Paper should be referred to the Ministries of Supply and Industrial Development for their comments. A reference to these Ministries was, therefore, made. While the Ministry of Industrial Development have concurred with the proposals, Ministry of Supply have made a suggestion that a directive from the Cabinet as proposed may not be necessary and that the objective could as well be achieved by suitable revision of the already existing orders which proved that Central Government Departments should obtain their requirements of items falling within the purview of the Ordnance Factories' production from the Ordnance Factories as far as possible. In the context of this suggestion the question whether revision of the existing orders as suggested by the Ministry of Supply should be adequate or whether fresh orders from the Cabinet are still necessary is under examination. Progress in the matter will be reported in due course."

2.88. The Committee find that the additional capacity built up and labour employed for production of garments in the three ordnance clothing factories following the Chinese aggression proved to be far in excess of normal requirements after 1965. Consequently despite steps taken to diversify production and absorbing some labour, about 3,000 workers had to be retained without any work. The idle time wages paid to such workers during August 1969 to June 1971, amounted to Rs. 69.16 lakhs. In this connection the following suggestions are made:

(i) As admittedly the cost of production of clothing items in the ordnance factories is higher than the cost of procurement from trade, there is a need to go into the cost structure in a scientific manner with a view to bringing down the overheads. The products turned out by the ordnance factories should not only be good in quality but also be competitive in rates.

2.89. (ii) Government should consider how best the idle capacity of the ordnance factories can be utilised for meeting the requirements of major departments of Government such as Railways, P&T and the Police. What should matter is the overall cost to Government and orders cannot be withheld merely because the rates of ordnance factories are slightly higher. The Committee are of the view that other Ministries should be required to place orders for their requirement on the ordnance factories without further delay.

2.90. (iii) The Department should not relax its efforts to employ the surplus men in the ordnance factories in other productive jobs and also to put to machines rendered surplus to use.

2.91. The Committee are constrained to point out that Government have not learnt the requisite lesson from the problem of surplus manpower that they were faced with in the Ordnance Factories after the cessation of Second World War. The Committee feel that had Government settled in advance their policy for additional manpower for Ordnance Factories in the event of war by engaging persons for a specified term on contract basis, etc. they would not have been faced with the difficult problem of over-staffing. The Committee suggest that at least now Government should prepare a detailed scheme by which emergent requirements of additional manpower for ordnance factories would be met in the event of hostilities breaking out, so as to obviate recurrence of this problem.

2.92. The Committee need hardly stress that Government should take into account the totality of the production capacity available in the country so that additional capacity is added in the ordnance factories only where it is absolutely justified and is in the overall national interest.

Procurement of leather fillets

Audit Paragraph

2.93. In April 1963 an Ordnance factory placed a demand on another Ordnance factory for supply of 600 metres of leather fillets in lengths of 36 inches each. In September 1966 the manufacturing factory pointed out that the drawing for the store showed that each leather fillet was of 36 feet length and requested the indenting factory to amend the demand and also to specify in numbers the quantity required. The first factory while amending the description of the store to 'leather fillet 36 feet' did not, however, work out the number corresponding to the length of 600 metres but indicated it as 600 numbers. The entire supply was completed between October, 1967 and December, 1969 but only 60 fillets have been utilised (November 1969). The remaining 540 fillets worth over Rs. 8 lakhs are not likely to be utilised before 1977.

2.94. The Ministry stated in November 1969 that the case is proposed to be investigated by the Director General, Ordnance Factories.

[Paragraph 6 of Audit Report (Defence Services), 1970.]

2.95. The Committee enquired whether any steps were taken to stop further supply when the required number had been received. The Ministry, in a note, have replied in the negative and have added that by the time the discrepancy was detected, the supply of the full quantity had been almost completed.

2.96. The Committee were informed that a Board of Inquiry had been appointed by the Director General Ordnance Factories to investigate into and report on the over-provisioning of leather fillets. The Committee enquired whether the case had been investigated. The Ministry have submitted the following information in this regard:

“The case has been investigated by a Board of Enquiry appointed by the DGOF. On the basis of the findings of the Board of Enquiry the General Manager, Factory has initiated disciplinary action against two of the employees for carelessness and negligence in the performance of their duties which is underway.”

2.97. Asked whether all the fillets had been utilised, the Ministry (July, 1972) stated:

“No. Since November, 1969, ten numbers have been utilised. The balance stock is 530 Nos. of fillets with a book value of Rs. 8,43,468.50.”

2.98. The Committee deplore the carelessness and negligence in ordering for leather fillets by the ordnance factory which led to supplies 10 times the actual requirement. They would like to know the outcome of the disciplinary proceedings against the two employees which is stated to be under way.

2.99. The balance unutilised stock of leather fillets is valued at Rs. 8.43 lakhs. The Committee may be informed of the utilisation/disposal of the stock.

Excess drawal of paint in an Ordnance factory

Audit Paragraph

2.100. (a) The painting of radiator shell assembly (a component of Nissan trucks) paint was drawn twice in an Ordnance factory (i) 40,800 litres during the manufacture of the component (December 1962—August

1963) and (ii) a further quantity of 28,200 litres at the time of assembly of the component into the vehicles (May 1963—February 1964). The radiator shells were actually painted only once.

2.101. Only 28,640 litres of paint were used for painting the shell assemblies resulting in excess drawal of 40,360 litres. After adjusting quantities of paint under-drawn in certain other warrants in progress at that time, a net quantity of 25,736 litres of paint valued at Rs. 1.17 lakhs is still to be accounted for by the factory. The case was investigated by an officer in September 1968 but, due to passage of time and because the persons connected with the case had already left service, he could not ascertain utilisation of the excess quantity drawn or fix any responsibility in the matter. The proceedings of the investigation are stated to be under examination by the Director General, Ordnance Factories (December 1969).

2.102. (b) Paint required for painting of rear bodies of Nissan Jongs was also drawn twice in the same factory: (i) 18,770 litres at the stage of manufacture (March 1963—July 1964) and (ii) 12,700 litres for painting the components after assembly in the vehicles (May 1963—April 1964). The rear bodies were actually painted only once resulting in excess drawal of 18,700 litres of paint (costing Rs. 1.21 lakhs). The matter was brought to the notice of the factory management by the Accounts authorities in September 1964 but the factory could locate utilisation on other jobs of only 2,940 litres (Rs. 0.20 lakh) of the paint. The balance quantity of 15,760 litres (Rs. 1.01 lakhs) remains unaccounted for and is not available. The report of investigation by a Board of Officers held in October 1969 is stated to be under study by the Director General, Ordnance Factories (December 1969).

[Paragraph 10 of Audit Report (Defence Services), 1970.]

2.103. The Committee desired to know how these overdrawals of paint took place. The Ministry stated, in a note that these became possible due to erroneous issue of two sets of warrants for the same work. The Committee pointed out that part of the quantity was accounted for against under-drawal of paint for other jobs and enquired whether it was ensured that under-drawals were not due to less consumption of paint in these jobs. In reply, the Ministry have stated as follows:

“Since all the warrants were existing in the paint shop at the same time and the paint was stored in the same godown it was not possible to clearly state whether there were less use on any particular warrant.”

2.104. The Committee were informed that in the case (a), the overdrawals were pointed out by the Internal Audit in January 1964, while in

the case (b), according to audit paragraph, the overdrawals were pointed out in September 1964. Asked why the investigation was done only in September 1968 in the first case and in October 1969 in the other, the Ministry have submitted the following information:

“The delay was due to difficulty in locating connected documents and the fact that matter was under correspondence between the General Manager, the local Accounts Officer and the Test Audit Party.”

2.105. The Committee desired to know the final decision taken on the findings of the investigation referred to in sub-paras (a) and (b). The Ministry stated (December 1970):

“Since the enquiries have not brought out the full facts of the case, the DGOF has appointed a fresh Board of Enquiry with a representative of CDA (Fys) as a member, to investigate into both the cases with wider terms of reference. The findings of this fresh Board of Enquiry are awaited.”

2.106. Asked to state the action taken on the findings of the fresh Board of Enquiry, the Ministry (July 1972) have replied that the findings of the fresh Board of Enquiry are under examination by the D.G.O.F.

2.107. The Committee are concerned to learn that in an ordnance factory paint was drawn twice for the same job during the period December, 1962 to July, 1964, in two cases viz. painting of radiator shell assembly, a component of Nissan trucks and painting of rear bodies of Nissan Jongsas. The excess drawal of paint was to the extent of 59060 litres. After adjusting quantities of the paint underdrawn in certain other jobs in progress the net excess drawal was worked out as 41496 litres valued at Rs. 2.18 lakhs. Although the overdrawals were pointed out by the Internal Audit in 1964, investigation was made only in 1968-69 which proved to be ineffective and a fresh Board of Enquiry had to be constituted. The Committee cannot but depreciate the delay in investigating what appears to be a prima-facie case of fraud. The action taken on the basis of the findings of the fresh Board of Enquiry, which are stated to be under examination by the DGOF, may be intimated to the Committee.

2.108. It is apparent from the reply of the Ministry that while adjusting 17,564 litres of paint against underdrawals in other jobs it was not ensured that such underdrawals were not due to less consumption of paint in those jobs. The Committee trust that this aspect has also been examined by the fresh Board of Enquiry and they would like to know the position in this regard.

Wood work for a Defence project**Audit Paragraph**

2.109. Construction of 1,354 residential quarters for a Defence project (estimated cost Rs. 89.89 lakhs) was entrusted to a State Government on agency basis. The work was awarded (by the State Government) to a contractor in June 1964 at 9.75 per cent above the estimated rates. It was an item rate contract under which wood work for windows, ventilators and fanlights was to be supplied by the State Public Works Department and the cost thereof recovered from the contractor. Their dimensions, designs and specifications were also mentioned in the contract.

2.110. The wood work for windows, ventilators and fanlights required for the buildings under this contract, as also some others was got fabricated from another contractor for departmental supply to various works. The dimensions, designs and specifications thereof were, however, different from those mentioned in the contract (the specifications in the contract had not been modified suitably). The contractor informed the engineer-in-charge in December 1964 that fixing of the windows, ventilators and fanlights would be done as extra items on payment of compensation. The engineer-in-charge did not promptly refute the claim. Later on, however, the Chief Engineer held that the variations were not material to qualify for payment as extra items and in his opinion the total amount which could be paid to the contractor as per item of agreement was Rs. 40,085.

2.111. The contractor served legal notice on the State Government in November, 1967, seeking, *inter alia*, to recover Rs. 5.61 lakhs for these three items. The Law and Judiciary department of the State Government advised that the suit, if filed by the contractor, would not be defensible for the following reasons:

- (i) the engineer-in-charge had not promptly refuted the claim of the contractor but had given an impression that the claim would be accepted;
- (ii) there was variation in the specification etc. of the work and the variation was made without prior consent of the contractor;
- (iii) no provision was made in the contract for any variation or deviation;
- (iv) it could not also be said that the variation which were unintended were necessary for completion of the contract.

2.112. In view of that advice, the matter was settled (July 1968) out of court by paying Rs. 2.66 lakhs extra to the contractor for the items.

2.113. The State Government stated that though standard size windows, fanlights and ventilators were got manufactured to achieved uniformity and expedite execution of works, their sizes were not kept in view while preparing the tender documents as the work had to be taken in hand urgently.

[Paragraph 13 of Audit Report (Defence Services), 1970].

2.114. The Committee enquired when the Chief Engineer sent a reply to the contractor. The Ministry, in the following note, have stated:

"The major correspondence about the claims of extra items was exchanged between the Executive Engineer, the contractors and the Superintending Engineer. It was only on 2nd February, 1967 that the contractors for the first time approached the Chief Engineer for the extra claims. But no reply to this letter was sent either accepting or rejecting the claim. The Chief Engineer had accepted the position that the contractors were entitled to additional payment but the question was only regarding the quantum of additional payment. At no stage the Chief Engineer replied to the contractors directly either accepting or rejecting their claims."

2.115. The Committee referred to the payment of Rs. 2.66 lakhs extra to the contractor and enquired whether the Defence bore this extra cost. To this, the Ministry have stated:

"The extra cost was debited to the work of construction of 1354 Nos. quarters for the Varangaon Project and met from the Central Government's funds made available for the project as a whole."

2.116. The Committee note that construction of 1354 residential quarters for a Defence Project was entrusted to a State Government on agency basis. Owing to variations in the specification of wood works for windows, ventilators and fan lights which were supplied departmentally, extra payment of Rs. 2.66 lakhs had to be made to the contractor. The wood work required under this contract as also some others was got fabricated from another contractor for departmental supply to various works. The explanation that though standard size windows, fan-lights and ventilators were got manufactured to achieve uniformity and expedite execution of works, their sizes were not kept in view while preparing the tender documents as the work had to be taken in hand urgently, does not appear to be convincing. Urgency should not be pleaded as sufficient justification for all the failures. Here was a case of many failures to coordinate and to look ahead. There has been a clear lack of coordination. The Committee would suggest that the State Government may be requested to fix responsibility for this costly lapse.

2.117. In view of what has happened in the case referred to above, the Committee feel that there should be an effective liaison between the works executive agency and in Defence Department to safeguard the financial interest of the Department and to keep a close watch on the progress of work. They would like to know the existing arrangements in this regard and the improvements that are proposed to be effected.

New Delhi;

April 23, 1973.

Vaisakha 3, 1895 (Saka).

ERA SEZHIYAN,

Chairman.

Public Accounts Committee.

APPENDIX I

(Reference to Paragraph 1.61 of the Report)

Statement indicating the reasons for the delay in the Supply of the Super Structure Anti-Tank Gun Raft. MK-2 by Messrs Garden Reach Workshops Limited, Calcutta

The MGO Branch placed a Supply Order No. S005/E2/1/65, dated 3rd August, 1964 on M/s. Garden Reach Workshops Ltd., Calcutta for the supply of 70 sets of Super structure Anti-Tank Guns Raft No. MK-2 at the rate of Rs. 5,685.00 per set. The delivery periods stipulated in the Supply Order was that the entire quantity of 70 sets of the Raft should be delivered by June 1965 or earlier.

While forwarding the above Supply Order to M/s. Garden Reach Workshops Ltd., Calcutta, the MGO Branch in their letter dated 3rd August, 1964 requested the firm to indicate their charges for F.O.R. delivery so that the cost in the Supply Order could be amended accordingly. In the same letter, the MGO Branch informed the firm that in regard to matters for technical advice or any deviation from specification/drawings, they should refer the matter to Director, R&DE (Engrs.), Poona under advice to them.

2. On receipt of the Supply Order dated 3rd August, 1964, M/s. Garden Reach Workshops Ltd., Calcutta in their letter dated 26th August, 1964 informed the MGO Branch *inter alia* as under:—

- (i) Their offer dated 21st August, 1963 to the DGS&D was for delivery ex-Works and that they were prepared to arrange for F.O.R. DELIVERY at an extra cost. The firm further reiterated that they were not prepared to accept any responsibility for any delay in effecting F.O.R. delivery.
- (ii) As indicated in their quotations to the DGS&D, the specification was not clear as to whether a 'Pilot' super structure was necessary and that the offer of delivery was related to this point. The delivery period stipulated in the Supply Order dated 3rd August, 1964 was acceptable only if no 'Pilot' was required. In case a 'Pilot' was required, the delivery period in the Supply Order would have to be amended in accordance with the terms of their offer.

- (iii) Their offer of delivery was subject to availability of raw materials like seasoned timber, MS Tubes, etc. These conditions have not been incorporated in the Supply Order dated 3rd August, 1964.
- (iv) In their offer made to the DGS & D, they had indicated that they would use Pine in lieu of Douglas Fir mentioned in the specifications. This point has not been stipulated in the Supply Order dated 3rd August, 1964.
- (v) The work to commence manufacture of the Rafts covered by the Supply Order dated 3rd August, 1964 would be taken in hand only after all the above points and any other technical points are fully clarified and the Supply Order amended. The delivery period would be strictly on the basis of their offer dating from the date of receipt of clarification of all technical and commercial points.

3. In their letter dated 10th October, 1964, M/s. Garden Reach Workshops, Limited, Calcutta informed the MGO Branch that they were prepared to accept the order for the supply of the Rafts provided the rate per unit was increased to Rs. 7,500.00 per set. This increase in their quotations, was due to increase in labour rates and also to provide for the recommendations of the Bonus Commission. In view of the rigid inspection and quality control called for in the specification and insisted upon by the Inspecting authorities, the firm informed *inter alia* the MGO Branch that the delivery was, however, subject to availability of necessary raw materials such as seasoned timber, MS Tubes, etc.

4. In their letter dated 21st October, 1965, the firm reduced their quotations to Rs. 7,490.00 per set provided a firm order is placed not later than 31st October, 1965. After obtaining the concurrence of the Ministry of Finance (Defence/O) on 5th November, 1965, the MGO Branch issued an amendment on 12th November, 1965 to the Supply Order dated 3rd August, 1964 as under:—

- (i) The rate per set was amended from Rs. 5685 to Rs. 7490.00.
- (ii) The delivery period was amended to read that the supplies should be effected by June, 1966 at the latest.

5. In their letter dated 26th November, 1966, M/s. Garden Reach Workshops Limited, Calcutta informed the R & DE (Engr.) Wing Calcutta that although the contractual points have been settled with the indenter, yet they are unable to proceed with the work as the approval of the Director R & DE (Engr.), Poona for the use of Chaplasha Timber for the fabrication of the Rafts had not yet been received. In this context the firm requested the Calcutta Inspection Wing to arrange the

approval for the use of the said species of timber in the manufacture of the Rafts.

6. The following clearances were given by the R & DE (Engrs.), to the firm in regard to the use of raw materials, etc., required in the manufacture of the Rafts:—

- (i) In their letter dated 27th September, 1965, the Inspection Wing, Calcutta agreed to the use of Chaplasha species of timber as a substitute for Douglas Fir in the manufacture of Rafts, subject to the final approval by the R & DE (Engrs.), Poona.
- (ii) In their telegram dated 2nd March, 1966, the R & DE (Engrs.), Poona informed M/s. Garden Reach Workshops that Trestle Base and Trail Support were not required to be supplied with the Rafts.
- (iii) In their letter dated 28th March, 1966, the R & DE (Engrs.), Poona informed M/s. Garden Reach Workshops that they could use 8 SWG Tubes in place of 5 SWG and 9 SWG Tubes.

7. In view of the position stated in sub-para (ii) of the preceding paragraph, the MGO Branch in their letter dated 24th June, 1966 amended the rate in the Supply Order dated 3rd August, 1964 from Rs. 7,490 per set to Rs. 7,190 per set.

8. In view of the clarifications indicated in para 6 above, M/s. Garden Reach Workshops Limited, Calcutta submitted a 'Pilot' sample on 8th August, 1966 to the Inspectors for inspection and approval. In their letter dated the 12th August, 1966, the Inspection Wing, Calcutta informed the firm and their 'Pilot' sample had been inspected and found acceptable subject to the condition that all MS Screws are given proper electrozinc plating and the Rafts are properly painted.

In the same letter dated 12th August, 1966, the Inspection Wing, Calcutta gave the firm clearance to commence bulk manufacture and to intimate to them their production schedule for the supply of the Rafts.

9. The firm requested the MGO Branch in their letter dated 10th December, 1966, to extend the delivery period in the Supply Order upto 31st March, 1967. Accordingly the MGO Branch in their letter dated 27th January, 1967 extended the delivery period in the Supply Order upto 31st March, 1967. In the same letter the firm were informed that the stores in question were required to meet urgent requirements and as such, the stores should be supplied within the extended delivery period and that no further extension would be granted.

10. In their letter dated 25th January, 1967, M/s. Garden Reach Workshops Limited, Calcutta informed the MGO Branch that due to some delay in the final assembly of the Rafts due to the failure of their electro-zinc plating sub-contractors, the delivery period in the Supply Order may be extended upto 30th April, 1967. This request for delivery extension as well as the firm's quotation regarding F.O.R. delivery charges was considered by the MGO Branch. In their letter dated 15th April, 1967 the MGO Branch issued a further amendment to the Supply Order as under:—

- (i) Inserted the F.O.R. delivery charges of Rs. 575.00 in the Supply Order.
- (ii) Extended the delivery period in the Supply Order upto 30th April 1967. The firm were informed that no further extension under any circumstances would be granted.

11. Against a quantity of 70 sets of Rafts on order, 31 Rafts have been accepted by the Inspection Department prior to 31st March, 1967. These 31 Rafts have been despatched by the firm to the consignee.

12. After repeated requests made by M/s. Garden Reach Workshops Limited, Calcutta the balance 39 Rafts were inspected by the R & DE (Engrs.), Wing, Calcutta informed the firm that the 39 Rafts which had been inspected were not acceptable as the moisture content of the timber scantlings was higher than prescribed. The firm were further advised by the Inspection Wing, Calcutta to bring down the moisture content within permissible limit and re-offer the stores after obtaining a suitable extension of the delivery period in the Supply Order.

13. Regarding the suggestion made by the R & DE (Engrs.), Wing, Calcutta to reduce the moisture content, as indicated in the preceding paragraph before offering the stores for re-inspection, M/s. Garden Reach Workshops Limited, Calcutta, indicated in their letter dated 31st December, 1968 that they found it difficult to reduce the moisture content by artificial methods, such as kiln-seasoning for fear of distorting the finished super structures. According to the firm this meant that they had to weather-season the timber in the super structures. This method could not be attempted during the rainy season. After the monsoon period of 1967 was over in October, 1967, the super structures were spread out to allow the timber to dry without distorting the structures.

14. The firm offered the Rafts again for inspection in February, 1968. In their letter dated 28th February, 1968, the R & DE (Engrs.), Poona informed M/s. Garden Reach Workshops Limited, Calcutta to bring down the moisture content within permissible limits and to re-offer the stores after obtaining a suitable extension of the delivery period in the Supply Order.

15. The question of cancellation of the demands for the outstanding quantity of 39 sets of the aforesaid stores was examined in consultation with the Ministry of Law in September, 1969. That Ministry had advised that the letters issued to the suppliers by the Defence Inspectorate on 1st July, 1967 and 28th February, 1968 indicated that the contract was kept open, that the contract is not validly cancelled, that further reasonable time must be given to the supplier to remove the defects and supply the stores and that it is open to the indenter to recover 2 per cent of the contract price for each and every month or part, thereof during which the completion of the work has been delayed.

16. The above aspect regarding the cancellation of the outstanding quantity of 39 sets against the Supply Order dated 3rd August, 1964 was considered at a meeting held in the Defence Ministry on 3rd November, 1969. In accordance with the decisions at that meeting, the MGO Branch in their letter dated 29th November, 1969 extended the delivery period in the supply order dated 3rd August, 1964 upto 31st January, 1970. Further, the price of the balance 39 sets was reduced to Rs. 4,000 per set plus F.O.R. charges Rs. 575 per set.

17. The balance 39 sets were offered for inspection during the period 15th December, 1969 to 6th January, 1970. These were inspected during the period 15th December, 1969 and 15th January, 1970 and accepted.

18. Administrative Instructions were issued on 20th January, 1971 and on 18th February, 1971 by the DGS' & D and the Department of Defence Production (D.G.I.) respectively to all Inspectors to the effect that the Inspecting staff should not undertake the inspection against contracts after the delivery period has expired.

APPENDIX II

(Réferencé to paragraph 1.73 of the Report)

Statement showing dates of samples despatched to composite Food Laboratory and dates of verdicts thereon

Sl. No.	Date of samples despatched to CFL	Date of verdict by CFL
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Extracted from Court of Inquiry held in 26 Inf. Div.

1	29th October 1966	. 21st November 1966.
2	1st August 1966	. On 23rd August 1966 CFL asked for fresh samples.
3	27th August 1966	. 2nd September 1966.
4	23rd September/3rd October 1966	. 8th October 1966.
5	25th October 1966	. On 27th October 1966 CFL asked for fresh samples.
6	3rd November 1966	. 20th Decemeber 1966.
7	18th January 1966	. 10th February 1966 CFL asked for fresh samples.
8	15th February 1966	. 25th February 1966.
9	15th October 1966	. On 19th October 1966 CFL asked for fresh samples.
10	1st November 1966	. 9th November 1966.
11	1st November 1966	. On 14th November 1966 CFL asked unit to forward further samples.
12	21st November 1966	. 1st December 1966.
13	5th November 1966	. On 24th November 1966 CFL asked for fresh samples.
14	15th December 1966	. On 3rd January 1967 CFL again asked for further samples.
15	9th January 1967	. 14th January 1967.
16	1st February 1967	. 4th February 1967.
17	1st February 1967	. 4th February 1967.
18	5th August 1966	. 25th August 1966.
19	5th November 1966	. CFL asked for fresh samples.
20	9th January 1967	. 5th February 1967.

Sl. No.	Date of samples despatched to CFL	Date of verdict by CFL.
<i>Extracted from Court of Inquiry held in 10 Inf. Div.</i>		
21	15th November 1965	On 6th January 1966 CFL asked for further samples.
22	3rd January 1966	11th February 1966
23	Not given	20th December 1966
24	29th August 1967	On 2nd September 1967 CFL asked for more samples.
25	6th November 1967	13th September 1967.
26	14th November 1966	CFL asked for further samples.
27	Not given	13th January 1967.
28	5th July 1967	On 29th July 1967 CFL asked for another 30 soft bars
29	3rd August 1967	5th August 1967 CFL asked for samples to be re-submitted.
30	10th August 1967	4th September 1967.
31	11th April 1968	On 16th May 1968 CFL asked for further samples.
32	15th July 1968	Spot inspection carried out on 5th August 1968.
33	6th July 1968	On 25th July 1968 CFL intimated unit for spot inspection. Spot inspection carried out from 3 to 13th Aug. 1968 and verdict was given on 14th August 1968.
<i>Extracted from Court of Inquiry held in 3 Inf. Div.</i>		
34	13th January 1966	On 31st January 1966 CFL asked for further samples.
	4th April 1966	On 15th April 1966 Rep. of CFL came to depot for spot inspection.
35	June 1966	16th June 1966.
36	3rd September 1966	On 16th September 1966 CFL asked for further samples in original containers.
37	6th November 1966	On 13th January 1967 CFL intimated that sample forms received without samples.
38	16th January 1967	10th February 1967.
39	23rd July 1966	On 15th August 1966 CFL asked for sealed containers.
40	30th August 1966	17th September 1967 CFL asked for original unopened tins.
41	22nd August 1966	3rd October 1966.
42	21st September 1966	October 1966 CFL asked for confirmation whether samples drawn by Board of Officers. Ultimately stocks consumed.

APPENDIX III

(Reference to paragraph 1.75 of the Report)

TELEPHONE 371551

No. 49241/Q/ST-3

ARMY HEADQUARTERS,
QUARTERMASTER GENERAL'S
BRANCH,
DHQ PO NEW DELHI-11.
13th May, 1969.

To

Bs ASC

Headquarters

Southern Command (50)

Western Command (50)

Eastern Command (50)

Central Command (50)

LOSS OF FOODSTUFFS WITHIN WARRANTY PERIOD PRO- CEDURE FOR REPORTING FOR CLAIMS AGAINST THE FIRM

Reference this HQ letters No. 49241/Q/STGA/1, dated the 25th June 1968, 2nd September, 1968 and 18th October, 1968.

2. In spite of clear instructions issued *vide* this HQ letters referred to above, cases continue to occur where foodstuffs have gone bad within the warranty period and the procedure laid down in this HQ letters quoted above for preferring claims was not complied with.

3. Recently a large number of soft bars became unfit for human consumption within the warranty period. Not only no concerned efforts were made to prefer claims within the stipulated period, but a portion of the stocks had been fed to animals and some were destroyed. Again, under special arrangements made with the suppliers, clear instructions had been issued to return the unfit stocks, even after the permissible grace period had expired. But a large number of unfit soft bars were kept in the supply depots for about 14 months and no action had been taken to return them to the suppliers.

4. Yet in another case, details of fruit tinned declared unfit within the warranty period were forwarded to this HQ nearly seven months after the expiry of the warranty although the CFL verdict was received by the stock holder well before the expiry of the warranty period. The firm has naturally declined to accept responsibility for this loss.

5. It would appear that either the depots are not fully conversant with the procedure for claiming compensation in respect of stocks declared unfit during the warranty period, or the imperative need for taking prompt action to prefer claims in time is not fully realised.

6. In the past, omissions in claiming compensation and the resultant losses due to belated, incomplete and incorrect claims have been the subject matter of Audit paragraphs as such losses are avoidable.

7. Bs ASC will ensure that all officers responsible for storage and issue of foodstuffs are fully conversant with the procedure to be followed not only in regard to storage and turnover of stocks, but also in regard to prompt action to be taken and procedure to be followed for claiming compensation in the event of stocks being declared unfit within the warranty period. The procedure for the same is laid down in this HQ letters under reference.

8. You will please make it clear that losses that may occur due to failure, on the part of OC units, to initiate proper and timely action for claiming compensation, will render them liable to make good the losses. In order that responsibility for omissions, which result in such losses, is fixed, Staff Courts of Inquiry will be arranged without delay. It must be realised that delay in conducting enquiries will make it difficult to pinpoint responsibility for lapses and hence the imperative need for speedy action in the matter.

9. During visits to various depots, visiting officers will check that the above instructions are fully understood by OC depots.

10. Please acknowledge.

Sd./ AJIT SINGH,

Lt. Gen.

Director of Supplies and Transport.

Copy to:—

Naval Headquarters

ABSD SHAHJAHANPUR.

Commandant, ASC Centre (South) Bangalore

Commandant, ASC Centre (North) Meerut

Commandant, ASC School Bareilly—who would include precis in the syllabi for instructions for the Basic Officers Course.

ST1

ST4

ST7

APPENDIX IV

(Reference to paragraph 2.64 of the Report)

Chakravarty Committee Report

Terms of reference:

- (a) To what extent superior executive layout modifications were asked for by AMD, Kanpur, without authority?
- (b) To what extent M/s. Hawker Siddeley Aviation Ltd., supplied superior modifications without authority from A.M.D., Kanpur to suit their own convenience?
- (c) Whether the excess of the claims of M/s. Hawker Siddeley Aviation Limited over the budgetary estimates for the Executive layout modifications for the Series I and Series II aircraft is justified on the basis of the equipment actually supplied?
- (d) For certain modifications to the Executive/VVIP layout no charge was to be made in accordance with the understanding with M/s. Hawker Siddeley Aviation Limited. Some of these items have been included in their claim. To what extent M/s. HSAL can legitimately claim payment for these items?

Conclusions:

- (a) Superior Executive layout modifications were not asked for by AMD Kanpur in excess of the authorisation by Government.
- (b) Modifications other than those included in the basic aircraft were supplied by Hawker Siddeley Aviation Limited because they had standardised on these different modifications. These standardised modifications of Hawker Siddeley Aviation Limited had been accepted for supply in the belief that their cost would be regulated under the Licence Agreement. The invoices of Hawker Siddeley Aviation Limited are in excess of the prices which can be legitimately charged under the Licence Agreement.
- (c) The Committee are unable to give an assessment whether the excess of the claims of Hawker Siddeley Aviation Limited over the budgetary estimates for the Executive layout modifications is justified on the basis of the equipments actually supplied. Such an assessment is also not necessary in view of the finding at (b) above.

- (d) The value of the modifications in respect of which Hawker Siddeley Aviation Limited had stated in 1961 that they would not make a separate charge but in respect of which they have included a charge in the invoices is £ 882 per aircraft. In suggesting an assessment that the value of the Executive layout modifications for the Series I aircraft may be £ 18,500 and for the Executive layout modifications for the Series II aircraft £ 28,600, this has been kept in view.

Sea Committee Report

Terms of reference:

"The question is whether before the sanctions were issued by Government, the position regarding prices should not have been placed beyond doubt by further discussion with Hawker Siddeley Aviation Limited. There was also a second opportunity in which this position could have been made clear. Government sanctions were issued on the basis of estimates and indents were placed on the basis of these estimates on the DGISM. HSAL were authorised to proceed with the supply by a letter of intent. Either at this time or as soon thereafter as possible discussions regarding the prices to be charged to these modifications would have been profitable. It is necessary to enquire into the circumstances under which sanctions were thus issued and authority also given to HSAL to proceed with the supply without settling the prices".

Modified Terms of reference:

"On the question of entering into commitments without settling the price, the enquiry to be made by Shri Sen should cover not only VVIP/executive layout but also three crew layout and optional and additional modifications. As regards the scope of three crew layout, it was agreed earlier that a reference will be made to the office of Air Adviser to ascertain whether any detailed list of equipment constituting this layout was obtained from HSAL, when the budgetary cost of £19,000 was furnished by them. If the reply from Air Adviser establishes that such a list was obtained, and also that the equipment actually supplied contains additional items, the disciplinary aspect for exceeding the sanctions will have to be further examined".

Conclusions:

- (a) What were the circumstances in which Messrs HSAL were asked to proceed with supplies of equipment relating to 3 Crew lay-

out, executive layout and optional and additional modifications without prices being settled in the first instance? An ancillary question in this regard is under what authority such requests were made and by whom?

- (b) What prevented the finalization of prices of this equipment at the earliest possible point of time after sanctions had been given by Government and indents had been placed on DGISM.

I. A certain time schedule had been indicated for the production of the Avro 748 according to which the first Indian prototype was to fly in July 1960 and the building programme provided for 3 aircraft in 1961, 12 in 1962 and 18 aircraft per year from 1963 onwards.

The decision having been taken in 1959, the time available was extremely limited. The position in this regard was rendered more critical by:

- (i) the decision to adopt a standard of preparation different from the one indicated by Messrs HSAL by Air Headquarters. This was subsequently ratified by Government.
- (ii) The adoption of the Dart 7 engine as the power unit for aircraft No. 5 onwards for the reason that this gave a better performance.

II. Indents for the equipment relating to Aircraft No. 1 had been projected to the Air Adviser and while quotations had been called by the DG ISD the prices could not be settled as they included an element of design cost. This was left to future negotiations but in the meantime M/s. HSAL made the supplies. On 12th June, 1961, the Avro Project Officer, Air Headquarters issued instructions to the Air Adviser that Messrs HSAL to proceed with the supply of fixed fittings required for aircraft Nos. 2—4 in anticipation of prices being settled.

The fact that this was being done was brought to the notice of the then Additional Secretary. Subsequently, it was decided that the main equipment required for optional and additional modifications would be procured direct from manufacturers and the subsidiary equipment from Messrs HSAL.

The IAF Team had followed the same procedure in regard to aircraft Nos. 5—7. This portion of the correspondence had been overlooked.

Further on receipt of information from Government that foreign exchange for optional equipment, 3 crew layout and executive layout had been sanctioned by Government, the IAF team had advised HSAL to proceed with supplies in respect of aircraft sets 8—10 also. This was in anticipation of prices being settled. This action on the part of the IAF team was beyond their charter of duties. In justification of the action of the IAF Team however it must be mentioned that the correspondence resting with Ministry of Defence letter No. 40156/46/Avro/Eq/D(Avro- Proj) dated 13th September 1963, could legitimately be interpreted to have conveyed Govt. approval to such a course. The team had also reported the action they had taken to Govt. on which no action had been taken.

For aircraft sets 11—16, the responsibility for procurement of this equipment had devolved on Messrs AIL and the mode of procurement is beyond the scope of this enquiry.

The action of the IAF team had evidently been motivated by the desire to keep supplies moving to keep pace with the production targets as far as possible. They had also reported their action through Air Headquarters to the Ministry of Defence and to that extent cannot be held to be blame-worthy.

The matter had at the initial stage been brought to the notice of the then Additional Secretary but apparently had been lost sight of at subsequent stages. The conclusion is unavoidable that there had been a failure of procedure in the Ministry of Defence in that the issues involved had not been brought to a focus and orders of the appropriate authorities obtained in time.

III. In regard to the issue (b), i.e., the factors which prevented the settlement of prices at the earliest possible moment after Government sanctions were issued, the following remarks can be offered:—

(i) The Government sanctions for options mods, executive layout and 3 crew layout, were given on the basis of budgetary price indications. In regard to optional mods, the basis of the orders was an indication of £2,000 per aircraft. The IAF team had pointed out that the figure would be around £9,300. Clarifications in regard to this figure had been sought by Air Headquarters and the IAF team had intimated that detailed lists were being worked out by Messrs HSAL but there had been no further communications. This had not been brought to the notice of Government. It

was clearly incumbent on Air Headquarters to have brought this major change in the estimates to the pointed notice of Government. The omission in this regard, has to be taken as a lapse for which Air Headquarters (specifically the Avro Project Officer) have to bear the blame.

(b) In regard to the executive layout for the Series II aircraft there appears to have been an error of judgment. The orders were placed on the basis of budgetary indications of ceiling costs given for Series I aircraft i.e. £9,179 excluding the cost of brought out items estimated at £3,219. Certain modifications were indicated by Messrs HSAL for the series II aircraft and these were regarded as minor by the IAF Project team and therefore included without change of prices in sanctions for Series II aircraft. The communication from the IAF team had been handled at a low level in the Ministries of Defence and Finance (Defence) and the modifications had been accepted on the basis of the advice of the Avro Project Team.

In this regard it appears *prima facie* that the leader of the IAF team had accepted the amendments as minor without satisfying himself in regard to their actual scope. The final question as to what prevented the prices for this equipment being negotiated and fixed as soon as Government sanctions were issued has now to be answered.

As it will have been seen, orders for the 3 crew layout, optional and additional modifications and the executive/VIP layout were issued from time to time between 1960 and 1964 for various aircraft sets.

The circumstances leading to the negotiations of 1962 have been set down in the foregoing paragraphs of this report. It will have been seen that following these negotiations, the firm had made an offer in August 1962 and pending a decision on this offer they were not prepared to quote firm figures. That there was considerable delay in dealing with this offer has already been pointed out. Ultimately, following the negotiations of 1964, the quotations of the firm were received between December 1964 and January 1965 and even then, the DG ISM were unable to examine the reasonableness of the quotations as itemized prices were not given. The DG ISM not being fully in the picture regarding the pricing agreement for optional mods. etc. in the record of understanding of 1964, spent 6 months in trying to obtain detailed price lists from Messrs HSAL. Had he been fully in the picture, a reference to Government would probably have been made on the lumpsum quotation of Messrs HSAL much sooner. The negotiations of 1966 have followed and one of the points relate to the demonstrations of the reasonableness of the prices quoted by Messrs HSAL to DG ISM. As on date, this has not been done.

These circumstances are by themselves a clear indication of the reasons why it would not have been possible for the DG ISM to have verified the prices on receipt of the indents based on Government sanctions on any earlier date.

APPENDIX V

(Reference to paragraph 2.68 of the Report)

MINISTRY OF DEFENCE

DEPARTMENT OF DEFENCE PRODUCTION

D(PS)

SUBJECT:—*Need to obtain proper sanction or report to competent authority in cases where the original sanction is proposed to be exceeded.*

It has come to notice that in an important project relating to the manufacture of aircraft, financial sanction for equipment was given on the basis of budgetary prices indicated by a foreign firm. The prices were subsequently increased by the foreign company, but no further sanction was obtained.

2. It should in future be ensured that where a particular sanction is proposed to be exceeded, the matter is brought to the notice of authorities concerned at the earliest opportunity.

Sd/- MOHINDER SINGH,
Under Secretary (PS).

Authenticated for issue.

Sd/- J. N. BALLEY
Section Officer.

D(BEL) /D(GRW/MD)/D(HAL-I)/D(HAL-II)/D(Proj)/D(FY)/
(NF)/D(PA) Min. of Def. UO No. 17(336)/69/D(PS), dated 19th
December, 1969.

Copy, for information to:

DS(PS)|DS(R&A)|Under Secretary D(HAL-I)|Under Secretary D
(HAL-II)|US(PS)|OSD(GRW|MD)|Dir P&C.

Copy also to:

DFA(Projects)

APPENDIX VI

Summary of Main Conclusions/Recommendations

S. No.	Para No.	Ministry/Deptt. Concerned	Conclusion/Recommendation
1	2	3	4
1	1-16	Defence	<p>The Committee regret to note serious delay irregularities and deficiencies in the construction of the Signal Project taken up as an emergency work. The Project which was proposed to be completed in 1966 was actually completed four years later. The construction of the main transmitter and ancillary buildings as part of the project was commenced by the contractor in November, 1965 on the understanding that it would be completed in 12 months. The contract amount was Rs. 8.81 lakhs against the estimated cost of Rs. 4.52 lakhs. However, the work was actually completed only in November, 1967. The Committee feel that the very tight construction schedule originally prescribed must have pushed up the rates by 95 per cent over the estimated rates. In actual fact, the contractor was not able to adhere to the schedule. A heavy penalty should have therefore been imposed for the delay involved. The Committee would like to know whether any penalty was levied.</p> <p>As a result of bad workmanship and substandard materials, improper ratios of cement and steel and poor supervision cracks had developed in the portal and subsidiary beams in the main transmitter building. The</p>
2	1-17	-do-	

SPE which investigated this case has besides recommending suspension of business dealings with the contractor concerned, suggested departmental action against certain officers and subordinates. A technical board appointed to go into the question had also found supervision faulty. The case is stated to have been handed over to the Commissioner of departmental enquiries. The Committee may be informed of the disciplinary action taken against the persons concerned as a result of the enquiry as also the steps taken to plug the loopholes, if any, in the works execution procedures. The Committee regret that although the defect in the construction was noticed as early as May 1968 conclusive departmental action is yet to be taken. They desire that there should be no further delay in the matter.

The Committee are concerned to note the irregularities in the requisition of the land including 2540 acres forming part of a tea estate for Defence requirements during 1964-65 through the Government of West Bengal. Although the annual compensation payable for the portion of the tea estate was Rs. 0.74 lakh, 'on account' payments of Rs. 13.97 lakhs were made by the State Government to the owner of the estate during November, 1964—November, 1965. It is of interest to note in this connection that the tea estate was purchased in 1960 for Rs. 4.41 lakhs and a tea factory established at a cost of Rs. 3.40 lakhs only. An enquiry committee constituted to go into the alleged excess payments and other allied issues arising out of the requisitioning of the tea garden lands has held that under Section 30(iii) of the Defence of India Act, 1962 initial compensation was payable for the damages done to the tea bushes at the time of entry.

The Ministry of Defence are, however, not in agreement with this view. According to them if initial compensation has been paid to compensate for the alleged damage done to tea bushes, no recurring compensation would be payable under Section 30(iii) of the Defence of India Act, 1962. The Committee would urge that this should be settled soon to avoid further complication. Because of lack of care and irregularities committed it should be noted that the Public Exchequer has suffered financial loss. But what is surprising is that when a decision has been taken to requisition the land as a matter of urgency, the same sense of urgency has not been displayed in completing the transaction.

According to the Defence Secretary, the tea estate stands vested in the West Bengal Government by a notification dated 11th November, 1954, under Section 4 of West Bengal Estates Acquisition Act, 1953 and once this notification is issued, under Section 5 of the Act all transfers can be declared *malafide*. Hence the Committee are given to understand that the transfer which took place in favour of the present 'owner' in 1960 is not *bonafide* and he will not be entitled to any compensation. The Committee would like to be informed of the final decision taken in the matter.

The meet the training requirements of Air Force, land was to be acquired in two adjoining districts. Owing to procedural delays the preliminary notification under the Land Acquisition Act could not be issued in time with the result that the compensation payable went up considerably and in the meantime the property was requisitioned temporarily for which rent had to be paid. The delay in issuing notifications for acquisition of land in this case meant extra expenditure of over Rs. 25 lakhs to the Government. The Committee consider that once operational need is established there should be normally no delay in getting the relevant notification

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issued as the compensation payable is determined with reference to the date of the issue.

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1:52

Defence

The Committee are concerned to note that 48 acres of lands requisitioned in Calcutta for the use of the Defence Department during the Second World War which were encroached upon unauthorisedly by displaced persons from East Pakistan between 1948 and 1950 could not be derequisitioned as yet except a small portion of land measuring 0.092 acre, which was handed back to the owner on 11-2-1970, and that Government have to pay recurring compensation for the lands at the rate of about Rs. 0.75 lakh per annum without deriving any corresponding benefit. The compensation paid till September, 1969, totalled upto Rs. 16 lakhs. The State Government who were requested to take action to derequisition the property in the condition in which it was, seemed to have consistently held the review that before derequisitioning the land should be reverted to its original condition after vacating the encroachments. According to them, the encroachments could be vacated only by rehabilitating the squatters elsewhere. The Defence Ministry are of the view that the financial assistance required for rehabilitation of the squatters cannot be a legitimate charge on Defence estimates. The matter should therefore, be taken up further with the State Government in consultation with the Ministry of Rehabilitation to see that a solution is found for this problem expeditiously and the property derequisitioned without any further loss of time so as to save unnecessary recurring compensation being paid by the Defence

Department. The action taken in this regard may be intimated to the Committee within a period of six months.

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The case dealt with above is admittedly not an isolated one. There are other cases also where requisitioned lands are in unauthorised occupation. Although it was stated in December, 1970, that the details of such cases were under collection, the Ministry have not as yet furnished the details to the Committee. This shows that all those years no attempts have been made to review the position comprehensively with a view to taking suitable action. The Committee consider this to be highly unsatisfactory. They trust that necessary data in this regard would be collected without any further delay and reported to them. They would also be interested in knowing the action taken or proposed to be taken by Government to put such lands to effective use or to derequisition them after evicting the unauthorised persons.

8 1'67

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The Committee regret that although the Central Ordnance Depot, Jabalpur had the capacity to assemble 180 sets of a certain type of equipment with the components held in stock by them since 1943-46, only 56 sets were assembled by September, 1970 and as many as 170 sets were procured from M/s. Garden Reach Workshop and a private firm which entailed avoidable expenditure of about Rs. 6.77 lakhs on 124 sets. The statement of the Ministry that the Depot was not aware of the possibility of assembling of components into main equipment and that the idea occurred to the authorities only when the main equipment started arriving in February, 1967 from M/s. Garden Reach Workshop, is not convincing, as such equipments were in use for a long time in the past. The Committee,

therefore, regard it a clear lapse on the part of the authorities in not having considered the possibility of assembling the equipment especially when it was in urgent need and there was delay in getting it from other sources. The responsibility for the lapse should be fixed. The Ministry have intimated that "the instance where spares are available for assembly of complete equipment is rarely come across". The Committee desire that the position in this regard in all the ordnance factories should be examined thoroughly, with a view to exploring the possibilities of meeting Defence requirements of various equipments without resorting to unnecessary purchases from outside. The Committee would like to be informed of the concrete action taken in the matter.

9

1-78

Defence

Out of 18.38 lakh units of emergency food ration, called 'soft bars' procured from two firms on orders placed between April, 1965 and August, 1967, as many as 2.06 lakhs had deteriorated within a short period of their receipt. The Committee note that although the suppliers had agreed to replace free of cost the deteriorated stuff even after the expiry of the warranty period, only 91,802 bars were returned getting replacements for 36,826. Of the remaining quantity of 1.15 lakh bars, 1.05 lakh bars valuing about Rs. 1.09 lakh had already been destroyed or fed to animals under orders of local authorities. According to the Ministry, action has been taken to avoid loss to Government inasmuch as a sum of Rs. 1.44 lakhs has been recovered and another sum of Rs. 0.60 lakh withheld against 1.70 lakh deteriorated bars which were not either returned or replaced. The Committee would like to know the final settlement of the firms' bills.

10 1'79 -do- The Committee have been given to understand that after the Court of Inquiry ordered in May, 1967, in one Infantry Division, 2 more Courts of Inquiry were held in two other Divisions. The latter two courts have found a number of officers responsible for various lapses. Although disciplinary action has been taken against 5 officers held responsible by the first Court of Inquiry, no such action appears to have been taken on the basis of the subsequent inquiries. The Committee would await a report in this regard.

11 1'80 -do- A number of procedural irregularities brought out by the Courts of Inquiry cause concern to the Committee. While the Committee note that necessary instructions have been issued by the Army Headquarters on 13th May, 1969, to prevent such lapses, they wish to emphasise that steps should be taken to see that the food supplies reach the units concerned in time and are consumed within the warranty period in the interest of the health of the Armed Forces.

12 1'89 -do- As per the Audit paragraph the technical teams which were set up to examine obsolete, obsolescent and surplus stores held in stock by the Defence formations had, upto July, 1970, examined stores worth Rs. 115.70 crores out of Rs. 128.87 crores listed for scrutiny by them. From the information furnished by the Ministry, it is seen that subsequently during a period of about 2 years stores worth about Rs. 8.00 crores only were examined. The Committee consider this to be undesirably slow progress. They trust the rate would be speeded up and the examination of the rest of the stores completed with the maximum possible expedition.

13 1'90 -do- At the end of April, 1972, stores of the value Rs. 100.95 crores have been disposed of as against Rs. 82.15 crores till July, 1970. Thus, the

progress in the disposal of these unwanted stores, which occupy valuable storage space, has been slow. The Committee had earlier in their 19th Report (Fourth Lok Sabha) 1967-68 stressed the need to keep a close watch on the rates of disposal of surplus and obsolete stores. As the bulk of these stores are slated to have been procured during the pre-Independence period, the Committee are unable to appreciate the undue delay in their disposal. The Committee understand that a study team has been constituted in September, 1971, to go into the existing disposal procedures to identify the areas which impede expeditious disposal and that it is expected to submit its report shortly. They trust that action on the basis of this study, would help in the disposal of these surplus and obsolete stores expeditiously.

Defence

1:91

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The Committee are concerned to learn that the Naval Store Deposits have accumulated over the years as many as 11,445 items of repairable stores (74,465 Nos.) upto July, 1970. The expenditure on stores of these items works out to more than Rs. 31 lakhs per annum. The Ministry have intimated that 4,219 such items are beyond economical repairs. The Committee do not see any reason why these items could not be disposed of so far. In their view, it is essential to lay down a reasonable time-table for the disposal of unwanted items and then to evolve a suitable programme of action to adhere to it. Action taken or proposed to be taken in this regard may be reported to them.

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Although there were 7,226 items which could be repaired and put to use, the progress made in repairing them appears to be practically negligible. The Committee have been given to understand that in order to im-

prove the Material Management Organisation in the Indian Navy, Administrative Staff College of India have been appointed as consultants and requested to give recommendations, *inter-alia*, in respect of streamlining the procedure for reviewing the repairable items and ensuring quick repairs. The recommendations of the consultants which have already been received are stated to be under examination. The Committee desire that the examination should be completed speedily and concrete steps proposed to be taken as the basis thereof reported to them within 6 months. They would like to watch the progress in repairs through future Audit Reports.

The Committee note that the Defence Department had hired 212 buildings in Delhi for allotment to the serving officers or their separated families on the ground that sufficient Government residential accommodation was not available. Out of these, as many as 93 remained vacant for periods ranging from 2 months to 1 year during November, 1966 to December, 1969, although such hired accommodation should not have remained unoccupied ordinarily for more than 15 days. The expenditure on rent and other charges in respect of these buildings during the periods they remained unoccupied was Rs. 2.26 lakhs. Having regard to the fact that the allotment is made in response to an application, if the allotment is made quickly and the allotment is of the type of the house asked for, there should be no question of 'offer and acceptance'. Acceptance must be assumed where the allotment is of the type to which the officer is entitled. The Committee is of the view that in these matters a certain degree of discipline and rigidity is essential. The Committee therefore desire that the period of vacancy should be reduced to the lowest minimum by rationalising the procedures for allotment with an adequate degree of firmness and rigidity.

17

1:100

Defence

Incidentally, the Committee find that buildings were hired at an average rent of about Rs. 345/- per month. On this basis the rent payable for the 212 hired buildings by the Defence Department to the owners works out to about Rs. 8.78 lakhs per annum. The Committee would suggest that the necessity for hiring private accommodation with the attendant heavy rent liability should be carefully gone into by Government with a view to seeing whether it will be economical for the Defence Department to put up their own buildings on the lands that may be available with them especially when they have the necessary organisation for the purpose. The position in this regard in stations other than Delhi would also require similar examination. The results of such comprehensive examination should be reported to the Committee.

18

2:29

Defence Production

As early as 1960 completion of development of a weapon was approved and the drawings were finalised in July, 1963. An output of 10 weapons a month was to be achieved from January, 1967. In the meantime in June, 1964 development of an improved version of the weapon was undertaken and the new model was ready for production by the end of 1967. As the production capacity of 10 weapons per month was considered inadequate to meet the increased requirements of the Services, production of a part of the weapon was to be augmented to 25 per month from January, 1968 and the increased requirement of another part was to be met by supply from a Public Sector undertaking. The actual production was, however, only at an average rate of 7 weapons per month even as late as 1969-70. In the meantime, to meet urgent requirements for

ment of forgings and castings for the production of this part by the undertaking. It was only in 1968 that it became clear that the Public Sector Undertaking must develop its own castings and forgings. Further, according to the Ministry of Steel and Mines, the undertakings' capacity to supply the part of the weapon was only 5 per month and frequent changes in drawings had partly accounted for the lower rate of production. All these require to be gone into to find out as to what went wrong. Considering the present capacity of the undertaking steps have also to be taken to augment the production of the part of the weapon to reach the production capacity of 25 weapons per month.

20 2:31 Deptt. of Steel

One more aspect which the Committee would like to refer to is the high cost of production of the part of the weapon by the Public Sector Undertaking. The cost of production by the undertaking is Rs. 2.32 lakhs per part as against the Ordnance factory cost of Rs. 0.53 lakh. The difference to the extent of about 340 per cent is obviously unjustified. Efforts should, therefore, be made first to ascertain why there is this big difference and then to take steps to bring down the cost of production in the Public Sector Undertaking.

21 2:40 Defence Production

The Committee regret that having taken a decision in 1962 to create additional facilities in two Ordnance factories for manufacturing indigenously transfer case, gear box and axles of Nissan trucks with the collaboration of their foreign manufacturers, production of transfer case alone has been established by August, 1970 and that too only to the extent of

only at the design stage. The company's promise regarding the supply of itemised price list was thus admitted unrealistic.

(4) As against the sanctioned amount of £ 2,502,282, the amount claimed by the company was £3,413,633. No further approval of Government was obtained sanctioning this increase.

(5) The difference in cost of modifications alone was £ 4,56,321. Even a rough indication of the cost of modifications was not obtained for series II of the aircraft *i.e.* 12 out of 16) from the company.

(6) A committee appointed by Government (Sen Committee) had reported in December, 1966 that there had been a failure of procedure in the Ministry of Defence in that the issue involved had not been brought to a focus and orders of appropriate authorities obtained in time.

(7) As regards the additional and optional equipments for the aircraft the basis of sanction was an indication of £ 2,000 per aircraft. An IAF team had pointed out that the figure would be around £ 9,300. Clarification had been sought by Air Headquarters and the IAF team had intimated that detailed lists were being worked out by the company. This had not been brought to the notice of Government. According to the Sen Committee, it was clearly incumbent on Air Headquarters to have brought this major change in the estimates to the pointed notice of Government and the omission in this regard is to be taken as a lapse for which the Headquarters have to bear the blame.

(8) The Defence Accounts Department had not, regrettably, detected the irregularities in the course of audit. The Controller General of Defence Accounts accepted that there was failure in his organisation.

25 2-75 Defence Production

This is hardly the way to process the purchase proposals involving crores of rupees in foreign exchange. All that the Government has done in the matter so far has been to caution one ex-Air force Officer and to issue a simple circular and that too in Demeber, 1969 to the effect that "it should be ensured that where a particular sanction is proposed to be exceeded the matter is brought to the notice of authorities concerned at the earliest opportunity."

25 2-75 -do-

The explanation given for the delay in taking follow-up action on the Sen Committee reports is not convincing. The Committee are also not satisfied with the perfunctory nature of the action taken. They desire that the case should be reviewed in all its aspects and comprehensive instructions issued besides taking appropriate disciplinary action against the officers concerned including those of the Accounts organisation for the various lapses and failures.

26 2-76 -do-

The principal reason for ordering the equipment for modifications without securing in advance a firm estimate of cost was stated to be the urgency of our need. The Committee fail to understand what urgency was there in regard to the requirement of VVIP/Executive aircraft. The old Dakota transport planes were to be replaced by Avros in a phased manner. There were 4 VVIP and 6 Executive aircraft to be replaced.

Hence even granting that there was urgency there was no need to have increased the number from 10 to 15 at that time. That this was done in order to provide for spare aircraft does not appear to be a sound argument especially in view of the fact that these aircraft were not put to optimum use on recent. It is clear that there was no proper assessment of the requirement. This aspect too therefore, should be gone into.

26

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While examining the utilisation of aircraft, the Committee have found that a sum of Rs. 25,211 is outstanding for recovery from persons who were not entitled to use the aircraft but used them for official purposes during the years 1969-70 to 1971-72. Further a sum of Rs. 468 is outstanding for recovery in respect of the use of aircraft by the Prime Minister for unofficial purposes. The progress of the recoveries may be reported to the Committee.

27

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The Committee find that the additional capacity built up and labour employed for production of garments in the three ordnance clothing factories following the Chinese aggression proved to be far in excess of normal requirements after 1965. Consequently despite steps taken to diversify production and absorbing some labour, about 3,000 workers had to be retained without any work. The idle time wages paid to such workers during August 1969 to June 1971, amounted to Rs. 69.16 lakhs. In this connection the following suggestions are made:

- (i) As admittedly the cost of production of clothing items in the ordnance factories is higher than the cost of procurement from trade, there is a need to go into the cost structure in a scientific manner with a view to bringing down the overheads.

The products turned out by the ordnance factories should not only be good in quality but also be competitive in rates.

28 2.89 Defence Production

Government should consider how best the idle capacity of the ordnance factories can be utilised for meeting the requirements of major departments of Government such as Railways, P. & T. and the Police. What should matter is the overall cost to Government and orders cannot be withheld merely because the rates of ordnance factories are slightly higher. The Committee are of the view that other Ministries should be required to place orders for their requirement on the ordnance factories without further delay.

29 2.90 ~~do~~

The Department should not relax its efforts to employ the surplus men in the ordnance factories in other productive jobs and also to put to machines rendered surplus to use.

30 2.91 Do.

The Committee are constrained to point out that Government have not learnt the requisite lesson from the problem of surplus manpower that they were faced with in the Ordnance Factories after the cessation of Second World War. The Committee feel that had Government settled in advance their policy for additional manpower for Ordnance Factories in the event of war by engaging persons for a specified term on contract basis, etc. they would not have been faced with the difficult problem of over-staffing. The Committee suggest that at least now Government should prepare a detailed scheme by which emergent requirements of additional manpower for ordnance factories would be met in the event of hostilities breaking out, so as to obviate recurrence of this problem.

The Committee need hardly stress that Government should take into account the totality of the production capacity available in the country so that additional capacity is added in the ordnance factories only where it is absolutely justified and is in the overall national interest.

The Committee deplore the carelessness and negligence in ordering for leather filets by the ordnance factory which led to supplies 10 times the actual requirements. They would like to know the outcome of the disciplinary proceedings against the two employees which is stated to be under way.

The balance unutilised stock of leather filets is valued at Rs. 8.43 lakhs. The Committee may be informed of the utilisation disposal of the stock.

The Committee are concerned to learn that in an ordnance factory paint was drawn twice for the same job during the period December, 1962 to July, 1964, in two cases viz., painting of radiator shell assembly, a component of Nissan trucks and painting of rear bodies of Nissan Jongsas. The excess drawal of paint was to the extent of 59,000 litres. After adjusting quantities of the paint underdrawn in certain other jobs in progress the net excess drawal was worked out as 41,496 litres value dat Rs. 2.18 lakhs. Although the overdrawals were pointed out by the Internal Audit in 1964, investigation was made only in 1968/1969 which proved to be ineffective and a fresh Board of Enquiry had to be constituted. The Committee cannot but deprecate the delay in investigating what appears to be a *prima-facie* case of fraud. The action taken on the basis of the findings

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of the fresh Board of Enquiry, which are stated to be under examination by the DGOF, may be intimated to the Committee.

35 2:108 Defence Production It is apparent from the reply of the Ministry that while adjusting 17,564 litres of paint against underdrawals in other jobs it was not ensured that such underdrawals were not due to less consumption of paint in those jobs. The Committee trust that this aspect has also been examined by the fresh Board of Enquiry and they would like to know the position in this regard.

36 2:116 -do- The Committee note that construction of 1354 residential quarters for a Defence project was entrusted to a State Government on agency basis. Owing to variations in the specification of wood works for windows, ventilators and fan lights which were supplied departmentally, extra payment of Rs. 2.66 lakhs had to be made to the contractor. The wood work required under this contract as also some others was got fabricated from another contractor for departmental supply to various works. The explanation that though standard size windows, fan-lights and ventilators were got manufactured to achieve uniformity and expedite execution of works, their sizes were not kept in view while preparing the tender documents as the work had to be taken in hand urgently, does not appear to be convincing. Urgency should not be pleaded as sufficient justification for all the failures. Here was a case of many failures to co-ordinate and to look ahead. There has been a clear lack of co-ordination. The Committee would suggest

that the State Government may be requested to fix responsibility for this costly lapse.

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In view of what has happened in the case referred to above, the Committee feel that there should be an effective liaison between the works executive agency and the Defence Department to safeguard the financial interest of the Government and to keep a close watch on the progress of work. They would like to know the existing arrangements in this regard and the improvements that are proposed to be effected.
