

**EIGHTY-THIRD REPORT,
PUBLIC ACCOUNTS COMMITTEE
(1986-87)**

(EIGHTH LOK SABHA)

**REVIEW ON THE WORKING OF THE
DEPARTMENT OF DEFENCE SUPPLIES**

**MINISTRY OF DEFENCE
DEPARTMENT OF DEFENCE PRODUCTION**

D-5



**LOK SABHA SECRETARIAT
NEW DELHI**

April, 1987/Chaitra, 1909 (Saka)

CORRIGENDA TO 83RD REPORT OF THE PUBLIC
ACCOUNTS COMMITTEE (8TH LOK SABHA)

| <u>Page</u> | <u>Para</u> | <u>Line</u> | <u>For</u> | <u>Read</u> |
|--------------|-------------|-------------|------------|-------------|
| CONTENTS | | Last | on | held on |
| INTRODUCTION | 2 | 3 | Rs.1,566 | Rs.1.566 |
| 3 | | 14 | trails | trials |
| 3 | | 44 | recure | recur |
| 4 | | 2 | As(DS) | AS(DS) |

CONTENTS

| | PAGE |
|--|-------|
| COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE | (iii) |
| INTRODUCTION | (v) |
| CHAPTER I Report | 1 |
| CHAPTER II Recommendations and Observations which have been accepted by Government | 9 |
| CHAPTER III Recommendations and Observations which the Committee do not desire to pursue in the light of the replies received from Government | 39 |
| CHAPTER IV Recommendations and Observations replies to which have not been accepted by the Committee and which require reiteration. | 45 |
| CHAPTER V Recommendations and Observations in respect of which Government have furnished interim replies | 51 |
| APPENDICES | |
| APPENDIX I Ministry of Defence I. D. No. 4 (20)/86/D(S. II) dated 23 September, 1986. | 53 |
| APPENDIX II Conclusions and Recommendations | 55 |
| PART II | |
| Minutes of the sitting of Public Accounts Committee on 3.4.1987 | 57 |

PUBLIC ACCOUNTS COMMITTEE
(1986-87)

CHAIRMAN

Shri E. Ayyapu Reddy

MEMBERS

Lok Sabha

2. Shri J. Chokka Rao
3. Shri Amal Datta
4. Shri Ranjit Singh Gaekwad
5. Shrimati Prabhawati Gupta
6. Shri G. S. Mishra
7. Shri Vilas Muttemwar
8. Shri G. Devaraya Naik
9. Shri Rameshwar Neekhra
10. Shri Rajmangal Pande
11. Shri H. M. Patel
12. Shrimati Jayanti Patnaik
13. Shri S. Singaravadivel
14. Shri Simon Tigga
15. Shri Girdhari Lal Vyas

Rajya Sabha

16. Shri Bhuvnesh Chaturvedi
17. Shri K. L. N. Prasad
18. Shri Ghulam Rasool Kar
19. Shri A. K. Antony
20. Shri Nirmal Chatterjee
21. Shri M. S. Gurupadaswamy
22. Shri Virendra Verma

SECRETARIAT

1. Shri K. H. Chhaya—*Joint Secretary*
2. Shri S. M. Mehta—*Senior Financial Committee Officer*

INTRODUCTION

1. The Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Eighty-third Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their 44th Report (Eighth Lok Sabha) relating to review on the working of the Department of Defence Supplies.

2. The Committee have noted that the position of outstanding advances/on account payment was totally unsatisfactory. As against advances/on account payment of Rs. 1,566 crores, a sum of Rs. 47.57 lakhs was not covered even by a Bank Guarantee and the recovery of such advances seem doubtful. While working out a mechanism for sharing the developmental cost with the manufacturers, they had not prescribed any safeguards for recovery of advances in the event of failure or cancellation of the supply orders. The Committee have expressed surprise that the Department of Defence Supplies should consider that merely noting the recommendation was adequate compliance. According to the Committee, the best that is expected of the Department is to spell out steps they consider necessary to rectify the situation. The Committee have expressed belief that in future atleast the Department will safeguard the financial interests of the Government whenever they have to make on account payment to supplying firms.

3. The Committee have taken a serious view of the lapse on the part of inspection staff for not complying with the obvious norms of inspection and accepting the equipment only on visual inspection in respect of an order which related to developmental production. According to the Committee there has been gross negligence at various levels. The Committee have reiterated their earlier recommendation that the lapses in this case needs to be dealt with sternly, to bring home public accountability to all concerned.

4. The Committee have urged the Government to see to it that powers exercised by departmental officers in regard to waiver of recovery of liquidated damages are reviewed periodically at an appropriate higher level to ensure that these are exercised judiciously with care and caution and that there is uniformity in regard to the levy of liquidated damages.

5. The Report was considered and adopted by the Public Accounts Committee at their sitting held on 3 April, 1987. Minutes of the sitting form Part II of the Report.

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

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

NEW DELHI ;
April 6, 1987
Chaitra 16, 1909(Saka)

E. AYYAPU REDDY,
Chairman,
Public Accounts Committee.

CHAPTER I

REPORT

1.1 This Report of the Committee deals with the action taken by Government on the Committee's recommendations/ observations contained in their 44th Report (8th Lok Sabha) on Paragraph 5 of the Report of the Comptroller and Auditor General of India for the year 1982-83, Union Government (Defence Services) relating to Review on the working of the Department of Defence Supplies.

1.2 The Committee's 44th Report (8th Lok Sabha) was presented to Lok Sabha on 29 April, 1986. It contains 30 recommendations/observations. Action taken notes on all these recommendations/observations have been received from the Ministry of Defence. These recommendations have been broadly categorised as follows :

- (i) Recommendations and observations which have been accepted by Government.
Sl. Nos. 1, 2, 3, 4, 5, 6, 7, 9, 10, 11, 13, 17, 18, 21, 25 and 28.
- (ii) Recommendations and observations which the Committee do not desire to pursue in the light of the replies received from Government;
Sl. Nos. 19, 20, 22, 23, 24, and 30.
- (iii) Recommendations and observations replies to which have not been accepted by the Committee and which require reiteration;
Sl. Nos. 8, 14, 15, 16, 26, 27, and 29.
- (iv) Recommendations and observations in respect of which Government have furnished interim replies;
Sl. No. 12.

1.3 The Committee hope that final reply to the recommendation at Serial No. 12 in respect of which only interim reply has been furnished so far will be submitted expeditiously after getting the same vetted by Audit.

1.4 The Committee will now deal with action taken on some of their recommendations/observations.

Advances/on account payment to the firms (Sl. No.8-Para 1.181)

1.5 Commenting upon the unsatisfactory position relating to advances/on account payment outstanding against 28 firms as on 29 September 1983, the Committee had observed as under :

“The Committee find that out of the advances/on account payment of Rs. 1.5666 crores outstanding against 28 firms as on 29 September 1983, a sum of Rs. 47.57 lakhs was not covered by Bank Guarantee and recovery of such advances became difficult in the absence of any safeguards. The Committee trust that while working out the mechanism for sharing the developmental cost with the manufacturers as recommended in the preceding paragraph, suitable safeguards for recovery of advance in the event of failure or cancellation of the supply orders will also be provided.”

1.6 In their Action Taken Note dated 27 October 1986, Government have merely noted the recommendation.

1.7 The Committee note that the position of outstanding advances/on account payment was totally unsatisfactory. As against advances/on account payment of Rs. 1.5666 crores, a sum of Rs. 47.57 lakhs was not covered by Bank Guarantee and the recovery of such advances seem doubtful. While working out a mechanism for sharing the developmental cost with the manufacturers, they had not prescribed any safeguards for recovery of advances in the event of failure or cancellation of the supply orders. The Committee are surprised that the Department of Defence Supplies should consider that merely noting the recommendation was adequate compliance. The best that is expected of the Department is to spell out steps they consider necessary to rectify the situation. The Committee trust that in future atleast the Department will safeguard the financial interests of the Government whenever they have to make on account payment to supplying firms. The Committee would also like to be apprised of the latest position regarding the recovery of outstanding advances/on account payment in regard to payments not covered by Bank Guarantee.

Lack of inspection in the order for procurement of portable air compressors (Sl. Nos. 14-16-Paras 1.187-1.189)

1.8 Commenting upon the aspect of inspection in the supply order for indigenous development and manufacture of 25 number of portable air compressors, the Committee had, in paras 1.187 to 1.189 of their 44th Report, observed as follows :

“The Committee note that against the Navy’s requirements for indigenous development of high pressure air compressors, supply order for development and manufacture of 25 number of portable air compres-

sors at a total cost of Rs. 26.25 lakhs was placed by the Department of Defence Supplies on firm 'R' in September 1977. The firm was required, in the first instance, to manufacture 2 Prototype complete with indigenous components and materials for test and trials. The remaining 23 number were to be supplied after issue of bulk production clearance based on satisfactory performance of the prototype. On 25th March, 1979, the firm submitted the prototypes. They were found on inspection to be defective. After rectifying the defects the prototypes were resubmitted by the firm in October, 1979. The bulk production clearance was given in November, 1979, without testing the rectified prototypes. The Department have admitted that the grant of Bulk Production clearance even before carrying out the users trials were carried out was not prudent on the part of the concerned officers of the Directorate of Production and Inspection (Naval). Later when these prototypes were put to trials, the Directorate of Production and Inspection (Naval) pointed out in April, 1980 that the firm had used imported components (retrieved out of the old imported compressors lying with it) instead of indigenous ones. Consequently the bulk production clearance accorded in November, 1979 without proper verification was withdrawn and the firm was asked to prepare a detailed set of revised manufacturing design/drawings for approval by the inspection authorities and to produce to fresh prototypes using indigenous materials/components.

The Committee are constrained to observe that the inspection staff had no excuse for not complying with the obvious norms of inspection and accepting the equipment only on visual inspection in respect of an order which related to developmental production. This is a serious failure and the Ministry should take appropriate disciplinary action against those responsible.

By no stretch of imagination can it be held that it was only a case of procedural and conceptual technical lapse on the part of the Inspecting Officers. The Committee are unable to agree with the findings of the Board of Investigation. The Committee would like the Department to review the matter and take more stern action so that such lapses may not recur in future."

1.9 In their action taken note dated 27th October, 1986, the Department of Defence Production and Supplies have stated as follows :

"The matter has been reviewed. As already reported to the Committee, a fact finding Board of Officers had been appointed earlier for the purpose of investigating the circumstances leading to the premature clearance of the prototype. On the basis of the report of the fact finding Board, the lapses were regarded as procedural and conceptual, on the part of the

technical officers. A written warning at the level of DGI was administered to the defaulting officers with the approval of the then As (DS). On the basis of the report it was not considered necessary, at that point of time to initiate any disciplinary proceedings under Rule 14 or 16 of the CCS (CC&A) Rules 1965 against the Officers. In the circumstances, the question of review of the earlier proceedings to take sterner action against those officers at this point of time does not arise.

In this context it may also be clarified that the case has no vigilance angle. Suitable remedial action has already been taken to avoid recurrence of such lapses.

This has the approval of Raksha Rajya Mantri (S)."

1.10 The Committee are not satisfied with the explanation that the question of review of the earlier proceedings to take sterner action against the concerned officer at this point of time does not arise. The Committee take a serious view of the lapse on the part of inspection staff for not complying with the obvious norms of inspection and accepting the equipment only on visual inspection in respect of an order which related to developmental production. The Committee consider that there has been gross negligence at various levels and would reiterate their earlier recommendation that the lapses in this case needs to be dealt with sternly, to bring home public accountability to all concerned. The Committee hope that the higher authorities would now initiate appropriate steps in this direction and keep the Committee apprised. The Committee would also like to be apprised of remedial action the Department propose to take to avoid such lapses in future.

Infructuous expenditure on the procurement of paint (Serial Nos. 26 and 27, Paras No. 1.199 and 1.200)

1.11 Dealing with a case of procurement of Paint RFU by the Department of Defence Production and Supplies resulting in delay and infructuous expenditure of Rs. 18.33 lakhs, the Committee had, in paras 1.199 and 1.200 of their 44th Report, observed as follows :

"The Committee note that an indent was placed by Director of Ordnance Services on the Department of Defence Supplies in February, 1978 for procurement of 4,06,000 litres of Paint RFU in 3 different packing viz. 20 litre drums, 5 litre packs and 1 litre packs. Although the paint was urgently required by the DOS during June, 1978 to December 1978, a part order for 2,50,000 litres of Paint in 3 different packs was placed by the Department in March 1979, on firm 'AL' at the rate of Rs. 8.80 per litre for 20 litre drums, Rs. 10.08 per litre for 5 litre packs and Rs. 42.00 for 1 litre pack. Strangely enough no orders were placed

on firm 'AJ' which had quoted the lowest rate of Rs.8.80 per litre for 20 litre drums and Rs. 10.00 per litre for 5 litre packs. Firm 'AL' was required to submit acceptable advance samples by 31st March, 1979. The supply order on firm 'AL' was cancelled in February, 1980 without financial repercussions on either side, as the firm failed to submit acceptable samples till that period. The item was already being procured by the DGS&D through established indigenous sources on rate contract.

Subsequently, in March, 1979, Director of Ordnance Services placed on DDS another indent for 8, 20,300 litres of paint requiring immediate procurement of this quantity by June, 1980. As a result of the fresh tender enquiries floated in August, 1979, the Department of Defence Supplies placed 9 supply orders in January/February, 1980, on different firms for a total quantity of 12.15 lakh litre of paint in different packs at the rate of Rs. 12.91 to Rs. 13.50 per litre for 20 litre drums, Rs. 15.10 to Rs. 15.30 per litre for 5 litre packs and Rs. 16.75 to Rs. 17.00 for 1 litre pack. According to the Department, the paint in question was procured by DGS&D for Defence Department at the rates of Rs. 9.40 to Rs. 9.80 per litre in 20 litre packing against the orders placed on 25-1-1979. The Committee are not satisfied with the explanation of the Department that there was some confusion as to who should deal with the purchase, being the first purchase after it was made an exclusive defence item. The Committee regret that failure of the Defence Department to hold consultation with DGS&D before placing the order led to avoidable loss to the Department. If 4,06,000 litres of paint indented in February 1978 had been procured through the established source of supply, it would have cost Rs. 40.84 lakhs, as against the cost Rs.59.17 lakhs, under the supply orders placed in January-February, 1980. The Committee desire that the responsibility for the lapses be fixed and action taken against the defaulters. The Committee also recommend that procurement action in respect of common utility items should in future as far as possible, if not invariably be taken in consultation and coordination with the DGS&D and other concerned agencies."

1.12 In their action taken note dated 19 December, 1986 on Para 1.199 the Department of Defence Production and Supplies have stated as follows ;

"The part order for 2,50,000 litres of Paint RFU in 3 different packs was placed in March, 1979 on firm 'AL' at the rate of Rs. 8.80 per litre for 20 litre drums, Rs. 10.08 per litre for 5 litre pack and Rs. 12.00 per litre for 1 litre pack. The lowest rates in the tender were from firm 'AJ' for 20 litre drums and 5 litre pack and from firm 'AM' for 1 litre pack. Though firm 'AL' had quoted originally only for 20 litre drums at a rate of Rs.8.90 per litre, it was the only firm who agreed during the

negotiations meeting on 21.2.79 to accept the order for all the 3 packs with guaranteed price and delivery terms accepting the lowest rates received in the tender. Firm 'AJ' and firm 'AM' did not give guaranteed delivery or price during the negotiation meeting. In the circumstances no orders could be placed on firm 'AJ'. The order on firm 'AL' was placed on 8.3.79 and the advance samples was to be submitted by 31.7.79 as per contract. Even inspite of repeated submission of samples of the subject store till 31.12.79, the firm failed to ensure acceptable quality as all the samples failed in colour/gross resistance to heat etc. Since it was a developmental failure inspite of genuine efforts on the part of the firm to make the item, the order had to be cancelled without any financial repercussion on either side. It is true that 'AL' was not an established source of DGS&D for 'Paint RFU' OG, but they had supplied other items of paints of different specifications to Defence. Hence in the DDS while dealing with the first purchase of "Paint RFU OG" after its inclusion in the list of "items for exclusive use for Defence". 'AL' was considered at par with other established suppliers. The sources established by DGS&D could not be considered, since they were not willing to guarantee price and terms of delivery, prior to its inclusion in the exclusive list or at the time DDS finalised this purchase, it was not covered by any rate contract of DGS&D.

It may, however, be stated that two orders were placed in January, 1979 by DGS&D for a small quantity of 84,000 litres (in 20 litres pack only) of the same specifications as indicated below :

| Indent No. & date | Name of firm Order No. & date | Qty. | Rate | Consignee | Supply position |
|--------------------------------------|--|---------------|------|-----------|-------------------|
| 8833/Paint 79-80/PV/ VFJ dt. 26.9.79 | 182 dated 25.1.79 M/s. Bristol Paints | 42,000 litres | 9.40 | VFJ | Completed in 1981 |
| —do— | 183 dated 25.1.79 M/s. Modi Industries | 42,000 litres | 9.80 | —do— | —do— |

The above two firms had also quoted against the Tender enquiry of Department of Defence Supplies and they alongwith other had firmly declined to give guaranteed delivery period and price. "

1.13 Action taken note dated 27 October, 1986 on Para 1.200 furnished by the Department of Defence Production and Supplies reads as follows :

“The store Paint RFU was declared exclusive use for and purchase by Defence vide DGS&D (Coord-1 Section) Office Order No. 155 dated 12-11-1975. However, it appears that the same continued to be handled thereafter also for some time by DGS&D. The delay in handling the store by Department of Defence Supplies, therefore, arose due to the mistaken impression that the store which was till then being handled by DGS&D could be a common utility item only, because DDS were unaware of this addition to the list of items for exclusive use by Defence. However, it was lapse on the part of DDS that the position was not verified straightaway from DGS&D itself, when the doubt arose. This would have saved a delay of over two months in taking up the indent for processing in the Department. It was unfortunate that the coverage at that point of time turned out to be difficult due to non-availability of raw material (sodium chromate for OG colour) since the sole supplier viz. M/s. Golden Chemical, Bombay was under lockout. The Department, therefore, perforce had to cover part order only—that too on one firm who alone could give guaranteed price and delivery. It was again unfortunate that the firm inspite of its being an established supplier of several other types of paints of different specifications to Defence failed ultimately to develop this particular store as per specifications which led to the procurement of the entire quantity of 4,06,000 litres against the said indent afresh at an additional cost of Rs. 18.33 lakhs to the exchequer. All purchase decisions of the item were taken jointly by the functionaries at different levels and there is no possibility of fixing any responsibility on any particular functionary. It may, incidentally, be mentioned that the CPO concerned is dead and Deputy Secretary concerned is no longer in Government service. Further, no malafides or negligence can be attributed to the concerned officers in this purchase.

The Supplies Division of the Department of Defence Production and Supplies are expected to deal with only developmental purchases. Certain purchases in respect of established items including common utility items are to be procured through DGS&D or directly by Service HQrs for items included in the list of “exclusive Defence stores”. However, where emergent purchases of the items normally procured by DGS&D/other concerned agencies are required to be dealt with by Supplies Division the rates at which purchases are made by DGS&D/other concerned agencies are kept in view as far as possible. However, the views of the Committee to avoid recurrence of such lapses have been noted and instructions to all concerned have been issued (Appendix-I).

This has been approved by Raksha Rajya Mantri.”

1.14 The Committee consider that in this case there has been gross negligence at various levels. The Committee, however, note that the Government have now issued remedial instructions to avoid recurrence of such lapses. The Committee urge that instructions now issued should be scrupulously followed so that infructuous expenditure of this nature is avoided in future. The Committee also recommend that the Department should evolve a suitable mechanism to ensure that persons responsible for such losses to the exchequer are unable to escape punishments as has happened in this case.

Waiving of Liquidated Damages from Suppliers.

(Sl. No. 29—Para No. 1.202)

1.15 Dealing with amount of Rs. 37.83 lakhs recoverable as liquidated damages from suppliers of stores, the Committee had in para 1.202 of their 44th Report observed as under :

“The Committee find that amount of Rs. 37.83 lakhs was recoverable as liquidated damages from suppliers of stores in respect of 92 supply orders placed by the Department during the period 1977-78 to 1980-81. Of this, an amount of Rs. 18.78 lakhs involving 44 supply orders was waived fully by the Department. Out of the balance amount of Rs. 19.05 lakhs only a sum of Rs. 1.57 lakhs was recovered. The Committee trust that incorporation of a liquidated damages clause in the supply contracts is meant for ensuring timely execution of the contracts and to guard against the propensity for delay. Though the Committee agree that in development-cum-production supply orders, the strict enforcement of this clause may not to some extent be possible but they feel that the very purpose of this clause is defeated if the suppliers know from their past experience that such damages would finally be waived. Further, the use of free and uncontrolled discretion by the concerned officers with regard to the waiving of liquidated damages may lead to its misuse. The Committee recommend that comprehensive guidelines for the concerned departmental officers should be issued so that this discretion is very judiciously exercised. The Committee note that some guidelines were issued on 20-9-1985 to bring about uniformity in regard to the levy of liquidated damages for delayed supplies and to minimise areas of discretion. The Committee recommend that the question of further revamping these guidelines should be periodically reviewed.”

1.16 In their Action Taken Note dated 27 October 1986, the Department of Defence Production and Supplies have merely noted the above observations of the Committee and have not given any indication as to when the review of guidelines issued on 20.9.1985 was intended to be done. The Committee urge the Government to conduct such review at regular intervals.

1.17 The Committee also urge the Government to see to it that powers exercised by departmental officers in regard to waiver of recovery of liquidated damages are reviewed periodically at an appropriate higher level to ensure that these are exercised judiciously with care and caution and that there is uniformity in regard to the levy of liquidated damages.

CHAPTER II

RECOMMENDATIONS AND OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

The Department of Defence Supplies under the Ministry of Defence was set up in 1965 essentially to achieve self-reliance in the procurement of Defence equipment and stores required by the Armed Forces. The Committee find that out of items numbering 88,984 projected for development and procurement through indigenous sources, upto 31 March, 1981 supply orders for only 47,363 items only were placed by the Department on indigenous suppliers. According to the Department, a large number of items remained outstanding for want of proper particulars or samples. The Committee are unhappy to note that the percentage of the number of items remaining uncovered for want of proper particulars or samples in respect of three Technical Committees viz., TC (Aeronautics), TC (Vehicles) and TC(Engineering Stores) was as high as 53.4%, 30% and 18.1% respectively. The Committee recommend that the Government should identify the bottlenecks responsible for such a high shortage in the placement of supply orders, particularly in respect of the items pertaining to the aforesaid three Technical Committees.

[Sl. No. 1 (Para 1.174) of Appendix-II to 44th Report of PAC (8th Lok Sabha)].

Action Taken

The bottlenecks responsible for the shortfall in placement of supply orders, particularly in respect of the three technical committees of TC (Aeronautics), TC(Vehicles) and TC (Engineering Stores) have been identified. Briefly, the factors responsible for this situation were :

- (i) In the past sufficient care was not taken while selecting items for indigenisation with reference to feasibility for indigenisation taking into account availability of drawings and specifications, lead time required, economic viability and value of the items.
- (ii) Non-availability of sealed samples for generating paper particulars through reverse engineering.

- (iii) Lack of sufficient response from the Civil Sector in developing the stores due to quantities not being viable.
- (iv) Some Committees have also complained of limited capacity for preparation of drawings due to inadequate manpower.

2. With a view to overcoming the situation, the following measures have been taken to reduce pendency :

- (a) Items for which samples are not available/not likely to be available in a reasonable time frame (that is to say within a period of one year) are not accepted for indigenisation especially in the case of low value items not economically viable for indigenisation. Such items are left with the Service concerned for appropriate procurement/deletion action.
- (b) With a view to reducing the workload on TCs/AHSP and to enable them to concentrate on high value/sophisticated items, it has been decided that items for which indent value is less than Rs. 50,000 will be transferred to the Ordnance Depots (indentors) for direct purchase within their own delegated powers. DGI Organisation will render necessary technical assistance.
- (c) The Department has also instituted a system of monthly monitoring of the performance of various Technical Committees which includes review of the position relating to generation of drawings.

(Ministry of Defence (Department of Defence Prodn. & Supplies)
O.M. No. F.9(1)/86/D(S.II) dated 19 December, 1987).

Recommendation

The Committee note that concrete efforts for indigenisation on the defence side started only during the closing years of 'sixties', which according to the Department of Defence Supplies, is the real reason for the slow pace of indigenisation of defence equipment. The requirements of inspection and testing of the defence supplies are very strict and rigid, are stated to be the other reasons for the slow pace of indigenisation. While fully appreciating these constraints, the Committee are not satisfied that everything possible has been done to accelerate the pace of indigenisation.

[Sl. No. 2 (Para 1.175) of Appendix-II to 44th Report of PAC (8th Lok Sabha)].

Action Taken

The observations of the Committee have been noted. In this context the Department would like to submit that they are fully seized of the importance of accelerating the pace of indigenisation and have already initiated number of steps in the past few months after review at Secretary/RRM's level. The following guidelines have been issued to the Technical Committees :

- (i) While selecting items for indigenisation and determining *inter se* priorities to be assigned there to, factors to taken into account would be economic, technical and logistic. Firstly, it would be based on the demand likely to be a continuing one and quantity also large enough for being economically viable; secondly, whether drawings/specifications are already available or likely to be available and thirdly, the criticality/strategic importance of the item.
- (ii) Laying down of specific target every year for coverage of all items for indigenisation for which drawing and specifications are available.
- (iii) The Technical Committees have been directed to shed the work of placing Supply Orders for small value items (Rs. 50,000 and below) for which Depots have powers for local purchase. However, the DGI Organisation will continue to render technical advice including suggestions regarding likely sources and where necessary accept inspection responsibilities.

This has been done with a view to relieving Technical Committees of the burden of processing numerous low value items and to enable them to concentrate on high value and sophisticated items for indigenisation.

- (iv) For the same reason, Technical Committees have also been directed that they shall not ordinarily deal with repetitive purchases of developed items. Such items should be transferred to the Services HQrs. for making direct purchases through their Tender Purchase Committees.
- (v) The procedure for import clearance has been streamlined with a view to ensuring maximum attention to indigenisation.

Recently, RRM(S) took a meeting (29-7-86) to review the progress of indigenisation, in which the observations of the PAC regarding slow progress of indigenisation on defence stores was given special consideration for effecting procedural improvements. In this meeting the following decisions were arrived at ;

- (a) As soon as a decision to induct a new type of major equipment is taken, an exercise should be initiated to identify and quantify the long term and short term requirements of the systems/sub-systems/components required for (i) indigenous manufacture of the complete equipment and (ii) maintenance.
- (b) identification of systems/sub-systems/components yet to be indigenised in respect of existing major equipments and forecasting the requirements.
- (c) the Deptt. of Defence would examine the feasibility of raising funds-certified indents for long term requirements so that long terms commitments could be entered into with Industry, which would act as an incentive to the Industry for undertaking development.
- (d) need for a liberal approach towards payment of developmental advances to motivate the Civil sector industry to undertake development of complex system/sub-system on the merit of each case, was accepted in principle.
- (e) to obviate difficulties of firms undertaking development efforts, it was agreed that once a developmental order is placed conforming to certain Qualitative Requirements (Qrs) any further modification towards product improvement would be made applicable only for subsequent orders. Similarly, to reduce the discouraging effects of fluctuation in the requirements henceforth cancellation/reduction of order will be made only under exceptional circumstances which would mainly be delay in indigenisation. Decisions on all such changes would be taken at HQrs. level.

[Ministry of Defence (Department of Defence Prodn. & Supplies) O.M. No. F.9(1)/86/D(S.II) dated the 27th October, 1986.]

Recommendation

According to the test check carried out by the audit of 467 supply orders placed during 1977-78 to 1980-81, delay ranging from over 12 months to over 36 months was revealed in placing supply orders against indents received from the users. According to the Ministry of Defence, it normally takes 5 to 8 months to process an indent for placement of a supply order. It is a matter of deep concern that in as many as 193 of these 467 supply orders, the delay in finalisation of the supply orders ranged from over 12 months to over 36 months. In spite of the fact that the Department of Defence Supplies has now been in existence for more than 20 years, no worthwhile steps appear to have been taken to shorten the time taken in finalisation of indents. The Committee

recommend that procedures should be evolved in consultation with all concerned so that indents are finalised within the shortest possible time.

[Sl. No. 3 (Para 1.176) of Appendix-II to 44th Report of PAC (8th Lok Sabha)]

Action Taken

Instructions have been issued to all Technical Committees (Annexure) laying down the time frame for coverage of indents through various stages till placement of supply orders. These are expected to result in a normal time not exceeding 5-6 months for placement of supply orders from the date of receipt of indents complete in all respects.

Apart from internal monitoring by the Technical Committees, the Department also reviews periodically the position relating to coverage of indents.

[Ministry of Defence (Department of Defence Production & Supplies)
O. M. No. F.9(1)/86/D(S-II), dated the 27th Oct., 1986].

ANNEXURE

No. 4/29/86/D(S.I)
Government of India
Ministry of Defence
(Deptt. of Defence Prod. & Supplies)

New Delhi, the 21st August, 1986.

OFFICE MEMORANDUM

Subject : Streamlining the procedure for coverage of indents by Supply Orders—Observations of the P.A.C.

The Public Accounts Committee in their 44th Report submitted to the Lok Sabha on 29th April 1986 regarding review of the working of the Department of Defence Supplies have expressed deep concern over the delay in processing indents for placemen. of supply orders and have pointed out that in as many as 193 cases out of 467 supply orders placed during 1977-78 to 1981-82, the delay ranged from over 12 months to over 36 months. The Committee have recommended that procedure should be evolved in consultation with all concerned so that indents are finalised within the shortest possible time.

2. With a view to reducing the time taken from the date of receipt of indents, complete in all respects with requisite drawings/specifications, till placement of Supply Orders, the following time frame has been evolved for implementation by all concerned.

| Activity | Time | Remarks |
|---|-----------------------------------|---|
| 1 | 2 | 3 |
| 1. Scrutiny of indents/ depot lists. | | |
| (i) Indents | 2 weeks from the date of receipt. | Indents/Depot list should be scrutinised immediately on receipt for completeness, including certification of funds. In case the |

| 1 | 2 | 3 |
|--|--|---|
| (ii) Depot Lists | 4 weeks | indent is incomplete in any respect, the matter should be taken up with the indenter within this period for necessary clarification/funds certification etc. The date of receipt of clarification for floating the tender enquiry should be taken as the effective date of the indent and indication suitably be given to the indenter. |
| 2. Selection of sources, obtaining drawings/specifications from AHSP and floating of tender enquiry. | 4 weeks | |
| 3. Receipt of quotations (Tender opening date) | 4-8 weeks (from the date of floating tender enquiry) | Depending on complexity of the item. |
| 4. Examination of quotations and placement of Supply Orders. (Validity period of tenders) | Counting from the date of opening of tenders, 60 days in case of value upto Rs. 25 lakhs and 90 days where value exceeds Rs. 25 lakhs. | In case where value exceeds Rs. 25 lakhs, the TCs will examine/evaluate the tenders and forward the case to DDP&S within 4 weeks. |
| Total time for all activities | 5-7 months. | |

Immediate indents are to be given special attention and efforts may be made to finalise the same within 3 months of the receipt of indents (complete in all respects).

3. Regular monitoring of the finalisation of indents should be done by the Chairmen, Technical Committees on monthly basis to identify delays and take timely remedial action,

4. Receipt of this communication may kindly be acknowledged.

Sd/-

(V. LAKSHMI)

Deputy Secretary (Supply-II)

To

Chairmen, All Technical Committees

Copy to :

1. MGO (2) DGOS (3) DGEME (4) DGI (5) ACAS (Engg)
6. ACAS (Sys) (7) COM, NHQ (8) E-in-C (9) DGOF

Copy for information to :

Addl. FA(P) & JS/DFA(DS&P)/DS(S.I)/DS(S.III)/CPO(R)/CPO(J)/CPO(A).

Recommendations

Another disquieting feature of the working of the Department of Defence Supplies is the lack of effective monitoring of supply orders. In as many as 36 supply orders of the total value of Rs. 8.97 crores placed upto June 1979, the suppliers failed to submit samples or commence supplies for over 3 years. In some cases, where samples were received within three years, trials and approval had taken quite a long time. The Committee are not convinced by the argument of the Department that all the items were complex items which were being developed for the first time. Due to such abnormal delays and developmental failures, orders for as many 8 out of 36 items had to be cancelled.

The Committee recommend that the existing monitoring procedure should be adequately streamlined so as to make it more effective. Planning of requirements particularly in respect of hard ore items should be done sufficiently in advance. Steps should also be taken to reduce the time taken for users inspection/test to the minimum extent possible. The Committee note that several measures for improving the working of the Supplies Division have been formulated after a detailed review of the working of the Supplies Wing in a meeting held with all the Chairmen of Technical Committees on 31.3.1985. Prior to 31.3.1985 no comprehensive internal review of the working of the Supplies Division had been conducted by the Department. The Committee recommend that in future periodic reviews of the Supplies Division should be conducted by the Department. With a view to streamlining the purchase procedure so that unnecessary delays at all stages could be obviated.

[SI. Nos. 4 and 5 (Paras 1.177 & 1.178) of Appendix-II to 44th Report of the PAC (8th Lok Sabha)]

Action Taken

Steps taken to reduce delays upto the stage of placement of Supply Orders have been referred to against recommendation at para 1.176.

2. So far as delays in supplies materialising against orders already placed are concerned, the Technical Committees have already a system of maintaining supply order register for periodic scrutiny by senior officers/Chairman of the Committee. All area inspectors are required to send monthly progress reports which are meticulously scrutinised and where necessary firms are called for review meetings either by the Chairman of the Technical Committee or at JS/AS level in the Department. In fact, whenever a stipulated delivery period expires, opportunity is taken to review the situation and take suitable remedial measures while granting extensions.

3. The Department also receives and scrutinises list of Supply Orders which are more than 4 years old for special monitoring and for decision for cancellation/risk purchase/short closure etc.

4. Planning of requirements on a long term basis (for 4-5 years) is done when the Depots carry out Annual Provision Review. A Sub-Committee which includes representative of concerned Technical Committee scrutinises the list of requirements projected for identification of items of indigenisation.

For the new Infantry Combat Vehicle Project, several codes/sub-codes (Systems/sub-systems) have been already indentified in advance for indigenisation through Civil Sector. These are considered "hard core" items and are subjected for special monitoring at Additional Secretary level.

5. At a meeting chaired by RRM(S) to review the indigenisation programme of DGI, it has been decided to set up a Committee consisting of representatives of DGOF, DGI and DGEME to identify system/sub-systems to be indigenised immediately after the decision to induct a new equipment is taken.

6. As regards elimination of delays in inspection/user trials, instructions to Inspection authorities already exist to "sentence" the stores within 4 weeks (8 weeks where laboratory tests are involved) and to send "exception reports" with detailed reasons where time limit is exceeded. These are reviewed at the Joint Director/Director level at the Technical Committees.

Army Hqrs. have also issued instructions [copy enclosed (Annexure)] for speedy completion of user trials and their evaluation at various levels. Monitoring is done at the Army Hqrs. by the General Staff.

7. As regards comprehensive internal reviews to streamline the purchase procedure, it may be stated that this is done periodically by the Central Technical Committee which is concerned with policy matters.

[Ministry of Defence (Department of Defence Prodn. & Supplies) O.M.
No. F. 9 (1)/86/D(S.II) dated the 19th December, 1986]

ANNEXURE

Tele : 3018072

Sena Mukhyalaya/Army Headquarters
Weapons & Equipment Directorate
DHQ PO, New Delhi-110011

03553/WE-1

10 Oct, 86

Headquarters
Southern Command
Eastern Command
Western Command
Central Command
Northern Command

PROCEDURE—USER TRIALS FOR ACCEPTANCE OF EQUIPMENT

1. Reference our letter of even No. dated 30 May 81.

2. The letter under reference details explicitly the procedure for user trials for acceptance of equipment in the Army. The procedure lays down the guidelines in general and the suggested time frame for each stage of trial. Though the time frame laid down is not rigid, yet the need to carry out the trials expeditiously within the time frame cannot be underscored. Delay in trials not only results in delay in procurement to the detriment of our operational preparedness it also lowers our credibility in the eyes of the foreign manufacturers. In some cases delay in trials has resulted in escalation in cost of equipment which has been commented upon by the Public Accounts Committee of Parliament.

3. In their 44th report to the Lok Sabha, the Public Accounts Committee has recommended that steps be taken to reduce the time taken for trials to the minimum possible. We have accordingly reviewed the procedure laid down vide our letter under reference and it has been concluded that trials could be considerably speeded up if we are able to adhere to the time frame laid down for various stages in the procedure.

4. Accordingly, you are requested to ensure that the procedure laid down for trials is followed and the time frame suggested therein adhered to.

Sd/-

(S. K. SINGH)

Civilian Staff Officer

General Staff Officer-2 WE-1

For Vice Chief of the Army Staff

(Refer to S. No. 5 of Para 1.178)

Recommendations

The Committee note that till December 1982, financial assistance by way of development advances, tooling advances and 'on account' payments for purchase of raw materials, was extended to indigenous suppliers/firms, and in this manner the Government was sharing with the manufacturers the cost of development. The Committee note that as on 5th October, 1981, unadjusted advances amounting to Rs. 8.36 crores in respect of 67 supply orders had accumulated owing to failure of the firms to develop the prototypes or to complete the supplies. According to the DDS the amount outstanding against 28 firms as on 29th September, 1983 was Rs. 1.566 crores. Faced with such a large amount remaining unrecovered, the DDS decided in December 1982 not to pay any 'on account' payments or advances in its future contracts save in exceptional cases to be approved by the Raksha Mantri.

The Committee feel that effective development of local industry is essential for meeting the requirements of the Defence Forces and for that reason all possible assistance is very necessary for creating skills and quality consciousness. The Committee consider that the virtual stopping of the practice of granting 'on account' payments or advances in December 1982, Government have virtually discontinued for all practical purposes the principle of sharing with the manufacturer the cost of development. It is not unlikely that manufacturers may not show much interest in effectively executing developmental orders. The Secretary of the Department assured the Committee during evidence that they were examining various pros and cons in this regard. The Committee desires that suitable mechanism which may be helpful for effective and early execution of the developmental supply orders, should be evolved with delays.

[Sl. Nos. 6 & 7 (Paras 1.179 & 1.180) of Appendix-II to 44th Report of the PAC (8th Lok Sabha)]

Action Taken

The policy/procedure in regard to advance payments against developmental Supply Orders placed by the Supplies Division of the Department was reviewed in a meeting held on 24th April, 1986 under the Chairmanship for RRM (S) when the need for payment of developmental advances to motivate the Civil Sector Industry to undertake development of complex systems/sub-systems was accepted in principle, particularly in those cases which would require setting up of new facilities which are unique with no or very limited potential for alternative use. Record note of this meeting is enclosed (Annexure).

[Ministry of Defence (Department of Defence Production and Supplies)
O. M. No. F. 9 (1)/86/D(S-II), dated the 27th October, 1986]

ANNEXURE

(NOT FOR PUBLICATION)

(Refer to Para 1.180)

RECORD NOTES OF DISCUSSIONS HELD UNDER THE CHAIRMANSHIP OF SHRI SUKH RAM, RRM (S) AT 5.30 P. M. ON 24TH APRIL, 1986 REGARDING POLICY/PROCEDURE IN REGARD TO 'ON ACCOUNT AL PAYMENT/ ADVANCE PAYMENTS AGAINST DEVELOPMENTAL, SUPPLY ORDERS PLACED BY SUPPLIES DIVISION—REVIEW OF.

P R E S E N T

1. Shri Sukh Ram, RRM(S) ...in the Chair
2. Shri S. K. Bhatnagar, Defence Secretary
3. Shri P. C. Jain, Secretary (DP&S)
4. Shri C. L. Chaudhry, FA (DS)
5. Shri J. N. Kaul, AS (DP&S)
6. Shri Sanjib Mukherji, Addl. FA (M) & JS
7. Shri M. K. Abdul Hamid, Jt. Secy (S)
8. Rep : DGOF
9. Rep : DGOS
10. Rep : DGI

After detailed discussions on the various points brought out in the brief submitted by the Deptt. of Defence Production and Supplies, the following decisions were arrived at :—

- (i) Need for payment of developmental advances to motivate the civil sector industry, to undertake development of complex systems and sub-systems was accepted in principle, particularly with reference to the fact that more than 50% of the assemblies required for the BMP and T-72 projects have been earmarked for productionisation in the civil sector. Many of them would require the setting up of new facilities which are unique for such items with very limited potential for alternate use. The criteria for granting such developmental advances may be formulated by the Deptt. of Defence Production and Supplies in consultation with the Integrated Finance and got approved from RRM (S).

- (ii) Since the declared policy is to develop a minimum of two sources for every item, there should be no objection to the grant of developmental advances for two sources, in the first instance. However, for new sources who want to enter by quoting competitive prices against subsequent tenders, no developmental advances may be given. Such new sources should, in the beginning, be considered only for trial orders for limited quantities, while the major share should be allocated to sources which took initiative in developing the store.
- (iii) It is neither necessary nor is it desirable to lay down any quantum of price preference for established sources vis-a-vis new sources.
- (iv) As regards 'On-account payment' (OAP) for bulk supplies, the consensus was that, as a rule, this should be discouraged. Wherever there is price competitiveness, it should not be allowed. However, if there is a significant advantage in terms of price and delivery schedule linked with OAP and the firm is reliable, request for 'On-account Payment' may be considered on commercial merits.
- (v) RM/RRM shall continue to be the competent authority to sanction advances/OAP.

(M. K. Abdul Hamid)
Joint Secretary (S)

To

All present

M of D u. o. No. F. 7 (5)/80/DS, dated the 2nd May, 1986

(NOT FOR PUBLICATION)

Recommendations

The Committee would like to draw attention to a supply order placed on firm 'A' for 20-ton low deck trailers at a cost of Rs. 1.05 crores. The firm, which was required to submit the pilot sample within the scheduled delivery date i.e. by 31-5-1975, actually submitted it on 13-7-1977 and this was later found to be unacceptable. Even the modified sample submitted in March 1978 was found to be not free from defects of serious nature. The Committee are concerned to note that inspite of the repeated failure of the firm to develop a satisfactory sample even within a period of more than 3 years, the Department failed to cancel the contract at the risk and cost of the firm immediately after March, 1978, when the modified sample was found to be defective. While the Committee entirely supports the policy of giving every assistance, encouragement and support to those who undertake to produce defence equipment, the Committee are of the view that the reasons advanced by the Department for not taking a stricter action in not actually cancelling the order after the unsuccessful user trials because of the subsequent interest shown by the firm to execute the order, are not wholly convincing.

In 1980 the matter regarding cancellation of the order by the Department was examined in consultation with the Legal Adviser (Defence) who opined that since the contract had been kept alive after the delivery period, it would not be possible to cancel the contract at that stage without giving further notice-cum-extension for submission of pilot sample. According to the Audit Paragraph the supply order had not been cancelled till as late as September, 1983. According to the Department, the Supply order was finally cancelled at the risk and cost of the firm. The Committee consider that in this case excessively generous view has been taken of the continued failure of the supplying firm.

A disquieting feature of the aforesaid supply Order on firm 'A' is that a sum of Rs. 13.80 lakhs paid to the firm in June 1976 and February 1977, for purchase of raw materials, without any bank guarantee has not been recovered so far. It is surprising that the last instalment of advance of Rs. 3,35,684/- was paid to the firm in February, 1977, inspite of the fact that the firm had failed to submit the sample within the Scheduled delivery date of 31 May, 1975. The Committee have been informed by the DDS that the matter for recovery of advance of Rs. 13.80 lakhs has been referred to Bureau of Public Enterprises on 26.6.1984. It has been stated that the Ministry of Railways have withheld an amount of Rs. 13.80 lakhs, which will be released only after the advance payment received by firm 'A' is refunded to the Ministry of Defence. The Committee would like to know the latest position about the recovery of this

amount of Rs. 13.80 lakhs as also the recovery of risk and cost expenses from the firm.

[Sl. Nos. 9, 10 & 11 (Paras 1.182, 1.183 & 1.184) of Appendix-II to 44th Report of the PAC (8th Lok Sabha)]

Action Taken

The Committee's observations have been noted and sufficient care will be taken in future, to avoid recurrence. In this regard it is submitted that as a remedial measure Department of Defence Supplies decided after December, 1982 not to pay any 'On Account Payment' or Advance in future contracts to be concluded by the department save in exceptional cases to be approved by Raksha Mantri. Further, upto 8.8.76 the firm was giving assurances that they would rectify the defects and supply the full quantity on order. Only on 23.11.79 the firm indicated that the modifications required were of major nature requiring complete redesigning of the trailers and they would do it provided they were compensated. This was not accepted by the Department and thereafter they were asked to refund the 'On Account Payment' of Rs. 13.80 lakhs. The firm intimated to the Deptt. that they were in the process of selling material/components and that every effort would be made to refund the advance at the earliest opportunity. Similar assurances were given by the firm repeatedly (17.11.81, 27.11.82 and 15.1.83). The supply order at that stage was not cancelled as a view was taken in consultation with Finance that the 'On Account Payment' should be recovered first and then only the supply order be cancelled. As there was no progress in regard to the refund of the amount, a letter was sent to Directorate General of Supplies and Disposal in February '83 to withhold this amount. In October, '83 and March, '84 the matter was also taken with the Ministry of Railways for withholding the amount from the pending bills of the firm, since Directorate General of Supplies & Disposals said that no bills of the firm are pending with them. Ministry of Railways informed us that they had withheld the amount. Thereafter legal advice was obtained and the supply order was cancelled on 26.7.84. The firm on 27.8.84 refunded the 'On Account Payment' of Rs. 13,79,964/-.

2. The subject case has to be viewed as one of developmental failure. In the meantime on 8th March, '82 the Director of Ordnance Services had informed us that the requirement of the trailers had become Nil. There was accordingly no question of any risk purchase to be enforced.

[Ministry of Defence (Department of Defence Production & Supplies)
O. M. No. F. 9(1)/86/D(S.II) dated the 19th December, 1986]

Recommendation

The Department of Defence Supplies, which is mainly concerned with development of items in the private sector claims that they are faced with many difficulties in effecting valid risk purchase. The Department has set up a Committee under the Chairmanship of the Legal Adviser (Defence) to review the procedure in regard to the risk purchase. If this Committee has submitted its recommendations the Public Accounts Committee would advise that if these recommendations are acceptable, they should be made generally known in the Department.

[Sl. No. 13 (Para 1.186) of Appendix-II to 44th Report of the PAC (8th Lok Sabha)]

Action Taken

The Committee under the Chairmanship of Legal Adviser (Defence) to review the procedure in regard to risk purchase have since finalised their recommendations. These recommendations, if accepted, will be implemented in the Department.

[Ministry of Defence (Department of Defence Production & Supplies
O. M. No. F. 9(1)/86/D (S-II) dated 27th October, 86]

Recommendation

The Committee note that out of a supply order for procurement of 230 generating sets of 2 KVA capacity at the total cost of Rs. 27.25 lakhs, placed on firms 'S' in August, 1975, the firm supplied only 192 sets during June 1978, September 1980 and failed to make further supplies thereafter despite grant of extension upto 30th September 1981. In December, 1981, the Department short-closed the order at the risk and cost of the defaulting firm. The risk purchase could not be effected as the users wanted the remaining sets with the revise specification. The Committee further note that 25 sets costing Rs. 2.96 lakhs out of the 192 generating sets, were found to be defective, though in repairable condition. It is a matter of serious concern that these 25 generating sets received early in 1980 should not have been put to any use as they could not be got repaired till September, 1983. *The Committee can only record their dissatisfaction and displeasure.*

[Sl. No. 17 (Para 1.190) of Appendix-II to 44th Report of the PAC
(8th Lok Sabha)]

Action Taken

The observations of the Committee are noted. Instructions have been issued to all concerned to ensure that the defects reported by the depots/user units are attended to by the manufacturers expeditiously. A copy of the instructions is enclosed (Annexure).

[Ministry of Defence (Department of Defence Production & Supplies) O.M.
No. F.9(1)/86/D(S-II) dated 27 October 1986.]

ANNEXURE

No. 4(20)/86/D (Supply. I)
Government of India
Ministry of Defence
Deptt. of Defence Prod. & Supplies
New Delhi, the 26th September, 1986.

OFFICE MEMORANDUM

SUBJECT : Defect rectification by the indigenous manufacturers of defence stores and equipment—Para 1.190.

A supply order for 2 KVA Gen. Sets was placed by the Department on a firm in August 1975. The firm supplied some quantities during June 78-September '80 and the balance quantity had to be short-closed due to inability of the firm to make further supplies. Out of the quantity supplied by the firm, some were received in defective condition by the consignee at COD Agra during March '80—Nov. '80. The consignee asked the firm only in Feb. '81 to repair the defective equipment and the firm repaired them only in Sept. '83, after repeated chasing. Thus, equipments which were paid for were lying unutilised for 2 to 3 years. The Public Accounts Committee in their 44th Report to the Lok Sabha have observed that this is a matter of serious concern and they have recorded their dissatisfaction and displeasure.

2. In order to avoid recurrence of such situations, it is necessary that :—

- (i) It should be the responsibility of the consignees to inspect the stores immediately on receipt and satisfy themselves that the equipments have been received complete in all respects before the receipt copies of Inspection Notes are released. Deficiencies should be taken up directly with the firm by the consignees under advice to the inspector and the paying authority. In case of deficiencies of a major nature, the paying authority may even be advised to withhold/recover 95% payment in respect of such defective goods.
- (ii) Warranty claims for defects noticed after acceptance of the stores should be lodged immediately within the warranty period prescribed in the contract. In case the equipment is not issued to the user units within the warranty period, the stocking depot may even consider conducting trial runs to satisfy itself that the equipment will not give

trouble later. If the supplier does not respond to the warranty claims in a reasonable time, they should report the matter to the purchasing authority for necessary action including suitable financial recoveries.

3. It is requested that a copy of the instructions issued to the depots may be endorsed to this Department for information and record.

(V. Lakshmi)

Deputy Secretary to the Government of India

To

1. MGO
2. DGOS
3. COM
4. AOM
5. OFB
6. Chairmen of all Technical Committees.
7. DGS&D, (CDN Dte), Parliament Street, New Delhi.

Copy to :

1. PAC
2. DADS
3. IF (DS)
4. DS(O)

Copy also to :

PS to Secy (DP&S)/PS to Addl. Secy (DP&S)/SPA to JS(S)/SPA to Addl. FA(M)/DEA(DS&P)/DS(S.I)/DS(S.II)/DS(S.III)/CPO(A)/CPO(R)/CPO(J)/AFA(DS)/LO(DS)

Recommendation

The Committee note that the Department of Defence Supplies issued on 29th June 1979 a single tender enquiry to firm 'T' for supply of one lakh shells of an ammunition 'ZA'. The firm 'T' quoted on 3 July 1979 the rate of Rs. 498 per shell for the entire quantity of one lakh shells with its own materials. On 6 July 1979, firm 'T' intimated that if raw materials for 50,000 shells were supplied by the Ordnance Factory the cost thereof could be reduced. The Department failed to place any order on firm 'T' before expiry of the validity date 31 July, 1979 of its offer. According to the Department, the order could not be placed before the expiry of the validity date of 31 July 1979 because *prima facie* the offer of the firm of Rs. 498 per shell appeared to be on the high side compared to the developmental order of Rs. 370 per shell placed on 28 February 1979. Besides this, certain conditions like demand for 10 per cent advance etc. needed to be thrashed out.

Firm 'T' revised on 9 August 1979 its quotation from Rs. 498 to Rs. 596 per shell on the plea that it had erred in calculating the original rate. At the meeting held in DDS on 17 August 1979, it was decided that a quantity of 25,000 shells would be covered at Rs. 540 per shell with escalation clause. Accordingly, on 10 December 1979, the DDS placed a supply order on firm 'T' for 25,000 shells at the enhanced rate of Rs. 540 per shell.

Strangely enough 4 separate supply orders for the balance quantity of 75,000 shells were placed in May and June 1980 on four firms 'T', 'U', 'V' and 'W' at the rate of Rs. 615, Rs. 610, Rs. 610, and Rs. 615 per shell respectively. While firm 'T' completed delivery of 25,000 shells against supply order of December 1979 by March 1981 and supplied 21682 shells upto September 1982 against the supply order of May 1980, firms 'U', 'V' and 'W' failed to adhere to the delivery schedule prescribed in the respective supply orders placed on them. According to the Department, separate supply orders were placed on firms 'T' and 'U', 'V' and 'W' with a view to developing additional sources to meet anticipated recurring large demands in future. The Committee consider it as only a partially valid argument. Failure on the part of the Department to place a substantially large supply order on firm 'T' before the expiry of the validity period resulted in a large additional expenditure in procuring supplies 9 months later. The committee are of the view that if the order additional 75,000 shells was also placed on firm 'T' alongwith the order for 25,000 shells placed on 10 December 1979 at the rate of Rs. 540 per shell, quite a lot of infructuous expenditure would have been saved.

[Sl. No. 18 (Para 1.191) of Appendix-II to 44th Report of the PAC
(8th Lok Sabha)]

Action Taken

A single tender enquiry was issued in June, 1979 against the urgent requirement of DGOF for 1,00,000 numbers of an ammunition 'ZA'. Firm 'T' quoted a rate of Rs. 498 per shell with a validity period of hardly one month besides 10% advance and other unacceptable terms and conditions. A final decision could not be arrived at within this short validity period and no extension was asked for. The firm revised their offer on 9.8.79 to Rs. 596 per shell stating that it had erred in calculating the rate of Rs. 498/-. In the negotiation meeting held on 17.8.79, firm 'T' declined to accept the rate of Rs. 521/- per piece offered on the basis of cost analysis, but agreed to a rate of Rs. 540/- per piece, with escalation. The requirement of the store was large and of continuing nature. It is the policy of the Department that when there is a continuing demand over a long period, more than one source should be developed. Accordingly, it was decided in meeting in August, 1979 that a quantity of 25,000 Nos only need to be covered on the basis of the single tender to meet the urgent requirement, (with an option for another 25,000 Nos.) and that the balance of 75,000 Nos. be retendered.

The firm subsequently represented that the rate be increased by 20% per Shell. Later, they withdrew their request for 20% increase on the initial quantity, but insisted for allowing this increase on option quantity. Since the price for the additional 25,000 Nos. with 20% price increase worked out to Rs. 648/- per shell which was higher than the price received against the fresh tenders opened on 19.1.1979 for the quantity of 75,000 Nos. retendered, the question of incorporating the option clause did not arise. The retendered quantity had to be ultimately procured at higher prices.

The apparent extra expenditure, arose mainly due to the action to issue a single tender enquiry against a large and recurring demand which was contrary to the policy to develop more than one source. If a broad based tender enquiry was issued in the first instance itself, a proper distribution of the entire quantity would have been possible. Also the firm's offer was of a short validity. On the basis of the available information, the price of Rs. 498/-each appeared to be on the high side especially in the context of the earlier developmental order on the same firm at the rate of Rs. 370/- per shell. The cost analysis of the stores was not made during the validity period. It is true that the negotiations were held without extending the validity period and perhaps even if we had sought extension of validity period the firm could have regretted and revised their offer. Still, it may not be correct to conclude that mere seeking of extension of validity would have prevented the firm from increasing its price, as they did. There were unacceptable conditions also in the offer of firm 'T'.

If an order was to be placed on them at their original quoted price of Rs. 498/- each for quantity 1,00,000 nos, they were also to be given 10% of the

value of the contract, i.e. Rs. 49.80 lakh as interest free advance. The firm would have taken 4/5 years to complete the order. It would have been quite unrealistic to expect supplies at this price over such a long period in the face of the genuine error in computing the price as indicated by them later. Hence the decision to cover only the super-urgent quantity of 25,000 Nos. only on firm 'T' who had successfully executed a small developmental order for 200 Nos. was perhaps logically the correct decision under these circumstances. In fact, the quantity of 25,000 Nos. placed at Rs. 540/- in December, 1979 was completed by the firm in March, 1981 only and the order for another 25,000 Nos. subsequently placed in May, 1980 at the higher price of Rs. 615/- per shell was completed by the firm only in Nov. 1982.

Besides, the policy of the Department of inducting more than one source, when there is a continued demand over a long period has paid dividends in this case, since adequate sources have now been established, providing competition and economy for a store of complex nature involving 1-1.5 years developmental period.

However, in view of the observations of the PAC, instructions have been issued so as to avoid recurrence of the procedural lapses of the kind above. Copy enclosed. (Annexure).

[Ministry of Defence (Department of Defence Production & Supplies
(O. M. No. F. 9(1)/86/D(S-II) dated 19th December, 1986].

ANNEXURE

F. No. 4(20)/86/D(Supply.I)
Government of India
Ministry of Defence
Deptt. of Defence Production & Supplies
New Delhi, the 12th December, 1986.

OFFICE MEMORANDUM

SUBJECT :—The issue of a single tender enquiry and non-extension of validity period—observations of P.A.C. regarding—Para 1.191 of 44th Report of the PAC.

To meet the urgent requirements of Directorate General of Ordnance Factories for an item a single tender enquiry for quantity one lakh nos. of estimated values at Rs. 5 crores was issued to a firm in June '79, by the Department of Defence Supplies, on the basis that they had developed this item against an earlier developmental order for a small quantity. The firm gave a quotation with unusual payment terms and with a validity period of hardly one month. Negotiations were held without getting the validity period extended. The firm raised the price during negotiations stating that they had erred in computing the price. In the meeting of the Negotiating Committee, it was decided that only the super urgent requirement of a small quantity be covered against that single tender and that the balance may be retendered on a broad based limited tender enquiry in accordance with the declared policy of the Deptt. of inducting more than one source for a store with a large and recurring demand. Ultimately the quantity against retender had to be procured at a price higher than the single tender price for the first lot.

2. The above case has come to the adverse note of the PAC on two counts :

- (1) Failure on the part of the department to place a substantially large order on the firm before the expiry of the validity period resulting in a higher price to the same firm after negotiations.
- (2) Not placing the order for a large quantity as per the first tender, and retendering led to higher prices, leading to infructuous expenditure.

3. It may be that this has hampered due to the incorrect decision in the first instance to issue a single tender enquiry against a large and recurring

demand. If a broad based tender enquiry had been issued in the first instance itself, a proper distribution of the entire quantity would have been possible against competitive prices. Even if the department considered the price and other terms and conditions were unacceptable on the basis of the available information at that time, extension of the validity period should have been sought, prior to holding any negotiations. The non-extension of validity period gave the firm an opportunity to revise its offer making the purchase decision difficult.

The above case is being brought to the notice of all concerned so as to ensure that single tender enquiries should be avoided in respect of *ab-initio* developmental purchases, particularly for stores with large and recurring demand except in exceptional circumstances for reasons to be recorded in writing. It should be specifically indicated in the tender enquiry that the tenders should be valid for the prescribed period, failing which the same is likely to be ignored. Every effort should be made to ensure that the tender is decided within the original validity period. In case it is not possible to place the orders within the said validity period action invariably should be taken to seek extension of validity before holding negotiations or placement of supply orders.

(V. Lakshmi)

Deputy Secretary (Supply.II)

Distribution as per list.

To

All Chairmen, Technical Committees etc./as per list.

Recommendation

The Committee observe that for development of additional sources of supply of railway equipment, the Ministry of Transport (Department of Railways—Railway Board) follow the system of placement of educational/developmental orders at a preferential price on new entrepreneurs besides placing order for the major portion of supplies on established suppliers. The Committee commend the system followed by the Ministry of Transport (Department of Railways) for acceptance by the Department of Defence Supplies.

[Sl. No. 21 (Para 1.194) of Appendix-II to 44th Report of the PAC (8th Lok Sabha)]

Action Taken

The instructions of the Railway Board on indigenous development for supply of railway equipment have been examined. Salient features therein *vis-a-vis* instructions of the Supplies Division of the Deptt. of Defence Production & Supplies (reviewed and modified in the light of PAC recommendation) are as under :

| <i>Gist of the instructions of Ministry of Transport (Railway Board)</i> | <i>Supplies Division/Deptt. of Defence Production and Supplies</i> |
|--|--|
|--|--|

1

2

1. *Quantum preference*

Give a commitment to the Entrepreneur that he will get an order for 100% of the requirement for the first year, 80% for the 2nd year, 60% for the 3rd year provided prices are reasonable. The remaining 20% and 40% requirements will be obtained by open tender. From the 4th year, there would be open competition.

The policy in respect of developmental supply orders by Supplies Division *inter-alia* include the following :

- (i) A minimum of two sources should be developed for every item, as far as possible.
- (ii) At the time of the first developmental order itself a commitment for bulk supplies commensurate with the next 3/4 years requirements is also given.

- (iii) After establishing one/two source (s), new sources in response to competitive tenders should in the beginning be considered only for trial orders for limited quantities, while the major share should be allocated to sources which took initiative in developing the stores.

The above policy in principle is in line with the policy followed by Ministry of Transport (Railways), except that in the area of defence sources, establishment of atleast two sources is considered desirable.

(2) *Price preference*

The instructions of Ministry of Transport (Railway Board) regarding price preference relate to that *vis-a-vis* the imported cost only. There is no provision in their policy to give price preference for a new indigenous source *vis-a-vis* established indigenous supplier.

In this Department, the experience generally is that new sources quote invariably rates lower than that of the established suppliers. Hence the question of any price preference for the new entrants does not arise. On the contrary there is a persistent demand from the industry that established old sources should be given price preference *vis-a-vis* new entrants. This question was considered in a review meeting on policy under the Chairmanship of RRM(S) on 24-4-86 and the following decision was arrived at: "It is neither necessary nor is it desirable to lay down any quantum of price preference for established sources *vis-a-vis* new sources.

Recommendation

In yet another case the Committee find that two supply orders for 134 trailers (without panels) were placed by the Department in July, 1979 on two firms 'AF' and as for 34 and 100 trailers, respectively. These trailers were required for mounting generating sets. The Inspectorate of Vehicles (North Zone) from whom the capacity of firm 'AF' was ascertained and reported that the firm had only limited capacity with regard to manufacture, and its financial resources were also limited. The Inspectorate had further stated that the firm 'AF' would not be able to give more than 5 trailers per month. The committee are therefore surprised to find that an order for 34 trailers was placed on the firm for delivery at the rate of 8-10 numbers per month. The firm could supply only 20 trailers after grant of 3 extension till 31st December, 1982. Firm 'AC' completed the supply order placed on it within the extended date of May 1981. Similarly, in order to procure generating sets for mounting on the trailers to be supplied by the firm 'AF' and 'AG', the Department placed the supply order in November, 1979—one firm 'AH' for 145 generating sets and the other on firm 'AI' for 50 sets. The trailers were to be supplied to these firms by the Department. The delivery of generating sets mounted on trailers was to commence after two months by firm 'AH' and after 3 or 4 months by firm 'AI' depending on the receipt of trailers. As there were not sufficient trailers, there was some delay in supplying them to the firms 'AH' and 'AI' with the result that they could not complete the supplies. The delay in issuing the trailers resulted in a delay of more than a year in completing the orders. Consequently both these firm claimed price escalation to the extent of Rs. 22.24 lakhs in term of the price variation clause. It is obvious that the Department should have taken care to ensure that the availability of generating sets on the one hand and of trailers on the other coincided as it is this one failure which resulted in a large avoidable expenditure.

[Sl. No. 25 (Para 1.198) of Appendix II to 44th Report of the PAC
(Eighth Lok Sabha)]

Action Taken

The observations of the PAC have been noted. All concerned have been advised to ensure coordinated action for procurement of complementary items to avoid recurrence of cases of this Nature. A copy of the instructions issued is enclosed (Annexure).

[Ministry of Defence (Department of Defence Production & Supplies)
O. M. No. F. 9(1)/86/D(S-II), dated the 27th October, 1986.]

ANNEXURE

No. 4 (20)/86/D (Supply. I)
Government of India
Ministry of Defence
Deptt. of Defence Prodn. & Supplies

New Delhi, the 26th September, 1986.

OFFICE MEMORANDUM

SUBJECT : Coordinated procurement of complementary items—observations of PAC regarding—Para 1.198.

For procurement of trailer mounted Gen. Sets, supply orders were placed in July 1979 on two firms for a certain number of trailers and in Nov. and Dec. 1979 on two firms for Generating Sets. The trailers were to be supplied to the Gen. Sets manufacturers as free issue items for mounting the sets. As there were not sufficient number of trailers and there was also some delay in supplying them to the Gen. Set manufacturers, the latter could not complete supplies and consequently the two Gen. Set suppliers claimed price escalation to the extent of Rs. 22.24 lakhs in terms of the price variation clause. The Public Accounts Committee in their 44th Report presented to the Lok Sabha in April 1986 have observed that the Department should have taken care to ensure that the availability of the Gen. Sets on the one hand and of trailers on the other coincided as it is this one failure which resulted in a large avoidable expenditure.

2. The above observations of the PAC are brought to the notice of all concerned for information and necessary action. In particular, it is requested that wherever complementary items are to be procured (in this case the Gen. Sets and Trailers) the indenter should indicate in the indent the availability of matching quantity of the trailers/chassis etc. If latter items are not available ex-stock but are to be procured afresh, their induction should be so planned as to ensure their availability to the main equipment manufacturers by the required date. It is also necessary to closely monitor the performance of not only the main equipment manufacturer but also the manufacture of related equipment to obviate any delays in supplies.

(V. LAKSHMI)

Deputy Secretary to the Government of India

To

1. MGO

2. DGOS
3. COM
4. AOM
5. OFB
6. Chairmen of all Technical Committees.
7. DGS & D, (CDN Dte), Parliament Street, New De lhi.

Copy to :

1. PAC
2. DADS
3. IF (DS)
4. DS (O)

Copy also to :

PS to Secy (DP&S)/PS to Addl. Secy(DP&S)/SPA to JS(S)/SPA to Addl. FA(M)/DFA(DS&P)/DS(S.I) DS(S. II)/DS(S. III)/CPO(A)/CPO(R)/CPO(J)/AFA(DS)/LO(DS).

Recommendation

The Committee note that 497 number of tyres BLR (for imported tractors) beyond local repair were got retreaded by a firm 'AZ' during May 1976-October, 1977 at a total cost of Rs. 6.23 lakhs. These tyres were got retreaded in spite of the fact that an adequate stock of new tyres was already available and the imported tractors in question were likely to be phased out in the near future. The Committee note with surprise that retreading of 497 tyres was completed during May 1976-October 1977 and the Ordnance Dte was not aware of the phasing out of the tractor at that time. It was only in April 1984 that the decision to declare the tractors in question obsolete was taken. The incorrectness of the decision to get these tyres retreaded is further corroborated by the fact that till March, 1983, out of the 497 retreaded tyres, only 26 had been issued to user units, 370 had been transferred to two other Ordnance depots and 101 held in stock. Even at present, as many as 113 of these retreaded tyres are held in stock at Central Ordnance Depot. The Committee are distressed to note that an expenditure of Rs. 5.90 lakhs on retreading of 471 out of 497 tyres when adequate stock of serviceable tyres was already available and the tractors for which the retreaded tyres were to be used, were being phased out in the near future, has proved infructuous. The Committee consider it to be yet another instance of complete lack of planning coordination and foresight on the part of the Department, which has resulted in avoidable loss to the Government.

[Sl. No. 28, (Para 1.201) of Appendix-II of 44th Report of the PAC (8th Lok Sabha)].

Action Taken

The Indent is placed by the Directorate General of Ordnance Services as a result of provision reviews. In this particular case, a provision review was carried out on 1st June, 75 and since it revealed minus balance of 7 numbers after taking into account the deficiencies revealed the requirement was projected on procurement agency, in this case, the Department of Defence Supplies.

On receiving the Indent, the orders were placed for retreading of the tyres. The DGOS was not aware of phasing out of MAZ Tractors at that time. Retreading of the 497 numbers of tyres was completed during the year 1976-77, and Ordnance Directorate was not aware of phasing out of MAZ Tractors at that time. The observations of Committee have been noted for ensuring that such a situation does not arise in future. These observations have been sent to the DGOS since they are the Indenting Authority.

[Ministry of Defence (Deptt. of Defence Production & Supplies) OM No. F. 9(1)/86/D(S. II) dated 19th Dec. 1986].

CHAPTER III

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

Recommendations

Similarly in another case, delay in placing order for the procurement of 46,370 tail units required to put a large amount of ammunition 'ZB' from repairable to serviceable condition, on the established supplier firm 'Z' resulted in an avoidable additional expenditure of Rs. 4.25 lakhs. Initially, the Department placed in December, 1977 supply order for 23,185 tail units each on firms 'X' and 'Y' inspite of the observation made by the Technical Committee (Armament Stores) that the firms were inexperienced and lacked the capacity to undertake manufacture of the stores. According to the Department the orders on these firms were placed since the firms had shown confidence to develop and manufacture these items and had also quoted the lowest price of Rs. 6.95 each. As the firms 'X' and 'Y' failed to develop acceptable samples, it was decided to cancel the orders on them. Mere price advantage offered by the concerned firms when there was doubt about their own competence ought not to have been accepted as sufficient justification for placing order on the firms in the face of Technical Committees' clearly expressed opinion about their incompetence.

On cancellation of the orders for tail units on firms 'X' and 'Y' the Technical Committee decided in June 1978 to place an order for entire quantity on an established firm 'Z'. The firm had agreed in June, 1978 to accept the order for 93,370 numbers at the rate of Rs. 8.50 and requested the Department to issue a letter of intent immediately to enable it to commence planning and procurement of raw materials. According to the Department no letter of intent could then be issued as there was a considerable quantity on order on the firm and there was also a deliberate decision to develop an alternative source. The former argument is on the face of it unjustifiable as no attempt had been made to ascertain the firms capacity while the latter argument would have had force if they had already discovered any suitable firm willing to undertake the task. The delay in placing order for the full quantity only resulted in a higher price having to be paid. The Committee take a very serious view of the entire transaction.

[Sl. Nos. 19 and 20 (Paras 1.192 & 1.193) of Appendix-II to 44th Report of the PAC (8th Lok Sabha)]

Action Taken

In September, 1977 a tender enquiry was floated to 12 firms against an urgent indent for the procurement of 46370 nos. of Tail units excluding the existing 2 suppliers. One of these two established suppliers i. e. firm 'Z' however gave an unsolicited quotation at the rate of Rs. 8.50 each. The regular quotations were considered in November, 1977 in the meeting of Technical Committee (AS) and it was decided to hold a negotiation meeting with three regular tenderers which were considered capable of productionising the store. The report of the firms 'X' and 'Y' received from the authorities concerned, clearly stated that both the firms had the capability and the capacity to produce the store subject to their augmenting the plant and machinery required for the purpose. The firms during the negotiation meeting confirmed that they had carefully studied the drawings/specifications and would fulfil their commitment. Accordingly, in December, 1977 orders were placed on firms 'X' and 'Y' for an equal quantity of 23185 Tail units at the rate of Rs. 6.95 each. It may therefore be noted that the orders on the two new sources were placed not merely because of the lower prices but based on the Technical Committee's recommendations about their competence subject to their augmenting plant and machinery and the firms assurance to do so in the negotiation meeting. Till May 78, both the firms (X & Y) had not installed the projection welding machine, a special purpose machine, typical to the manufacture of this store. During the review meeting held in May, 78 they were categorical that they would do so, if their request for price increase was agreed to by the department. The samples fabricated by them within the time-frame for manufacture of acceptable advance samples had failed in the pull off tests, besides the raw material especially for management control for the tube, had not been found upto the laid-down specifications. Even if the projection welding machine were installed by the two firms, the firms would not have been in a position to deliver the acceptable advance samples before 6 to 8 months' time thereafter. Since the requirement was operational and urgent, keeping in view the poor performance and requests for price increase of the two firms it was decided to cancel the developmental orders on them.

Though the firm 'Z'—the past supplier agreed to accept the order for 93370 nos. at the rate of Rs. 8.50 in June, 1978, no letter of intent could be issued to this firm since the purchase decision had to be taken in the context of a conscious decision to develop alternative sources to break the monopolistic situation of the firm who had also a backlog adequate enough to keep them loaded for another 8 to 9 months. Firm 'Z' and 'Y' were making consistent efforts for developing the item. It was unfortunate that they did not succeed in submitting acceptable samples even after repeated extensions. The demand of the store having gone up to 93370 by that time, it was decided to place finally the order on firm 'Z' in March, 1979 for that quantity. At that stage the firm declined to accept the order requesting for a revision of price to Rs. 13.40 which was reduced to Rs. 13.25 per piece in the negotiation meeting in May,

1979. It was decided to increase the quantity from 93370 to 1 lakh nos. in October, 1979 in the context of another demand. However the supply order was actually placed on firm 'Z' only in January, 1980 for supply of 1 lakh nos. at the rate of Rs. 13.05 per piece only when the department had succeeded in locating another alternate source—firm 'AA' on whom the balance quantity of 43370 nos. was covered at the same rate of Rs. 13.05 per piece.

In the context of the heavy backlog on the established supplier adequate enough for 8-9 months and in keeping with the declared policy of the department for inducing minimum two sources for any developmental store, the over all interest and developmental objective of the department weighed against the cost effectiveness of the purchase transaction.

[Ministry of Defence (Deptt. of Defence Production & Supplies) O.M. No. F. 9 (1)/86-D (S. II) dated the 19th December, 1986.]

Recommendations

In yet another case, for the procurement of plant dry air charging sets, the non-acceptance of firm 'AC's' offer of Rs. 1.39 lakhs per set within the validity period resulted in an extra expenditure of Rs. 1.68 lakhs on procurement of 13 sets out of 31. According to Audit, firm 'AC's' offer of Rs. 1.39 lakhs was kept open upto 25th June, 1980. In the meantime, requirement for the equipment was increased in May, 1980 to 31 sets. The DDS failed to place supply order on the firm before the validity period. Firm "AC" revised the price of the equipment to Rs. 1.78 lakhs per set and also extended the validity of its offer upto July, 1980. Finally a supply order for 31 sets was placed on the firm on 4th September, 1980 at the rate of Rs. 1.52 lakhs.

[Sl. No. 22 (Para 1.195) of Appendix-II to 44th Report of the PAC (8th Lok Sabha)]

Action Taken

The reasons for not placing the order within the validity period of the offers on the two firms have been clarified in replying to PAC questionnaire—Question No. 34 (b). The relevant extracts are reproduced below :—

- (i) Quotations were opened on 25.3.80. These quotations were forwarded to AHSP for their comments. Also various clarifications had to be asked from the firms.
- (ii) After receipt of clarifications from the firms, part case was sent by Technical Committee (Engineering Store) to Department of Defence Supplies on 28.5.80 and the same was received in DDS on 30.5.80. The case was examined in the Department of Defence Supplies. The lowest quotation was very much above the estimated price of the

indentor and reference was required to be made to indentor about their acceptance of the price for procurement of store. The indentor confirmed on 12th June '80 that there is no difficulty in providing additional funds. Further, it was decided to hold a negotiation meeting with both the firms 'AB' and 'AC' and date for negotiation meeting was fixed as 24.6.80. The firm 'AC' requested to postpone the meeting to the 1st week of July as 24th June was not convenient to them. Accordingly, negotiation meeting was postponed to 5th July '80 and Telegraphic Supply Order was placed on the firm 'AC' on 30.7.80 within the extended validity date of 31st July, 1980.

In this context it may be stated that the offer dated 4.4.80 of Rs. 1.39 lakh per set was with an omnibus variation clause namely :

“any further increase, if any, will also be to your account as we have to fully depend on the prices of proprietary items manufacturers.”

In that stipulation the firm had reserved the right to increase the price to any level. Therefore, validity did not have any sanctity. We cannot place an order with this type of clause because on the basis of the offer dated 4.4.1980, the firm could have updated the price to Rs. 1.7 lakhs or even more on account of the price variation clause. The number of prime items of the price variation clause was required to be narrowed down. A negotiations meeting was convened. In the negotiations meeting, the price variation clause was narrowed down to only one prime item namely lombadani diesel engine whose price could be easily varified through documentary evidence. In fact, there was considerable savings after the negotiations with the firm on 5.7.1980 as the order was placed at a lower price, it was brought down from Rs. 1.78 lakhs to 1.52 lakhs resulting in overall savings and not extra expenditure.

[Ministry of Defence (Deptt. of Defence Production & Supplies) OM No. F 9(1)/86/D/(S. II) dated 19th Dec. 1986.]

Recommendations

The Committee note that the Department of Defence Supplies placed in October, 1978 after the question of price negotiation was discussed in a meeting in December 1977, two supply orders one on a private firm 'AD' and the other on a PSU 'AE' for development and supply of 50,000 shells each at the rate of Rs. 324 and Rs. 356 per shell, respectively. These shells were required for producing a particular type of ammunition 'ZC' in the Ordnance Factories. According to the Department although a meeting for price negotiation was held in December 1977 to place an order on firm 'D', the order could not be placed immediately on them in view of their critical financial position.

Both the firms 'AD' and 'AE' were required to complete delivery of the shells by the middle of 1980. Both the firms failed to submit defect free samples in time. Firm 'AD' submitted the samples at the end of one year and seven months. While firm 'AE' did so by about 2 years. Bulk production clearance was granted only on 12 December, 1980 to firms 'AD' and on 29th October, 1980 to firm 'AE'. There was abnormal delay on the part of firms 'AD' and 'AE' in making the supply of shells in as much as firm 'AD' supplied only 20,186 out of 50,000 shells so far and firm 'AE' could supply 38,208 shells by March 1983. It is surprising that inspite of such an inordinate delay on the part of these firms, enhancement of price per shell was sanctioned for both the firms, 'AD' from Rs. 324 to Rs. 533 and 'AE' from Rs. 356 to 565. The Committee do not find any justification for agreeing to such a generous increase in both the cases.

[Sl. Nos. 23 & 24 (Paras 1.196 and 1.197) of Appendix-II to 44th Report of the PAC (8th Lok Sabha)].

Action Taken

The store in question was of developmental nature; it was difficult for both the purchaser and the supplier to arrive at an accurate estimate of the cost of the store; and investment costs as well. The item was also very complicated and in spite of sincere efforts made by the firms it took two years in both the cases before grant of bulk production clearance. There were considerable developmental efforts on the part of Government as well as the firms in succeeding to productionise the store and it was impossible in that context to consider another developmental venture denovo, with a view to disallowing upward revision in prices. However, there has been no unintended benefit to the firms in the enhancement of the prices for firm 'AD' from Rs. 324 to Rs. 533/- and for firm 'AE' from Rs. 356 to Rs. 565/- which took care of the actual cost of production as verified by Senior Cost Accounts Officer (Joint Director (Cost) of the department which worked out in the case of the Public Sector Undertaking to Rs. 586/- against the demand of Rs. 731.5 per shell of firm 'AE' and Rs. 571.87 of firm 'AD'. This department as different from DGS&D is dealing with development of strategic defence items and the developmental period cannot be ruled out.

[Ministry of Defence (Deptt. of Defence Prodn. & Supplies) O.M. No.F.9(1)/86/D(S.II) dated the 19th December, 1986.]

Recommendation

From the facts mentioned above, the Committee have reached the firm conclusion that the Department of Defence Supplies, which was created in 1965 for the purpose of indigenisation, development and production of imported defence items and to achieve self-reliance in the procurement of defence

equipment and stores required by the Armed Forces has not been able to achieve what was expected of them. Despite the fact that the Department has been functioning for the past twenty years, it does not appear yet to have succeeded in establishing many reliable producers of defence stores and equipments *pari passu* with the industrial development of the country. The failure is the more disappointing in as much as Government appears to have followed a liberal policy with regard to development expenses. The Committee trust that the Department will examine the various suggestions made in the foregoing paragraphs designed to improve its working. The Committee recommended that Government should appoint a High Level Committee to go into the entire question of indigenisation and production of defence stores in the country.

[Sl. No. 30 (Para 1.203) of Appendix-II to 44th Report of the PAC (8th Lok Sabha)]

Action Taken

There is already a High Level Committee known as the Central Technical Committee chaired by Secretary (DP&S) which includes DGTD, DGOF, DGI, DC SSI and senior officers of the Services, which is entrusted with the task of review of the progress of indigenisation and production of defence stores in the country. The Committee *inter alia* sets targets for the various Technical Committees and reviews their performance and also discusses various problems from the user angle and the inspection and production angle with a view to finding effective remedies. The Committee meets annually. In addition, review meetings are also taken by Secretary (DP&S)/AS(DP&S) in respect of critical items needed for the Defence Services.

Accordingly, appointment of another High Level Committee as proposed by the PAC is not considered necessary at this juncture.

This has been approved by Raksha Rajya Mantri.

[Ministry of Defence (Deptt. of Defence Prod. & Supplies) OM No. F.9(1)/86/D(S.II) dated 27th Oct. '86.]

CHAPTER IV

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

Recommendation

The Committee find that out of the advances/on account payment of Rs. 1.566 crores outstanding against 28 firms as on 29 September, 1983, a sum of Rs. 47.571 lakhs was not covered by Bank Guarantee and recovery of such advances became difficult in the absence of any safeguards. The Committee trust that while working out the mechanism for sharing the developmental cost with the manufacturers as recommended in the preceding paragraph, suitable safeguards for recovery of advance in the event of failure or cancellation of the supply orders, will also be provided.

[Sl. No. 8 (Para 1.181) of Appendix-II to 44th Report of the PAC
(8th Lok Sabha)]

Action Taken

Noted.

[Ministry of Defence (Department of Defence Production & Supplies) O.M.
No. F. 9(1)/86/D(S-II), dated the 27th October, 1986.]

Recommendation

The Committee note that against the Navy's requirements for indigenous development of High pressure air compressors, supply order for development and manufacture of 25 number of portable air compressors at a total cost of 26.25 lakhs was placed by the Department of Defence Supplies on 'firm' 'R' in September 1977. The firm was required, in the first instance, to manufacture 2 Prototype complete with indigenous components and materials for test and trials. The remaining 23 number were to be supplied after issue of bulk production clearance based on satisfactory performance of the prototype. On 25th March, 1979, the firm submitted the prototypes. They were found on inspection to be defective. After rectifying the defects the prototypes were resubmitted by the firm in October, 1979. The bulk production clearance was given in November, 1979, without testing the rectified prototypes. The Department have admitted that the grant of Bulk Production clearance even before

carrying out the users trials were carried out was not prudent on the part of the concerned officers of the Directorate of Production and Inspection Navy, later when their prototypes were put to trials, the Directorate of Production and Inspection Naval pointed out in April, 1980 that the firm had used imported components (retrieved out of the old imported compressors lying with it) instead of indigenous ones. Consequently the bulk production clearance accorded in November, 1979 without proper verification was withdrawn and the firm was asked to prepare a detailed set of revised manufacturing design/drawings for approval by the inspection authorities and to produce two fresh prototype using indigenous materials/components.

The Committee are constrained to observe that the inspection staff had no excuse for not complying with the obvious norms of inspection and accepting the equipment only on visual inspection in respect of an order which related to developmental production. This is a serious failure and the Ministry should take appropriate action against those responsible.

By no stretch of imagination can it be held that it was only a case of procedural and conceptual technical lapse on the part of the Inspecting Officers. The Committee are unable to agree with the findings of the Board of Investigation. The Committee would like the Department to review the matter and take more stern action so that such lapses may not recur in future.

[Sl. Nos. 14, 15 & 16 (Paras 1.187, 1.188 & 1.189) of Appendix-II to 44th Report of the PAC (8th Lok Sabha)]

Action Taken

The matter has been reviewed. As already reported to the Committee, a fact finding Board of Officers had been appointed earlier for the purpose of investigating the circumstances leading to the premature clearance of the prototype. On the basis of the report of the fact finding Board, the lapses were regarded as procedural and conceptual, on the part of the technical officers. A written warning at the level of DGI was administered to the defaulting officers with the approval of the then AS(DS). On the basis of the report it was not considered necessary, at that point of time, to initiate any disciplinary proceedings under Rule 14 or 16 of the CCS (CC&A) Rules 1965 against the officers. In the circumstances, the question of review of the earlier proceedings to take sterner action against those officers at this point of time does not arise.

In this context it may also be clarified that the case has no vigilance angle. Suitable remedial action has already been taken to avoid recurrence of such lapses.

This has the approval of Raksha Rajya Mantri (S).

[Ministry of Defence (Deptt. of Defence Production & Supplies) O.M. No. F. 9(1)/86/D(S-II) dated 27th Oct. '86].

Recommendation

The Committee note that an indent was placed by Director of Ordnance Services on the department of Defence Supplies in February, 1978 for procurement of 4,06,000 litre of Paint RFU in 3 different packing viz. 20 litre drums, 5 litre packs and 1 litre packs. Although the paint was urgently required by the DOS during June, 1978 to December 1978, a part order for 2,50,000 litres of Paint in 3 different packs was placed by the Department in March 1979, on firm 'AL' at the rate of Rs. 8.80 per litre for 20 litre drums, Rs. 10.08 for 5 litre packs in a Rs. 12.00 for 1 litre pack. Strangely enough no orders were placed on firm 'AJ', which had quoted the lowest rate of Rs. 8.80 per litre for 20 litre drums and Rs. 10.08 per litre for 5 litre packs. Firm 'AL' was required to submit acceptable advance samples by 31st March, 1979. The supply order on firm 'AL' was cancelled in February, 1980 without financial repercussions on either side, as the firm failed to submit acceptable samples till that period. The item was already being procured by the DGS & D through established indigenous sources on rate contract.

[Sl. No. 26 (Para 1.199) of Appendix-II to 44th Report of the Public Accounts Committee (1985-86) (Eighth Lok Sabha)].

Action Taken

The part order for 2,50,000 litres of Paint RFU in 3 different packs was placed in March, 1979 on firm 'AL' at the rate of Rs. 8.00 per litre for 20 litre drums, Rs. 10.08 per litre for 5 litre pack and Rs. 12.00 per litre for 1 litre pack. The lowest rates in the tender were from 'AJ' for 20 litre drums and 5 litre pack and from firm 'AM' for 1 litre pack. Though firm 'AL' had quoted originally only for 20 litre drums at a rate of Rs. 8.90 per litre, it was the only firm who agreed during the negotiations meeting on 21.2.79 to accept the order for all the 3 packs with guaranteed price and delivery terms accepting the lowest price received tender. Firm 'AJ' and firm 'AM' did not give guaranteed delivery or price during the negotiation meeting. In the circumstances no orders could be placed on firm 'AJ'. The order on firm 'AL' was placed on 8.3.79 and the advance samples was to be submitted by 31.7.79 as per contract. Even inspite of repeated submission of Samples of the subject Store till 31.12.79, the firm failed to ensure acceptable quality as all the Samples failed in colour/gross resistance to heat etc. Since it was a developmental failure inspite of genuine efforts on the part of the firm to make the item, the order had to be cancelled without any financial repercussion on either side. It is true that 'AL' was not an established source of DGS&D for 'Paint RFU' OG, but they had supplied other items of paints of different specifications to Defence. Hence in the DDS while dealing with the first purchase of "Paint RFU OG" after its inclusion in the list of "items for exclusive use for Defence", 'AL' was considered at par with other established suppliers. The sources established by DGS&D could not

be considered, since they were not willing to guarantee price and terms of delivery, Prior to its inclusion in the exclusive list or at the time DDS finalised this purchase, it was not covered by any rate contract of DGS&D.

It may, however, be stated that two orders were placed in January, 1979 by DGS&D for a small quantity of 84,000 litres (in 20 litres pack only) of the same specifications as indicated below :

| Indent No. & Date | Name of firm Order No. & Date | Qty. | Rate | Consignee | Supply Position |
|---|---|------------------|------|-----------|----------------------|
| 8833/Paint 79-80/PV/ VEJ dt. 26.9.78 | 182 dated 25.1.79 M/s. Bristol Paints | 42,000 litres | 9.40 | VEJ | Completed in 1981 |
| —do— | 183 dated 25.1.79 M/s. Modi Industries | 42,000 litres | 9.80 | —do— | —do— |

The above two firms had also quoted against the Tender enquiry of Department of Defence Supplies and they alongwith other had firmly declined to give guaranteed delivery period and price.

[Ministry of Defence (Department of Defence Production and Supplies)
O.M. No. F-9 (1)/86/D (S-II) dated the 19th December, 1986]

Recommendation

Subsequently, in March, 1979, Director of Ordnance Services placed on DDS another indent for 8,20,300 litres of paint requiring immediate procurement of this quantity by June, 1980. As a result of the fresh tender enquiries floated in August, 1979, the Department of Defence Supplies placed 9 supply orders in January/February, 1980, on different firms for a total quantity of 12.15 lakh litre of paint in different packs at the rate of Rs. 12.91 to Rs. 13.50 per litre for 20 litre drums, Rs. 15.10 to Rs. 15.30 per litre for 5 litre packs and Rs. 16.75 to Rs. 17.00 for 1 litre pack. According to the Department, the paint in question was procured by DGS&D for Defence Department at the rates of Rs. 9.40 to Rs. 9.80 per litre in 20 litre packing against the orders placed on 25-1-1979. The Committee are not satisfied with the explanation of the Department that there was some confusion as to who should deal with the purchase, being the first purchase after it was made an exclusive defence item. The

Committee regret that failure of the Defence Department to hold consultation with DGS&D before placing the order led to avoidable loss to the Department. If 4,06,000 litres of paint indented in February 1978 had been procured through the established source of supply, it would have cost Rs. 40.84 lakhs, as against the cost of Rs. 59.17 lakhs, under the supply orders placed in January-February, 1980. The Committee desire that the responsibility for the lapses be fixed and action taken against the defaulters. The Committee also recommend that procurement action in respect of common utility items should be in future as far as possible, if not invariably be taken in consultation and coordination with the DGS&D and other concerned agencies.

[Sl. No. 27 (Para 1.200) of Appendix-II to 44th Report of the PAC
(8th Lok Sabha)]

Action Taken

The store Paint RFU was declared exclusive use for and purchase by Defence vide DGS&D (Coord-I Section) Office Order No. 155 dated 12-11-1975. However, it appears that the same continued to be handled thereafter also for some time by DGS&D. The delay in handling the store by Department of Defence Supplies, therefore, arose due to the mistaken impression that the store which was till then being handled by DGS&D could be a common utility item only, because DDS were unaware of this addition to the list of items for exclusive use by Defence. However, it was a lapse on the part of DDS that the position was not verified straightaway from DGS&D itself, when the doubt arose. This would have saved a delay of over two months in taking up the indent for processing in the Department. It was unfortunate that the coverage at that point of time turned out to be difficult due to non-availability of raw material (sodium chromate for OG colour) since the sole supplier viz. M/s. Golden Chemical, Bombay was under lockout. The Department, therefore, perforce had to cover part order only—that too on one firm who alone could give guaranteed price and delivery. It was again unfortunate that the firm inspite of its being an established supplier of several other types of paints of different specifications to Defence failed ultimately to develop this particular store as per specifications which led to the procurement of the entire quantity of 4,06,000 litres against the said indent afresh at an additional cost of Rs. 18.33 lakhs to the exchequer. All purchase decisions of the item were taken jointly by the functionaries at different levels and there is no possibility of fixing any responsibility on any particular functionary. It may, incidentally, be mentioned that the CPO concerned is dead and Deputy Secretary concerned is no longer in Government service. Further, no malafides or negligence can be attributed to the concerned officers in this purchase.

The Supplies Division of the Department of Defence Production and Supplies are expected to deal with only developmental purchases. Certain

purchases in respect of established items including common utility items are to be procured through DGS&D or directly by Service HQrs for items included in the list of "exclusive Defence stores". However where emergent purchases of the items normally procured by DGS&D/other concerned agencies are required to be dealt with by Supplies Division the rates at which purchases are made by DGS&D/other concerned agencies are kept in view as far as possible. However, the views of the Committee to avoid recurrence of such lapses have been noted and instructions to all concerned have been issued (copy enclosed Appendix-I).

This has been approved by Raksha Rajya Mantri.

[Ministry of Defence (Deptt. of Defence Prod. and Supplies) OM No. F. 9(1)/86/D (S.II) dated 27th Oct. 86]

Recommendation

The Committee find that amount of Rs. 37.83 lakhs was recoverable as liquidated damages from suppliers of stores in respect of 92 supply orders placed by the Department during the period 1977-78 to 1980-81. Of this, an amount of Rs. 18.78 lakhs involving 44 supply orders was waived fully by the Department. Out of the balance amount of Rs. 19.05 lakhs only a sum of Rs. 1.57 lakhs was recovered. The Committee trust that incorporation of a liquidated damages clause in the supply contracts is meant for ensuring timely execution of the contracts and to guard against the propensity for delay. Though the Committee agree that in development-cum-production supply orders, the strict enforcement of this clause may not to some extent be possible but they feel that the very purpose of this clause is defeated if the suppliers know from their past experience that such damages would finally be waived. Further, the use of free and uncontrolled discretion by the concerned officers with regard to the waiving of liquidated damages may lead to its misuse. The Committee recommend that comprehensive guidelines for the concerned departmental officers should be issued so that this discretion is very judiciously exercised. The Committee note that some guidelines were issued on 20-9-1985 to bring about uniformity in regard to the levy of liquidated damages for delayed supplies and to minimise areas of discretion. The Committee recommend that the question of further revamping these guidelines should be periodically reviewed.

[Sl. No. 29 (Para 1.202) of Appendix-II to 44th Report of the PAC (8th Lok Sabha)]

Action Taken

Noted.

[Ministry of Defence (Deptt. of Defence Prod. & Supplies) O.M. No. F. 9(1)/86/D(S.II) dated 27th October, 1986]

CHAPTER V

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

Recommendation

The Committee note that in two cases failure on the part of the Department of Defence Supplies to enforce the contract conditions regarding cancellation of contract and to effect risk and cost purchase within 6 months of the date of breach of contract, resulted in an infructuous additional expenditure of Rs. 10.91 lakhs regarding purchase of Ammunition boxes and Trailer Fire Fighting. According to the Ministry of Defence, in the case of purchase of ammunition boxes, the legal advice was that because of the abnormal increase in the cost of raw material by Government action, impossibility of performing the contract had occurred under the Contract Act and as such no valid risk purchase could be made. Similarly in the case of Trailer fire fighting, non-availability of engine from the single approved source, due to look out in their premises, was accepted as a case of impossibility of performance by the Legal Adviser. However when a second legal opinion was obtained in the case for the purchase of trailer fire fighting the Legal Adviser (Defence) advised on 7-8-1984 that general damages should be claimed from the defaulting firm on the basis of the market rate on or about the date of the breach. Consequently, a claim of Rs. 4,57,329.60 was raised against the defaulting firm. It would appear the first legal advice was given without a judicious appraisal of all the connected facts. The Committee would like to know the latest position about the realisation of the claim for general damages amounting of Rs. 4,57,329.60.

[Sl. No. 12 (Para 1.185) of Appendix-II to 44th Report of the PAC
(8th Lok Sabha)]

Action Taken

The firm 'J' have disputed this claim. However, CDA (HQ) has withheld a sum of Rs. 4,57,329.60 from the pending bills of the firm 'J' against other contracts. On the request of the firm, the matter has been referred to Arbitration. Thereafter, the firm 'J' have questioned the legality of withholding this amount and have asked for refund of the withheld amount. On the advice of LA(Defence), the firm 'J' have been told that pending the arbitration Award, the withheld amount could be released only if they furnish a bank guarantee for this amount. The bank guarantee is awaited from the firm.

2. The final outcome of the arbitration will be intimated to the PAC.

[Ministry of Defence (Deptt. of Defence Prodn. & Supplies) O. M. No.
F. 9(1)/86/D(S.II) dated 19th December, 1986]

NEW DELHI ;
April 6, 1987
Chaitra 16, 1909 (Saka)

E. AYYAPU REDDY
Chairman
Public Accounts Committee.

APPENDIX I

MINISTRY OF DEFENCE

(Deptt. of Defence Prodn. & Supplies)

1. An indent was placed by Directorate of Ordnance Services on the Deptt. of Defence Supplies in February, 1978 for procurement of an item of paint which used to be a DGS&D item prior to 1976 and was included in the list of exclusive item to be purchased directly by Defence, consequent to the Govt. decision to decentralise the purchase of exclusive items. A part quantity against this indent was initially ordered on a new source since the established suppliers of this particular item against DGS&D orders, were not in a position to agree to guaranteed delivery terms due to shortage of raw materials, subsequently the firm on whom order was placed was not able to develop stores of acceptable quality and the order had to be cancelled without financial repercussions, treating it as a developmental failure. Later it was reordered in Jan./ Feb. '80 on some of the past established suppliers. In the meanwhile DGS&D also dealt with an indent from a Defence indenter for the same store and placed orders in Jan. 1979 at cheaper prices than the prices accepted by the Deptt. of Defence Supplies. The above case has evoked severe criticism of Public Accounts Committee on two counts :

- (i) Two separate agencies were dealing with purchase of the same item simultaneously.
- (ii) Deptt. of Defence Supplies did not consult DGS&D before placing the order which led to acceptance of higher prices leading to avoidable loss to the Govt. Public Accounts Committee have recommended that the procurement of common utility items should in future be taken in consultation and coordination with DGS&D and other concerned agencies.

2. At present there are various purchase agencies dealing with purchase of defence stores viz.

- (i) The Three Services HQrs for items exclusive for Defence.
- (ii) DGS&D for common utility items not exclusive to Defence.
- (iii) Technical Committees for developmental stores.

3. The Defence indentors should make sure that the indents are projected to only the authorised purchase agency depending on the nature of store so that

normally no. particular store is dealt by more than one agency. Further in respect of direct purchase items, while finalising the tender, necessary consultation should be made with DGS&D and/or other purchase agencies who may be purchasing same or similar stores to make sure that the prices to be settled are reasonable in relation to the prices at which other purchase agencies have finalised their contracts.

4. The above instructions may be brought to the notice of all concerned for strict observance and compliance so as to avoid recurrence of lapses of the kind mentioned in para 1 above.

Sd/-

(V. LAKSHMI)

Deputy Secretary (S-II)

To

1. MGO
2. DGOS
3. COM
4. AOM
5. OFB
6. Chairmen of all Technical Committees.
7. DGS&D, (CDN Dte), Parliament Street, New Delhi.
M. of D ID No. 4(20)/86/D(S-II) dated 23rd September, 1986

Copy to :

1. PAC
2. DADS
3. IF(DS)
4. DS(O).

Copy also to :

PS to Secy (DP&S)/PS to Addl. Secy(DP&S)/SPA to JS (S)/SPA to Addl. FA(M)/DFA (DS&P)/DS(S.I)/DS (S.III)/CPO (A)/CPO (R)/CPO(J)/AFA (CS)/LO (DS)

APPENDIX II

Conclusions and Recommendations

| Sl. No. | Para No. | Ministry/ Department concerned | Conclusions/Recommendations |
|---------|----------|---|--|
| 1 | 2 | 3 | 4 |
| 1. | 1.3 | Defence (Deptt. of Defence Production and Supplies) | <p>The Committee hope that final reply to the recommendation at Serial No. 12 in respect of which only interim reply has been furnished so far will be submitted expeditiously after getting the same vetted by Audit.</p> |
| 2. | 1.7 | —Do— | <p>The Committee note that the position of outstanding advances/on account payment was totally unsatisfactory. As against advances/on account payment of Rs. 1.566 crores, a sum of Rs. 47.57 lakhs was not covered by Bank Guarantee and the recovery of such advances seem doubtful. While working out a mechanism for sharing the developmental cost with the manufacturers, they had not prescribed any safeguards for recovery of advances in the event of failure or cancellation of the supply orders. The Committee are surprised that the Department of Defence Supplies should consider that merely noting the recommendation was adequate compliance. The best that is expected of the Department is to spell out steps they consider necessary to rectify the situation. The Committee trust that in future atleast the Department will safeguard the financial interests of the Government whenever they have to make on account payment to supplying firms. The Committee would also like to be apprised of the latest position regarding the recovery of outstanding advances/on account payment in regard to payments not covered by Bank Guarantee.</p> |

Defence (Dep'tt.
of Defence
Production and
Supplies)

1.10

The Committee are not satisfied with the explanation that the question of review of the earlier proceedings to take sterner action against the concerned officer at this point of time does not arise. The Committee take a serious view of the lapse on the part of inspection staff for not complying with the obvious norms of inspection and accepting the equipment only on visual inspection in respect of an order which related to developmental production. The Committee consider that there has been gross negligence at various levels and would reiterate their earlier recommendation that the lapses in this case needs to be dealt with sternly, to bring home public accountability to all concerned. The Committee hope that the higher authorities would now initiate appropriate steps in this direction and keep the Committee apprised. The Committee would also like to be apprised of remedial action the Department propose to take to avoid such lapses in future.

—Do—

1.14

The Committee consider that in this case there has been gross negligence at various levels. The Committee, however, note that the Government have now issued remedial instructions to avoid recurrence of such lapses. The Committee urge that instructions now issued should be scrupulously followed so that infructuous expenditure of this nature is avoided in future. The Committee also recommend that the Department should evolve a suitable mechanism to ensure that persons responsible for such losses to the exchequer are unable to escape punishments as has happened in this case.

—Do—

1.17

The Committee also urge the Government to see to it that Powers exercised by departmental officers in regard to waiver of recovery of liquidated damages are reviewed periodically at an appropriate higher level to ensure that these are exercised judiciously with care and caution and that there is uniformity in regard to the levy of liquidated damages.

5.

PART II

MINUTES OF THE 52ND SITTING OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON 3.4.1987

The Committee sat from 15.00 hrs. to 16.00 hrs.

PRESENT

Shri E. Ayyapu Reddy—*Chairman*

MEMBERS

2. Shri Amal Dutta
3. Shri G. Devaraya Naik
4. Shri H. M. Patel
5. Shri Bhuvnesh Chaturvedi
6. Shri A. K. Antony
7. Shri Nirmal Chatterjee
8. Shri Virendra Verma

SECRETARIAT

1. Shri K. H. Chhaya—*Joint Secretary*
2. Shri S. M. Mehta—*Senior Financial Committee Officer*

REPRESENTATIVES OF THE C&AG OF INDIA

1. Shri D. K. Chakravorty—*Addl. Dy. C&AG (Reports- Central)*
2. Shri M. M. B. Annavi—*DADS*
3. Shri R. Parameswar—*D.A.C. W&M-I*
4. Shri S. B. Krishnan—*Director (Reports)*
5. Shri P. K. Bandhopadhyaya—*DRA-II*
6. Shri N. L. Chopra—*Joint Director, Defence Audit*
7. Shri S. K. Gupta—*Joint Director, Revenue Audit*

2. The Committee considered and adopted the following draft Reports with some amendments/modifications as shown in *Annexures I, II and III.

- | | | | |
|--------|---|---|---|
| (i) * | * | * | * |
| (ii) * | * | * | * |

*Annexures I and II not appended.

(iii) Draft Report on Action Taken on the 44th Report (8th Lok Sabha) relating to Review of the Working of the Department of Defence Supplies.

3. The Committee authorised the Chairman to finalise the draft Reports in the light of the above modifications and other verbal consequential changes arising out of factual verification by the Audit and present them to the House.

The Committee then adjourned.

ANNEXURE III

*Amendments/Modifications made by the Public Accounts Committee
in the Draft Report on Action Taken on 44th Report of the
Public Accounts Committee (8th Lok Sabha) Regarding
Review on the working of Department of
Defence Supplies*

| Page | Para | Line (s) | For | Read |
|---|------|----------|--|--|
| 4 | 1.7 | 3 | Unsatisfactory as | Unsatisfactory. As |
| 4 | 1.7 | 4 | Rs. 1.5666 | Rs. 1.566 |
| 4 | 1.7 | 6 | seemed | seem |
| 4 | 1.7 | 7 | out | out a |
| 4 | 1.7 | 8 | manufacturers, they have | manufacturers, they had |
| 4 | 1.7 | 11-18 | The Committee are unhappy... payment to the firms in future | The Committee are sur- prised that the Depart- ment of Defence Sup- plies should consider that merely noting the recommendation was adequate compliance. |
| <p>The best that is expected of the Department is to spell out steps they consider necessary to rectify the situation. The Committee trust that in future atleast the Department will safeguard the financial interests of the Government whenever they have to make on account payment to supplying firms.</p> | | | | |
| 4 | 1.7 | 19 | recovery | the recovery |
| 7 | 1.10 | 17 | <i>suo moto</i> | and keep the Committee apprised |
| 13 | 1.14 | 1 | that | that in this case |
| 13 | 1.14 | 9-10 | mechanism where under the | mechanism to ensure that |
| 13 | 1.14 | 11 | do not go scot free | are unable to escape punishment |
| 16 | 1.17 | 2 | monitor | see to it |
| 16 | 1.17 | 3 | to waive | in regard to waiver |
| 16 | 1.17 | 4 | also reviewed | reviewed periodically |
| 16 | 1.17 | 5 | Delete "periodically" | |