

Corrigenda to 35th Report of the
Public Accounts Committee (7th Lok Sabha).

Page	Para No.	Line	For	Read
v	-	8	erosion	version
v		9	reiterattd	reiterated
1	1.1	2	observtaions	observations
5	1.8	30	of	to
11		1	apointment	appointment
11	<u>After</u> line . 21, <u>add</u> the following :			
	"exist in the civil trade. The Government therefore with a view to"			
12		8	<u>Delete</u> the words "an Ordinanceat Calcutta"
12		26	of	off
13		16	contex	context
13		32	nos	now
15		17	Wast ge	Wastage
16		4	will	well
19		24	<u>After</u> word 'Defence' <u>add</u> the words "Production and the Ministry and a confirmation dated 25.8.73 about the continued requirements"	
21		6	'E'	'A'
21		25-26	<u>Delete</u> the words "order in"	
23		12	<u>After</u> word 'might' <u>add</u> word "be"	
23		27	Rs.510,25	Rs.510.25
23		31	Rs.545,33	Rs.545.33
24		8	compârision	comparison
24		12	his	this

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PUBLIC ACCOUNTS COMMITTEE
(1981-82)

Shri Satish Agarwal—*Chairman.*

MEMBERS

Lok Sabha

2. Shri Subhash Chandra Bose Alluri
3. Shri Tridib Chaudhuri
4. Shri K. P. Singh Deo
5. Shri George Fernandes
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11. Shri Ahmed Mohammed Patel
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13. Shri Satish Prasad Singh
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Rajya Sabha

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17. Shri N. K. P. Salve
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20. Shri Patitpaban Pradhan
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22. Shri Indradeep Sinha

SECRETARIAT

1. Shri H. G. Paranjpe—*Joint Secretary.*
2. Shri D. C. Pande—*Chief Financial Committee Officer.*
3. Shri K. C. Rastogi—*Senior Financial Committee Officer.*

INTRODUCTION

I, the Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this Thirty-Fifth Report on action taken by the Government on the recommendations of the Public Accounts Committee contained in their Hundred and Nineteenth Report (Sixth Lok Sabha) on Defence Services. The Committee had in the earlier Report dealt with a case of delay or as many as five years in the development of empty bodies of the heat erosion of an ammunition. In this Report, the Committee have reiterated their view that had the Ministry of Defence evinced some concern and supplied to the firm 'A' prototype of the empty body of heat version, the production of the item could have been expedited. In another case, contract for supply of 75,000 empty bodies of the practice version of the ammunition was placed on a firm although genuine doubts had been expressed about the capacity of the firm to execute the order. The Committee have expressed the hope that in future before placing supply orders, the indenting authorities would, as per prescribed procedure, ensure that the capacity of the firm to execute orders is properly verified so as to obviate recurrence of such cases in a sensitive area like Defence.

2. On 1 July, 1981, the following Action Taken Sub-Committee was appointed to scrutinise the replies received from Government in pursuance of the recommendations made by the Public Accounts Committee in their earlier Reports:—

1. Shri Satish Agarwal—*Chairman*.

MEMBERS

2. Shri Sunil Maitra
3. Shri K. P. Singh Deo
4. Shri Hari Krishna Shastri
5. Shri K. P. Unnikrishnan
6. Shri N. K. P. Salve

3. The Action Taken Sub-Committee of the Public Accounts Committee (1981-82) considered and adopted the Report at their sitting held on 11 August, 1981. The Report was finally adopted by the Public Accounts Committee (1981-82) on 25 August, 1981.

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4. For reference, facility and convenience, the recommendations and observations of the Committee have been printed in thick type in the body of Report and 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 Office of the Comptroller and Auditor General of India.

SATISH AGARWAL,
Chairman,
Public Accounts Committee.

NEW DELHI;
August 25, 1981.

Bhadra 3, 1903 (S).

CHAPTER I

REPORT

1.1. This Report of the Committee deals with the action taken by Government on the recommendations and observations contained in their 119th Report (Sixth Lok Sabha) on "Contract for supply of Empty Bodies of an Ammunition" commented upon in paragraph 26 of the Report of the Comptroller and Auditor General of India for the year 1976-77, Union Government (Defence Services) relating to the Ministry of Defence.

1.2. The 119th Report was presented to the Lok Sabha on 3 April, 1979 and contained 17 recommendations and observations. Action taken notes in respect of all these recommendations and observations have been received from Government and these have been categorised as under:—

- (i) Recommendations and observations that have been accepted by Govt.—(Serial No. 12).
- (ii) Recommendations and observations which the Committee do not desire to pursue in the light of replies received from Govt.—Serial Nos. 1—5, 7—9 and 13—17.
- (iii) Recommendations and observations replies to which have not been accepted by the Committee and which require reiteration—(Serial Nos. 6 and 10-11).
- (iv) Recommendations and observations in respect of which Govt. have furnished interim replies—Nil.

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

Procurement of Empty bodies of ammunition from Trade (Paragraph 1.110—S. No. 6)

1.4. Commenting on the delay of 5 years by the firm 'A' in the fabrication of the sample for empty body of heat version, the Committee had, in paragraph 1.110 of the Report, observed:

"The Committee note that firm 'A' took as long as five years to develop sample for empty body of Heat version in April, 1968, when this version was already developed and in production in the Ordnance Factory since 1962-63.

The long time taken by the firm has been attributed by the Department to the fact that this store "is highly specialised and complicated and rather difficult to manufacture" and further "the private sector was also not accustomed to the rigid quality control requirements of armament production in the initial stages". The casual approach of the Department in securing compliance of the order for supply of samples is evident from the fact that the original order of 12th December, 1963 did not even specify the date by which the advance samples were to be submitted by the firm and it was only after a period of four years, as a result of after thought, that the firm was asked on 15th September, 1967, to submit advance samples upto 31st December, 1967, which date was later extended upto 29th February, 1968. As the Department at that time was fully aware of the urgency of the need for supplies of the store, the contract with the firm should have, at the initial stage, provided for a date by which the sample was to be submitted by the firm. The Committee feel that in the absence of this stipulation, the firm did not take the order as seriously as it should have done, resulting in an undue delay in the fabrication of the sample. The Committee are also at a loss to understand as to why a prototype of the item already under production in the Ordnance Factory together with its know-how was not made available to the firm so as to enable it to commence production straightway and not waste time, energy and resources in developing the same item *de novo*."

1.5. In the Action Taken Note dated 30 June, 1980 the Ministry of Defence (Department of Defence Supplies), have stated:

"Production of ammunition items in civil sector was taken up during the sixties. At that time Trade had absolutely no experience to manufacture this type of stores. DGS&D had also taken up procurement of these items from Civil Trade for the first time. For production of the items under the contract, the manufacturer had to produce/procure each and every component and get the same approved by the Inspectorate and only after all the components had been approved the contractor was to produce the complete sample of the finished store for submission to the Inspection Authority. The private sector was also

not used to the stringent quality control requirement of the Armament production. Therefore, the time reasonably required for the highly specialised and complicated work could not be visualised at the time of the placement of the order and in the absence of any experience in handling development contracts with DGS&D, no definite date for submission of advance samples was stipulated. It is pertinent to add that it was at about this point of time that the DDS itself was constituted as a specialist agency for defence indigenisation and development of stores by civil trade.

After placement of the order, the firm started procuring the required quantity of raw material and producing components. The firm had produced and got approved some 39 components upto middle of 1967 leaving only two components to be produced. At that point of time a definite date for sample approval was prescribed with a view to expedite production of these two components and the sample of the finished stores. All possible help was rendered to the firm to enable them to submit the advance sample. A sample was available with the Inspectorate at Delhi and the firm had the opportunity to refer to it. It should kindly be noted that by merely having a sample the production of such a complicated store cannot suddenly be established. The Department even went to the extent of positioning a person with knowledge and experience of production and inspection of this store was attached with the establishment to render assistance.

With better all round experience, in the contracts now being placed, time limit for submission of pilot samples is being stipulated even in developmental contracts though it is seldom achieved and, more often than not, has to be extended."

1.6. The Committee observe that empty body of heat version was already in production in Ordnance Factory since 1962-63 but the Department while placing supply orders on firm 'A' did not supply a prototype of the item to the firm. The reply now furnished by the Ministry that "a sample was available with the Inspectorate at Delhi and the firm had the opportunity to refer to it" is not satisfactory inasmuch as the firm had no means of knowing that such a sample was already available. Even positioning of a person with knowledge and experience of production of stores did not help

matters at all. The Committee consider that had the Ministry evinced some concern, the production of the item could have been expedited.

1.7. The Committee find that the original order of 12 December 1963 placed on firm 'A' for the development of empty body of heat version of the ammunition did not specify the date by which advance samples were to be submitted by the firm. No wonder, the firm took its own time, 5 years in the present case, to develop the product. The reason put forward by the Ministry of Defence that "in the absence of any experience in handling development contracts with DGS&D, no definite date for submission of advance samples was stipulated" is not satisfactory. This is a normal stipulation which any prudent buyer would always provide for. The Committee, however, take note of the reply of the Ministry that in the contracts now being placed, time limit for submission of pilot samples is being stipulated even in developmental contracts.

Non-verification of technical and financial credentials of a supplier (paragraphs 1.114 and 1.115—Serial Nos. 10 and 11).

1.8. In paragraphs 1.114 and 1.115 of the 119th Report, the Committee had commented upon the irregular manner in which the contract for the supply of 75,000 empty bodies of practice version of an ammunition was placed on firm 'B' without verifying technical and financial credentials of the firm and had observed:

"1.114. Yet another glaring lapse on the part of the Department was the award of the contract for the supply of 75,000 empty bodies to firm 'B' in December, 1970. It is perplexing to note that although firm 'A' had earlier taken five years to develop a sample, this contract was awarded post haste to another firm 'B' without even verifying its technical capability and financial capacity for the execution of the contract. At the meeting held on 26th June, 1970, to discuss the procurement of this item, it was stated that there was only one offer from firm 'A'. When it was pointed out that it might delay the procurement of the store if it was entrusted to a new party, a suggestion was made that firm 'B' might be entrusted if they were prepared to undertake the job on the terms and conditions which might be offered to firm, 'A'. In the brief prepared for the meeting proposed to be held in the room of Secretary (Defence Production) on 25th July, 1970, it was clearly stated that "it will be desirable that

if any orders are to be placed on this firm, their capacity and capability governing this store should be inspected by the Inspector....." Further, at the meeting of 25th July, 1970, the Deputy Financial Adviser had also stated that "if there was any doubt about the capacity of this firm, we could take performance guarantee." All this sufficiently proves that genuine doubts were entertained about the capability of the firm. Yet, the contract was awarded to firm 'B' on the plea that it had earlier produced similar items and also as its quotation was Rs. 252 only as against the quotation of Rs. 510.25 in 1970 of firm 'A'. The much lower quotation of firm 'B' should have been an indication of the fact that it had no real conception of the complexities of the job. It may be mentioned in this context that the cost of production of the same item in Ordnance Factory was Rs. 545.33 in 1971-72 and Rs. 1225.00 in 1973-74. No wonder, the firm did not execute the supply order resulting in failure of the Ordnance Factory to honour the indents of the Army for the weapon so urgently required by it. Another lapse noted by the Committee is that the firm was not pressed in time to make security deposit according to the terms of the contract."

"1.115. The Committee are perturbed at the irregular manner in which contract was awarded to firm 'B'. They would like Government to investigate the part played by authorities and individuals at various levels which led to contract being awarded to the firm without proper verification of technical and financial credentials and other irregularities with a view of fixing responsibility for the lapse."

1.9. The Ministry of Defence (Department of Defence Supplies) have, in their Action Taken Note dated 30 June, 1980, stated:

"The firm was already on the approved list of the DGI and had been duly assessed for its technical and financial capability for execution of Defence orders of engineering nature. In fact, the Firm had also supplied earlier armament items of allied nature worth over Rs. 300 lakhs and there was no question of doubt about the potentiality of the firm to produce this store. Since the combined design was introduced only in January, 1970, no comparison of DGOF's cost of production could have been possible at that point of time. In view of the above, it is not considered necessary at this stage to investigate the

matter further about the circumstances leading to the award of this contract on firm 'B'.

The supply order required the firm to deposit Rs. 9,30,000 by way of security deposit which was an essential part of the contract. The firm made a request for the waiver of security deposit for initial quantity of 5,000 nos. But this request was not accepted by the Government. The firm did not deposit the requisite amount and the supply order was treated as cancelled."

1.10. The Committee are not convinced with the reply given by the Ministry justifying the award of contract to firm 'B' for supply of 75,000 empty bodies of practice version of the ammunition. The order for supply of this item was placed on the firm although genuine doubts had been expressed about the capacity of the firm to execute the orders. As later events showed, the firm could not execute the order and even failed to make the requisite security deposit and the contract was eventually cancelled. The Committee hope that in future before placing supply orders, the indenting authorities would, as per prescribed procedure, ensure that the capacity of the firm to execute the orders is properly verified so as to obviate recurrence of such cases in a sensitive area like defence.

CHAPTER II

RECOMMENDATIONS AND OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

The Committee were informed during evidence by the Secretary of the Department of Defence Production that it was stated in the minutes of the meeting held in the Ministry of Defence on 4th February, 1972 to review the requirements of this ammunition in the light of the introduction of a new weapon that "no further financial commitment should be made by the DGOF for practice". This was interpreted to mean that DGOF should issue instructions to stop production of empty bodies and the ammunition for the existing weapon even against the pending orders. Consequently, the DGOF's organisation not only suspended the order placed on firm 'B' in 1970 for supply of 75000 empty bodies but also suspended their own production. Due to this wrong interpretation which according to the Secretary (Defence Production) was due to the communication gap between the Department and the DGOF's organisation, the production of empty bodies (both heat and practice) of the ammunition in the Ordnance Factory, came down from 26,820 during 1971-72, to 13,195, 4060, nil, 2030 and 7105 during the years 1972-73, 1973-74, 1974-75, 1975-76 and 1976-77 respectively.

[Sl. No. 12 (Para 1.116) of Appendix to 119th Report of the PAC
(Sixth Lok Sabha)]

Action Taken

Towards the end of 1971 with the import of a different type of weapon, the requirement of this ammunition was reduced. The General Staff plan for requirements of this ammunition was discussed in a meeting held in the Ministry on 4-2-1972. At this meeting, it was decided that in view of the proposed phasing out of this equipment, no further financial commitments should be made by the DGOF for either the rocket launchers or rocket heat or rocket practice. The DOS cancelled their further orders on DGOF for procurement from trade of 53,000 rocket heat, since this quantity was free from financial repercussions. The DGOF, therefore, concluded that execution of all outstanding orders stood suspended. In

view of this when the DOS informed DGOF in May 1972 about his requirement for the practice ammunition, the DGOF had to seek further clarifications from the Ministry, as this ran counter to their understanding of the decisions taken at the meeting of 4-2-1972. A confirmation about the continued requirements of both the heat and practice version against the outstanding orders was received by the DGOF on 25-8-1973 and only thereafter they could advise the factories to take up the production which had been suspended.

There was undoubtedly an unfortunate communication gap between the DGOF and the Service HQ/Department in this case which is highly regretted.

DADS has seen.

[Ministry of Defence No. 4(7)/79/D(S-I) dated 30 June, 1980]

CHAPTER III

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

Recommendations

The Committee note that the Heat and Practice versions of ammunition for a weapon, introduced in the Indian Army in 1957-58, were initially imported from a foreign country. The actual imports of these versions of the ammunition were 1,17,856 Nos. of Heat and 54,650 Nos. of practice. An idea of the annual requirements of the army for practice version, meant for imparting training to the troops in the use of this weapon, can be gathered from the fact that by October, 1962, out of the imported 54,650 Nos. of the Practice version of the ammunition, the Army was left with only 4,863 Nos. With a view to meet their future requirements for this weapon, the Army had in 1959 itself placed an indent on Director General, Ordnance Factories for this ammunition, but according to the Department, serious efforts for its production were made from 1960 only. As on 1st June, 1963, against the firm demands placed by the Army on DGOF the outstandings totalled 2,27,500 Nos. (116,500 Heat, 111,000 Practice version). The Committee regret to note that due to a very limited balance stock of 4,863 Nos. of Practice version with the Army and non-materialisation of the Indents for fresh supplies placed by the Army on Director General, Ordnance Factories, the Army had to seriously restrict the use of this ammunition for practice affecting the training in the Army and battle worthiness of the troops.

The Committee were informed during evidence that production of this ammunition was undertaken in the Ordnance Factories on the basis of samples and drawings procured from the country of export. The Committee also note that the development of the empty bodies of this ammunition has been the vital limiting factor with the DGOF in meeting the pressing demands of the Army for this weapon. The Committee further note that though serious efforts were made in 1960 for the production of this ammunition at an Ordnance Factory, actual production of empty bodies for Heat and Practice versions was achieved only in 1962-63 and 1967-68 respectively. From the facts placed before the Committee in writing

as well as during evidence, the Committee cannot help concluding that there has been complete lack of purposive and coherent approach by the concerned Ordnance Factories and other connected authorities resulting in poor execution of the orders of the Army for this weapon. Some of the notable features which the Committee would like to highlight are indicated in the following paragraphs.

The Committee note that the Army Headquarters further reviewed their requirements of practice ammunition and agreed to reduce the order to 50,000 numbers covering the requirements upto 1981-82 as against the much larger actual requirements. In the letter of 22-6-1974 from DCOAS to Additional Secretary, Department of Defence Supplies, the former clearly emphasised the urgent need for meeting the requirements of the Army for practice version, when he stated that "there has only been a very limited supply of practice ammunition since 1971-72 and the training requirements were largely met from Heat ammunition but on a limited scale. If in the future also practice ammunition is not produced, we would be further eroding for meeting training requirements the existing stock of Head ammunition". The Committee deeply regret that even under these pressing circumstances so plainly brought out in the aforesaid letter the DGOF and other concerned authorities had failed to make serious efforts to supply the requisite ammunition to the Army on a regular basis.

The Audit paragraph reveals that for meeting the revised requirements of 50,000 of the Army for Practice version upto 1981-82, the schedule for manufacture of this equipment drawn by the DGOF for the year 1974-75, 1975-76, 1976-77 and 1977-78 was 10,000, 15,000, 15,000 and 10,000 respectively. However, by 1977-78 only 17,167 units could be supplied by the Ordnance Factory to the Army. Further, though initially it was contemplated that the DGOF would not require supply of empty bodies from trade for this schedule of manufacture, subsequently in October, 1974 an order for supply of 27,551 empty bodies was placed on firm 'C'. This shows a serious lack of planning by the DGOF for meeting the requirements of the Army. If this is indicative of the general pattern observed by DGOF in meeting the minimum requirements of the Army for weapons and ammunition, the producing planning and control mechanism of the DGOF is in dire need of a thorough review. The Committee recommend that the Department of Defence

production may consider appointment of a high level committee to review the performance of the DGOF in meeting on a regular and timely basis the requirements of weapons and ammunition by the Army and suggest measures to effect improvement therein.

[Sl. No. 1, 2, 15 or 16 (paras 1.105, 1.106, 1.119 and 1.120) of Appendix to 119th Report of the PAC (Sixth Lok Sabha)].

Action Taken

No integrated project capacity was created either for the heat or practice version of the ammunition or for filling. Upto 1966-67, the Ordnance Factories could not establish production of empty bodies for practice version of the ammunition and even thereafter when the production commenced the Ordnance Factories faced a number of technical problems with the possibility of heavy rejections. The then existing design for the practice version created difficulties in production with the available plant and machinery in as much as the percentage of rejection became quite high. The older design was based on casting which was responsible for the rejections. Thus it became difficult to easily establish the production of the practice version in the factories. The capacity available in the Ordnance Factories had also been diverted for manufacture of some equally vital and critical stores over the years, for which potential did not enable supply of both heat and practice ammunition to the Army, in the context of a possibility of outbreak of war in 1970, decided to go to the civil trade for procurement of the combined version of the empty bodies. The earlier order placed on a private firm for 75,000 nos. had to be treated as cancelled owing to the failure of the firm to fulfil the contractual terms. Meanwhile due to a misunderstanding the production of the ammunition had also been stopped in the factories in February, 1972 which got clarified only in August 1973. Since the availability of ammunition in the pipeline in the Ordnance Factories was indicated as about 12,000 nos., an order was placed in October, 1974 on trade sources for 37,551 empties of the combined version. Even this order had to be cancelled on account of what was then considered to be an unsatisfactory supply. As explained earlier, the Ordnance Factories also could not supply more due partly to technical snags and partly to capacity diversion. Therefore, till the order on the private firm was revived in December, 1977, the supplies could not match the requirements. In view of the circumstances explained above, it would be evident that this could not be attributed to any lack of effort of planning.

As regards the observations of the PAC that production planning and control mechanism of the DGOF needs to be reviewed, it may

be stated that a high level committee has been appointed by Government under the Chairmanship of Shri Rajyadhaksha, Member Planning Commission to go into the various aspects of the Ordnance Factories Organisation. The above Committee has submitted its first report and the recommendations made therein have been accepted by the Government. In pursuance of these recommendations, an Ordnance Factory Board has been formed at Calcutta and an Ordnance Factory Board has been formed at Calcutta and streamlining of the procedures including those relating to Inspection is under way. Further reports of the Committee are awaited.

Attention is also invited to replies to Sl. No. 3 (Para 1.107), Sl. No. 4 (Para 1.108), Sl. No. 5 (Para 1.109), Sl. No. 8 (Para 1.112), Sl. No. 9 (Para 1.113), Sl. No. 13 (Para 1.117 and Sl. No. 14 (Para 1.118) of Appendix to 119th Report of the PAC (Sixth Lok Sabha).

DADS has seen.

[Ministry of Defence No. 4(7)/79(D(S-I), dated 30 June 1980].

Recommendation

The Committee regret to note that as against the allocated annual capacity for the production of 42,000 Nos. of empty bodies in an Ordnance Factory the actual achievement of production remained miserably low. During the 16 years from 1962-63 to 1977-78 when this ammunition was under production in the Ordnance Factories, the peak production was reached only in 1971-72 touching a total of 26,820 only. In the following years, the production tapered off to 'NIL' in 1974-75, picking up again to a figure of 21,185 in 1977-78. All this reveals lack of systematic effort on the part of the factory authorities to evolve a regular pattern of production so as to achieve a level of production approximating to the annual production capacity of 42,000 Nos. This once again clearly indicates the absence of an inbuilt system of regularly and systematically monitoring the production in Ordnance Factories, identifying bottlenecks and taking remedial action. The Committee reiterate the recommendation made in paragraph 1.105 of their 109th Report (Sixth Lok Sabha) that such a monitoring system covering all the Ordnance Factories should be established without further delay.

[Sl. No. 3 (Para 1.107) of Appendix to 119th Report of PAC (Sixth Lok Sabha)].

Action Taken

This observation stems from a basic assumption that the Ordnance Factory had an established and achievable capacity for annual pro-

duction of 42,000 Nos. of this item. In this regard it is submitted that while the then DGOF had at the meeting held in the room of Special Secretary on 25-8-1969, stated that "the sanctioned capacity of the factory for this item was 42,000 per annum", it had also been simultaneously brought out by him that because of the diversion of equipment (for producing other equally important items), the actual production was only 2000 per month, that is, 24,000 per annum. It was also explained that no new project or new lines of production were specifically sanctioned for the manufacture of this ammunition. This apart, it has to be appreciated that it was a developmental item for which the technology had not been imported and the manufacture was undertaken by a process of reverse engineering. The developmental problems related to a very complicated military hardware needing precision and sophisticated machinery and skills which could be achieved only by trials and errors. In this context, designated capacity was not a very material factor.

In the instant case, therefore, it is not as if the failure to have a higher rate of production was merely attributable to a lack of proper monitoring system. The capacity available in the Ordnance Factories had also to be diverted to manufacture certain vital, sensitive and critical stores required by the Services for which trade sources could not be depended upon. The failure was mainly on account of technical snags which did not allow the factory to perfect the technological aspects of the production and the inadequacy of the machinery because of which the figure of capacity indicated by the DGOF became intrinsically incapable of being achieved. A system of regular monitoring of production and identifying bottlenecks, however, already exists in the Ordnance Factories and the DGOF has been asked to improve it further wherever necessary. Apart from the system of production control at DGOF Headquarters (now Ordnance Factories Board), periodical production review meetings are also taken by the Secretary (Defence Production) in which all concerned including the DGOF and the representatives of the Defence Service also participate at the highest level.

DADS has seen.

[Ministry of Defence No. 4(7)/79/D(S-I) dated 30 June, 1980]

Recommendations

The Committee do not agree with the plea advanced by the Department for non-achievement of the annual optimum capacity in the Ordnance Factory for the production of 42,000 empty bodies that no project was allocated to the Ordnance Factories specifically

for the manufacture of either the hardware or the filling of the ammunition but production was planned on the basis of using the existing facilities available in the Ordnance Factories with marginal additional balancing plant. The specific allocation of annual optimum capacity of 42,000 was admitted by the Director General of Ordnance Factories at the meeting held in the room of Special Secretary (Defence Production) on 25th August, 1969 when he pleaded that "although its sanctioned capacity was 3500 per month i.e. 42,000 per annum, its actual production was 2,000 per month i.e. 24,000 per annum" and that "he was not in a position to increase production because some of his equipments had been diverted for producing other items". The Department have adduced another plea of diversion of the capacity of the Ordnance Factories after 1962, when the production of a number of items like primers, Fuzes, etc. had to be stepped up. The Committee nevertheless feel that with better planning and coordinated approach, it would not have been out of reach of the Ordnance Factories to achieve optimum capacity utilisation and meet to a substantial extent the large outstanding orders of the Army for this ammunition.

The Committee note that production of the Heat version of the ammunition was established in the Ordnance Factory in 1962-63 and with concerted action it could have been possible to increase production of this version to meet the requirements of the Army. On the other hand, the production of the Practice version in the Ordnance Factories was not contemplated or planned until 1967-68 when its production came to be established for the first time. Yet, even though the imported stock of the Practice version had wellnigh depleted completely and the Army was badly in need of this version, as indent for 50,000 numbers of empty bodies of Heat version only was placed on Director General Supplies and Disposals on 19th June, 1963, which was covered by A/T of 12th December, 1963 on firm 'A'. The Committee are at a loss to understand as to why the assistance of trade was not sought at that time for the empty bodies of the practice version, which was so badly needed by the Army for practice purposes. Besides, contracting out to private party the Heat version of the ammunition also involved the security aspect. The committee feel that the need of the hour was to take assistance of the trade for empty bodies of the practice version and to allow the Ordnance Factory to concentrate on the production of the Heat version.

[Sl. No. 4 and 5 (Para 1.108, 1.109) of Appendix to 119th Report of the PAC (Sixth Lok Sabha)].

Action Taken

The Ministry does not share the opinion of the PAC that the assistance from the Civil trade should have been taken by the Government only for empty bodies of the practice version and to allow the Ordnance Factories to concentrate on the production of the heat version only. The production of empties of the practice version could not be established to the design then existing and there was heavy rejection. In view of this, the diversion of this store to the civil trade would not have solved the problem as these trade sources would also have faced the same technical snags. With the change of design enabling a combined version of the empties which could be used both for combat and practice, it was decided to go to the civil trade for procurement of the same later because of the situation prevailing then.

The matter has necessarily to be viewed in the context of the then prevailing situation. After the 1962 Chinese aggression, there was an urgent requirement to build up War Wastage Reserve which had gone down very much below the authorised level. The production of the practice version of the ammunition had not yet been established in December 1963 in the Ordnance Factories. While originally it was contemplated to establish a capacity of 3500 nos. per month with the then Product Mix, the position had changed radically by 1963 when the production of a number of items like Primers, Fuzes etc., had to be introduced. The capacity available in the Ordnance Factories had to be diverted to manufacture certain more vital, sensitive and critical stores required by the Services for which trade sources could not be depended upon. Government, had, therefore, necessarily to seek trade assistance for manufacture of certain items such as empty bodies of the ammunition to supplement Ordnance Factories' production.

It will be readily appreciated that while it is possible to utilise the heat version for both practice and fighting, the reverse is not possible. Keeping this aspect in view and also the general shortage of ammunition (reflected in low War Wastage Reserves) and also considering the persistent view since 1966 that this ammunition may be replaced by a better one, a specific decision was taken to go in for procurement from civil trade the empties of the heat version which could be used both for practice as well as fighting. This, in our view, was the only correct approach in relation to a matter which concerned the vital interest of country's defence. It would not, therefore, be correct to infer that the decision to go to the trade for the empties of the Heat version which could meet both the practice and the heat requirements was not appropriate.

Since these were only empties, no additional security risk was involved. It may also be added that production of defence components in the trade are covered by elaborate security measures and procurement of such stores from civil trade is a well recognised practice.

Attention is also invited to reply to S. No. 16 (Para 1.120) of Appendix to 119th Report of PAC (Sixth Lok Sabha).

DADS has seen.

[Ministry of Defence No. 4(7)/79/D(S-I), dated 30 June, 1980].

Recommendation

Another noteworthy feature of the deal is that the original order of December, 1963 for 50,000 units was subsequently reduced to 25,000 Nos. in February, 1965 because according to the Department, "the firm could not effect supplies". The reason indicated for reduction in the quantity to be supplied by the firm is strange particularly when the requirements of the Army continued to be urgent. In fact, the failure to make supplies within a reasonable period should have attracted a stiffer action such as cancellation of the contract and award of work to some other more competent party.

[Sl. No. 7 (Para 1.111) of Appendix to 119th Report of PAC (Sixth Lok Sabha)].

Action Taken

Since it was a new store to be developed in the Private Sector and the firm which had been given contract was finding it difficult to effect supplies, it was considered appropriate at the relevant time to reduce the quantity on order. However, as this was the only firm entrusted with the development of the store and had made some specific progress, it was considered inexpedient to cancel the contract altogether eliminating thereby the only source that was still in the field and trying to develop this vital store, especially as it was meaning no adverse financial implications to Government.

DADS has seen.

[Ministry of Defence No. 4(7)/79/D(S-I), dated 30 June, 1980].

Recommendation

The Committee understand that on 1st April, 1969, the outstanding orders on DGOF for Practice version were more than those for Heat version. According to the Audit Para DGOF suggested in

January, 1970 that an order on trade should be for practice version only as the Ordnance Factory was not manufacturing this version any longer. The Secretary of the Department, however, informed the Committee during evidence that the DGOF had suggested in January, 1970 a common design for the empty bodies of heat and practice versions. According to the Department keeping in view the DGOF's aforesaid suggestion and also due to the fact that heat version of the empty body had already been developed by trade, it was decided in January 1970 to modify the design of the Practice version to that of the heat version. Consequently, an order for the supply of 75,000 empty bodies of modified combined version was concluded with firm 'B' against the specific order of the Army for Practice version.

The Committee feel that the decision of modifying the design of Practice version to that of Heat version was not properly considered. The empty body of Heat version is much costlier than that of Practice version. As against the cost of production at the Ordnance Factory of empty body of Practice version of Rs. 92.86, Rs. 350.20 and Rs. 452.87 during the years 1967-68, 1971-72 and 1977-78, the corresponding cost of production of Heat version was Rs. 301.74, Rs. 545.33 and Rs. 1020.00 respectively. It is thus obvious that financial implications of this modification and the resultant recurring additional financial burden in meeting Army's future requirements for practice version were not fully examined at the time of taking this decision. The representative of the Army confirmed during evidence that the cost consideration was the main factor in using the empty body of the practice version for practice purposes. The other consideration for effecting this modification was that the Heat version had already been developed in trade. This plea ceased to hold good when in December, 1970 the supply order for 75,000 units of the new composite type was awarded to a new firm 'B' which had to commence the fabrication of the sample *de novo*. These facts compel the Committee to conclude that the decisions at that point of time were being made on *ad hoc* basis without considering fully the pros and cons of a course of action. This is regrettable.

[Sl. No. 8 and 9 (Paras 1.112 and 1.113) of Appendix to 119th Report of PAC (Sixth Lok Sabha)].

Action Taken

Upto 1966-67 the Ordnance Factories could not establish the production of empty bodies for practice version of the ammunition. Though thereafter production of the practice version had com-

menced in the Ordnance Factories, there were considerable teething troubles in producing the practice version to the design with possibilities of heavy rejections. Furthermore, by 1970 the threat of war became real and all the efforts had to be geared to augment the fighting capability of the armed forces. It was in this context that a decision was taken to modify the design so as to have a composite design which could be used both for combat and practice. While taking this decision, financial considerations were no doubt relevant but meeting the immediate requirement of the forces to augment and sustain their fighting capability was the overriding consideration. The view was then taken that it would be desirable to have another source of manufacture of the empty bodies of the ammunition which could be used in operations as well as for practice. In the light of this, it would not be correct to conclude that the decision to go in for a composite design was taken on an *ad hoc* basis without bestowing adequate thought.

DADS has seen.

[Ministry of Defence No. 4(7)|79|D(S-I), dated 30 June, 1980].

Recommendation

The Committee fail to be convinced with the plea of the Department that the wrong interpretation of the minutes of the meeting held on 4th February, 1972 was the sole reason for slackening of efforts in the production of the empty bodies and ammunition at the Ordnance Factory and procurement of empty bodies from trade. This plea could hold good at best till May, 1972, when the Army had very specifically written to the Department of Defence Production to clear this misunderstanding. The Committee deeply regret that even when the Army had cleared the misunderstanding in unequivocal terms, the DGOF and other concerned authorities took no steps to resume production and procurement and consequently the Army's urgent requirements for practice version remained unfulfilled.

The Committee are pained to discern the same halting approach by the Department in meeting the subsequent requirements of the Army for Practice version. In their note of 25 August, 1973 to DGOF Headquarters, the Army Headquarters revived their outstanding orders for Heat and Practice versions and also requested that the supply of these quantities should be completed in 2-3 years' time. The figures of production of the ammunition upto the year 1976-77 clearly prove that the DGOF's organisation did not make serious efforts to step up the production of the ammunition in the Ordnance Factories. Further the DGOF's organisation moved:

leisurely even to arrange procurement of empty bodies from trade. It was only after a delay of about 6-7 months, i.e. in March, 1974, that the DGOF's organisation requested the Department of Defence Supplies to arrange for 75,000 (Practice version) empty bodies from trade. The Committee deprecate the leisurely working of the DGOF's Organisation resulting in long delay in the production of the ammunition in the Ordnance Factories and also in the procurement of empty bodies from trade.

[Sl. Nos. 13 and 14 (Paras 1.117 and 1.118 of Appendix to 119th Report of the PAC (Sixth Lok Sabha)].

Action Taken

In accordance with the decision taken in the meeting held in the Ministry of Defence on 4-2-1972, Department of Defence Production advised DGOF not to make any more financial commitments and work out and intimate the financial repercussions of cancellation to decide the quantity on order which should be cancelled. DOS also cancelled their order on trade for 53,000 nos. since this quantity was free from financial repercussions *vide* their letter No. 72716/OS.6B dated 1-2-1972. From this DGOF concluded that the intention was to cancel the outstanding order. Meanwhile, DOS informed DGOF in May 1972 about his requirement for the Practice ammunition. Having regard to the discussion on 4-2-1972, DGOF made a further reference to the Department of Defence for the ammunition from Army Headquarters was received by him in September, 1973.

On receipt of DOS letter dated 25-8-1973, confirming their continued requirements for the ammunition by the DGOF, appropriate instructions were issued to the factories *vide* DGOF TPM No. 250/G/P/A dated 23-10-1973. The factories were also advised to take up with Department of Defence Supplies for trade supply of empty bodies. Since the production had remained suspended for a long time, it was not a practicable proposition for the Ordnance Factories to liquidate the orders within 2½ years as required by the DOS as the feeder factories need around 18 months' lead time to revive the provisioning action and recommence bulk manufacture. Due to limited capacity in the Ordnance Factories for production of hardware, trade assistance was inescapable and a programme of supply of Heat and Practice ammunition was drawn upon the assumption that Trade assistance would be forthcoming and this was intimated to DOS under DGOF No. 250/G/P/A dated 24-10-73.

DADS has seen.

[Ministry of Defence No. 4(7)/79/D(S-I), dated 30 June 1980]

Recommendation

The Committee note that on account of the first lot of supplies tendered for delivery by firm 'C' in August 1976 having been rejected by the Senior Inspector of Armaments the contract with the firm was cancelled in November, 1976. As a result of several representations by the firm, a Technical Enquiry Committee was appointed on 17th June 1977 to examine whether the rejection of the first lot of supplies was justifiable to the extent of warranting complete rejection. The Technical Enquiry Committee submitted its report on 12th August, 1977. The Enquiry Committee had, in its report, *inter alia*, stated that pressure was exerted by some Defence Authorities on their sister authorities for rejecting the lot of supplies. The Committee would like the Ministry of Defence to take action against the Officers responsible for pressurising as also those who succumbed to the pressure.

[Sl. No. 17 (Para 1.121) of Appendix to 119th Report of the PAC
(Sixth Lok Sabha)]

Action Taken

The Enquiry Committee has mentioned in its report about the pressure having been exerted primarily by a particular Officer. The Report of the Enquiry Committee was examined in consultation with the Judge-Advocate General and the conclusion reached was that there was no strong case for initiating disciplinary action against that Officer. On getting the Report of the PAC, the matter was again examined and the same conclusion was reached once again at the level of the Defence Minister. In the meantime, the Officer retired from service on 31-3-78. Moreover, there was no scope for reconsidering the matter as under Section 123 of Army Act, action should have been initiated six months in advance of his retirement. Having come to the conclusion that there was no *prima facie* case to proceed against the Officer who had allegedly exerted the pressure, it was felt that there should be no action against those who are alleged to have succumbed to the pressure. Thus, the cases in relation to those Officers have been treated as closed and, in the circumstances, this conclusion would appear to be the only reasonable one.

DADS has seen,

[Ministry of Defence No. 4(7)/79(D(S.I), dated 30 June 1980]

CHAPTER IV

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

Recommendation

The Committee note that firm 'E' took as long as five years to develop sample for empty body of Heat version in April, 1968, when this version was already developed and in production in the Ordnance Factory since 1962-63. The long time taken by the firm has been attributed by the Department to the fact that this store "is highly specialised and complicated and rather difficult to manufacture" and further "the private sector was also not accustomed to the rigid quality control requirements of armament production in the initial stages". The casual approach of the Department in securing compliance of the order for supply of samples is evident from the fact that the original order of 12th December, 1963 did not even specify the date by which the advance samples were to be submitted by the firm and it was only after a period of four years, as a result of after thought, that the firm was asked on 15th September, 1967, to submit advance samples upto 31st December, 1967; which date was later extended upto 29th February, 1968. As the Department at that time was fully aware of the urgency of the need for supplies of the store, the contract with the firm should have, at the initial stage, provided for a date by which the sample was to be submitted by the firm. The Committee feel that in the order in absence of this stipulation, the firm did not take the order as seriously as it should have done, resulting in an undue delay in the fabrication of the sample. The Committee are also at a loss to understand as to why a prototype of the item already under production in the Ordnance Factory together with its know-how was not made available to the firm so as to enable it to commence production straightway and not waste time, energy and resources in developing the same item *denovo*.

[Sl. No. 6 (Para 1.110) of Appendix to 119th Report of the PAC
(Sixth Lok Sabha)]

Action Taken

Production of ammunition items in civil sector was taken up during the sixties. At that time Trade had absolutely no experience

to manufacture this type of stores. DGS&D had also taken up procurement of these items from Civil Trade for the first time. For production of the items under the contract, the manufacturer had to produce/procure each and every component and get the same approved by the Inspectorate and only after all the components had been approved the contractor was to produce the complete sample of the finished store for submission to the Inspection Authority. The private sector was also not used to the stringent quality control requirement of the Armament production. Therefore, the time reasonably required for the highly specialised and complicated work could not be visualised at the time of the placement of the order and in the absence of any experience in handling development contracts with DGS&D, no definite date for submission of advance samples was stipulated. It is pertinent to add that it was at about this point of time that the DDS itself was constituted as a specialist agency for defence indigenisation and development of stores by civil trade.

After placement of the order, the firm started procuring the required quantity of raw material and producing components. The firm had produced and got approved some 39 components upto middle of 1967 leaving only two components to be produced. At that point of time a definite date for sample approval was prescribed with a view to expedite production of these two components and the sample of the finished stores. All possible help was rendered to the firm to enable them to submit the advance sample. A sample was available with the Inspectorate at Delhi and the firm had the opportunity to refer to it. It should kindly be noted that by merely having a sample the production of such a complicated store cannot suddenly be established. The Department even went to the extent of positioning a person with knowledge and experience of production and inspection of this store and was attached with the establishment to render assistance.

With better all round experience, in the contracts now being placed, time limit for submission of pilots samples is being stipulated even in developmental contracts though it is seldom achieved and, more often than not, has to be extended.

DADS has seen.

[Ministry of Defence No. 4(7)/79/D(S-I), dated 30 June, 1980]

Recommendation

Yet another glaring lapse on the part of the Department was the award of the contract for the supply of 75,000 empty bodies to firm 'B' in December, 1970. It is preplexing to note that although firm 'A' had earlier taken five years to develop a sample, this contract was awarded post haste to another firm 'B' without even verifying its technical capability and financial capacity for the execution of the contract. At the meeting held on 26th June, 1970, to discuss the procurement of this item, it was stated that there was only one offer from firm 'A'. When it was pointed out that it might delay the procurement of the store if it was entrusted to a new party, a new party, a suggestion was made that firm 'B' might be capable of undertaking the work and some quantity might be entrusted if they were prepared to undertake the job on the terms and conditions which might be offered to firm 'A'. In the brief prepared for the meeting proposed to be held in the room of Secretary (Defence Production) on 25th July, 1970, it was clearly stated that "it will be desirable that if any orders are to be placed on this firm, their capacity and capability governing this store should be inspected by the Inspector....." Further, at the meeting of 25th July, 1970, the Deputy Financial Adviser had also stated that "if there was any doubt about the capacity of this firm, we could take performance guarantee." All this sufficiently proves that genuine doubts were entertained about the capability of the firm. Yet, the contract was awarded to firm 'B' on the plea that it had earlier produced similar items and also as its quotation was Rs. 252 only as against the quotation of Rs. 510.25 in 1970 of firm 'A'. The much lower quotation of firm 'B' should have been an indication of the fact that it had no real conception of the complexities of the job. It may be mentioned in this context that the cost of production of the same item in Ordnance Factory was Rs. 545.33 in 1971-72 and Rs. 1225.00 in 1973-74. No wonder, the firm did not execute the supply order resulting in failure of the Ordnance Factory to honour the indents of the Army for the weapon so urgently required by it. Another lapse noted by the Committee is that the firm was not pressed in time to make security deposit according to the terms of the contract.

The Committee are perturbed at the irregular manner in which contract was awarded to firm 'B'. They would like Government to investigate the part played by authorities and individuals at various levels which led to contract being awarded to the firm without proper verification of technical and financial credentials and other irregularities with a view of fixing responsibility for the lapse.

[Sl. Nos. 10, 11 (Paras 1.114 and 1.115) of Appendix to 119th Report of the P.A.C. (Sixth Lok Sabha)]

Action Taken

The firm was already on the approved list of the DGI and had been duly assessed for its technical and financial capability for execution of Defence orders of engineering nature. In fact, the firm had also supplied earlier armament items of allied nature worth over Rs. 300 lakhs and there was no question of doubt about the potentiality of the firm to produce this store. Since the combined design was introduced only in January, 1970, no comparison of D.G.O.F's cost of production could have been possible at that point of time. In view of the above, it is not considered necessary at this stage to investigate the matter further about the circumstances leading to the award of his contract on firm 'B'.

The supply order required the firm to deposit Rs. 9,30,000 by way of security deposit which was an essential part of the contract. The firm made a request for the waiver of security deposit for initial quantity of 5,000 nos. But this request was not accepted by the Government. The firm did not deposit the requisite amount and the supply order was, treated as cancelled.

DADD has seen.

[Ministry of Defence No. 4(7)/79/D(S-I), dated 30 June 1980]

CHAPTER V

**RECOMMENDATIONS AND OBSERVATIONS IN RESPECT OF
WHICH GOVERNMENT HAVE FURNISHED INTERIM
REPLIES**

NIL

NEW DELHI;
August 25, 1981.
Bhadra 3, 1903 (S).

SATISH AGARWAL,
Chairman,
Public Accounts Committee.

APPENDIX

CONCLUSIONS AND RECOMMENDATIONS

S. No.	Para No.	Ministry/ Deptt.	Conclusions/Recommendat
1	2	3	4
1	1.6	Ministry of Defence	<p>The Committee observe that empty body of heat version was already in production in Ordnance Factory since 1962-63 but the Department while placing supply orders on firm 'A' did not supply a prototype of the item to the firm. The reply now furnished by the Ministry that "a sample was available with the Inspectorate at Delhi and the firm had the opportunity to refer to it" is not satisfactory in as much as the firm had no means of knowing that such a sample was already available. Even positioning of a person with knowledge and experience of production of stores did not help matters at all. The Committee consider that had the Ministry evinced some concern, the production of the item could have been expedited.</p>
2	1.7	-do-	<p>The Committee find that the original order of 12 December, 1963 placed on firm 'A' for the development of empty body of heat version of the ammunition did not specify the date by which advance samples were to be submitted by the firm. No wonder, the firm took its own time, 5 years in the present case, to develop the product. The reason put forward by the Ministry of Defence that "in the absence of any experience in handling development contracts</p>

with D.G.S. & D. no definite date for submission of advance samples was stipulated" is not satisfactory. This is a normal stipulation which any prudent buyer would always provide for. The Committee however take note of the reply of the Ministry that in the contracts now being placed, time limit for submission of pilot samples is being stipulated even in developmental contracts.

3 1.10 Ministry of Defence

The Committee are not convinced with the reply given by the Ministry justifying the award of contract to firm 'B' for supply of 75,000 empty bodies of practice version of the ammunition. The order for supply of this item was placed on the firm although genuine doubts had been expressed about the capacity of the firm to execute the orders. As later events showed, the firm could not execute the order and even failed to make the requisite security deposit and the contract was eventually cancelled. The Committee hope that in future before placing supply orders, the indenting authorities would, as per prescribed procedure, ensure that the capacity of the firm to execute the orders is properly verified so as to obviate recurrence of such cases in a sensitive area like defence.