

**UNECONOMIC PURCHASE OF ENGINES
FOR SHAKTIMAN VEHICLES**

MINISTRY OF DEFENCE

**(Department of Defence Production
and Supplies)**

**PUBLIC ACCOUNTS
COMMITTEE**

1991-92

TENTH LOK SABHA

**LOK SABHA SECRETARIAT
NEW DELHI**

SECOND REPORT
PUBLIC ACCOUNTS COMMITTEE
(1991-92)

(TENTH LOK SABHA)

UNECONOMIC PURCHASE OF ENGINES
FOR SHAKTIMAN VEHICLES

MINISTRY OF DEFENCE

(DEPARTMENT OF DEFENCE PRODUCTION
AND SUPPLIES)



Presented to Lok Sabha on _____

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LOK SABHA SECRETARIAT
NEW DELHI

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PART II*

Minutes of the sittings of the Committee held on:

24.10.1990

23.10.1991

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(1991-92)

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3. Shri K.C. Shekhar — *Under Secretary*

INTRODUCTION

I, the Chairman of the Public Accounts Committee do present on their behalf this Second Report on Paragraph 25 of the Report of the Comptroller and Auditor General of India for the year ended 31 March, 1988, No. 2 of 1989, Union Government-Defence Services (Army and Ordnance Factories) relating to Uneconomic purchase of engines for Shaktiman Vehicles.

2. The Report of the Comptroller and Auditor General of India for the year ended 31 March, 1988, No. 2 of 1989, Union Government-Defence Services (Army and Ordnance Factories) was laid on the Table of the House on 18 July, 1989.

3. The Committee's examination has revealed that right from 1982 when particulars were initially collected from the seven firms, till the placement of the order for supply of 2500 engines in February, 1985, a partisan attitude favouring firm 'A' was clearly evident both in approving the engine of the firm, though the user trials-the primary requisite for selection of the engine gave an edge to the engine of firm 'B' and in placing the order on the firm inspite of the fact that the offer of the firm was rated the lowest in ran king amongst the other two competing firms 'B' and 'C'. In the opinion of the Committee even thereafter inexcusable indulgence has been shown to this firm in the matter of payment of escalation charges to the tune of Rs. 87.51 lakhs so much so that escalation charges were paid to the firm even for the period of strike in the firm from 14th May, 1986 to 28th June, 1986.

4. The Committee have further found that as against the total leviabale liquidated damages of Rs. 22.71 lakhs, the Department levied only token liquidated damages amounting to Rs. 2.27 lakhs. According to the Committee the partisan attitude is further corroborated by the fact that despite the high rates and delay in supplies by firm 'A', a repeat order for 1148 engines had been placed on the same firm. According to the calculation made by Audit, the avoidable additional expenditure incurred in the procurement of 3648 engines from firm 'A' worked out to Rs. 6.16 crores when compared with the rate of the top ranking firm 'C'. In the opinion of the Committee all these facts give rise to the strong suspicion that firm 'A' has been unduly favoured even when better and cheaper alternatives were available. The Committee have, therefore recommended that the matter should be referred to the Central Bureau of Investigation without any further delay for conducting a detailed investigation of this deal with a view to fixing responsibility and taking corrective measures for obviating the chances of such recurrences, in future.

5. The Committee (1990-91) examined Audit Paragraph 25 at their sitting held on 24 October, 1990. The Committee considered and finalised the Report at their sitting held on 23 October, 1991. Minutes of the sittings from Part II* of the Report.

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

7. The Committee would like to express their thanks to the Public Accounts Committee (1990-91) for taking evidence on Paragraph 25 and obtaining information thereon.

8. The Committee would also like to express their thanks to the Officers of the Ministry of Defence (Department of Defence Production and Supplies) for the cooperation extended by them in giving information to the Committee.

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

NEW DELHI;
December , 1991

Agrahayana , 1913 (*Saka*)

ATAL BIHARI VAJPAYEE
Chairman,
Public Accountants Committee.

**Not appointed to the cyclostyled copies of the Report.

REPORT

The Report is based on Paragraph 25 of the Report of the Comptroller and Auditor General of India for the year ended 31 March, 1988, No. 2 of 1989, Union Government Defence Services (Army and Ordnance Factories) relating to Uneconomic purchase of engines for Shaktiman Vehicles, which is appended as appendix I.

2. Shaktiman Vehicles had been in production in a Defence Vehicle Factory from 1959 onwards and the composite production unit was started in 1972. The Factory had on an average been supplying 'X' number of engines annually. According to the Secretary, Ministry of Defence (Department of Defence Production and Supplies) in 1980-81 there was a quantum change and their indent for engines increased from 1980-81 onwards. The reason was that in 1980-81 the Army centralised the operations for calculating the requirements. It was also felt that the appropriate way of maintaining the vehicles would be to have a pool of engines. Engines at a fixed per cent of the estimated fleet strength were required to be pooled.

3. It is seen from the Audit Paragraph that demand for spare engines used in 3 tonne Shaktiman Vehicles could not be met in full by the Government Vehicle Factory responsible for its production. In January 1982, it was, therefore, decided to find an alternate private source of supply for indigenous engine for the Vehicle.

Supply of engines by the Vehicle Factory

4. Details of the demand for engines for Shaktiman Vehicles, placed on the Vehicle Factory during the years 1980 onwards and the actual quantity of engines supplied by the factory are as follows :

Year	Outstanding as on 1st April (Quantity in numbers)	Indents received during the year (Quantity in numbers)	Supplied during the year (Quantity in numbers)
1980-81	488	1604 (Recd. in 7/80)	150
1981-82	1942	1029 (Recd. in 12/81)	180
1982-83	2791	221 (Recd. in 9/82)	180
1983-84	2832	2129 (Recd. in 9/83)	180
1984-85	720	46	200
1985-86	566	—	200

* Indicated as Department elsewhere in the Report.

Year	Outstanding as on 1st April (Quantity in numbers)	Indents received during the year (Quantity in numbers)	Supplied during the year (Quantity in numbers)
1986-87	366	603	180
1987-88	789	211	250
1988-89	750	—	250
1989-90	500	750	200
1990-91	1050	—	166

(Till 8/90)

Action for finding an alternate source for engines

5. Subsequent to the decision taken in January, 1982 to find an alternate source for supply of engines, particulars were obtained from seven private manufacturers. On preliminary technical evaluation of these particulars, engines offered by two firms 'A' and 'B', were shortlisted for conducting trials. The performance parameters of the engines of both the firms were considered comparable. User trials gave an edge to the engine of firm 'B' and the test bed trial favoured that of firm 'A'. According to the Department, the primary requisite for selection is satisfactory performance in user trials and test bed trials are supplementary to user trials. The engine of firm 'A' was approved by Army Headquarters in December, 1983 for use on Shaktiman Vehicles and it was also decided to procure the engines through the Department of Defence Production and Supplies. While doing so, it was suggested that an alternate engine should also be specified for getting a competitive price. The number of engines to be procured from trade for the next four years from April, 1984 was worked out to be 4061.

6. The Department had then felt that the Army Headquarters had not followed the correct procedure in projecting their demand for the engine of a particular supplier. The audit para indicates that the Department had then felt that the correct procedure in such a case would have been to float an indent indicating the qualitative requirements, drawing up of specifications based on the qualitative requirement and issue of tender enquiry and placement of orders based on the offers received.

7. Asked about the reasons for not following the correct procedure, the Department have stated as follows :

“After a decision was taken to procure some quantity from civil sector and Department of Defence Supplies was nominated to take purchase action. Vehicle Factory placed an indent on Department of Defence Supplies for quantity 4061 Nos. cross mandating out of the Army's indents placed on them. The indent specified the engine ALEO-370 of firm 'A'. Since a Proprietary Article Certificate was not furnished by Vehicle Factory instead of issuing a single tender to firm 'A', it was decided to issue a limited tender for which Directorate of Quality Assurance (Vehicles) was asked to formulate broad specifications incorporating the required technical performance parameters. Therefore, there was nothing wrong in the procedure”.

8. Elucidating the position further, the Secretary of the Department stated as follows during evidence:

“We wanted to find out whether indigenous engines are available to repair Shaktiman Vehicles. So the Inspectorate of Vehicles were asked to look into it. A project approach was taken to begin with. Per-se there was nothing wrong in the project approach because it was one way of going about it. But when two engines surfaced and one engine was selected on technical parameters and after trials, the Department of Production and Supplies pointed out that this was not the best way of going about it and not a correct procedure. The correct procedure was felt to be calling for the open tenders”.

9. Asked as to why the question of augmenting the existing capacity of the Vehicle Factory to meet the increasing demand for engines was not considered, the Department have stated that a proposal was submitted by the Vehicle Factory in 1982 for augmenting the capacity for manufacturing Shaktiman spare engines. It was also envisaged that some components of the engine will also have to be imported involving recurring foreign exchange outgo.

10. According to the Department, in a production review meeting held by Secretary (Defence Production) on 25.3.1983, on the recommendations of Army Headquarters, it was decided not to augment the capacity of the Vehicle Factory for Shaktiman spare engines because by then it was clear that it would be possible to select alternate indigenous engine from the civil sector and also because of foreign exchange involved in implementation of the project.

11. In April, 1984, tender enquiries were issued by the Department to five Indian firms. After technical evaluation of the performance parameters claimed by tenderers, the ranking points allotted by the technical authorities to the products of three firms and the rates quoted by them were as under :

Sl. No.	Firm	Model	Ranking	Points allotted	Unit Rate in Rs.	Remarks
1.	'C'	'M'	I	34	34,309	Rates are inclusive of cost of installation kit and commercial packing
2.	'C'	'N'	II	33	35,002	
					(with a discount of 5 per cent for full quantity on order)	
3.	'B'	O	III	22	37,000 to 39,000	-do-
					(for different quantities on order)	
4.	'A'	'P'	IV	18	37,950 plus 1266 for installation kit.	Cost of packing extra

12. The audit paragraph reveals that in the opinion of the technical authorities the offer of firm 'C' for their models 'M' and 'N', had an edge over other engines. The technical authorities also suggested physical verification of the claims made for those models by carrying out limited technical-cum-user trials.

13. The Army Headquarters did not favour fresh trials of the engines of other firms as their requirements were stated to be very urgent and the trials would take eight to nine months.

14. In February 1985, the Department placed an order on firm 'A' for supply of 2500 engines at a total cost of Rs. 11.02 crores (Rs. 44077 per engine). It was firm for the first 1400 engines and for balance, the supplier was entitled to price escalation.

15. The Committee desired to know as to why the technical evaluation of the engines offered by firm 'C' was not carried out. The Secretary of the Department stated as follows :

“The principal reason why the two engines were not tried was that they were not the engines offered by the firm earlier and further trials of the new engines would have taken considerable amount of time. Thereafter, discussion took place as to why it should take two months, nine months or two years. But it is a time consuming process. Certainly it would not have been done in two months time. There would have been the time factor always”.

16. In a note subsequently furnished by the Department, it has been stated that in the initial stage when efforts were being made to locate an engine which could be used as a substitute for Shaktiman engine, the firm 'C' offered an engine which based on the parameters indicated by the manufacturers did not meet the requirement. The horse-power and the torque of the engine Model V6-155 offered by Firm 'C' were high. Further the engine size was small, requiring extensive modifications for carrying out fitment on Shaktiman Vehicle and such modifications were considered beyond the capacity of the field repair workshops. In view of these reasons, this engine was not short-listed for carrying out user's trials.

17. Subsequently when quotations were invited from the firms, the firm 'C' offered two engines 'M' and 'N' which were different from the engine offered on the earlier occasion. According to the Department these two engines based on the performance parameters claimed by the firm, appeared to be superior to the engines of firm 'A' and 'B' which were already trial evaluated. These engines (M and N) could not be considered

for purchase without user trials. It was decided not to subject these engines to user's trial due to the following reasons:

- (i) The trials would have taken about two years and it was not certain whether these engines would ultimately be found acceptable. The requirement of the Army on the other hand was very urgent.
- (ii) Acceptance of the engines of firm 'C' would have resulted in addition to the variety of engines of the inventory of the Army since these engines were not in use earlier. This would have resulted in problems relating to spares and inventory as well as the need for training of the personnel belonging to the field workshops. As against this, an engine similar to engine offered by firm 'A' would not have created the problems relating to spares, inventory etc."

18. Asked as to when the decision for not carrying out the technical evaluation of the engines offered by firm 'C' was taken, the Secretary of the Department stated as follows :

"...when these new engines were tendered there was a suggestion that these could be tried. But then there were notes from DWE in June, 1984, from Lt. General... and also from the Director of Ordnance Services in July, 1984. The recommendation made at the meeting of the Ministry was that it considered the matter urgent and it was felt that the offers of only three firms A, B and D should be pursued for further negotiation. This was the decision taken on 19 July, 1984".

19. Further asked as to why the technical evaluation of the engines offered by firm 'C' was not conducted for future use, the Secretary of the Department stated as follows :

"There are other considerations also. The Army preferred firm 'A's engines as these were known to the Army. Then, there were questions related to spares, inventories, maintenance and the expertise of the technicians, drivers and other operators".

Reasons for placing an order for only 2500 engines

20. The Committee enquired whether 1000 engines which were off the road were taken into account while computing the requirements for 4061 engines. The Ministry of Defence have stated that these 1000 vehicles were taken into account while computing the requirements.

21. About the reasons for placing an order for only 2500 engines as against the urgent requirements of 4061 engines, the Department have stated that quantity of 4061 engines projected by Army HQrs through

Vehicle Factory was reviewed by Financial Adviser (Defence Services). According to the Department, Financial Adviser (Defence Services) recommended purchase of 2500 engines only.

In view of this order was placed for quantity of 2500 numbers with option to add 25 percent during the currency of the contract at purchaser's option.

Delay in supply of engines

22. The original delivery scheduled as per the contract dated 5.2.1985 for supply of 2500 engines was as follows :

Prototype: 4 numbers prototype samples of engines were to be submitted for approval alongwith Installation Kit and packing cases within 2 weeks i.e., by 20.2.1985.

Bulk supplies were to commence from 4th week of the date of receipt of approval as follows :

200 Nos.	1st month
200 Nos.	IIInd month
400 Nos.	per month thereafter

23. The above original delivery schedule had, however, to be rescheduled repeatedly due to one reason or the other as brought out in the succeeding paragraphs.

24. The details of re-scheduling of the delivery period together with the reasons therefor as furnished by the Department are as follows:

S.No.	Reschedule of delivery period	Reasons
1	2	3
	<p><i>1st Rescheduling</i> July 85 - 200 Nos. Aug. 85 - 300 Nos. Sept. 85 - 400 Nos. and 400 Nos. per month thereafter. To be completed by 31.1.1986.</p>	<p>Firm submitted prototype engines on 14.2.1985 without installation kit and packing cases. The installation kit items used during user evaluation trials were made through general engineering methods. The manufacture of installation kit items, required developmental efforts for bulk production, involving preparation of drawings, toolings, jigs and fixtures etc. Keeping in view the developmental efforts required, the delivery date for submission of prototype with installation kit and packing box was rescheduled as 30.4.1985. The reusable packing cases also had to be designed ab-initio. Firm submitted the proto-type samples on 24.4.1985 and bulk production clearance was accorded on 31.5.85 after fitment trials. Delivery schedule for the bulk supplies was re-scheduled accordingly as per the terms of the contract, allowing 4 weeks lead time for commencement of bulk supply.</p>

IIrd Rescheduling

Sept 85 - 200 Nos.

Oct. 85 - 300 Nos.

Nov. 85 - 400 Nos.

thereafter 400 Nos. per month.

To be completed by 31.3.1986.

Delivery period Extensions.

upto 30.6.86

upto 30.8.86

upto 30.10.86

upto 26.11.86

IIIrd ReschedulingTerminal date of the delivery
period rescheduled upto 29.7.86.

In June 1985, in one of the fitment exercise, it was observed that some additional items were required for installation kit. The scope of supply for installation kit was accordingly amended from 46 to 56 items. Firm agreed to supply the additional items without any extra cost. Similarly from the list of tools, certain items had to be deleted as the same were already available in the Army workshops. For this deletion of tools the price was reduced. The change in the scope of supply for installation kit and deletion of tools with price adjustment necessitated an amendment to the contract with refixation of delivery period.

Since the firm could not adhere to the re-scheduled delivery period with 31.3.1986 as the terminal date, extensions in the delivery period were granted on 4 occasions, with the condition that purchaser will reserve the right to levy liquidated damages for delayed supplies and price escalation will not be admitted.

The extensions in delivery period after March 1986, with purchaser's right to levy liquidated damages and deny price escalations were not acceptable to the firm. They represented stating that technical authorities directed them to suspend the production on 6.1.1986 and that the delivery period should be rescheduled unconditionally. A meeting was held in the Ministry on 9.10.1986 with the firm and technical authorities to resolve the problem. It was observed that technical authorities had asked the firm to suspend production and despatches due to fitment problem noticed in the Radiator frame mounting during actual usage. This problem was due to difference in mounting arrangements of the engines on Shaktiman Vehicle manufactured before and after 1980. Due to this problem new drawings for the radiator frame mounting had to be made and clearance to resume production was given on 2.5.1986. Firm, however, did supply some engines in March 1986 (23.3.1986) using existing stock of mounting brackets by modifying them by general engineering methods. Since the firm had supplied engines in March 1986 refixation of delivery period was considered only for a period from 6.1.1986 to 23.3.1986 (2 months and 15 days). Further there was strike in the firm from 14.5.86 to 28.6.1986 (one month 14 days). Refixation of delivery schedule was allowed for this period being a 'Force Majeure Condition'. In all a period of 3 months and 29 days was allowed for refixation of delivery schedule, as the reasons were beyond the control of the firm and the delivery period was accordingly refixed as 29.7.1986.

25. According to the Department the rescheduling of the delivery period upto March 1986 was due to development work involved in the finalisation of Installation kit items and re-usable packing box. Subsequent refixation upto 29.7.1986 was due to fitment problems in Radiator mounting frame due to difference in mounting arrangement on vehicles and strike in the firm. Such technical problems are inevitable in the initial stages of repowering exercise and are noticed only during actual fitment/usage.

26. Engines were despatched by the firm in batches during the period 12.9.85 to 24.11.86. Details of engines accepted/despatched are as under:

Month	Nos. accepted/despatched	Commulative total
Sept. 85	50	50
Oct. 85	175	225
Nov. 85	80	305
Dec. 85	245	550
March 86	310	860
May 86	369	1229
June 86	91	1320
July 86	30	1350
Aug. 86	369	1719
Sept. 86	296	2015
Oct. 86	301	2316
Nov. 86	184	2500

27. To a pointed query by the Committee whether there was any breach of contract on the part of firm 'A', the Secretary of the Department stated during evidence that there was a breach of contract in the sense that some supplies were made subsequent to contract delivery dates. According to the Secretary, failures to an extent was there but the Department also tried to minimise it.

Urgency for the engines

28. The Army Headquarters did not favour fresh trials of the engines of other firms as their requirements were stated as very urgent and the trials would take quite a lot of time. The Committee asked the Department to clarify the concept of urgency vis-a-vis the delay which occurred at different stages. According to the Department formal supply order was placed on 5.2.1985 and supplies were completed on 24.11.1986. Decision to select an alternate engine was taken in January, 1982 and general staff evaluation after user trials were completed in December, 1983. According to the Department as an exercise of this nature can take 15 to 20¹/₂ months, and therefore, time taken for this phase cannot be considered excessive.

29. Further indent was received in March 1984 and supply order was placed on 5.2.1985. According to the Department for the finalisation of a proposal for purchase of this magnitude, following the normal procedure of obtaining competitive bids, technical evaluation, negotiations etc. the time taken at each of the stage cannot be considered excessive excepting the time taken from the date of submission of proposal (20.9.84) till approval of RM (4.1.85). This delay was due to the observations made at the level of Secretary (DP), FA(DS) etc. which had to be examined and clarified.

30. To a query by the Committee about the importance of the urgency concept in this case, the Secretary of the Department stated as follows:

“I would respectfully say that the sense of urgency was genuine. There was a sense of urgency and after all, certain number of vehicles were off road and it was the anxiety of the user to get them on road, particularly when the deficiency was visible to us.”

Price Escalation

31. According to the Audit Paragraph the Department paid escalation upto Rs. 87.51 lakhs upto July, 1986 for 1100 engines. This worked out to 20 per cent of the cost of the engine and its installation kit. The Committee pointed out that the re-scheduling of supplies had to be repeatedly done because of the deficiencies with the supplier. The Committee, therefore, enquired as to why action was not taken to limit the escalation clause to the original date of supply and not to extend the escalation clause to the re-scheduled date. The Secretary of the Department explained the position as follows during evidence:

“So far as the re-scheduling of supply dates was concerned, it was, in the first instance, done when the firm did not supply the fitments.... We felt that certain development efforts would be necessary and therefore certain period of time was given. As a result of that, the BPC was given by the Department. The second issue was the question of fitments, additional fitments that are necessary. These fitments were required by the Department. As these were essentially necessary things, of course these are minor items—a certain amount of time-lag occurred. There is also the question of fitments *vis-a-vis* the items like radiator, chassis etc. Certain alterations and adjustments had to be done and therefore a certain time-lag occurred at that time. On the fourth occasion, there was a strike in the Company—from the 14th May 1986 to 28.6.86. The strike period had to be accommodated so far as production and deliveries are concerned. Of course, we could say that it was the business of the company to give fitments at the proper time. But they did not give the supplies. At that time, the Department took the view that certain development efforts were needed and therefore they should be given some time. This is a major effort. It was decided that they should be given some time

for getting the drawings and other things ready. As I said earlier, when the earlier fitments were done, they were done by general engineering. The essential point is that for bulk production, fixtures take some time. That was the reason for all these considerations. It was felt that this amount of accumulated time should be given to the Company by the Department. When the company delayed supply even beyond this period, no escalation was given. Therefore, I would honestly say that the Department made efforts to limit the escalation to the possible extent based on its own judgement."

32. In a note subsequently furnished by the Department, it has been stated that the rescheduling was done for genuine reasons and hence the firm was entitled to escalation upto the rescheduled terminal i.e. 29.7.1986. According to the Department escalation has been allowed only upto the terminal date of delivery.

Liquidated damages

33. According to the audit paragraph due to delay in supply of engines the total leviable liquidated damages as per the contract worked out to Rs. 22.71 lakhs. The Department, however, levied only Rs 2.27 lakhs as token liquidated damages.

Explaining the procedure followed in regard to the payment of liquidated damages, the Secretary of the Department stated as follows during evidence:

"So far as the liquidated damages are concerned, that has to be done according to the guidelines issued by us in September, 1985. These guidelines provided for 10 per cent of the liquidated damages. These liquidated damages can be fully levied on the firm if it is established that there was a financial loss or monetary loss. If loss cannot be certified but inconvenience has been caused, in that event, 10 per cent charges were supposed to be collected for that period. The user said he had not undergone any monetary loss. We feel that he has undergone some inconvenience because the engines were not available. So, under that clause, 10 per cent damage was levied. That is the view taken by the Department at that time. You are aware that even in the DGS&D there are guidelines for the levy of liquidated damages. Unless we are able to prove the monetary loss, it becomes difficult for us to levy the liquidated damages."

34. The Committee pointed out that because of the delayed supplies, the firm has been paid escalated prices. The Committee, therefore, enquired, whether under these circumstances, it would be correct to say that there was no loss. The Secretary of the Department stated during evidence "I would say that the escalation should have been given on a month-to-month basis."

35. The Committee enquired as to why the levying of liquidated damages was not related to the delay with reference to monthly supplies. The representative of the Department stated as follows:

“Liquidated damages are applicable only for supplies made after the terminal date. This was the procedure. Even when the deliveries were not according to the month-wise schedule we were giving them the escalation cost upto the terminal date. Now we have modified the procedure.”

36. Intervening the Secretary of the Department stated as follows:

“In retrospect we can say that it is not correct.”

37. He further stated as follows:

“Even if I concede that there was a monetary loss, it was very difficult to quantify that loss. I have got an extract from the DGS&D’s guidelines which also says that we can recover quantifiable losses sustained due to delay.”

Placement of additional order

38. The contract provided for 25 per cent option clause for placement of additional order upto 625 engines during the currency of the contract on the same terms and conditions. Review of demand/supply for the year 1987-88, revealed a deficiency of 1,359 engines. The Department decided to place the order on firm ‘A’ by updating their earlier rate as on November 1986 with reference to the escalation formula provided in the February 1985 contract. Accordingly, the Department in December 1987, placed an order for 1,148 engines at Rs. 52,629 each on firm ‘A’ at a total cost of Rs. 6.04 crores. This contract also provided for escalation for increase in prices for labour and material as per the formula given in the earlier contract of February 1985.

39. The Committee enquired as to why no action was taken to exercise the option available to place an additional order for 625 engines. The Department stated as follows:

“The requirement of spare engine is met from supplies ex-Vehicle Factory. The indents for quantity exceeding the production capacity of Vehicle Factory were only off-loaded on trade. After the annual provision review in 1986-87 a demand for quantity of 603 engines was revealed, at that point of time the quantities outstanding with Vehicle Factory was only 366. The quantity of 603 was, therefore covered on Vehicle Factory to give them sufficient work load.”

40. The Committee enquired as to why order for supply of 1148 engines were placed as against the deficiency of 1359. The Department have stated that orders for 1148 engines were placed on firm ‘A’ and

the balance of 211 engines was covered on Vehicle Factory. According to the Department, supplies against this order was made ahead of schedule by the firm.

41. To a query about the base price in respect of the first and the second contracts, the representative of the Department stated as follows:

“The first contract was made in February 1985 and the base price was Rs. 38,700 with February 1984 as the base date. The other contract was made in December 1986, with the base date as August, 1986.”

42. According to the Department the average unit cost on the basis of total payment of Rs. 7,63,69,861 made to the firm for 1148 engines was Rs. 65,524.26 including escalation.

43. The Committee pointed out that the first order was placed in February, 1985 and the second in December 1987. The Committee, therefore, enquired that when there were three competing firms initially, why was it not thought fit to develop alternate source. The Secretary of the Department replied that it could have been done.

*Additional Expenditure due to selection of firm 'A'
vis-a-vis firms 'B' and 'C'*

44. According to Audit the resultant extra expenditure involved in procurement of 3648 engines when compared with the rate of firm 'C' was Rs. 6.16 crores. Further when compared with the rates quoted by firm 'B' whose engine was evaluated and found to be generally suitable, the extra cost worked out to Rs. 1.96 crores.

45. According to the Department, firm 'A's prices were subject to a price variation clause except for the first 1400 numbers against their first order for 2500 numbers. But firm 'C's prices were subject to their printed terms according to which the prices quoted by them were subject to enhancement and the prices ruling on the dates of supply would be applicable. They had not specified the price variation formula.

46. According to the Department for the price comparison to be on the like to like basis, it would be more appropriate to compare only the basic prices quoted by the firms. This apart, the price quoted by the firm 'C' catered only for conventional packing which is fit for one transit only, (as against our requirement for a re-usable packing box) which could not have cost more than Rs. 500 as against Rs. 3825 for re-usable packing case. Therefore the element of cost of the case may also be excluded in this comparison. The basic prices of the engine including the installation kit and excluding packing case in respect of firm 'A' and firm 'C' on a like to like basis as worked out by the Department are as follows:

Firm 'A' Rs. 39,702 (as quoted and accepted)

Firm 'C' Rs. 33,809 (as quoted—less Rs. 500 being the estimated price of conventional packing box)

47. According to the Department if the total cost of 3648 engines

(excluding packing boxes) as per the contract placed on firm 'A' and the corresponding figures of price quoted by firm 'C' were worked out in the light of the above, the extra expenditure would be to the tune of Rs. 2.72 crores and not Rs. 6.16 crores.

48. Extra expenditure of Rs. 1.96 crores worked out by Audit between the prices of Firm 'A' and firm 'B' for 3648 engines is however correct according to the Department.

Off road vehicles

49. Position of off-road vehicles from 1977 to 1990 is as follows. Position of serviceable engines held in stock for 1985 onwards has also been indicated.

Year (as on 31st March)	No. of off-road vehicles (approx.)	No. of serviceable engines held in stock
1977	57	—
1978	64	—
1979	141	—
1980	213	—
1981	242	—
1982	235	—
1983	633	—
1984	901	—
1985	1098	298
1986	928	119
1987	664	262
1988	516	670
1989	796	488
1990	752	—

50. The requirement of pool engines at a fixed percentage of the estimated fleet strength was provisioned only after 1980-81. According to the Department due to deficiency of spare engines because of limited capacity of the Vehicle Factory i.e. average of 180 numbers per year, no pool of engines was possible until the supplies started coming from trade i.e. from September 1985. With the induction of 3648 engines received from trade the upward "off road vehicle" trend was arrested and brought down to 340 numbers in November 87. However, it was not possible to build up the pool upto the desired level of a fixed percentage of the fleet strength because as many as 3188 engines were sentenced "Beyond

Economic Repair" (BER) from 1985-86 to 1988-89. Now the "Vehicle off road" position is again showing an upward trend and this position would have been high if 3648 engines were not inducted from trade.

51. The Committee note that Shaktiman Vehicles had been in production in a Defence Vehicle Factory from 1959 onwards and a composite production unit was started in 1972. Prior to 1980-81, Army had been placing annual indent on an average for 'X' number of engines for the Shaktiman Vehicles on the Vehicle Factory. The Vehicle Factory on an average had been supplying about 73 per cent of 'X' number of spare engines annually. In 1980-81, the Army centralised the operations for calculating the requirements. It was then felt that the appropriate way of maintaining the vehicles would be to have a pool of engines. Engines at a fixed percentage of the estimated fleet strength were required to be provisioned in the pool. In April 1980, 488 engines were pending supply with the vehicle factory. Additional indents for about 9½ times of 'X' number of engines were placed on the Vehicle Factory in July 1980 and December 1981 respectively. As the Vehicle Factory's capacity for supply of spare engines was limited to the extent of about 73 per cent of 'X' number of engines annually, the backlog of engines in terms of outstanding indents went on mounting and rose to about 10 times of 'X' numbers as on 1.1.1982. It was only in 1982 that a proposal was submitted by the Vehicle Factory for augmenting the capacity of manufacturing Shaktiman spare engines. However, in a production review meeting held by Secretary (Defence Production) on 25.3.1983, on the recommendations of the Army Headquarters, it was decided not to augment the capacity of the Vehicle Factory for Shaktiman spare engines because of the possibility of locating an alternate indigenous engine from the civil sector and also because of foreign exchange involved in implementation of the project. The Committee feel that in view of the spurt in demand for engines from 1980-81 and considering the fact that the inability of the Vehicle Factory to meet this rising demand was very well known, the question of augmenting the capacity of the Vehicle Factory or to find an indigenous private source for supply of engines should have been taken much earlier. In the Committee's view the delay of about two years in taking the decision is clearly indicative of lack of perspective planning on the part of the concerned authorities in the matter as vital as the defence preparedness of the country.

52. It is disquieting to note that even after January, 1982 the Army Headquarters failed to take concerted action to procure expeditiously the engines from the other sources. Instead of processing the matter by following the correct procedure of floating an indent indicating the qualitative requirements and issue a tender enquiry, the Army Headquarters obtained particulars from seven private manufacturers. On preliminary technical evaluation of these particulars, engines offered by firms 'A' and 'B' were shortlisted for conducting trials. The engine of firm 'A' was

approved by Army Headquarters in December, 1983 on the basis of user and test bed trials for procurement through Department of Defence Production and Supplies. The Committee note that inspite of the fact that the primary requisite for selection of the engine is satisfactory performance in user trials and the user trials gave an edge to the engine of firm 'B', engine of firm 'A' was selected on the basis of better results in test bed trials. No order could however be placed even on firm 'A' as according to the Department of Defence Production and Supplies the correct procedure of calling for open tenders was not followed. Therefore, in April, 1984, the Department again issued tender enquiries to five Indian firms. The resultant delay indicates the lack of clear perception of the Army Headquarters in meeting their urgent requirements. The Committee strongly disapprove such a state of affairs.

53. The technical evaluation of the performance parameters, claimed by the tenderers, by the technical authorities as brought out in para 11 clearly indicates that the offer of firm 'C' for their models 'M' and 'N' had a definite and overwhelming edge over the other two competing firms 'A' and 'B' (whose engines were earlier evaluated by the Army Headquarters) not only in respect of the points allotted but also in terms of the financial implications of their quotations. As against the ranking points of 34 and 33, allotted to the models 'M' and 'N' of firm 'C', firms 'B' and 'A' could secure only 22 and 18 points respectively. The quotation of firm 'C' for these models was cheaper by about rupees three to four thousand per engine than the quotations of firms 'A' and 'B'. No wonder, therefore, the technical authorities opined that the offer of firm 'C' for their models 'M' and 'N', had an edge over other engines. The technical authorities had also suggested physical verification of the claims made for those models by carrying out limited-technical-cum-user trials. The Army Headquarters however did not favour fresh trials of the engines of other firms as according to them their requirements were very urgent and the trials would take eight to nine months. Under the circumstances the Department was made to place an order in February, 1985, on firm 'A', which was rated the lowest amongst the other two competing firms, for supply of 2500 engines at a total cost of Rs. 11.02 crores (Rs. 44077 per engine). From the facts stated above the Committee are led to believe that undue favour has been shown to the firm 'A' by placing order on it without conducting trials as suggested by the technical authorities ignoring the better and cheaper alternatives. The plea of urgency in this regard is hardly convincing considering the fact that the Army Headquarters had failed to take any concrete steps for a long period of about three years to meet their so-called urgent demand for spare engines and about 10 months' period was taken for finalising the limited tender floated in April, 1984. In the opinion of the Committee the above situation reflects very poorly on the working of both the Department of Defence Production and Supplies and the Army Headquarters in the matter of procurement of defence requirements.

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

55. According to the original schedule, 4 number prototype samples of engines alongwith the installation kits and packing cases were required to be submitted by firm 'A' by 20.2.1985. Thereafter bulk supplies were to commence from the 4th week of the date of receipt of approval. The firm, however, failed to adhere to the original schedule. What concerns the Committee more is the fact that inspite of such a pressing demand for engines, the original schedule had to be rescheduled thrice and the dates for completion of the supplies by the firm were successively shifted to 31.1.1986, 31.3.1986 and 29.7.1986. It is further distressing to find that the firm could not make the supplies even in accordance with the final agreed schedule. The firm finally completed the supply of 2500 engines by November, 1986. The Committee fail to agree with the argument advanced by the Department that the rescheduling of the delivery period upto March 1986 was due to development work involved in the finalisation of installation kit items and reusable packing boxes as according to the Committee this aspect should have been taken due note of at the time of finalisation of the original schedule. The Secretary of the Department conceded during evidence that there was a breach of the contract in the sense that some supplies were made subsequent to contract delivery date. The Committee cannot but deplore the lack of seriousness on the part of the concerned authorities in meeting their urgent requirements.

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

impression that repeated rescheduling has been done just to accommodate the firm for payment of escalation charges, which is highly regrettable.

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

58. The Committee note that contract with firm 'A' provided for 25 per cent option clause for placement of additional order upto 625 engines on the same terms and conditions. Review of demand/supply for the year 1987-88, revealed a deficiency of 1359 engines. In December, 1987, the Department placed an order for 1148 engines on the same firm 'A' at a total cost of Rs. 6.04 crores by updating their earlier rates as on November, 1986 with reference to the escalation formula provided in February 1985 contract. According to the Department the earlier order had to be placed on firm 'A' which had the lowest ranking on technical evaluation, on account of the urgent nature of the requirements. The Committee are distressed to find that despite the high rates and delay in supplies, a repeat order for 1148 engines had been placed on same firm 'A' without calling for fresh tenders or at least evaluating the engines of firms 'B' and 'C'. The Secretary of the Department conceded during evidence that alternate source could have been developed. According to the calculations made by audit, the avoidable additional expenditure incurred on the procurement of 3648 engines from firm 'A' worked out to Rs. 6.16 crores when compared with the rate of the top ranking firm 'C'. Even as compared to the rates quoted by firm 'B', whose engine was originally evaluated and found to be generally suitable, the additional cost worked out to Rs. 1.96 crores. However, according to the Department's calculations the extra expenditure incurred on purchases from firm 'A' when compared with the prices of firm 'C' would be to the tune of Rs. 2.72 crores. In addition, there was additional avoidable expenditure to the tune of Rs. 87.571 lakhs towards the payment of escalation charges.

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

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

New Delhi;

ATAL BIHARI VAJPAYEE

December 9, 1991

Chairman,
Public Accounts Committee

Agrahayana 21, 1913(Saka)

APPENDIX I
(*Vide Para 1*)

Audit Para 25 of the Report of the Comptroller and Auditor General of India for the year ended 31 March, 1988 No. 2 of 1989, Union Government Defence Services (Army and Ordnance Factories)

Uneconomic purchase of engines for Shaktiman vehicles

Demand for spare engines used on 3 tonne Shaktiman vehicles could not be met in full by the Government Vehicle Factory responsible for its production. Hence, in January 1982, it was decided to find an alternate private source of supply of indigenous engine for the vehicle. After preliminary technical evaluation of the particulars furnished by seven private manufacturers, engines offered by two firms, 'A' and 'B', were shortlisted for conducting trials. The performance parameters of the engines of both the firms were considered comparable. User trials gave an edge to the engine of firm 'B' and the test-bed trials favoured that of firm 'A'. The engine of firm 'A' was approved by Army Headquarters (HQ) in December 1983 for use on Shaktiman vehicles and it was also decided to procure the engines through the Department of Defence Production and Supplies (DDPS). While doing so, it was suggested that an alternate engine should also be specified for getting a competitive price. The number to be procured from trade, for the next four years from April 1984, was identified as 4061 engines.

The DDPS issued tender enquiries to five Indian firms in April 1984. After technical evaluation of the performance parameters claimed by tenderers, the ranking points allotted by the technical authorities to the products of three firms and the rates quoted by them were as under:

Sl. No.	Firm	Model	Ranking	Points allotted	Unit Rate in Rs.	Remarks
1.	'C'	'M'	I	34	34,309 } 35,002 } (with a discount of 5 percent for full quantity on order)	Rates are inclusive of cost of installation kit and commercial packing
2.	'C'	'N'	II	33		

Sl. No.	Firm	Model	Ranking	Points allotted	Unit Rate in Rs.	Remarks
3.	'B'	'O'	III	22	37,000 to 39,500 (for different quantities on order)	Rates are inclusive of Cost of installation Kit and Commercial packing
4.	'A'	'P'	IV	18	37,950 plus 1266 for installation kit	Cost of packing extra.

The technical authorities considered that the offer of firm 'C' for their models 'M' and 'N' had an edge over other engines. They suggested physical verification of the claims made for those models by carrying out limited technical-cum-user trials which, it was felt, could be completed within a period of two months. DDPS also felt that the Army HQ had not followed the correct procedure in projecting their demand for the engine of a particular supplier. They felt that the correct procedure in such a case was to float an indent indicating the qualitative requirements, drawing up of specifications based on the qualitative requirement and issue of tender enquiry and placement of order based on the offers received. Further they felt that the orders should take a firm shape only after the engines offered are tried out and found successful. Moreover they felt that there was every possibility that the only firm whose engine was found suitable on the basis of the earlier trials, could dictate its own terms and conditions leaving a very little scope for a meaningful negotiations.

The Army HQ did not favour fresh trials of the engines of other firms as their requirements were stated as very urgent and the trials would take eight to nine months. As a result, the lowest offer of firm 'C' was ignored because of the time required for conducting trials on their engines and DDPS decided to negotiate with three firms, 'A', 'B' and 'D' (firm 'D' was included as their vehicles were already in service with Army). During negotiations in September 1984, DDPS asked the three firms to quote their best reduced rates. All the three firms stuck to their original prices except that the firm 'A' asked for increase in prices for any quantity on order less than 3500 engines. The increase varied from Rs. 375 to Rs. 1500 per engine.

DDPS felt that they had no option but to accept the higher price of firm 'A' for the following considerations:

- (i) The Army HQ had already selected engine of firm 'A' as the alternate engine for Shaktiman vehicles based on evaluation/trials which had taken them two years.
- (ii) Switching over to any other engine would take another two years with no certainty whether it would be superior to the engine offered by firm 'A' (as per Army HQ the time required would be eight to nine months only).
- (iii) The Army could not afford any further delay, as already about 1000 Shaktiman vehicles were off-road.

In February 1985, DDPS placed the order on firm 'A' for supply of 2500 engines at a total cost of Rs. 11.02 crores (Rs. 44077 per engine). It was firm for the first 1400 engines and for the balance, the supplier was entitled to price escalation.

The supply order contemplated submission of four pilot samples by 20th February 1985 and supply to commence four weeks after bulk production clearance (BPC) was given, at 200 engines in the first month, 300 in the second month and at the rate of 400 engines per month thereafter. The pilot samples were submitted late, in April 1985 and the BPC was granted in May 1985. Accordingly, the bulk supply was to commence in July 1985 and was to be completed before end of January 1986. The firm did not supply any engine upto August 1985. It had supplied only 50 engines in September 1985 against the total of 900 engines due by then as per the delivery schedule. Total quantity supplied upto 29th July 1986 was 1350 engines. The balance 1150 engines were supplied during August to November 1986. Though there has been a delay in supply of engines and the total leviable liquidated damages as per the contract worked out to Rs. 22.71 lakhs, DDPS levied only Rs. 2.27 lakhs as token liquidated damages. Thus, the department failed to recover the liquidated damages in full from the firm. But price escalation (upto July 1986) admitted for 1100 engines amounted to Rs. 87.51 lakhs. This worked out to 20 *per cent* of the cost of the engine and its installation kit.

The contract provided for 25 *per cent* option clause for placement of additional order upto 625 engines during the currency of the contract on the same terms and conditions. Review of demand/supply for the year 1987-88, revealed a deficiency of 1,359 engines. No advance action had been taken to check availability of and test engines of other manufacturers. DDPS decided to place the order on firm 'A' by updating their earlier rate as on November 1986 with reference to the escalation formula provided in the February 1985 contract. Accordingly, DDPS in December 1987, placed an order for 1,148 engines at Rs. 52,629 each on firm 'A' at a total cost of Rs. 6.04 crores. This contract also provided for escalation for increase in prices for labour and material as per the formula given in the earlier contract of February 1985.

In October 1988, the Ministry of Defence stated that there was a departure from the standard practice by not raising the indent first. No effective comparison of prices of one engine with another could be made since they were according to maker's own specification. This contention is not tenable as comparison between rates of these firms whose engine can serve the purpose, is to be made. In this case, the rates of firm 'C' were the lowest but its engine was not tested in 1984/1985.

Thus, for spare engines needed for 3-tonne vehicles, the lowest bid was not availed of and the highest bid accepted on the plea that tests, not conducted on the lowest priced engine, would take eight to nine months. Hence, on grounds of urgency, the highest priced engine, already tested, was preferred. In actual terms, however, the finalisation of the supply order for 2500 engines (in favour of the highest bidder) itself took more than nine months. Worse still, was the delay in supplies, with further cost escalations. Despite the high rates and delay in supplies, a repeat order for 1148 engines had been placed on the same supplier without calling for fresh tenders/evaluation of engines of other manufacturers. The resultant extra expenditure involved in procurement of 3648 engines when compared with the rate of firm 'C' was Rs. 6.16 crores. When compared with the rates quoted by firm 'B' whose engine was evaluated and found to be generally suitable, the extra cost worked out to Rs. 1.96 crores.

APPENDIX II

CONCLUSIONS AND RECOMMENDATIONS

Sl. No.	Para No.	Ministry/ Department concerned	Conclusions/ Recommendations
1	2	3	4
1	51	Defence (Deptt. of Defence Production and Supplies)	<p>The Committee note that Shaktiman Vehicles had been in production in a Defence Vehicle Factory from 1959 onwards and a composite production unit was started in 1972. Prior to 1980-81, Army had been placing annual indent on an average for 'X' numbers of engines for the Shaktiman Vehicles on the Vehicle Factory. The Vehicle Factory on an average had been supplying about 73 percent of 'X' number of spare engines annually. In 1980-81, the Army centralised the operations for calculating the requirements. It was then felt that the appropriate way of maintaining the vehicles would be to have a pool of engines. Engines at a fixed percentage of the estimated fleet strength were required to be provisioned in the pool. In April 1980, 488 engines were pending supply with the vehicles factory. Additional indents for about 9½ times of 'X' number of engines were placed on the Vehicle Factory in July 1980 and December 1981 respectively. As the Vehicle Factory's capacity for supply of spare engines was limited to the extent of about 73 percent of 'X' number of engines annually, the backlog of engines in terms of outstanding indents went on mounting and rose to about 10 times of 'X' numbers as</p>

1	2	3	4
2	52 Defence (Deptt. of Defence Production and Supplies)	<p>on 1.1.1982. It was only in 1982 that a proposal was submitted by the Vehicle Factory for augmenting the capacity of manufacturing Shaktiman spare engines. However, in a production review meeting held by Secretary (Defence Production) on 25.3.1983, on the recommendations of the Army Headquarters, it was decided not to augment the capacity of the Vehicle Factory for Shaktiman spare engines because of the possibility of locating an alternate indigenous engine from the civil sector and also because of foreign exchange involved in implementation of the project. The Committee feel that in view of the spurt in demand for engines from 1980-81 and considering the fact that the inability of the Vehicle Factory to meet this rising demand was very well known, the question of augmenting the capacity of the Vehicle Factory or to find an indigenous private source for supply of engines should have been taken much earlier. In the Committee's view the delay of about two years in taking the decision is clearly indicative of lack of perspective planning on the part of the concerned authorities in the matter as vital as the defence preparedness of the country.</p>	<p>It is disquieting to note that even after January, 1982 the Army Headquarters failed to take concerted action to procure expeditiously the engines from the other sources. Instead of processing the matter by following the correct procedure of floating an indent indicating the qualitative requirements and issue a tender enquiry, the Army Headquarters obtained particulars from seven private manufacturers. On preliminary technical evaluation of these particulars, engines offered by firms 'A' and 'B' were shortlisted for conducting</p>

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trials. The engine of firm 'A' was approved by Army Headquarters in December, 1983 on the basis of user and test bed trials for procurement through Department of Defence Production and Supplies. The Committee note that in spite of the fact that the primary requisite for selection of the engine is satisfactory performance in user trials and the user trials gave an edge to the engine of firm 'B', engine of firm 'A' was selected on the basis of better results in test bed trials. No order could however be placed even on firm 'A' as according to the Department of Defence Production and Supplies the correct procedure of calling for open tenders was not followed. Therefore, in April, 1984, the Department again issued tender enquiries to five Indian firms. The resultant delay indicates the lack of clear perception of the Army Headquarters in meeting their urgent requirements. The Committee strongly disapprove such a state of affairs.

3

53 Defence
(Deptt. of
Defence
Production
and Supplies)

The technical evaluation of the performance parameters, claimed by the tenderers, by the technical authorities as brought out in para 11 clearly indicates that the offer of firm 'C' for their models 'M' and 'N' had a definite and over-whelming edge over the other two competing firms 'A' and 'B' (whose engines were earlier evaluated by the Army Headquarters) not only in respect of the points allotted but also in terms of the financial implications of their quotations. As against the ranking points of 34 and 33, allotted to the models 'M' and 'N' of firm 'C', firms 'B' and 'A' could secure only 22 and 18 points respectively. The quotation of firm 'C' for these models was cheaper by about rupees three to four thousand per engine than the quotations of

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4	54	Defence (Deptt. of Defence Production and Supplies)	<p>firms 'A' and 'B'. No wonder, therefore, the technical authorities opined that the offer of firm 'C' for their models 'M' and 'N', had an edge over other engines. The technical authorities had also suggested physical verification of the claims made for those models by carrying out limited-technical-cum-user trials. The Army Headquarters however did not favour fresh trials of the engines of other firms as according to them their requirements were very urgent and the trials would take eight to nine months. Under the circumstances the Department was made to place an order in February, 1985, on firm 'A', which was rated the lowest amongst the other two competing firms, for supply of 2500 engines at a total cost of Rs. 11.02 crores (Rs. 44077 per engine). From the facts stated above the Committee are led to believe that undue favour has been shown to the firm 'A' by placing order on it without conducting trials as suggested by the technical authorities ignoring the better and cheaper alternatives. The plea of urgency in this regard is hardly convincing considering the fact that the Army Headquarters had failed to take any concrete steps for a long period of about three years to meet their so-called urgent demand for spare engines and about 10 months' period was taken for finalising the limited tender floated in April, 1984. In the opinion of the Committee the above situation reflects very poorly on the working of both the Department of Defence Production and Supplies and the Army Headquarters in the matter of procurement of defence requirements.</p> <p>The Committee note that on 31 March, 1985, 1098 Shaktiman Vehicles were off-road for want of engines. Further as against the Army Headquarters' requirements for 4061 spare engines, order for</p>

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5	55	Defence (Deptt. of Defence Production and Supplies)	<p>2500 engines was placed in February 1985. The Committee take a serious note of the fact that this reduction in requirements was made inspite of the fact that the maintenance liability for spare engines on the basis of the expected fleet level by 1986-87 would be about 13 times of 'X'number of engines.</p> <p>According to the original schedule, 4 number prototype samples of engines alongwith the installation kits and packing cases were required to be submitted by firm 'A' by 20.2.1985. Thereafter bulk supplies were to commence from the 4th week of the date of receipt of approval. The firm, however, failed to adhere to the original schedule. What concerns the Committee more is the fact that in spite of such a pressing demand for engines, the original schedule had to be rescheduled thrice and the dates for completion of the supplies by the firm were successively shifted to 31.1.1986, 31.3.1986 and 29.7.1986. It is further distressing to find that the firm could not make the supplies even in accordance with the final agreed schedule. The firm finally completed the supply of 2500 engines by November, 1986. The Committee fail to agree with the argument advanced by the Department that the re-scheduling of the delivery period upto March 1986 was due to development work involved in the finalisation of installation kit items and reusable packing boxes as according to the Committee this aspect should have been taken due note of at the time of finalisation of the original schedule. The Secretary of the Department conceded during evidence that there was a breach of the contract in the sense that some supplies were made subsequent to contract delivery date. The Committee</p>

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6	56	Defence (Deptt. of Defence Production and Supplies)	<p>cannot but deplore the lack of seriousness on the part of the concerned authorities in meeting their urgent requirements.</p> <p>It is further disquieting to note that instead of penalising the firm for the delay in making supply of the engines in breach of the contract, the Department paid to the firm huge escalation charges amounting to Rs. 87.51 lakhs. One of the reasons advanced for payment of escalation charges was the time taken in development efforts involved in the finalisation of the kit items and reusable packing boxes. The Committee see no reason why this could not be foreseen. The other causes for repeated rescheduling could also be avoided by better planning. What is further surprising is the fact that escalation charges were paid to the firm even for the period of strike in the firm from 14th May, 1986 to 28th June, 1986. Even during the period of rescheduling, the supplies actually made did not match the rescheduled number but unfortunately this aspect was not considered while working out the escalation charges. The Secretary of the Department conceded during evidence that the escalation should have been given on a month to month basis. Under these circumstances the Committee cannot resist gathering an impression that repeated rescheduling has been done just to accommodate the firm for payment of escalation charges, which is highly regrettable.</p>
7	57	Defence (Deptt. of Defence Production and Supplies)	<p>Yet another instance confirming the lack of financial prudence on the part of the concerned authorities is in the matter of levying the liquidated damages for the delay in supply of engines. The Committee are distressed to note that as against the total leviable liquidated damages of Rs. 22.71 lakhs, the Department levied</p>

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8	58 Defence (Deptt. of Defence Production and Supplies)	<p>only token liquidated damages amounting to Rs. 2.27 lakhs. According to the Department as per the guidelines full liquidated damages could not be levied in this case as actual financial/monetary loss could not be established. Further, as only inconvenience has been caused due to the delay in supply of engines, only 10 per cent of the liquidated damages were required to be collected, which has been done. While disagreeing with the fallacious argument of the Department, the Committee believe that the monetary loss due to the payment of additional avoidable amount of Rs. 87.51 lakhs in the shape of escalation charges to the firm justified the levying of full liquidated damages. The Committee, therefore, deprecate the lack of financial prudence on the part of the concerned authorities both in the matter of calculation of escalation charges and levying of liquidated damages.</p>	<p>The Committee note that contract with firm 'A' provided for 25 per cent option clause for placement of additional order upto 625 engines on the same terms and conditions. Review of demand/supply for the year 1987-88, revealed a deficiency of 1359 engines. In December, 1987, the Department placed an order for 1148 engines on the same firm 'A' at a total cost of Rs. 6.04 crores by updating their earlier rates as on November, 1986 with reference to the escalation formula provided in February 1985 contract. According to the Department the earlier order had to be placed on firm 'A' which had the lowest ranking on technical evaluation, on account of the urgent nature of the requirements. The Committee are distressed to find that despite the high rates and delay in supplies, a repeat order for 1148</p>

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engines had been placed on same firm 'A' without calling for fresh tenders or at least evaluating the engines of firms 'B' and 'C'. The Secretary of the Department conceded during evidence that alternate source could have been developed. According to the calculations made by audit, the avoidable additional expenditure incurred on the procurement of 3648 engines from firm 'A' worked out to Rs. 6.16 crores when compared with the rate of the top ranking firm 'C'. Even as compared to the rates quoted by firm 'B', whose engine was originally evaluated and found to be generally suitable, the additional cost worked out to Rs. 1.96 crores. However, according to the Department's calculations the extra expenditure incurred on purchases from firm 'A' when compared with the prices of firm 'C' would be to the tune of Rs. 2.72 crores. In addition, there was additional avoidable expenditure to the tune of Rs. 87.51 lakhs towards the payment of escalation charges.

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

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

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10	60	Defence (Deptt. of Defence Production and Supplies)	The Committee find that in spite of the procurement of 3648 engines, the position about the off-road vehicles has again started showing an upward trend, there being as many as 796 and 752 vehicles off the road during 1989 and 1990. The Committee need hardly stress that urgent steps should be taken to do away with the phenomenon of off-road vehicles just for want of engines and be informed of the steps taken in this regard.
