

**PUBLIC ACCOUNTS COMMITTEE
(1978-79)**

(SIXTH LOK SABHA)

HUNDRED AND TWENTY-FOURTH REPORT

**PURCHASE OF TENTS, ASSEMBLY SPRINGS,
ANGOLA SHIRTING AND GUN METAL INGOTS**

DEPARTMENT OF SUPPLY

[Action taken by Government on the recommendations of the Public Accounts Committee contained in their 20th Report (Sixth Lok Sabha) on Department of Supply]

*Presented in Lok Sabha on 18th April, 1979
Laid in Rajya Sabha on 25th April, 1979*



**LOK SABHA SECRETARIAT
NEW DELHI**

April, 1979 [Chaitra, 1901 (S)]

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CORRIGENDA TO 124TH REPORT OF THE PUBLIC
ACCOUNTS COMMITTEE (SIXTH LOK SABHA)

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INTRODUCTION

I, the Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this Hundred and Twenty-Fourth Report on the action taken by Government on the recommendations of the Public Accounts Committee contained in their Twentieth Report (Sixth Lok Sabha) on Purchase of Tents, Assembly Springe, Angola Shirting and Gun Metal Ingots relating to the Department of Supply.

2. On 31 May, 1978, an 'Action Taken Sub-Committee', consisting of the following Members was appointed to scrutinise the replies received from Government in pursuance of the recommendations made by the Committee in their earlier Reports:

1. Shri P. V. Narasimha Rao—Chairman.
 2. Shri Asoke Krishna Dutt—Convener
 3. Shri Vasant Sathe
 4. Shri M. Satyanarayan Rao
 5. Shri Gauri Shankar Rai
 6. Shri Kanwar Lal Gupta
- } Members

3. The Action Taken Sub-Committee of the Public Accounts Committee (1978-79) considered and adopted the Report at their sitting held on 4 April, 1979. The Report was finally adopted by the Public Accounts Committee (1978-79) on 17 April, 1979.

4. For facility of reference the recommendations or conclusions of the Committee have been printed in thick type in the body of the Report. For the sake of convenience, the recommendations or conclusions of the Committee have also been reproduced in a consolidated form in the Appendix to the Report.

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

NEW DELHI;
April 17, 1979

P. V. NARASIMHA RAO,
Chairman,
Public Accounts Committee.

Chaitra 27, 1901 AS).

CHAPTER I

REPORT

1.1. This Report of the Committee deals with the action taken by Government on the Committee's recommendations or observations contained in their 20th Report (Sixth Lok Sabha) on Purchase of Tents, Assembly Springs, Angola Shirting and Gun Metal Ingots, commented upon in paragraphs 38, 39, 41 and 42 of the Report of the Comptroller and Auditor General of India for the year 1974-75, Union Government (Civil), relating to the Department of Supply.

1.2. The Committee's 20th Report was presented to the Lok Sabha on 16 December, 1977 and contained 43 recommendations or observations 36 of which were marked to the Department of Supply and 7 marked to both the Ministry of Defence and Department of Supply. According to the time schedule for furnishing Action Taken Notes on the Committee's recommendations or Observations, the Notes indicating the action taken by Government in pursuance of the recommendations or observations contained in the 20th Report duly vetted by Audit were required to be furnished to the Committee latest by 15 June, 1978.

1.3. The Department of Supply had been able to submit action taken notes in respect of 4 recommendations within this period and were granted extension of one month's time for submission of the remaining replies. Subsequently, the Ministry submitted advance copies of action taken notes on Committee's 13 recommendations on 22 June, 1978 and requested for extension of time or another fortnight for submission of action taken notes on the remaining 26 recommendations or observations. Accordingly, extension of time upto 31 July, 1978 was granted and the Department of Supply made available to the Committee all the remaining action taken notes (unvetted) except one at S. No. 34 (Para 3.44) in accordance with this revised time schedule. The Action Taken Note in respect of the remaining one recommendation was submitted by the Department of Supply on 15th September, 1978, the date upto which further extension of time was granted.

1.4. The Ministry of Defence did not submit even a single action taken note on the 7 recommendations and observations marked to them. Moreover, the Ministry of Defence had taken more than two months in sending their reply to the Committee's O.M. dated 5 December, 1978 in which the Ministry were requested to furnish their further comments, if any, on the recommendations at S. No. 16 to 18 (Paragraphs 2.37 to 2.39) as the reply submitted by the Department of Supply to these recommendations contained divergent views. Thereafter, the Ministry of Defence also forwarded their comments to Paragraphs 2.40 and 1.62 on 5 and 15 March 1979. Their replies in res.

pect of 3 recommendations were awaited till the finalisation of this Report.

1.5. It is distressing that in spite of repeated exhortations, Ministries are still remiss in informing the Committee of the action taken or proposed to be taken on the recommendations within the prescribed period of six months. In the case referred to above, the Committee are yet to be informed by the Ministry of Defence of the action taken on the recommendations contained in Paragraphs 1.50, 1.57 and 3.40 of their 20th Report (6th Lok Sabha) though more than a year has elapsed since the presentation of the Report and the Ministry of Defence had also been specifically asked to submit their action taken notes by 15 June, 1978. Not only this, the Ministry had taken more than two months in forwarding their further comments on the Committee's recommendations contained in Paragraphs 2.37 to 2.39. The Committee deplore the inaction on the part of the Ministry of Defence and take a serious view of this delay. The Committee desire that the reasons for this delay should be identified for appropriate action.

1.6. The Action Taken Notes received from Government have been broadly categorised as follows:—

- (i) Recommendations or observations that have been accepted by Government.
S. Nos. 5, 8, 9, 14, 15, 19, 24, 28, 29, 33 and 37—42.
- (ii) Recommendations or observations which the Committee do not desire to pursue in the light of the replies received from Government.
S. Nos. 1—3, 10, 12, 13, 20, 25, 26, 27, 31-32 and 34.
- (iii) Recommendations or observations replies to which have not been accepted by the Committee and which require reiteration.
S. Nos. 4, 6, 7, 16, 17, 18 and 21.
- (iv) Recommendations or observations in respect of which Government have furnished interim replies.
S. Nos. 11, 22, 23, 30, 35, 36 and 43.

1.7. The Committee expect that final replies to those recommendations or observations in respect of which only interim replies have so far been furnished will be made available to them expeditiously, after getting them vetted by Audit.

1.8. The Committee will now deal with the action taken by Government on some of their recommendations or observations.

Purchase of outer flies of Tents—Verification of the production capacity of the firm

(Paragraph 1.51—Sl. No. 4)

1.9. Stressing the need to investigate the reasons as to why D.G.S.D. had not taken care to satisfy itself about the production capacity etc. of the firm M/s. N. K. Textile Mills, Deihi, before placing an order for supply of outer flies of tents, the Committee had, in paragraph 1.51 of their Report observed:

“The Committee are further perturbed to learn that as admitted by the Ministry of Defence in January, 1976, the capacity verification of the firms was done on an *ad hoc* basis and on a limited scale as a comprehensive capacity verification of these firms as per normal practice was not possible within the short period. In this connection, the Committee would like to point out that according to the relevant provisions in Appendix VI of the DGS&D Manual, all aspects including existing loads on the put suppliers, delivery offered, performance, technical competence, etc. are required to be examined in depth while considering the tenders. It is also required to be ensured that capacity reports are not called for haphazardly and in piecemeal and earlier capacity reports which are valid for a period of one year, are made full use of. It is evident from the facts that the placing of the order was rushed through without observing in entirety the specific provisions in the DGS&D Manual. The Committee would like the Ministry to investigate the reasons as to why DGS&D had not taken care to satisfy itself about the firm's production capacity, existing load, technical competence etc. before placing an order on them. As this firm was said to be on the approved list of the DGS&D and was supplying various tentage items, the Ministry should also inquire whether the firm's earlier capacity reports were gone into before placing this huge order on them.”

1.10. The Department of Supply, in their Action Taken Note* dated 22 June, 1978 have stated:

“It was not brought to the notice of DGS&D by Defence Inspector that the capacity reports which he gave in October, 1965 were on *ad hoc* basis and on a limited scale and comprehensive capacity verification of the firms as per normal practice was not possible within short period. Ministry of Defence admitted this fact to Audit in January, 1976. Regarding the specific provisions as contained in

*Not vetted in Audit.

DGS&D Manual in respect of production capacity and taking into account the Technical competence, reliance was placed on the capacity of firm which was assessed as Rs. 5 to 7 lakhs per month by the Defence Inspectorate. In any case Defence Inspectorate would not have recommended the firm without taking into account the production capacity and Technical competence of the firm. The existing load on firm N. K. Textile at the time of placement of order, was taken into account. So far as the question of going into the earlier capacity reports of the firm was concerned, it was kept in view that the firm is on the approved list of DGS&D and that the capacity assessment forwarded by the Inspector being the latest added support for the placement of order."

1.11. The Committee are surprised to note the reply of the Department of Supply that reliance was placed on the production capacity of the firm as assessed by the Defence Inspectorate instead of going into it by the DGS&D themselves as per provisions in Appendix VI of the DGS&D Manual. From the facts disclosed in paragraph 1.13 of Committee's 20th Report (6th Lok Sabha) it is amply clear that the DGS&D, not to say of going into the earlier capacity reports of the firm, had not even kept in view the production capacity of the firm which was assessed by the Defence Inspectorate to Rs. 5 to 7 lakhs per month as an order for supply of tents worth Rs. 26.13 lakhs was placed on the firm for delivery within 2½ months. The Committee would, therefore, like that this matter may be investigated thoroughly with a view to fix responsibility.

As the firm was said to be on the approved list of the DGS&D and was supplying various tentage items the Committee would also like to have details of the earlier contracts for tentage items placed on the firm and the extent to which the supplies were made.

Lack of prudence expected of DGS&D resulted in an infructuous expenditure of Rs. 5,31,480/-.

(Paragraph 1.53—Sl. No. 6)

1.12. Commenting on the lack of prudence expected of D.G.S.&D. in not effecting risk purchase in time and thus resulting in an infructuous expenditure of Rs. 5,31,480, the Committee had, in paragraph 1.53 of the Report observed:

"The Committee are further surprised to note that standby risk purchase tender enquiry was issued by the DGS&D in February, 1967 when the extended delivery period granted to M/s. N. K. Textiles Mills, Delhi was yet to expire on 31 March, 1967. According to Para 180(i) of the DGS&D Manual 'the buyer's right to effect repurchase at the risk

and cost of the seller arise only upon the breach of the contract by the seller. Hence the purchase officer should invite risk purchase tender only after the breach of the contract has occurred. In exceptional circumstances, however, where stores are most urgently required by the indentors and are not available from ready stock but have to be manufactured and some public harm would be caused by the delay in supplies, standby tenders may be invited prior to the date of breach with a view to minimise the inconvenience that may be caused to the Government by the delay in performance of the contract.' The Committee would like to know the reasons for departure in this case. If standby tender enquiry is issued in exceptional circumstances as envisaged above, the Committee would like Government to investigate as to why risk purchase was not effected and instead further extension was granted to this firm beyond 31 March, 1967 to 31 December, 1967 etc. even when it was clear from the firm's poor performance that it was incapable of meeting in time the contractual obligations. Had the DGS&D shown prudence expected of him, they would have saved an infructuous expenditure of Rs. 5,31,480 being the amount recoverable from this firm on account of the difference in risk purchase offer and original price allowed to it for the balance quantity of 2060 outer flies apart from an earlier delivery of stores at least by three years."

1.13. In their Action Taken Note dated 22 June, 1978 furnished in response of these observations, the Department of Supply have stated:

"Since the stores were required by the Defence indenter and urgency of stores was being expressed by the indenter time and again, standby Tender Enquiry was issued in February, 1967. Although firm 'B' (M/s. Atma Ram Suri & Sons, Delhi) quoted a lower rate of Rs. 1129/- as against Rs. 1130 quoted by firm 'A' (M/s. N. K. Textile) but firm 'B' quoted the delivery period as "Tent of value Rs. 2 lakhs. per month on an average including all pending orders in hand with commencement of delivery after 60 days on receipt of confirmation". On the basis of rates quoted by firm 'B' the value of 2100 Nos. worked out to approx. Rs. 22.7 lakhs with a delivery of around 14 months. Since the firm 'A' asked for delivery extension of 12 months only and that too at the old contract rates (i.e. @ Rs. 871/- as compared to the delivery of 14 months of firm 'B' at a higher rate, there was no advantage in accepting the offer of firm 'B' in standby Tender Enquiry than that of 'A' either in price or delivery. No doubt the performance of firm 'A' at that time was not very satisfactory but the firm

was making efforts to supply the stores (since 900 Nos. were supplied by the firm by that time). An optimistic view was therefore taken to grant the extension in Delivery Period upto 31st December, 1967. The D.P. was further extended upto 30th June, 1968 and when no supplies materialised the contract was cancelled."

1.14. According to Para 180(i) of the D.G.S.&D. Manual standby tenders are to be invited prior to the date of breach of the contract in exceptional circumstances where stores are most urgently required by the indentors and are not available from ready stock but have to be manufactured and some public harm is to be caused by the delay in supplies. However, from the reply of the Department of Supply it is not clear to the Committee whether the stores were most urgently required by the indentors and that some public harm would have been caused by the delay in supplies even in February, 1967 when the standby risk purchase tender enquiry was issued by the D.G.S.&D. and the extended delivery period granted to M/s. N. K. Textiles Mills, Delhi was yet to expire on 31 March, 1967. The fact that in spite of its poor performance the firm was granted extension of time beyond 31 March, 1967 to 31 December, 1967 and then further upto 30 June, 1968 leaves no doubt in the mind of the Committee that the stores were not urgently required by the indentors. Since the course adopted by the D.G.S.&D. had affected the Government's right to recover extra expenditure incurred in risk purchase, the Committee, would desire this matter to be investigated thoroughly and all facts along with the copies of the correspondence with the indentors placed before them.

Approval of Department of Supply not obtained while floating standby limited tender enquiry.

(Paragraph 1.54—Sl. No. 7)

1.15. Seeking specific clarification as to whether the approval of the Department of Supply was obtained before floating standby limited tender enquiry on 22 July, 1968, the Committee had, in paragraph 1:54 of their Report, stated:

"Again, a standby limited tender enquiry was issued on 22 July, 1968 for effecting risk purchase. Para 180(ii) of the DGS&D Manual prescribes that 'if it is considered to place risk purchase contracts on the basis of standby tenders for special reasons, approval of the Department of Supply should be obtained since placement of order on the basis of standby tender would prejudice the right of the Government to recover extra expenditure incurred in risk purchase.' The Committee have not been informed whether the approval of the Department of Supply was obtained before floating standby tender enquiries in the

above two cases. The Committee would therefore seek a specific clarification of this aspect."

1.16. The Action Taken Note furnished in regard to their observations by the Department of Supply on 22nd June, 1978 is reproduced below:—

"A standby L.T.I. was issued in July 1968 for effecting risk purchase. A note after para 180(i) of DGS&D Manual states as follows:

'(Note: Contracts placed against operational critical and other important Defence requirements where stores are to be manufactured according to Defence specification/Drg and some public harm would be caused by delay in supplies, should be considered as cases which would justify the invitation of Standby Tenders prior to the date of breach).'

Para 180(ii) of the DGS&D Manual states as follows:

'In cases other than those mentioned above, if it is considered to place risk purchase contracts on the basis of standby tenders for special reasons, approval of Department of Supply should be obtained since placement of order on the basis of standby tenders would prejudice the right of the Government to recover extra expenditure incurred in risk purchase.'

These instructions were also contained in O.O. No. 112 dt. 5th October, 1967.

The approval of Department of Supply was not taken in both the Standby Tender Enquiries; one issued in February, 1967 and other issued in July 1968 presumably as the stores were required against the urgent Defence requirements and to Defence specification.'

1.17. The Committee are surprised to note the reply of the Government that "the approval of Department of Supply was not taken in both the Standby Tender Enquiries; one issued in February 1967 and the other issued in July 1968 presumably as the stores were required against the urgent defence requirements and to defence specifications." What has pained the Committee more is the fact that instead of enquiring from the indenter about the urgency of the requirement of the Stores, the Department of Supply had themselves presumed the urgency and issued Standby Tender Enquiries even when they were aware that placement of an order on the basis of Standby Tenders would prejudice the right of the Government to recover extra expenditure incurred in

risk purchase. The Committee need hardly point out that the presumption of the DGS&D about the urgency of the requirements of the stores proved wrong as the supply of the stores was ultimately completed in February 1973 i.e. 7 years after the placement of the order in January 1966. The Committee take a very serious view of the matter and desire that a thorough probe may be made in this whole affair with a view to fix responsibility.

Purchase of Assembly Springs

Over-zealous generosity of the defence inspector in entertaining firm's request for deviations in specifications.

(Paragraphs 2.37 to 2.39—Sl. No. 16 to 18)

1.18. Dealing with the over-zealous generosity shown by the concerned Inspector of the Defence Department in entertaining the request of the firm M/s. Auto Pins (India) Delhi for deviations in specifications of Assembly Springs without referring the matter to DGS&D or seeking their concurrence to it, the Committee had, in paragraphs 2.37 to 2.39, observed:

"2.37. From the facts disclosed in the Audit para and the material made available to them the Committee have come to the inescapable conclusion that Government by their own inaction and lack of proper control over the performance of a contracting firm have had to incur a substantial loss of Rs. 4.55 lakhs apart from the inconvenience caused to an indenting Defence Department due to the inexcusable delay of about 5 years in obtaining the goods indented for. The transaction relating to the purchase of assembly springs reveals gross violation of existing rules and gives rise to suspicions regarding undue favours shown to the supplier. The facts emerging from the case are discussed in the following paragraphs.

2.38. According to the Audit paragraph, the DGS&D had placed an order on firm M/s. Auto Pins (India) Regd., Delhi on 28th July, 1969 for the supply of 2000 front assembly springs at the rate of Rs. 40/- each and 3000 rear assembly springs (subsequently increased to 3600 on 9th October, 1969) at the rate of Rs. 60/- each for supply to the Commandant, C.O.D., Delhi Cantonment. According to the terms and conditions of the Accepted Tender, before commencement of bulk production, samples were to be submitted to the Inspector of Vehicles, Delhi within 60 days from the date of placement of A/T i.e. by 26th September, 1969. The Committee regret to find that though the firm had requested on

15th August, 1969 for certain deviations in specifications, the request for deviations was rejected by the Inspector of Vehicles, Delhi after a lapse of 2½ months, on 27th October, 1969. This had the effect of keeping the contract alive beyond 26th September, 1969. What has further surprised the Committee is the fact that the deviations in specifications sought for again by the firm on 17th November, 1969 were agreed to by the Inspector of Vehicles, Delhi on 28th November, 1969, who surprisingly enough, also enquired from DGS&D whether pilot samples could be inspected. In this connection it would be relevant to mention that Para 424 of the DGS&D Manual lays down that "Inspecting Officers have no authority to pass stores not exactly in accordance with the terms of the order. When firms are unable to supply stores in accordance with the samples or specifications, the matter should be referred to the Supply Officer who will if necessary, refer to the Indenting authority, before deciding that the substitutes offered by the Suppliers may be accepted."

- 2.39. This being the position, the Committee are unable to understand the over-zealous generosity of the Inspector in entertaining firm's request for deviations in specifications without referring the matter to DGS&D or seeking their concurrence to it. In fact, the Department of Supply have informed the Committee that the DGS&D came to know of it only in October/November, 1969."

1.19. In their Action Taken Notes dated 31st July, 1978 furnished in response to these observations/recommendations, the Department of Supply have stated:—

"Ministry of Defence was asked to give their comments on the above Recommendations of P.A.C., Ministry of Defence have stated that "Reference to Para 424 of the DGS&D Manual stating that the inspecting officers have no authority to pass stores not exactly in accordance with terms of the order, is not exactly applicable in the case of Defence Orders as would be seen from the following orders as applicable at the time of supply:—

- (a) Government of India letter No. 50/25/63/PI dated 3rd July, 1965.
- (b) DGS&D Office Order No. 17 dated 1st January, 1969.

It would be seen that power to accept stores under deviation were delegated to Defence Inspectors and were exercised by the Inspector with proper authority."

The stand taken however does not seem to be correct because the delegation of powers to the Defence Inspectorate covers only acceptance of bulk supplies against price reduction. No power has been delegated to approve a pilot sample with deviation."

In a separate communication dated 26th February, 1979, submitted to the Committee subsequently, the Ministry of Defence have stated:

"Government of India letter (Department of Supply) No. 50/25/63/PI, dated 18-7-1965 and the DGS&D Office Order No. 17 dated 1-1-69 do not specifically set out that the power to grant deviations delegated to the Defence Inspectors is not relevant to the approval of a pilot sample with deviations.

The Directorate General of Inspection, Department of Defence Production have not only been under the impression but also actually acting on the belief that the powers delegated to them by the Department of Supply in the above documents applied to the acceptance of both bulk and pilot samples. They have in actual practice been authorising deviations in the pilot samples under intimation to the concerned officers of the DGS&D and the latter have never informed them till now that they were exceeding the authority delegated to them.

In the present case as well, the concerned officers of the DGS&D were kept informed from time to time about the action being taken by Defence Inspectors and they never chose to inform the Defence Inspectors that they did not have the authority to authorise deviations in a pilot sample.

However, in the light of the PAC's observations the Department of Defence Production propose to take up with the Department of Supply the question of issuing suitable clarifications in the matter for the future guidance of the DGI."

1.20. The Committee note the reply of the Minister of Defence that "Reference to Para 424 of the DGS&D Manual stating that the inspecting officers have no authority to pass stores not exactly in accordance with terms of the order, is not exactly applicable in the case of defence orders". However, the Department of Supply have stated in this regard that "the stand taken by the Ministry of Defence does not seem to be correct because the delegation of powers to the Defence Inspectorate covers only acceptance of bulk supplies against price reduction and that 'no power has been delegated to approve a pilot sample with deviation'. The Committee therefore desire that the position in this regard needs to be reconciled and explained to the

Committee. The Committee are also of the view that the revised instructions may be issued, if necessary, to obviate recurrence of such lapses.

Unusual course adopted by DGS&D in repeatedly contacting the firm.

(Paragraph 2.42—Sl. No. 21)

1.21. Expressing their serious concern over the frequent visits of the DGS&D representatives to firm's premises, the Committee had, in paragraph 2.42 of their Report, observed:—

“Yet another disquieting feature of the case is that since the firm made no supplies after the expiry of the delivery period on 31 December 1970, the representatives of DGS&D contracted the firm albeit without success, as many as 18 times between February 1971 and May 1972. The frequent visits of the DGS&D representatives to firm's premises give rise to serious suspicions. The reports sent by the DGS&D staff were conflicting and could hardly be relied upon. While some reports of the DGS&D staff indicated that the firm was not interested in making the supplies, others indicated that the firm intended to apply for extension. Some of the reports also indicated that the firm also intended for increase in price. The Department of Supply have informed the Committee that instead of cancelling the contract the firm was being contacted through Progress Wing to apply for extension as the stores were needed by the indentor. The Committee find it hard to appreciate this unusual course adopted by DGS&D in repeatedly contacting the firm for seeking extension when, according to the rules it was bound either to adhere to the contractual obligations or face the consequences of default. The Committee would like to know the level at which the reports submitted by the representatives of the DGS&D were disposed of in that office and whether the prescribed procedure was followed in this regard.”

1.22. In their Action Taken Note dated 6 May, 1978 furnished in response to these observations, the Department of Supply have stated:—

“The efforts of DGS&D in chasing the firm by contacting through officers and staff of the Progress Directorate on several occasions was with a view to ascertain the latest supply position and to expedite the same. It would appear that the firm was persuaded to apply for delivery period extension as they had done so in respect of other pending orders. These progress reports were seen and considered at the level of Director (Progress) and in the Purchase

Directorate at the level of Assistant Director/Deputy Director (Supplies)/Director of Supplies.

The DGS&D repeatedly contacted the firm for seeking extension, instead of cancelling the contract apparently because they thought that this firm might be in a better position to make the supplies, as it had once submitted satisfactory sample."

1.23. The Committee cannot appreciate the unusual course adopted by the DGS&D in repeatedly contacting the firm for seeking extension of delivery period, particularly when according to the rules the firm was bound either to adhere to the contractual obligations or face the consequences of default. It seems to the Committee that the DGS&D had adopted this course as they had failed to cancel the contract at the first available opportunity at firm's risk and cost and there was no other alternative before them but to get a request from the firm for extension of delivery period so that lapses on their part may not come to the surface. This is to say the least very deplorable. The Committee would like the Government to issue strict instructions so that such lapses do not occur in future.

CHAPTER II

RECOMMENDATIONS OR OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

“Para 123 of the DGS&D Manual provides that “the formal Acceptance of Tender must issue as quickly as possible but in no case later than 5 days after the issue of Advance Acceptance.” The Committee note that after issuing the advance Acceptance of Tender to M/s. N. K. Textile Mills, Delhi on 30 December, 1965, the formal Acceptance Tender was issued after a lapse of 19 days, *i.e.* on 17 January 1966. Similarly, an advance Acceptance Tender was placed on M/s. Sha Devichand Panmal, Jodhpur by telegram on 18 November, 1970. The firm waited for full one month after the issue of advance acceptance telegram before it wrote to DGS&D on 19 December, 1970 that in the absence of a formal Acceptance of Tender, it was not possible for them to offer stores. The Committee are unable to comprehend why even after receipt of this letter no action was taken to issue the confirmatory Acceptance of Tender till 13 January, 1971. It is surprising that the DGS&D did not ensure the delivery of Acceptance of Tender to the firm which is stated to have telegraphically informed the DGS&D on 15 January, 1971 about the non-receipt of the Acceptance of Tender and asked for withdrawal of the order. The Ministry of Law, to whom the matter was referred, had also opined that “it would not appear to be possible to convince the Arbitrator a Court of Law that the time of about two months taken in the issuance of the confirmatory Acceptance of Tender was a reasonable time. Having thus failed to fulfil its contractual obligations and having prevented the firm from taking steps to commence supplies, it would not be possible for DGS&D to take resort to the stipulation that the delivery was to commence 15 days after the receipt of formal Acceptance of Tender. . . . Considering all the facts and circumstances of the case, there would appear to be no reasonable chance of successfully enforcing the contract against the firm”. The disquieting feature of this avoidable delay of about 2 months in the issuance of the confirmatory order was that this firm got a gratuitous benefit of extra payment of Rs. 2.28 lakhs against its offer of August, 1970. The Committee consider this to be a fit case for a thorough probe with a view to fix responsibility. Government should also ensure that there was no collusion of officers with the firm which conferred on it extra financial benefits. Conclusive action may be taken to obviate recurrence of such costly lapses and the Committee informed.”

[Sl. No. 5 (Para 1.52) of the Appendix VII to the 20th Report of P.A.C. (6th Lok Sabha)].

Action taken

Intimation to all the Purchase officers have since been given *vide* O.O. No. 42 dt. 20-2-78 (copy enclosed) to follow strictly the instructions contained in para 123 of DGS&D Manual 1968 Edition.

The Vigilance aspect has been examined in consultation with the Central Vigilance Commission and the case has been closed with the Commission's concurrence.

[(Deptt. of Supply O.M. No. 17(9)/77) dt. 22-6-78].

**DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS
(CO-ORDINATION SECTION-2)**

Office Order No. 42

Dated 20-2-1978,

Sub:—Issue of formal A/T.

In accordance with the instructions contained in para 123 of the DGS&D Manual 1968 Edition the formal acceptance of tender must issue as quickly as possible but in no case later than 5 days after the issue of the advance acceptance.

In a purchase case there was delay in the issue of the formal A/T and consequently the firm wanted that the A/T to be withdrawn. In that case the Public Accounts Committee have adversely commented on the inordinate delay on the issue of the formal A/T.

Attention of all the Purchase Officers is invited to the instructions referred to in para 1 above and they should ensure that there is no delay in the issue of the formal acceptance after the issue of the advance acceptance.

Sd/- (G. D. SYNGAL),
Dy. Director (CS-I).

STANDARD DISTRIBUTION

on file No. CDN. 2/6(3)/1/78.

Copy to CDN—5.

Recommendation

“The Committee note that as a result of the standby limited enquiry order for supply of 2060 outer flies was placed on M/s. Bijli Cotton Mills, Hathras a sister firm of M/s. N. K. Textiles Mills, Delhi on 30 October, 1968 but no supply was made by it. Since the acceptance of tender placed on the firm was not in conformity with its tender about arbitration quantum of liquidated damages etc., no action could be taken against it and the acceptance of tender was cancelled after

an expiry of 20 months in June, 1970 without financial repercussion on either side.”

[Sl. No. 8 (para 1.55) of Appendix VII to the 20th Report
(6th Lok Sabha)]

Action Taken

This para contains no recommendation. The recommendation of the Committee is contained in the subsequent para *i.e.* 1.56 against which Action Taken Note has already been sent *vide* Department of Supply O.M. No. PIII-17(9)77 dated 22-6-78.

[Deptt. of Supply O.M. No. PIII-17(9)77 dt. 31-7-78]

Recommendation

“It has been laid down in Para 180 (b) of the DGS&D Manual that ‘risk purchase contract should be on the same terms (apart from the delivery date) as the original contract *i.e.* the goods should be of the same specification and liable to inspection by the same authority and the terms of payment, provision regarding liquidated damages, arbitration, etc. should be the same.’ The Department of Supply have also conceded that ‘there appears to have been an error in this case and responsibility is being fixed.’ The Committee would like to be apprised of the action taken in the matter.”

[Sl. No. 9 (para 1.56) of the Appendix VII to the 20th Report
of P.A.C. (6th Lok Sabha)]

Action Taken

This case has been examined from Vigilance angle and it has been closed with the concurrence of the Central Vigilance Commission.

[Deptt. of Supply O.M. No. PIII-17(9)/77 dt. 22-6-78]

Recommendation

“The Committee note that demand for recovery of Rs. 3,552|-recoverable as general damages was sent to this firm on 11 December, 1973 and the amount has still not been recovered. According to the information given to the Committee on 31 Dec., 1976, the case has been referred to Arbitration. The Committee would like to be informed in due course the decisions of Arbitration in this regard.”

[Sl. No. 14 (para 1.61) of the Appendix VII to the 20th Report
of P.A.C. (6th Lok Sabha)]

Action Taken

In this connection it is stated that the case has since been decided in the arbitration, *vide* Arbitrator’s Award dated 11-11-77 and as per

the Award given, the Department has been able to recover an amount of Rs. 3,500 against the claim of Rs. 3,552.

[Deptt. of Supply O.M. No. PIII-17(9)/77 dt. 22-6-78].

Recommendation

“Outer flies of tents Constitutes an important item for Defence purposes. From the transactions relating to the Purchase of tents, the Committee gather the impression that capacity within the country is not fully geared to meet urgent Defence requirements. Government may take note of the present deficiencies in this regard and take suitable remedial measures and inform the Committee if the concrete action taken in this behalf.”

[Sl. No. 15 (para 1.62) of the Appendix VII to the 20th Report of P.A.C. (6th Lok Sabha)].

Action Taken

In view of the inadequacy of the capacity to manufacture tents to meet urgent requirements as observed from the frustration of contract. Defence have since stopped raising their demands for tentage items since 73-74 and have started manufacturing tentage items in Ordnance Factories. Indents received now a days are only from Civil Indentors & para-military Indentors.

[Deptt. of Supply O.M. No. PIII-17(9)/77 dt. 22-6-78].

Recommendation

It is patently clear that staggering of inspection of the pilot samples beyond the stipulated period resulted in refixation of delivery period giving little or no time to the Government to claim for liquidated damages. The considerations that weighed with the Inspector to agree to the deviations, which had been rejected by him earlier are not clear. The Committee would therefore like the Government to probe into the matter thoroughly.

[Sl. No. 19 (para 2.40) of Appendix VII to the 20th Report (6th Lok Sabha)]

Action Taken

Regarding refixation of delivery period by DGS&D it is clarified here that the delivery period in this case was related with the approval of Pilot Sample. The Pilot Sample was approved by Defence Inspectorate beyond the stipulated delivery period and this kept the contract alive. DGS&D, therefore, had no alternative but to refix the delivery period. In the circumstances there was no case for DGS&D considering any provision for claiming liquidated damages.

[Deptt. of Supply O.M. No. PIII-17(9)/77, dt. 31-7-78]

Recommendation

The Committee note that for making the risk purchase, a limited enquiry was issued on 17th June, 1974 for 1200 front assembly springs and 3600 rear assembly springs. Of the four offers received, the offers of M/s. Racmann Springs Pvt. Ltd., M/s. Murarke Engineering Works and M/s. Metropolitan Springs Pvt. Ltd., Delhi were rejected. The next offer was from M/s. Jamna Auto Industries, Yamunanagar which quoted Rs. 170|- for a front assembly spring and Rs. 235|- for a rear assembly spring. The Committee are deeply concerned to note that while requesting the indentor on 18th July, 1974 for confirmation of additional funds at the rates quoted by M/s. Jamna Auto Industries, Jamunanagar the DGS&D failed to inform the Indentor of the vital fact that the risk purchase in the case of M/s. Auto Pins (India) Regd., Delhi was to be effected by 30 September, 1974. The intimation regarding provision of additional funds was sent by the Army Headquarters on 31 October, 1974 *i.e.*, one month after the expiry of the last date for valid risk purchase. The Ministry of Defence have stated that "if the DGS&D had informed the indentor about the firm date by which confirmation should be received for effecting risk purchase, things could have been expedited with operational urgency." On the other hand, the Department of Supply have informed the Committee that "as per Office Order No. 102 dated 1-2-1974, even for ordinary indent of Defence a period of 6 weeks is to be allowed to the indentor to enable him to provide funds. As against this, the indentor had a period of more than 2 months to make available the requisite funds. . . . The question relating to provision to additional funds had been constantly chased by DGS&D *vide* letters dated 1-8-1974, 27-8-1974, telegram dated 4-9-1974 and 13-9-1974. The indentor was clearly told on 27-8-1974 that the funds must be conveyed latest by 2-9-1974 so that the risk purchase could be effected in time. Again on 4-9-1974, he was clearly told that this was a risk purchase case and offers were valid till 12-9-1974." From the explanations offered it becomes abundantly clear that there were lapses galore on the part of both the sides. To obviate recurrences of such costly mistakes, the Committee would stress the need for setting up a suitable coordinating machinery. The Committee would like to be informed about the decisions taken in the matter.

[Sl. No. 24 (para 2.45) of the Appendix VII to the 20th Report (6th Lok Sabha)]

Action Taken

Strict instructions have been issued *vide* office order No. 65 dated 5-6-78 (Copy enclosed) for informing the indentor about the date by which risk purchase is to be made. This office order was issued on the recommendation of the P.A.C. contained in para 3.45 of their 20th Report.

Instructions also exist regarding proper monitoring and review of risk purchase cases at the levels of Base officer, Dy. Director and Director. In this connection a copy of the Routine Note No. 13 dated 29-6-78 is enclosed.

These existing instructions, it is felt, are adequate to eliminate recurrence of cases of this nature, and there is no need to set up separate co-ordinating machinery.

[Deptt. of Supply O.M. No. PIII-17(9)/77 dt. 31-7-78].

GOVERNMENT OF INDIA

DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS

(CO-ORDINATION SECTION-2)

Jeevan Tara Building, Parliament Street,

New Delhi.

Office Order No. 65.

dt. 5-6-1978

SUBJECT:—*Cancellation of Contract and making Risk Purchase.*

Reference:—Office Order No. 21 dated 1-1-1978.

Under the provisions of clause 14(7) of the Conditions of Contract in DGS&D-68 (Revised) the R/P is to be effected within 6 months from the date of cancellation of the contract. Besides in accordance with the instructions contained in para. 2 of Office Order No. 21 dated 1-1-78 the Purchase Officers are required to ensure that in case where contracts are cancelled at the risk and expense of the firm, the risk purchase should be made within the prescribed period of six months. In a purchase case the Public Accounts Committee have commented upon as per extracts from the Report for the year 1977-78 reproduced below.—

“The Committee are surprised to note that after a limited tender enquiry was issued on 6th April 1974 for effecting risk purchase of Angola shirting according to specification the DGS&D enquired from the Indentor on 3rd May, 1974 i.e. whether substandard or specification Angola shirting was needed. Even at this stage the Indentor was not specifically informed that the risk purchase was to be completed by 29 May, 1974. The Committee take very serious view for this lapse on the part of the Purchase Officer as it had cost the Government exchequer an extra expenditure of Rs. 3.26 lakhs in the purchase of 14,132 metres of Angola shirting from M/s. Modella Textile industries Ltd., Bombay at the rate of Rs. 38 per

metre instead of purchasing it from M/s. Model Woollen & Silk Mills, Verka at the rate of Rs. 14.90 per metre. The Committee would like that the responsibility for the lapse should be fixed. The Committee would also urge that Government may devise a fool proof method so that such costly lapses do not recur”.

2. The Purchase Officers are requested to note the observations of the Public Accounts Committee referred to above. They should ensure that in risk-purchase cases where-ever specific references and made to the Indentor on the necessity of requirements, specifications, additional funds etc., before placement of the risk purchase A/T, the Indentor should be informed the date by which the risk purchase is to be made and he should be asked to send his replies by a certain specific date, giving reasonable time. The Indentor should also be informed that on his failure to send the reply within the specified date, the responsibility for not concluding the valid risk purchase would also be attributable for the delays on his part.

Sd|-

(B. P. Gupta)

Dy. Director (CS-II)

Standard Distribution

on file No. CDN-2|9(13)|I|78.

DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS
(CO-ORDINATION SECTION-2)

Routine Note No. 13

Dated 29-6-1978

Subject:—Recovery of Risk Purchase Loss-watching of Progress thereof.

Reference: (i) Memo No. 3(10)/66-O&M dated 21-2-68.

(ii) O.O. No. I-3401076 dated 14-4-76.

(iii) O.O. No. 21 dated 1-1-78.

While examining a case relating to the Audit Para on Purchase of non-ferrous metal products, the Department of Supply observed as under:—

“This is not the first case where we have noted that the ground on which the senior officers (Director etc.) are observed of the lapse is “that the officer saw the case for the first time after period of risk purchase/crucial period had expired”. There would/should be some system/procedure/practice to watch progress of contracts where purchase poses a problem for some reason or the other and measures are necessary at appropriate level to tide over difficult situations. It may be difficult to accept the position that senior officers will be concerned only when files are submitted to them.”

2. In view of the above remarks of the Deptt. of Supply, it has been decided by D. G. that important instructions on the responsibility of the Purchase Officers to ensure that risk purchase is effected within 6 months from the date of breach be reiterated. Accordingly, the following important existing instructions are brought to the notice of all the Purchase Officers.

3. In accordance with the instructions contained in Memo. No. 3(10)|66-O&M dated 21-2-68. Dy. Director would be personally responsible to ensure that timely action are taken in respect of cases involving the risk purchase and recovery to be effected from firms. Para 6(f) of O.O. No. 21 dated 1-1-78 provides that in order to maintain a careful watch to ensure that risk purchase is effected within the time limit prescribed and recovery of extra expenditure in repurchasing is not lost sight of, the Purchase Officers are required to maintain a register as in Annexure-II appended to Office Order mentioned above. This Para further requires that the register should be reviewed once a week by Section Officer|Asstt. Director concerned and should be put-up to the Purchase Officer within whose power the case falls to keep him posted with the position of the case with a view to ensure whether risk purchase is made within the minimum time possible.

4. As per O.M. No. I-3401076 dated 14-4-76.

- (i) Dy. Directors will be responsible for monitoring the risk purchase cases so that risk purchase is made within the prescribed period of 6 months of (date of breach) expiry of mutually agreed last D|P.
- (ii) Every Wednesday in the forenoon, Directors of Supply will hold discussion with their Dy. Directors and other base officers as considered necessary by them, to discuss all the contracts cancelled at the risk & expenses of the firms to ensure that timely action for making risk purchase is taken. wherever, Director feels it necessary, the cases could be further put-up/discussed with the higher officers.

All Purchase officers are requested to note the instructions carefully for compliance.

Sd|-

(B. P. GUPTA)
Dy. Director (CS-II)

STANDARD DISTRIBUTION

On file No. CDN-2|9(11)|I|78

Copy to:—

Vigilance Officer with reference to this D.O. No. Case Study|
2|(52)|77|3.

Recommendation

“The Audit paragraph has revealed yet another case in which Government had to incur an additional expenditure, apart from the delay of 3 to 8 years, in the procurement of drab Angola shirting for an indenter of Defence Department on account of ambiguous conditions incorporated in the contract and delays in effecting risk purchase by DGS&D. The facts of the case are discussed in the following paragraphs.”

[S. No. 28 (para 3.38) of Appendix to the 20th Report (6th Lok Sabha)]

Action Taken

This para contains no recommendation but simply introduces the recommendations contained in subsequent paragraphs. The Action Taken Notes on the succeeding paras cover this as well.

[Deptt. of Supply O.M. No. PIII-17(9)/77, dt. 31-7-78]

Recommendation

According to the Audit Paragraph an order for supply of 1,36,750 meters of drab Angola shirting of 76 centimetres width was placed by DGS&D at the rate of Rs. 5.28 per metre on M/s. Punjab Woollen Textile Mills, Chheharta on 27th July 1966 against an indent dated 23rd March 1966 from the Defence Department. One of the terms and conditions of the contract provided that supply would commence after one month from the date of receipt of the wool tops by the firm and would be completed in 3½ months thereafter. The firm did **not make** any supply, as the increase in price demanded by it in June 1967 on account of increase of excise duty and high price of imported wool tops, was not allowed. The contract was, therefore, cancelled in June 1969. As the DGS&D was not able to ascertain the date on which the firm received the wool tops, the exact date of breach of the contract could not be determined and thus risk purchase against the firm was not effected. The Department of Supply have stated in this connection that ‘it was not unusual to link the period of delivery with respect to the date or receipt of wool tops’ and that the firm was expected to intimate the date of receipt of wool tops to enable to purchaser to refix the delivery date. In the opinion of the Committee, the terms and conditions of the contract given to this firm viz. that the supply would commence after one month from the date of receipt of the imported wool tops and would be completed within 3½ months thereafter contained obvious lacunae which enable the firm to escape the general damages for Rs. 3.15 lakhs. The Committee desired that the terms and conditions of such contracts should be revised, if necessary after obtaining legal advice in order to see that these do not suffer from lacunae.

[S. No. 29 (Para 3.39) of Chapter III of 20th Report (1977-78)
(Sixth Lok Sabha)]

Action Taken

As far as Woollen items are concerned, where Import Licence is required, we have now incorporated the following conditions in the tender as well as in the contract to take care of such situations:—

- (a) The firm shall apply within 15 days of the receipt of Import Recommendation Certificate for their Import Licence.
- (b) If the application is not given within 15 days or if the application is defective and not as per rules, contract shall be cancelled at the risk and cost of the firm.
- (c) Delivery period is fixed with reference to the date of receipt of Import licence.
- (d) In cases where delivery period is linked with the receipt of Controlled Raw materials by the firm, it is being considered in consultation with the Ministry of Law to provide suitable clauses to the effect that the firm will apply within a certain period and the application should be complete in all respects and that the delivery period will be refixed from the date of receipt of Raw material.

[Deptt. of Supply O.M. No. PIII-17(9)/77, dt. 6-5-78]

Recommendation

“The Committee observe further that the firm had informed DGS&D on 1st February 1968 that the raw material had been supplied to them after more than a year and would, therefore, like to know whether this fact was brought to the notice of Ministry of Law while referring the case to them for effecting risk purchase against M/s. Punjab Woollen Textile Mills, Chheharta.”

[S. No. 33 (Para 3.43) of the Appendix VII to the 20th Report of P.A.C. (6th Lok Sabha)]

Action Taken

Full facts of the case were brought out in our references to the Ministry of Law on 9th August, 1968 but subsequently when they raised a specific query these were again brought to their notice on 14th October, 1968 and 7th May, 1969.

[Deptt. of Supply O.M. No. PIII-17(9)/77, dated 22-6-78]

Recommendation

“The Audit Para reveals how on account of the failure on the part of a supplier to supply 13 tonnes of gun metal ingots at the

rate of Rs. 13.25 per kg. Government had to incur an extra expenditure of Rs. 2 lakhs by farming out the contract to another firm at a higher price. The facts of the case and the observations of the Committee are given in the following paragraphs.”

“The Committee are unhappy to note that on the request for extension of one month’s time made by the firm on 20th September, 1972, *i.e.* 20 days after the stipulated delivery period, followed by another request made on 12th October, 1972, the delivery period was extended by the DGS&D only on 25th November, 1972, *i.e.* about three months after the stipulated delivery date *viz.*, 31st August 1972. According to the prescribed procedure extension in the date of delivery is to be granted within 7 days in such cases. The Committee are not at all satisfied with the explanation that has been given to the Committee for the delay of two months *viz.* “the necessary file was submitted by the dealing Assistant on 13th November, 1972”. This only indicates an utter lack of supervisory control over the staff in DGS&D. The Committee are surprised further to learn that while asking for extension odd date of delivery, no specific grounds were indicated by the firm and the DGS&D had not even cared to enquire into the reasons for extension in this case inspite of the fact that the period of one month for which the firm sought extension had already expired on 25th November, 1972, *i.e.* the date on which the amendment letter extending the date of delivery upto 31st December, 1972 was issued. This had virtually resulted in extension of four month delivery period instead of one month applied for by the firm. Though the Department have informed the Committee that action is being taken against those responsible for the delay, the Committee would like to be informed of the nature of action taken on the defaulting officials. Government should ensure that there was no collusion between the firm and DGS&D officials in this particular case. The Committee would also like that instructions should be issued to all concerned to ensure strict observance of the prescribed procedure in granting extensions in the date of delivery failing which they will be liable to administrative and disciplinary action.”

[S. No. 37 & 38 (para No. 4.19 and 4.20) of Appendix VII to the 20th Report (6th Lok Sabha)]

Action Taken

Recommendations of the Public Accounts Committee were examined in consultation with C.V.C. from the Vigilance angle and recordable warnings have been issued to the dealing Asstt. and the concerned Asstt. Director. A simple warning has also been administered to the concerned Director of Supplies.

Instructions have also since been issued to all the purchase Officers *vide* Office Order No. 43 dated 20-2-1978 (copy enclosed) to follow

strictly the prescribed procedure for granting extensions in the contract delivery date.

[Deptt. of Supply O.M. No. PIII-17(9)/77, dt. 31-7-78]

**DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS
(CO-ORDINATION SECTION—2)**

Office Order No. 43

Dated 20-2-1978

SUBJECT:—*Grant in extension of delivery period.*

Ref:—Office Order No. 18 dated 1-1-1978

The procedure for granting extension in contract delivery period has been indicated in para 4 to 6 of Office Order No. 18 dated 1-1-1978. These instructions clearly provide that extension in delivery period should not be granted as a matter of course and should be granted only in such cases where extensions are inescapable. These instructions also provide that there should be no delay in considering the request for extension in delivery period. Besides, in accordance with the instructions contained in office order No. 62 dated 6th April, 1976 as clarified *vide* office order No. 107 dated 13th October, 1977, approval of the next higher officer should be obtained before granting extension in delivery period beyond the first extension.

In a purchase case the Public Accounts Committee have commented adversely about the grant of extension in delivery period and the manner in which there was delay in considering the request for the grant of extension in delivery period. Attention of all the Purchase Officers is invited to the instructions referred to above for strict compliance of these instructions.

Sd/-

(G. L. SYNGAL)

Dy. Director (CS-II)

STANDARD DISTRIBUTION

On file No. CDN. 2|6(3)|I|78.

Copy to CDN-5.

Action Taken

“The Committee further regret to note that knowing fully the earlier failure of M/s. Metal Smelting & Engineering Works, Calcutta to deliver the goods, DGS&D placed an advance acceptance of tender on 25th April, 1973 subject to the conditions that it should furnish the security deposit within 15 days of the formal acceptance of tender

which was issued on 3rd May, 1973. As the firm neither furnished any security nor did it supply any stores, the A/T was cancelled on 3rd November, 1973. The Committee take a very serious view of the placement of order on this defaulting firm in contravention of the rules which provide that "in the event of failure of the firm to furnish the security deposit by the specified date, their offer may be ignored and placement of the contract on the next best offer considered." The Department of Supply have, in this connection, stated that "the circumstances in which the order was placed without obtaining security deposit are under investigation and explanations of the concerned officials have been called for. The Committee would like to know the outcome of investigation and the further action taken against the persons found responsible as also the remedial measures taken to obviate such lapses in future."

"According to Audit Paragraph this firm offered to supply against the risk purchase enquiry 50 per cent of the quantity within 30 days from the date of formal acceptance of tender and the balance within 30 days from the date of first supply. The Committee is unable to understand as to why the firm was allowed a period of 3 months to complete the supplies by 10th August, 1973 against their offer of 2 months."

The Committee are constrained to point out that this case has been handled in DGS&D in a most casual and perfunctory manner. It has been explained by the Department of Supply in October 1975 that the risk purchase A/T was placed on the defaulting firm keeping in view of the fact that they had already manufactured 50 per cent of the goods. The progress Wing at Calcutta had also intimated in their letter of 25th January 1973 that it had been reported to them that a portion of the quantity ordered was lying ready for inspection. Surprisingly enough, the Progress Wing at Calcutta did not satisfy itself of the genuineness of the report submitted to it before writing to the DGS&D. Even the DGS&D, it appears, did not verify whether the firm had actually manufactured 50 per cent of the goods before placing the risk purchase A/T on this firm. The Committee desire that necessary action should be initiated forthwith to bring to book officers found responsible on this account.

[S. No. 39, 41 & 42 (para No. 4.21 & 4.24) of Appendix VII to the 20th Report (6th Lok Sabha)]

Action Taken

Recommendations of the P.A.C. were examined from the Vigilance angle in consultation with C.V.C. A recordable warning has since been issued to the dealing Asstt. and the concerned Asstt. Director. A simple warning has also been administered to the concerned Director of Supplies.

All the Purchase Officers have since been instructed *vide* office order No. 41 dated 20th February, 1978 (copy enclosed) to ensure that the prescribed instructions for obtaining advance Security Deposit in case where it is proposed to place an order on the defaulting firm should be strictly observed in future.

[Deptt. of Supply O. M. No. PIII-17(9)/77, dt. 31-7-78]

**DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS
(CO-ORDINATION SECTION CDN-2)**

Office Order No. 41

Dated 20-2-1978.

SUBJECT:—*Obtaining of Security Deposit in cases where orders are placed on the defaulting firm.*

Ref:—Office Order No. 21 dated 1-1-1976.

Under the provisions of clause 7 of the Conditions of Contract Security Deposit for the due performance of the contract can be called for prior to the acceptance of tender or after the acceptance. In the case of risk purchase contracts placed on the defaulting firms the instructions provide that they should be called upon to furnish a security deposit of 10 per cent before placement of the order on them.

In view of the above instructions in cases of risk purchase enquiries if the quotation of the defaulting firm happens to be the lowest acceptable one they should be asked to furnish the security deposit equal to 10 per cent of the proposed contract value within a specified date prior to contract action within a clear warning that their offer will be ignored if the security amount is not furnished by the stipulated date.

Despite the above in a risk purchase case the contract was placed on the defaulting firm without obtaining the security deposit in advance and the P.A.C. have adversely commented on this lapse. Attention of all the Purchase Officers is invited to the instructions referred to above for strict Compliance.

Sd/-

(G. L. SYNGAL)
Dy. Director (CS-I)

Standard Distribution
On file No. CDN-2|6(3)|I|78.
Copy to Section (CDN-5)

Recommendation

The Committee would further like the Government to enquire as to why the DGS&D had not cancelled the contract immediately

when the firm failed to fulfil their contractual obligations in depositing the security by the 21st May, 1973 as provided in the A/T instead of cancelling it 5½ months thereafter on 3rd November, 1973.

[S. No. 40 (para 4.22) of Appendix VII to the 20th Report
(6th Lok Sabha)]

Action Taken

The lapse in not keeping a watch on furnishing of the security deposit by the prescribed date was examined from vigilance angle in consultation with C.V.C. A recordable warning has since been issued to the dealing Asstt. and the concerned Asstt. Director. A simple warning has also been administered to the concerned Director of Supplies.

[Deptt. of Supply O. M. No. PIII-17(9)/77, dt. 31-7-78]

CHAPTER III

RECOMMENDATIONS OR OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN THE LIGHT OF THE REPLIES RECEIVED FROM GOVERNMENT

Recommendation

“Against an order of 3,000 outer flies of tents placed on M/s. N. K. Textiles Mills, Delhi in January, 1966 only 940 outer flies of tents were supplied by 15th December, 1967 (500 Nos. within the delivery period, 400 Nos. by 30th September, 1966, another 25 Nos. by March 1967 and 15 by December 1967 respectively). Thereafter, no further supply was made by it although the period of delivery was extended from time to time upto 30th June, 1968. The balance quantity of 2060 Nos. was however cancelled in October 1968 at the risk and cost of the firm. On 30th October, 1968 order for 2060 outer flies of tents was placed on M/s. Bijli Cotton Mills, Hathras, a sister concern of M/s. N. K. Textiles Mills, Delhi at Rs. 870 each. As however, the Acceptance of Tender was not in conformity with the tender of M/s. Bijli Cotton Mills, Hathras about arbitration, quantum of liquidated damages etc., the Acceptance of Tender was cancelled in June 1970 without financial repercussion.”

Subsequently, out of these 2060 tents, M/s. Sha Devichand Panmal, Jodhpur supplied 400 Nos. at Rs. 1297.50 each and another 1627 at Rs. 1435 each by February, 1973 and the balance 33 Nos. were supplied by M/s. Mansukh Co. (Overseas), Faridabad in August 1973. The procurement of 2060 outer flies piecemeal at different points of time from different suppliers resulted in a payment of Rs. 11.07 lakhs more than what it would have cost at the rate of Rs. 871 originally allowed to firm M/s. N. K. Textiles Mills, Delhi. There was not an unconscionable delay of 7 years in the supply of the outer flies of tents which otherwise were required to be supplied within 2½ months after placing of the order on 17th January, 1966. The way in which the matter has been dealt within the DGS&D, indicates that there is something basically wrong in the system of indenting, selection of suppliers and the acceptance of tenders by the DGS&D which is entrusted with the responsibility of ensuring that urgent Government order are executed in time without subjecting the Government to any loss due to slippages etc. on the part of suppliers. Some of the conspicuous short-coming which reflect adversely on the working of the DGS&D, are discussed in the following paragraphs.

The Committee note with surprise that although it was known to the DGS&D that the firm had the capacity to produce outer flies to the extent of Rs. 5 to 7 lakhs per month, they deliberately decided to enhance the initially proposed order of 2325 Nos. to 3000 Nos. without correspondingly increasing the period of delivery beyond 31st March, 1966, as initially fixed. That the assessment of the capacity of M/s. N. K. Textiles Mills, Delhi was not correctly made by the Defence Inspectorate is borne out by the subsequent performance of the firm. Despite grant of several extensions the firm could complete only 31 per cent (940 out of 3000 Nos.) of its contractual commitment and that too by December 1967. In fact, the DGS&D himself had observed in November 1966 that the firm had a capacity to produce only about 500 outer flies of tents per month and that the period of 2½ months originally allowed to it for supply of 3000 outer flies of tents was unrealistic. The Committee would like to know the various considerations and factors which weighed with the Defence Inspectorate in assessing the capacity of the firm to supply outer flies worth Rs. 5 to 7 lakhs per month.

[S. No. 1 to 3 (para No. 1.48 & 1.50) of Appendix VII to the 20th Report (6th Lok Sabha)]

Action Taken

It is submitted that the action taken by the Supply Department and the Defence Ministry in this case has to be viewed in the background of the emergency created by the conflict with Pakistan in 1965. The DGS&D anticipated that sudden demands might crop up for the supply of large quantities of Tents for the Army. In order to make advance preparation and to meet such demands as expeditiously as possible, whenever they arose, the DGS&D felt that it would be desirable to have an assessment made of the capacities of all the producers of tentage in the country. The Director of Supplies (Textiles) accordingly wrote to the Chief Inspector of Textiles and Clothing under the Defence Ministry, on 17th September, 1965 (copy of letter enclosed) stating that it was desirable to ascertain the current maximum production capacity available in the country for all types of Army tents. The D.S. (Tex.) requested the CITC to scrutinise the list of suppliers and indicate the maximum value of Army tentage that could be expected per month from each firm on the list.

2. That CITC understood this reference to mean that the assessment of capacity was to be made "in general terms of valuation and not in terms of any specific components of Army tentage of type of a particular tent." As stated by the Defence Ministry, the CITC then conveyed his assessment of the capacities of different firms, based on the past performance of each, to the D.S. (Textiles) with letter dated 8th October, 1965 (copy enclosed).

[Deptt. of Supply O.M. No. PIII-17(9)77, dt. 31-7-1978]

**COPY OF DOS (TEX) BOMBAY LETTER NO. BOM/PT/MISC
Dt. 17-9-1965.**

No. BOM/PT/MISC

, Dated 17-9-1965.

The Chief Inspector
Chief Inspectorate of Textiles & Clothing
PB No. 294, KANPUR.

Sir,

Kindly find enclosed lists of registered and likely suppliers of Army and Civil tentage. In view of the present emergency it would be in our interest to know the current maximum production capacity available in the country for all types of Army tents so that we may be in a position to meet most expeditiously the demands from Defence Services when placed upon us. It will, therefore, be appreciated if you kindly scrutinise the list of suppliers and let us know the maximum value of Army tentage that can be expected per month from each of the firm on the list in case we are required to utilise their services.

Encl: 1 list

Yours faithfully,

Sd/- (S. V. SUNDARAM),
Dy. Director of Supplies,
for Director of Supplies (Tex.)

Copy to:—

1. The Officer-in-Charge, TSID, IGS, NI Anandparbat, New Delhi.*
2. The Officer-in-Charge TSID, IGS PB No. 307, KANPUR.
3. The Officer-in-Charge, TSID, Signal Hill Avenue, Tank Bunder Road, Swuri, Bombay-33.*
- * On the receipt of suitable advice from the Chief Inspector, Chief Inspectorate of T&C Kanpur, he may please report on the firms falling in his area. A copy of above mentioned list is enclosed herewith.
4. The Director of Research Development (Genl.), Min. of Defence (DGI), Deptt. of Defence Production, DHQ PO New Delhi-11 for information.

Sd/- (S. V. SUNDARAM),
Dy. Director of Supplies,
for Director of Supplies (Tex.)

Certified True Copy:

Sd/- (ASHOK COOMAR) Major, Officer-in-Charge,
IGS NORTH INDIA, NEW DELHI-5.

COPY OF IGS (NI) NEW DELHI LETTER NO. 6/40/3/CPC
DATED 8 OCT. 65.

To

The Director of Supplies (Textiles)
New Central Govt. Office Building, 5th Floor,
South West Block, New Marine Lines, BOMBAY-1.

Subject:—PRODUCTION CAPACITY—ARMY TENTAGE

Reference DOS (Tex) letter No. BOM/PT/Misc. dt. 17-9-65.

2. The estimated production capacity of Army Tentage in respect
of the firm's located in this area is appended below:—

	Name of Firm	Estimated production capacity per month in terms of Value in lacs
1.	M/s. R. S. Atma Ram Suri & Sons., Delhi	6 to 8
2.	„ Bashesarnath & Co. New Delhi	2 to 3
3.	„ Birla Cotton Spg. & Wvg. Mills Ltd. Delhi	10 to 15
4.	„ Delhi Housing & Finance Corporation New Delhi	Since closed.
5.	„ N. C. Industries, Agra	1 to 2
6.	„ Marwar Tent Factory, Jodhpur	3 to 5
7.	„ Panipat Woollen & General Mills Co. New Delhi	15 to 20
8.	„ Shiamlal Chimanlal, Agra	8 to 10
9.	„ K. C. Textiles, Agra	4 to 5
10.	„ N. K. Textiles Mills, Ltd. Delhi	5 to 7
11.	„ Bijli Cotton Mills, Hathras	5 to 7
12.	„ Model Tent Fy. New Delhi	0.5 to 1
13.	„ Shubhkarandas Chiranjilal, Delhi	10 to 15
14.	„ Sethi Tent House, Delhi	0.5 to 1
15.	„ Ajudhia Textile Mills Ltd. Delhi	8 to 10
16.	„ Modi Spg. & Wvg. Mills Co., Ltd. Modinagar	Not Interested.
17.	„ Bajjnath Asharfilal, Ambala Cantt.	0.5 to 1
18.	„ Akal Printing & Dyeing Works, Delhi-6	2 to 3
19.	„ Raza Textiles Ltd. Rampur (UP)	2 to 3
20.	„ Gupta Bros. Delhi	3 to 4
21.	„ The Technological Institute of Textiles, Bhiwani	2 to 3

(Proprietors—M/s. Birla Education Trust, Pillani)

(Proprietors—M/s. Birla Education Trust, Pilani)

The above firms are in a position to provide facilities for inspection at their premises. In case any contracts are placed with them for supply of Army Tentage, the terms of delivery should be clear cut 'FOR' making the firms responsible for arranging packing and despatch of stores to the Consignee.

Capacity figures in respect of the undernoted firms will follows:—

1. M/s. Export & Import Enterprises, New Delhi.
2. M/s. Ankey Cloth & General Mills Ltd., Hathras.
3. M/s. Behari Newar Factory, Agra.
4. M/s. Phelps & Co. Pvt. Ltd., New Delhi.
5. M/s. Lalsingh Sethi & Sons, Bombay.

(Since the Fy. located at Delhi)

Station Ujjain falls within the jurisdiction of IGS West India, capacity figure in respect of Binod Mills Co. Ltd. Agra Road, Ujjain may therefore please be ascertained from IGS West India, Bombay.

Sd/- (P. B. KAPUR),
Lt. Col.
INSPECTOR.

Copy to:—

The Chief Inspector
CIT&C, KANPUR.

Ref: CIT&C letter No. S/6241/A/TC-6 dt. 21 Sept. 65
addressed to the Officer Incharge TSID New Delhi,
Kanpur & Bombay and further to this Inspectorate
Telegram of even No. dt. 30-9-65.

The Dir. of Research & Development (GEN)
Deptt. of Defence Production (TD-20)
Min. of Defence (DGI), Govt. of India,
DHQ: PO NEW DELHI-11.
Certified True Copy.

Sd/- (ASHOK COOMAR)
Major,
Officer-in-Charge
IGS NORTH INDIA, NEW DELHI-5.

APPENDIX 'A'—to Notes No. 92946/21/
DGI (STORES—2), dt. 2-6-78.

Challan No. & Date	Bill No. & Date	Invoiced No.	Actually Tendered No.	Bulk Supply Samples drawn on	Qty. accepted	Inspection completed vide I/Note No. & Date	Time taken Total		Remarks
							Actual Inspection including rectification time		
TF/49/H/12 dt. 23-9-66	H/853 dt. 30-9-66	500	400	3/4-10-66	100	TENT/IP/I/18/4	84 days		
						dt. 3-12-66	31 days		
						TENT/IP/I/18/5 dt. 26-12-66	87 days		
TF/49/H/13 dt. 31-3-67	H/10 dt. 31-3-67	25	25	[1-4-67]	25	TENT/IP/I/18/6	54 days		
						dt. 26-4-67	26 days		
TF/49/H/14 Dt. 14/22-8-67	175 dt. 23-8-67	15	15	26-8-67	15	TENT/IP/I/18/7	2 days		
						dt. 20-10-67	58 days		
							11 days		

*Deviation action and rectification done on the spot by the firm on the advice of IGS.

Recommendation

"Yet another deplorable feature of the case is that the recovery of pre-estimated damages for delay in supplies to the tune of Rs. 7,850 had to be waived as there were delays in inspection of the stores. It would be recalled that para 409 of the DGS&D Manual stipulated that "inspection should commence within one week of supplier's request irrespective of the value of the stores offered for inspection and location of supplies and should be completed as early as possible. "The Committee stress that the reasons for delay in inspection of the stores may be investigated with a view to fix responsibility and to take remedial measures for future."

[S. No. 10 (para 1.57) of the Appendix VII to the 20th Report of P.A.C. (6th Lok Sabha)].

Action taken

The question of fixation of responsibility for the delay in inspection of the stores was examined in consultation with C.V.C. and it was decided to close the case as most of the concerned officials had already retired.

[Deptt. of Supply O.M. No. P III-17(9) 77 dt. 22-6-78].

Recommendation

"The Committee are concerned to note that the supply of 3000 outer flies was to be completed by 31 March, 1966 whereas M/s. N. K. Textiles Mills, Delhi had supplied only 500 Nos. by that date. The delivery period had been extended in June 1966 upto 30 September 1966, then in December 1966 upto January 1967 and again in February 1967 upto March 1967, but the firm had offered only 400 Nos. more upto September 1966 and another 25 Nos. thereafter. According to the Department of Supply these extensions were granted on account of non-availability of material used for manufacture of the item, particularly turpentine oil and other chemicals. What has surprised the Committee is the fact that this plea of the firm was not examined by the Department in detail so as to check its veracity. It is inexplicable that extensions were granted rather liberally even after the expiry of the contractual period notwithstanding the poor performance of this firm *ab initio*. The Acceptance of Tender should have been cancelled at firm's risk and cost in time. The failure to take timely action needs to be investigated."

[S. No. 12 (para 1.59) of the Appendix VII to the 20th Report of P.A.C. (6th Lok Sabha)].

Action taken

It was decided in consultation with C.V.C. that no action was possible against the concerned officers as they had already retired.

[Deptt. of Supply O.M. No. PIII-17(9)77 dt. 22-6-78].

Recommendation

The Committee are unable to understand as to why DGS&D had placed orders on M/s. Sha Devi Chand Panamal, Jodhpur in April, 1971 at the rate of Rs. 1297.50 each for 400 outer flies and at Rs. 1435/- each for 1660 more in June 1971, on the basis of the firm's earlier offer of 25th March, 1971 when the Acceptance of Tender placed on it on that very basis earlier was cancelled in May 1971 itself. They would also like to know whether any separate tender was floated for purchasing 1660 outer flies of tents at the rate of Rs. 1435/- each and if not, the reasons therefor.

[S. No. 13 (para 1.60) of the Appendix VII to the 20th Report of P.A.C. (6th Lok Sabha)]

Action Taken

Ministry of Law's advice was sought regarding the enforceability of the contract placed on firm 'D' (M/s. Sha Devi Chand Panamal) issued vide telegram dated 18-11-70 and formal A/T issued on 13th January, 1971. Ministry of Law in the concluding para of their legal opinion dated 10-3-71 stated:—

“Considering all the facts and circumstances of the case, there would appear to be no reasonable chance of successfully enforcing the contract against the firm. That being the position, question of legally enforcing the delivery of goods worth Rs. 5 lakhs at the contracted rates does not arise. There can, however, be no legal objection to enter into an agreement with the firm for supply of stores worth Rs. 5 lakhs at the contracted rates if the firm is willing and agreeable to the same”.

A letter from firm 'D' was received on 25-3-71 with following two offers:—

- (a) They are willing to supply 400 Nos. of tents at Rs. 1297.50 (The rate at which the A/T had been placed on them) exclusive of Sales Tax, F.O.R. Jodhpur. They stated that they will offer the tents within a week of the receipt of formal A/T and also requested for three months extension.
- (b) For the balance qty. of 1660 Nos., the firm made the offer at Rs. 1435/- plus S/T extra, F.O.R. Jodhpur. The firm further stated that other terms and conditions would be as

per their tender and made it clear that this offer would be in full settlement and without any financial repercussions on either side or any claims whatsoever and that this offer would not affect their business dealings with DGS&D and their tenders would be considered on merits in a regular course. In view of legal opinion dt. 10-3-71 and firms' letter dt. 25-3-71, Ministry of Law's opinion was again sought and they stated:—

“In view of the concluding para of the Min. of Law's note dated 10-3-1971, it is not reasonably possible to enforce the contract against the firm, so the A/T earlier placed on the firm is without legal effect. The question of amending the same may not serve the purpose. We have now to place a fresh order for 400 Nos. at the agreed rate of Rs. 1297.50 each giving clear 3 months for supply of the stores. Accordingly the proper course would be to issue formal A/T for supply of 400 Nos. at the agreed price and D/P. The A/T should issue with reference to the discussions held with the firm and their letter dated 25-3-71. In a separate forwarding letter the firm may be asked to acknowledge the A/T and they may be assured that the pending A/T will be cancelled without financial repercussion after receiving their acceptance of fresh A/T in term of the settlement reached with them. The A/T may, therefore, be cancelled without financial repercussion”.

As such order was placed on firm 'D' in April '71 @ Rs. 1297.50 each for 400 outer flies and afterwards the earlier A/T placed on the firm was cancelled on 6th May, 1971, without financial repercussions on either side.

As Defence have been expressing their anxiety to have tents with dosuti having 2 per cent Cr. content—as against the latest specifications as compared to the earlier specifications which provided only 0.75 per cent Cr. content. it was required from the indentor whether he wants balance of 1660 Nos. to new specifications. In the meantime, firm 'D' M/s. Sha Devichand Panamal, vide letter dt. 15-5-71 stated that their offer to supply the balance qty. of 1660 Nos. @ 1435/- is valid upto 31-5-71 and thereafter the rate would be Rs. 1525/- each. On 27th May '71 it was got confirmed by Indentor that purchase in this instance may be effected on the basis of original specification i.e. 0.75 Cr. content.

Analysing the situation prevailing at that time when capacity of all the regular suppliers were booked and there was very likelihood of higher prices being received. The fresh L.T.I. for 1660 Nos. was dropped since the Indentor required the stores to old specifications (0.75 Cr.

contents) for which offer of firm 'D' was available upto 31-5-71 and as such it was decided to place order on firm 'D' @ Rs. 1435/- per No. for 1660 Nos. and advance telegraphic order was issued on the same day, followed by formal Acceptance of Tender on 7th June, 1971.

[Deptt. of Supply O.M. No. PIII-17(9)|77 dt. 22-6-78]

Recommendation

The Committee are further unhappy that it took the authorities about 2 months to approve the samples as they find that these were received on 7 January, 1970 and approved on 5 March, 1970. Again, although according to the revised delivery period the supplies were to be completed by 5 July 1970, the firm sought on 4 August 1970, an extension of delivery period for a further period of 3 months from the date of receipt of their letter. What has distressed the Committee more is the fact that instead of taking decision as per the provisions in the DGS&D Manual, within 7 days of the receipt of the request or within 7 days of the receipt of reply from the Indentor, if a reference was made to them, the extension was granted on 26 September 1970 or a period of 3 months upto 31 December 1970. The Extension was granted in spite of the fact that the Inspector had informed the DGS&D on 29 July 1970 that the materials test report of spring leaves received from Inspector of Metals, Muradnagar had indicated that the spring leaves did not conform to S.N. 45A as required. The Committee are unable to appreciate the reasons which compelled the Govt. first to entertain the request for extension after the expiry of originally stipulated delivery period and then to grant them liberal extension upto 31 December 1970, which if counted from the date of expiry of delivery period on 5 July 1970 comes to about 6 Months. The Committee have been informed that upto 31 December 1970, the firm offered a paltry 800 front assembly springs for inspection on 26 December 1970, against the order for 200 springs.

[S. No. 20 (para 2.41) of Appendix VII to the 20th Report (6th Lok Sabha)]

Action Taken

Ministry of Defence was asked to give the reasons for taking 2 months for approving the sample. In this regard it has been intimated by Ministry of Defence vide their D.O. No. 4(3)|78|D(Prod) 13-6-1978 that the firm offered their sample on 7 Jan., 1970. The firm vide their letter dated 9 Jan. '70 raised objection, for scrag testing and suggested that test should be restricted to test load as given in the drawing, Inspector of Veb. (NZ) carried out the tests on the pilot and submitted their observations to IV(CZ) on 2-2-70 although the firm's contention on scrag testing. IV(CZ) vide their telegram dated 25 Feb. 70 conveyed acceptance of test results on pilot sample to IV(NZ), which was intimated to the firm, DGS&D and others by IV(NZ) on 5 March '70.

As regards granting extension to delivery period by DGS&D despite intimation by the inspector that spring leaves did not conform to SN 45A, it may be stated that occasionally the sample is found to be not in conformity with the requirements, but, this, by itself, is not considered an adequate ground for cancellation of the contract. An opportunity is given to the firms to resubmit samples/stores after removing the deficiencies pointed out. In practice, this method has resulted in supplies coming in, although there have been a few bad exceptions.

The firm in their letter dated 4-8-1970 asked for 3 months extension in delivery period and the same was granted vide Amendment letter dated 26-9-1970 so that the firm could get clear three months time for supply. The extension in delivery period was granted to the firm after receipt of confirmation from the indenter which was received in September, 1970 in which he agreed for granting the delivery period extension to the firm.

[Deptt. of Supply O.M. No. PIII-17(9)|77 dt. 31-7-78]

Recommendation

The Committee find that the indenter was informed on 12 September 1974 by the DGS&D that valid risk purchase was not possible because the acceptance offer from M/s. Jamuna Auto Industries, Yamunagar was subject to deviations and only general damages would be recoverable from M/s. Auto Pins (India) Regd., Delhi. What has disturbed the Committee is the fact that the DGS&D failed to consult the Ministry of Law before arriving at this decision.

[S. No. 25 (Para 2.46) of Appendix VII to P.A.C's 20th Report
(6th Lok Sabha)]

Action Taken

It was pointed out to the indenter that we will not be able to effect valid risk purchase as the only offer left was that of Messrs Jamuna Auto, which was subject to deviations, and that we will be recovering general damages only. It was also added that before issuing the notice for recovery of risk purchase or general damages, the case will have to be got examined by Ministry of Law. Thus, the decision arrived at that stage by the DGS&D was with reference to making re-purchase only and to leave the matter to recover risk purchase loss or general damages, as the Department may be legally entitled, to be decided subsequently in consultation with Ministry of Law. Ministry of Law was not required to be consulted for taking a purchase decision; but they were consulted before finalising the matter relating to risk purchase loss or general damages loss.

[Deptt. of Supply O.M. No. PIII-17(9)|77 dt. 6-5-78].

Recommendation

The Committee also note that before providing additional funds, the indentor reduced the requirement of rear assembly springs from 3600 to 2600 and withdraw demand for front assembly springs. The Department of Supply stated that against 5 more contracts outstanding against M/s. Auto Pins (India) Regd., Delhi (September 1975) the firm had completed supplies in three cases, whereas the remaining two contracts were cancelled at firm's risk and cost as they had failed to complete the supplies even after giving extensions. The outstanding stores were either not required by the indentor or were purchased at lower rates. It has been laid down in Para 190 of the DGS&D Manual that "in cases where no repurchase is made after cancellation of the contract either due to withdrawal or reduction in demand by the Indentor, Government can recover only the general damages." The committee would like to be informed whether the general damages were also recovered from this firm in the above two cases in which no repurchase was made."

[Sr. No. 26 (Para 2.47) of Appendix VII to the 20th Report of PAC (6th Lok Sabha)—1977-78.]

Action Taken

A/T No. SV-4|101|74|574|PAOD|527 dt. 29-9-69 and A/T No. SV-4|101|74|651 dt. 24-1-70|AP|PAOD|692 dt. 28-8-70 both placed on M/s. Auto Pins (India) Regd., were cancelled at firms risk and cost as the firm had failed to supply stores even after giving extension in the delivery period.

2. A/T No. SV-4|527 dt. 29-9-69 for full quantity of 3400 Nos. was cancelled at the firm's risk and cost on 15-6-74. The Indentor, COD, Delhi Cantt. vide his letter dt. 4-7-74 and letter dt. 28-9-74 declared a quantity of 900 Nos. and 1000 Nos. respectively as surplus. Further the Indentor vide his letter dt. 14-3-75 advised DGS&D that the remaining qty. of 1500 Nos. may also be cancelled without any financial repercussion on either side. In view of these no repurchase action was taken by DGS&D.

Regarding payment of General Damages, efforts were made to find out the market rate on the date of breach i.e. 1-9-70. We have not been successful to establish market rate on the date of breach. Indentor was also asked whether he has suffered any loss or inconvenience. In his reply dated 6-8-77, he advised about the direct procurement of a quantity of 1010 Nos. during the period Oct. '72 to March '77 incurring an extra expenditure of Rs. 18,915/-. Out of this quantity, only a quantity of 25 Nos. purchased on 7-10-72 incurring an extra expenditure of Rs. 150/- only, falls within the currency of the contract and before withdrawal of I/O's demand. As such only this

expenditure of Rs. 150|- can be stated to have resulted on account of non-execution of this order. However, on account of firms failure to supply the stores against the subject contract the question of recovery of the General Damages has been considered in consultation with Ministry of Law and the demand notice has been issued to the firm for recovery of the General Damages of Rs. 3825|- at the rate of 7 1/2 per cent of value of cancelled A/T. The Committee would be informed about the further development in due course of time.

3. A/T No. SV-4|692 dt. 28-8-70. In this case, the firm could not supply Spring Schckle 8000 Nos. As such A/T for this item was cancelled at firm's risk and cost on 6-2-74. The Indentor COD, Delhi Cantt. vide his letter which was received in DGS&D on 15th July, 1974 intimated that they wanted only a qty. of 4,800 Nos. and not 8,000 Nos. Therefore re-purchase action was taken for the procurement of 4,800 Nos. only. Re-purchase A/T No. SV-4|101|74|651|692|RP|PAOD|1129 dt. 7-2-75 was placed on M/s. Gurmukh Singh & Sons (Regd), for the supply of 4,800 Nos. at the rate of Rs. 5|- each (Cancelled A/T of M/s. Auto Pins was placed at Rs. 7|- each) As the risk purchase A/T was placed at lower rates than the defaulted A/T, no general damages have been recovered.

[Deptt. of Supply O.M. No. PIII-17(9)|77. dt. 31-7-78]

Recommendation

The Committee find that the general damages recoverable from M/s. Auto Pins (India) Regd. Delhi have been assessed as Rs. 2,83712 for which demand notice was issued to the defaulting firm on 3rd January 1976. Upon its failure to deposit the amount and its request to refer the dispute for arbitration, Arbitrator has been appointed on 2 June 1976. The Committee would like to know the latest position of the recovery.

[Sl. No. 27 (para 2.48) of Appendix VII to P.A.C's 20th Report (6th Lok Sabha)]

Action Taken

Regarding recovery from Messrs Auto Pins, it is stated that the matter has not yet been decided. The case came up for arbitration in August, 1977 when the counsel for respondent had filed an application for various reliefs including *inter alia* directions for filing the replications, production of documents etc. This application was adjourned to 31.8.77 to reply, if any, together with the replication. The counsel for respondent firm did not agree to an extension of time for making of the Award. Since no extension by mutual consent was filed, Arbitrator ordered on 11.10.77 for the parties to get the time extended from the court and suspended the case till the extension in time is received. Application|petition under Section 28 of the Arbitration Act 1940, for the purpose of extension of time for

making of Award, was forwarded to the Government counsel on 1-12-77 for filing in the High Court of Delhi and no further information is known to us. The Committee would be informed about the final outcome of the Arbitration when arrived at.

(V. Balasubramanyan)

Joint Secretary to the Govt. of India.

[Deptt. of Supply O.M. No. P. III-17(9);77 dt. 6-5-78].

Recommendation

"Further, the Committee have their own doubts about the *bona fides* of the firm as they feel that the firm deliberately and purposefully suppressed the date of receipt of imported raw material in order to derive maximum advantages on account of escalation of prices, etc. It is also not clear to the Committee as to how the material which was imported/allocated specifically for Defence Supplies was actually used."

"It should have been possible for Government to deal with the matter conclusively instead of allowing the firm to get away with the raw material without meeting the contractual obligation."

[S. No. 31 & 32 (Para 3.41 and 3.42 of the Appendix VII to the 20th Report (6th Lok Sabha)].

Action Taken

There is nothing on record to prove that the firm deliberately and purposefully suppressed the date of receipt of imported raw material. On 1st Feb. '68 the firm stated that the raw material had been supplied to them after more than a year. A quantity of 35,149 kgs of 58' quality wool was released to the firm by the Textile Commissioner through Indian Woollen Mills Federation on 26.5.67. This wool was sent by the firm to the Wool Combers at Calcutta for blending with staple fibre and the blended material appears to have been received by the firm sometime in Dec. 1967.

In respect of the raw material allocated to the firm, the Textile Commissioner having regard of the fact that the firm failed to make any supplies against the DGS&D contracts, directed the firm (*vide* Order No. 4|2|65-66|Wool|VIII|2142 dt. 14.4.69) not to process or sell or deliver, transfer and/or dispose of, in any manner the raw material and also ordered the State Trading Corporation of India Bombay|Delhi to Suspend forthwith all allocations of raw material to the firm.

Textile Commissioner was requested to indicate whether raw material can be taken over from the firm for allocation to other firms on

whom repurchase contracts can be placed. Tex. Commissioner informed that problem would arise as to who would bear the interest, storage & other incidental charges and the risk of deterioration of raw material due to passage of time.

Textile Commissioner informed on 18-9-69 that 4671 kgs. may be adjusted to meet the additional requirement against A|T TWL-2|107|62|014 & 441|214|PAOD dt. 25-4-67 and balance quantity may either be taken over by Tex. Commissioner adjusted against their own commercial quota. The Tex. Commissioner was also asked to take suitable action against the firm.

Textile Commissioner informed DGS&D on 16-10-69 that it would not be possible for them to take over the stocks or to adjust the same against commercial ceiling. They stated that they do not have any arrangement to stock such material and the other problems of storage, incidental cost, deterioration of quality etc. would make it difficult for any other firm to agree to take over such stocks. The matter was not pursued at that time. Now however the Tex. Commissioner has again been addressed. On receipt his reply the Committee would be informed about the actual use of the raw-material which was allocated specifically for Defence Supplies.

[Deptt. of Supply O.M. No. PIII-17(9)|77 dated 31.7.78]

Recommendation

“The Committee find that M|s Vohra Textile Mills, Amritsar on whom the contract for supply of 18,375 metres of Angola Shirting was placed completed the supply whereas M|S. Model Woollen & Silk Mills, Verka could supply 4906.75 metres according to specification and 28311.40 metres with price reduction ranging from 7 to 10 per cent against the order of 50,000 metres of Angola Shirting up to January 1972. M|S. Model Woollen & Silk Mills, Verka offered another 18,000 metres in August, 1972 but the stores were not accepted by the Inspector of Defence Department due to use of sub-standard dyes. This firm had stated in this connection, that it had applied for licence for importing standard dye and as licence was not granted, it had to use whatever sub-standard dye was available. In response to an enquiry the Indentor had, in October 1972, informed the DGS&D that he would be in a position to make use of the sub-standard material offered by the firm and asked them to accept the material up to the quantities required by them. However, against the Indentor's requirements of 24254 metres of such sub-standard Angola Shirting for scarves and lining 1473 metres for scarves at 10 percent price reduction and 1177 metres for lining at 12½ per cent price reduction were accepted in November 1973. The remaining

quantity was, as stated by the Department of Supply, 'not even suitable for the lining material and could not be accepted.' It is not clear to the Committee as to why only this firm had difficulty about dye particularly when the other firm viz. Vohra Textile Mills, Amritsar was able to deliver goods as per specifications.

[S. No. 34 (para 3.44) of Appendix VII of the 20th Report of PAC (6th Lok Sabha)].

Action Taken

The contract on the both the firms—M|S. Vohra Textile Mills and M|S. Model Woollen & Silk Mills Verka, Amritsar was placed on 16.3.70 and 16.2.70 respectively for supply to specification. The A|T on M|s. Model Woollen & Silk Mills was placed with the assistance of raw material for wool only and not for dye-stuff. It was only on 9.9.70 when the firm intimated about the non-availability of the standard dyes in the local market. Dir. (Progress) in his letter dated 10.9.70 addressed to General Manager, Clothing Factory, Shahjahanpur referred to a meeting held for discussing DGOF critical items when it was intimated that the dye stuffs were neither available in the market nor could be imported from abroad as their import was banned. Further action was taken to ascertain availability of dye stuffs. On checking up with DGTD it was learnt that the dye stuffs were available with M|s. Sandoz India Ltd., Bombay. It appears that this information was conveyed to the firm in a meeting by Director Progress and firm was advised to approach M|s Sandoz. M|s. Model Woollen & Silk Mills vide their letter dated 13.2.71 requested DGS&D to help them to get the release order on M|s. Sandoz India Ltd. However this could not be done as the A|T did not provide for assistance for getting dye stuff. It appears that M|s. Model Woollen & Silk Mills on their own approached Textile Commissioner, Bombay to help them to get the standard dye stuff from M|s. Sandoz India Ltd., Bombay. Textile Commissioner enquired from DGS&D if the A|T D.P. was still valid. The required information was furnished to Textile Commissioner. The Textile Commissioner, Bombay vide his letter dated 12|13.4.71 requested M|s. Sandoz India Ltd. to assist M|s. Model Woollen & Silk Mills, Amritsar in obtaining their requirement of the dyes. Textile Commissioner, Bombay further explained this position to the firm vide his letter dated 29.4.71. Indication, whether M|s. Model Woollen & Silk Mills received their requirement of standard dyes from M|s. Sandoz India Ltd., Bombay or not is not available in the Purchase file. However, the firm did supply 4906.75 metres according to specification, 28,311.40 metres were supplied with price reduction.

DGS&D have no information as to what arrangements M|s. Vohra Textile Mills had made for dye stuffs.

[Deptt. of supply O.M. No. PIII-17(9)|77 dt. 15-9-78]

CHAPTER IV

RECOMMENDATIONS OR OBSERVATIONS REPLIES TO WHICH HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

Recommendation

"The Committee are further perturbed to learn that as admitted by the Ministry of Defence in Jan. 1976, the capacity verification of the firms was done on an *ad hoc* and on a limited scale as a comprehensive capacity verification of these firms as per normal practice was not possible within the short period. In this connection, the Committee would like to point out that according to the relevant provisions in Part III of the Appendix VI of the DGS&D Manual, all aspects including existing load on the past suppliers, delivery offered, performance, technical competence, etc. are required to be examined indepth while considering the tenders. It is also required to be ensured that capacity reports are not called for haphazardly and in piecemeal and earlier capacity reports which are valid for a period of one year, are made full use of. It is evident from the facts that the placing of the order was rushed through without observing in entirety the specific provisions in the DGS&D Manual. The Committee would like the Ministry to investigate the reasons as to why DGS&D had not taken care to satisfy itself about the firm's production capacity, existing load, technical competence etc. before placing an order on them. As this firm was said to be on the approved list of the DGS&D and was supplying various tentage items, the Ministry should also inquire whether the firm's earlier capacity reports were gone into before placing this huge order on them."

[Sl. No. 4 (para 1.51) of the Appendix VII to the 20th Report of P.A.C. (6th Lok Sabha)]

Action Taken

It was not brought to the notice of DGS&D by Defence Inspector that the capacity reports which he gave in October 1965 were in *ad hoc* basis & on a limited scale & comprehensive capacity verification of the firms as per normal practice was not possible within short period. Ministry of Defence admitted this fact to Audit in Jan. '76. Regarding the specific provisions as contained in DGS&D Manual in respect of production capacity and taking into account the Technical competence, reliance was placed on the capacity of firm which was assessed as Rs. 5 to 7 lakhs per month by the Defence Inspectorate. In any case Defence Inspectorate would not have recommended the

firm without taking into account the production capacity and Technical competence of the firm. The existing load on firm N. K. Textile at the time of placement of order, was taken into account. So far as the question of going into the earlier capacity reports of the firm was concerned, it was kept in view that the firm is on the approved list of DGS&D and that the capacity assessment forwarded by the Inspector being the latest added support for the placement of order.

[Deptt. of Supply O.M. No. PIII-17(9)|77 dt. 22-6-78].

Recommendation

"The Committee are further surprised to note that standby risk purchase tender enquiry was issued by the DGS&D in Feb. 1967 when the extended delivery period granted to M/s. N. K. Textile Mills, Delhi was yet to expire on 31 March, 1967. According to Para 180(i) of the DGS&D Manual 'the buyer's right to effect repurchase at the risk and cost of the seller arises only upon the breach of the contract by the seller. Hence the purchase officer should invite risk purchase tender only after the breach of the contract has occurred. In exceptional circumstances, however, where stores are most urgently required by the indentors and are not available from ready stock but have to be manufactured and some public harm would be caused by the delay in supplies, standby tenders may be invited prior to the date breach with a view to minimise the inconvenience that may be caused to the Government by the delay in performance of the contract. The Committee would like to know the reasons for departure in this case. If standby tender enquiry is issued in exceptional circumstances envisaged above, the Committee would like Government to investigate as to why the risk purchase was not effected and instead further extension was granted to this firm beyond 31 March, 1967 to 31 December, 1967 etc. even when it was clear from the firm's poor performance that it was incapable of meeting in time the contractual obligations. Had the DGS&D shown prudence expected of him, they would have saved an infructuous expenditure of Rs. 5,31,480 being the amount recoverable from this firm on account of the difference in risk purchase offer and original price allowed to it for the balance quantity of 2060 outer flies apart from an earlier delivery of stores at least by three years."

[S. No. 6 (Para 1.53) of the Appendix VII to the 20th Report of P.A.C. (6th Lok Sabha)].

Action Taken

Since the stores were required by the Defence indentor and urgency of stores was being expressed by the indentor time and again, standby Tender Enquiry was issued in Feb. '67. Although firm 'B' (M/s. Atma Ram Suri & Sons Delhi) quoted a lower rate of Rs. 1129 as against Rs. 1130 quoted by firm 'A' (M/s N. K. Textile) but firm 'B' quoted the delivery period as "Tent of value Rs. 2 lakhs per month

on an average including all pending orders in hand with commencement of delivery after 60 days on receipt of confirmation". On the basis of rates quoted by firm 'B' the value of 2100 Nos. worked out to approx. Rs. 22.7 lakhs with a delivery of around 14 months. Since the firm 'A' asked for delivery extension of 12 months only and that too at the old contract rates (i.e. @ Rs. 871 as compared to the delivery of 14 months of firm 'B' at a higher rate, there was no advantage in accepting the offer of firm 'B' in stand by Tender Enquiry than that of 'A' either in price or delivery. No doubt the performance of firm 'A' at that time was not very satisfactory but the firm was making efforts to supply the stores (Since 900 Nos. were supplied by the firm by that time). An optimistic view was therefore taken to grant the extension in Delivery Period up to 31.12.67. The D.P. was further extended up to 30.6.68 and when no supplies materialised the contract was cancelled.

[Deptt. of Supply O.M. No. PIII-17(9)|77 dt. 22-6-78].

Recommendation

"Again, a standby limited tender enquiry was issued on 22nd July, 1968 for effecting risk purchase. Para 180(ii) of the DGS&D Manual prescribes that 'if it is considered to place risk purchase contracts on the basis of standby tenders for special reasons, approval of the Department of Supply should be obtained since placement of order on the basis of standby tender would prejudice the right of the Government to recover extra expenditure incurred in risk purchase.' The Committee have not been informed whether the approval of the Department of Supply was obtained before floating standby tender enquiries in the above two cases. The Committee would therefore seek a specific clarification of this aspect."

[S. No. 7 (para 1.54) of the Appendix VII to the 20th Report of P.A.C. (6th Lok Sabha)].

Action Taken

A standby L.T.I. was issued in July '68 for effecting risk purchase. A note after para 180(i) of DGS&D Manual states as follows:—

Note: Contracts placed against operational, critical and other important Defence requirements where stores are to be manufactured according to Defence specification/ Drg and some public harm would be caused by delay in supplies, should be considered as cases which would justify the invitation of Standby Tenders prior to the date of

breach). Para 180 (ii) of the DGS&D Manual states as follows:

- "In cases other than those mentioned above, if it is considered to place risk purchase contracts on the basis of standby tenders for special reasons, approval of Department of Supply should be obtained since placement of order on the basis of standby tenders would prejudice the right of the Government to recover extra expenditure incurred in risk purchase."

These instructions were also contained in O.O. No. 112 dt. 5-10-67 (copy enclosed).

The approval of Department of Supply was not taken in both the Standby Tender Enquiries; one issued in February '67 and other issued in July '68 presumably as the stores were required against the urgent Defence requirements & to Defence specification.

[Deptt. of Supply O.M. No. PIII-17(9)|77 dt. 22-6-78].

DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS (COORDINATION SUPPLIES SECTION IB) NEW DELHI-1

Office Order No. 112.

Dated 5-10-1967.

SUBJECT:— *Risk Purchase-invitation of stand-by tenders.*

Ref: Para 239 of the Manual of Office Procedure for Supplies, Inspection and Disposals

The question of effecting timely supplies against contracts for operational, critical and other important Defence requirements is very important. The purchase officers should very carefully watch the performance of the firms against such contracts, and if at any stage, it is apprehended that supplies are not likely to materialise according to the contract delivery schedule, then the question of making alternative arrangements for procuring supplies should be immediately examined. In this connection it has been decided that, the contracts for supplies of operational, critical and other important Defence requirements where stores are to be purchased according to the Defence specifications/drawings and some public harm would be caused by delay in supplies, will come within the scope of the exceptional circumstances referred to in sub-para (d) of para 239, of the DGS&D Manual would justify the invitation of standby tenders prior to the date of breach. In such cases the procedure laid down in sub-para (d) of para 239, should be strictly followed.

2. Whenever risk purchase is effected either on the basis of stand-by tenders or on the basis of negotiation, the Ministry of Law should be consulted regarding Govt.'s right to claim extra expenditure incurred in risk purchase. If extra expenditure incurred in repurchase is

not legally recoverable, claim should be made for recovery of general damages.

3. In cases other than those governed by para 239(d) of the DGS&D Manual referred to above, if it is considered to place risk purchase contracts on the basis of stand-by tenders for special reasons, approval of the Deptt. of Supply should be obtained since the placement of order on the basis of stand-by tenders would prejudice our rights to recover the extra expenditure incurred in repurchase. In such cases the purchaser's claim would be limited to the general damages. The rate established by the stand-by tenders may be taken as the market rate on the date of breach for the purpose of claiming the general damages provided the stand-by tenders are opened on the date of breach. Care should, therefore, be taken in fixing the date of opening of tenders so that it synchronises with the likely date of breach in respect of the existing contract.

4. A question has also been raised as to whether the risk purchase tender enquiry should indicate the fact that it is a risk purchase enquiry. There is no necessity for such an indication excepting to the defaulting firm. In case of repurchase by limited tender, while forwarding the tender enquiry the defaulter may be told that the enquiry relates to repurchase of stores against the contract which was cancelled at his risk and expense. In case of repurchase by advertised enquiry, a copy of the tender notice may be sent to the defaulter informing him of the position.

All purchase officers/sections are requested to note the above instructions for guidance.

Sd/-
(M. M. PAL)
Deputy Director (CS-I)

STANDARD DISTRIBUTION.
on file No. CSIB/15(2)|I|66.

Recommendations

"From the facts disclosed in the Audit para and the material made available to them the Committee have come to the inescapable conclusion that Government by their own inaction and lack of proper control over the performance of a contracting firm have had to incur a substantial loss of Rs. 4.55 lakhs apart from the inconvenience caused to an indenting Defence Department due to the inexcusable delay of about 5 years in obtaining the goods indented for. The transaction relating to the purchase of a assembly springs reveals gross violation of existing rules and give rise to suspicious regarding undue favours shown to the supplier. The fact emerging from the case are discussed in the following paragraphs."

“According to the Audit paragraph, the DGS&D had placed an order on firm M/s. Auto Pins (India) Regd., Delhi on 28th July, 1969 for the supply of 2000 front assembly springs at the rate of Rs. 40/- each and 3000 rear assembly springs subsequently increased to 3600 on 9 October, 1969) at the rate of Rs. 60/- each for supply to the Commandant, C.O.D. Delhi Cantonment. According to the terms and conditions of the Accepted Tender, before commencement of bulk production, samples were to be submitted to the Inspector of Vehicles, Delhi within 60 days from the date of placement of A/T i.e. by 26 September, 1969. The Committee regret to find that though the firm had requested on 15 August, 1969 for certain deviations in specifications, the request for deviations was rejected by the Inspector of Vehicles, Delhi after a lapse of 2½ months, on 27 October 1969. This had the effect of keeping the contract alive beyond 26 September, 1969. What has further surprised the Committee is the fact that the deviations in specifications sought for again by the firm on 17 November, 1969, were agreed to by the Inspector of Vehicles, Delhi on 28 November 1969, who surprisingly enough, also enquired from DGS&D whether pilot samples could be inspected. In this connection, it would be relevant to mention that Para 424 of the DGS&D Manual lays down that “Inspecting Officers have no authority to pass stores not exactly in accordance with the terms of the order. When firms are unable to supply stores in accordance with the samples or specifications, the matter should be referred to the Supply Officer who will if necessary, refer to the Indenting authority, before deciding that the substitutes offered by the suppliers may be accepted.”

“This being the position, the Committee are unable to understand the over-zealous generosity of the Inspector in entertaining firm’s request for deviations in specifications without referring the matter to DGS&D or seeking their concurrence to it. In fact, the Department of Supply have informed the Committee that the DGS&D came to know of it only in October/November 1969.

[S. Nos. 16 to 18 (para Nos. 2.37 to 2.39) of Appendix VII to the 20th Report (6th Lok Sabha)].

Action Taken

Ministry of Defence was asked to give their comments on the above Recommendations of P.A.C. Ministry of Defence have stated that “Reference to Para 424 of the DGS&D Manual stating that the inspecting Officer have no authority to pass stores not exactly in accordance with terms of the order, is not exactly applicable in the case of Defence Orders as would be seen from the following orders as applicable at the time of supply:—

- (a) Government of India letter No. 50/25/63/PI dated 3 July, 65 (copy enclosed).
- (b) DGS&D Office Order No. 17 dated 1-1-1969 (copy enclosed).

It would be seen that power to accept stores under deviation were delegated to Defence Inspectors and were exercised by the Inspector with proper authority."

The stand taken however does not seem to be correct because the delegation of powers to the Defence Inspectorate cover only acceptance of bulk supplies against price reduction. No power has been delegated to approve a pilot sample with deviation.

[Deptt. of Supply O.M. No. PIII-17(9)|77 dt. 31-7-78].

(COPY)

ENCL. 2 to APPX 'A'

No. 50|25/633 PI

GOVERNMENT OF INDIA
**MINISTRY OF INDUSTRY AND SUPPLY DEPARTMENT OF
 SUPPLY AND TECHNICAL DEVELOPMENT**

(CENTRAL SECRETARIAT, NORTH BLOCK)

New Delhi 1, the 8 July, 1965

OFFICE MEMORANDUM

SUB:—Grant of deviation in specifications by Defence Inspectors against the contracts placed on the Trade by the Directorate General of Supplies and Disposals.

The undersigned is directed to refer to para 2(ii) of the minutes of the meeting held in the room of Shri K. C. Jain Deputy Secretary, Ministry of Defence, on the 21st May, 1965 on the above subject (circulated under Ministry of Defence U.O. No. 94569/IVE/C/TD-6/1270/SOI/D.O.I., dated the 27th May, 1965) and to say that this department, in consultation with their Associated Finance, agree to delegation of powers to the Defence inspectors to accept deviations in specifications involving a price reduction upto 5 per cent of the value of the item or Rs. 2,000.00 whichever is less.

2. The above delegation will apply only to the acceptance of Vehicles and allied items under deviation in specification.

Sd/- R. DAYAL.,

Under Secretary of the Government of India.

To

The Ministry of Defence,
(Shri L. Gomez, Under Secretary)
New Delhi.

TRUE COPY

GOVERNMENT OF INDIA
DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS
CO-ORDINATION SUPPLIES SECTION-4
NEW DELHI

OFFICE ORDER No. 17 dt. 1-1-69

SUBJECT:—*Procedure for Acceptance of stores under Deviation with price Reduction.*

Consolidated instructions on the above subject were circulated vide Office Order No. 43 dated 26-8-68. Since then the following further office orders have been issued on the subject:—

- (i) Office order No. 88 dated 5-7-68.
- (ii) Office Order No. 130 dated 6-11-68.

A comprehensive Office Order incorporating all the instructions on the subject as current on 31-12-68 is reproduced below for the guidance of all concerned.

1. FOR STORES INSPECTION OF WHICH IS THE RESPONSIBILITY OF THE INSPECTION WING OF THIS DIRECTORATE GENERAL:

- (a) Deviation involving price reduction. When firms are unable to supply stores in exact accordance with specifications, drawing or samples as may be laid down in the acceptance of tender the Inspector must in the first instance reject the stores. If he considers that the stores are serviceable although they do not conform to the standard or particulars required, he should submit his recommendations confidentially to the supplies Officer suggesting reduction in price.
- (b) The Inspector should not negotiate with the contractor regarding price. The Supplies Officer on receipt of the recommendation from the Inspector will negotiate with the firm after consulting the Indentor.
- (c) The stores in such cases should only be accepted by the Inspector on receipt of confirmation from the Supplies Officer. In the case of Inspection Wing of this Directorate General, the deviations in specification will be recommended by Heads of Circles against Acceptances of Tender where inspection is carried out by Circles and by Directors of Inspection at Hqrs. in other cases. The Director of Inspection at Hqrs. will, however, take the approval of the Dy. Director General (Inspection) wherever necessary.

2. FOR STORES, INSPECTION OF WHICH IS THE RESPONSIBILITY OF INSPECTORATE UNDER THE TECHNICAL DEVELOPMENT ORGANISATION OF THE DEFENCE SERVICES:

- (i) In this case also the Inspector must reject the stores in the first instance wherever they are below the standard of particulars to govern supply stipulated in the Acceptance of Tender. If he considers that the stores, although not conforming to standard, will still do their job but their value is less than that of such stores fully up to standard, he will submit his recommendations confidentially with the deviation forms giving details as to advisability in accepting stores at a price reduction.
- (ii) The Inspector is forbidden to negotiate with the contractor regarding price. This is the duty of the supplies Officer as buyer and second party to the contract. The price reduction must be settled between the supply Officers and the contractor before acceptance of stores by the Inspector. In case of demands other than Defence Demands, the Supply Officer will negotiate with the firm after consulting the Indentor. The reduction in price will be in regard only to the quantity of stores affected by the particular deviation.
- (iii) In cases where it is proposed to accept stores under deviation in specification, on the recommendation of the Inspector, subject to reduction in contract prices, the authority competent to accept the stores and to sanction reduction in prices will be the one next higher to the authority within whose powers of purchase the case falls.

3. RELAXATION DURING EMERGENCY:

During the emergency created by the Chinese Aggression in 1962 the Defence Ministry approached the Deptt. of Supply for simplification of the procedure laid down in para 2 above in respect of Textile, Clothing and General Stores, Inspection of which was the responsibility of Defence Inspectorate. The proposal was considered by the Department of Supply and the following procedure for acceptance of stores under deviation with price reduction was introduced with effect from 30-1-1963.

4. FOR TEXTILES CLOTHING AND GENERAL STORES:

- (i) Where any consignment of the above stores was considered acceptable at a reduction in price below 5 per cent the inspector could intimate the firm and record his recommendation in the Inspection Note. The firm, if they accepted the reduction asked for, could despatch the stores

and submit their bill to the Pay and Accounts Officer, charging therein the reduced rates. They would intimate direct to the Purchase Officer their acceptance of the price reduction and a copy of that letter would also be attached by them to the bill presented to the Pay and Accounts Officer.

- (ii) Where the stores were required urgently, the Inspectorate could adopt the above procedure in respect of any consignment considered acceptable with a price reduction of more than 5 per cent. In such cases, the Inspectorate would suitably endorse on the Inspecting Note that the Stores were being accepted on account of emergency.
- (iii) In cases other than the above, the existing procedure for acceptance of stores under deviation would continue to be followed:—
- (iv) In categories (i) and (ii) formal amendments and in category (iii) regular amendments will issue as expeditiously as possible.

With the gradual restoration of normal conditions our policy as far as it related to the relaxation in the procedure for acceptance of stores under deviation for defence purposes, has been changing in accordance with the requirements of circumstances.

PRESENT RELAXATION

The present procedure that is applicable for acceptance of Defence Stores under deviation with price reduction is as follows:—

- (a) Where any consignment of stores (Textiles, Clothing and other General Stores) is considered by Defence Inspectorate acceptable at reduction in price up to 10 per cent the Inspectorate will forward their recommendation to the concerned Director of Supplies by name. The Director of Supplies will have, irrespective of the value of contract, power to accept reduction in price up to 10 per cent in respect of any instalment provided the total value of the stores accepted under deviation against the contract does not exceed Rs. 6 lakh. Where the total value of the stores accepted or proposed to be accepted under deviation against the contract exceeds Rs. 6 lakhs, the prior approval of the next higher Officer *i.e.* D.D.G./ADG, D.G. or the Govt., as the case may be, has to be obtained.
- (b) In all other cases where it is proposed to accept the stores under deviation in specification on the recommendation of the inspector with reduction in contract prices, the authority competent to accept the stores and to sanction

reduction in prices, where necessary, will be the one next higher to the authority within whose powers of purchase the case falls. The Director General will be competent for cases within his powers of purchase.

- (c) In case where stores are accepted under category 'D' or 'E' without any reduction in price, the issue of amendment letter by the Purchase Officer would not be insisted upon by the P.&A.O. (Min. of WH&S). In such cases, the Defence Inspectors will clearly indicate in the Inspection Note that the deviation under category 'D' and/or 'E' has been allowed with the approval of the authority Holding Sealed Particulars.

The above mentioned arrangements are applicable in respect of Defence stores inspected by the Defence Inspectors.

- Note : (1) The level of officer competent to decide the issue involved in such cases will be determined by the value of the individual contract including the increase as in the case of open tenders irrespective of the method of purchase.
- (2) In case of Vehicles and allied items Defence Inspectorate are delegated powers to accept deviations in specification involving a price reduction upto 5 per cent of the value of the item or Rs. 2,000 whichever is less.

Sd/-
(S. K. JOSHI)
Deputy Director (CS-II)

Standard Distribution.

File No. DGS&D|CDN-4|37(7)|68.

Recommendation

"Yet another disquieting feature of the case is that since the firm made no supplies after the expiry of the delivery period, the representatives of DGS&D contacted the firm albeit without success, as many as 18 times between February 1971 and May 1972. The frequent visits of the DGS&D representatives to firm's premises give rise to serious suspicions. The reports sent by the DGS&D staff were conflicting and could hardly be relied upon. While some reports of the DGS&D staff indicated that the firm was not interested in making the supplies, others indicated that the firm intended to apply for extension. Some of the reports also indicated that the firm also intended for increase in price. The Department of Supply have informed the Committee that instead of cancelling the contract the firm was being contacted through Progress Wing to apply for extension as the store were needed by the indenter. The Committee find it hard to appreciate this unusual course adopted by DGS&D in repeatedly contracting the firm for seeking extension when, according to the rules it was

bound either to adhere to the contractual obligations or face the consequences of default. The Committee would like to know the level at which the reports submitted by the representatives of the DGS&D were disposed of in that office and whether the prescribed procedure was followed in this regard.

[Sl. No. 21 (para 2.42) of Appendix VII to P.A.C's 20th Report (6th Lok Sabha)].

Action Taken

The efforts of DGS&D in chasing the firm by contacting through officers and staff of the Progress Directorate on several occasions was with a view to ascertain the latest supply position and to expedite the same. It would appear that the firm was persuaded to apply for delivery period extension as they had done so in respect of other pending orders. These progress reports were seen and considered at the level of Director (Progress) and in the Purchase Directorate at the level of Assistant Director|Deputy Director (Supplies)|Director of Supplies.

The DGS&D repeatedly contacted the firm for seeking extension, instead of cancelling the contract, apparently because they thought that this firm might be in a better position to make the supplies, as it had once submitted satisfactory sample.

Sd/-

(V. Balasubrahmanyam)

Joint Secretary to the Govt. of India.

[Deptt. of Supply O.M. No. PIII-17(9)|77 dt. 6-5-78]

CHAPTER V

RECOMMENDATIONS OR OBSERVATIONS IN RESPECT OF WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES

Recommendation

“The Committee are constrained to learn that the aspect and likelihood of M/s. N. K. Textiles Mills, Delhi trying to pre-empt the efforts of DGS&D was not examined while accepting the offer of M/s. Bijli Cotton Mills, Hathras, a sister concern of the former firm at Rs. 870 per outer fly in August 1968. The Committee would like to know the reasons as to how this important aspect was lost sight of, particularly in view of the fact that the orders had been placed earlier on M/s. N. K. Textiles Mills, Delhi at the rate of Rs. 871 per outer fly and the lowest offer received earlier in response to the risk purchase tender enquiry in February, 1967 were as high as Rs. 1129 from M/s. Atma Ram Suri & Son, Delhi and Rs. 1130 from M/s. N. K. Textiles Mills, Delhi. It is rather intriguing that M/s. N. K. Textiles Mills, Delhi on whom the order was initially placed for the supply of outer flies had in the contract undertaken to make supplies F.O.R. Hathras. The firm's sister concern, viz., M/s. Bijli Cotton Mills, Hathras was also located at Hathras. The Committee strongly suspect that after this firm had failed in their contractual obligations, their own associate, viz. M/s. Bijli Cotton Mills, Hathras came forward through another door to supply the outer flies of tents. Government should enquire whether any action could be taken to stop the practice whereby when one firm fails in the contractual obligations another associate of the same firm comes through another door with a view to bale out the parent firm and also extract a much higher price.

[S. No. 11(para 1.58) of the Appendix VII to the 20th Report of P.A.C. (6th Lok Sabha)]

Action Taken

The offer of the firm 'C' was accepted for the reasons that they were the lowest registered tenderer having capacity to produce and their offer could not be ignored legally for making a valid risk purchase. Also sub para 4 of Para 182 of DGS&D Manual states as follows:—

“In a risk purchase case lower tenders should not be ignored for any rectifiable errors of form such as non submission of samples etc.” As such it might not have been possible to ignore the offer of firm 'C'. However

DGS&D in consultation with Ministry of Law is examining the question of including suitable provision in the Tender Enquiry as well as resultant contract whereby defaulting firm is not allowed to quote against risk purchase tender enquiry through a sister or an allied concern. The Committee would be informed about the final decision when arrived at.

[Deptt. of Supply O.M. No. PIII-17(9)]77 dt. 22-6-78]

Recommendations

The Committee are surprised to note that even though there were no prospect of resuming the supply, DGS&D agreed on 6th December, 1972 to the firm's offer submitted on 24 October, 1972, i.e. 24 months after the expiry of delivery period, for commencement of delivery five months later, i.e. from April 1973 and completion of supply of the outstanding quantity in one year by March 1974. This was agreed to despite the fact that the DGS&D were aware of the heavy increase in the price of assembly springs as the rates quoted against another tender in October 1972 were 79 to 94 per cent higher than the rates allowed to the firm in July 1969. It is regrettable that DGS&D acted in violation of the provisions of para 179 of DGS&D Manual which lays down that the purchase officer should keep a careful watch on the date of delivery, keep himself fully informed as to what supplies have been made, what supplies are likely to be made by the date of delivery and what in general are the prospects of the contractor performing the contract. Where delivery is specified in instalments, he should whenever he is satisfied that performance is not likely to be forthcoming cancel the instalments in default and call upon the contractor to execute the remaining part of the contract. In other cases (i.e. contracts stipulating delivery in one lot) where he considers it more expedient and is satisfied that performance is not likely to be forthcoming at all, he should cancel the entire contract or the quantity outstanding as on the date of delivery period. All this devious and dubious tactics adopted by the DGS&D give rise to a grave suspicion that there was some sort of collusion between the DGS&D staff and the firm with a view to enabling the latter to pocket gratuitous pecuniary benefits. The Committee would therefore reiterate that a high level enquiry should be conducted in the case with a view to fixing responsibility.

In this connection, the Committee would like to point out that Para 177 of Chapter V of the DGS&D Manual provides that "if the contractor fails to deliver the stores or any instalment thereof within the period fixed for such delivery or at any time repudiates the contract before the expiry of such period, the Government is entitled to cancel the contract and to repurchase the stores not delivered at the risk and cost of the defaulting contractor. In the event of such a risk purchase, the defaulting contractor shall be liable for any loss which

the Government may sustain on that account provided the purchase, or if there is an agreement to purchase, such agreement is made, in case of default to deliver the stores by the stipulated delivery period, within six months from the date of such default and in case of repudiation of the contract before the expiry of the aforesaid delivery within six months from the date of cancellation of the contract." From the information furnished to the Committee, it is quite clear that DGS&D had deviated from the prescribed procedure in extending the delivery period on the terms dictated by M/s. Auto Pin (India) Regd., Delhi. Due to this initial lapse it appears DGS&D become helpless thereafter as there was no other alternative left with them except to keep the contract binding on the firm since the A/T was not cancelled within the stipulated delivery period and it was not possible to effect risk purchase which could be made within six months from the date of cancellation of the contract. The apprehensions of the Committee are further strengthened from the reply given by the Department of Supply that "when the firm had in writing asked for extension and promised to make supplies, it was considered prudent to give the extension and keep the contract binding on the firm especially when the initial possibility of cancellation of contract had not been availed of." Since the firm did not honour their commitment for supplies even after the extended schedule, the contract was cancelled on 15th May 1974, after consulting the Ministry of Law, at the risk and cost of the firm indicating the date of breach as 31 March, 1974.

[Sl. Nos. 22 & 23 (Para Nos. 2.43 and 2.44) of Appendix VII to the 20th Report (6th Lok Sabha)].

Action Taken

The recommendations of P.A.C. are under examination from the vigilance angle. Committee will be informed about the final action taken in this regard in due course.

[Deptt. of Supply O.M. No. PIII-17(9)77 dt. 31-7-1978]

Recommendations

"The Committee regret to note that DGS&D after writing a letter on 25 November, 1966 to the Junior Field Officer, Ludhiana asking him to find out from the firm the prospects of receipt of raw material, took 11 months to remind him. It is all the more regrettable that the DGS&D after issuing the A/T in July 1966, handled the matter in a slipshod manner till 28 March, 1967 when a telex was sent to the Textile Commissioner for issuing the instructions to Indian Wool Mills Federation for release of 585 wool tops to the firm. Again no serious attempt was made by the Department of Supply/DGS&D to find out the actual date of receipt of the raw material by the firm. The result of failure on this account has been that the date for delivery of goods by

the firm could not be fixed and the contract ultimately had to be cancelled without risk purchase. The Committee feel that this situation could have been averted had the DGS&D ascertained from the firms stock register and from other available sources the actual date of receipt of the raw material. To obviate such a situation DGS&D should have made this condition of intimating the date of receipt of raw material obligatory on the part of the firm in the terms of the contract. Also matter should have been followed up with authorities concerned to ensure timely supplies of the material and of the quality required. The Committee would in the circumstances of the case, urge upon the Ministry to investigate the reasons for the lapse in this case with a view to fixing responsibility."

"The Committee are surprised to note that after a limited tender enquiry was issued on 6 April, 1974 for effecting risk Purchase of Angola shirting according to specification the DGS&D enquired from the Indentor on 3 May, 1974 *i.e.* whether sub-standard or specification Angola shirting was needed. Even at this stage the Indentor was not specifically informed that the risk purchase was to be completed by 29 May, 1974. The Committee take a very serious view for this lapse on the part of the purchase officer as it had cost the Government exchequer an extra expenditure of Rs. 3.26 lakhs in the purchase of 14,132 meters of Angola shirting from M/s. Modella Textile Industries Ltd., Bombay at the rate of Rs. 38 per metre instead of purchasing it from M/s. Model Woollen & Silk Mills, Verka at the rate of Rs. 14.90 per meter. The Committee would like that the responsibility for the lapse should be fixed. The Committee would also urge that Government may devise a fool proof method so that such costly lapses do not recur."

[S. No. 30 & 35 (para 3.40 and 3.45) of Appendix VII to the 20th Report (6th Lok Sabha)].

Action Taken

The recommendations of P.A.C. are under examination from Vigilance angle. The Committee would be informed about the final action taken in this regard in due course of time.

Instructions have been issued to all the purchase officers *vide* O.O. No. 55 dated 5-6-78 (copy enclosed) to scrupulously ensure that the indentor is informed of the date by which the risk purchase is to be made. The Purchase Officers have been directed to inform the indentor that he must send his reply by a certain specific date and bring to the notice of the indentor the repercussions arising out of indentors failure to do so.

[Deptt. of Supply O.M. No. PIII-17(9)/77, dated 31-7-78].

GOVERNMENT OF INDIA
DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS
(CO-ORDINATION SECTION-2)

Jeevan Tara Building, Parliament Street,
 New Delhi

Office Order No. 65

Dated 5-6-1978.

Subject:—Cancellation of Contract and making Risk Purchase.

Reference:—Office Order No. 21 dated 1-1-1978.

Under the provisions of clause 14(7) of the Conditions of Contract in DGS&D-68 (Revised) the R/P is to be effected within 6 months from the date of cancellation of the contract. Besides in accordance with the instructions contained in para 2 of Office Order No. 21 dated 1st January, 1978 the Purchase Officers are required to ensure that in case where contracts are cancelled at the risk and expense of the firm, the risk purchase should be made within the prescribed period of six months. In a purchase case the Public Accounts Committee have commented upon as per extracts from the Report for the year 1977-78 reproduced below:—

“The Committee are surprised to note that after a limited tender enquiry was issued on 6th April, 1974 for effecting risk purchase of Angola shirting according to specification the DGS&D enquired from the Indentor on 3rd May, 1974 *i.e.* whether substandard of specification Angola shirting was needed. Even at this stage the Indentor was not specifically informed that the risk purchase was to be completed by 29 May, 1974. The Committee take very serious view for this lapse on the part of the Purchase Officer as it had cost the Government exchequer an extra expenditure of Rs. 3.26 lakhs in the purchase of 14,132 meters of Angola shirting from M/s. Modella Textile Industries Ltd. Bombay at the rate of Rs. 38 per metre instead of purchasing it from M/s. Model Woollen & Silk Mills, Verka at the rate of Rs. 14.90 per metre. The Committee would like that the responsibility for the lapse should be fixed. The Committee would also urge that Government may devise a fool proof method so that such costly lapses do not recur”.

2. The Purchase Officers are requested to note the observations of the Public Accounts Committee referred to above. They should ensure that in risk-purchase cases wherever specific references and made to the Indentor on the necessity of requirements, specifications, additional funds etc., before placement of the risk purchase A/T, the Indentor should be informed the date by which the risk purchase is to be made and he should be asked to send his replies by a certain specific date, giving reasonable time. The Indentor should also be informed that on

his failure to send the reply within the specified date, the responsibility for not concluding the valid risk purchase would also be attributable for the delays on his part.

Sd/- (B. P. GUPTA)
Dy Director (CS-II).

Standard Distribution

on file No. CDN-2/9(13)/I/78.

Recommendation

"The Committee would also like to be informed of the latest position regarding recovery of Rs. 21,280 being the general damages, from M/s. Model Woollen & Silk Mills, Verka."

[S. No. 36 (para 3.46) of the Appendix VII to the 20th Report of P.A.C. (6th Lok Sabha)].

Action taken or proposed to be taken by Government

The case is still pending in arbitration. Further developments will be intimated to the Committee.

[Deptt. of Supply O.M. No. PIII-17(9)/77 dt. 22-6-78].

Recommendation

The Committee note that demand for Rs. 2.25 lakhs, being the difference between the price payable to M/s. Metal Smelting Engineering Works, and the price at which the gun metal ingots were subsequently purchased from M/s. Commercial Metal Corporation, Calcutta (vide para 4.16 above) in May 1974, was raised against the former firm on 24 April, 1974. The Department of Supply have informed the Committee on 14 December, 1976 that "the case had already been referred to arbitration for recovery of the extra expenditure. The Arbitrator was appointed on 10 May, 1976. The Government has submitted its claim before the Arbitrator." The Committee would like to know in due course the progress made in the matter.

[S. No. 43 (para 4.25) of Appendix to the 20th Report (6th Lok Sabha)].

Action taken

The matter is still under arbitration and the Committee would be apprised of the outcome of the arbitration proceedings in due course.

[Deptt. of Supply O.M. No. PIII-17(9)/77, dt. 31-7-78].

NEW DELHI;
April 17, 1979.
Chaitra 27, 1901 (S).

P. V. NARASIMHA RAO,
Chairman,
Public Accounts Committee.

APPENDIX

Conclusions/Recommendations

Sl. No.	Para No.	Ministry/Deptt. Concerned	Conclusions/Recommendations
1	2	3	4
1	1.5	Deptt. of Defence Production	<p>It is distressing that in spite of repeated exhortations, Ministries are still remiss in informing the Committee of the action taken or proposed to be taken on the recommendations within the prescribed period of six months. In the case referred to above, the Committee are yet to be informed by the Ministry of Defence of the action taken on the recommendations contained in Paragraphs 1.50, 1.57 and 3.40 of their 20th Report (6th Lok Sabha) though more than a year has elapsed since the presentation of the Report and the Ministry of Defence had also been specifically asked to submit their action taken notes by 15 June, 1978. Not only this, the Ministry had taken more than two months in forwarding their further comments on the Committee's recommendations contained in Paragraphs 2.37 to 2.39. The Committee deplore the inaction on the part of the Ministry of Defence and take a serious view of this delay. The Committee desire that the reasons for this delay should be identified for appropriate action.</p>
2	1.7	Deptt. of Supply/Deptt. of Defence Production	<p>The Committee expect that final replies to those recommendations or observations in respect of which only interim replies have so far been furnished will be made available to them expeditiously after getting them vetted by Audit.</p>

The Committee are surprised to note the reply of the Department of Supply that reliance was placed on the production capacity of the firm as assessed by the Defence Inspectorate instead of going into it by the DGS&D themselves as per provisions in Appendix VI of the DGS&D Manual. From the facts disclosed in paragraph 1.13 of Committee's 20th Report (6th Lok Sabha) it is amply clear that the DGS&D, not to say of going into the earlier capacity reports of the firm, had not even kept in view the production capacity of the firm which was assessed by the Defence Inspectorate to Rs. 5 to 7 lakhs per month as an order for supply of tents worth Rs. 26.13 lakhs was placed on the firm for delivery within 2½ months. The Committee would, therefore, like that this matter may be investigated thoroughly with a view to fix responsibility.

As the firm was said to be on the approved list of the DGS&D and was supplying various tentage items the Committee would also like to have details of the earlier contracts for tentage items placed on the firm and the extent to which the supplies were made.

According to para 180(i) of the DGS&D Manual standby tenders are to be invited prior to the date of breach of the contract in exceptional circumstances where stores are most urgently required by the indentors and are not available from ready stock but have to be manufactured and some public harm is to be caused by the delay in supplies. However, from the reply of the Department of Supply it is not clear to the Committee whether the stores were most urgently required by the indentors and that some public harm would have been caused by the delay in supplies even in February 1967 when the standby risk purchase tender enquiry was issued by the DGS&D and the extended delivery

period granted to M/s. N. K. Textiles Mills, Delhi was yet to expire on 31 March 1967. The fact that in spite of its poor performance the firm was granted extension of time beyond 31 March, 1967 to 31 December, 1967 and then further upto 30 June, 1968 leaves no doubt in the mind of the Committee that the stores were not urgently required by the indentors. Since the course adopted by the DGS&D had affected the Government's right to recover extra expenditure incurred in risk purchase, the Committee, would desire this matter to be investigated thoroughly and all facts alongwith the copies of the correspondence with the indentors placed before them.

5 I-17 Deptt. of Supply

The Committee are surprised to note the reply of the Government that "the approval of Department of Supply was not taken in both the Standby Tender Enquiries; one issued in February, 1967 and the other issued in July, 1968 presumably as the stores were required against the urgent defence requirements and to defence specifications." What has pained the Committee more is the fact that instead of enquiring from the indentor about the urgency of the requirement of the Stores, the Department of Supply had themselves presumed the urgency and issued Standby Tender Enquiries even when they were aware that placement of an order on the basis of Standby Tenders would prejudice the Government's right to recover extra expenditure incurred in risk purchase. The Committee need hardly point out that the presumption of the DGS&D about the urgency of the requirements of the stores proved wrong as the supply of the stores was ultimately completed in February, 1973 i.e. 7 years after the placement of the order in January,

1966. The Committee take a very serious view of the matter and desire that a thorough probe may be made in this whole affair with a view to fix responsibility.

6 Deptt. of Supply/Deptt.
of Defence Production

1.20

The Committee note the reply of the Ministry of Defence that "Reference to Para 424 of the DGS&D Manual stating that the inspecting officers have no authority to pass stores not exactly in accordance with terms of the order, is not exactly applicable in the case of defence orders". However, the Department of Supply have stated in this regard that "the stand taken by the Ministry of Defence does not seem to be correct because the delegation of powers to the Defence Inspectorate covers only acceptance of bulk supplies against price reduction" and that "no power has been delegated to approve a pilot sample with deviation". The Committee therefore desire that the position in this regard needs to be reconciled and explained to the Committee. The Committee are also of the view that the revised instructions may be issued, if necessary, to obviate recurrence of such lapses.

7 Deptt. of Supply

1.23

The Committee can not appreciate the unusual course adopted by the DGS&D in repeatedly contacting the firm for seeking extension of delivery period, particularly when according to the rules the firm was bound either to adhere to the contractual obligations or face the consequences of default. It seems to the Committee that the DGS&D had adopted this course as they had failed to cancel the contract at the first available opportunity at firm's risk and cost and there was no other alternative before them but to get a request from the firm for extension of delivery period so that lapses on their part may not come to the surface. This is to say the least very deplorable. The Committee would like the Government to issue strict instructions so that such lapses do not occur in future.