

**HUNDRED AND TWENTY-FIFTH  
REPORT**  
**PUBLIC ACCOUNTS COMMITTEE**  
**(1982-83)**

(SEVENTH LOK SABHA)

**SUPPLY OF DEFECTIVE WATERPROOF COATS  
AND  
PROCUREMENT OF SPARE PARTS**

**MINISTRY OF COMMUNICATIONS**  
(P & T Board)

[Action taken on 36th Report (7th Lok Sabha)]



Presented in Lok Sabha

Laid in Rajya Sabha on

**LOK SABHA SECRETARIAT**  
**NEW DELHI**

February 1983/March 1983 (S)

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# PUBLIC ACCOUNTS COMMITTEE

(1982-83)

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## INTRODUCTION

1. the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this 125th Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their 36th Report (Seventh Lok Sabha) regarding supply of defective water proof coats and procurement of spare parts.

2. In this Report the Committee have commented upon the inability of the Department of Supply in getting diagnostic test conducted on a sample of deteriorated water proof coat out of the defective supplies of this item made to DGP&T for finding out reasons for rubber melting. The National Test House, Calcutta, being the apex Test House and the Testing Authority for the DGS&D contracts as well as an umpire laboratory whose verdict is considered as final ought to be in a position to conduct various types of tests including diagnostic tests. The Committee have therefore desired that the reasons for the failure on the part of National Test House to carry out the necessary test should be enquired into and necessary action taken.

3. In another case of acceptance of tenders for supply of equipment for telephone exchanges by two foreign firms without fulfilling certain terms of the notice inviting tenders (NIT) regarding provisioning of spares on the basis of expected failure rate of the components, the Committee have recommended that suitable instructions in this regard should be issued to ensure that while accepting tenders, important conditions of the NIT are not set aside without due consideration and without recorded reasons.

4. The Report was considered and adopted by the Public Accounts Committee at their sitting held on 3 January, 1983.

5. For facility of reference and convenience, the recommendations and observations 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 the Appendix to this Report.

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

NEW DELHI;

February 4, 1983

Magha 15, 1904 (S)

SATISH AGARWAL

Chairman

Public Accounts Committee

## CHAPTER I

### REPORT

This Report of the Committee deals with the action taken by Government on the Committee's recommendations and observations contained in their 36th Report (7th Lok Sabha) on Paragraphs 24 and 23 of the Report of the Comptroller and Auditor General of India for the year 1978-79, Union Government (Posts and Telegraphs) on Supply of defective waterproof coats and procurement of spare parts.

1.2 The 36th Report which was presented to Lok Sabha on 27 April, 1981 contained 22 recommendations. Action taken notes have been received in respect of all the recommendations/observations and these have been broadly categorised as follows:

(i) Recommendations and observations that have been accepted by Government:

Sl. Nos. 1-5, 7, 10-11 and 13-22.

(ii) Recommendations and observations which the Committee do not desire to pursue in the light of the replies received from Government:

Sl. Nos. 6 and 9.

(iii) Recommendations and observations replies to which have not been accepted by the Committee and which require reiteration:

Sl. No. 8.

(iv) Recommendations and observations in respect of which Government have furnished interim replies:

Sl. No. 12.

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

*Diagnostic tests at National Test House, Calcutta (S.No. 8,  
Para 1.72)*

1.4 Expressing their dissatisfaction with the procedure adopted for testing of waterproof coats at National Test House, Calcutta, the

**Committee had, in paragraph 1.72 of the 36th Report, recommended as follows:**

“...The DGS&D did not appear to show any seriousness to have samples of defective coats tested at the National Test House for coming to some definite conclusions about the condition of the coats supplied through them. It was rather left to the Postmaster General, Ambala who was not satisfied with the test results of the National Test House, to refer a sample of a defective coat to Shri Ram Test House, Delhi for second opinion. The test report of Shri Ram Test House indicated a number of defects in it. The Committee have been informed that this Test House though run privately has been recognised by Government for the purpose of testing.....The Committee would therefore like the Government to review the existing procedure regarding making of reference to the National Test House and issue suitable instructions in this regard so as to ensure that in cases of this nature the testing of defective lot.....is got done by the DGS&D as desired by the consignee.”

**1.5 In their action taken note, the Department of supply have stated as follows:—**

“...For test/investigation a sample of deteriorated waterproof coat, drawn out of a lot of 60 Nos. from PSD Ambala was sent to N.T.H. DGP&T also requested National Test House for investigating tests to find out reasons for rubber melting. The National Test House did not carry out any such diagnostic tests. Neither National Test House nor DGP&T could evolve any criteria for such a tests. Even Shri Ram Test House, New Delhi, did not carry any diagnostic tests as the test certificate issued by them simply recorded the physical condition of the sample received by them and the test results of only one test as per specification i.e. dry heat test.

On the advice of Chairman of PAC, National Chemical Laboratory, Poona; Defence Material Stores, Kanpur,, DGISI, New Delhi; and Indian Rubber Manufacturers' Association, Bombay have been approached to find out whether they could help in carrying out the investigation to ascertain the reason for rubber melting in the Water

proof Coats. Only National Chemical Laboratory, responded advising that Indian Rubber Manufacturers' Association Bombay could be in a position to help, who also did not respond when approached by us."

1.6 The Committee had recommended to Government to review the existing procedure for having defective samples tested by National Test House for coming to definite conclusions about the condition of the supplies through the DGS&D as desired by the consignees and issue suitable instructions. In their reply, the Department of Supply have stated that for test/investigation a sample of deteriorated waterproof coat was sent to National Test House and the latter was requested to conduct investigating tests to find out reasons for rubber melting. However, the National Test House did not conduct any diagnostic tests. According to the Department, other Institutes/Test Houses have also not responded to their enquiry about conducting diagnostic tests.

1.7 The Committee are surprised at the helplessness of the Department of Supply. The National Test House being the apex test House and the Testing Authority for the DGS&D contracts as well as an umpire laboratory whose verdict is considered as final, ought to be in a position to conduct various types of tests including diagnostic tests as may be required. The Committee would, therefore, like that the reasons for the failure on the part of National Test House to conduct diagnostic test should be enquired into and necessary action taken under intimation to the Committee.

*Procurement of spare parts for telephone exchanges—Acceptance of tenders without fulfilling the terms of NIT (S. No. 21, Para 2.27).*

1.8 In para 2.27 of 36th Report, the Committee had recommended that a high powered panel chaired by a representative of the Ministry of Finance, not below the rank of Additional Secretary and two experts in exchange technology, should be set up to probe into the various aspects of the deal with Japanese firms for purchase of equipment for setting up eight telephone exchanges. In pursuance of this recommendation, a high powered panel was appointed on 27th July, 1981 with the Additional Secretary in the Ministry of Finance as Chairman. The panel furnished its report on all the issues raised by the Committee on 14th December, 1981.

1.9 One of the issues raised by the Committee was that the terms of the Notice Inviting Tenders (NIT) so far as they related to the



supply of components needed for maintenance of exchanges were overlooked while accepting the tenders. The NIT provided as follows:

“Tender shall indicate the expected failure rate of the components used in the equipment (with margin of safety) and that based on this failure rate, the maintenance spares sufficient for three years requirement shall be included for each exchange. NIT had also provided that if the failure rate of the components was found to be higher than that indicated by the tenderer, he shall replace free of cost at site such components and also supply additional quantities required on this basis to cover 3 years requirements.”

1.10 The Ministry intimated the findings of the high power panel in this regard as follows:

“The Panel has gone through the various records. The Panel has not been able to locate any specific record in the files for accepting the tenders even though this clause of the NIT was not being met. The Panel, however, notes that these two firms were the lowest tenderers, whose offers were taken up for evaluation. The panel also notes that the final contract was so drafted as to protect and safeguard the Department's interest in a blanket manner against failures of any component in the 3 years period. Thus the omission to get the expected failure rate of the components in literal compliance of the stipulation in the N.I.T. has not affected the Department adversely as regards free supply of spares.”

1.11 The Committee note that the panel was unable to locate any specific record in the files to ascertain the reasons for accepting the tenders even though the condition of the NIT regarding provisioning of spares was not met by the tenderers. The panel has, however, maintained that the omission to get the expected failure rate of the components in literal compliance of the stipulation in the N.I.T. has not affected the Department adversely as regards free supply of spares. While in the instant case, this may be so, the Committee consider that reasons for not pursuing such important stipulations of the N.I.T. should be specifically recorded while accepting the

tender. The Committee apprehend that failure to do so might land the Department in awkward situations in future particularly where foreign parties are involved. The Committee, therefore, recommend that suitable instructions in this regard should be issued to ensure that important conditions of the N.I.T. are not set aside without due consideration and without recorded reasons while accepting tenders.

## **CHAPTER II**

### **RECOMMENDATIONS AND OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT**

#### **Recommendation**

The Committee find that a total of 32,401 waterproof raincoats valued at Rs. 14.97 lakhs plus other charges were supplied by M/s. India Waterproofing and Dying Works, Calcutta to the various P&T Units from March 1975 to September 1977 against rate contract entered into by the Directorate General of Supplies and Disposals with the firm. The first report about the defects in the raincoats supplied by the firm was received in September 1975 from the General Manager Telephones, New Delhi. A joint inspection by a representative of the DGS&D and of the GMT New Delhi was arranged on 3-12-1975 but the inspection could not be carried out because the entire lot of 997 Nos. of waterproof coats had been distributed to the staff. However the one sample called back for testing was in a very bad condition as its rubber had melted. In the opinion of the Inspection Wing of the DGC&D, no useful purpose would have been served in carrying out joint inspection or testing any used sample to the relevant specifications as the results thereof could neither be compared with the requirements of the contract nor could the same be binding on the supplier. The complaint, according to the DGS&D, should have been made within the stipulated period of 45 days of the receipt of the stores by the consignee and that too before consuming any quality.

[Sl. No. 1 (Para 1.65) of Appendix to 36 report of PAC  
(7th Lok Sabha)]

#### **Action taken**

Necessary orders have been issued to All Postmasters General and Superintendents Postal Stores Depots that the stores received by the consignee should be checked properly within the stipulated period.

[Ministry of Communications (P&T Board) O.M. No. 1-1/79-UPE  
dated 12-1-1981].

**Action taken**

The recommendation/observation of the Committee gives the background of the case and represents the narrations of the events only and do not call for any action. However, the same has been noted.

[Deptt. of Supply O.M. No. PIII-17(2)/81, dated 29th July, 1982].

**Recommendation**

A further complaint regarding defective waterproof coats was received in August 1976 from the Postmaster-General, Ambala who forwarded one defective waterproof coat for examination and reported that the condition of the entire lot was the same. A joint inspection was then carried out on 15th November, 1976 at the premises of the Postal Store Depot, Ambala by the representatives of the firm and the Inspection Wing of the DGS&D in the presence of the consignee. It was observed during joint inspection that out of 268 unused waterproof coats, lying in stock, 60 had completely deteriorated due to melting of rubber coating used in the seats. Balance quantity, i. e. 208 was found to be serviceable. One sample out of the 60 coats was drawn and sent to the National Test House, Calcutta for laboratory test. The test report (January 1977) indicated that the sample conformed to the relevant specifications except that weight of the finished fabric was more than the specified requirement which was not considered to be a defect to cause melting of rubber.

[Sl. No. 2 (Para 1.66) of Appendix to 36th Report of P.A.C.  
7th Lok Sabha]

**Action taken**

The recommendation/observation of the Committee gives the background of the case and represents the narrations of the events only and do not call for any action. However, the same has been noted.

[Deptt. of Supply O.M. No. PIII-17(2)/81, dated 29th July, 1982].

**Recommendation**

Another joint inspection at the premises of Postal Store Depot, Ambala was conducted on 30th March, 1977. During the inspection, one lot of 410 Nos. of deep khaki colour coats was found to contain crease marks wrinkles and was not acceptable to the consignee. The firm's representative, however insisted on getting the samples this unused lot of 410 coats tested. Accordingly, samples from this lot were drawn and sent to the National Test House, Calcutta for laboratory test. The test report (May 1977) was identical to the

one already given in January 1977. Considering the two reports of the National Test House as satisfactory, the DGPT decided in May 1977 to distribute the supplies to the Postal Store Depots.

[S. No. 3 (Para 1.67) of Appendix to 36th Report of P.A.C.  
7th Lok Sabha]

#### **Action taken**

The recommendation/observation of the Committee gives the background of the case and represents the narrations of the events only and do not call for any action. However, the same has been noted.

[Deptt. of Supply O.M. No. PIII-17(2)/81, dated 29th July, 1982].

#### **Recommendation**

The Post Master General, Ambala during his personal inspection of the Waterproof coats in stock, however, observed in November 1977 that these were not fit for use. In June 1978, he sent one sample to Shri Ram Test House, Delhi, for test. This test indicated that the rubber coating of the coat was cracked and at some points it had become sticky and that breaking strength and weight test could not be undertaken as the base cloth could not be separated from rubber coating.

[S. No. 4 (Para 1.68) of Appendix to 36th Report of P.A.C.  
7th Lok Sabha]

#### **Action taken**

The recommendation/observation of the Committee gives the background of the case and represents the narrations of the events only and do not call for any action. However, the same has been noted.

[Deptt. of Supply O.M. No. PIII-17(2)/81, dated 29th July, 1982].

#### **Recommendation**

It is seen from the above that the Inspection Wing of the DGS&D initially refused to investigate the complaints regarding defective waterproof coats on two counts, namely, (i) used coats had been produced before them for testing and that (ii) the period of 45 days (stipulated in the general conditions of contract) within which objection regarding defect in coats could have been raised by the main consignee, was over. On the other hand, the stand taken by the P&T Department was that the rain coats in question were

visually inspected immediately after receipt and no defect was found at that time. The Postal Store Depots have no other facilities for inspection of stores received by them except visual inspection.

[S. No. 5 (Para 1.69) of the 36th Report of P.A.C. (1980-81)  
(7th Lok Sabha)]

#### **Action taken**

The recommendation/observation of the Committee gives the background of the case and represents the narrations of the events only and do not call for any action. However, the same has been noted.

[Deptt. of Supply O.M. No. PIII-17(2)/81, dated 29th July, 1982].

#### **Recommendation**

Under the general conditions of contract entered into by the DGS&D, the consignee has a right to reject stores within 45 days of its receipt. The Committee have been informed that if this period is not considered a sufficient safeguard, the user department should specify in the indent that a particular store should bear a longer warranty period, e.g. six months, one year or even 18 months. In view of the fact that waterproof coats are liable to defects becoming noticeable either during storage or shortly after use, the Committee recommend that the desirability or otherwise of asking for a warranty period beyond 45 days in the case of waterproof coats should be examined by the P&T Department in the light of past experience and in consultation with other user departments, e.g. Army, Para-military forces etc.

[Sl. No. 7 (Para 1.71) of Appendix to 36th Report of P.A.C.  
(7th Lok Sabha)].

#### **Action taken**

In order to procure Waterproof Coats of the best quality and workmanship, the DGS&D New Delhi has already been requested to incorporate the following Guarantee Clause in the A/T as a precautionary measure.

#### **Warranty Clause**

"It is a condition of the contract that the stores supplied will be of the best quality and workmanship and strictly in accordance with the specifications and other particulars. The supplying Firm

should guarantee that the Waterproof Coats would not get sticky or its rubber will not melt within a period of 12 months from the date of receipt of stores or 18 months from the date of last consignment whichever is earlier. The supplier will be liable to replace the stores if any rejected by the consignees within the Warranty/Guarantee period."

[Ministry of Communications (P & T Board) O.M. No. 38-1/  
80-UPE dated 1-8-1980].

### **Recommendation**

The Ministry of Communications have informed the Committee that the rain coats were visually inspected by the P & T authorities immediately after receipt and that there was no procedure to record any note about carrying out a visual inspection. The Committee are informed that instructions have now been issued to All Heads of Circles and Postal Store Depots that a certificate duly signed by the Superintendent, PSD indicating that the store have been checked properly and inspected individually and no defects have been found should be kept on record, so as to avoid any dispute later on as to whether the stores were defective abinitio or they became defective after use. The Committee trust that these instructions will be scrupulously followed and a test check made from time to time by a competent authority. As waterproof coats or items of this nature can also deteriorate during storage, special emphasis should be laid on their proper preservation in the Postal Depots and in the consuming units. There should also be periodic inspection of stores during the period of storage.

[Sl. No. 10 (Para 1.74) of Appendix to 36th Report of P.A.C.  
(7th Lok Sabha)].

### **Action taken**

Instructions have been issued to all Postmasters General accordingly.

[Ministry of Communications (P & T Board) O.M. No. 1-1/  
79-UPE dated 12-1-1981].

### **Recommendation**

As complaints regarding defective waterproof coats were received from a number of P & T and Employees Unions' General Manager Telephones, New Delhi Postmaster-General, Ambala, All

India Postal Employees Union, Postmen and Class IV New Delhi and All India Telegraphs Traffic Employees Union, New Delhi, the Committee are inclined to take the view that some of the lots of coats supplied by M/s. India Water-proof and Dyeing works, Calcutta might have manufacturing defects. The Committee, therefore, recommend that utmost caution should be exercised while entering into rate contracts with this firms in future and also at the time of acceptance of supplies made by the firm as the defective supply is likely to effect the morale of the staff to which it is issued.

[S. No. 11 (para 1.75) of Appendix to 36th Report of PAC  
(7th Lok Sabha)].

#### **Action taken**

Committee's recommendations have been noted for exercising utmost caution while entering into rate contract with this firm in future and to inspect the stores as and when supplied by this firm. Such caution shall be exercised even at the time of registration of this firm as the rate contracts are concluded with the firms registered with DGS&D.

[Deptt. of Supply O. M. No. PIII-17(2)/81 dated  
24 August, 1981].

#### **Recommendation**

"Equipment for setting up eight telephone exchanges in Delhi, Calcutta, Bombay and Ahmedabad was procured from two Japanese Firms namely, M/s. N.E.C. Ltd., and M/s. ITOCH & Co. during 1976 and 1977 by the P&T Department on the basis of tenders floated in 1974. Six exchanges were commissioned in 1978 and the remaining two in early 1979. The Tenders of these two firms were accepted although they had not fulfilled the terms of the Notice Inviting Tenders (NIT) so far as they related to the supply of components needed for maintenance of exchanges. According to Audit, the records of the Department did not indicate as to why these offers were accepted when the terms of the NIT were not complied with".

[Sl. No. 13 (Para 2.19) of Appendix to 36th Report of P.A.C.  
(7th Lok Sabha)].



### Action taken

The report of the High Powered Panel, in compliance with the recommendations of the PAC *vide* Sl. No. 21 (Para 2.27) in their 36th Report (7th Lok Sabha), having been submitted, no further comments.

[Ministry of Communications (P & T Board) O.M. No. 13-1/  
79-MMD(Pt) dated 29-6-1982].

### Recommendation

The NIT had clearly provided that the tender shall indicate the expected failure rate of the components used in the equipment (with margin of safety) and that based on this failure rate, the maintenance spares sufficient for three years requirement shall be included for each exchange. NIT had also provided that if the failure rate of the components was found to be higher than that indicated by the tenderer, he shall replace free of cost at site such components and also supply additional quantities required on this basis to cover 3 years requirements.

[Sl. No. 14 (Para 2.20) of Appendix to 36th Report of P.A.C.  
(7th Lok Sabha)].

### Action taken

The report of the High Powered Panel, in compliance with the recommendations of the P.A.C. *vide* Sl. No. 21 (Para 2.27) in their 36th Report (7th Lok Sabha) having been submitted, no further comments.

[Ministry of Communications (P & T Board) O.M. No. 13-1/  
79-MMD(Pt) dated 29-6-1982].

### Recommendation

The Department have offered the justification for ignoring the aforementioned requirement of the NIT, in the first place, on the ground that the tenders, while not specifically and separately indicating the expected failure rate for the components used, did supply a list of components which they considered sufficient for 3 years requirements and had accepted the stipulation regarding free replacement of the components for which failure rate was higher than indicated; secondly the information about the expected failure rate was required basically to arrive at the actual requirements for

three years and lastly in any case, the Department was at this stage in no position to make any independent check of the expected failure rate even if it has been indicated by the tenderers.

[Sl. No. 15 (Para 2.21) of Appendix to 36th Report of P.A.C. (7th Lok Sabha)].

#### **Action taken**

The report of the High Powered Panel, in compliance with the recommendations of the P.A.C. *vide* Serial No. 21 (Para 2.27) in their 36th Report (7th Lok Sabha), having been submitted, no further comments.

[Ministry of Communications (P & T Board) O.M. No. 13-1/79-MMD (Pt) dated 29-6-1982].

#### **Recommendation**

"The Committee do not feel convinced about the justifications advanced by the Department for ignoring the requirements of the NIT about the 'Failure rate of components.' This requirement was vital so far as the assessment of quantities of spares required for replacing the components susceptible to failure were concerned, particularly, when the exchange equipment purchased was of new type and the Department had no experience of its functioning. No wonder, the GMTs had to ask for free supply of additional maintenance spares soon after commissioning of the exchanges.

[Sl. No. 16 (Para 2.22) of Appendix to 36th Report of P.A.C. (7th Lok Sabha)].

#### **Action taken**

The report of the High Powered Panel, in compliance with the recommendations of the P.A.C. *vide* Serial No. 21 (Para 2.27) in their 36th Report (7th Lok Sabha), having been submitted, no further comments.

[Ministry of Communications (P & T Board) O.M. No. 13-1/79-MMD (Pt) dated 29-6-1982].

#### **Recommendation**

The D.G.P&T. have stated that the requirements indicated by the General Managers were based on more 'apprehension' and 'only feeling and judgement without adequate evidence of failure

rate of components'. But the direct result was that the Department had to resort to outright purchase of spares, described as 'crucial components' to the extent of Rs. 12.24 lakhs.

[Sl. No. 17 (Para 2.23) of Appendix to 36th Report of P.A.C. (7th Lok Sabha)].

#### **Action taken**

The report of the High Powered Panel, in compliance with the recommendations of the P.A.C. *vide* Serial No. 21 (Para 2.27) in their 36th Report (7th Lok Sabha), having been submitted, no further comments.

[Ministry of Communications (P & T Board) O.M. No. 13-1/79-MMD(Pt) dated 29-6-1982].

#### **Recommendation**

The committee feel that had the failure rate of components been insisted upon and indicated by the suppliers in specific terms based on their past experience of the functioning of the equipment supplied; the maintenance units in the field would have known in advance the estimated working life of such components and this would have enabled them to project their demands for replacement spares, if not with perfect accuracy at least, approximately to 'firm data'. The GMTs would not have made the alleged unrealistic projections which the Directorate did not consider it worthwhile to ask the suppliers for free supply. With the firm guidelines in hand, the Directorate would have been in better position to check the total quantities of spares required for 3 years period than with a general list. Again, since a definite 'rate of failure' indicated by the suppliers would have been a contractual condition, the necessity of searching for adequate 'evidence' to get free supply of spares wherever required would not have arisen.

[Sl. No. 18 (Para 2.24) of Appendix to 36th Report of P.A.C. (7th Lok Sabha)].

#### **Action taken**

The report of the High Powered Panel, in compliance with the recommendations of the P.A.C. *vide* Serial No. 21 (Para 2.27) in their 36th Report (7th Lok Sabha), having been submitted, no further comments.

[Ministry of Communications (P & T Board) O.M. No. 13-1/79-MMD(Pt) dated 29-6-1982].

### **Recommendation**

The Committee are surprised to note that while the Directorate looked at the Projections made by the CMsI for free supply of spares described as being based on more 'apprehensions which could not be supported by any firm data' it subsequently considered these very projections, with reduced quantity, realistic enough to go in for an outright purchase within a few months after commissioning of new exchanges from those very suppliers, who were bound under the contract to make free supplies. It is poor consolation to know that out of the purchases made, the spare parts used would be got replaced free of cost from the suppliers and the imprest recouped.

[Sl. No. 19 (Para 2.25) of Appendix to 36th Report of P.A.C.  
(7th Lok Sabha)].

### **Action taken**

The report of the High Powered Panel, in compliance with the recommendations of the P.A.C. vide Serial No. 21 (Para 2.27) in their 36th Report (7th Lok Sabha), having been submitted, no further comments.

[Ministry of Communications (P & T Board) O.M. No. 13-/  
79-MMD (Pt) dated 29-6-1982].

### **Recommendation**

In reply to a pointed question as to the date on which first free supply for making good the components used (out of purchases made) started and the extent to which free supplies have been received, the Department gave a vague reply saying: 'The supplies are being made progressively directly to the field units. Information has been requested from the field units. The same will be consolidated and submitted in due course.' This implies that the Directorate responsible for making outright purchases, was negligent in monitoring the actual implementation of the contract when the Directorate asked the suppliers to make certain supplies of spares it ought to have kept itself contemporaneously informed of the fact that such supplies to the field units did take place.

[Sl. No. 20 (Para 2.26) of Appendix to 36th Report of P.A.C.  
(7th Lok Sabha)].

### **Action taken**

The report of the High Powered Panel, in compliance with the recommendations of the P.A.C. vide Serial No. 21 (Para 2.27) in

their 36th Report (7th Lok Sabha), having been submitted, no further comments.

[Ministry of Communications (P & T Board) O.M. No. 13-1/79-MMD(Pt) dated 29-6-1982].

### Recommendation

In the light of certain observations (*vide* paras 2.19 to 2.26 of the Report) the committee recommended that a high powered panel chaired by a representative of the Ministry of Finance not below the rank of Addl. Secretary and two experts in exchange-technology (who were never associated with any dealing with these two Japanese firms), should be set up to probe in the following aspects for this deal:

1. Why were the tenders accepted when the term of the NIT were not fulfilled by the two Japanese firms;
2. Why the Directorate did not ask the supplier to make free supplies before going in for outright purchase of maintenance spares which the suppliers were bound to supply free of cost.
3. Why the Directorate considered the projections made by GMsT as unrealistic for purposes of asking the suppliers to make free supplies while for outright purchases the same projections, though with reduced quantity as stated by the Directorate, were considered realistic.
4. (a) whether the spares which required to be replaced were really 'crucial' for efficient functioning of new exchanges and whether the GMsT had said so;  
(b) whether these could not have been procured in time had the suppliers been firmly asked to make free supplies under the contract.
5. Whether the reasonableness of the price (landed cost—C.I.F. value) was considered by the Directorate while ordering the spares costing Rs. 12.24 lakhs; and
6. Whether the progress of replenishment of the spare parts used out of the purchases made has been satisfactory.

[Sl. No. 21 (Para 2.27) of Appendix to 3th Report of P.A:C:  
(7th Lok Sabha)]

### Action taken

In accordance with this recommendation, a high power panel comprising the following officers was set up under D.G. P & T letter No. 13-1/79-MMD (Pt.), dated 27-7-1981.

1. Shri C. G. Somaiah,  
Addl. Secretary (Expenditure),  
Ministry of Finance,  
New Delhi.
2. Shri R. Balasubramanian,  
General Manager, Projects,  
Posts and Telegraphs,  
New Delhi.
3. Shri P. S. Endlaw,  
Addl. General Manager,  
Delhi Telephones,  
New Delhi.

The Panel furnished its report on all the points on 14-12-1981. A copy of the report was sent to Lok Sabha Secretariat under D.G. P & T letter No. 27-2/81-B dated 5-2-1982. An extract of the report giving the findings on the questions raised is given in the Annexure.

[Ministry of Communications (P & T Board) O.M. No. 13-1/  
79-MMD (Pt.) dated 2-3-1982]

*Extracts from the report of the High Power Panel dated 14-12-1981.*

### REPORT ON THE QUESTION RAISED

**Question No. 1.**—Why were the tenders accepted when the terms of the N.I.T. were not fulfilled by the two Japanese firms,?

**Report.**—*Vide* Serial 14 para 2.20, the P.A.C. had brought out that the N.I.T. had provided as follows. 'Tenderer shall indicate the expected failure rate of the components used in the equipment (with margin of safety) and that based on this failure rate the maintenance spares sufficient for 3 years requirement shall be included for each exchange. N.I.T. had also provided that if the failure rate of the components was found to be higher than that indicated by the tenderer he shall replace free of cost at site such components and also supply additional quantities required on this basis to cover 3 years requirements'.

The Panel has gone through the various records. The Panel has not been able to locate any specific record in the files for accepting the tenders even though this clause of the N.I.T. was not being met. The Panel however, notes that there two firms were the lowest tenderers, whose offers were taken up for evaluation. The Panel also notes that the final contract was so drafted as to protect and safeguard the Department's interest in a blanket manner against failures of any component in the 3 years period. Thus the omission to get the expected failure rate of the components in literal compliance of the stipulation in the N.I.T. has not affected the Department adversely as regards free supply of spares.

*Question No. 2.*—Why the Directorate did not ask the supplier to make free supplies before going in for out-right purchase of maintenance spares which the suppliers were bound to supply free of cost?

*Report.*—The Panel has gone through the records relevant to this and also discussed this matter from the techno-economic aspects. The Department was importing and installing a new type of equipment for which it did not have any previous experience. In all such equipments while it is evident that maintenance spares would be required the quantity of such spares required for a specific period is quite indeterminate and can at best be a matter of anticipation and estimation based on experience. Even with experience the quantities can only be approximate and can never be exact. The firms, based on their own experience, had provided for certain spares and had supplied such spares worth about Rs. 7.9 lakhs. The Department had no experience and could not have based a demand for change in these quantities on any firm footing acceptable to the firm. Therefore, as an insurance and as a measure of abundant caution for ensuring un-interrupted service to the public, the Department made a projection for additional spares to be stocked by them. This order did not in any way absolve the companies of their contractual obligation for free replacement of failures occurring during the 3 years. In fact it has been confirmed by the Department to the High Powered Panel that free replacement of components failing during the 3 years period is being carried out by the companies in terms of the contract.

As stated earlier, the Suppliers did supply spares worth Rs. 7.9 lakhs along with the supply of the Equipment. It was as an additional insurance that the Department thought of building up a further stock of maintenance spares which included even items outside the list of spares indicated by the suppliers and this action

of the Department has been vindicated by subsequent events where spares not originally supplied but were provided for in the insurance stock were actually utilised. Free supply of these spares by the Suppliers could have been achieved only after the failure of the component and this would have adversely affected the functioning of the Exchanges. The availability of such spares has saved time in the restoration of faults and these spares have been replenished subsequently by placing orders on the suppliers under the free replacement clause. It is to be noted that spares for replacement are required for periods much beyond the initial 3 year period and the insurance stock built up will meet these requirements.

The placing of this insurance order at that point of time has also given the Department an advantage in financial terms in as much as such an order at a later date after the three year period would have cost the Department more due to escalation in prices.

*Question No. 3.*—Why the Directorate considered the projection made by G.Ms.T. as un-realistic for purposes of asking the suppliers to make free supplies while for out-right purchase the same projections though with reduced quantity as stated by the Directorate were considered realistic.

*Report.*—The Panel notes that while the Department was covered by the over-riding clause for the replacement of supplies the General Managers in-charge of various exchanges had indicated requirements more than what was provided for by the firm. The projection of the General Managers would have been in the light of failure which had occurred in the exchanges under their charge during installation. The Panel also notes that in retrospect the rate of failure of various components in the different exchanges varied widely.

A certain amount of pruning/analysis of the requirement as projected by the General Managers was done in the Directorate. Technically and financially it appears that it was prudent on the part of the Directorate to do such a pruning so that the size of the order was limited and with this stock available at various exchanges a certain amount of flexibility for diversion of spares would have become available which aspect would not have been taken into consideration by the General Managers when giving their individual projections.



**Question No. 4(a).**—Whether the spares which required to be replaced were really crucial for efficient functioning of new exchanges and whether the G.Ms. had said so.

(b) Whether those could not have been procured in time had the suppliers been firmly asked to make free supplies under the contract.

**Report (a)**—The question of essentiality of the spares was discussed between the Directorate and the field units and what was considered crucial only was ordered. Subsequent events show that spares used were from the imprest stock as well. If this had not been done the free replacement according to the contract would have taken time and adversely effected the services rendered to the Public. The General Managers had also felt that these components were crucial as what was ordered as an insurance stock was the result of discussions between the Directorate and the General Managers.

(b) Free replacements are to be made by the firms only when they are asked to do so after failure occurs. For various reasons like availability with the suppliers themselves, transport time, custom clearance formalities at the receiving and etc., such free replacements cannot reach the centres of requirements in time. This is where the insurance stock had come in handy without any prejudice to the contractual obligations.

**Question No. 5.**—Whether the reasonableness of the price (landed cost—c.i.f. value) was considered by the Directorate while ordering the spares costing Rs. 12.24 lakhs.

**Report.**—For such of the items as figured in the original list for which cost particulars were available it was ensured that they were the same as contained in the main order. For such of the items as did not have the cost particulars in the main order the Directorate had examined the reasonableness of the prices before placing orders.

**Question No. 6.**—Whether the progress of replacement of the spare parts used out of the purchases made had been satisfactory.

**Report.**—The Panel had asked the P&T Directorate to furnish the position regarding replacement of faulty components. This information has been received from the Directorate and the Panel notes that exchange-wise ordering of spare components and monitoring of supplies are being carried out. The position regarding

placement of orders and receipt of supplies as on 30-11-1981 furnished by the P & T Directorate is given in Annexures II and III to this report. The progress of replacement of spare parts has been generally satisfactory.

### **Recommendation**

The Committee would like the panel to finalise its findings and report to the Committee within three months from the date of presentation of this report.

[Sl. No. 22 (Para 2.28) of Appendix to 36th Report of P.A.C.  
(7th Lok Sabha)].

### **Action taken**

The Panel furnished its report on 14-12-1981 and a copy of the same was sent to Lok Sabha Secretariat under D.G. P & T letter No. 27-2/81-B dated 5-2-1982.

[Ministry of Communications (P & T Board) O.M. No. 13-1/  
79-MMD (Pt) dated 29-6-1982].

## CHAPTER III

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

#### Recommendation

The defect in the waterproof coats pointed out by the General Manager, Telephones, New Delhi in September, 1975 was regarding melting of rubber used in the coats. It is quite evident that such defect could not have been detected by the consignee by visual inspection at the time of receipt of stores. The defects regarding melting of rubber also came to notice after the staff had used them. Pointing out such defects within the stipulated period of 45 days of the receipt of stores by the consignee would not, therefore, have been possible in such cases. In view of this, the Committee do not appreciate the rigid attitude taken by the Inspection Wing of the DGS&D in refusing to inspect the defective coat during the first joint inspection held on 3 December, 1975 on mere technical ground that used coat had been produced for testing and that the stipulated warranty period of 45 days was over.

[Sl. No. 6 (Para 1.70) of Appendix to 36th Report of P.A.C. (Seventh Lok Sabha)].

#### Action taken

The Joint Inspection/Investigation was not declined for the reason of reporting defects by the consignee after 45 days. Out of 997 Numbers, consignee could produce only 1 used coat in deteriorated condition without establishing the identity and this could not be taken as a representative sample for declaring entire lot as defective as explained in the Report under para 1.19.

The fact that samples drawn from various Depots, subsequently sent to N.T.H. for testing were taken after 45 days of receipt of the supplies, prove this contention.

[Department of Supply O.M. No. PIII-17(2)/81 dated 24 August, 1981].

### **Recommendation**

The Committee have been informed that at present there are no precise instructions as to the circumstances in which any item of stores supplied through the DGS&D should be referred by user department direct to a private testing house for test. The Committee recommend that in the light of the instant case suitable procedure in this regard should be laid down.

[S. No. 9 Para (1.73) of Appendix to 36th Report of P.A.C.  
(7th Lok Sabha)]

### **Action taken**

The National Test House, Calcutta is an apex Test House and is the Testing Authority for the DGS&D Contracts. In case of disputes/guidelines on testing of various items, the N.T.H. is considered as an umpire laboratory and its verdict is considered as final. Reference of disputed/complained samples to private laboratory may create confusion and their results may be challenged by the contracting parties.

In case any consignee has any apprehension/doubt about the quality not as per contract specification and wants to reject the stores under the right of rejection vested in him under the conditions of contract and he has no testing facilities to conduct tests as per specification, he can always utilise the testing facilities of reputed testing laboratories to substantiate his complaint/rejection. No guidelines for this can be laid down by DGS&D (Inspection Wing) The National Test House has to remain the umpire laboratory.

[Department of Supply O.M. No. PIII-17(2)/81 dated  
24 August, 1981]

## CHAPTER IV

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

#### Recommendation

Another disquieting feature of this case is that the National Test House, Calcutta insisted on testing samples of undamaged coats and not the defective ones. The DGS&D did not appear to show any seriousness to have samples of defective coats tested at the National Test House for coming to some definite conclusions about the condition of the coats supplied through them. It was rather left to the Postmaster-General, Ambala who was not satisfied with the test results of the National Test House, to refer a sample of a defective coat to Shri Ram Test House, Delhi for a second opinion. The test report of Shri Ram Test House indicated a number of defects in it. The committee have been informed that this Test House though run privately has been recognised by Government for the purpose of testing. The Committee felt happy that in spite of the large number of coats (925 in Nos.) having been found defective by the various P&T Units, the DGS&D did not arrange to get testing of defective coats done at the National Test House. The Committee also note that no control sample was forwarded to National Test House for comparison. The Committee would therefore like the Government to review the existing procedure regarding making of reference to the National Test House and issue suitable instructions in this regard so as to ensure that in cases of this nature the testing of defective lot (and not the unused one) is got done by the DGS&D as desired by the consignee.

[Sl. No. 8 (Para 1.72) of Appendix to 36th Report of P.A.C. (7th Lok Sabha)].

#### Action taken

In a contract where supplies are to be made as per specification no control sample is considered necessary and tests are carried out as per the requirements of the governing specifications. For test/investigation a sample of deteriorated waterproof Coat, drawn out of a lot of 60 Nos. from PSD, Ambala, was sent to N.T.H. DGP&T also

requested National Test House for investigating tests to find out reasons for rubber melting. The National Test House did not carry out any such diagnostic tests. Neither National Test House nor DGP&T could evolve any criteria for such a test. Even Shri Ram Test House, New Delhi did not carry any diagnostic tests as the test certificate issued by them simply recorded the physical condition of the sample received by them and the test results of only one test as per specification i.e. dry heat test.

On the advice of Chairman of P.A.C., National Chemical Laboratory, Poona; Defence Material Stores, Kanpur, DGISI., New Delhi; and Indian Rubber Manufacturers Association, Bombay have been approached to find out whether they could help in carrying out the investigation to ascertain the reasons for rubber melting in the Waterproof Coats. Only National Chemical Laboratory responded advising that Indian Rubber Manufacturers Association, Bombay could be in a position to help, who also did not respond when approached by us.

[Deptt. of Supply O.M. No. PIII-17(21)/81 dated 24 August, 1981]

## CHAPTER V

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

#### Recommendation

The Committee have been informed that keeping in view the fact that 925 Nos. of waterproof coats (PSD, Ambala—718, PSD, Bangalore—164, PSD, Mazaffarpur—34 and DMT, Pune-9, Tohal 925 Nos.) (Cost Rs. 0.43 Lakhs) supplied by this firm were in a deteriorating condition the Pay & Accounts Officer, Department of Supply has withheld the firm's bill dated 18 August, 1980 amounting Rs. 48,611. The Committee would like to be informed whether the cost of the defective coats has since been recovered from the firm.

[Sl. No. 12 (Para 1.76) of Appendix to 36th Report of P.A.C.  
(7th Lok Sabha)]

#### Action taken

The firm have objected to the recovery of the cost of defective stores. Ministry of Law's advice is being taken and on receipt of their advice further action will be taken.

[Deptt. of Supply O.M. No. PIII-17(2)/81 dated 24th August, 1981].

NEW DELHI;

February 4, 1983

Magha 16, 1904 (S)

SATISH AGARWAL

Chairman

Public Accounts Committee

## PART II

### MINUTES OF THE SITTING OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON 3 JANUARY, 1983

The Committee sat from 13.00 hrs. to 14.00 hrs.

#### PRESENT

- Shri Satish Agarwal—*Chairman*
2. Shrimati Vidyavati Chaturvedi
  3. Shri G. L. Dogra
  4. Shri Bhiku Ram Jain
  5. Shri Mahavir Prasad
  6. Shri Sunil Maitra
  7. Shri Jamilur Rahman
  8. Shri Uttam Rathod
  9. Shri Ram Singh Yadav
  10. Shri Kalyan Roy

#### REPRESENTATIVES OF THE OFFICE OF CA&G

1. Shri R. K. Chandrasekharan, *Addl. Deputy C&AG of India*
2. Shri L. P. Khanna, *Director of Audit, P & T*
3. Shri G. N. Pathak, *DADS*
4. Shri G. R. Sood, *Jt. Director (RC)*

#### SECRETARIAT

1. Shri T. R. Krishnamachari—*Joint Secretary*
2. Shri K. C. Rastogi—*Chief Financial Committee Officer*
3. Shri K. K. Sharma—*Senior Financial Committee Officer*

The Committee took up for consideration the following draft Report.

\* \* \* \*

125th Report on Action Taken on the recommendations contained in 36th Report (7th Lok Sabha) on supply of Defective Waterproof Coats and Procurement of Spare Parts.

2. The Committee adopted the above Report subject to the amendments/modifications shown in the Annexure.

*The Committee then adjourned.*



**ANNEXURE**

*Amendments/modifications made in draft 125th Report of Public Accounts Committee (7th Lok Sabha) on supply of defective waterproof coats and procurement of spare parts*

Page	Para	Line	For	Read
1	1.3	1-3	Deletes first sentence— "The Committee are glad to note.....by Government."	
3	1.5	1-2	Ministry of Communications (P&T Board)	Department of Supply
4	1.6	7-8	Do.	Do.
Do.	Do.	14-16	The P&T Board has tried to.....diagnostic tests	According to the Department other Institutes/Test Houses have also not responded to their enquiry about conducting diagnostic test,
4-5	1.7		The existing para to be amended to read as under : "The Committee are surprised at the helplessness of the Department of Supply. The National Test House being the apex test House and the Testing Authority for the DGS&D contracts as well as an umpire laboratory whose verdict is considered as final, ought to be in a position to conduct various types of tests including diagnostic tests as may be required. The Committee would therefore, like that the reasons for the failure on the part of National Test House to conduct diagnostic tests should be enquired into and necessary action taken under intimation to the Committee."	
8	1.11	3	Files for	files to ascertain the reasons for
Do.	Do.	5	was not met.	was not met by the tenderers.

# Statement of Recommendations/Observations

## Appendix

No.	Para No.	Ministry/ Department	Recommendations/Observations
1	2	3	4
	1-6	Ministry of Communications (P & T Board)/Deptt. of Supply (D.G.S.&D.)	The Committee had recommended to Government to review the existing procedure for having defective samples tested by National Test House for coming to definite conclusions about the condition of the supplies through the DGS&D as desired by the consignees and issue suitable instructions. In their reply, the Department of Supply have stated that for test/investigation a sample of deteriorated waterproof coat was sent to National Test House and the latter was requested to conduct investigating tests to find out reasons for rubber melting. However, the National Test House did not conduct any diagnostic tests. According to the Department, other Institutes/Test Houses have also not responded to their enquiry about conducting diagnostic tests.
2	1.7	-do-	The Committee are surprised at the helplessness of the Department of Supply. The National Test House being the apex test House and the Testing Authority for the DGS&D contracts as well as an umpire laboratory whose verdict is considered as final, ought to be in a position to conduct various types of tests including diagnostic

tests as may be required. The Committee would therefore, like that the reasons for the failure on the part of National Test House to conduct diagnostic test should be enquired into and necessary action taken under intimation to the Committee.

3 1.11 Ministry of Communications  
(P.&T. Board)

The Committee note that the panel was unable to locate any specific record in the files to ascertain the reasons for accepting the tenders even though the condition of the NIT regarding provisioning of spares was not met by the tenderers. The panel has, however, maintained that the omission to get the expected failure rate of the components in literal compliance of the stipulation in the N.I.T. has not affected the Department adversely as regards free supply of spares. While in the instant case, this may be so, the Committee consider that reasons for not pursuing such important stipulations of the N.I.T. should be specifically recorded while accepting the tender. The Committee apprehend that failure to do so might land the Department in awkward situations in future particularly where foreign parties are involved. The Committee, therefore, recommend that suitable instructions in this regard should be issued to ensure that important conditions of the N.I.T. are not set aside without due consideration and without recorded reasons while accepting tenders.

P.A.C. No. 924

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