

**UNECONOMIC PURCHASE OF
ENGINES FOR SHAKTIMAN
VEHICLES**

**MINISTRY OF DEFENCE
(DEPARTMENT OF DEFENCE
PRODUCTION AND SUPPLIES)**

**PUBLIC ACCOUNTS
COMMITTEE
1993-1994**

TENTH LOK SABHA



**LOK SABHA SECRETARIAT
NEW DELHI**

SIXTY-SEVENTH REPORT PUBLIC ACCOUNTS COMMITTEE (1993-94)

(TENTH LOK SABHA)

UNECONOMIC PURCHASE OF ENGINES FOR SHAKTIMAN VEHICLES

MINISTRY OF DEFENCE
(DEPARTMENT OF DEFENCE PRODUCTION AND SUPPLIES)

[Action Taken on 2nd Report of Public Accounts Committee (10th Lok Sabha)]



सत्यमेव जयते

*Presented to Lok Sabha on 22.4.1994
Laid in Rajya Sabha on 22.4.1994*

LOK SABHA SECRETARIAT
NEW DELHI

April, 1994/Chaitra, 1916 (Saka)

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(1993-94)

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*Ceased to be a Member of the Committee on completion of her tenure in Rajya Sabha w.e.f. 2.4.1994.

INTRODUCTION

1. I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Sixty-Seventh Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their Second Report (Tenth Lok Sabha) on uneconomic purchase of engines for Shaktiman Vehicles.

2. In their earlier Report, the Committee had pointed out various irregularities committed by the Ministry of Defence (Department of Defence Production & Supplies) in a case of procurement of 3648 engines for the Shaktiman Vehicles from firm 'A' which resulted in an avoidable additional expenditure of Rs. 6.16 crores. The Committee had also found indulgence having been shown to the firm in the matter of payment of escalation charges to the tune of Rs. 87.51 lakhs and levy of liquidated damages. The Committee had, therefore, recommended that the matter should be referred to the Central Bureau of Investigation for conducting a detailed investigation of this deal with a view to fixing responsibility and taking corrective measures for obviating the chances of such recurrences in future. The Committee had also desired that the report of the CBI and further action taken thereon should be furnished to them within a period of six months. The Committee have been deeply distressed to note that the Ministry took more than six months for referring the case to CBI and a period of over one and half years in submitting the documents/files asked for by CBI. The submission of the reply to the Committee was also delayed by 17 months. The Committee have taken a serious view of these inordinate delays and desired that the reasons for the same should be thoroughly enquired into, responsibility fixed and reported to the Committee. They have also recommended that the case should be pursued with the CBI and the report of the CBI and further action taken thereon should be furnished to the Committee.

3. This Report was considered and adopted by the Public Accounts Committee at their sitting held on 4 April, 1994. Minutes of the sitting form Part II of the Report.

4. For facility of reference and convenience the recommendations 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 to the Report.

5. 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 11, 1994

Chaitra 21, 1916 (Saka)

BHAGWAN SHANKAR RAWAT,

Chairman,

Public Accounts Committee.

CHAPTER I

REPORT

This Report of the Committee deals with the action taken by Government on the recommendations/observations of the Committee contained in their Second Report (10th Lok Sabha) on paragraph 25 of the Report of the Comptroller and Auditor General of India for the year ended 31 March, 1988 (No. 2 of 1989), Union Government, Defence Services (Army and Ordnance Factories) relating to Uneconomic purchase of engines for Shaktiman Vehicles.

2. The Second Report which was presented to Lok Sabha on 12 December, 1991 contained 10 recommendations/observations. Action taken notes on all these recommendations/observations have been received from Ministry of Defence (Department of Defence Production and Supplies). Government have accepted all recommendations of the Committee. The Action taken notes have been reproduced in Chapter II of this Report.

3. In the succeeding paragraphs the Committee deal with the action taken by Government on some of the recommendations.

Irregularities committed in the Procurement of Engines (Sl. No. 9—Para 59)

4. Shaktiman vehicles had been in production in a Defence Vehicle Factory from 1959 onwards and a composite production unit was started in 1972. However, demand for spare engines used in 3 tonne Shaktiman Vehicles could not be met in full by the Government Vehicle Factory responsible for its production. Hence, in January, 1982, it was decided to find an alternate, private source of supply of indigenous engine for the vehicle. Eventually, in February, 1985, orders were placed with Firm 'A' for supply of 2500 engines at a total cost of Rs.11.02 crores. Pointing out several irregularities in the transaction, the Committee in para 59 of their Second Report (Tenth Lok Sabha) had summed up the Report as follows:

"The facts narrated above abundantly confirm the utmost laxity, and lack of financial prudence as well as planning, a *sine-qua-non* particularly in matters of defence preparedness as the part of the concerned agencies both in the Army Headquarters and the Department of Defence Production and Supplies. Right from 1982 when particulars were initially collected from the seven firms, till the placement of the order for supply of 2500 engines on firm 'A', in February, 1985, a partisan attitude favouring this firm was clearly evident in approving the engine of the firm though the user trials, the primary requisite for selection of the engine, gave an edge to the

engine of firm 'B', and in placing the order on the firm inspite of the fact that the offer of the firm was rated the lowest in ranking amongst the other two competing firms 'B' and 'C'. Even thereafter inexcusable indulgence has been shown to this firm in the matter of payment of escalation charges to the tune of Rs. 87.51 lakhs so much so that escalation charges were paid to the firm even for the period of strike in the firm from 14th May, 1986 to 28th June, 1986. Further, as against the total leviabale liquidated demages of Rs. 22.71 lakhs, the Department levied only token liquidated damages amounting to Rs. 2.27 lakhs. The partisan attitude is further corroborated by the fact that despite the high rates and delay in supplies by firm 'A', a repeat order for 1148 engines had been placed on the same firm. According to the calculations made by Audit, the avoidable additional expenditure incurred in the procurement of 3648 engines from firm 'A' worked out to Rs. 6.16 crores when compared with the rate of the top ranking firm 'C'. All these facts give rise to the strong suspicion that the firm 'A' has been unduly favoured even when better and cheaper alternatives were available. Under these circumstances the Committee cannot but recommend that the matter should be referred to the Central Bureau of Investigation without any further delay for conducting a detailed investigation of this deal with a view to fixing responsibility and taking corrective measures for obviating the chances of such recurrence in future. The report of the Central Bureau of Investigation and further action taken thereon should be furnished to the Committee within a period of six months."

5. In their action taken note furnished on 18.11.1993, the Ministry of Defence (Department of DP&S) have stated as follows:

"The case was referred to CBI on 29 June, 1992. The documents/files asked for by CBI could not be provided because of finalisation of ATN. However, files have been sent to CBI on 29 June, 1993. The case is still with CBI and they are processing the same. They have also been reminded to expedite the investigation on 27 August, 1993. The PAC/Audit will be apprised of the CBI investigation when finalised and also further action taken thereon."

6. As regards procedural lapses, the Ministry of Defence (Department of DP&S) stated that instructions have been issued with a view to obviating recurrence of such instances in future. Further, the purchase of engines Ex-trade has been discontinued. According to the Ministry the present requirement of the Army is being met through Vehicle Factory, Jabalpur: (VFJ), one of the Ordnance Factories. VFJ has been advised to increase their production so that the present Army requirement is met.

7. Responding to the Recommendations of the Committee regarding lack of financial prudence on the part of the concerned authorities both in the matter of calculation of escalation charges and levy of liquidated damages, the Ministry of Defence (Department of Defence Production) stated that while the guidelines for processing the escalation claim have

been revised, as emphasized by the Committee, the Government have in consultation with the Ministry of Law issued a letter to firm 'A' to recover the balance of liquidated damages amounting to Rs. 20,44,282.77.

8. In their earlier Report, the Committee had pointed out various irregularities committed by the Ministry of Defence (Department of Defence Production & Supplies) in a case of procurement of 3648 engines for the Shaktiman Vehicles from firm 'A' which resulted in an avoidable additional expenditure of Rs. 6.16 crores. The Committee had also found indulgence having been shown to the firm in the matter of payment of escalation charges to the tune of Rs. 87.51 lakhs and levy of liquidated damages. According to the Committee, the commission of various irregularities gave rise to the strong suspicion that the firm 'A' had been unduly favoured even when better and cheaper alternatives were available. The Committee had, therefore, recommended that the matter should be referred to the Central Bureau of Investigation for conducting a detailed investigation of this deal with a view to fixing responsibility and taking corrective measures for obviating the chances of such recurrences in future. The Committee had also desired that the report of the CBI and further action taken thereon should be furnished to them within a period of six months. The Committee are deeply distressed to note that the Ministry took more than six months for referring the case to CBI and a period of over one and half years in submitting the documents/files asked for by CBI. The Committee consider it amazing that the Ministry have attributed the delay in submission of documents to CBI, to the finalisation of action taken notes to be submitted to the Committee. The submission of the reply to the Committee was also delayed by 17 months. In the opinion of the Committee, the delay in referring the case and in parting with the files despite the request by CBI and furnishing of the reply to the Committee in this regard are clearly indicative of the reluctance on the part of the Ministry to bring to book the guilty, which is a matter of great concern. They take a serious view of these inordinate delays and desire that the reasons for the same should be thoroughly enquired into, responsibility fixed and reported to the Committee. The Committee also recommend that the case should be pursued with the CBI and the report of the CBI and further action taken thereon should be furnished to the Committee.

9. The Committee note that Government have issued a number of instructions in pursuance of the recommendations made in their earlier Report seeking to streamline the relevant procedures. The Committee desire that the Ministry should ensure that these instructions are strictly followed by all concerned both in letter and spirit and any deviation therefrom is taken serious note of. They would also like to know the latest position in the matter of recovery of balance amount of liquidated damages from firm 'A'.

CHAPTER II

RECOMMENDATIONS AND OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

The Committee note that Shaktiman Vehicles had been in production in a Defence Vehicle Factory from 1959 onwards and a composite production unit was started in 1972. Prior to 1980-81, Army had been placing annual indent on an average for 'X' number of Engines for the Shaktiman Vehicles on the Vehicle Factory. The Vehicle Factory on an average had been supplying about 73 per cent of 'X' number of spare engines annually. In 1980-81, the Army centralised the operations for calculating the requirements. It was then felt that the appropriate way of maintaining the vehicles would be to have a pool of engines. Engines at a fixed percentage of the estimated fleet strength were required to be provisioned in the pool. In April, 1980, 488 engines were pending supply with the vehicle factory. Additional engines for about 9 and half times of 'X' number of engines were placed on the vehicle factory in July, 1980 and Dec., 1981 respectively. As the Vehicle Factory's capacity for supply of spare engines was limited to the extent of about 73 per cent of 'X' number of engines annually, the backlog of engines in terms of outstanding indents went on mounting and rose to about 10 times of 'X' numbers as on 1.1.1982. It was only in 1982 that a proposal was submitted by the Vehicle Factory for augmenting the capacity of manufacturing Shaktiman spare engines. However, in a production review meeting held by Secretary (Defence Production) on 25.3.1983, on the recommendation of the Army Headquarters, it was decided not to augment the capacity of the Vehicle Factory for Shaktiman Spare engines because of the possibility of locating an alternative indigenous engine from the civil sector and also because of foreign exchange involved in implementation of the project. The Committee feel that in view of the spurt in demand for engines from 1980-81 and considering the fact that the inability of the Vehicle Factory to meet this rising demand was very well known, the question of augmenting the capacity of the Vehicle Factory or to find an indigenous private source for supply of engines should have been taken much earlier. In the Committee's view the delay of about two years in taking the decision is clearly indicative of lack of perspective planning on the part of the concerned authorities in the matter as vital as the defence preparedness of the country.

[Sl. No. 1 (Para 51) of Appendix II to Second Report of PAC (10th Lok Sabha)]

Action Taken by Ministry

For streamlining the provision procedure, certain directions have been issued. The copies of directions/policy letters issued by Army HQrs. vide their notes Nos. 22023/MAN/OS-4B dated 18 May 92 & 22023/1 Ton/OS-4B dated 26-6-92 are enclosed (not enclosed). As regards extent upto which, the desired results have been achieved, it is mentioned that no procurement of Engines for Shaktiman Vehicles have been effected from the date of issue of these instructions. As such it is not possible to comment on the effectiveness of these instructions at this stage.

[(Min./Deptt. of Defence Prod. & Supplies) O.M. No. 7(7)/84/D (S.I)/
CPO (VG)-1427 dt. 18th Nov. 1993.]

Recommendation

It is disquieting to note that even after Jan., 1982 the Army Head quarters failed to take concerted action to procure expeditiously the engines from the other sources. Instead of processing the matter by following the correct procedure of floating an indent indicating the qualitative requirements and issue a tender enquiry, the Army HQrs obtained particulars from seven private manufacturers. On preliminary technical evaluation of these particulars, engines offered by firms 'A' and 'B' were shortlisted for conducting trials. The engine of firm 'A' was approved by Army Headquarters in Dec. 1983 on the basis of user and test bed trials for procurement through Deptt. of Defence Production and supplies. The committee note that inspite of the fact that the primary requisite for selection of the engine is satisfactory performance in user trials and the user trials, gave an edge to the engine of firm 'B'. Engine of firm 'A' was selected on the basis of better results in test bed trials. No order could however be placed even on firm 'A' as according to the Deptt. of Def. Production and Supplies the correct procedure of calling for open tenders was not followed. Therefore, in April, 1984, the Department again issued tender enquiries to five Indian firms. The resultant delay indicate the lack of clear perception of the Army Headquarters in meeting their urgent requirements. The committee strongly disapprove such a state of affairs.

[Sl. No. 2 (Para 52) of Appendix II to Second Report of PAC (10th Lok Sabha)]

Action Taken by Ministry

Initially in 1982, all known engine manufacturing firms were invited to offer suitable engine for trial. The Engine of Model V6-155 offered by the firm 'C' also was fitted on a Shaktiman Vehicle to see the technical

feasibility/extent of modifications required for fitment. The engine was not subjected to any field trials due to the following reasons:—

- (i) It needed extensive modifications for fitment on Shaktiman Vehicle which were beyond the capacity of field repair work-shops.
- (ii) The complete engine was imported and none of the parts was being indigenised.
- (iii) High HP & high maximum RPM/torque of the engine.
- (iv) During 1984 there were no laid down procedures for selection of alternative engine.

The department has also issued instructions vide O.M. No. 4(29)/86/D(S.I) dt. 21.8.86 (copy not enclosed) to ensure that contracts are finalised within a period of 90 days from the receipt of quotations. As desired by PAC the case has been referred to CBI for investigation which is under process.

The action against the individuals responsible for lapses if any will be taken only after the CBI investigations are completed & recommendations received.

[(Min./Deptt. of Def. Prod. & Supplies, Ministry of Defence) O.M. No. 7(7)/84/ & (S.I)/CPO. (VG)—1427 dt. 18th Nov., 1993.]

Recommendation

The technical evaluation of the performance parameters, claimed by the tenderers, by the technical authorities as brought out in para II clearly indicate that the offer of firm 'C' for their models 'M' and 'N' had a definite and overwhelming edge over the other two competing firms 'A' & 'B' (Whereas engines were earlier evaluated by the Army Headquarters) not only in respect of the points allotted but also in terms of the financial implications of their quotations. As against the ranking points of 34 and 33, allotted to the models 'M' and 'N' of firm 'C' firms 'B' and 'A' could secure only 22 and 18 points respectively. The quotation of firm 'C' for these models was cheaper by about rupees three to four thousand per engine than the quotations of firms 'A' and 'B'. No wonder, therefore, the technical authorities opined that the offer of firm 'C' for their models 'M' and 'N', had an edge over other engines. The technical authorities had also suggested physical verification of the claims made for these models by carrying out limited technical-cum-user trials. The Army Headquarters however did not favour fresh trials of the engines of other firms as according to them their requirements were very urgent and the trials would take eight to nine months. Under the circumstances the Deptt. was made to place an order in February, 1985, on firm 'A' which was rated the lowest amongst the other two competing firms, for supply of 2500 engines at a total cost of Rs. 11.02 crores (Rs. 44077 per engine). From the facts stated above the committee are led to believe that undue favour has been shown to the firm 'A' by placing order on it without conducting trials as suggested by the technical authorities ignoring the better and cheaper alternatives. The plea of urgency in this regard is hardly convincing

considering the fact that the Army Headquarters had failed to take any concrete steps for a long period of about three years to meet their so called urgent demand for spare engines and about 10 months' period was taken for finalising the limited tender floated in April, 84. In the opinion of the committee the above situation reflects very poorly on the working of both the Department of Defence Production and Supplies and the Army Headquarter in the matter of procurement of defence requirements.

[Sl. No. 3 (Para 53) of Appendix II to Second Report of PAC
(10th Lok Sabha)]

Action Taken by Ministry

The purchase of Engine Ex-Trade has been discontinued. The present requirement of the Army is being met through VFJ, one of the Ordnance Factories VFJ has been advised to increase their production so that the present Army requirement is met.

[(Min./Deptt. of Defence Prod. & Supplies, Ministry of Defence)
O.M. No. 7(7)/84/D(S.I)/CPO(VG)-1427 dated 18th Nov. 1993.]

Recommendation

The Committee note that on 31 Mar., 1985, 1098 Shaktiman Vehicles were off-road for want of engines. Further as against the Army HQrs. requirements for 4061 spare engines, order for 2500 engines was placed in Feb. 1985. The Committee take a serious note of the fact that this reduction in requirements was made inspite of the fact the maintenance liability for spare engines on the basis of the expected fleet level by 1986-87 would be about 13 times of 'X' number of engines.

[Sl. No. 4 (Para 54) of Appendix II to Second Report of PAC
(10th Lok Sabha)]

Action Taken by Ministry

A review of requirement was carried out by FA(DS) under instructions of the Secy(Exp.) as a result of which the quantity to be ordered was reduced from 4061 to 2500. Such scrutiny at the highest level of the financial authority with a view to effecting economy in expenditure is quite normal. However, the observations of PAC have been noted.

[(Min./Deptt. of Defence Prod. & Supplies) O.M. No. 7(7)/
84/D(S.I)/CPO(VG)-1427 dt. 18th Nov. 1993.]

Recommendation

According to the original schedule, 4 number prototype samples of engines alongwith the installation kits and packing cases were required to be submitted by firm 'A' by 20.2.1985. Thereafter bulk supplies were to commence from the 4th week of the date of receipt of approval. The firm, however, failed to adhere to the original schedule. What concerns the committee more is the fact that inspite of such a pressing demand for engines, the original schedule had to be rescheduled thrice and the dates

for completion of the supplies by the firm were successively shifted to 31.1.1986, 31.3.1986 and 29.7.1986. It is further distressing to find that the firm could not make the supplies even in accordance with the final agreed schedule. The firm finally completed the supply of 2500 engines by November, 1986. The Committee fail to agree with the argument advanced by the Deptt. that the rescheduling of the delivery period upto March, 1986 was due to development work involved in the finalisation of installation kit items and reusable packing boxes as according to the Committee this aspect should have been taken due note of at the time of finalisation of the original schedule. The Secretary of the Department conceded during evidence in the sense that some supplies were made subsequent to contract delivery date. The Committee cannot but deplore the lack of seriousness on the part of the concerned authorities in meeting their urgent requirements.

[Sl. No. 5 (Para 55) of Appendix II to Second Report of PAC (10th Lok Sabha)]

Action Taken by Ministry

Necessary instructions have been issued *vide* OM No. 6(11)/88/D(S.II) dt. 20.9.89 (copy not enclosed) in order to avoid recurrence of such lapses in future. Further, it is mentioned that at present the purchase of engine Ex-Trade has been discontinued and the present requirement of the Army is being fulfilled through VFJ.

[(Min./Deptt. of Defence Production & Supplies, Ministry of Defence)
O.M. No. 7(7)/84/D(S.I)/CPO(VG)-1427, dated 18th Nov., 1993.]

Recommendation

It is further disquieting to note that instead of penalising the firm for the delay in making supply of the engines in breach of the contract, the deptt. paid to the firm huge escalation charges amounting to Rs. 87.51 lakhs. One of the reasons advanced for payment of escalation charges was the time taken in development efforts involved in the finalisation of the kit items and reusable packing boxes. The Committee see no reason why this could not be foreseen. The other causes for repeated rescheduling could also be avoided by better planning. What is further surp-rising is the fact that escalation charges were paid to the firm even for the period of strike in the firm from 14th May, 1986 to 28th June, 1986. Even during the period of rescheduling, the supplies actually made did not match the rescheduled number but unfortunately this aspect was not considered while working out the escalation charges. The Secretary of the Department conceded during evidence that the escalation should have been given on a month to month basis. Under these circumstances the Committee cannot resist gathering an impression that repeated rescheduling has been done

just to accommodate the firm for payment of escalation charges, which is highly regrettable

[Sl. No. 6 (Para 56) of Appendix II to Second Report of PAC (10th Lok Sabha)]

Action Taken by Ministry

As a corrective measures, the guidelines for processing the escalation claim have been revised.

[Min./Deptt. of Defence Prod. & Supplies,]

O.M. No. 7(7)/84/D(S.I)/CPO(VG)-1427, dated 18th Nov., 1993.]

Recommendation

Yet another instance confirming the lack of financial prudence on the part of the concerned authorities is in the matter of levying the liquidated damages for the delay in supply of engines. The Committee are distressed to note that as against the total leviable liquidated damages amounting to Rs.22.71 lakhs, the Department levied only token liquidated damages amounting to Rs.2.27 lakhs. According to the Deptt. as per the guidelines full liquidated damages could not be levied in this case as actual financial/monetary loss could not be established. Further, as only inconvenience has been caused due to the delay in supply of engines, only 10 per cent of the liquidated damages were required to be collected, which has been done. While disagreeing with the fallacious arguments of the Department, the Committee believe that the monetary loss due to the payment of additional avoidable amount of Rs.87.51 lakhs in the shape of escalation charges to the firm justified the levying of full liquidated damages. The Committee, therefore deprecate the lack of financial prudence on the part of the concerned authorities both in the matter of calculation of escalation of charges and levying of liquidated damages.

[Sl. No. 7 (Para 57) of Appendix II to Second Report of PAC (10th Lok Sabha)]

Action Taken by Ministry

According to the Existing guidelines, full L.D. is leviable only if actual financial/monetary loss could be established. Regarding the justification of full L.D. the case was referred to Law Ministry through LA(Def) on the following:

“Whether additional escalation amount that be come due to the firm due to repeated refixation of delivery schedule be termed as monetary loss & justifies full L.D. as pointed out by PAC.”

“If the contention of PAC is considered tenable it may also be advised whether the Deptt. can claim balance L.D.”

The opinion of LA(Def) is as follows:—

"The contentions of the PAC is considered tenable. As regards the second query raised it appears doubtful if the Deptt. can claim the balance of L.D. amount at such a belated stage after having exhausted its right by levying LD at 10%. The Deptt. may however take a chance in this regards."

Accordingly a letter has been issued to the firm to recover the balance amount of LD.

[(Min./Deptt. of Defence Prod. & Supplies, Ministry of Defence)
O.M. NO. 7(7)/84/D(S.I)/CPO (VG)-1427 dated 18th Nov., 1993.]

Recommendation

The Committee note that contract with firm 'A' provided for 25 per cent option clause for placement of additional order upto 625 engines on the same terms and conditions. Review of demand/supply for the year 1987-88, revealed a deficiency of 1359 engines. In December, 1987 the Department placed an order for 1148 engines on the same firm 'A' at a total cost of Rs.6.04 crores by updating their earlier rates as on Nov., 1986 with reference to the escalation formula provided in Feb., 1985 contract. According to the Deptt. the earlier order had to be placed on firm 'A' which had the lowest ranking on technical evaluation, on account of the urgent nature of the requirements. The Committee are distressed to find that despite the high rates and delay in supplies, a repeat order for 1148 engines had been placed on same firm 'A' without calling for fresh tenders or atleast evaluating the engines of firms 'B' and 'C'. The Secretary of the Deptt. conceded during evidence that alternate source could have been developed. According to the calculations made by Audit, the avoidable additional expenditure incurred on the procurement of 3648 engines from firm 'A' worked out to Rs.616 crores when compared with the rate of the top ranking firm 'C'. Even as compared to the rates quoted by firm 'B' whose engine was originally evaluated and found to be generally suitable, the additional cost worked out to Rs. 1.96 crores. However, according to the Deptt. calculations the extra expenditure incurred on purchases from firm 'A' when compared with the prices of firm 'C' would be to tune of Rs.2.72 crores. In addition there was additional avoidable expenditure to the tune of Rs.87.571 lakhs towards the payment of escalation charges.

[Sl. No. 8 (Para 58) of Appendix II to Second Report of PAC (10th Lok Sabha)]

Action Taken by Ministry

The purchase of Engine Ex Trade has been discontinued. The present requirement of the Army is being met through VFJ, one of the ordnance Factories, VFJ has been advised to increase their production so that the present Army requirement is met.

[(Min./Deptt. of Defence Prod. & Supplies, Ministry of Defence)
O.M. No. 7(7)/84/D(S.I)/CPO(VG)-1427 dated 18th Nov., 1993.]

Recommendation

The facts narrated above abundantly confirm the utmost laxity, and lack of financial prudence as well as planning, a *sine-qua-non* particularly in matters of defence preparedness on the part of the concerned agencies both in the Army Headquarters and the Department of Defence Production and Supplies. Right from 1982 when particulars were initially collected from the seven firms, till the placement of the order for supply of 2500 engines on firm 'A', in February, 1985, a partisan attitude favouring this firm was clearly evident in approving the engine of the firm though the user trials, the primary requisite for selection of the engine, gave an edge to the engine of firm 'B' and in placing the order on the firm inspite of the fact that the offer of the firm was rated the lowest in ranking amongst the other two competing firms 'B' & 'C'. Even thereafter inexcusable indulgence has been shown to this firm in the matter of payment of escalation charges to the tune of Rs. 87.51 lakhs so much so that escalation charges were paid to the firm even for the period of strike in the firm from 14th May, 1986 to 28th June, 1986. Further, as against the total leviable liquidated damages of Rs. 22.71 lakhs, the Deptt. levied only token liquidated damages amounting to Rs. 2.27 lakhs. The partisan attitude is further corroborated by the fact that despite the high rates and delay in supplies by firm 'A', a repeat order for 1148 engines had been placed on the same firm. According to the calculations made by Audit the avoidable additional expenditure incurred in the procurement of 3648 engines from firm 'A' worked out to Rs. 6.16 crores when compared with the rate of the top raking firm 'C'. All these facts give rise to the strong suspicion that the firm 'A' has been unduly favoured even when better and cheaper alternatives were available. Under these circumstances the Committee cannot but recommend that the matter should be referred to the Central Bureau of Investigation without any further delay for conducting a detailed investigation of this deal with a view to fixing responsibility and taking corrective measures for obviating the chances of such recurrence in future. The report of the Central Bureau of Investigation and further action taken thereon should be furnished to the Committee within a period of six months.

[Sl. No. (Para 59) of Appendix II to Second Report of PAC (10th Lok Sabha)]

Action Taken by Ministry

The case was referred to CBI on 29 June, 1992. The documents/files asked for by CBI could not be provided because of finalisation of ATN. However, files have been sent to CBI on 29 June, 1993. The case is still with CBI and they are processing the same. They have also been reminded to expedite the investigation on 27 Aug., 1993. The PAC/Audit will be apprised of the CBI investigation when finalised and also further action taken thereon.

[(Min./Deptt. of Defence Prod. & Supplies, Ministry of Defence)
O.M. No. 7(7)/84/D(S.I)/CPO(VG)-142, dated 18th Nov., 1993.]

Recommendation

The Committee find that inspite of the procurement of 3648 engines, the position about the off-road vehicles has against started showing an upward trend, there being as many as 796 and 752 vehicles off the road during 1989 and 1990. The Committee need hardly stress that urgent steps should be taken to do away with the phenomenon of off-road vehicles' just for want of engines and be informed of the steps taken in this regard.

[SI No. 10 (Para 60) of Appendix II to Second Report of PÀC (10th Lok Sabha)]

Action Taken by Ministry

Vehicle Factory, Jabalpur has since increased their production of Shaktiman Engine from 250 to 500 Nos. per annum. However, this still falls short of Army's requirements per annum. Stepping up the production of Engines by vehicles factory, Jabalpur to meet Army's requirement is under consideration. This may be possible as spare capacity is now available with the Factory on account of the tapering of orders for OE vehicles. At the same time, the requirement of the Army for spare engine would also show a downward trend as the strength of the Shaktiman Fleet progressively decreases with stopage of further induction of the existing models.

[(Min./Dcptt. of Defence Production & Supplies, Ministry of Defence)
O.M. No. 7(7)/84/D(S.I)/CPO(VG)-1427 dated 18th No. 1993.]

CHAPTER III

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

— NIL —

CHAPTER IV

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

— NIL —

CHAPTER V

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

— NIL —

NEW DELHI;
April 11, 1994

Chaitra 21, 1916 (Saka)

BHAGWAN SHANKAR RAWAT,
Chairman,
Public Accounts Committee.

APPENDIX

Statement of Conclusion/Recommendations

Sl. No.	Para	Ministry/ Deptt. concerned	Recommendations/conclusions
1	2	3	4
1.	8'	Ministry of Defence (Deptt. of Defence Production and Supplies)	In their earlier Report, the Committee had pointed out various irregularities committed by the Ministry of Defence (Department of Defence Production & Supplies) in a case of procurement of 3648 engines for the Shaktiman Vehicles from firm 'A' which resulted in an avoidable additional expenditure of Rs. 6.16 crores. The Committee had also found indulgence having been shown to the firm in the matter of payment of escalation charges to the tune of Rs. 87.51 lakhs and levy of liquidated damages. According to the Committee, the commission of various irregularities gave rise to the strong suspicion that the firm 'A' had been unduly favoured even when better and cheaper alternatives were available. The Committee had, therefore, recommended that the matter should be referred to the Central Bureau of Investigation for conducting a detailed investigation of this deal with a view to fixing responsibility and taking corrective measures for obviating the chances of such recurrences in future. The Committee had also desired that the report of the CBI and further action

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taken thereon should be furnished to them within a period of six months. The Committee are deeply distressed to note that the Ministry took more than six months for referring the case to CBI and a period of over one and half years in submitting the documents/files asked for by CBI. The Committee consider it amazing that the Ministry have attributed the delay in submission of documents to CBI, to the finalisation of action taken notes to be submitted to the Committee. The submission of the reply to the Committee was also delayed by 17 months. In the opinion of the Committee, the delay in referring the case and in parting with the files despite the request by CBI and furnishing of the reply to the Committee in this regard are clearly indicative of the reluctance on the part of the Ministry to bring to book the guilty, which is a matter of great concern. They take a serious view of these inordinate delays and desire that the reasons for the same should be thoroughly enquired into, responsibility fixed and reported to the Committee. The Committee also recommend that the case should be pursued with the CBI and the report of the CBI and further action taken thereon should be furnished to the Committee.

2. 9

Ministry of Defence (Deptt. of Defence Production and Supplies) The Committee note that Government have issued a number of instructions in pursuance of the recommendations made in their earlier Report seeking to streamline the

1**2****3****4**

relevant procedures. The Committee desire that the Ministry should ensure that these instructions are strictly followed by all concerned both in letter and spirit and any deviation therefrom is taken serious note of. They would also like to know the latest position in the matter of recovery of balance amount of liquidated damages from firm 'A'.

PART II

MINUTES OF THE 20TH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON 4 APRIL, 1994

The Committee sat from 1500 hrs. to 1645 hrs. on 4 April, 1994 in
Committee Room 'E', Parliament House Annex.

PRESENT

CHAIRMAN

Shri Bhagwan Shankar Rawat

MEMBERS

2. Shri Nirmal Kanti Chatterjee
3. Dr. K.V.R. Chowdary
4. Shri Bandaru Dattatraya
5. Shri Jagat Veer Singh Drona
6. Shri Srikanta Jena
7. Smt. Krishncndra Kaur
8. Shri Mrutyunjaya Nayak
9. Shri Somappa R. Bommai

SECRETARIAT

1. Shri S. C. Gupta — *Joint Secratry*
2. Shri P. Sreedharan — *Under Secretary*

REPRESENTATIVES OF AUDIT

1. Shri N. Sivasubramanian — *Dy. C&AG*
2. Shri Vikram Chandra — *Pr. Director, Report
(Central)*
3. Shri T.N. Thakur — *Pr. Director of Audit
(Scientific Deptts.)*
4. Smt. Anita Pattanayak — *Director of Audit (Railways)*
5. Shri Adya Prasad — *Director of Audit (Excise)*

2. The Committee considered the following Draft Reports and adopted
the same subject to certain modifications and amendments as shown in
Annexures I*, II*, III & IV* respectively.

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

*Not appended

(iii) Uneconomic Purchase of Engines for Shaktiman Vehicles
 [Action Taken on 2nd Report of PAC (10th Lok Sabha)]

(iv)
...
3.

4. The Committee authorised the Chairman to finalise these draft Reports in the light of other verbal and consequential changes suggested by some Members and also those arising out of factual verification by Audit and present the same to Parliament.

The Committee then adjourned.

ANNEXURE III

**AMENDMENTS/MODIFICATIONS MADE BY THE PUBLIC
ACCOUNTS COMMITTEE IN THE DRAFT ACTION TAKEN
REPORT RELATING TO UNECONOMIC PURCHASE OF ENGINES
FOR SHAKTIMAN VEHICLES**

Page	Para	Line	Amendment/Modifications
5	3	18-19	<i>Substitute</i> "thoroughly enquired into and responsibility fixed" by "thoroughly enquired into, responsibility fixed and reported to the Committee."
