

TWENTY THIRD REPORT
PUBLIC ACCOUNTS COMMITTEE
(1980-81)

(SEVENTH LOK SABHA)

IMPORT OF WHEEL SETS

MINISTRY OF RAILWAYS

(RAILWAY BOARD)

[Action Taken on 75th Report (6th Lok Sabha)]



Presented in Lok Sabha on
Laid in Rajya Sabha on

LOK SABHA SECRETARIAT
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Corrigenda to 23rd Report of the Public
Accounts Committee (Seventh Lok Sabha).

<u>Page</u>	<u>Para</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
1	1.2(ii)	2	Add the word "to" between "desire" and pursue.	
2	1.4	12	wheellets	wheelsets

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(1980-81)

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2. Shri D. C. Pande—*Chief Financial Committee Officer.*
3. Shri T. R. Ghai—*Senior Financial Committee Officer.*

INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Twenty-third Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their 75th Report (6th Lok Sabha) relating to import of wheelsets.

In the 75th Report, the Committee had recommended that the matter relating to import of wheelsets by the Railways be investigated by an independent high-powered body. However, the Ministry of Railways have referred the matter to a departmental committee consisting of officers subordinate to the Railway Board. In this Action Taken Report, the Committee have recommended that even at this stage officers not below the rank of Joint Secretary of the Ministries of Finance, Steel and Planning should be associated with the proceedings of the enquiry committee already appointed.

On 20 August, 1980, the following 'Action Taken Sub-Committee' was appointed to scrutinise the replies received from Government in pursuance of the recommendations made by the Committee in their earlier Reports:

- | | |
|---------------------------------------------|------------------|
| 1. Shri Chandrajit Yadav— <i>Chairman</i> . | |
| 2. Shri K. P. Unnikrishnan. | } <i>Members</i> |
| 3. Shri K. P. Singh Deo. | |
| 4. Shri V. N. Gadgil. | |
| 5. Shri Satish Agarwal. | |
| 6. Shri N. K. P. Salve. | |

The Action Taken Sub-Committee of the Public Accounts Committee (1980-81) considered and adopted the Report at their sitting held on 2 December, 1980. The Report was finally adopted by the Public Accounts Committee (1980-81) on 10 December, 1980.

For reference, facility 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 the Report.

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;
December 17, 1980
Agrahayana 26, 1902 (S).

CHANDRAJIT YADAV,
Chairman,
Public Accounts Committee.

CHAPTER I

REPORT

1.1. This Report deals with the action taken by Government on the Committee's recommendations and observations contained in their 75th Report (Sixth Lok Sabha) on paragraph 11 of the Report of the C&AC of India for the year 1975-76—Union Government (Railways).

1.2. The 75th Report was presented to the Lok Sabha on 17 April, 1979 and contained 22 recommendations/observations. Action Taken Notes in respect of all these recommendations/observations have been received from Government and these have been broadly categorised as under:

- (i) *Recommendations or observations that have been accepted by Government:*
S. Nos. 1, 2, 3, 4, 5, 6, 9, 10.
- (ii) *Recommendations or observations which the Committee do not desire pursue in the light of replies received from Government:*
S. Nos. 7 and 8.
- (iii) *Recommendations or observations replies to which have not been accepted by the Committee and which require reiteration:*
Nil
- (iv) *Recommendations or observations in respect of which Government have furnished interim replies:*
S. Nos. 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21 and 22.

1.3. The Committee will now deal with the action taken by Government on their above recommendations and observations as under:—

Reference of the case to an independent High Power Body for further investigation (Paragraph 1.144—S. No. 22)

1.4. Commenting on the placement of orders by the Railway Board on a Japanese firm in August, 1975 for meeting the require-

ments of wheelsets for 1976-77, the Committee had in paragraph 1.144 of their 75th Report recommended—

“The Committee cannot but point out that the Railway Board ordered import of 9144 wheelsets from the Japanese firm in August, 1975 on the basis of an inflated assessment of the needs and requirements of the Railways without making a proper assessment of the production capability of the indigenous source of supply. It causes concern to the Committee that subsequently Durgapur Steel Plant were asked by the Ministry of Railways to regulate their production so that monthly despatches did not exceed 450 wheelsets. It is regrettable that the Railway Board took no care to negotiate in August, 1975 with the Japanese firm for arranging a lesser quantity of wheelsets nor did they consider it desirable to limit the immediate imports to a more realistic level and to retain an option for ordering further supplies in case of need. The Committee recommend that the matter may be investigated by an independent high power body to ascertain the true facts and to fix responsibility for the various lapses that have come to light.”

1.5. In their Action Taken Note dated 14-12-79, the Ministry of Railways (Railway Board) have stated:—

“The recommendation has been accepted by the Government and action is being taken to appoint an independent High Power Body to ascertain facts with regard to the assessment of requirements of wheelsets for 1976-77 and to fix responsibility for the lapses, if any.”

1.6. The Ministry of Railways have further intimated on 12-2-1980 as under:—

“1. The Ministry of Railways have decided to constitute a Committee comprising of the following officers:—

- (1) Director, Civil Engineering, Railway Board;
- (2) Economic Adviser, Railway Board; and
- (3) Director, Electrical Engineering, Railway Board.

2. The terms of reference of the Committee will be as follows:—

To go through the 75th Report of the Public Accounts Committee (1978-79) on the subject of Import of Wheelsets

particularly recommendation Nos. 11 to 22 and ascertain the facts of the case with a view to establish:—

- (a) Whether the quantity requirements for import for 1976-77 had been arrived at correctly.
- (b) Whether the projections for wagon production requirements were taken correctly.
- (c) Whether the likely availability of wheelsets from indigenous source was assessed properly.
- (d) Whether any lapse occurred in the evaluation of (a) to (c) above and if so (i) nature of lapse(s), (ii) the persons responsible; and (iii) suggest remedial measures to avoid such lapses in future."

1.7. When asked to indicate the latest position, the Ministry of Railways have further stated on 21.7.1980 as under:—

"The Enquiry Committee has not yet submitted its report which is expected to take 2-3 months more."

1.8. The Committee had recommended that the matter may be investigated by an independent high powered body, as the issue under examination related directly to the Railway Board, to ascertain the true facts and to fix responsibility for the various lapses that had come to notice. The Ministry of Railways have accepted this recommendation. It is however seen that instead of an independent high powered body as recommended by the Committee, the Ministry of Railways have referred the matter to a departmental committee comprising of officers subordinate to the Railway Board. The Committee recommend that even at this stage officers not below the rank of Joint Secretary of the Ministries of Finance, steel and Planning should be associated with the proceedings of the enquiry committee already appointed. They also recommend that the Report of the enquiry Committee should be made available to the Public Accounts Committee at an early date;

CHAPTER II

RECOMMENDATIONS OR OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

The Committee note that for the requirements of wheel-sets for 1974, the Ministry of Railways had floated a tender on 19.9.1973 for supply of 11,430 wheelsets with an option to increase the quantity by 30 per cent. In response to this tender the lowest offer received was from a French firm (Creusot Loire) who had offered to supply the wheel sets at the rate of Rs. 4,022.26 F.O.B. per set. Initially this offer of the French Firm was valid upto 29.1.1974. On 10.1.1974 the Tender Committee had recommended that contract for 11,430 wheel-sets with option to order additional 30 per cent may be placed on M/S Creusot Loire, France. The relevant file containing the recommendations of the Tender Committee and the decisions of the Railway Board was sent on 11.1.1974 by the Board to the Ministry of Railways, who was the competent authority for the approval of such proposals involving expenditure of more than a crore of rupees.

(Sl. No. 1, Para 1.123 of PAC's 75th Report 1978-79—Sixth Lok Sabha).

Action taken

Observations of the Committee have been noted.

[Ministry of Railways (Railway Board) O.M. No. 79—BC—
PAC/VI/75 Dated 3-12-79].

Recommendation

The Committee find that after the file had been submitted to the Minister of Railways on 14.1.1974 for necessary orders, the file shuttled between the Railway Board and the Minister of more than two months. In between the Minister had raised several queries and asked for special reviews in regard to the quantity of wheel-sets to be procured against the tender. As one stage even the French firm had been asked to reschedule their deliveries by making the same quicker and in larger instalments. It has been stated during

evidence that meanwhile a letter dated 15.3.1974 from the Trade Representation of the Socialist Republic of Rumania in India addressed to the Director, Railway Stores, Railway Board had been received by the Minister directly. In this letter the Trade Representation had regretted that they had overlooked the advertisement of the tender and that they were very anxious to quote against this tender on the basis of payment in Indian rupees. They had also requested the Railway Board to wait for the few days to enable them to submit the quotation. However, since the tender could not be finalised within the period of validity, the French firm was asked to keep their offer open on as many as five occasions. Ultimately on 23.3.1974 the Minister of Railways directed that order should be placed on the French firm for 50 per cent quantity (5714) and for the remaining 50 per cent the possibility of getting these wheelsets from Rumania should be explored.

[Sl. No. 2, Para 1.124 of PAC's 75th Report 1978-79—Sixth Lok Sabha].

Action taken

Observations of the Committee have been noted.

[Ministry of Railways (Railway Board) O.M. No. 79-BC-PAC/VI/75 dated 3-12-79].

Recommendation

On 26-3-1974, the Railway Board sent a cable order for 50 per cent of the tendered quantity (5715) Nos. retaining the option to order additional 30 per cent of the tender quantity viz. 3429 wheelsets during the currency of the contract and also asking the firm to keep the offer for the balance 50 per cent open for four months, i.e., upto 25.7.1974 to which the firm had agreed. The formal contract was placed on the firm on 11.4.1974. On 27.3.1974 a copy of the tender had also been sent to the Trade Representation of the Socialist Republic of Rumania requesting them to submit their quotations early. Simultaneously, the Indian Embassy at Bucharest was asked to contact the firm and request them to send the quotation. After a lapse of more than two months intimation was received on 5-6-1974 that there was no possibility of getting wheelsets from Rumania source. Action was then initiated and papers were resubmitted to the Minister on 18.6.1974 suggesting that orders for the optional quantity of 30 per cent (3429) and additional quantity of 50 per cent (5715) might be placed on the French firm before the target date, namely, 25.7.1974. This file was returned by the Minister only on

22.7.1974. While agreeing with the proposals put up by the Railway Board for placing further orders on the French firm, the Minister had in this note added the following rider:

“However, I came across a news-item in the *Economic Times*, 2/3 days ago that there is general recession in the New York Market. In this background would it not be advisable to go in for French tender? I think we should”.

[Sl. No. 3, Para 1.125 of PAC's 75th Report, 1978-79—Sixth Lok Sabha].

Action taken

Observations of the Committee have been noted.

[Ministry of Railways (Railway Board) O.M. No. 79-BC-PAC/VI/75 dated 3-12-79].

Recommendation

The file was received by the Board on 24.7.1974 i.e. just one day before the date till when the French firm had been asked to keep open their offer for supply of additional quantity of wheelsets. On the same date the Board had decided that “in view of the fact that US based firms hardly responded to our global tenders for this type of items” order for 5715 numbers of wheelsets be placed on the French firm. A telex acceptance was issued to the French firm on 24.7.1974, which the latter claimed to have received only on 26.7.1974, i.e., a day after the last date for receipt of orders for additional quantity was over. Though, according to the Railway Board the order had been placed within the stipulated time, the firm repudiated this claim. In short they declined to accept the order as the same had in their opinion been delayed. After protracted correspondence the Railway Board were obliged to cancel this order as well as the order for 30 per cent of the tendered quantity viz. 3429 Nos. placed in November, 1974, at the risk and cost of the firm. The Committee find that against the tender floated subsequently for the purchase of $(5715 + 3429 = 9144)$ wheelsets at the risk and cost of the French firm, the price quoted by the Japanese firm, whose tender was the lowest, was Rs. 7457 per wheelset as compared to the price of Rs. 4022 per set quoted by the French firm in their original tender. However, before global tenders had been opened the French firm offered to make supplies provided the price stipulated in the previous contract was increased by half of the difference between the contract price and the lowest f.o.b. price to be received against the forthcoming tender, and the Railway Board as an expediency agreed

to place the order again on the French firm. But this vacillation (from 5.6.1974 to 24.7.1974) resulted in an additional expenditure of Rs. 1.32 crores for the Railways. The Committee are distressed to find that the delay in placing the orders first after January, 1974 on receipt of the Tender Committee's recommendations and later after 5th of June, 1974 when it became clear that no supplies could possibly be had from Rumania has resulted in an avoidable expenditure of Rs. 1.32 crores.

[Sl. No. 4, Para 1.126 of PAC's 75th Report, 1978-79—Sixth Lok Sabha].

Action taken

Observations of the Committee have been noted.

[Ministry of Railways (Railway Board) O.M. No. 79-BC-PAC/VI/75 dated 3-12-79].

Recommendation

Initially, in the context of the inflationary trends in the international market following the oil crisis and the urgent requirements of the wagon builders the Minister had shown anxiety for ordering a large number of wheelsets and also for expediting their supplies. As a matter of fact the French firm had once been asked at the instance of the Minister, to reschedule their deliveries so as to make them quicker and in larger instalments. Later on, however, the Minister appears to have had second thoughts and favoured the placement of an order on a Rumanian firm because he felt supplies could be forthcoming against rupee payments. After directing that order for only 50 per cent of the tendered quantity might be placed on the French firm, he had desired that the possibility of getting the balance supply from a Rumanian firm against rupee payment might be explored. In fact it would appear from the evidence of the Member Mechanical, Railway Board that special efforts were made to procure an offer from the Rumanian firm. It needs to be pointed out in this context that the Rumanian firm had never before participated in any offer for the supply of wheelsets to the Indian Railways and this was a well-known fact. When asked why did not the Railway Board bring this fact specifically to the notice of the Minister, the Chairman, Railway Board stated in evidence: "In fact, the Minister who was in the foreign trade knew about it... As officials, we can not go over the Minister". Thus, since the Minister had so desired a belated request from the Rumanian firm for participation in the tender was taken into account and inquiries

were made to ascertain if the Rumanian firm was in a position to make competitive offers for the wheelsets, even though it was known before hand that the Rumanian firm could not meet the Railways' requirements.

[Sl. No. 5, Para 1.127 of PAC's 75th Report, 1978-79—Sixth Lok Sabha].

Action taken

Even though no Rumanian Firm had ever supplied Wheelsets to the Indian Railways, exploring new sources of supply is always desirable. Observations of the Committee have been noted.

[Ministry of Railways (Railway Board) O.M. No. 79-BC-PAC/VI/75 dated 3-12-79].

Recommendation

Subsequently, after it was known that the Rumanian firm was no longer in the picture, the Railway Board put up the proposals that the order on the French firm for the balance requirement of the Railways for the wheelsets might be placed. The decision of the Minister was not available for more than a month despite two written reminders from the Railway Board. Thereafter he agreed to the proposals of the Railway Board but returned the file just 2 days before the target date. At that point of time, the Railway Board took a decision to place the order for the balance quantity on the French firm. Even then the peculiar predicament in which the Railway Board found itself could not be averted. Since the die had been cast and the order had been delayed, the Railway Board had to suffer an avoidable excess expenditure of Rs. 1.32 crores.

[Sl. No. 6, Para 1.128 of PAC's 75th Report 1978-79—Sixth Lok Sabha].

Action Taken

Observations of the Committee have been noted.

[Ministry of Railways (Railway Board) O.M. No. 79-BC-PAC/VI/75 dated 3-12-79].

Recommendation

It is little intriguing to note in this connection that in April, 1975 when the Legal Adviser of the Railway Board had recommended that it would be advisable to arrive at a settlement with the firm the

Railway Board did not like this advice and decided to proceed with the risk purchase and face the difficulties in realisation of the extra expenditure from the French firm. Later on, however, after having floated the risk purchase tender and on receipt of a representation from the firm, the Railway Board considered it expedient to arrive at a settlement with the firm. The rationale for this volte face is incomprehensible keeping in view that in April 1975 the Railway Board had deliberately not accepted the advice of the Legal Adviser for the settlement with the firm. The explanation given for this change in the Railway Board posture at a later stage is hardly convincing.

[Sl. No. 9 Para 1.131 of the 75th Report of PAC 1978-79—Sixth Lok Sabha].

Action Taken

Observations of the Committee have been noted.

[Ministry of Railways (Railway Board) O.M. No. 79-BC-PAC/VI/75 dated 3-12-79].

Recommendation

A direct consequence of the belated placement of order on the French firm was (i) an emergency purchase order for 4,000 wheelsets on M/s Sumitomo Metal Industries, Japan on 11-4-1974 and (ii) procurement in advance of 9144 Wheelsets from the same Japanese firm (M/s. Sumitomo Metal Industries) against the requirements for the years 1976-77 the emergency purchase of course did not lead to any financial loss because the price contracted for each wheelset was lower than the French offer, but inasmuch as the emergency purchase was for an extra quantity of wheelsets without corresponding reduction in the order over French firm it resulted in higher inventory. So far as the advance procurement for the year 1976-77 is concerned, the Committee find that just at the point of time when a settlement was being reached with the French firm, the Railway Board had also on hand the Japanese offer for supply of 9144 wheelsets received in response to the risk tender floated earlier. What the Railway Board did was that in July 1975, while deciding to place orders for 9144 wheelsets on the French firm, they also decided to procure the same number of wheelsets namely, 9144 from Japan to meet the requirements of 1976-77 wagon building programme. The Committee find that as per the normal practise the order for their

requirements of wheelsets for the year 1976-77 should have been processed by the Railway Board by September|October 1975. It appears that Railway Board felt obligated to the Japanese firm to place order on them.

[Sl. No. 10 Para 1.132 of the 75th Report of PAC 1978-79—Sixth Lok Sabha].

Action Taken

Observations of the Committee have been noted.

[Ministry of Railways (Railway Board) O.M. No. 79-BC-PAC|VI|75 dated 3-12-79]

CHAPTER III

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

Recommendations

From the foregoing paragraphs it is clear that the Minister had evinced unusual interest in the processing of this case. After 14th January, 1974, when the file was originally put up to him, the Minister had on 13th February, 1974, i.e., after about a month, minuted that it might be considered whether it would not be advisable to go in for more quantity (the extended offer was due to expire on 16th February, 1974). On 15th February, 1974 when the Railway Board requested the Minister to accord his approval to the recommendations as the wheelsets were urgently required, the Minister ordered for a second look. The file was then resubmitted to the Minister on 16th February, 1974 recommending acceptance of Tender Committee's recommendations but on 5th March, 1974 i.e., after about 20 days the Minister returned the file and asked for a review of the quantity to be ordered against the tender. On 13th March, 1974, the file was resubmitted to the Minister for approval and after 10 days the Minister directed that in view of the fact that Rumanians were showing interest in supplying wheelsets contract for 50 per cent quantity only might be placed on the French firm. This whole exercise took more than two months.

Further the exploration of the Rumanian source for the supply of wheelsets was only an exercise in futility as it was well known that the Rumanian firm had never participated in any earlier tender enquiry for this item. However since the Minister had so ordered, the formalities of supplying tender documents and awaiting for the response of the Rumanian firm were undertaken which inevitably look to further delay. And even though the intimation about the inability of the Rumanian firm to supply any wheelsets was received on 5th June, 1974 and the file had been put up to the Minister on 18th June, 1974 the Minister passed orders on this file only on 22nd July, 1974 and the file came down on 24th July, 1974 i.e., just one day before the date on which the extended offer was due to expire. The Committee do not find any justification for the delay at various

stages. The peculiar manner in which the case has been handled at the Minister's level and at other levels renders their intentions quite unclear to say the least. Under the circumstances the Committee recommend that this whole case may be referred for investigation to a specially constituted judicial authority, which alone can adequately review the deeds of a Minister and others.

[Sl. Nos. 7 & 8 Paras 1.129 and 1.130 of the 75th Report of PAC's
1978-79—Sixth Lok Sabha]

Action taken

1. The Railway Minister as the relevant time was Shri L. N. Mishra who is no longer alive and constituting a judicial enquiry to review his personal role after his expiry may not bring out the desired results and full background of the reasons for which approval was delayed.

2. The Government, therefore, have decided that appointment of a specially constituted Judicial Authority to investigate and review the deeds of a late Minister is not necessary and to request the Committee not to insist on the appointment of a judicial Authority for the purpose.

[Ministry of Railways (Railway Board) O.M. No. 79—BC—
PAC/VI/75 Dated 3-12-79].

CHAPTER IV

**Recommendations or observations replies to which have not been
accepted by the Committee and which require reiteration**

Nil

CHAPTER V

Recommendations or observations in respect of which Government have furnished interim replies

Recommendations

It is to be noted that since it had been decided to purchase 9144 wheelsets from the French firm at a negotiated rate, there was no need for taking further action at the point of time on the risk purchase tender, under which the Japanese had quoted a rate which was 31 per cent higher than the rate negotiated with the French firm. There is no indication to suggest whether the French firm had then been asked to quote for the additional 9144 wheelsets for which the order was placed on the Japanese firm. The Japanese offer in the context of the then prevailing circumstances cannot, therefore, be considered entirely unexceptionable. Further, the manner in which the requirements of the wheelsets for 1976-77 were calculated before placing the order on the Japanese firm also appears to be un-understandable.

[Sl. No. 11 Para 1.133 of the 75th Report of PAC 1978-79—Sixth Lok Sabha].

Action taken

Observations of the Committee have been noted. The question of requirements of wheelsets for 1976-77 will be referred to the High Power Committee appointed in terms of PAC Recommendation No. 22 (Para 1.144).

[Ministry of Railways (Railway Board) O.M. No. 79—BC—PAC/VI/75 Dated 3-12-79].

Recommendations

It is seen that the requirements of the wheelsets for 1976-77 had been worked out on the basis of a projection of the anticipated production of wagons during 1976-77 at 14,506 four wheelers. The Committee find that the estimate of the wagons requirements for 1976-77 had neither been approved by the Planning Commission nor had it been finally adopted by the Railway Board themselves at that point of time. The only positive indication in regard to the total wagon requirements for 1976-77 was that during the Ministry of

Railways' discussions with IDA Mission in March/April 1975 for IDA credit for 1975-76, the production level of 14,500 wagons during 1976-77 had been accepted. In these discussions the representatives of the Ministry of Finance and Planning Commission were also stated to be present. In the light of the procedure normally followed in such cases the wagon requirements for each year were being discussed by the Railway Board with the Planning Commission alongwith the Annual Plan in the months of November-December of the preceding year. Thus the estimations regarding the wagon production for the year 1976-77 would have come up for discussion with the Planning Commission only in November-December 1975.

[Sl. No. 12 para 1.134 of 75th Report of PAC 1978-79—Sixth Lok Sabha].

Action taken

Observations of the Committee have been noted. The question of assessment regarding wagon Production for the year 1976-77 will be referred to the High Power Committee appointed in terms of PAC Recommendation No. 22 (Para 1.144).

[Ministry of Railways (Railway Board) O.M. No. 79—BC—PAC/VI/75 Dated 3-12-79].

Recommendation

It is to be noted in this connection that in December 1974, when the wagon requirements for 1975-76 were placed before the Planning Commission, the Planning Commission had felt that the resources position was tight and hence the wagon requirements of the Railways for 1975-76 might be reduced from the level of 11,500 to 5,500 four wheelers. Since the Railway Board were not satisfied with this cut and insisted on larger allocation of funds so that the production level of wagons in 1975-76 could at least be maintained at the level of 1974-75 production, they were asked by the Planning Commission to prepare a note for the Cabinet on the subject. This note was discussed among the concerned Ministers on 2-5-1975 when it was decided that the current rate of production of wagons i.e., about 10,000 wagons per year in terms of 4 wheelers be continued in 1975-76. An additional budgetary allocation of Rs. 25 crores was made for the purpose. In this meeting no final view of the requirements for 1976-77 was, however, taken. Keeping in view the thinking of the Planning Commission at that time it presumptuous on the

part of Railway Board to take it for certain that their projected requirements of 14,500 four wheelers for 1976-77 would be acceptable to the Planning Commission.

[Sl. No. 13 Para 1.135 of the 75th Report PAC 1978-79—Sixth Lok Sabha].

Action taken

Observations of the Committee have been noted. The question of assessment regarding wagon production during 1976-77 will be referred to the High Power Committee appointed in terms of PAC Recommendation No. 22 (Para 1.144).

[Ministry of Railways (Railway Board) O.M. No. 79-BC-PAC/VI/75 dated 3-12-79].

Recommendation

In fact, as is evident from the records made available to the Committee, the thinking in the Railway Board itself was that even during 1976-77, the wagon production will be of the same level as achieved in the earlier years of 1974-75 and 1975-76, i.e., about 11,000 to 12,000 wagons. Therefore, for the assessment of the requirements of wheelsets during 1976-77, the figure of wagon production was unjustifiably assumed as 14,500 four wheelers. It would appear that the requirements of the wagons were deliberately highly inflated with a view to make sure that the maximum number of wheelsets required for these wagons were procured against the Japanese offer of 9144 wheelsets then pending before the Railway Board. It is interesting to recall that in regard to the quantity of wheelsets required, the then Additional Member Finance had noted as under on the relevant file:

“On another file Financial Commissioner had suggested that, pending clarification of the position regarding availability of funds for 1975-76, we may assume that we shall procure 11,500 wagons in 1975-76 as we did in 1974-75 and requirement of wagons in 1976-77 could also be assumed at the same level but on option kept for ordering additional quantities to match the production of 14,500 wagons.”

On this noting of the Additional Member Finance, the then Member Mechanical of the Railway Board had minuted as under:—

“Ordering 14,865 wheelsets with an option of 3424 as suggested by Additional Member Finance will require discussions

with the lowest tenderer for his agreement to this mode of purchase. This may create complication as happened in the previous case and will result in serious delays."

This would clearly show that the Railway Board's assessment of their requirements for wagons and wheelsets was both unrealistic and unwarranted.

[Sl. No. 14 Para 1.136 of 75th Report of Sixth Lok Sabha].

Action taken

Observations of the Committee have been noted. The question of requirements of wheelsets during 1976-77 will be referred to the High Power Committee appointed in terms of PAC Recommendation No. 22 (Para 1.144).

[Ministry of Railways (Railway Board) O.M. No. 79-BC-PAC/VI/75 Dated 3-12-79].

Recommendation

The Committee further find that in their estimations of the requirements of wheelsets for 1976-77, the Railway Board failed to make a realistic assessment of the quantity of wheelsets that could be supplied by the Hindustan Steel Ltd. It has been stated that when the allocation of additional funds by the Planning Commission to maintain the level of production in 1975-76 at the level of 11,500 four wheeler wagons (i.e. 1974-75 level) became apparent requirements of wheelsets upto 31st March, 1977 were reviewed in June/July 1975 and considering the likely supply of wheelsets during the two years of 1975-76 and 1976-77 to be received from the Hindustan Steel Ltd. as 10800 (450x24) numbers only, the requirements to be imported were assessed as 19,400 wheelsets. However, the import order was placed for 18288 only. Thus in June/July 1975, while assessing the quantity of wheelsets expected to be supplied by the Hindustan Steel Ltd. the Railway Board do not appear to have made any conscious effort to ascertain from the Hindustan Steel Ltd. as to what extent they would be able to meet the Railways' demand either in the remaining months of 1975-76 or during 1976-77.

[Sl. No. 15, Para 1.137 of PAC's 75th Report 1978-79—Sixth Lok Sabha].

Action Taken

Observations of the Committee have been noted. Considering the past performance of the Durgapur Steel Plant as also the Commitment made in letter dated 17th March, 1975 by the Secretary, Department of Steel, the assessment of Durgapur Steel Plant's capacity was made on the basis of information available at the time. However, this will be referred to the High Power Committee appointed in terms of PAC Recommendation No. 22 (Para 1.144).

[Ministry of Railways (Railway Board) O.M. No. 79-BC-PAC/VI/75, dated 3rd December, 1979].

Recommendation

The basis on which the Railway Board appear to have concluded that supplies of this item from the Hindustan Steel Ltd. would continue to be at the rate of 450 per month till the end of 1976-77 was a communication from the Steel Secretary received in March, 1975. In this communication the Steel Secretary had indicated that for the period April 1975 to September 1975 the Hindustan Steel Ltd. could not commit itself to a supply exceeding 3600 sets out of which 2700 sets will be of 20 tonne wheelsets. In reply to a query from the Committee, the Railway Board have stated that "It was not the practice to specifically enquire from Durgapur Steel Plant or the Ministry of Steel regarding the likely supplies by the Plant before finalising each and every import. These assessments were based on the performance of Durgapur Steel Plant who were supplying about 450 Nos. of 20.3 tonne wheelsets per month." In the same context the Railway Board have stated that "It might be submitted that Department of Steel did not give any indication that they were going to increase production in a significant manner".

[Sl. No. 16 Para 1.138 of the 75th Report of PAC 1978-79—(Sixth Lok Sabha)].

Action Taken

Observation of the Committee have been noted. However, this aspect will be referred to the High Power Committee appointed in terms of PAC Recommendation No. 22 (Para 1.144).

[Ministry of Railways (Railway Board) O.M. No. 79-BC-PAC/VI/75, dated 3rd December, 1979].

Recommendation

It is thus to be seen that in arriving at the total figure of supplies to be expected from the Hindustan Steel Ltd. the Railway Board

have placed complete reliance on the commitment made by the Steel Secretary in March 1975. The fact that this commitment was valid for a limited period extending only upto September 1975 was completely ignored. Besides, all other pointers towards a likely step up in the monthly production of wheelsets at Durgapur Steel Plant were overlooked. It is seen that regular meetings were being held by the Ministry of Railways with the representatives of the Hindustan Steel Ltd. to review the production of wheelsets at Durgapur. In one such meeting held on 9th September, 1974 the Superintendent Wheel and Axles Plant, Durgapur had stated that production could be expected at the rate of 700 to 800 numbers per month although their commitment should be deemed at the level of 600 Nos. per month. The Railway Board had then given indication for accepting the increased supplies.

[Sl. No. 17, Para 1.139 of PAC's 75th Report 1978-79—(Sixth Lok Sabha)].

Action Taken

Observation of the Committee have been noted. However, this aspect will be referred to the High Power Committee to be appointed in terms of PAC Recommendation No. 22 (Para 1.144).

[Ministry of Railways (Railway Board) O.M. No. 79-BC-PAC/VI/75, dated 3rd December, 1979].

Recommendation

According to the Department of Steel, Railways were fully aware of the improving trends of production of wheelsets at Durgapur Steel Plant which were made known to the representatives of the Railways in the regular monthly meetings held in Calcutta. Apart from this, a Resident Inspector of the Railway Board, stationed at Durgapur, used to get regular information from the Durgapur Steel Plant in the matter of production and despatches of various types of wheelsets. According to the Department of Steel, irrespective of the commitments made for supply, the production of the wheelsets had gone up from June 1974 onwards. This is corroborated by the fact that except in the months of April and May 1975, when the despatches of wheelsets from the Durgapur Steel Plant were exceptionally low, the monthly despatches from June 1975 onward were well above the committed figure of 450 per month.

[Sl. No. 18, Para 1.140 of PAC's 75th Report 1978-79—(Sixth Lok Sabha)].

Action Taken

Observations of the Committee have been noted. However, this aspect will be referred to the High Power Committee to be appointed in terms of PAC Recommendation No. 22 (Para 1.144).

[Ministry of Railways (Railway Board) O.M. No. 79-BC-PAC/VI/75, dated 3rd December, 1979].

Recommendation

As per the Railway Board's own calculations the average despatches during the period June 1974 to March 1975 and April 1975 to September 1975 were 553 and 528 numbers per month, *vis-a-vis*, the committed quantity of 450 sets per month. Further, from a letter issued by the Department of Steel in the month of May 1975, it is seen that the Durgapur Steel Plant had complained that they did not have adequate orders for wheelsets from the Railways and had accordingly requested for more order from the Railways. During evidence the Chairman, Railway Board had also conceded that in the relevant period, i.e., in the months of June, July and August 1975, the despatches from the Durgapur Steel Plant had shown improvements even though he called them 'slight'. All these facts inexorably lead the Committee to conclude that the Railway Board overlooked the prospects of better production at Durgapur Steel Plant and without making any specific enquiries in regard to the likely supplies from the Plant during the next one and a half year, took the monthly figure of 450 sets for granted. It is significant to note that when the Committee pointed out that the care was taken to protect the interest of wagon builders by ordering more wagons but no such effort was made to consider the position of the wheelset industry, the Chairman, Railway Board admitted: "We did not see socio-economic condition."

[Sl. No. 19, Para 1.141 of PAC's 75th Report 1978-79—(Sixth Lok Sabha)].

Action Taken

Observations of the Committee have been noted. However, this aspect will be referred to the High Power Committee to be appointed in terms of PAC Recommendation No. 22 (Para 1.144).

[Ministry of Railways (Railway Board) O.M. No. 79-BC-PAC/VI/75, dated 3rd December, 1979].

Recommendation

This under-estimation of the capability of the Durgapur Steel Plant to produce more wheelsets coupled with the highly inflated assessment of the wagon production during the year 1976-77 led the Railway to make incorrect estimation of the import requirements of wheelsets for the year 1976-77. Just 2 months after the placement of orders in August 1975 on the Japanese firm for supply of 9144 wheelsets, the Railway Board found in November 1975 that the production prospects of the Durgapur Steel Plant had brightened. This strengthens the doubt that the placement of order on the Japanese firm was to placate them. The Durgapur Steel Plant had then come forward with an offer to step up the supply of wheelsets from mere 450 to one thousand sets per month. A review of the stock and order position had been revealed that the Railway Board would be left with surplus wheelsets in 1976-77 to the extent of 6,335 in addition to the buffer stock of 3,176 assuming that the Durgapur Steel Plant would continue to supply at the previous rate of 450 wheelsets per month and 16,236, if the plant stepped up its supplies to one thousand sets as promised. Frantic efforts were then made to cancel the outstanding import orders as also to persuade the Durgapur Steel Plant to regulate their production of wheelsets in such a manner that their monthly despatches did not exceed the earlier committed figure of 450 wheelsets. The Committee were informed by the Department of Steel that Durgapur Wheel and Axle Plant "is originally designed and laid out for producing assembled wheelsets and not loose items". "The bulk of production is 20 tonnes' wheelsets. The imposition of restriction would have resulted in under-utilisation of the production capacity rendering manpower idle. The strategy of the Railway Board is indefensible.

[Sl. No. 20, Para 1.142 of PAC's 75th Report 1978-79—(Sixth Lok Sabha)].

Action Taken

Observations of the Committee have been noted. However, this aspect will be referred to the High Power Committee to be appointed in terms of their Recommendation No. 22 (Para 1.144).

[Ministry of Railways (Railway Board) O.M. No. 79-BC-PAC/VI/75, dated 3rd December, 1979].

Recommendation

As has been pointed out in the Audit paragraph, the ordering of 9144 wheelsets at a cost of Rs. 10.63 crores (including foreign ex-

change of Rs. 6.82 crores) in August 1975, based on an estimate of higher level of wagon production for 1976-77 than that for the previous year and in advance of the normal schedule of procurement resulted in excessive inventory of 6335 wheelsets over and above the buffer provision of 3176 sets. The Railway Board have explained that with the deferment of the delivery of 3116 numbers of the Japanese wheelsets beyond 1st April, 1977 (1500 numbers of which had since been cancelled) the excess inventory had been reduced to only 2972 sets. Nevertheless this is an admission of the fact that the requirements of wheelsets had been highly inflated for reasons best known to the Railway Board. This over-estimation of the needs has to be considered in the context of enormous difference between the price of imported wheelsets and those procured indigenously. The price differential in the indigenous supply from the Durgapur Steel Plant (Rs. 3580 per set in November 1975) and the imported supplies from Japan (Rs. 11620 per set tender price-order of July 1975) is so wide that on a single set less imported the Railways could have saved as much as Rs. 8040 in foreign exchange. The total infructuous expenditure involved in unnecessary imports would thus run into several crores of rupees. The loss suffered by the Durgapur Steel Plant by regulating their production of the wheelsets according to the wishes of the Railway Board, which has not been separately assessed would also be considerable.

[Sl. No. 21, Para 1.143 of PAC's 75th Report 1978-79—(Sixth Lok Sabha)].

Action Taken

Observations of the Committee have been noted. However, this aspect will be referred to the High Power Committee to be appointed in terms of their Recommendation No. 22 (Para 1.144).

[Ministry of Railways (Railway Board) O.M. No. 79-BC-PAC/VI/75, dated 3rd December, 1979].

Recommendation

The Committee cannot but point out that the Railway Board ordered import of 9144 wheelsets from the Japanese firm in August, 1975 on the basis of an inflated assessment of the needs and requirements of the Railways without making a proper assessment of the production capability of the indigenous source of supply. It causes concern to the Committee that subsequently Durgapur Steel Plant were asked by the Ministry of Railways to regulate their production

so that monthly despatches did not exceed 450 wheelsets. It is regrettable that the Railway Board took no care to negotiate in August, 1975 with the Japanese firm for arranging a lesser quantity of wheelsets nor did they consider it desirable to limit the immediate imports to a more realistic level and to retain an option for ordering further supplies in case of need. The Committee recommend that the matter may be investigated by an independent high power body to ascertain the true facts and to fix responsibility for the various lapses that have come to light.

[Sl. No. 22, Para 1.144 of PAC's 75th Report 1978-79,
(Sixth Lok Sabha)]

Action Taken

The recommendation has been accepted by the Government and action is being taken to appoint an independent High Power Body to ascertain facts with regard to the assessment of the requirements of Wheelsets for 1976-77 and to fix responsibility for the lapses, if any.

[Ministry of Railways (Railway Board) OM No. 79-BC-
PAC|VI|75 of 3-12-79]

Further Action Taken

Consequent on the discussions in the Public Accounts Committee relating to Paragraph II of the Report of the Comptroller and Auditor General of India for the year 1975-76, Union Government (Railways) on the subject of Import of Wheelsets and consequent on the recommendations of the Public Accounts Committee on the same subject contained in Para 1.144 (S. No. 22), in their 75th Report presented to Parliament on 17th April, 1979, the Ministry of Railways have decided to constitute a Committee comprising of the following officers:—

- (1) Director Civil Engineering, Railway Board;
- (2) Economic Adviser, Railway Board; and
- (3) Director, Electrical Engineering, Railway Board.

2. The terms of reference of the Committee will be as follows:—

To go through the 75th Report of the Public Accounts Committee (1978-79) on the subject of Import of Wheelsets

particularly recommendation Nos. 11 to 22 and ascertain the facts of the case with a view to establish:—

- (a) Whether the quantity requirements for import for 1976-77 had been arrived at correctly.
- (b) Whether the projections for wagon production requirements were taken correctly.
- (c) Whether the likely availability of wheelsets from indigenous sources was assessed properly.
- (d) Whether any lapse occurred in the evaluation of (a) to (c) above and if so (i) nature of lapse(s), (ii) the persons responsible; and (iii) suggest remedial measures to avoid such lapses in future.

3. Ministry of Railways further desire that the report be submitted as early as possible, but not later than 3 months from the date of the issue of this order.

[Ministry of Railways (Railway Board) Order No. 76/RSF/962/8, dated 17-10-1969].

Further to Further Action Taken

****...the Enquiry Committee has not yet submitted its report which is expected to take 2-3 months more.

[Ministry of Railways (Railway Board) O.M. No. 79-BC/PAC/VI/75 dated 21-7-80].

APPENDIX

Summary of Conclusions/Recommendations

S. No.	Para No.	Ministry	Recommendation
1	2	3	4
1	1.8	Ministry of Railways (Railway Board)	<p>The Committee had recommended that the matter may be investigated by an independent high powered body, as the issue under examination related directly to the Railway Board, to ascertain the true facts and to fix responsibility for the various lapses that had come to notice. The Ministry of Railways have accepted this recommendation. It is however seen that instead of an independent high powered body as recommended by the Committee, the Ministry of Railways have referred the matter to a departmental committee comprising of officers subordinate to the Railway Board. The Committee recommend that even at this stage officers not below the rank of Joint Secretary of the Ministries of Finance, Steel and Planning should be associated with the proceedings of the enquiry committee already appointed. They also recommend that the Report of the enquiry committee should be made available to the Public Accounts Committee at an early date.</p>

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