

**ONE HUNDRED AND SIXTEENTH  
REPORT**

**PUBLIC ACCOUNTS COMMITTEE  
(1982-83)**

(SEVENTH LOK SABHA)

**PURCHASE OPERATIONS OF THE SUPPLY  
WING IN THE HIGH COMMISSION OF  
INDIA, LONDON**

**MINISTRY OF EXTERNAL AFFAIRS**



सत्यमेव जयते

*Presented in Lok Sabha on* 3.0 JUL 1982

*Laid in Rajya Sabha on* 3.0 JUL 1982

**LOK SABHA SECRETARIAT  
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## CONTENTS

	PAGES
COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE (1982-83). . . . .	(iii)
INTRODUCTION . . . . .	(v)
 <b>REPORT</b>	
 CHAPTER I. ORGANISATIONAL SET UP AND FUNCTIONS . . . . .	 1
CHAPTER II. DELAYS IN PROCUREMENT OF STORES . . . . .	18
CHAPTER III. OTHER MATTERS . . . . .	32
 <b>Appendices</b>	
I. Audit PARAGRAPH 23 of the Advance Report of the C&AG of India for the year 1979-80, Union Govt. (Civil) . . . . .	53
II. Category-wise break up of staff employed in the Supply Wing, London during 1978-79, 1979-80 and 1980-81. . . . .	77
III. Statement of Observations and Recommendations . . . . .	78

### PART II\*

#### MINUTES OF THE SITTINGS OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON :

20 January, 1982(FN)  
20 January, 1982 (AN) and  
25 June, 1982

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\*Not printed . One cyclostyled copy laid on the Table of the House and five copies placed in the Parliament Library.

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(1982-83)

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

## INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Hundred and Sixteenth Report of the Public Accounts Committee (Seventh Lok Sabha) on paragraph 23 of the Advance Report of the Comptroller & Auditor General of India for the year 1979-80, Union Government (Civil) on Purchase Operations of the Supply Wing in the High Commission of India, London.

2. The Advance Report of the Comptroller and Auditor General of India for the year 1979-80, Union Government (Civil) was laid on the Table of the House on 27th April, 1981. The Public Accounts Committee (1981-82) examined the above paragraph at their sittings held on 20 January 1982 (FN and AN). The Committee considered and finalised this Report at their sitting held on 25 June, 1982. The Minutes of the sittings of the Committee form Part II\* of the Report.

3. In this Report, the Committee have highlighted the inordinate delays in procurement of stores by the Supply Wing due to delays in calling for quotations, back references to the indentors, inadequacy of foreign exchange, non-bulking of indents, delays in inspection and shipping of stores etc. The Committee have found that the working of the Supply Wing has been hamstrung by problems of coordination on the one hand and want of sufficiently qualified staff on the other.

4. In view of the dissatisfaction voiced by the Chiefs of Staff Committee about the present arrangements and also considering that over 90 per cent of the stores procured through Supply Wing, London are defence stores, the Committee have opined that it would be desirable if the Ministry of Defence themselves assume responsibility for their procurement from abroad. The Committee have desired that a decision on the suggestion to allow the indenting Ministries to receive and process the indents directly through the Co-ordination Cells—one in the Ministry of Defence and the other in the Ministry of Supply and monitoring of contracts, delivery schedules, shipment schedules etc. through these Cells should be taken without further delay so as to put to an end the present state of uncertainty about the future of the Supply Wing.

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5. Referring to the wide variations in the price estimated by indentors and those actually secured in respect of large value items such as aircraft spares, aeronautical engineering stores, engineering stores and refrigeration and air-conditioning stores (ranging from 184 per cent to 376 per cent), the Committee have emphasised the need for having an organised system in the Supply Wing to evaluate the reasonableness of the prices quoted, to study the market trends and gather relevant data for feedback to the indentors in India.

6. A statement containing observations and recommendations of the Committee is appended to this Report (Appendix III). For facility of reference and convenience these have been printed in thick type in the body of the Report.

7. The Committee place on record their appreciation of the assistance rendered in the examination of this paragraph by the office of the Comptroller and Auditor General of India.

8. The Committee would also like to express their thanks of the officers of the Ministries of External Affairs and Defence and the Department of Supply for the cooperation extended by them in giving information to the Committee.

SATISH AGARWAL

*Chairman*

*Public Accounts Committee.*

NEW DELHI;

July 8, 1982

Asadha 17, 1904 (S)

# REPORT

## CHAPTER I

[Audit Para 23 of the Advance Report of the Comptroller and Auditor General of India for the year 1979-80, Union Government (Civil), on which this Report is based is reproduced at Appendix—I of this Report]

### ORGANISATIONAL SET UP AND FUNCTIONS

1.1. In April, 1975, control over the Supply Wing in London was transferred from the Department of Supply to the Ministry of External Affairs. The Supply Wing makes purchases for the Government of India, State Governments, certain autonomous bodies, etc. and also arranges for the inspection of stores and their shipment. The purchases include sophisticated machinery, Defence equipment and maintenance spares. In recent years more than 90 per cent of these stores represented Defence purchases. Its overall charge vests in the Director General, who is assisted by 2 Deputy Directors-General and 7 Directors. The Chief Accounting Officer of the High Commission acts as the Financial Adviser of the Supply Wing.

#### (a) Staff Strength

1.2. The staff strength of the Supply Wing during each of the years 1978-79, 1979-80 and 1980-81 is given below:

	1978-79	1979-80	1980-81
(i) India Based . . . . .	63	77	52
(ii) Local . . . . .	60	37	33
(iii) TOTAL . . . . .	123	114	85

Category-wise breakup of the above staff is given in Appendix II.

1.3. Asked about the mode of recruitment of staff, the Ministry of External Affairs have replied:

“Recruitment of India-based personnel in the Supply Wing, London is through the various Governmental Ministries/Departments. The selection Minister (Supply) is made by a Committee consisting of Foreign Secretary, Defence Secretary, Chairman Railway Board, Expenditure Secretary and Supply Secretary.

Other officers are selected by the Selection Committees of the respective Ministries and approved by the relevant Ministers. Thereafter the names are cleared by the Foreign Service Board in consultation with the Foreign Minister. The final list then goes to the Appointment Committee of Cabinet for approval. India-based staff are cleared by the Selection Committees of the respective Ministries in consultation with their Ministers and finally approved by Foreign Minister."

1.4. In reply to a question whether any experts from the Ministry of Defence were associated with the Supply Wing, the Ministry have stated:

"Out of the total strength of 85, 52 are India-based personnel. Of these 52, 21 are drawn from the Ministry of Defence.

All officers from the Purchase Directorates of Aeronautical Engineering, Marine Engineering, Vehicle and Armaments and the Computer Cell are drawn from the Defence. There are under the general supervision of one Deputy Director General (Purchase) also drawn from the Ministry of Defence."

(b) *Rationale of Transfer*

1.5. The Committee enquired about the rationale of transferring the Supply Wing from the control of the Department of Supply to the Ministry of External Affairs in April 1975 and whether the objective had been realised. In a note, the Ministry have stated:

"The rationale of transferring the control of the Supply Wing from the Department of Supply to the Ministry of External Affairs was based upon conclusions reached by consensus at the meeting of the Committee of Secretaries at which the view point of all concerned, including the Ministry of Supply was given due consideration. A change in administrative control was felt necessary because the indenting departments were not satisfied with the existing arrangements and desired a new set-up accountable to them, if not directly, at least indirectly, through a department other than the Department of Supply. It was felt expedient to vest the administrative control of the ISM with the Ministry of External Affairs as all general questions in Parliament relating to our establishments abroad have to be answered by this Ministry.

The long term objective defined by the Committee of Secretaries in April 1975 was the winding up of the Supply Missions in

London and Washington, while certain functions, which consistent with the requirements of efficiency and economy, could not be undertaken in India will be retained by the High Commission/Embassy.

This long term objective is yet to be realised; meanwhile transfer of all possible work, within the parameters of efficiency and economy, and national interest, reformulation of and adaptation of existing Governmental regulations and procedures to enable the handling of the Supply Wing's work from India is under way."

1.6 During evidence, a representative of the Ministry of External Affairs further explained the position thus:

"It was because they found that the work as regards processing, inspection, indenting, etc., was being handled quite unsatisfactorily as far as indentors from India were concerned. They felt probably because the administrative control did not vest with this Ministry since it was not directly concerned, it would maintain a neutrality—it was actually resulting in shortfall in working standards. So, they decided that the transfer should be done to the Ministry of External Affairs, which would have the administrative and budgetary control over the ISM London, but the guidelines would be laid down by the Department of Supply as regards purchase procedures. Also the officials would be chosen mainly from the user Ministries, apart from the stenographers and other locally recruited staff who were already present."

1.7. The Secretary, Ministry of External Affairs added:

"It was felt in 1975 that, if the Supply Wing were brought under the direct control of the Ministry of External Affairs, it would lead to functional improvement and increase in efficiency because then it would have come under the direct control of the High Commissioner himself."

He added:

"The total number of people coming directly under the control of the Ministry of External Affairs is relatively small in the sense that people from the IFS cadre constitute a few Assistant and a few Stenographers. The bulk of the staff employed in the ISM is drawn from various organisations.... It is a kind of

loose administrative control in the sense that it is only on the question of pay and allowances, accommodation ceilings, transport, issue of travel orders, and so on, but in every other way, they are not, in fact, they are selected by appropriate agencies."

1.8 Asked whether the change had resulted in any improvement in the working of the Supply Wing, the Secretary, Ministry of External Affairs stated:

"There has been a certain marginal improvement. But we cannot honestly claim that there has been the kind of improvement one would have liked to see."

1.9 Asked whether the Supply Wing was adequately manned to carry out its functions efficiently, the Ministry of External Affairs stated:

"For their normal and legitimate functions, the Supply Wing is adequately manned. Over the years, however, they have allowed the various indenting departments from India to burden them with additional and avoidable tasks which should be outside the purview of their normal functions. Action is in hand to prune this work and streamline the existing administrative procedures."

1.10. The Ministry of Defence are however stated to hold the view that the staff in the Supply Wing lacks expertise experience and defence background to appreciate the defence requirements and therefore requires re-vamping.

1.11 Commenting on the above, the Ministry of External Affairs have stated:

"The staff strength of the supply wing during the period of the report, (upto March 1979) was 123. During 1979-80, this strength was gradually reduced to 114. At any given point of time the percentage of defence service personnel ranged between 50 to 60. (The percentage of defence officers was in this range; the staff from the defence services had a lower percentage of representation, since the majority of staff posts were then manned by personnel drawn from the Department of Supply and External Affairs).

In the latest meeting of the Committee of Secretaries, it has been concluded that the ISM should draw adequate personnel from the user Ministries."

*(c) Problems of coordination*

1.12. Since bulk of the stores are purchased for defence purposes, the Committee enquired about the system of co-ordination with the Ministry of Defence and its indenting departments. In a note, the Ministry of External Affairs have stated:

“One of the reasons for the inefficient performance of the Supply Wing, London is the lack of proper coordination between

- (a) the indentors and the Ministry of Defence; and
- (b) the Supply Wing, London and the Ministry of Defence

As early as January, 1981, the Ministry of External Affairs had suggested the formulation of a Coordination Cell in New Delhi. This Cell, comprising of representatives of various major indenting Ministries and a Liaison Officer from the Ministry of External Affairs will screen, pre-check and fill in all the lacunae in indents, prior to placing orders directly with the suppliers from India. In the event of the Cell's inability to do so, the completed indent would be cross mandated to the Supply Wing, London. The Cell will also be responsible for bulking of similar indents; it will possess a data bank of the latest available price quotations and items specifications. It is envisaged that since Ministry of Finance will also be associated with it, enhanced or additional requirements of foreign exchange can be authorised very quickly by this Cell.

The implementation of this proposal to set up a Cell is under active consideration of the Committee of Secretaries.”

1.13 Clarifying their own view in the matter, the Ministry of Defence have stated:

“The lack of coordination between the ISW(L) and the various indentors in the Ministry of Defence is no doubt the main reason for non-fulfilment of the aspiration of the Defence Ministry in the matter of purchase action being taken by ISW(L).

The proposal of MEA for creation of a coordination Cell in Delhi was welcomed by the Defence Ministry but on detailed examination, it was felt that such a cell would unnecessarily introduce an additional level of scrutiny resulting in further delay. The creation of such a Cell will therefore be redundant.

In case it is still considered desirable to create such a cell and if it can help in eliminating or at least reducing the delays in placement of orders by ISW(L), Ministry of Defence would always benefit."

(d) *Reorganisation of Supply Wing*

1.14. The Committee pointed out that something back, the Chiefs of staff had mooted a proposal for having their own machinery for procurement of defence equipment and stores. The Committee desired to know the circumstances in which the proposal was mooted and the result thereof. The Ministry of Defence have stated as under :

"The working of ISM London was reviewed by the Chiefs of Staff Committee, who, in their paper of the 6th February, 1980, highlighted the unsatisfactory functioning of the ISM London which was adversely affecting the operational preparedness owing to non-availability of vital spares and components for equipment of UK and European origin. The Chiefs of Staff Committee came to the conclusion that the ISM was not responsive to the needs of the Service Headquarters so much so that the number of pending indents had been increasing progressively and a large number of indents were being unilaterally cancelled or returned.

All the related aspects involved therein, vis-a-vis remedial measures thereto, had been studied and brought out in the report submitted by the Ministry of External Affairs' Team in January 1981. Ministry of External Affairs has suggested the manning of all technical posts by technically qualified personnel from the user Ministries of Defence and Supply. (The entire report is under consideration of the appropriate authorities)."

1.15 Tracing the background of the reorganisation proposals, the Foreign Secretary stated in evidence:

"The Cabinet Secretary in January 1975 had noted that Prime Minister had desired that the question of winding up the Supply Mission in London and Washington should be examined. . . . : Examination of the entire question shows that it may not be feasible to wind it up completely. We feel that there will have to be a residual amount of ISM left in London in order to carry on certain functions."

He added:

“The same note by the Cabinet Secretary does say:

‘Discussion was held with the High Commissioner and he says as the workload has increased in the recent past new set up may jeopardise. PM’s view is solicited to the acceptance in principle to the proposal that the supply set-up in London and Washington be reorganised in the matter.....’

The noting says that the Prime Minister has approved the reorganisation.”

1.16 Asked about the follow-up action taken in the matter, the Foreign Secretary stated:

“A study team visited London and they went there in January, 1981. There were three meetings held by the Committee of Secretaries. There were 2 meetings of the Sub-Committee also. The Sub-Committee were appointed by the main Committee to go into specific problems. The final outcome was that they gave a report in September saying that over a period of 4 or 5 years, the strength could be brought down to 20 people. It is a phasing out operation which will have to take place.”

1.17 The Committee enquired about the precise position with regard to the suggestion for setting up a Coordination Cell so as to improve the efficiency of the Supply Wing, the Secretary, Ministry of External Affairs stated:

“Coordination is, in fact, a major item to which we have to apply our minds. Coordination involved a number of view points of a number of people and the priorities seem to vary from person to person. We wish to assure the Committee that this question of coordination and resulting in the improvement of the functioning of the ISM is very much close to our hearts. But it is not an easy thing.”

1.18 Asked about the views of DGS&D in the matter, the Director General replied:

“We have not undertaken any study as such or made any recommendations. I would only say that so long as it was under the Department of Supply, it was functioning quite effectively.”



The Secretary, Ministry of External Affairs clarified:

“Secretary, Supply has always been present in the meeting, and he has contributed greatly to the deliberations of the Committee. ISM is mainly concerned with defence supplies and to that extent the involvement of DGS&D is very minimal. While we have drawn on Mr.....experience and advise, he has not been involved with the discussions that have taken place and which are basically germane to the Ministry of Defence.”

1.19 In reply to a query whether the Ministry of Defence still held the view that the Coordination Cell would be redundant, the representative of the Ministry of Defence deposed:

“We greatly appreciate the idea of setting up a Coordination Cell.

The question however arises as to what is the Cell expected to do. Here it is necessary to point out that the nature of indents projected by the Army, the Air Force, the Navy and the Ordnance Factories is entirely different. There is no commonality between these four types of indents which are sent to our Supply Mission. Consequently, what we felt was that it was more important that the indents that we were sending to Supply Mission should be defect-free. In that direction, we have taken certain steps. First of all, we felt that it was necessary that the indents ought to be checked up more carefully because we expect that there have been certain omissions and we also expect that these omissions have been resulting in the increased work—avoidable work and, if the indents are in good shape or in perfect order, to that extent, the work in the Supply Mission would run more smoothly. Consequently at the service headquarters, we have provided a certain level of scrutiny where they have a check list. On the basis of that check list, it would be possible for the scrutinising officers to find out quickly as to whether all the columns have been filled up appropriately or not. If there are any omissions in this regard, he will send those things back. Similarly, in the Air Headquarters we have now installed a computer. Earlier, in the absence of a computer, we have had certain problems in regard to the requirement of repairs and maintenance spares. Though there is no coordination, with the help of the computer, it has now been possible. That is the reason why out of 31 items—a very high ratio was there—the Air-Force has none at all and there is now a better coordination during the last year or so in the air force side. Similarly, on the army side, we are now main-

maintaining a progress register where the progress made in respect of each indent is being observed and scrutinised at the higher levels from week to week in order to ensure that there are no slippages. If there are any, they are immediately reported to the higher authorities and if necessary, to the Supply Mission. With all these facilities, we hope that it would be possible to reduce the lapses which might have taken place in the matter of placement of indents."

He added:

"The question of having a coordination cell was examined; meetings were held in the Ministry of Defence, in which officers of the Ministry of External Affairs also participated. In our Ministry, these indents are projected by different Service headquarters. There is no similarity of indents between the three Service Headquarters, because they are different in character and specifications. It is for the Service Headquarters, however, to coordinate and bulk their requirements wherever possible. We thought that such a cell would only be adding another tier of examination and contributing to delays."

1.20. Summing up, the Secretary, Ministry of External Affairs stated:

"This is one view that has emerged as a result of the last few meetings. . . . the question has not been finally dropped. The idea of having a coordination cell has not been completely given up. The Ministry of Defence has got a view point. We too have got a view point and, therefore, this question will come up for discussion at the Committee of Secretaries when they consider the report which has to be given to them by the end of this month. . . . We have an open mind about this. We do not wish to impose our view because we are not the purchaser in this particular case. The idea was that the system should be something that suits the Ministry of Defence, who are the biggest indentors. If the Ministry of Defence feels that they are not able to accept the view point of a coordination cell, naturally it would be very difficult for the Ministry of External Affairs to impose their will on them."

1.21. In reply to a question regarding the institutional arrangements they would like to recommend to overcome the shortcomings identified by the C&AG, the Foreign Secretary stated:

"This point has always been agitating us a great deal in the past and as I explained to the hon. Members, we have tried to bring

about some order and co-ordination. But co-ordination seems to be eluding us. Even in a small family sometimes we have differences of opinion. In this particular case with so many different agencies involved who are the users of the ISM, for the Ministry of External Affairs to act as an arbitrator has not been easy. Nevertheless we have tried to bring together and as often as possible, these users and to try and work at least some common factors which we could implement as quickly as possible. As I explained to the hon. Members . . . . . the idea of establishing a cell—a foreign stores purchase cell has mooted and agreed to at one stage but the Defence Ministry on mature consideration found that perhaps this would add an extra level and may, therefore, create some difficulty. Whether it will cause delay or not, we do not know but this is the kind of problem that we get running into from time to time. There was a meeting by the Cabinet Secretary the other day and we have very clearly put the whole matter into the hands of a committee which is to report to him by the end of this month and to say what is the agreement that has been reached. We hope that as a result of the discussions that are going on we shall be able to establish a cell and if it is not a cell, to try to provide something else which may be satisfactory to the Defence Ministry.”

1.22. Asked about the latest position in the matter, the Foreign Secretary stated that a meeting was held by the Cabinet Secretary on 22nd December, 1981. The Secretaries Committee came to the following conclusions:

“Indenting Ministries/Organisations would establish greater functional linkage with ISM, Lond on in order to make it respective to their needs. The ISM should be thus functionally responsible to the users Ministires and should draw adequate personnel fromthem. The Ministry of Defence would undertake an examination alongwith service Chiefs in liaison with the Ministries of Supply and External Affairs:

- (a) To identify the work that could be transferred from ISM London to be handled from India.
- (b) The support facility and the procedural changes that would be necessary to enable the work being performed from India.
- (c) Delegation of powers necessary to the Service Hadequarters and other users' organiations for placing indents directly and for making payments without delay;
- (d) On the staffing pattern of the residual staff in London keeping in view the functions to be performed.”

1.23. Asked whether any of the suggestions had been implemented, the Foreign Secretary stated:

“The exercise is to be completed by the end of January, 1982. . . . the main point is the establishment of a counterpart organisation over here. Consequential arrangements have to take place in India itself. The Secretaries Committee has specifically gone into the issue and they have given us their Report. First of all we have to decide what are the things which got to be done in India. Reduction of strength depends upon the establishment of the machinery and its proper set-up in India.”

1.24. In a further note regarding the indepth study of the functioning of the Supply Wing, London carried out by the team of officers of the Ministry of External Affairs in January, 1981, it has been stated that the Team has come to the definite conclusion that a major portion of the work at present being handled by the Supply Wing, can be handled from India, thus bringing about a large reduction in its workload. It is the considered opinion of the team that a gradual phasing out of the workload of the Supply Wing until only a very residual balance is left, is necessary and will be very conducive to the better and more efficient functioning of the Supply Wing as well as a better servicing of the Defence and Civilian supply needs of the country.

1.25. Some of the important recommendations by the study team are as follows:

- (i) The administrative and budgetary control of the Supply Wing, London should continue to vest with the Ministry of External Affairs so far it continues as a part and parcel of the High Commission of India, London. Apart from the close nexus between foreign policy and procurement of critical stores from abroad, there is every reason to continue to vest the administrative and financial control of the Supply Wing with the High Commission of India, London, for better coordination, efficient functioning and prevention of any breach of diplomatic conventions.
- (ii) A work study revealed that the present staffing of the Supply Wing in London is somewhat inadequate mostly because of faulty indenting and procedural lapses on the part of the indentors necessitating consequential superfluous work by the Supply Wing at the cost of its legitimate work.

- (iii) Two indenting Cells should be set up in India—one under the Ministry of Defence and the other under the Ministry of Supplies to handle most of the contractual work. The residual items, mainly the following, should be dealt with by the Supply Wing to be re-named as the Liaison Directorate:
- (a) Market Survey and Analysis of specified items-monthly reports will be sent to the Cells in the respective Ministries in India.
  - (b) Negotiations of purchase prices, where direct negotiations between the indentors and the suppliers fail.
  - (c) Location of sources of supply of items categorised as 'Obsolete' or others after efforts of the Indenting Cells have failed.
  - (d) Inspection of stores, if so required; as per terms of the contract. This should be only in case of first contracts with new suppliers.
  - (e) Monitoring of contracts, on request, in case of a breakdown of communications between the indenting Cells and the suppliers.
  - (f) Advice on alternative models/equipment and market potentials of new models and the express permission prior to shipment to suppliers in case of any deviations from the shipping norms, as per terms of contract.
- (iv) With this reduced allocation of work the Liaison Directorate will require a total complement of 18. The corresponding strength of the Cell in the Ministry of Defence would be 50 while in the Ministry of Supplies the staff requirement would be 10 persons—two officers assisted by 8 members of staff.
- (v) A cost benefit analysis of the reorganisation proposal indicates savings to the tune of Rs. 96 lakhs per annum at present day costs.

1.26. At the instance of the Committee, the Ministry of External Affairs have furnished copies of the brief\* prepared by them for consideration of the Committee of Secretaries in regard to the question of setting up a co-ordination cell for screening, pre-checking and filling in the lacunae in the indents before placing of orders with the suppliers. Relevant extracts therefrom are reproduced below:

“In order to reduce the workload of the Supply Wing, London and to improve its functional efficiency, the creation of a Foreign Stores Procurement Cell in New Delhi is being suggested. This Cell will function as a Purchase Organisation and will be created under the aegis of the Ministry of Defence (since the majority of work pertains to Defence).”

1.27 The items of work which the Cell will handle are broadly as follows:

- “(i) Receive and process indents for procurement of Stores from abroad, from all Defence and Civil indentors/indenting departments in India, directly from suppliers abroad. (This pertains only to those indents presently being handled by Supply Wing, London).
- (ii) Cross-mandate only such indents to the Supply Wing/Liaison Directorate in London as are:
  - (a) of urgent/operational/AOG in nature after due scrutiny, if necessary; and
  - (b) such indents where efforts to place orders on foreign suppliers directly from India have failed.
- (iii) Maintain a data bank on information regarding latest prices, market trends, directory of suppliers and sources of supply, item specifications, possible substitute products, standard terms and conditions of contracts etc.
- (iv) The FSPC in India may take the assistance of the Liaison Cell in London, with its DG's approval, judiciously to negotiate the terms, conditions and prices etc. to achieve economy and efficiency, wherever considered advisable/necessary.
- (v) Computerised monitoring of contracts/delivery schedules/shipment schedules etc. Directorate-wise.

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\*This is marked secret.

- (vi) Assist the primary indenter, in cases where the indentors have failed to settle the discrepancy reports, with the foreign suppliers.

1.28 The Foreign Stores Procurement Cell (FSPC) will be divided in the same pattern as now exists in the Supply Wing, London and will be headed by a Director-General of the rank of a Joint Secretary and a Financial Adviser, not less in rank than that of a Director.

1.29 The Liaison Cell in London will function under the administrative and budgetary control of Ministry of External Affairs. The functional control (*i.e.* in case of any queries, clarifications, problems, orders etc.) will be of the Director General, FSPC. The Director General, FSPC will be fully empowered to give directions and orders to the Director of the Liaison Cell, London.

1.30 In reply to a question whether the Government had since taken a final decision in the matter, the Ministry of External Affairs stated (Jan. 82) that the matter is still under active consideration.

In a further communication dated 22 June, 1982, the Ministry have stated

“The winding up of the Supply Missions in London and Washington can be brought about only after alternative financial, administrative and procedural rules and regulations to handle the work effectively from India have been devised; the consent of the major foreign suppliers (to this changed pattern of functioning) as also that of the user Ministries in India has to be obtained.

Some of these user Ministries are sensitive ones like Defence, Finance, Supply, Shipping and Agriculture. As was brought out during the oral evidence, some of them hold divergent views regarding the practicability of the alternatives suggested by us. The very fundamental difference of opinion is whether the Supply Wing could functionally improve with the implementation of the changes proposed or merely by a transfer of administrative control to the Ministry of Defence. These views are being reconciled. The implementation of the 1975 objective has, therefore, been a time consuming and difficult exercise delaying the achievement of the objective.

Presently, a stage has been reached when the entire issue, including the alternative procedural aspects, is under the active consideration of the Committee of Secretaries for their final directives in this matter.”

**1.31 The Supply Wing of the Indian High Commission in London makes purchases for the Government of India, State Governments, autonomous bodies etc. and also arranges for inspection of the stores and their shipment. In recent years more than 90 per cent of these stores represented defence purchases. The control over the Supply Wing was transferred from the Department of Supply to the Ministry of External Affairs in April 1975 on the ground that "the indenting departments were not satisfied with the existing arrangements and desired a new set up accountable to them, if not directly, at least indirectly through a department other than the Department of Supply. It was felt expedient to vest the administrative control of the ISM with the Ministry of External Affairs as all general questions in Parliament relating to our establishments abroad have to be answered by this Ministry."**

**1.32 The Committee understand that the long term objective defined by the Committee of Secretaries in April 1975 was "the winding up of the Supply Missions in London and Washington, while certain functions, which consistent with the requirements of efficiency and economy could not be undertaken in India will be retained by the High Commission Embassy."**

**1.33. According to the Ministry "this long term objective is yet to be realised; meanwhile transfer of all possible work within the parameters of efficiency and economy and national interest, re-formulation of and adaptation of existing governmental regulations and procedures to enable the handling of the Supply Wing work from India is under way.**

**1.34 The Committee understand that as a follow up of the directive issued by the Prime Minister for reducing the staff in the Supply Wing, the strength has been successively reduced from 123 in March, 1979 to 114 in 1979-80 and 85 in 1980-81.**

**1.35 From the material made available to the Committee and the evidence tendered before them by the representatives of the Ministries of External Affairs, Defence and Supply, the Committee find that the working of the Supply Wing, London has been hamstrung by problems of coordination on the one hand and want of sufficiently qualified technical staff on the other. In a review of the working of the ISM, London carried out by Chiefs of Staff Committee in February, 1980, it was pointed out that the unsatisfactory functioning of the ISM, London was adversely affecting the operational preparedness owing to non-availability of vital spares and components for equipment of UK and European origin. The Chiefs of Staff Committee came to the conclusion that "the ISM was not responsive to the needs of the Services/Headquarters so much so that the number of**



pending indents had been increasing progressively and a large number of indents were being unilaterally cancelled or returned." The Ministry of External Affairs have attributed the present situation to the fact that the Supply Wing have allowed the various indenting Departments from India to burden them with additional and avoidable tasks which should be outside the purview of their normal functions. The Ministry of Defence on the other hand are of the view that the staff in the Supply Wing lacks expertise, experience and Defence background to appreciate the defence requirements and therefore requires revamping.

1. 36. In the later sections of this Report, the Committee have highlighted the inordinate delays in procurement of stores by the Supply Wing due to various factors which have inhibited its functioning. It has been admitted that one of the reasons for inefficient performance of the Supply Wing is lack of proper coordination between the indentors and the Ministry of Defence on the one hand and between the Supply Wing and the Ministry of Defence on the other.

1.37 The Committee understand that as a follow up of the criticism by the Chiefs of Staff Committee, the Ministry of External Affairs deputed a team of four officers in January, 1981 to study the functioning of the Supply Wing and to suggest measures to improve its efficiency. The team is stated to be of the considered opinion that a gradual phasing out of the work-load of the Supply Wing and only very minimum of functions left to it, is necessary and will be conducive to the better and more efficient functioning of the Supply Wing. It would also ensure better servicing of the defence and civilian supply needs of the country. One of the important recommendations of the study team is the setting up of two indenting Cells in India—one under the Ministry of Defence and the other under the Ministry of Supply to handle most of the contractual work. The Report of the team of officers visualises setting up of a Foreign Stores Procurement Cell under the aegis of Ministry of Defence for receiving and processing indents of defence and civil indentors directly from suppliers abroad. Only such indents would be cross mandated to the Supply Wing as are of urgent operational nature or where efforts to place orders on foreign suppliers directly from India have failed. The Cell would also maintain data bank on information regarding latest prices, market trends etc. The Supply Wing, London would consequently be converted into a Liaison Cell Directorate with a staff of about 20 people. The Liaison Directorate in London would undertake market surveys and analysis of all specified items and would be sending monthly reports to the two Cells in the respective Ministries in India, and render such assistance as may be required in locating sources of supply of obsolete items or such other items which the indenting cells have failed to obtain. It would also undertake inspection of

stores if so required and monitor the contracts on request in case of breakdown of communications between the indentors in India and the foreign suppliers.

1.38. The Committee observe from the foregoing that the objective of transferring the control of the Supply Wing from the Ministry of Supply to the Ministry of External Affairs has not been achieved and that it has in no way resulted in any improvement in the efficiency of the Supply Wing.

1.39. The evidence tendered before the Committee has revealed basic divergence of views between the Ministry of External Affairs and the Ministry of Defence with regard to the future set up of the Supply Wing. The Ministry of External Affairs consider it necessary to divest the Supply Wing of all functions with regard to placements of indents, their monitoring etc. which they feel can be better handled by the indentors themselves in India through the mechanism of the Foreign Stores Procurement Cell referred to above. The Ministry of Defence who initially welcomed the proposal, have found on detailed examination that "creation of such a coordination Cell would unnecessarily introduce an additional level of scrutiny resulting in further delay. The creation of such a Cell would, therefore, be redundant."

1.40 In view of the dissatisfaction voiced by the Chiefs of Staff Committee about the present arrangements and also considering that over 90 per cent of stores procured through Supply Wing, London are defence stores, the Committee are of the opinion that it would be desirable if the Ministry of Defence themselves assume responsibility for their procurement from abroad. The question that needs to be considered is to what extent these functions can be discharged through the mechanism of the Foreign Stores Procurement Cell proposed to be set up under the aegis of the Ministry of Defence so that the Supply Wing in London can be divested of all such jobs which can better be done in India. The Committee desire that a decision on the suggestion to allow the indenting Ministries to receive and process indents directly through the Coordination Cells—one in the Ministry of Defence and the other in the Ministry of Supply and monitoring of contracts, delivery schedules, shipment schedules etc. through these Cells should be taken without further delay so as to put to end the present state of uncertainty about the future of the Supply Wing. The Committee would urge that the details of transfer should be worked out by the Committee of Secretaries and necessary reorganisation of the Supply Wing, London effected without further loss of time. The Committee would like to be apprised of the precise decisions taken in the matter.

## CHAPTER II

### DELAYS IN PROCUREMENT OF STORES

2.1 In the purchase of stores, the Supply Wing follows the Policy and Procedure Rules, 1975 laid down by the Department of Supply, the guiding principle of which is timely procurement consistent with economy in expenditure. The Committee desired to know whether the Ministry of External Affairs had issued any guidelines regarding purchase procedure to be followed by the Supply Wing after its takeover in April 1975. The Ministry have stated:

“The Cabinet Secretariat while transferring the budgetary and administrative control of ISM London to the Ministry of External Affairs had laid down in May 1975 that the rules of procedures and orders regulating the exercise of purchase powers in 1975 by the Department of Supply would continue to be operative and that no changes would be made except with the specific prior approval of the Ministry of Finance.

In view of the above, no fresh guidelines were required to be issued by the Ministry of External Affairs.”

2.2. The purchase activities of the Supply Wing for the years 1976-77 to 1978-79 were:

Year	No. of indents outstand- ing as on 1st April	No. of indents received during the year	Total of Columns 2 and 3	No. of con- tracts placed	Value of con- tracts placed	No. of indents disposed of	No. of in- dents carried forward	
					(a) £ million	(b) Rs. in crores		
1976-77 . . . . .	2336	6148	8484	7322	22.06	35.30	6055	2429
1977-78 . . . . .	2429	6183	8612	7032	33.62	53.79	6299	2313
1978-79 . . . . .	2313	4831	7144	6021	49.23	78.77	5022	2122

2.3. The audit had test checked 416 contracts valued at £14.5 million (Rs. 22.45 crores) pertaining to the period October 1977 to September 1978. These contracts included 326 high value contracts (each value of

£7500 or more) valued at £13.72 million (Rs. 21.93 crores) and 90 low valued contracts valued at £0.33 million (Rs. 0.52 crores). The time taken by the Supply Wing finalising these contracts was upto 4 months in 153 contracts and 4 months to over one year in the remaining 263 cases.

*Reasons for delays in procurement of stores*

2.4. Asked whether the reasons for delays in finalising the contracts had been identified and if so, what steps had been taken to reduce such delays, the Ministry of External Affairs have stated:

“Yes, the reasons for delays in finalising the contracts have been identified. These are:

- (i) Faulty indenting and procedural errors on the part of indents in India and
- (ii) Poor alround coordination

Such delays will be substantially minimised once the Coordinating Cell becomes fully functional.”

2.5 However, the Ministry of Defence have stated\* in this regard:

“While there might be some odd cases of faulty indenting but the delays in finalisation of contracts are primarily due to lack of expertise in the Supply Wing, London to understand the criticality of Defence requirements.”

(a) *Delays in calling for quotations*

2.6 The Audit Para reveals that in 192 out of 416 cases, delays of one month or more occurred even in inviting quotations; the delay was 1 to 3 months in 157 cases, 3 to 6 months in 24 cases and 6 to 12 months in 11 cases. Such delays were attributed to time taken in locating the sources of supply and processing the indents. In 120 out of 192 cases, stores were to be procured from specified proprietary firms on the basis of proprietary article certificates issued by the indentors in their favour. Normally there should be no delay in inviting tenders. In these cases, the Supply Wing attributed (February 1980) the delays to inadequate and inexperienced staff. As quotations were to be called for proprietary articles from the specified firms only, the Committee wanted to know the reasons for delay in such cases. The Ministry of External Affairs replied:

“The delay in calling for such quotations has been due mainly to the additional and excessive workload which had accrued to

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\*Not vetted in Audit.

the Supply Wing due to procedural errors in indenting leading to avoidable but protracted correspondence; this had hindered effective discharge of Supply Wing's legitimate functioning."

2.7. Asked whether the Government were convinced that the delays were due to inadequate and inexperienced staff, the Ministry stated:

"All officers posted to the Supply Wing are selected by the Ministries of Supply and Defence, keeping in mind the working requirements of the Supply Wing London. Some of the officials manning the Supply Wing are from the IFS(B). Keeping in mind the Supply Wing's repeated requests for qualitative, technical improvement of staff, a review is under way on the necessity of substituting IFS(B) personnel by technically qualified personnel with purchase experience."

*(b) Delays due to back references to indentors*

2.8. Audit has also stated that out of the 416 cases scrutinised, back references to the indentors had to be made on technical matters in 100 cases. In this connection, the Secretary, Ministry of External Affairs stated:

"If an indent comes to the ISM, we take it that it will be complete in all respects. If it is complete in all respects, then it can be processed through different stages. Unfortunately, as the audit has pointed out, there were a number of faults discovered in the indents. Therefore, very often, many of the indents had to be returned back to the indentors for correcting the mistakes. That means the processing of one indent is dealt with at several stages over and over again. In fact, it has increased the burden on the staff of the ISM."

2.9. It was further noticed in test-check in audit that in a number of indents the indentors had not indicated certain essential information and such frequent references to indentors become necessary on the above counts thereby retarding the procurement process.

In this connection, the Ministry of External Affairs have informed the Committee that the system of EDP sheets to accompany all indents, introduced recently ensures that indents are complete in respect of all the relevant information. The Minister (Supply) High Commissoin in London further stated in evidence:

"The moment an indent is received, there are various items which we check as for instance, whether the last purchase price has

been given etc. Then very often they say that a copy of the agents' quotation is enclosed. But we find very often, it is not enclosed. So, we have got a standard form. I believe, the audit report itself has given this figure. The instances where the last purchase price was not given were 101 out of 165 cases amounting to 61 per cent. Where a previous reference was not given amounts to 76 cases out of 130 cases representing 58 per cent. Probably source of supply was not mentioned—17 out of 14 cases amounting to 70 per cent. Instances where indent estimate was not provided were 30 out of 35 cases. Basis thereof were not mentioned—83 out of 129 cases amounting to 64 per cent. Instances where drawings and specifications not mentioned were 60 out of 74 cases amounting to 81 per cent. Without complete technical details were 32 out of 41 cases.”

2.10. Asked whether this did not indicate that there was something inherently wrong with the system that they were pursuing, the foreign Secretary replied:

“I must confess that it is so.”

To a question why the Ministry could not rectify the defects during the last seven years, the witness replied:

“This is one of the reasons why we feel that in fact, a good deal of work which is now being done in London could be done in India itself by transferring a good deal of work from London to India.”

2.11. The Committee desired to be furnished the details of indents which were found to be incomplete in one respect or the other during each of the last 3 years and the percentage thereof to the total number of indents placed on the Supply Wing. The Ministry of External Affairs have stated:

“It has not been possible for the Supply Wing, London to compile the relevant data for a period of 3 years as it is a very laborious and time consuming job. They have, however, furnished information for the month of January for each of the years 1979, 1980 & 1981. Compilation of this data involved examination of 1029 files by 5 different Directorates and took them 4 working days, suspending all other indent/contract work.

The information furnished is as follows:—

Month / Year	Total number of indents received	Total number of incomplete indents	Total number of back references made	Percentage of (B) to (A)
	(A)	(B)	(C)	
Jan., 1979	607	159	159	26
Jan., 1980	238	62	62	26
Jan., 1981	184	43	43	23

It may be seen by projection from the above statistics that the percentage of the incomplete indents received by them is 25 per cent approximately.”

2.12. Referring to the high pendency of over 2000 indents every year, the Committee enquired during evidence about the steps taken to reduce the number of such carry forward indents. The Minister (Supply) in the Indian High Commission stated:

“We can never arrive at a situation where there would be cent per cent execution of all the indents that we received. . . . But it is directly related to the quantum of work which can be practically attempted successfully. My information is that in the DGS&D a purchase unit, which consists of six people, is employed to handle 18 indents per annum.”

2.13. The representative of the DGS&D, however, intervened to say that the position was not factually correct because apart from *ad hoc* indents, they were also required to enter into rate contracts, running contracts etc. The Minister (Supply) clarified:

“Foreign Service Inspectors’ team in 1974 had carried out this inspection and they had said that we will go by the norms of DGS&D, which is 180 indents per unit. . . . Assuming my information is correct that 180 indents per year per purchasing unit being the norm, each unit being of six people, I should have 75 people dealing with the purchase operations alone. I have increased it from 180 to 200, although officers may say it is not practicable. On the basis of that, my requirement comes to 67 bodies out of which the number is 23. . . . If various proposals of streamlining and nationalisation are commen-

dable and necessary, and some of them I have initiated myself there will be reduction of the burden. But so long as this does not actually come into effect, my personal assessment would be that I need 101 bodies for the entire gamut of operations required for the Supply Mission."

2.14. In reply to a question as to how many of the staff had purchase experience, the Minister (Supply) stated:

"So far as officers with purchase experience are concerned, we have ten people in the Purchase Directorate, Marine Engineers has got 3; Vehicles and Armaments 2, Electricals and Electronics 2; C & I—nil and computers cell has got four. . . . Out of the 85 people, I am having 23 people with purchase experience. It is not necessary that all of them have purchase experience because quite a few of them are Stenographers. They are drawn from IFS(B). In the light of my experience in the last one year, my own assessment is since we came down to 85, there is no reduction in the workload."

2.15. Asked about the output of the inspection officers, the Minister (Supply) stated:—

"The output has been steadily increasing through the years, although there is decline in the number of officers I have had. In 1977-78 each technical officers did 44.4 inspections, in 1978-79, 83; in 1979-80—68; in 1980-81—78 and the latest 1981.82 it would go up to 86 per year per man. . . . This, I think, is a load which has got to be recognised and appreciated and I really feel Inspection Wing has got to be strengthened, Unless we take a decision that below a certain limit, inspection will not be necessary at all."

2.16. Asked to state how far it was justified to prune the staff when the number of indents had been increasing, the Foreign Secretary stated:

"I have been putting that question to myself. It seems to me that we did take a decision to prune the staff of ISM; but it was not done without any consultation. We did consult all the user-Ministries and asked them how they felt about it. So, the decision to cut the staff was taken, again, by a meeting convened by the Cabinet Secretariat, in which all the Secretaries who were involved, took part. A decision was taken and it was implemented. Then came the question of the quality of staff. I regret to say that the corresponding steps which should have been taken, viz. for the improvement of the indenting system



and others which the Audit has quite rightly pointed out, have not been taken. So, we have to go back to the question as soon as we get the signal.

The second problem of quality of staff is very important. As you are aware, many of these so-called locally employed staff and they constitute a fairly large bulk of ISM's staff viz. 33 out of 89—cannot be considered to be of the highest calibre.”

2.17 In reply to a further question about the reasons for their inability to find adequately qualified staff through local recruitment particularly in view of the large Indian community in Britain and whether this did not indicate that there was something wrong with the recruitment policy, the Foreign Secretary stated:—

“It is a combination of both. First of all, the salaries that we pay are below the market salaries. As a result, we don't necessarily attract the kind of talent which is required.”

(c) *Delay due to Inadequacy of Foreign Exchange*

2.18 The audit para has pointed out that in another 110 cases, back references were made because the foreign exchange estimated and provided by the indentors was found inadequate, even though these cases were covered under the Supply Wing's powers to exceed such provisions by 50 per cent in Defence indents and 10 per cent in Civil indents (subject to an overall limit of Rs. 5 lakhs in respect of each indent) without referring the matter back to the indentors.

2.19 Asked about the reasons for making back references to the indentors particularly when the inadequate foreign exchange estimate could be covered under the Supply Wing's powers, the Ministry of External Affairs have stated:

“The factual position has been ascertained from the Supply Wing. In a large number of cases the indentors based their estimates either on contracts/supplies made very far back in time or purely on an *ad hoc* basis. Against this when the quotations are received by ISM(L), the price, as offered, works out well beyond the delegated powers, a back reference by ISM(L) to the indentors becomes inevitable.”

2.20 Audit para pointed out that in 45 cases even after the foreign exchange was released, the more process of floating the indent was delayed

by one to more than six months. Giving reasons for delay in floating the indent, the Ministry of External Affairs have stated:

“Price quotations usually have limited time validity. Delays in floating tenders have sometimes occurred even after getting a sanction for additional release of foreign exchange, because by that time the estimated prices for which additional foreign exchange has been calculated, were no longer valid, having escalated further. In some cases, since foreign exchange releases are made in terms of Indian Rupees, variations in exchange rate have made the additional releases inadequate. This was mainly because no single agency exists in India to coordinate and expedite all such issues.”

2.21 During evidence the Committee desired to know about the steps taken to simplify the procedure for release foreign exchange so as to minimise delays in procurement of stores from abroad. The representative of the Ministry of Finance (Deptt. of Economic Affairs) stated:

“Foreign Exchange work is handled by and large by Defence people themselves. Delegation upto a limit is there. It is Rs. 25 lakhs per case. Public Sector undertakings under Defence Ministry’s control however get bulk allocation each year for meeting import of raw materials and components for production purposes and it is 75 per cent of the actual utilisation in any of the two previous years whichever is higher.”

2.22 In a further note\* on the subject, the Ministry of External Affairs have stated:

“Prior to placement of indents, the following actions are taken by the Service Headquarters:—

- (i) The requirement of various items is estimated;
- (ii) Clearance from import angle is obtained from DGTD, DGI or other technical authorities;
- (iii) The likely cost of the items is estimated on the basis of last procurement price, catalogue price plus escalation at the rate of 10 per cent per annum/professional officer’s valuation (POV); and
- (iv) on the basis of the cost so estimated, release of the requisite foreign exchange is sought for from the Ministry of Defence

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\*Not vetted in Audit.

or Department of Economic Affairs, as the case may be. (Till recently, the power for release of foreign exchange delegated to the Ministries by the Department of Economic Affairs was Rs. 15 lakhs per case at the level of Secretary and Rs. 10 lakhs per case at the level of Joint Secretary. These powers have since been revised to Rs. 25 lakhs per case at Secretary's level and Rs. 15 lakhs at Joint Secretary's level).

During the tender action taken by ISW(L), if the quotations received from the Suppliers go beyond the financial powers of the Minister (Supply), viz., more than 50 per cent of the estimated cost of the item or Rs. 5 lakhs in respect of indent as a whole, the ISW(L) has to refer back the case of the indenting authority for obtaining financial sanction as well as release of additional foreign exchange. At this stage, the Services Hqrs. often undertake a review of their requirement in order to see whether it can be curtailed or dropped altogether. After the requirement has been reassessed, the process of obtaining financial sanction/foreign exchange clearance has to be undertaken all over again.

In the light of the position stated above, it will be seen that the process of release of additional foreign exchange does take some time. However, in cases where the requirements are urgent, or where the offers are time-bound, all efforts are made to reduce the time taken in reviewing the requirement and obtaining the release of additional foreign exchange by moving the relevant files by hand and classifying them as 'OP Immediate'/'Time-Bound.'

2.23 Enquired whether any decision had been taken on the suggestion of Supply Wing for raising its powers to meet the foreign exchange requirements from 50 to 75 per cent in Defence indents, from 10 to 33 1/3 per cent in Civil indents and from Rs. 5 lakhs to Rs. 15 lakhs in overall limit, the Ministry of External Affairs have stated:

“This matter is under the consideration of the Committee of Secretaries, keeping in mind the reduced foreign exchange powers that will be required by ISM London, once the Coordination Cell becomes functional in New Delhi.”

(d) *Financial implications of delays in procurement*

2.24 Specific instances of extra expenditure arising out of delays in finalisation of contracts have been mentioned from time to time in the Audit Reports of the Comptroller and Auditor General of India in the past. In the present test-check in audit, 20 cases were noticed involving extra expenditure amounting to over £74,000 (Rs. 11.88 lakhs) on account of revision of quotations by firms because of delays from over 4 months to over 2 years in procurement action for various reasons. The Committee desired to know whether these cases of delays had been examined in detail. The Ministry of External Affairs have stated:

“Cases of delay in procurement involving extra expenditure of Rs. 11.88 lakhs are twenty in number. Of these, Audit had examined in detail only four cases stated to be involving extra expenditure to the extent of Rs. 3.21 lakhs. In all four cases, the issues raised relate to action/comments by the indentors which are being obtained. In general, for other cases also delays have been on account of incorrect/outdated estimation of prices, non-finalisation of contracts within the validity period of the price quotation on account of delays by indentors in providing requisite foreign exchange. None of these cases relate to those areas where any extra expenditure could be attributed to the delays by the Supply Wing.

A number of uniform contractual formats specifying uniform terms and conditions for the different categories of stores, are being devised in consultation with the Ministry of Supply and other relevant Ministries. It is expected that such standardised contractual formats will obviate cases of delayed procurements resulting in extra expenditure.”

2.25 It was noticed in Audit that often there were wide variations in the prices estimated by indentors and those actually secured, far exceeding the prescribed limits. The Committee enquired whether the cases of wide variations in the prices had been examined and if so, what steps had been taken to ensure more accurate estimates. The Ministry of External Affairs have stated:

“Such cases have been examined. It has been found that such variations have occurred only where indentors have failed to take advantage of limited time quotations or have based their estimates on outdated prices which mainly pertained to new items of procurement. The rapid and unprecedented escalation of

prices in the world market particularly Britain in the recent years has contributed to these variations. While every care is taken to ensure accurate estimate of prices in foreign exchange, it may be difficult to eliminate variations altogether in view of the growing inflation."

The Ministry of Defence have added:

"The prices indicated in the indents are based on the last purchase price enhanced by 10 percent per year on account of escalation."

2.26 In this connection, the representative of the Ministry of Defence stated during evidence:

"...the items which were bought in the past were being ordered for the first time for which we placed our orders as a matter of fact, five or six years ago. Under the present dispensation, we escalate the price at the rate of 10 per cent per annum. In short, if these were purchased five years ago, then, we would escalate these by fifty per cent or a little more than that. We have now realised that this basis is quite unrealistic, particularly, in the background of the high inflationary situation in the U.K. and elsewhere in Europe. So, that is one important factor. Then, there would be items which would be bought for the first time. Here, we have to make an assessment on the basis of their valuation which has been done by the professional officers. They do try to assess what is the equipment and what is it made of and what is the amount of skills that has gone into this. On the basis of their background and technical knowledge, they try to assess the price. These are the people who do that. They are not conversant with the situation abroad. They are also not aware of the pricing policies of the firms abroad."

2.27 Elaborating the point further, the Minister (Supply), Indian High Commission in London stated:

"Basically these are the items which are of the category of obsolete equipment. It is not always the prime manufacturer who has them. If he has them he has committed them to his requirements or for a major supplier to whom he is catering. Very often we come across a situation that they are available with stockists. And, Sir, stockists are there in the market to make money. Sometimes they buy from the prime manufacturer

and keep stores with them and at the time the Supply Mission goes in the market and they know it is an urgent item then they dictate their terms. It is an opportunity cost.”

**2.28.** The Committee find that of an average of 8080 indents during the three year period 1976-77 to 1978-79 received by pending with the Supply Wing, as many as 2288 indents have had to be carried forward at the end of the year. A test-check in audit has revealed that out of 416 contracts examined by audit, only 153 contracts could be finalised within four months while the remaining 263 took between four months to over one year to materialise.

**2.29** The information made available to the Committee has brought out the following disturbing aspects:

- (i) There have been delays even in the matter of calling for quotations in respect of proprietary articles which are to be obtained from specified firms only. The delays have been attributed mainly to the additional and excessive workload which has accrued to the Supply Wing due to procedural errors in indenting leading to avoidable but protracted correspondence.
- (ii) In a large number of cases, back references had to be made to the indentors on technical matters since the indents were not complete in all respects. Some of the common lacunae noticed are—last purchase price not mentioned; previous references and probable sources of supply not given, basis for estimate, drawings and specifications and other technical details, proprietary article certificate not furnished etc. etc.

A sample study made by the Ministry at the instance of the Committee shows that the percentage of incomplete indents ranged between 23 to 26 per cent of the number of indents received during the months of January 1979, 1980 and 1981, i.e. on an average 25 per cent of the indents were lacking in necessary details. This involves processing of one indent at several stages over and over again thereby increasing the burden on the staff of the Supply Wing.

- (iii) Delays in getting the necessary foreign exchange released have also been found responsible for delays in processing the indents. In a large number of cases, indentors base their estimates either on contracts/supplies made very far back in time or purely on ad hoc basis. Back references to the indentors in such cases becomes inevitable.

2.30 According to the Ministry of External Affairs, the delays in finalisation of contracts are due to guilty indenting and procedural errors on the part of indentors in India and poor all-round coordination. Disagreeing with this analysis, the Ministry of Defence have opined that while there might be some odd causes of faulty indenting, the delays in finalisation of contracts are primarily due to lack of expertise in the Supply Wing, London to understand the criticality of Defence requirements.

2.31 The Committee are concerned to find that even though the various deficiencies noticed by Audit were reported to the Ministries of External Affairs and Defence in October, 1979 and again in April, 1980, there has been no improvement in the situation. A further study made by audit in respect of 216 contracts during February-July, 1980 revealed that the same deficiencies were mostly persisting. This underscores the imperative need for revamping the organisational set up of the Supply Wing.

2.32 It is disconcerting for the Committee to note that over 2200 out of an average of 8000 indents received every year by the Supply Wing to be carried forward for want of experienced and qualified staff, repeated requests of the Supply Wing for qualitative and technical improvement of the staff have elicited the belated response that "a review is under way on the necessity of substituting IFS(B) personnel by technically qualified personnel with purchase experience."

2.33 The Committee stress that while effecting changes in the organisational set up of the Supply Wing on lines proposed in the earlier paragraphs, the Ministry should keep this aspect fully in view and provide the Supply Wing with the requisite qualified staff to enable it to discharge the role and functions that may be assigned to it in the revised set up.

2.34 The Committee understand that the question of raising the powers of the Supply Wing to meet the foreign exchange requirements from 50 to 76 per cent in Defence indents and from 10 to 33 1/3 per cent in Civil indents and from Rs. 5 lakhs to Rs. 15 lakhs as the overall limit is under consideration of the Committee of Secretaries. As this question is linked with the question of future set up of the Supply Wing, the desirability/necessity of raising the powers of the context of the changes contemplated in its set up. The Committee expect that decision in the matter would be taken keeping in view the need for aliminating delays in release of foreign exchange which account for inordinate delays in procurement of stores in a large number of cases.

2.35 The test-check in audit has revealed that extra expenditure to the tune of Rs. 11.88 lakhs had to be incurred in 20 cases on account of revision of quotations by firms because of delays from over 4 months to

over 2 years in procurement action for various reasons. The Committee have no doubt in their mind that the number of such cases and the financial implications of delays involved in processing the indents are much more than have come to surface. The Committee would like to point out that apart from the direct financial implications of delayed procurement action, a more disturbing aspect of the situation is the natural tendency on the part of the suppliers to jack up prices so as to provide a cushion a highly inflationary situation.

2.36 The Committee find that there have been wide variations in the prices estimated by indentors and those actually secured. In the case of large value items such as air-craft-spares, the price differential was found to be as high 215 per cent in case of aeronautical engineering stores it was 184 per cent in case of engineering stores it was 227 per cent while in case of refrigeration and airconditioning spares it was as high as 376 per cent.

2.37. The Committee regret to observed in this connection that there is no organised system in the Supply Wing to evaluate the reasonableness of the prices quoted. The Committee urge that the matter should be looked into without delay and necessary action taken to remove this deficiency in the system. The Committee expect that adequate and properly qualified staff would be provided to the Supply Wing to study the market trends and gather relevant data for feedback to the indentors in India.



## CHAPTER III

### OTHER MATTERS

#### (a) *Classification of Indents*

3.1 Audit has pointed out that 190 indents out of the 416 contracts test checked were classified as 'operational' or 'Urgent'. However out of these 190 contracts, 116 contracts took more than 4 months to be finalised (18 of them took more than one year) and in another 38 cases there was delay of 1 to 12 months in inviting quotations. In this connection, the Supply Wing stated in December, 1978 that majority of the indents received by it were marked indiscriminately as operational and that it was virtually impossible to accord priority to all of them because of the limited staff.

3.2 The Committee therefore desired to know the steps taken by the Supply Wing to avoid indiscriminate marking of priorities on indents and whether this matter had been sorted out with the Ministry of Defence and other indentors. The Ministry of External Affairs have stated:

“It is not for the Supply Wing to take any action to avoid indiscriminate marking of priorities on indents. The Supply Wing had, however, repeatedly pointed out this lapse to the indenting Ministries.”

3.3 In this connection, the Ministry of Defence have stated:

“In the absence of any facts and figures it is difficult to accept the contention that priorities are marked indiscriminately. The urgency of the requirements can be better appreciated by the indentors and priorities are marked to meet the specific require-

ments after scrutiny and consultation with technical authorities at appropriate levels.

The coordinating cell will not be able to decide on the priority of indents.”

3.4 During evidence, the Committee enquired as to how priorities were fixed for processing the indents. The Minister (Supply), High Commission of India, London replied:—

“It is determined on the basis of Naval Logistics or Operational or critical indents. . . . There are ordinary indents, and also AOG and NL indents. At the Supply Mission, we find that in 1978-79 the percentage of AOG, NL, Immediate and Operational category indents, compared to the total, was 72. In 1979-80 it was 68.6 per cent, in 1980-81 again it was 68 per cent and in 1981-82 upto 6th October, 1981 it was 64 per cent.

The Hon. Member is right in saying that when there are a large number of indents marked “critical” we are not able to get them priority, and it upsets or normal priorities.”

3.5 In reply to a question if the Ministry of Defence had considered the question of devising a suitable procedure for avoiding in discriminate marking of indents as ‘urgent’ or ‘operational’, the representative of the Ministry stated:

“A very large number of indents have been marked operational or immediate and this has increased the work-load. It is true that the number of indents marked immediate or operational is rather high though I would submit that it is coming down as from 72 per cent in the year 1978-79 to 64 per cent in the year 1981-82. Even now it should be considered rather high. I consider it necessary to explain why it becomes necessary for us to mark large number of indents as operational immediate. We have a large number of equipment, particularly aircraft and also weapons. In such a situation it becomes necessary for us to ask for immediate support from our suppliers. In many cases

it is difficult to anticipate what sort of spares support would be needed. Where the Services based on the previous experience can easily indentify the requirement or anticipate the requirements, it is simple, but where they are not in a position to indentify their requirements. I am afraid operational indents have been raised. Thirdly, the slow pace at which we get the supplies also encourages the Service Headquarters to mark the indents operational. I would refer to the contract of indents for the Air Force. These were placed between January 1980 and March 1980. I find that even after one year and six months, 25 per cent of these indents could not be contracted. On the other hand of the priority indents only 3.8 per cent remained uncontracted. In short, the point that I am making is that the priority indents we are able to clear in the ISM."

3.6 In a subsequent note furnished at the instance of the Committee, the Ministry of External Affairs have furnished the following details of the total number of indents placed during each of the last 3 years, the number of indents marked 'urgent' or 'operational', the average time taken in their disposal and the reasons for delays in materialisation of supplies:

Year	Total No. of Indents	No. of indents marked urgent/operational	Percentage to total indents	Average time * taken in disposing indents*
1978-79 . . . . .	4747	3424	72%	6 months
1979-80 . . . . .	3476	2386	69%	7 months
1980-81 . . . . .	3062	2081	78%	4 months
1981-82 (upto 7-2-82).	1924	1259	65%	4 months

\*(Figures are on a random sample basis).

3.7 The reasons for delays in materialisation of supplies are—raw material shortfalls, sub-contractor's default, plant hold-ups, industrial action etc. besides the unrealistic schedules of delivery indicated by the indentors in their indents.

3.8. In a further note regarding the steps taken by the Ministry of Defence to see that the practice of indiscriminately marking the indents as 'urgent' or 'operational' is effectively curtailed, it has been stated:

"The urgency of indents for operational/urgent requirements placed by the Service Hqrs. on ISW (London) is certified at appropriate levels in the respective Service Hqrs. In the Army Hqrs., the priority marking on indents is certified by Commandants of Depots (Brig/Col) and Dy. Directors, Ordnance Stores, who are of the rank of Col. Instructions to this effect are contained in the indenting procedure issued by the Ordnance Services Hqrs. Operational/urgent indents are normally placed only to meet operationally emergent requirements. Some of the factors which govern the marking of priorities on Defence indents are as follows:—

- (i) Armed Forces have to maintain old weapon systems which require frequent repairs, necessitating emergency procurement of spares etc.;
- (ii) In respect of new items/weapons, failure patterns cannot be forecast, as failure pattern of such items has not been stabilized even in the country of their origin.
- (iii) Quite often, supplies against the normal indents do not materialise in time and the stocks get badly depleted, which makes it imperative to raise the priority of the relevant indents."

**3.9 The Committee find that an inordinately high percentage of indents placed with the Supply Wing is marked urgent/operational by the indenting Department in the Ministry of Defence—the percentage of such indents being 72 in 1978-79, 69 in 1979-80, 68 in 1980-81 and 65 in 1981-82. Such indiscriminate marking of indents as urgent/operational makes it virtually impossible for the Supply Wing to accord priority to all of them because of constraints of staff. The Committee are concerned to find that even in such cases, the average time taken in procuring the supplies varies between four to seven months. The representative of the Ministry of Defence, therefore, argued in evidence before the Committee that one of the reasons for the high percentage of indents marked as 'urgent or operational' is the slow pace at which the supplies become available. While the Committee appreciate that in certain situations it may become necessary to meet the requirements of defence stores on an emergency basis,**

3.15. During evidence, the Committee enquired why repeated indents were placed for the same item at short intervals and why it was not possible to bulk such indents. The Minister (Supply) Indian High Commission, London replied:

“There are cases where it happens . . . We have no adequate manpower or system in London. As I submitted, there are thousands of items we deal with. Immediately we get out indents, we search our memories and see if we had purchased the item two months or a year ago. As per prescribed orders it is the indentors to bulk requirements who should submit it to us.”

3.16. Asked whether the Ministry of Defence still held the view expressed by them in September 1978 that bulking was a procurement function and could more properly be undertaken by the Supply Wing, the representative of the Ministry stated:

“We have gone into the matter a little further. I am afraid I have different views on the subject now . . . An indent is a composite document. This consists of a very large number of items. It can be just two items or more than two to three hundred items. I have brought here a copy of an indent. This would clarify that the possibilities of bulking are very very remote because each indent is dedicated to a particular type of equipment of weapons system. There might be about 100 or 150 items in one indent. It may be possible practically to bulk about two or three of these items with another indent. But this is like searching for a few needles in a hay stack. And the economy that would flow from this sort of bulking of two or three items would be more than offset by the amount of effort which would be necessary in this regard. This is so far as the general philosophy is concerned. Nonetheless in the Service Headquarters various measures have been introduced during the last one year. For example, we have introduced a check-list and this check-list is examined at a very fairly high level at Service Headquarters and one of the specific item is as the possible bulking is screened and this is our duty to ensure that not only the bulking aspect, but purchase price etc. is examined carefully so that the burden of the Supply Mission is reduced, so that they do not have to make unnecessary inquiries from us. So, we have taken steps in this direction so that whatever possible bulking is done.”

3.17. In this connection, the Minister (Supply), High Commission of India, London deposed:

"I would submit that there is a possibility. The additional Secretary referred to the indents having more than one items featured in them, consequently leading to the impossible or infructuous use of time in identifying which were the bulk items. Any definite pronouncement can really be made only on specific case where bulking was not done." For instance, for the year 1978-79, we had a total number of 4757 indents, out of which 3458 indents contain items running from 1-5....In two cases, we have more than a 1000 items each. Without going into the specific case in which bulking should have been done but was not done, it would be difficult to say whether that featuring is correct or not. On an annual basis, we can avoid constant raising of indents and bulking. We in London cannot just undertake this task."

3.18. Asked whether bulking of indents could be done through the computer, the witness stated:

"These items are so numerous, it is not possible for us to code them in London. We have embarked upon an exercise, but it may take 5-6 years....We have 100,000 items. We asked them, is it possible to give them code numbers? They said, it is not possible because 100,000 items are not being repeated. Another problem is for the same item, the Air Force have their own system and the Navy have some other system. These are practical constraints under which we in London are operating. If a single coordinated cell or a specific cell is set up in the Army, Navy and the Air Force, the chances of non-bulking will be minimised, if not eliminated."

3.19. Asked whether the Ministry of Defence had carried out any study in regard to the indents placed during the last one year with a view to find out the possibility of bulking of indents, the Ministry of External Affairs replied:

"No study has been carried out by the Ministry of Defence in the recent past with regard to the bulking of indents. There have been a few cases in the past, where the defence indentors failed to bulk their requirements. However, adequate care is now taken by the respective Service Hqrs. to ensure that requirements of similar items, being procured by them, is bulked. In the Army Hqrs., all the indents placed on ISW (London) are routed through the Dte. of Ordnance Services and there is an inbuilt system of bulking: In the case of Air Force, the bulk-

ing is done at Air Hqrs. In respect of the Navy, bulking of stores of similar categories like air stores, naval stores, armament stores etc. is done by the respective indentors.”

3.20. The audit paragraph has given details of three cases which together entailed avoidable extra expenditure to the tune of Rs. 6.14 lakhs on account of non-bulking of indents by the indentors. Similar cases of extra expenditure were reported by the C&AG in the Audit Report (Defence Services) for the year 1977-78. The Committee find that there is a sharp divergence of views between the Ministry of External Affairs and the main indentors viz. the Ministry of Defence on this question. While the Ministry of External Affairs are of the view that the primary responsibility for bulking of indents is that of the indentors, the Ministry of Defence feel that bulking of requirements is a procurement function. According to the latter, the possibilities of bulking are very remote because each indent is dedicated to a particular type of equipment or weapons system and might contain as many as 100 to 150 items. During evidence the representative of the Ministry of Defence expressed the view that apart from the remote possibility of bulking of indents, “the economy that would flow from this sort of bulking of two or three items would be more than off-set by the amount of effort which would be necessary in this regard.” However, instructions have been issued to the effect that adequate care should be taken by the respective service headquarters to ensure that requirements of similar items being procured by them are bulked.

3.21. Considering the large variety of items and the scale of requirements of the Defence Services in particular, the Committee are inclined to agree with the Ministry of External Affairs that it is not possible for the Supply Wing to compare and tally all the items contained in about 4000 annual indents received by them and that such coordination can only be done in India at the indentors' end. The Committee do not see any reason why it should not be possible for the three service headquarters to ensure bulking of indents in respect of items which have to be procured on an annual repetitive basis. The Committee consider that considerable economies can be achieved and better terms obtained from suppliers if adequate care is taken by the indenting departments to project their requirements in a coordinated manner. The Committee would therefore like all the major indentors, particularly the Ministry of Defence to ensure that indents are not placed for the same items at too short intervals and that the requirements of various items are bulked on an annual basis as far as possible. The Committee would like to be apprised of the precise steps taken in this direction and the results achieved.

(c) *Delays in inspection and Shipping of stores*(i) *Inspection:*

3.22. During May 1978 to July 1979, in 481 cases actual inspections were conducted; in 209 cases the stores were cleared on the basis of guarantees, test certificates or release notes issued by the suppliers although the contracts had provided for it. Asked why inspection in these cases could not be conducted, the Ministry of External Affairs have stated:

“In some cases indents placed on suppliers of good reputation and long standing, a conscious decision had to be taken to waive inspections in the interests of expeditious despatch of stores coupled with the prevention of infructuous expenditures, which could arise from the stores being stored over prolonged periods and delays in shipment.”

3.23. In this connection, the Minister (Supply), High Commission of India, London stated during evidence:

“... We carry out only 10 per cent inspection. Where the number is numerous we carry it only at random. Suppose after its arrival in India it is found that there is a shortfall, or it does not conform to specification, or there is total or partial failure of the contract, under the warranty clause the firm concerned has to make good the loss.”

3.24. The Secretary, Ministry of External Affairs added:

“The requirement was that inspection had to be carried out of goods upto a certain value and above. The limit was raised quite considerably and, in fact, it might be raised further in order to get good supplied without any delay due to inspections. Secondly, inspections have been waived in the case of propriety items and in the case of suppliers who have a good record. In this way, we have been able to reduce the technical staff quite considerably.”

3.25. The audit para states that the issue of inspection notes on the basis of guarantees, test certificates or release notes provided by the suppliers took from 30 to 45 days in 40 cases, 46 days to 3 months in 34 cases and more than 3 months in 26 cases. In July 1980, the Supply Wing stated that delay in issue of inspection notes in these 209 cases was due to the firms not sending their guarantees or test certificates in time. The Committee desired to know the remedial measures taken to ensure timely submission of guaran-



tees or test certificates by the firms to avoid delay in issue of inspection notes by the Supply Wing. The Ministry of External Affairs have stated:

“Most firms with whom we have contracts are extremely quality conscious and impose very rigid quality and specification inspection on their products. Till such time as their own products meet their quality requirements, the manufacturers delay in sending a guarantee or test certificates to the Supply Wing. It could surely be appreciated that it would be against our interests to ask such firms to expedite submission of test certificates at the expense of quality.”

3.26. After an in-depth study of files and records of the Supply Wing and on the basis of detailed discussions with the concerned officers, the team of four officers from the Ministry of External Affairs has stated in its Reports as follows:

“On the basis of numerous complaints received from the major suppliers and a study of many relevant files, a conclusion has been reached by the team that after the intimation of readiness of stores has been received by the Supply Wing, there is usually delay of 2-3 months before the inspection of stores is actually carried out. The resultant delay affects trade discounts, future contractual prices and of course creates shortages in India.

It is pointed out that in most cases the suppliers are of international repute who have been tried and tested over the decades by the Supply Wing. Experience has shown that rejections by the Inspection Directorate of the Supply Wing are only about 7 per cent of the stores inspected.

The team has, therefore, arrived at the conclusion that all supplies from well established, tried and reputed dealers of international standing, can be accepted on the basis of the supplier' guarantee and inspection certificates. This is for consideration of the three Defence Wings. For contracts being entered into with new suppliers or in case of doubt, the contract terms should specifically incorporate a clause that the inspection by the Supply Wing has to be done. This can be subject to review later, after further discussions with suppliers and Ministry of Defence.”

## (ii) *Shipping*

3.27. During a scrutiny in audit of payment vouchers for the period from 1st June 1979 to 20th June 1979 it was noticed that in 442 cases

there were delays of one month or more in arranging shipment of stores offered by the suppliers; in 265 of these cases, the delays were over 3 months. In response to an audit query, the Supply Wing stated in September 1979 that the situation had arisen due to shortage of staff.

3.28. In October, 1979, the Supply Wing made a strong plea to the Ministry of External Affairs for strengthening the shipping staff. The Ministry of External Affairs had stated in October, 1980 that the delays in shipment of stores occurred because shipment of all the defence stores (which constituted bulk of the stores) was to be made only through Indian Flag vessels or vessels not touching any port in a particular country or which were not manned by any crew of a certain nationality; that it was also very difficult to locate sailings for hazardous cargo; and that the Supply Wing was being advised to arrange shipments as expeditiously as possible. The Committee wanted to know the measures adopted to reduce delays in shipment. The Ministry have stated:

“The feasibility of vesting the responsibility of despatching supplies and locating suitable shipping vessels with acceptable flags, crew and ports of call on the suppliers is under consideration of Committee of Secretaries.”

3.29. Asked to indicate the present position in the matter, the Minister (Supply), in the Indian High Commission, London stated during evidence:

“We had a shipping agent till 1976; then we decided to do it departmentally, because when the shipping agents were asked to give their offers for continuing their service, they asked for twice the earlier figure. At the moment, we have six persons—for Shipping and Credit Control. . . . Their functions are to issue Call Forward letters; and before they do it, they have to refer to the purchase order and see if the shipper is fulfilling all the terms of the contract, and then select the ship and issue instructions.”

3.30. Asked which of the two alternatives was more economical, he stated:

“I believe it will not be economical. The staff is not adequate. I have submitted a proposal to the Government in which I have asked for 16 as against the total of 24 prior to reduction so that I can do the shipping work and the payment work.”

3.31. In a further note\* regarding the feasibility of appointing shipping agents with a view to getting over the difficulties in regard to shipment of stores to India, the Ministry of External Affairs have stated:

- “(a) The Ministry has examined the feasibility of appointing shipping agents for arranging shipment of stores to India. It was found that the agency commission being charged by the various shipping agents was too high to render the proposal economically feasible.
- (b) The Shipping Corporation of India, the India Steam Ship Company and the Scindia's Steam Ship Company are the three carriers with whom ISM London generally liaises for sea freights; Air India under the special charter clause is the normal agency for carrying air freight cargoes. These four companies by and large are adequate to meet the situation in case of normal i.e. non-hazardous and non-explosive cargoes. In cases of hazardous cargo prolonged efforts have to be made to locate vessels i.e. satisfying conditions prescribed by the Defence indentors as a pre-requisite to the transportation of such cargoes which therefore takes longer.

The question of vesting the responsibility of locating suitable shipping vessels, on the suppliers, as part of the f.o.b. contracts is under consideration by the various Ministries.

In the overall context of the reorganisation of the Supply Wing, London and the transfer of possible items of work to the indentors in India, alternative shipping arrangements at London have been under consideration since June, 1981.

In the likely event of the Supply Wing being wound up in its present form the quantum of shipping workload to be handled by the Mission will diminish considerably. However, the proposed residual nucleus Cell in High Commission of India, London will assist in arranging expeditious shipment of stores, wherever necessary.”

3.32. In this connection the team of officers have observed as follows:

“Contracts entered into with the suppliers are all of f.o.b. The responsibility for arranging shipments by sea or air as per the terms of the contract, lies with the suppliers.

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\*Not vetted in Audit.

Presently this work is being handled by the Shipping Directorate. It has been observed that the Shipping Directorate take roughly 3—6 months to locate a suitable vessel presumably because of fewer contracts with shipping lines/agents as compared to the suppliers. The net result of such long delays is that the Supply Wing loses the trade discount. The goodwill of the supplier who has to incur avoidable expenditure on storage and to wait long periods for the reimbursement of his finances; with the result that the supplier mark up prices for subsequent contracts. In this connection it is worth considering that in most cases, defence supplies except for hazardous consignments, are air freighted through Air India and critical defence stores are periodically air lifted by special courier flights.

Under the circumstances it is suggested that the Shipping Directorate could be phased out and finally wound up. The suppliers could be asked directly to ship the stores to the indentors/consignees in India. This has been discussed with Minister (Supply) and some major suppliers of defence equipment and has found uniform acceptance.

The reduced Shipping Cell, could now handle only the following two remaining items of work:

- (i) In case of deviation from the shipping norms, as per terms of contract it will give permission for shipment through non-Indian flag vessels, after satisfying itself about the necessity.
- (ii) Arrange airlifts by couriers, in view of criticality or nature of stores, if felt necessary by them or indentors (Hazardous) consignments fall under this category."

**3.33. The audit para has highlighted the inordinate delays in issue of inspection notes by the Supply Wing despite the fact that in majority of the cases these are issued on the basis of guarantees, test certificates or release notes provided by the suppliers. This is again confirmed by the Report submitted by the Team of Officers deputed by the Ministry of External Affairs to study the functioning of the Supply Wing in September, 1981. On the basis of numerous complaints received from the major suppliers and a study of many relevant files, the team found that after the intimation of the readiness of stores for inspection had been received by the Supply Wing, there was usually a delay of 2 to 3 months before inspection of stores was actually carried out. The resultant delay affects trade discount, future contractual prices and of course creates shortages in India. As the rejection of stores supplied by firms of international repute who have been tried and**

tested over a period of time by the Supply Wing, is only about 7 per cent of the stores inspected, the team has recommended that the stores can be accepted from such suppliers on the basis of suppliers' guarantee/inspection certificates.

The Committee are greatly concerned over the inordinate delays in issue of inspection notes by the Supply Wing and would like the matter to be looked into by the Ministry with a view to taking necessary remedial measures. They would also like to be apprised of the decision taken on the suggestion given by the team of officers for dispensing with the inspection requirement in respect of stores supplied by well established and reputed concerns.

3.34. The Committee are concerned to find that it takes roughly three to six months on the part of the Shipping Directorate of the Supply Wing to locate suitable vessels for shipment of stores to India resulting in loss of trade discount as well the goodwill of the supplier who has to incur avoidable expenditure on storage and has to wait for longer periods for reimbursement of his finances. In such a situation the suppliers could also mark up the prices for fresh contracts.

3.35. The Committee find that the system of appointing shipping agents was discontinued in 1976 when it was found that the agency commission being charged by the various shipping agents was too high. Since then the work is being done departmentally. The Ministry are stated to be of the view that the Indian carriers viz. the Shipping Corporation of India, the India Steamship Company and the Scindia Steamship Company besides Air India are adequate for meeting the situation in case of non-hazardous and non-explosive cargo. Difficulties arise in respect of hazardous cargo when it takes longer to locate suitable vessels.

3.36. The team of officers has pointed out that in most cases the defence supplies except hazardous consignments, are air-freighted through Air India and critical defence stores are periodically air-lifted by special courier flights. Since air freight will in any case, be much more than the sea-freight, the Committee recommend that the air lifting of Defence stores should be resorted to only in exceptional cases. They consider that as far as possible Indian flag vessels should be used for all store to be imported into the country and that with advance planning, it should be possible to locate Indian flag vessels for shipment of defence stores. The Committee would also urge that the reasons for delays on the part of Shipping Directorate to locate suitable vessels for the shipment of stores to India should be examined critically by the team of officers and necessary steps taken to get over the problem in consultation with the Ministry of Shipping and Transport.

(d) *Working of Computer in Supply Wing*

3.37. With a view to achieving better efficiency, a computer was installed in the Supply Wing in December 1976. The audit para has pointed out that no advance planning was done in regard to:

- (i) the items which were to be computerised.
- (ii) detailed study of the existing system to identify difficulties; and
- (iii) designing of computerised system by laying down (1) functional specifications of inputs, outputs, computer files, etc., (2) processes or checks to be exercised by computer and those to be done manually and (3) coding of various items like indentors, suppliers, consignees, etc.

3.38. Asked whether the reasons for the computer not having served its purpose had been identified, the Ministry have replied:

“The Government’s review has identified that restricted computer programming and a narrow data base input linked to the computer model, have limited scope for the use of computer’s activities in the Supply Wing’s functions. The question of reprogramming and widening the data base or doing away with the computer altogether are subject of on going review by a Committee of Secretaries.”

3.39. In reply to a question about the extent to which the computer was being used for various purchase operations to improve efficiency in the Supply Wing the Ministry stated:

“At the moment the computer is being used for the registration of all indents, issue tender enquiries, registration of contracts and issue of periodical progress reports, including reporting by exceptions; this is in addition to ad hoc, specialised information, retrieved to meet specific requirements of the situation from time to time.”

3.40. During evidence the Committee enquired whether the question of better utilisation of the computer available with the Supply Wing had been considered. The Minister (Supply), Indian High Commission, London stated:

“There was an informal look at it in August 1979 or so by the expert of Tata Institute of Fundamental Research. He felt it should not be taken to be a static thing and it had to keep pace with the increasing workload. Therefore, in September this year, an indepth review was conducted by Brig. Balasubra-

manian who is the Director of the Directorate of the Defence Ministry. He has proposed an augmentation of EDP of it in his report. . . . . he has also suggested that with the introduction of this system, we can cater to the needs of the Consular Wing. Not only that, it can handle passport and visa work also. Then it could cater to the requirement of the three Services. Commercial intelligence can also be put on it and we can take care of the pay rolls of the High Commission which is now being done by outside computer."

The representative of the Ministry added:

"The question of augmenting the computer facilities at London has been considered. . . . . the possibility of different models of computer has been examined and also the approximate cost that it would involve. However, no action has been taken on this in view of the overall consideration of the future functioning of the ISW, London. The possibility of setting up here in Delhi a coordination cell or a foreign purchases cell etc. are matters which are still under consideration. In view of this, nothing has been done so far about changing the computer capability at the ISW, London.

3.41 Asked to give his comments on the question of better utilisation of this facility, the Foreign Secretary stated:

". . . . . The question of its future use will partly depend on whether we commission additional programmes on the computer. . . . I think it would be a lot of waste of money, if we forget about the computer completely and did not enhance its capacity. But at the moment the problem is that we have an offer from a company to say that if for instance, we were to spend £ 30,000 on the computer it would not only do the work of the ISW. but it would also help the work of the High Commission, viz. accounts Consular section, Information and Political Section etc. . . . . In a sense, we feel that we would like to spend this money, but it would depend now on the decision we take, whether we should continue the present system as it is or not. If we continue with the present system we can certainly make use of the additional facility of computer but the question of cost is there."

3.42. From a perusal of the Report of Brig. A. Balasubramanian, Director EDP Systems in the Defence Research and Development Organisa-

tion, New Delhi made available to the Committee subsequently, the following facts emerge:

- (i) Whilst the present system has been providing some periodical reports to indentors and managers, there has not been a significant impact on the control of operations within ISM. The mismatches in the manual|machine interface has been one of the factors for such a situation, and the ISM currently "reeling" under the reduction in staff from 114 to 85 (while it is gathered that the actual strength in position is even less) and the present procedures do not permit of the utilisation of computer capabilities to provide possible relief.
- (ii) The Computer Wing finds itself loaded with routine but important manual functions and thus lacks sufficient manpower for coding|key boarding functions related to the computerised information system. The result of all this has been that data relating to contracts have presently fallen in arrears by about 8 weeks and contract amendments have not been carried out for over 18 months and consequently any related reports from EDP Directorate would not be up-to-date.
- (iii) It would be essential that the staff responsible for operations of the computer based information system should not get diverted to day-to-day control functions requiring manual operations.
- (iv) Currently, the Pay Roll and Expense Recording and Analysis system of the HCI, is being done by a service bureau outside, costing £ 1200 per month. The Minister (Supply) had advised in 1979, that this function could be taken over by the Computer Wing in HCI with marginal capital expenditure. This application ought to be brought on to the computer of the High Commission. If necessary, the current application programme can be purchased with suitable modifications. It is understood that this may cost around £ 3500. Thus, there would be recurring savings of at least £ 14,400 per annum on this application alone.
- (v) There is a crying need for a Computer System which will enable
  - (a) the building up of an integrated data base for the ISM functions and would also
  - (b) support build-up of data bases for the other Wings|Departments as explained with inter-active capabilities for providing fast response.



This system would also support batch applications relating to the pay roll, budgeting, inventories, statistical reports etc. for the High Commission.

3.43. Some of the important recommendations contained in the report are:

- (i) HCI should set up an Integrated Indent Progress Control system for use by the Supply Wing. The system would facilitate Interactive working from the various purchase Directorates and the Shipping Directorate.
- (ii) The system should also support the Consular, Science and Defence Wings for Interactive Information processing.
- (iii) The system should support other functions in the HCI as Accounts, P&M, Library, etc. on a batch basis.
- (iv) System support for Data Base creation, codification etc. should be obtained from the EDP Directorates in India in the DRDO, Defence Services, National Information Centre.

3.44. The January 1981 Comprehensive Report on the functioning of the Supply Wing, London, *inter-alia*, contained suggestions on the re-location of the Computer Cell in India. This is being considered by the Committee of Secretaries. The acceptability of the suggestions in the Report of the Director, EDP System depends on the final decision taken on the Comprehensive Report regarding the continuance or otherwise of the Supply Mission in London. Further action can be taken on the reports, only after a consensus has been reached between all the user Ministries. Many inter-ministerial meetings have been held to iron out the various differences of opinion. Currently, Ministry of Defence is preparing a paper incorporating the coordinated views on the subject of the three Services Headquarters.

As per the latest directives of the Committee of Secretaries, user Ministries are studying the implications of the alternatives suggested with reference to their own special problems.

It is hoped that the final decision will be taken as soon as Ministry of Defence have arrived at an agreed viewpoint with the Ministry of External Affairs and Department of Supply.

3.45. A computer (cost—Rs. 12.91 lakhs) was installed in the Supply Wing in December 1976 with a view to achieving better efficiency in the

processing of indents. Audit have, however, pointed out that no advance planning was done with regard to items which were to be computerised nor any detailed study was made to identify the difficulties. What is still worse is that no efforts were made to codify the various items to lay down in advance the functional specifications and the processes or checks to be exercised by computer and those to be done manually. Even the System Analysts, programmers and computer operator were posted as late as in August, 1977, January 1978 and July 1978 respectively. The Director EDP Systems in the Defence Research and Development Organisation in this report (September 1981) on the functioning of the computer in the Supply Wing, London has pointed out that the computer is at present loaded with routine, though important, functions and sufficient manpower has not been provided for coding/key boarding functions related to the computerised information system with the result that the data relating to the contracts have fallen in arrears. Contract amendments have not been carried out for over 18 months and consequently related reports from the EDP Directorate would not be up-to-date. The Report has emphasised the need for a computer system which will enable the building up of an integrated data base for the Supply Wing functions as well as for other wing/departments of the Indian High Commission. It has therefore been recommended that the High Commission should set up an integrated indent progress control system for use by the Supply Wing and that the computer should also support the Consular, Science and Defence Wings of the High Commission. It has further been recommended that other functions in the High Commission such as accounts, pay rolls, library etc. should be computerised. The Committee were given to understand during evidence that action on the report has been pending in view of the on-going review with regard to the overall functioning of the Supply Wing. In a subsequent note, the Ministry have informed the Committee that the Comprehensive report on the functioning of the Supply Wing, London (January, 1981) inter alia contained suggestions on the re-location of the Computer Cell in India is being considered by the Committee of Secretaries and that the Ministry of Defence are preparing paper incorporating the coordinated views of the three Services Headquarters on this subject. The Committee would like to be apprised of the decision taken in the matter."

3.46. The Committee note with concern that currently the pay roll and expense recording and analysis system of the Indian High Commission in London is being got done by a service bureau outside at a cost of £ 1200 per month. As early as in 1979, the Minister (Supply) Indian High Commission, London had suggested that this function should be taken over by the Computer Wing with some marginal capital expenditure of around

£ 3500. Thus, there would be recurring savings of atleast £ 14400 per annum on this application alone.

3.47. The Committee consider it extremely unfortunate that the computer facility procured at considerable cost has been allowed to be grossly under-utilised over the last six years. In the meantime, an extra expenditure of £ 14400 (Rs. 2.5 lakhs approx.) per annum is being incurred on payroll and expense recording of the High Commission by obtaining the services of an outside body. The Committee desire that the matter should be reviewed without further loss of time so as to ensure that the computer facility available in the Supply Wing is put to the optimum use.

NEW DELHI  
July 8, 1982  

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Asadha 17, 1904 (S)

SATISH AGARWAL  
Chairman,  
Public Accounts Committee.

AUDIT PARAGRAPH 23 OF THE ADVANCE REPORT OF THE  
C&AG OF INDIA FOR THE YEAR 1979-80, UNION  
GOVERNMENT (CIVIL).

23. *Purchase operations of the Supply Wing in the High Commission in London.*

1. *Introduction*

1.1 The Supply Wing of the High Commission of India, London (hereafter referred to as the Supply Wing) functions under the administrative control of the Ministry of External Affairs since April 1975 and it makes purchases for the Government of India, State Governments, certain autonomous bodies, etc. and, *inter alia*, arranges for the inspection of stores and their shipment. Its over-all charge vests in the Director-General, who is assisted by 2 Deputy Directors-General and 7 Directors. The Chief Accounting Officer of the High Commission acts as the Financial Adviser of the Supply Wing. In 1978-79, it had a total sanctioned strength of 114 officers and junior staff; the expenditure incurred thereon during the years 1976-77, 1977-78 and 1978-79 was £0.49 million (Rs. 78.4 lakhs), £0.48 million (Rs. 76.8) lakhs) and £0.53 million (Rs. 84.80 lakhs) respectively.

1.2 The Supply Wing purchases stores, which, *inter alia*, include sophisticated machinery, Defence equipment and maintenance spares. In recent years more than 90 per cent of these stores represented Defence purchases.

The following table indicates the extent of purchase activity of the Supply Wing for the years 1976-77, 1977-78 and 1978-79:—

Year	No. of Indents out standing as on 1st April	No. of indents received during the Year	Total of columns 2 and 3	No. of contracts placed	Value of contracts placed	No. of indents disposed of	No. of indents carried forward
1	2	3	4	5	6	7	8
1976-77	.	.	.	.	.	.	.
1977-78	2336	6148	8484	7322	22.06	6055	2429
1978-79	2429	6183	8612	7072	33.62	6299	2313
	2313	4831	7144	6021	49.23	5022	2122
					(a) million	(b) Rs. in crores	

In the purchase of stores, the Supply Wing follows the Policy and Procedure Rules, 1975 laid down by the Department of Supply, the guiding principle of which is timely procurement consistent with economy in expenditure.

416 contracts valued at £14.05 million (Rs. 22.45 crores) pertaining to the period October 1977 to September 1978 were test-checked in audit; these included 326 high value contracts (each of value of £ 7500 or more) valued at £ 13.72 million (Rs. 21.93 crores) and 90 low value contracts valued at £ 0.33 million (Rs. 0.52 crore). Out of these 416 contracts, 299 contracts (72 per cent) were placed on firms in the United Kingdom and 117 (28 per cent) on firms in other European countries, mainly, Germany, France and Switzerland. Tender inquiries for 67 per cent of indents were issued exclusively to firms located in the United Kingdom.

2.1 *Extent of delays.*—The time taken by the Supply Wing on finalising the 416 contracts (from the date of receipt of indents) test-checked in audit was up to 4 months (153 contracts), 4 to 8 months (156 contracts), 8 to 12 months (55 contracts) and over one year (52 contracts); contracts (263), which took more than 4 months to be finalised, constituted 63 per cent of the total contracts test-checked.

Out of the 416 contracts test-checked, 190 indents were classified as "Operational" or "Urgent"; out of 190, 116 contracts (61 per cent) took more than 4 months to be finalised (18 of them took more than one year). In 38 out of 190 indents, there were delays of 1 to 12 months in inviting quotations. In reply to certain audit observations in respect of delay in finalising operational indents, the Supply Wing stated (December 1978) that majority of the indents received by it were marked indiscriminately as operational and that it was virtually impossible to accord priority to all of them because of the limited staff.

## 2.2 *Reasons for delay*

(a) *Delay in calling for quotations.*—In 192 (out of 416) cases, delays of one month or more occurred even in inviting quotations; the delay was 1 to 3 months in 157 cases, 3 to 6 months in 24 cases and 6 to 12 months in 11 cases. Such delays were attributed to time taken in locating the sources of supply and processing the indents. In 120 out of 192 cases, stores were to be procured from specified proprietary firms on the basis of proprietary article certificates issued by the indentors in their favour. Normally there should be no delay in inviting tenders in these cases, the Supply Wing attributed (February 1980) the delays to inadequate and inexperienced staff.

(b) *Reference to indentors.*—Out of the 416 cases scrutinised, in 100 cases back references to the indentors had to be made on technical matters.

and in 110 cases back references were made because the foreign exchange estimated and provided by the indentors was found inadequate, even though these cases were covered under the Supply Wing's powers to exceed such provisions by 50 per cent in Defence indents and 10 per cent in Civil indents (subject to an overall limit of Rs. 5 lakhs in respect of each indent) without referring the matter back to the indentors. In 128 cases, references were made regarding the acceptability of the quoted price for reasons other than the provision of additional foreign exchange.

Following certain comments made by Audit (October 1979) regarding the generally inadequate provision of foreign exchange and the consequent delays and/or cancellation of items, the Supply Wing suggested (February 1980) to the Ministry of External Affairs that the aforesaid powers vested in the Supply Wing be enhanced from 50 to 75 per cent in Defence indents, from 10 to 33/ per cent in Civil indents and from Rs. 5 lakhs to Rs. 15 lakhs in overall limit. The Ministry of External Affairs stated (October 1980) that necessary action to raise the limits as above was in hand.

It was noticed in audit that often there were very wide variations in the prices estimated by indentors and those actually secured, far exceeding the limits suggested above. Some conspicuous examples are given below:—

Estimated price ₹	Actual price ₹	Name of store
20.00	535.00	} Hunter spares
25.00	160.00	
150.00	465.00	} Avonspares
10.71	120.41	
50.00	240.00	
0-03	6.03	
9.0000	2835.00	Aircraft spares
20.00	85.01	} Ejection seat equipment
36.00	159.32	
3926.00	11142.22	Aeronautical engineering accessories
30.00	283.43	} Electrical stores
20.00	103.97	
9.77	49.50	} Instrumental stores
0.40	4.00	
4700.00	13800.00	Engineering stores
4000.00	19058.00	Refrigerating and air-conditioning stores
2165.00	8000.00	Evaporator spares
1027.00	10062.00	Diesel engine circulation pump
2200.00	9627.00	Propulsion spares
1877.00	12277.00	Generator spares
1318.00	7693.00	Cooling pump
Rs. 16027.00	Rs. 234000.00	Stabiliser gear spares
DM 47900.00	DM. 229075	Disceel engine spares

In the context of paragraph 19 of the Report of the Comptroller and Auditor General for the year 1977-78: Union Government (Defence Services) pointing out loss (Rs. 1.07 lakhs) arising out of delay in procurement caused by such faulty estimates, the Ministry of Defence had stated (January 1979) that remedial measures to avoid recurrence of similar cases in future were being taken. The Supply Wing stated (February 1980) that no effective remedial measures appeared to have been devised at the indentors' end.

(c) *Wanting information/documentation.*—It was noticed in test-check in audit that a number of indents the indentors had not indicated certain essential information like:

	No. of Contracts involved
—Last purchase price . . . . .	165
previous reference . . . . .	130
—probable sources of supply . . . . .	24
—indentor's estimate of cost . . . . .	35
—basis for estimates . . . . .	129
—drawings and specifications . . . . .	74
—complete technical details . . . . .	41
—proprietary article certificate . . . . .	10
—Questionnaire received by indentors not sent . . . . .	13

Frequent references to indentors became necessary on the above counts, thus, retarding the procurement process.

3. *Initial delays of indentors.*—In 40 out of the 416 cases test-checked in audit, there were considerable delays (ranging from 2 to 6 months in 19 cases, 6 to 12 months in 19 cases and over 1 year in 2 cases) on the part of the indentors in obtaining release of foreign exchange by Government, after the Director General, Technical Development or other similar technical authorities in India had given clearance regarding the non-availability of the stores from indigenous sources.

It was also noticed that in 45 cases, even after the foreign exchange was released, the mere process of floating the indent was delayed by 1 to 3 months (31 cases), 3 to 6 months (12 cases) and more than 6 months (2 cases).



4. *Delivery schedules.*—A Scrutiny of the delivery schedules as provided in 416 contracts test-checked in audit showed that in 218 cases the time-lag between the delivery schedule as per indent and that as per contract was more than 3 months. (In 113 of these cases, the indents had been classified as operational or urgent). Out of these 218 cases, in 169 the time-lag was over 6 months and 92 of these cases were either operational or urgent. Again, in 85 out of 169 cases the time-lag was even more than one year and 49 of them were operational or urgent. In 30 out of these 169 cases, while the Supply Wing itself had taken less than 4 months on finalising the contracts, the delay dates as required by the indentors were postponed by the Supply Wing by more than 9 to 12 months on their own and that 23 of these cases were operational or urgent.

From the deferment of delivery dates beyond the dates specified by the indentors, it could be inferred that either the stores marked operational or urgent were really not required urgently or if they were really so required, their deferred procurement would have affected production or operational requirements or which they were indented. Commenting on this aspect, the Ministry of External Affairs stated (October 1980) that:

“.....In our view, twin action is necessary on the part of indentors to remedy this situation. First, the priority marking should not be done indiscriminately and that only such indents which are of really a critical and vital nature are marked operational or urgent. Secondly, the indentors should not give the delivery date on a hypothetical basis but should always take into account the feasible dates on which the firms concerned can possibly supply the stores, keeping in view their commitments to other buyers.....”

#### 5. *Delays in inspection shipping and payments*

(a) *Inspection.*—During May 1978 to July 1979, in 481 cases actual inspections were conducted; in 209 cases the stores were cleared on the basis of guarantees, test certificates or release notes issued by the suppliers; thus, 690 inspection notes were issued.

In 118 cases (out of 481), there were delays of more than one month in conducting inspection; out of these, in 44 cases the delays were more than 45 days but up to 3 months and in 18 cases the delays were more than 3 months. As regards 209 other cases, where no physical inspection could be carried out although the contracts had provided for it, inspection notes on the basis of guarantees, test certificates or release notes provided by the suppliers took from 30 to 45 days in 40 cases, from 46 days to 3 months in 34 cases and more than 3 months in 26 cases. The Supply Wing stated (February 1980 and July 1980) that though inspection was required to be

conducted in these cases, it could not be done because of paucity of technical (inspecting) staff which could be utilised in conducting inspection of stores in 481 cases (value: £26.27 million) in preference to 209 cases (value £1.90 million). The Supply Wing added (July 1980) that delay in issue of inspection notes in 209 cases was due to the firms not sending their guarantees or test certificates in time.

In January 1979 and again in October 1979, the Supply Wing had informed the Ministry of External Affairs that unless remedial action was taken, considerable delays in inspection were expected entailing financial implications. The matter had not been resolved yet (October 1980).

(b) *Shipping*.—During a scrutiny in audit of payment vouchers (436) for the period from 1st June 1979 to 20th June 1979, it was noticed that in 442 cases there were delays of one month or more in arranging shipment of stores offered by the suppliers; in 265 of these cases, the delays were over 3 months. In response to an audit query, the Supply Wing stated (September 1979) that the situation had arisen due to shortage of staff.

In October 1979, the Supply Wing made a strong plea to the Ministry of External Affairs for strengthening the shipping staff. The Ministry stated (October 1980) that the delays in shipment of stores occurred because shipment of all the defence stores (which constituted bulk of the stores) was to be made only through Indian Flag vessels or vessels not touching any port in a particular country or which were not manned by any crew of a certain nationality; that it was also very difficult to locate sailings for hazardous cargo; and that the Supply Wing was being advised to arrange shipments as expeditiously as possible.

Incidentally, it was noticed (September 1979) that an amount of £ 6370.98 (Rs. 1.02 lakhs) representing dock charges was to be recovered from various suppliers in respect of shipments made from port 'A'. Shortage of staff was cited as a reason for non-recovery of dues. The Supply Wing reported in February 1980 that £ 1749.90 had since been recovered.

(c) *Payments*.—A test-check in audit of the payments made during the first 20 days of June 1979 revealed that in 473 cases the time taken for making payment of value of stores (after date of shipment) ranged from 1 month to over 3 months. (In 364 of those cases, it took more than 45 days; out of these, 194 cases took more than 2 months).

6. *Financial implications of delays in procurement*.—Specific instances of extra expenditure arising out of delay in finalisation of contracts have been mentioned from time to time in the Audit Reports of the Comptroller

and Auditor General of India [paragraph 39 of Audit Report (Civil) of 1975-76, paragraphs 30 and 31 of Defence Audit Report for 1976-77 and paragraphs 19, 41 and 42 of Defence Audit Report for 1977-78].

In the present test-check in audit, 20 cases were noticed involving extra expenditure amounting to over £ 74,000 (Rs. 11.88 lakhs) on account of revision of quotations by firms because of delays (from over 4 months to over 2 years) in procurement action for various reasons. Some of the typical cases involving extra expenditure of Rs. 3.21 lakhs are mentioned below:—

(i) *Procurement of aircraft spares—delay in placing indents.*—The Naval Headquarters directly obtained (June 1976) quotation for 1042 spares for a aircraft from a French firm 'A' with validity period up to 1st September 1976. Although the quotation stipulated escalation in price in case orders were placed after that date, the Naval Headquarters forwarded 10 indents to cover the above requirement to the Supply Wing only in January 1977, August 1977 and September 1977. Ten contracts—one for each indent—were placed after the expiry of the validity period of the quotation (between March and November 1977) and the Supply Wing had to agree to price escalation resulting in extra expenditure of F.F. 65088 (Rs. 1.30 lakhs).

(ii) *Procurement of Lino spare parts and matrices—delay in providing foreign exchange.*—The General Manager of the Government of India Press obtained a quotation in July 1977 from an Indian agent of a foreign firm 'B' for proprietary stores of lino spare parts and matrices. The quotation was valid up to 25th November 1977. The indent for stores together with the quotation was sent in October 1977 to the Director General, Supplies and Disposals (DGSD) for procurement. The orders of Government of November 1976, according to which release of foreign exchange for import of spare parts was not necessary, were withdrawn in April 1977. The indenter was, however, not aware of this and thus, did not obtain sanction for release of the necessary foreign exchange. The foreign exchange was then provided for in March 1978 out of the DGSD's quota.

Meanwhile, the firm's quotation had expired, and in response to a tender inquiry issued in December 1977 by the DGSD, the same firm quoted (January 1978) a revised price which was higher by £5274 than the quotation of July 1977. The indent was cross-mandated to the Supply Wing in April 1978. The Supply Wing could not obtain a reduction in price, and therefore, traced a contract for reduced quantities of stores in August 1978 at an extra cost of £5,003 (Rs. 0.83 lakh).

(iii) *Procurement of spares for Gun Abbot—foreign exchange delay.*—In March 1976, the Army Headquarters sent to the Supply Wing an indent for 39 items of spares for Gun Abbot for procurement. The indent was not supported by foreign exchange sanction, as the prices of the spares were not known to the Army Headquarters. The Supply Wing invited quotations in May 1976 and in September 1976, supplier 'D' quoted prices for 21 items valid up to 14th December 1976. The Supply Wing forwarded the offer to the Army Headquarters in September 1976 for obtaining necessary foreign exchange. On 3rd February 1977, the supplier cancelled the offer. In March 1977, the Army Headquarters forwarded the foreign exchange sanction for Rs. 1.03 lakhs (£ 6,879). When approached again, supplier 'D' sent a supplementary offer, with enhanced prices in respect of 3 items. The offer was accepted and a contract was placed on 12th December 1977 at an extra cost of £ 3,931 (Rs. 0.59 lakh).

In February 1979, the Ministry of Defence stated that the delays in the release of foreign exchange were inherent in the procedures which involved different agencies of Government.

(iv) *Procurement of helicopter spares.*—The Director of Logistics Support, Naval Headquarters, New Delhi, in an indent dated 31st October 1977, projected on the Supply Wing a requirement for certain helicopter spares proprietary to firm 'F'. In response to a tender enquiry (December 1977), firm 'F' quoted to the Supply Wing on 17th January 1978 by telex a price of £ 30,065 valid up to 15th February 1978. No action was, however, taken on this quotation. The indenter, in an aerogram dated 29th April 1978 reminded the Supply Wing about the progress, but no prompt action thereon was taken. The fact about the firm's quotation of 17th January 1978 came to light only when the Supply Wing finally reminded firm 'F' on 4th August 1978 and the firm furnished a copy of its telex dated 17th January 1978.

In response to the Supply Wing's reminder (4th August 1978), firm 'F' in a telex dated 7th September 1978 revised the price to £ 33,000. The contract was placed on 26th September 1978 at the revised price. Thus, lack of adequate care in procurement action resulted in an avoidable extra expenditure of £ 2,935 (Rs. 0.49 lakh). The Supply Wing stated (July 1979) that the firm's quotation dated 17th January 1978 was not received by it, and that due to constraints of staff, the firm could not be addressed for quotation till 4th August 1978.

7. *Likely cushions in quotations.*—Out of the 326 high value (each of value £ 7,500 or more) contracts (total value: £ 13.72 million) scrutinised in test-check in audit, in 210 contracts (value: £ 8.92 million) the finalisation had taken 4 months or more from the date of receipt of indents. In 85 cases, it had taken more than 8 months.

Out of these 210 contracts, in 72 cases (value: £4.20 million) the time-lag between the date of receipt of quotation and the issue of contract was more than 4 months. (In 34 of these cases such time-lag was more than 6 months, and in 8 of them it was over one year).

Out of 72 cases, in which there was a delay of more than 4 months in accepting the quotations, in 13 cases (value: £ 1.78 million) the quotations contained price-variation clauses, and in 7 cases (value: £ 0.13 million) the quotations were revised upward by the suppliers due to delay in finalising the contracts and the contracts had to be placed at higher rates. In the remaining 52 cases (value: £ 2.29 million), in spite of delays in accepting firms' offers (more than 6 months in 18 cases), the quotations were not revised at all and the contracts were placed at the same prices as were quoted originally, though the market indicated distinctly inflationary trends. In 34 out of these 52 cases, single tender inquiries had been issued and all except a few of them were supported by proprietary article certificates issued by the indentors. (In the other 18 cases limited tender inquiries had been issued). As mentioned earlier, most of the purchases by the Supply Wing were made from suppliers located in the United Kingdom and the rest from neighbouring countries. In the last few years, the price and wage indices in the United Kingdom had been moving upward as per details in annexure I.

In 1978, in reply to a suggestion from the Ministry of Defence that the validity period of quotations might be got increased to 5 or 6 months in view of the anticipated delays in providing additional foreign exchange, resolving technical matters, etc., the Supply Wing had informed that Ministry as follows:—

“.....as a general practice, we ask for 60 days' validity at the time of issuing enquiries to the firms. In special cases we ask for 90 days' validity. You will agree that everyday of validity was likely to cost extra expenditure on account of inflation and firms would add costs keeping in view the factors of price escalation over a longer period. In the circumstances, we feel, it is neither desirable to ask the firms for long validity periods for 5 or 6 months, nor in the best interest of Government”.

Thus, non-revision of prices in 52 cases cited above would imply that the suppliers could be marking up their quotations for cushion. It was, moreover, likely that any tendency to mark up the quotations would not have been confined merely to those cases in which serious delays did occur, but would have affected other cases as well.

The value of the contracts placed by the Supply Wing had been of the order of £33.62 million (Rs. 54 crores) in 1977-78 and £ 49.23 million (Rs. 79 crores) in 1978-79. The value of contracts for the year 1979-80 was awaited from the Supply Wing (November 1980). Even a nominal cushion in their quotations, considering the magnitude of the orders placed, would involve substantial financial implications due to delays in finalisation of contracts, inspection, shipping and payments. The Ministry of External Affairs stated (October 1980) that:

“.....Though the efforts of the Supply Wing in bringing down the prices through sustained negotiations in several cases have to be appreciated, it is felt that they can further curtail the delays at all stages of purchase operations, and thereby create an atmosphere where the firms may not be forced to paid up their prices on account of delays in placing contracts, inspection and payments”.

8. *Scrutiny of prices quoted.*—There was no organised system in the Supply Wing to scrutinise the quotations of firms to see how far they did represent the market trends correctly *vis-a-vis* the last purchase price. In reply to an audit observation made in April 1978 in this regard, the Supply Wing had stated (June 1978) that index cards for the last purchase prices were not being maintained; that indentors were instructed to indicate last purchase prices in the indents and that in due course the computer installed in the Supply Wing would draw out data regarding last purchase prices. The Ministry of External Affairs, however, stated (October 1980) that the Supply Wing should maintain proper records for the last purchase prices and scrutinise reasonableness of prices with reference to the price indices and other relevant data published by Governments of U.K. and other countries concerned.

9. *Non-bulking of indents.*—The test-check in audit revealed that in several cases to indentors had projected separate indents on the Supply Wing for procurement of the same items within a short interval of each other and these indents were not bulked/consolidated either at the indentors' end or in the Supply Wing. The Supply Wing stated (February 1980) that the primary responsibility for bulking was that of the indentors and that the Supply Wing had no system in this regard, considering the magnitude and number of indents received from more than 100 indentors.

Certain instances of extra expenditure arising out of such failures were reported in paragraph 31 (Rs. 2.23 lakhs) and paragraph 42(a) (Rs. 13.60 lakhs) of the Report of the Comptroller and Auditor General, Union Government (Defence Services) for the year 1977-78. The Ministry of Defence had stated in that context that the provisioning procedure did not

stipulate any analysis or study of price differential at the stage of rechecking of requirements, but only envisaged the determination of revised requirements. The Audit Report had brought out that even details regarding outstanding indents for the same items which were required to be mentioned on each indent as per provisioning procedure, had not been so mentioned in most of the indents in question.

Some similar cases, which together entailed an avoidable extra expenditure of £40,939 (Rs. 6.14 lakhs) are mentioned below by way of illustration.

(i) *Procurement of spares for aircraft 'H'*.—One indent was placed by the Air Headquarters on the Supply Wing in January 1976 and four others between December 1976 and June 1977 at short intervals, for procurement of spares for aircraft 'H'. These indents were found to contain, *inter alia*, 3 items common to more than one indent. The indent of December 1976 was covered in June 1977 with one firm on grounds of critical requirement, while 3 items common to the indents of January 1976, January 1977 and February 1977 had remained uncovered. In November 1977, one common item pertaining to the indent of January 1976 was covered on grounds of economic price without linking the corresponding item in the indents of January 1977, February 1977 and June 1977. Finally, the 3 common items of the latter 3 indents were ordered in February 1978 at higher rates on the same firm. This entailed an extra cost of £ 27,730 (Rs. 4.16 lakhs).

In September 1979, the Ministry of Defence had stated that 3 indents pertained to maintenance requirements, which were based on computerised review undertaken at the Air Headquarters and that the remaining 2 indents were based on provisioning reviews done to meet the overall requirements. The Ministry added that these reviews were undertaken at 2 places geographically apart, at different points of time, on entirely different parameters and processed separately. Accordingly the Ministry maintained that bulking at the review/indent stage was not possible and that bulking was a procurement function, which could more appropriately be undertaken by the Supply Wing. The Ministry of External Affairs, however, stated (October 1980) that the primary responsibility for bulking was that of the indentors.

(ii) *Procurement of spare for aircraft 'C'*.—The Air Headquarters raised an indent in August 1977 (indent 'A') on the Supply Wing for procurement of spares for aircraft 'C'. The stores were proprietary in nature and against single tender inquiry (12th September 1977), offer was received from firm 'X' in February 1978 valid up to 20th April 1978; it was further extended up to 15th July 1978. At this stage, another demand for similar stores was received from the Air Headquarters in March 1978 (indent 'B'). Though this indent had 3 items in common with the earlier one (indent 'A').

which had not been covered till then, the indenter failed to make a mention of this as required in the provisioning procedure. The Supply Wing also did not correlate the common items of both the indents.

As a result, a separate single tender inquiry was issued in April 1978 in respect of indent 'B' in which these 3 common items were included and the offer of the same proprietary firm was received in June 1978. Though the prices now offered for these items were higher than those offered in February 1978, these items were covered in July 1978 along with 9 other items. The earlier offer for the identical stores made by the same firm in February 1978, which was still valid, was, however, not linked by the Supply Wing. Thus, had the requirement of the 3 common items of stores as projected in the latter indent 'B' been linked with that of the earlier indent 'A', an extra expenditure of £ 8,063.91 (Rs. 1.21 lakhs) would have been avoided.

(iii) *Procurement of plate bottoms.*—In November 1976, the Air Headquarters raised indent 'C' on the Supply Wing, projecting an urgent requirement of 121 numbers of plate bottoms (aircraft spares). Another indent 'D' was raised in December 1976 on the Supply Wing for 246 numbers of plate bottoms and this indent did not contain information about the earlier indent. The Supply Wing also did not correlate the common items contained in these indents. As a result, separate procurement actions were taken on the 2 indents for the same item.

Against indent 'C' (of November 1976), the proprietary firm's offer of £ 150.07 each for 121 numbers was received in January 1977, valid till 13th March 1977. Against indent 'D' (of December 1976), the same proprietary firm quoted (March 1977) a higher price of £ 164.09 each for 246 numbers. The firm's offer of January 1977 was not accepted immediately. Instead, the firm was approached (February, March 1977) to accept a still earlier price of £ 130.51 each and to extend the validity of the offer till 12th April 1977. As its original offer of January 1977 was no longer valid and as it had already quoted new price for identical stores in March 1977 (against indent 'D'), the firm revised (May 1977) its price upward against indent 'C' also to the same level as in March 1977.

The stores against both indents were, thus, procured at —£ 164.09 each in two separate contracts in June 1977 and August 1977. Thus, delay in accepting the quotation of January 1977, besides non-bulking of the requirement, resulted in an extra expenditure of £ 5,145.00 (Rs. 0.77 lakh).

10. *Progressing of deliveries.*—It was noticed in test check in audit that in nearly 210 out of the 416 cases scrutinised, the suppliers had not



adhered to the delivery schedules specified in the contracts. In 63 cases the deliveries had lagged behind by not less than 3 months (in 38 of them by more than 6 months). Progressing of various contracts, *i.e.* watching of actual deliveries and its despatch to consignees, not not adequate. The supply Wing state (March 1979) that because of shortage of staff it could not attend to this work.

In September 1979, the Indent Processing and Progress Cell was disbanded and merged with the Computer Cell, which was directed to plan/take over progressing work of all the Purchase Directorates. The Supply Wing stated (February 1980) that the results of this experiment were being watched. The Ministry of External Affairs stated (October 1980) that they were fully seized of the importance of proper progression of delivery and were endeavouring to rectify the situation.

11. *Working of Computer in Supply Wing.*—With a view to achieving better efficiency, a computer was installed in Supply Wing in December 1976. No advance planning was done in regard to :

- the items which were to be computerised;
- detailed study of the existing system to identify difficulties; and
- designing of computerised system by laying down (1) functions, specifications of inputs, outputs, computer files, etc., (2) processes of checks to be exercised by computer and those to be done manually and (3) coding of various items like indentors, suppliers, consignees, etc.

Even System Analysts, Programmers and a Computer Operator were posted only in August 1977, January 1978 and July 1978 respectively and thus for several months the computer could not be utilised. As expenditure of £ 80,700 (Rs. 12.91 lakhs) including the cost of equipment was incurred on computerisation up to October 1978. The recurring expenditure on operation and maintenance worked out to £ 48,000 (Rs. 7.68 lakhs) per annum. The computerised system was stated (January 1979) to be operational from October 1978.

The activities of the Supply Wing expected to be taken up on computer were 'indent processing', 'contract progression', 'shipment processing', 'freight and payment progression' and 'discrepancy report progression'. The computerisation done so far (October 1980) had been limited in scope. A coding structure, which would identify an item of store unambiguously and could have been evolved in advance, had not yet (October 1980) been evolved. The details of items indented were not entered in the computer files at the indent processing stage. Consequently, it would not be possible to get from the computer item-history showing last purchase price, supplier

details on similar past transactions, locating items in the pipeline to ensure suitable bulking, etc. The Supply Wing stated (February 1980) that the functions of consolidating similar indents and checking last purchase price could not be undertaken without 'coding' of each item, which exercised was not possible for the Supply Wing to do unilaterally without the collaboration of all end-users in India.

Even in the limited work done by the computer, it was observed in audit that the recording of data was not complete. While all the indents were taken on the computer, all the contracts were not and only those against normal indents were being taken for processing. Further, only despatches by sea were taken and not those by air. Even in respect of despatches by sea, only those from the ports in the country where the Supply Wing was situated were taken. The Supply Wing stated (February 1980) that these deficiencies were being remedied.

In January 1980, the computer started printing out a monthly report (titled "Indent Coverage Report") showing all outstanding and partially-covered items, for the information of all concerned. This report was expected, *inter alia*, to help the Purchase Directorates to carry out progression work, but the Supply Wing conceded (September 1980) that the computer itself could not achieve progression of contracts, but could only throw up data, whereafter the concerned agencies had to pursue the matter vigorously, for which purpose the staff strength had to be augmented.

It would be observed from the above that no advance planning was done before the introduction of the computer in December 1976 and that the computerisation of various activities done so far (October 1980) has not resulted in:

- any reduction in the indent processing time,
- improvement in purchase procedure and economies in purchase by bulking similar items,
- better progressing of contracts including speeding up of deliveries and inspections, and
- better control over outstanding payments of cost and freight claims and discrepancy reports.

The Ministry of External Affairs stated (October 1980) that the computer operations were under review and that the strength of the staff of the Supply Wing had since been fixed at 85 as against the earlier strength of 114.

12. *Miscellaneous cases.*—A few specific cases of losses arising out of certain omissions like non-enforcement of condition of contract, placing of overlapping orders and inadequate progressing of contract, involving extra expenditure aggregating Rs. 80.50 lakhs are mentioned in Annexure II.

13. *Situation in 1979-80.*—The deficiencies mentioned in subparagraphs 1 to 12 above were reported to the Ministries of External Affairs and Defence in October 1979 and again in April 1980. In order to ascertain the extent to which the deficiencies already pointed out were still persisting 216 contracts (171 high-value contracts of £ 7,500 or above each and 45 others) valued at £ 10.6 million (Rs. 19.11 crores) pertaining to the period October 1979 to May 1980 were scrutinised in audit during February—July 1980 and it was found that such deficiencies were mostly persisting. The types of deficiencies noticed are mentioned in Annexure III.

14. *Streamlining of purchase operations.*—Explaining inordinate delays in processing tenders, placement of contracts, inspection, shipping, etc., the Supply Wing stated (September 1979) as follows:—

“...Audit have already been made aware on numerous occasions informally as well as in correspondence while replying to audit objections, etc., of the critical shortage of staff existing in the Supply Wing over a prolonged period. Added to this has been the perpetual problem of having to work with the inexperienced hands at the operational level...”

In October 1980, the Ministry stated that:

“The Committee of the Secretaries on the Internal Affairs has recently reviewed the staff requirements of various wings of the High Commission of India, London. Accordingly, the revised strength of the Supply Wing has been fixed at 85 as against the previous strength of 114. This has been done after careful assessment of the work-load and keeping in view the functional effectiveness of the Supply Wing. It is hoped that once the indentors start doing their job properly and computer undertakes the functions envisaged for it at the time of the installation, the strength of 85 now fixed will be more than adequate to handle effectively the entire work of the Supply Wing. As regards the inexperienced hands, it may be pointed out that all the Purchase/Inspecting Officers in the Supply Wing are technically qualified and have adequate experience in handling similar jobs in the Ministries of Defence/Supply (DGSD)”.

The Ministry of External Affairs added that while the functioning of the Supply Wing had been found deficient in certain respects, the indentors were responsible for most of the lapses and consequent losses pointed out by Audit. The Ministry of Defence did not offer their comments on the major issues raised in this review.

15. *Summing up.*—The following are the main points that emerge:—

- there were long delays in finalising contracts, although bulk of the contracts were placed within the country where the Supply Wing is situated;
- in a large number of cases, the invitation of quotations and/or placement of contracts were delayed, even though the indents were supported by proprietary article certificates and only a single source of supply had to be tapped;
- a very large proportion of cases, in which the placement of contracts was delayed, had been classified as operational or urgent by the indentors;
- there were considerable time-gaps between the delivery schedules as envisaged by the indentors and those actually contracted for; this was so even in many operational|urgent cases;
- to a very large extent the over-all delays were caused by inadequate provision of foreign exchange, arising out of faulty estimates of likely prices and consequent references to the indentors;
- in many cases references which had to be made to the indentors on technical matters also contributed to the delay;
- there were deficiencies in the information/documentation accompanying indents, in matters like previous references, past prices, basis for estimated prices, and even drawings and specifications ;
- there were delays in the Supply Wing in arranging for inspections and/or issuing inspection notes, in the shipment of stores ready for despatch, and in payments of cost of stores ;
- apart from the direct financial implications of delayed procurement action, the long delays in the acceptance of quotations (and also in inspection, shipment and payments) in an inflationary market was likely to result in marking up of the

quotations, thus having still greater financial repercussions on the purchase operations as a whole ;

- there was no organised system in the Supply Wing to evaluate the reasonableness of the prices quoted ;
- there were omissions in the matter of bulking closely-occurring demands for similar stores, both at the indentors' end and in the Supply Wing ;
- in 27 cases referred to in the review, there was an avoidable extra expenditure of Rs. 98.52 lakhs due to delay in procurement action, non-bulking of indents, non-enforcement of conditions of contract, etc. ;
- the progress of deliveries against finalised contracts was not generally being watched in the Supply Wing ; and
- no advance planning was done in regard to computer operations before the computer was installed in 1976 (cost: Rs. 12.91 lakhs and recurring cost Rs. 7.68 lakhs per annum from October 1978.) to achieve better efficiency.

## ANNEXURE I

(Sub-paragraph 7)

(a) *Index numbers of wholesale prices*

1975—100

*Price indices of materials purchased by broad sectors of Industry**Materials and fuels purchased by the*

	1	2	3	4	5	6	7	8	9	10	11
		Manufacturing industry	Chemicals and allied industries	Steel industries	Non-ferrous metal industries	Mechanical engineering industries	Electrical engineering industry	Electrical machinery industry	Radio and electronic components industry	Electrical goods industries not elsewhere specified	Shipbuilding and marine engineering industries
1976 (average)		127.0	121.9	123.9	129.2	121.0	122.6	119.8	118.8	121.0	118.0
1977 (average)		145.6	140.7	140.3	143.5	140.2	140.3	138.6	138.5	140.9	136.2
April, 1978		145.1	145.9	145.0	140.3	151.6	146.9	148.5	147.7	148.7	147.4
April, 1979		160.6	175.2	158.4	179.4	167.6	170.7	166.9	167.6	169.8	162.4
April, 1980		202.4	220.5	190.6	185.4	188.5	194.3	190.8	202.7	193.5	718.3

ii. Index of average earnings of all employees

January 1976=100

Manufacturing Industries

	Whole economy	All manufacturing industries	Chemicals and allied industries	Metal manufacture	Mechanical engineering	Instrument engineering	Electrical engineering	Ship-building and marine engineering	Vehicles	*Metal goods not elsewhere specified
1977 (average)	115.6	117.1	116.2	119.2	117.6	118.0	116.4	114.6	113.9	119.1
April 1978	127.2	132.2	126.5	141.2	132.9	136.0	136.7	130.7	141.1	134.0
April 1979	144.3	149.7	146.6	154.6	151.4	155.5	147.1	144.7	144.9	152.3
April 1980	174.8	176.7	174.2	170.5	179.3	179.6	178.7	164.9	174.2	179.8

Source : Monthly Digest (July 1980) published by the Central Statistical Office, Government of United Kingdom, London.

## ANNEXURE II

(Referred to in sub-paragraph 12)

(1) *Loss of Rs. 72 lakhs on account of non-enforcement of conditions of contract.*—The Supply Wing placed (November 1971) a contract for 20,000 pieces of an ammunition on firm 'V' to meet an immediate operational requirement. The supply was made within the stipulated time and was found satisfactory.

According to the option clause as altered by an amendment dated 2nd December 1971 and also with reference to quantitative amendments dated 4th July 1973 and 7th August 1973, the supplier had to supply a further quantity of 10,000 pieces of ammunition within 6 to 12 weeks at the cost of DM 23.60 lakhs (Rs. 72 lakhs). The additional quantity, duly supported by the Ammunition Acceptance Report of the Inspector of the Defence Forces of the country of manufacture, was supplied in two batches on 1st August 1973 (9,100 pieces) and 6th March, 1974 (900 pieces). The warranty period for these supplies as per the contract was valid up to September 1978 and April 1979 respectively.

The Supply Wing could not associate itself at various stages of production of the ammunition (as the lots had been manufactured in 1972 prior to the issue of the amendments to the contract); and the stores were also not inspected by the Supply Wing before shipment. The Ministry of Defence intimated the Supply Wing in June and August 1975 that the check-proof results of the ammunition revealed that the screening effect was not satisfactory; and that the ammunition was not acceptable. This position was brought to the notice of the supplier by the Supply Wing in June 1975 and again in July 1975 and the latter was asked to replace 10,000 pieces of defective ammunition free of cost, according to the warranty clause of the contract. The matter was not pursued after August 1975 and the firm stated (November 1976) that the store had been shipped after trials and inspection conducted by the technical inspectors concerned and that its technical representatives would discuss the performance results during their proposed visit to India.

The technical representatives of the supplier had visited India in November 1977 (after a lapse of one year) and were convinced about the defect. However, as no further communication had been received from the supplier, the Ministry of Defence asked the Supply Wing in December 1978 to contact the supplier at the appropriate level, and to do the needful for replacing the defective ammunition. The Ministry of Defence also asked the Supply Wing on 5th March 1979 to explore the possibility of initiating legal action against the supplier and to examine the question of enforceability of the claim with reference to the provisions of the warranty clause



of the contract and the English laws applicable to the contract. The warranty period had expired in April 1979. The Ministry of External Affairs stated (October 1980) that they had advised the Ministry of Defence against the proposed legal action against the supplier in view of certain likely political implications.

(ii) *Procurement of aircraft tanks.*—The Air Headquarters sent an indent to the Supply Wing in May 1978 for purchasing 26 items of spares for an aircraft on urgent basis. The stores were proprietary to firm 'P'. On receipt of offer in August 1978, 16 items were contracted with firm 'P' during the same month. In it, an item of aircraft tank was contracted at an unit price of £1210 for 9 numbers.

Subsequently, in November 1978, the Supply Wing invited quotations for the left over items of tank group from two other known manufacturers 'Q' and 'R', who were the sub-contractors of the proprietary firm 'P'. In it the item already covered in August 1978 was included with a view to cancelling it from the contract of August 1978, in case low offers were received. But at that time, in fact, an offer of firm 'R' for the said item at £830.63 each in response to yet another tender enquiry, was already with the Supply Wing which it did not link.

On receipt of offers from the firms Q and R, order was placed on firm 'R' in January 1980 for 9 numbers of the item in question @ £830.63 each. But no action was immediately taken to cancel the corresponding item of stores from the contract of August 1978 with firm 'P'. Firm 'P' delivered 7 out of 9 numbers of the said item between January 1979 and March 1979.

The fact of duplication of order was pointed out by the indenter in March 1979 and firm 'P' agreed to cancel only 2 numbers of the item which had not then been delivered. Accordingly, 2 numbers were cancelled from the contract with the firm 'P' and 7 were cancelled from the cheaper contract with firm 'R'.

Thus, due to delay in inviting quotation from the two known sources, non-linking of quotations received for identical stores and delay in cancelling the duplicate order, an extra expenditure of £2656.00 (Rs. 0.42 lakh) was incurred.

(iii) *Procurement of starter generators and Voltage Regulators.*—Based on the demand of Naval Headquarters raised in September 1970, the Supply Wing concluded two contracts with a foreign firm 'W' in January and September 1971 for the supply of 7 starter generators and 4 voltage regulators at a total price of Lire 41 lakhs for delivery by June 1972. Although the stores, were ready for delivery in June 1972 and despite telex references from firm 'W' in April 1973 and June 1973 for issue of proper despatch

instructions, the Supply Wing did not issue the same. Firm 'W' then cancelled the contract in December 1973. However, the Supply Wing was not aware of the fact of the cancellation; it was stated that the concerned telex was not received by the Supply Wing. Due to inter-departmental transfer of records in the Supply Wing, no action was taken from December 1973 to July 1975.

At the request of the indenter, the Supply Wing took up the matter regarding delivery with firm 'W' in August 1975, when the latter came out with the fact of cancellation of the contract and furnished copies of telex references made earlier. After persuasion, the firm agreed (March 1977) to supply similar stores at a total cost of Lire 96.48 lakhs, thus leading to an extra expenditure of Lire 55.48 lakhs (Rs. 0.58 lakh). The Ministry of External Affairs stated (October 1980) that the indentors and the Supply Wing were being instructed to be more careful in future.

(iv) *Procurement of an aircraft engine spares.*—On receipt of clearance in September 1976 for importing certain spares of proprietary nature for an aircraft engine, the Air Headquarters floated two urgent indents in favour of the Supply Wing, indent 'M' in March 1977 for 157 items and indent 'N' in May 1977 for 3 items. Both the indents had two items in common, but the indenter neither bulked the requirements himself, nor gave any indication of it in the latter indent for enabling the Supply Wing to correlate the indents at the procurement stage. As such, the two indents were processed separately. On receipt of the offer of one of the proprietary firms 'Y' in May 1977, indent 'M' was partially covered (including the two common items) in December 1977 after obtaining additional foreign exchange from the indenter.

In respect of indent 'N', the Supply Wing decided (October 1977) to invite further quotations from two stockist firms ('X' and 'Z') as the prices quoted by the proprietary firm 'Y' in July 1977 for all the 3 items were considered high. The offer of firm 'X' was the lowest. The indenter was approached in November 1977 to consider the lower price offered by the stockist firm 'X'. The Supply Wing further informed the indenter in January 1978 and February 1978 about the comparative prices offered by the firms (including the lowest offer of the stockist firm 'X') favourable delivery schedule offered by the firm 'X', (7 to 8 months against manufacturer's 18 months) and its offer to cover the stores by the required quality assurance certificates. Nevertheless, the indenter advised the Supply Wing in February 1978 to procure the stores as per his revised requirement from the manufacturer. Accordingly, indent 'M' was also covered in March 1978 at the higher price on firm 'Y' at extra cost of £46.824 (Rs. 7.50 lakhs).

The Ministry of Defence conceded in February 1980 that the procurement of those items from the stockists would not have made any material

difference, as the items were metallic in nature and their storage with stockists would not have substantially altered their category, and that the prices, if comparable, should have been the main consideration, as the manufacture was the same. The Ministry clarified that the fact that the items offered by the stockist firm 'X' were of firm 'Y's manufacture had not been intimated by the Supply Wing to the indenter.

## ANNEXURE III

(Referred to in sub-paragraph 13)

1) The Supply Wing took more than 4 months from the date of receipt of the indents to finalise 145 out of the 216 contracts (67 *per cent*); out of these, in 46 cases the delay was between 8 to 12 months and in 28 cases it was more than one year.

(ii) Out of the 216 cases test-checked, 81 were classified as operational or urgent. Out of these 81, 53 cases (65 *per cent*) took more than 4 months to be finalised (13 cases took more than one year). In 31 out of the 81 operational/urgent cases, the Supply Wing took more than a month to call for quotations (from 1 to 3 months in 20 cases, from 3 to 6 months in 8 cases and more than 6 months in 3 cases).

(iii) In 115 out of the 216 cases checked, delays of one month or more occurred in calling for quotations; in 49 of these cases, the stores were proprietary items. Among the 115 cases thus delayed, in 25 the time taken was 3 to 6 months and in 15 it was more than 6 months.

(iv) Out of the 216 contracts test-checked, in 64 cases references to the indentors for securing additional foreign exchange had to be made. Out of 216 contracts, in 62 cases references had to be made to the indentors in technical matters and in 42 cases regarding the acceptability of quoted prices for reasons other than the provision of foreign exchange.

(v) Among the 216 contracts test-checked, the time- in obtaining foreign exchange release after securing technical clearance was 2 to 6 months in 38 cases and 6 to 12 months in 22 cases; the time-lag in processing indents, after obtaining foreign exchange, was 1 to 3 months in 56 cases, 3 to 6 months in 13 cases and over 6 months in 7 cases.

**APPENDIX - II**

Category-wise break-up of staff employed in the Supply Wing, London during 1978-79, 1979-80 and 1980-81 .

	1978-79		1979-80		1980-81	
	I-B	Loc	I-B	Loc	I-B	Loc
1. D.G.	1	..	1	..	1	..
2. DDG	2	..	2	..	2	..
3. DPs/FS	6	..	9	..	7	..
4. ADP	6	..	8	..	8	..
5. Att/H	4	..	5	..	1	..
6. L.O.	..	..	1	..	..	..
7. E.O./Jr. Asstt.	..	19	..	..	..	3
8. T.O.Gr.I.	2	..	2	..	1	..
9. T.O.Gr. II	4	2	2	2	..	2
10. T.O. Gr. III	4	3	2	2	2	2
11. PAs/Stenos	7	18	7	20	10	8
12. SAS	..	..	4	..	3	..
13. Tech. Asstt.	..	..	..	1	..	1
14. Asstt.	14	..	18	..	11	..
15. Auditor	..	..	1	..	..	..
16. Clerk/Typist	11	10	11	3	2	3
17. Sr. Asstt.	..	..	..	..	..	4
18. Programmer	..	..	2	..	2	..
19. Como. Opr.	..	..	..	1	..	..
20. DDE Opr.	..	..	..	3	..	3
21. Tlx Opr..	2	..	1	..	1	..
22. Messenger	..	5	..	4	..	3
23. Ronco Opr.	..	1	..	1	..	1
24. Photo Printer	..	1	..	1	..	1
25. Chauffeur	..	1	..	..	..	..
26. Edit Staff	..	..	..	..	..	2
	<b>63</b>	<b>60</b>	<b>77</b>	<b>37</b>	<b>52</b>	<b>33</b>
<b>Total</b>	<b>123</b>			<b>114</b>		<b>8</b>

### APPENDIX III

#### STATEMENT OF OBSERVATIONS AND RECOMMENDATIONS

Sl. No.	Para No.	Ministry/ Department concerned	Observations & Recommendations
1	2	3	4
1.	1.31	Ministry of External Affairs	<p>The Supply Wing of the Indian High Commission in London makes purchases for the Government of India, State Governments, autonomous bodies etc. and also arranges for inspection of the stores and their shipment. In recent years more than 90 per cent of these stores represented defence purchases. The control over the Supply Wing was transferable from the Department of Supply to the Ministry of External Affairs in April 1975 on the ground that "the indenting departments were not satisfied with the existing arrangements and desired a new set up accountable to them, if not directly, at least indirectly through a department other than the Department of Supply. It was felt expedient to vest the administrative control of the ISM with the Ministry of External Affairs as all general questions in Parliament relating to our establishments abroad have to be answered by this Ministry."</p>

2. 1.32 -do-

The Committee understand that the long term objective defined by the Committee of Secretaries in April 1975 was "the winding up of the Supply Missions in London and Washington, while certain functions, which consistent with the requirements of efficiency and economy could not be undertaken in India will be retained by the High Commission/Embassy."

1	2	3	
3.	1.33	-do-	<p>According to the Ministry "this long term objective is yet to be realised; meanwhile transfer of all possible work within the parameters of efficiency and economy and national interest, re-formulation of and adaptation of existing governmental regularations and procedures to enable the handling of the Supply Wing work from India is under way.</p>
4.	1.34	-do-	<p>The Committee understand that as a follow up of the directive issued by the Prime Minister for reducing the staff in the Supply Wing, the strength has been successively reduced from 123 in March, 1979 to 114 in 1979--80 and 85 in 1980-81.</p>

5.	1.35	Ministry of External Affairs/Defence	<p>From the material made available to the Committee and the evidence tendered before them by the representatives of the Ministries of External Affairs, Defence and Supply, the Committee find that the working of the Supply Wing, London has been hamstrung by problems of coordination on the one hand and want of sufficiently qualified technical staff on the other. In a review of the working of the ISM, London carried out by the Chiefs of Staff Committee in February, 1980, it was pointed out that the unsatisfactory functioning of the ISM, London was adversely affecting the operational preparedness owing to non-availability of vital spares and components for equipment of UK and European origin. The Chiefs of Staff Committee came to the conclusion that "the ISM was not responsive to the needs of the Services/Head-quarters so much so that the number of pending indents had been increasing progressively and a large number of indents were being unilaterally cancelled or returned." The Ministry of External Affairs have attributed the present situation to the fact that the Supply Wing have allowed</p>
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the various indening Departments from India to burden them with additional and avoidable tasks which should be outside the purview of their normal functions. The Ministry of Defence on the other hand are of the view that the staff in the Supply Wing lacks expertise, experience and Defence background to appreciate the defence requirements and therefore requires re-vamping.

6. 1.36 Ministry of External Affairs/Defence

In the later sections of this Report, the Committee have highlighted the inordinate delays in procurement of stores by the Supply Wing due to various factors which have inhibited its functioning. It has been admitted that one of the reasons for inefficient performance of the Supply Wing is lack of proper coordination between the indentors and the Ministry of Defence on the one hand and between the Supply Wing and the Ministry of Defence on the other.

7. 1.37 -do-

The Committee understand that as a follow up of the criticism by the Chiefs of Staff Committee, the Ministry of External Affairs deputed a team of four officers in January, 1981 to study the functioning of the Supply Wing and to suggest measures to improve its efficiency. The team is stated to be of the considered opinion that a gradual phasing out of the workload of the Supply Wing and only very minimum of functions left to it, is necessary and will be conducive to the better and more efficient functioning of the Supply Wing. It would also ensure better servicing of the defence and civilian supply needs of the country. One of the important recommendations of the study team is the setting up of two indenting Cells in India—one under the Ministry of Defence and the other under the Ministry of Supply



to handle most of the contractual work. The Report of the team of officers visualises setting up of a Foreign Stores Procurement Cell under the aegis of Ministry of Defence for receiving and processing indents of defence and civil indentors directly from suppliers abroad. Only such indentors would be cross mandated to the Supply Wing as are of urgent operational nature or where efforts to place orders on foreign suppliers directly from India have failed. The Cell would also maintain data bank on information regarding latest prices, market trends etc. The Supply Wing, London would consequently be converted into a Liaison Cell/Directorate with a staff of about 20 people. The Liaison Cell/Directorate in London would undertake market surveys and analysis of all specified items and would be sending monthly reports to the two Cells in the respective Ministries in India, and render such assistance as may be required in locating sources of supply of obsolete items or such other items which the indenting cells have failed to obtain. It would also undertake inspection of stores if so required and monitor the contractors on request in case of breakdown of communications between the indentors in India and the foreign suppliers.

The Committee observe from the foregoing that the objective of transferring the control of the Supply Wing from the Ministry of Supply to the Ministry of External Affairs has not been achieved and that it has in no way resulted in any improvement in the efficiency of the Supply Wing.

The evidence tendered before the Committee has revealed basic divergence of views between the Ministry of External Affairs and the Ministry of

8. Ministry of External Affairs

1-38

9. Ministry of External Affairs, Defence

1-39

Defence with regard to the future set up of the Supply Wing. The Ministry of External Affairs consider it necessary to divest the Supply Wing of all functions with regard to placements of indents, their monitoring etc. which they feel can be better handled by the indentors themselves in India through the mechanism of the Foreign Stores Procurement Cell referred to above. The Ministry of Defence who initially welcomed the proposal, have found on detailed examination that "creation of such a coordination Cell would unnecessarily introduce an additional level of scrutiny resulting in further delay. The creation of such a Cell would, therefore, be redundant."

10. 1.40 The Ministry of External  
Affairs/Defence/  
Cabinet Sectt.

In view of the dissatisfaction voiced by the Chiefs of Staff Committee about the present arrangements and also considering that over 90 per cent of stores procured through Supply Wing, London are defence stores, the Committee are of the opinion that it would be desirable if the Ministry of Defence themselves assume responsibility for their procurement from abroad. The question that needs to be considered is to what extent these functions can be discharged through the mechanism of the Foreign Stores Procurement Cell proposed to be set up under the aegis of the Ministry of Defence so that the Supply Wing in London can be divested of all such jobs which can better be done in India. The Committee desire that a decision on the suggestion to allow the indenting Ministries to receive and process indents directly through the Coordination Cells-one in the Ministry of Defence and the other in the Ministry of Supply and monitoring of contracts, delivery schedules, shipment schedules etc. through these Cells should be taken without further delay so as to put to end the present state of uncertainty about the future of the Supply Wing. The Committee would urge that the

details of transfer should be worked out by the Committee of Secretaries and necessary reorganisation of the Supply Wing, London effected without further loss of time. The Committee would like to be apprised of the precise decisions taken in the matter.

11. 2.28 The Ministry of External Affairs/Defence.

The Committee find that of an average of 8080 indents during the three year period 1976-77 to 1978-79 received by/pending with the Supply Wing, as many as 2288 indents have had to be carried forward at the end of the year. A test-check in audit has revealed that out of 416 contracts examined by audit, only 153 contracts could be finalised within four months while the remaining 263 took between four months to over one year to materialise.

12. 2.29

-Do-

The information made available to the Committee has brought out the following disturbing aspects:

(i) There have been delays even in the matter of calling for quotations in respect of proprietary articles which are to be obtained from specified firms only. The delays have been attributed mainly to the additional and excessive workload which has accrued to the Supply Wing due to procedural errors in indenting leading to avoidable but protracted correspondence.

(ii) In a large number of cases, back reference had to be made to the indentors on technical matters since the indents were not complete in all respects. Some of the common lacunae noticed are—last purchase price not mentioned; previous references and

probable sources of supply not given, basis for estimate, drawings and specifications and other technical details, proprietary article certificate not furnished etc. etc.

A sample study made by the Ministry at the instance of the Committee shows that the percentage of incomplete indents ranged between 23 to 26 per cent of the number of indents received during the months of January 1979, 1980 and 1981, i.e. on an average 25 per cent of the indents were lacking in necessary details. This involves processing of one indent at several stages over and over again thereby increasing the burden on the staff of the Supply Wing.

(iii) Delays in getting the necessary foreign exchange released have also been found responsible for delays in processing the indents. In a large number of cases, indentors base their estimates either on contracts/supplies made very far back in time or purely on *ad hoc* basis. Back references to the indentors in such cases become inevitable.

Ministry of External  
Affairs/Defence

2-30

13.

According to the Ministry of External Affairs, the delays in finalisation of contracts are due to faulty indenting and procedural errors on the part of indentors in India and poor all-round coordination. Disagreeing with this analysis, the Ministry of Defence have opined that while there might be some odd cases of faulty indenting, the delays in finalisation of contracts are primarily due to lack of expertise in the Supply Wing, London to understand the criticality of Defence requirements.

The Committee are concerned to find that even though the various deficiencies noticed by Audit were reported to the Ministries of External Affairs and Defence in October, 1979 and again in April, 1980, there has been no improvement in the situation. A further study made by audit in respect of 216 contracts during February-July 1980 revealed that the same deficiencies were mostly persisting. This underscores the imperative need for revamping the organisational set up of the Supply Wing.

-do-

2.31

14.

It is disconcerting for the Committee to note that over 2200 out of an average of 8000 indents received every year by the Supply Wing have to be carried forward for want of experience and qualified staff. Repeated requests of the Supply Wing for qualitative and technical improvement of the staff have elicited the belated response that "a review is under way on the necessity of substituting IFS(B) personnel by technically qualified personnel with purchase experience."

-do-

2.32

15.

The Committee stress that while effecting changes in the organisational set up of the Supply Wing on lines proposed in the earlier paragraphs the Ministry should keep this aspect fully in view and provide the Supply Wing with the requisite qualified staff to enable it to discharge the role and functions that may be assigned to it in the revised set up.

-do-

2.33

16.

The Committee understand that the question of raising the powers of the Supply Wing to meet the foreign exchange requirements from 50 to 75 per cent in defence indents and from 10 to 33 1/3 per cent in Civil indents

-do-

2.34

17.

and from Rs. 5 lakhs to Rs. 15 lakhs as the overall limit is under consideration of the Committee of Secretaries. As this question is linked with the question of future set up of the Supply Wing, the desirability/necessity of raising the powers of the Supply Wing would need to be viewed in the context of the changes contemplated in its set up. The Committee expect that a decision in the matter would be taken keeping in view the need for eliminating delays in release of foreign exchange which account for inordinate delays in procurement of stores in a large number of cases.

18. Ministry of External  
Affairs/Defence

2.35

The test check in audit has revealed that extra expenditure to the tune of Rs. 11.88 lakhs had to be incurred in 20 cases on account of revision of quotations by firms because of delays from over 4 months to over 2 years in procurement action for various reasons. The Committee have no doubt in their mind that the number of such cases and the financial implications of delays involved in processing the indents are much more than have come to surface. The Committee would like to point out that apart from the direct financial implications of delayed procurement action, a more disturbing aspect of the situation is the natural tendency on the part of the suppliers to jack up prices so as to provide a cushion in a highly inflationary situation.

19. 2.36 -d0-

The Committee find that there have been wide variations in the prices estimated by indentors and those actually secured. In the case of large value items such as air-crafts-spares, the price differential was found to be as high 215 per cent in case of aeronautical engineering stores it was 184 per cent; in case of engineering stores it was 227 per cent while in case of refrigeration and airconditioning spares it was as high as 376 per cent.

20. 2.37

-10

The Committee regret to observe in this connection that there is no organised system in the Supply Wing to evaluate the reasonableness of the prices quoted. The Committee urge that the matter should be looked into without delay and necessary action taken to remove this deficiency in the system. The Committee expect that adequate and properly qualified staff would be provided to the Supply Wing to study the market trends and gather relevant data for feedback to the indentors in India.

21. 3.9

-do-

The Committee find that an inordinately high percentage of indents placed with the Supply Wing is marked urgent/operational by the indenting Department in the Ministry of Defence—the percentage of such indents being 72 in 1978-79, 69 in 1979-80, 68 in 1980-81 and 65 in 1981\*82. Such indiscriminate marking of indents as urgent/operational makes it virtually impossible for the Supply Wing to accord priority to all of them because of constraints of staff. The Committee are concerned to find that even in such cases, the average time taken in procuring the supplies varies between four to seven months. The representative of the Ministry of Defence, therefore, argued in evidence before the Committee that one of the reasons for the high percentage of indents marked as 'urgent of operational' is the slow pace at which the supplies become available. While the Committee appreciate that in certain situations it may become necessary to meet the requirements of defence stores on an emergency basis, they would like to point out that indiscriminate marking of indents as urgent or operational defeats the very purpose of doing so and it is therefore neces-

sary to exercise effective check over this tendency. The Committee consider that the system of forecasting the requirements of defence stores and equipment particularly in respect of spares, needs to be revamped. The Committee would, therefore, urge the Ministry of Defence to tighten up and streamline the system of assessing the requirements of supplies from foreign countries. The Committee would like to be apprised of the precise steps taken in this direction.

The audit paragraph has given details of three cases which together entitled avoidable extra expenditure to the tune of Rs. 6.14 lakhs on account of non-bulking of indents by the indentors. Similar cases of extra expenditure were reported by the C&AG in the Audit Report (Defence Services) for the year 1977-78. The Committee find that there is a sharp divergence of views between the Ministry of External Affairs and the main indentors viz. the Ministry of Defence on this question. While the Ministry of External Affairs are of the view that the primary responsibility for bulking of indents is that of the indentors, the Ministry of Defence feel that bulking of requirements is a procurement function. According to the latter, the possibilities of bulking are very remote because each indent is dedicated to a particular type of equipment or weapons system and might contain as many as 100 to 150 items. During evidence the representative of the Ministry of Defence expressed the view that apart from the remote possibility of bulking of indents, "the economy that would flow from this sort of bulking of two or three items would be more than off-set by the amount of effort which would be necessary in this regard." However, instructions have been issued to the effect that adequate care should be taken by the respective service headquarters to ensure that requirements of similar items being procured by them are bulked.



23. **3.21** -do- **3** Considering the large variety of items and the scale of requirements of the Defence Services in particular, the Committee are inclined to agree with the Ministry of External Affairs that it is not possible for the Supply Wing to compare and tally all the items contained in about 4000 annual indents received by them and that such coordination can only be done in India at the indentors' end. The Committee do not see any reason why it should not be possible for the three service headquarters to ensure bulking of indents in respect of items which have to be procured on an annual repetitive basis. The Committee consider that considerable economics can be achieved and better terms obtained from suppliers if adequate care is taken by the indenting departments to project their requirements in a coordinated manner. The Committee would therefore like all the major indentors, particularly the Ministry of Defence to ensure that indents are not placed for the same items at too short intervals and that the requirements of various items are bulked on an annual basis as far as possible. The Committee would like to be apprised of the precise steps taken in this direction and the results achieved.

24. **3.33** -do- **3** The audit para has highlighted the inordinate delays in issue of inspection notes by the Supply Wing despite the fact that in majority of the cases these are issued on the basis of guarantees, test certificates or release notes provided by the suppliers. This is again confirmed by the Report submitted by the Team of Officers deputed by the Ministry of External Affairs to study the functioning of the Supply Wing in September, 1981. On the basis of numerous complaints received from the major suppliers and a study of many relevant files, the team found that after the intimation of the readiness of stores for inspection had been received by the Supply Wing.

there was usually a delay of 2 to 3 months before inspection of stores was actually carried out. The resultant delay affects trade discount, future contractual prices and of course creates shortages in India. As the rejection of stores supplied by firms of international repute who have been tried and tested over a period of time by the Supply Wing, is only about 7 per cent of the stores inspected, the team has recommended that the stores can be accepted from such suppliers on the basis of suppliers' guarantee/inspection certificates.

The Committee are greatly concerned over the inordinate delays in issue of inspection notes by the Supply Wing and would like the matter to be looked into by the Ministry with a view to taking necessary remedial measures. They would also like to be apprised of the decision taken on the suggestion given by the team of officers for dispensing with the inspection requirement in respect of stores supplied by well established and reputed concerns.

25. 3-34 Ministry of External  
Affairs/Defence

The Committee are concerned to find that it takes roughly three to six months on the part of the Shipping Directorate of the Supply Wing to locate suitable vessels for shipment of stores to India resulting in loss of trade discount as well the goodwill of the supplier who has to incur avoidable expenditure on storage and has to wait for longer periods for reimbursement of his finances. In such a situation the suppliers could also mark up the prices for fresh contracts.

26. 3.35 -do -

The Committee find that the system of appointing shipping agents was discontinued in 1976 when it was found that the agency commission being charged by the various shipping agents was too high. Since then the work is being done departmentally. The Ministry are stated to be of the view that the Indian carriers viz. the Shipping Corporation of India, the India Steamship Company and the Scindia Steamship Company besides Air India are adequate for meeting the situation in case of non-hazardous and non-explosive cargo. Difficulties arise in respect of hazardous cargo when it takes longer to locate suitable vessels.

27. 3.36 -do -

The team of officers has pointed out that in most cases the defence supplies except hazardous consignments, are air-freighted through Air India and critical defence stores are periodically air-lifted by special courier flights. Since air freight will, in any case, be much more than the sea-freight, the Committee recommend that the air lifting of Defence stores should be restored to only in exceptional cases. They consider that as far as possible Indian flag vessels should be used for all stores to be imported into the country and that with advance planning, it should be possible to locate Indian flag vessels for a shipment of defence stores. The Committee would also urge that the reasons for delays on the part of Shipping Directorate to locate suitable vessels for the shipment of stores to India should be examined critically by the team of officers and necessary steps taken to get over the problem in consultation with the Ministry of Shipping and Transport.

28. 3.45 -do -

A computer (cost—Rs. 12.91 lakhs) was installed in the Supply Wing in December, 1976 with a view to achieving better efficiency in the proces-

ing of indents. Audit have, however, pointed out that no advance planning was done with regard to items which were to be computerised nor any detailed study was made to identify the difficulties. What is still worse is that no efforts were made to codify the various items to lay down in advance the functional specifications and the processes or checks to be exercised by computer and those to be done manually. Even the System Analysis, programmers and computer operator were posted at late as in August, 1977, January 1978 and July 1978 respectively. The Director EDP Systems in the Defence Research and Development Organisation in his report (September 1981) on the functioning of the computer in the Supply Wing, London has pointed out that the computer is at present loaded with routine, though important, functions and sufficient manpower has not been provided for coding/key boarding functions related to the computerised information system with the result that the data relating to the contracts have fallen in arrears. Contract amendments have not been carried out for over 18 months and consequently related reports from the EDP Directorate would not be up-to-date. The Report has emphasised the need for a computer system which will enable the building up of an integrated data base for the Supply Wing functions as well as for other wing/departments of the Indian High Commission. It has therefore been recommended that the High Commission should set up an integrated indent progress control system for use by the Supply Wing and that the computer should also support the Consular, Science and Defence Wings of the High Commission. It has further been recommended that other functions in the

High Commission such as accounts, pay rolls, library etc. should be computerised. The Committee were given to understand during evidence that action on the report has been pending in view of the on-going review with regard to the overall functioning of the Supply Wing. In a subsequent note, the Ministry have informed the Committee that the comprehensive report or the functioning of the Supply Wing, London (January, 1981) *inter alia* contained suggestions on the relocation of the Computer Cell in India is being considered by the Committee of Secretaries and that the Ministry of Defence are preparing paper incorporating the coordinated views of the three Services Headquarters on this subject. The Committee would like to be apprised of the decision taken in the matter.

29. 3.46 -do-

The Committee note with concern that currently the pay roll and expense recording and analysis system of the Indian High Commission in London is being got done by a service bureau outside at a cost of £ 1200 per month. As early as in 1979, the Minister (Supply) Indian High Commission, London had suggested that this function should be taken over by the Computer Wing with some marginal capital expenditure of around £ 3500. Thus, there would be recurring savings of at least £ 14400 per annum on this application alone.

30. 3.47 -do-

The Committee consider it extremely unfortunate that the computer facility procured at considerable cost has been allowed to be grossly under-utilised over the last six years. In the meantime, an extra expenditure of £ 14400 (Rs. 2.5 lakhs approx) per annum is being incurred on pay roll and expense recording of the High Commission by obtaining the services of an outside body. The Committee desire that the matter should be reviewed without further loss of time so as to ensure that the computer facility available in the Supply Wing is put to the optimum use.

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