

TWENTY-NINTH REPORT

PUBLIC ACCOUNTS COMMITTEE (1991-92)

(TENTH LOK SABHA)

INFRACTUOUS AND AVOIDABLE EXTRA EXPENDITURE IN THE ACQUISITION OF CERTAIN SPECIAL PURPOSE NAVAL VESSELS

MINISTRY OF DEFENCE

[Action Taken on the 187th Report of Public Accounts Committee
(8th Lok Sabha)]



*Presented to Lok Sabha on 30.4.1992
Laid in Rajya Sabha on 30.4.1992*

LOK SABHA SECRETARIAT
NEW DELHI

April, 1992 / Vaisakha, 1914 (Saka)

P.A.C. No. 1341

Price: Rs. 11.00

© 1992 BY LOK SABHA SECRETARIAT

Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Seventh Edition) and Printed by the Manager, P.L. Unit, Govt. of India Press, Minto Road, New Delhi.

CORRIGENDA TO 29TH REPORT OF THE PUBLIC
ACCOUNTS COMMITTEE (10TH LOK SABHA)

<u>PAGE</u>	<u>PARA</u>	<u>LINE</u>	<u>FOR</u>	<u>READ</u>
4	1.11(f)	1	delays at the	delays as the
8	-	1	peper	paper
13	Sl.No.17 (Para 4.12)	1	regretable	regrettable
15	Recommen- dation	2	stations due to damage	stations to damage
21	Representatives of Audit (Sl.No.3 to 6)		Read	
			Shri A.K.Banerjee	-Pr. Director (Reports)
			Shri P.K. Bandho- padhyay	Pr. Director (Indirect Taxes)
			Shri S.C. Anand	-Director General of Audit (P&T)
			Mrs. Sudarshana Talapata	-Director of Audit, (Defence Services)

CONTENTS

	PAGE
COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE	(iii)
INTRODUCTION	(v)
CHAPTER I Report	1
CHAPTER II Recommendations/observations that have been noted or accepted by Government	6
CHAPTER III Recommendations/observations which the Committee do not desire to pursue in the light of replies received from Government15
CHAPTER IV Recommendations/observations replies to which have not been accepted by the Committee and which require reiteration	16
CHAPTER V Recommendations/observations in respect of which Government have furnished interim replies	18
APPENDIX I Conclusions and Recommendations.....	19
PART II	
Minutes of the sitting of Public Accounts Committee held on 28.4.1992	21

PUBLIC ACCOUNTS COMMITTEE
(1991-92)

CHAIRMAN

Shri Atal Bihari Vajpayee

MEMBERS

Lok Sabha

2. **Shri Girdhari Lal Bhargava**
3. **Shri Nirmal Kanti Chatterjee**
4. **Shri Z.M. Kahandole**
5. **Shri Vilas Muttemwar**
6. **Shri D.K. Naikar**
7. **Shri Arvind Netam**
8. **Shri Kashiram Rana**
9. **Shri R. Surender Reddy**
10. **Shri Amar Roypradhan**
11. **Shrimati Krishna Sahi**
12. **Shri Pratap Singh**
13. **Shri N. Sundararaj**
14. **Kumarj Uma Bharati**
15. **Prof. (Dr.) S.P. Yadav**

Rajya Sabha

16. **Shri R.K. Dhawan**
17. **Shri Dipen Ghosh**
18. **Shri H. Hanumanthappa**
19. **Shri J.P. Javali**
20. **Shri Murasoli Maran**
21. **Shri Vishvjit P. Singh**
22. **Shri Ish Dutt Yadav**

SECRETARIAT

1. **Shri G.L. Batra— *Additional Secretary***
2. **Shri S.C. Gupta— *Joint Secretary***
3. **Smt. Ganga Murthy— *Deputy Secretary***
4. **Shri K.C. Shekhar— *Under Secretary***

INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Twenty-Ninth Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their 187th Report (Eighth Lok Sabha) on infructuous and avoidable extra expenditure in the acquisition of certain special purpose naval vessels.

2. In their earlier Report the Committee had expressed their concern over the fact that there was a delay of 18 months in the signing of the contract with firm 'B' after approval of the selection of firm 'B' by the CCPA on 30 June, 1980, and this resulted in the payment of Rs. 21.33 crores as escalations between the date of the offer and the date of signing of the contract, in addition to a sum of Rs. 5.8 crores, as ex-gratia. The Committee had, therefore, recommended that comprehensive guidelines should be drawn up by Government with regard to the negotiations and implementation of defence contracts, so as to improve efficiency and effectiveness within the specific time frame. In pursuance of the Committee's recommendation, Government have issued comprehensive guidelines relating to the conduct of negotiations and conclusion of the major defence contracts. In this Report, the Committee have recommended that these guidelines should be effectively followed both in letter and spirit by all concerned and any unauthorised deviation from these guidelines should be viewed very strictly. The Committee have also emphasised that these guidelines should be reviewed periodically with a view to further revamping them in the light of the experience gained.

3. In their earlier report the Committee had also noted that the construction of the two special purpose vessels by the Public Sector Undertaking which was originally estimated to be completed in 1987 and 1988 respectively were now expected to be completed by 1990 and 1991. The Committee have been concerned to note the wide slippages even from the revised schedule for the construction of both the vessels. While the first vessel was commissioned on 7th February, 1992 with a delay of about five years as per the original schedule, the second vessel is still under construction and is expected to be commissioned in September, 1993. The Committee have expressed their strong displeasure over this inordinate delay in meeting the urgent requirements of the Navy for these vessels. The Committee have, therefore, recommended that efforts should be made by all concerned to ensure the construction and commissioning of the second vessel at the earliest.

4. The Report was considered and adopted by the Public Accounts Committee at their sitting held on 28 April, 1992. Minutes of the sitting form Part II of the Report.

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

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

NEW DELHI;

April 28, 1992

Vaisakha 8, 1914 (S)

ATAL BIHARI VAJPAYEE,
Chairman,
Public Accounts Committee.

CHAPTER I

REPORT

This Report of the Committee deals with the action taken by Government on Committee's recommendations and observations contained in their 187th Report (Eighth Lok Sabha) on paragraph 55 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 1987, Union Government (Defence Services) relating to infructuous and avoidable extra expenditure in the acquisition of certain special purpose naval vessels.

1.2 The 187th Report which was presented to Lok Sabha on 13 October, 1989 contained 23 recommendations. Action taken notes have been received in respect of all the recommendations and these have been broadly categorised as follows:

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

Sl. Nos. 1 to 18, 20, 21 and 23

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

Sl. No. 22

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

Sl. No. 19

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

-Nil-

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

Streamlining of the Procedure for negotiations and the conclusion of major defence contracts

(Sl. Nos. 12, 13, 14 and 23 — Paras 2.58, 3.21, 3.22 and 5.15)

1.4 Dealing with the question of payment of escalation charges to the tune of Rs. 21.33 crores, the Committee in paragraphs 3.21 and 3.22 of their 187th Report, recommended as follows:

"The Committee regret to note that there was a delay of 18 months in the signing of the contract with firm 'B' after approval of the selection

of firm 'B' by the CCPA on 30 June 1980, and this resulted in the payment of Rs. 21.33 crores as escalation between the date of the offer and the date of signing of the contract, in addition to a sum of Rs. 5.8 crores, as ex-gratia.

It is evident from the difficulties that arose in finalising the contract, that at the initial stages when the offers were obtained, notwithstanding sufficient time having been taken adequate details were not obtained and the assessment of technical parameters was not as satisfactory as it ought to have been. It is, therefore, imperative that both the Navy and the Ministry should draw appropriate lessons from this and take steps to avoid recurrence of such delays and consequential avoidable expenditure in future."

1.5 In their action taken note the Ministry of Defence have stated as follows:

"The NHQ have issued a directive in this regard as per Annexure II. The MOD are also issuing comprehensive guidelines in respect of the conduct of negotiations and the conclusion of major defence contracts. These are being finalised in consultation with the 3 service HQs as well as the Deptt. of Defence Production & Supplies and the MOD."

1.6 Emphasizing the need for drawing up of the comprehensive guidelines with regard to the negotiations and implementation of defence contracts, the Committee in paragraphs 2.58 and 5.15 of their 187th Report had recommended as follows:

"With regard to the difficulties in the preparation of a supplementary or revised CCPA paper in a case of this type, the Committee do appreciate the problems explained by the Defence Secretary during his evidence. Notwithstanding the same, the Committee wish to emphasise the need for taking decisions on the basis of a formal note incorporating all relevant parameters and evaluations, avoiding the contingency of oral submission modifying the contents of the formal note.

The Committee recommend that comprehensive guidelines should be drawn up by Government with regard to the negotiations and implementation of defence contracts, so as to improve efficiency and effectiveness within the specified time frame. The organisational structures and systems will have to be improved and streamlined to ensure better results and greater accountability in a world of increasing specialisation, speed and sophistications."

1.7 The action taken note furnished by the Ministry of Defence reads as follows:

"The Department of Defence are issuing broad and comprehensive guidelines with regard to the negotiations and conclusion of major defence contracts. These guidelines would also cover the aspect of

entering into Memorandum of understanding with foreign Government in cases of large procurement of sensitive defence equipment. It is expected that with the promulgation of these broad guidelines, it would be possible for the MOD to avoid the recurrence of Omissions/lapses as pointed out by the Audit in the instant case. However, it must be borne in mind that it is not possible to issue detailed guidelines which can cover all developments and contingencies that may arise in cases of such high value Defence procurements of major weapons/weapon systems and hence a lot will have to be left to the discretion/decision of the members of the Technical Committees/PNCs, Senior Officers of Services/HQ/MOD who will have to use their own judgement in such matters”.

1.8 Subsequently vide their Office Memorandum dated 13.3.1992, the Ministry of Defence intimated that comprehensive guidelines relating to the conduct of negotiations and conclusion of major Defence Contracts have since been issued by that Ministry.

1.9 In their earlier report the Committee had expressed their concern over the fact that there was a delay of 18 months in the signing of the contract with firm ‘B’ after approval of the selection of firm ‘B’ by the CCPA on 30 June, 1980, and this resulted in the payment of Rs. 21.33 crores as escalations between the date of the offer and the date of signing of the contract, in addition to a sum of Rs. 5.8 crores, as ex-gratia. The Committee had recommended that comprehensive guidelines should be drawn up by Government with regard to the negotiations and implementation of defence contracts, so as to improve efficiency and effectiveness within the specific time frame. In pursuance of the Committee’s recommendation, Government have issued comprehensive guidelines relating to the conduct of negotiations and conclusion of the major defence contracts. The Committee recommend that these guidelines should be effectively followed both in letter and spirit by all concerned and any unauthorised deviation from these guidelines should be viewed very strictly. These guidelines should also be reviewed periodically with a view to further revamping them in the light of the experience gained.

Delay in construction of two special purpose vessels indigenously

(Sl. No. 10 — Para 5.11)

1.10 Commenting upon the delay in the construction of two special purpose vessels, indigenously, the Committee in paragraph 5.11 of their 187th Report had recommended as follows:

“The Committee note that the construction of the two SPVs by the PSU which was originally estimated to be completed in 1987 and 1988 respectively is now expected to be completed by 1990 and 1991. The Committee hope that there would be no further slippages from the revised schedule for the construction of both the SPVs at PSU”.

1.11 In their action take note the Ministry of Defence have stated as follows:

“The two submarines under construction at MDL, Bombay are now expected to be commissioned by end July, 1991 and December 1992 respectively. The following factors have contributed to the continued slippages in the construction schedule of the SSK Submarines at M/s. MDL:

- (a) This was the first project of its kind undertaken in an Indian shipyard.
- (b) The original construction schedule of 42 months was itself accepted by M/s. MDL, based entirely on the projections of M/s HDW. Finally, on hindsight, even HDW could not construct similar submarines in 42 months and, in fact, took 57 months for the construction of SSKs 1 and 2.
- (c) A number of facilities had to be created de novo at MDL. The civil works alone accounted for a six months time overrun which affected the construction schedule thereafter.
- (d) Tropicalisation of the welding techniques took considerable time.
- (e) Stringent quality controls are being exercised even in those areas which were neither specified nor practiced at M/s. HDW.
- (f) There have been some delays at the Indian subcontractors often failed to adhere to delivery schedules. Also, at times the equipment supplied by M/s., HDW has been found to be defective on examination at MDL. These have contributed to delays in the construction programme.

These factors have affected the construction programme from its very inception, and despite best efforts, it has not been possible for M/s. MDL to completely overcome these.

However, the construction of the two submarines at MDL is being regularly monitored by the SSK Project Management Board as well as the SSK Steering Committee, and efforts are being made to prevent any further slippages in the construction schedule.”

1.12 The Ministry of Defence vide their O.M. dated 26 February, 1992, intimated as follows:

“The first indigenously built SSK submarine has been commissioned on 7th February, 1992. The second one is under construction and is expected to be commissioned in September, 1993”.

1.13 In their earlier report the Committee had noted that the construction of the two special purpose vessels by the Public Sector Undertaking which was originally estimated to be completed in 1987 and 1988 respectively were now expected to be completed by 1990 and 1991. The Committee are

concerned to note the wide slippages even from the revised schedule for the construction of both the vessels. While the first vessel was commissioned on 7th February, 1992 with a delay of about five years as per the original schedule, the second vessel is still under construction and is expected to be commissioned in September, 1993. The Committee express their strong displeasure over this inordinate delay in meeting the urgent requirements of the Navy for these vessels. The Committee recommend that efforts should be made by all concerned to ensure the construction and commissioning of the second vessels at the earliest.

CHAPTER II

RECOMMENDATIONS AND OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendations

The Committee note from the CCPA paper dated 20 May 1980 that 4 factors, viz. (i) technical evaluation, (ii) delivery schedule, (iii) extent of cooperation from the Government concerned, and (iv) financial evaluation were considered relevant for selection of the firm for supply of the SPVs.

[Sl. No. 1 (Para No. 2.47) of Appendix II to 187th Report of PAC
(8th Lok Sabha)]

The technical evaluation factor was sub-divided into three categories viz. (a) best vessel, (b) maintenance and logistic support and (c) transfer of technology. The Committee note that whereas firm 'B' was throughout considered superior both by the NHQ and the PSU on categories (b) and (c), the difference in favour of firm 'A' in respect of category (a) was 7 marks as on 20 May 1980 out of a total of 2000 marks and this increased to 174 marks as on 30 June 1980, mainly because marks of firm 'B' under this category was reduced by 151 marks from 1709 to 1558. The Committee also note that while reducing the marks in June 1980 from the marks given earlier to firm 'B' in May 1980 the NHQ had qualified its reduction with the observation that the noise factor for which reduction was made as "a nebulous area and thus cannot be accurately worked out due to absence of proper data." In this connection, the Committee note that the offer of firm 'A' as it turned out after the final revision as late as 30 June 1980, was only marginally in excess of the evaluation marks that were awarded to firm 'B' considering the fact that the maximum marks were 4000 and the net difference between the offers was only 84. The Committee feel that the difference is marginal and not decisive, particularly when the NHQ had stated both on 19.6.80 and on 30.6.80 that the marginal differences in the overall matrix between firm 'A' and firm 'B' should not be given too great a weightage and that either of the SPVs would be suitable to them. The Committee also note that firm 'A' had not supplied SPVs to several countries and had an established reputation in the international market.

[Sl. No. 2 (Para No. 2.48) of Appendix II to 187th Report of PAC
(8th Lok Sabha)]

In respect of category (c) viz. transfer to technology the Committee note that firm 'B' had throughout maintained a lead. In this connection the PSU which was vitally concerned with this evaluation was categorical in its observation that in view of the past experience of firm 'B' in building SPVs for other countries as also the association of firm 'B' with a reputed design agency, their preference for collaboration was for firm 'B'.

**[Sl. No. 3 (Para No. 2.49) of Appendix II to 187th Report of PAC
(8th Lok Sabha)]**

With regard to the important factor of delivery schedule, the Committee note that firm 'B' always had a shorter delivery period than firm 'A' by about 11 months. The Committee also note that even as late as 29 June 1980, firm 'A' had specifically accepted that it had not succeeded in catching up with the delivery period offered by firm 'B'. The Committee are of the view that the delivery period is an overriding consideration especially in defence matters. Even with regard to transfer of technology, which is of paramount importance, firm 'B' was always considered distinctly better than firm 'A'.

**[Sl. No. 4 (Para No. 2.50) of Appendix II to 187th Report of PAC
(8th Lok Sabha)]**

Though the NHQ had, at one stage, stated that better cooperation could be expected from country 'X', as that country would be supplying SPV for the first time outside their country, the Committee are of the view that the extent of cooperation that could be expected from the concerned Government over the long cycle of the project, is largely a matter of political judgement of the Government.

**[Sl. No. 5 (Para No. 2.51) of Appendix II to 187th Report of PAC
(8th Lok Sabha)]**

With regard to the factor, financial evaluation, the Committee note that even before the departure of a delegation to countries 'X' and 'Y' in April 1980 the firms had given what was stated to be their final offers based on which the evaluations were done for the CCPA paper dated 8 March 1980. The Committee also note that despite this position, another revised offer had been received on 2 May 1980 from firm 'A' in the context of the discussion held during the visit of the Indian delegation in April-May 1980 and that firm 'A' had categorically expressed therein its inability to reduce the price further. The Committee conclude from these observations that by the middle of May 1980 the Ministry had received the final offers from all the firms for evaluation and that there was no necessity for the Ministry to entertain any further communication on the financial terms after the

CCPA paper was prepared. Notwithstanding this, the Committee note that the Ministry did project as many as 7 modifications offered by firm 'A' between 9 and 29 June, 1980 and brought to the notice of the CCPA orally the effect of the changes made. The Ministry did not take the stand that once the final offer were received such unilateral changes ought not be normally entertained without also giving the other party a chance to revise its offer.

[Sl. No. 6 (Para No. 2.52) of Appendix II to 187th Report of PAC
(8th Lok Sabha)]

The Committee note that the evaluation done at the time of a supplementary CCPA paper in the middle of June 1980 also indicated that the offer of firm 'B' continued to be financially better than that of firm 'A'. The Committee, however, find that the financial evaluation tilted in favour of firm 'A' only when the last unilateral modification was offered on 29 June 1980 by firm 'A' for foregoing escalation for a period of about 11 months, by which it was falling short of the delivery period offered by firm 'B'. It is interesting to note that this modification had been proposed on the ground that the Indian Government was interested in early delivery as indicated during discussions in July 1979 and in April-May 1980. Since the intention of Government was known long back, the Committee feel that any reduction on this score ought to have been offered when the firm gave its offer on 12 May 1980. Having regard to the circumstances and the manner in which the revisions in terms of offer were made by firm 'A' alone, it is obvious that firm 'A' sensed that in the evaluation done by the Ministry of Defence the rates offered by it worked out to be more than that offered by firm 'B' and, with a view to offset this financial effect, firm 'A' started making one concession after another. Under these circumstances there was no justification for entertaining any of the unilateral concessions offered by firm 'A' after 12 May 1980, particularly on 29 June 1980, when the last day for acceptance was 30 June 1980.

[Sl. No. 7 (Para No. 2.53) of Appendix II to 187th Report of PAC
(8th Lok Sabha)]

Action Taken

These are in the nature of observations/statement of facts/conclusions drawn by the PAC. The ATNS on para No. 55 of the PAC's report already prepared and forwarded to the Lok Sabha Sectt./PAC's Branch, vide MOD OM No. 2(4)/89/D(N. III) dt. 1.2.91 duly take care of all the recommendations made by the PAC, including those mentioned at Sl. Nos. 1, 2, 3, 4, 5, 6, 7, 9, 10 and 11 of Annex-II of the Report.

[Ministry of Defence O.M. No. 2(4)/89/D(N. III), dated 8.10.1991]

Recommendation

Even with regard to the financial evaluation as done, the Committee are concerned to note that comprehensive data on timings of payments of various instalments was not obtained in respect of any of the offers. As a result a proper discounted cash flow statement was not prepared so as to indicate correctly the effects of escalation and interest on the payments made from time to time. In the absence of such an assessment of financial commitment, any other method of evaluation can be only an approximation and would not indicate a clear picture of the financial effect. The Committee recommend that the financial effects may invariably be assessed in accordance with sound commercial principles and, if guidelines do not exist at present, they may be drawn up in consultation with Audit for future compliance.

[Sl. No. 8 (Para No. 2.54) of Appendix II to 187th Report of PAC
(8th Lok Sabha)]

Action Taken

Necessary guidelines for financial evaluation and procurement of B&D spares have been issued by the Finance Division of the MOD.

[Ministry of Defence O.M. No. 2(4)/89/D(N. III) dated 1.2.1991]

Recommendations

From the manner in which the financial evaluation has been done in this case, the Committee note that the final cost estimated in the case of firm 'A' was Rs. 268 crores (*vide* item 3 in the table in paragraph 2.31) and about four-fifth of this amount (about Rs. 214 crores) would have remained locked up with firm 'A' for one year because the delivery schedule was more by 11 months in the case of firm/as compared to firm 'B' (*vide* table given in paragraph 2.17). So even if interest of 10 per cent is calculated on this locked up amount for 11 months, the Committee note that the interest of about Rs. 19 crores would have more than offset the difference between the two offers. The Committee are, therefore, of the view that the concessions offered were themselves not adequate to tilt the financial evaluation in favour of firm 'A' even as on 30 June 1980.

[Sl. No. 9 (Para No. 2.55) of Appendix II to 187th Report of PAC
(8th Lok Sabha)]

Having regard to the results of the various factors analysed, the Committee feel that the decision of the CCPA in favour of firm 'B' was a logical one with reference to the facts reported to it from time to time and could not have been otherwise.

[Sl. No. 10 (Para No. 2.56) of Appendix II to 187th Report of PAC
(8th Lok Sabha)]

The Committee consider it unfortunate that a responsible retired officer, who was in overall command of the Navy at the relevant time, should have given contradictory and subjective evidence that is contrary to the facts as reported consistently in written documents submitted by his own office till the last date of consideration of the case by the CCPA.

**[Sl. No. 11 (Para No. 2.57) of Appendix II to 187th Report of PAC
(8th Lok Sabha)]**

Action Taken

These are in the nature of observations/statement of facts/conclusions drawn by the PAC. The ATNS on para No. 55 of the PAC's report already prepared and forwarded to the Lok Sabha Sectt./PAC's Branch, vide MOD OM No. 2(4)/89/D(N. III) dt. 1.2.91 duly take care of all the recommendations made by the PAC, including those mentioned at Sl. Nos. 1, 2, 3, 4, 5, 6, 7, 9, 10 and 11 of Annex-II of the Report.

[Ministry of Defence O.M. No. 2(4)/89/D(N.III) dated 8.10.1991]

Recommendation

With regard to the difficulties in the preparation of a supplementary or revised CCPA paper in a case of this type, the Committee do appreciate the problems explained by the Defence Secretary during his evidence. Notwithstanding the same, the Committee wish to emphasise the need for taking decision on the basis of a formal note incorporating all relevant parameters and evaluations, avoiding the contingency of oral submission modifying the contents of the formal note.

**[Sl. No. 12 (Para No. 2.58) of Appendix II to 187th Report of PAC
(8th Lok Sabha)]**

Action Taken

The Department of Defence are issuing broad and comprehensive guidelines with regard to the negotiations and conclusion of major defence contracts. These guidelines would also cover the aspect of entering into Memorandum of understanding with foreign Government in cases of large procurement of sensitive defence equipment. It is expected that with the promulgation of these broad guidelines, it would be possible for the MOD to avoid the recurrence of omissions/lapses as pointed out by the Audit in the instant case. However, it must be borne in mind that is not possible to issue detailed guidelines which can cover all developments and contingencies that may arise in cases of such high value Defence procurements of major weapons/weapon systems and hence a lot will have to be left to the discretion/decision of the members of the Technical Committees/PNCs, Senior Officers of Services/HQ/MOD who will have to use their own judgement in such matters.

[Ministry of Defence O.M. No. 2(4)/89/D(N. III) dated 1.2.1991]

Recommendations

The Committee regret to note that there was a delay of 18 months in the signing of the contract with firm 'B' after approval of the selection of firm 'B' by the CCPA on 30 June 1980, and this resulted in the payment of Rs. 21.33 crores as escalation between the date of the offer and the date of signing of the contract, in addition to a sum of Rs. 5.8 crores, as gratia.

[Sl. No. 13 (Para No. 3.21) of Appendix II to 187th Report of PAC
(8th Lok Sabha)]

It is evident from the difficulties that arose in finalising the contract, that at the initial stages when the offers were obtained, notwithstanding sufficient time having been taken adequate details were not obtained and the assessment of technical parameters was not as satisfactory as it ought to have been. It is, therefore, imperative that both the Navy and the Ministry should draw appropriate lessons from this and take steps to avoid recurrence of such delays and consequential avoidable expenditure in future.

[Sl. No. 14 (Para No. 3.22) of Appendix II to 187th Report of PAC
(8th Lok Sabha)]

Action Taken

The NHQ have issued a directive in this regard. The MOD are also issuing comprehensive guidelines in respect of the conduct of negotiations and the conclusion of major defence contracts. These are being finalised in consultation with the 3 service HQs as well as the Deptt. of Defence Production & Supplies and the MOD.

[Ministry of Defence O.M. No. 2(4)/89/D(N.III), dated 1.2.1991]

Recommendation

The Committee would like to know why all aspects relating to self-noise, including right of rejection could not be settled satisfactorily earlier starting from the initial stages of negotiation.

Now that the SPVs to be built abroad have been delivered the Committee would like to know the actual level of performance in relation to the expected level and steps taken, if any, to achieve the same.

[Sl. No. 15 (Para No. 3.23) of Appendix II to 187th Report of PAC
(8th Lok Sabha)]

Action Taken

The self-noise figures were a part of the evaluation matrix and these were received in response to queries made to suppliers, including HDW. Rough figures were provided by most of the suppliers but during various oral discussions, they showed a reluctance to give the exact figures (where available) due to security considerations at the negotiating stage. The figures obtained, in answer to various questionnaires were therefore not accurate but were only used as guidelines for evaluation.

2. M/s HDW had given some indicative figures but during the final negotiations brought out the following difficulties in the same:—

- (a) According to them in their earlier constructions for The German Navy, they were never asked to give a guarantee figures and therefore a lack of authentic data in this regard. Their estimation was based primarily on the sonar performance.
- (b) Their measurements were carried out in the harbour where there was considerable shipping as well as background sea noise which could not be controlled the background thus invariably formed a part of the overall measurements. There was no reliable way of isolating the self-noise of the submarine from the overall noise recorded.

3. In view of the foregoing, a set of figures was evolved after negotiations which were agreed upon and incorporated in the building specifications. On their actual measurement during the acceptance trials of the submarines, the figures obtained were equal to or better than those indicated as the guarantee figures in the building specifications. However the figures of selfnoise agreed upon and actually obtained cannot be divulged as these are highly sensitive and constitute operational data of the submarines.

4. The two submarines commissioned in Kiel, West Germany, have been in operation in Indian waters for more than three years and their performance has been satisfactory.

[Ministry of Defence O.M. No. 2(4)/89/D(N.III), dated 1.2.1991]

Recommendation

The Committee are of the view that the whole matter relating to listing and acquisition of B&D spares has been dealt with in a perfunctory and piecemeal manner. The original quotations for spares of A&B firms, viz. Rs. 19.31 crores and Rs. 5.44 crores respectively were only budgetary or *ad hoc* figures neither fully reflecting India's spares philosophy nor comparable. In August 1979 itself it was decided to exclude B&D spares

for comparative financial evaluation. The Committee wonder why in the CCPA paper, while making an overall comparison of the total cost of the two offers, the cost of spares was not excluded or shown separately, though the cost of spares was specifically excluded in the comparison of the estimated payments to the foreign yards.

[Sl. No. 16 (Para No. 4.11) of Appendix II to 187th Report of PAC
(8th Lok Sabha)]

Action Taken

Necessary guidelines for financial evaluation and procurement of B&D spares have been issued by the Finance division of the MOD.

[Ministry of Defence O.M. No. 2(4) 189/D (N.III), dated 1.2.1991]

Recommendations

It is also regrettable that subsequently adequate efforts were not made to ensure that the spares requirements were listed and procured without delay resulting in avoidable cost escalation. In the agreement with firm 'B' a suitable clause could have been provided that firm 'B' would also be liable for any additional cost that Government might incur as a result of its delay in supplying full list of spares by the prescribed date.

[Sl. No. 17 (Para No. 4.12) of Appendix II to 187th Report of PAC
(8th Lok Sabha)]

All these clearly indicate the need to streamline the procedure for assessment and procurement of spares in a more timely and systematic manner in future.

The Committee recommend that the Ministry should take note of the lesson learnt from the experience in respect of evaluation and provisioning for spares to ensure better systems and accountability.

[Sl. No. 18 (Para No. 4.13) of Appendix II to 187th Report of PAC
(8th Lok Sabha)]

Action Taken

The NHQ have promulgated the procedure to be followed for acquiring spares for new acquisitions of ships/submarines.

[Ministry of Defence O.M. No. 2(4)/89/D(N.III), dated 1.2.1991]

Recommendations

Unfortunately due to revision of construction schedule, the warranties of all the items except the main batteries have since expired. The Committee feel that the contract could have provided for extension of guarantee period, subject to certain conditions and ceilings, if the time schedule was not maintained.

[Sl. No. 20 (Para 5.12) of Appendix II to 187th Report of PAC
(8th Lok Sabha)]

The Committee consider it unfortunate that a large number of items which were supplied in semi-finished condition by firm 'B' had to be processed further indigenously incurring additional expenditure and resulting in loss of time. The contract perhaps could have been worded more precisely to take care of this difficulty. The Committee also consider it unfortunate that firm 'B' did not impart on-the-job training to the 76 operative personnel of the PSU deputed to the foreign shipyard for this purpose, contrary to the main intention and spirit of the contract in this regard.

[Sl. No. 21 (Para No. 5.13) of Appendix II to 187th Report of PAC
(8th Lok Sabha)]

Action Taken

The Deptt. of Defence Production & Supplies have issued necessary instructions to the Chief Executive of the Shipyards, Director General of the Ordnance Factories and others concerned.

[Ministry of Defence O.M. No. 2(4)/89/D(N.III), dated 1.2.1991]

Recommendation

The Committee recommend that comprehensive guidelines should be drawn up by Government with regard to the negotiations and implementation of defence contracts, so as to improve efficiency and effectiveness within the specific time frame. The Organisational structures and systems will have to be improved and streamlined to ensure better results and greater accountability in a world of increasing specialisation, speed and sophistications.

[Sl. No. 23 (Para No. 5.15) of Appendix II to 187th Report of PAC
(8th Lok Sabha)]

Action Taken

The Department of Defence are issuing broad and comprehensive guidelines with regard to the negotiations and conclusion of major defence contracts. These guidelines would also cover the aspect of entering into Memorandum of understanding with foreign Government in cases of large procurement of sensitive defence equipment. It is expected that with the promulgation of these broad guidelines, it would be possible for the MOD to avoid the recurrence of omissions/lapses as pointed out by the Audit in the instant case. However, it must be borne in mind that it is not possible to issue detailed guidelines which can cover all developments and contingencies that may arise in cases of such high value Defence procurements of major weapons/Weapon systems and hence a lot will have to be left to the discretion/decision of the members of the Technical Committee/PNCs, Senior Officers of Services/HQ/MOD who will have to use their own judgement in such matters.

[Ministry of Defence O.M. No. 2(4)/89/D(N.III), dated 1.2.1991]

CHAPTER III

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

Recommendation

The Committee are surprised to be informed that one of the causes for delays was in commissioning automatic welding stations due to damage in transit and theft of electronic parts in transit. The Committee wonder how in import of defence equipment such damages and thefts could have taken place. The Committee consider this a serious matter and would like to be informed of the results of inquiry as to how the damages took place and how thefts could take place despite the expected level of high security arrangements in handling the equipment.

[Sl. No. 22 (Para No. 5.14) of Appendix II to 187th Report of PAC
(8th Lok Sabha)]

Action Taken

No specific enquiry was instituted regarding damage/theft in respect of automatic welding stations as it was not ascertainable whether the theft took place on the high seas or in the Bombay Port Trust. However, insurance claim was duly lodged and compensation was received. The automatic welding stations had been procured at a cost of Rs. 1,94,41,500/-. A claim for Rs. 3,11,647/- was lodged on M/s New India Insurance Co. Ltd., Bombay who have since paid the same in full.

[Ministry of Defence O.M. NO. 2(4)/89/D(N.III), dated 1.2.1991]

CHAPTER IV

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

Recommendation

The Committee note that the construction of the two SPVs by the PSU which was originally estimated to be completed in 1987 and 1988 respectively is now expected to be completed by 1990 and 1991. The Committee hope that there would be no further slippages from the revised schedule for the construction of both the SPVs at PSU.

[Sl. No. 19 (Para No. 5.11) of Appendix II to 187th Report of PAC (8th Lok Sabha)]

Action Taken

The two submarines under construction at MDL, Bombay are now expected to be commissioned by end July, 1991, and December 1992 respectively.

The following factors have contributed to the continued slippages in the construction schedule of the SSK Submarines at M/s MDL:—

- (a) This was the first project of its kind under-taken in an Indian shipyard.
- (b) The original construction schedule of 42 months was itself accepted by M/s MDL, based entirely on the projections of M/s HDW. Finally, on hindsight, even HDW could not construct similar submarines in 42 months and, in fact, took 57 months for the construction of SSKs 1 and 2.
- (c) A number of facilities had to be created denovo at MDL. The civil works alone accounted for a six month time overrun which affected the construction schedule thereafter.
- (d) Tropicalisation of the welding techniques took considerable time.
- (e) Stringent quality controls are being exercised even in those areas which were neither specified nor practiced at M/s HDW.
- (f) There have been some delays as the Indian sub-contractors often failed to adhere to delivery schedules. Also, at times the equipment supplied by M/s HDW has been found to be defective on examination at MDL. These have contributed to delays in the construction programme.

These factors have affected the construction programme from its very inception, and despite best efforts, it has not been possible for M/s MDL to completely overcome these.

However, the construction of the two submarines at MDL is being regularly monitored by the SSK Project Management Board as well as the SSK Steering Committee and efforts are being made to prevent any further slippages in the construction schedule.

[Ministry of Defence O.M. No. 2(4)/89/D(N.III), dated 1.2.1991]

CHAPTER V

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

-NIL-

**NEW DELHI;
April 28, 1992**

Vaisakha 8, 1914 (S)

**ATAL BIHARI VAJPAYEE,
Chairman
Public Accounts Committee.**

APPENDIX I

Conclusions and Recommendations

Sl. No.	Para	Ministry concerned	Recommendations/conclusions
1	2	3	4
1	1.9	Ministry of Defence	In their earlier report the Committee had expressed their concern over the fact that there was a delay of 18 months in the signing of the contract with firm 'B' after approval of the selection of firm 'B' by the CCPA on 30 June, 1980 and this resulted in the payment of Rs. 21.33 crores as escalations between the date of the offer and the date of signing of the contract, in addition to a sum of Rs. 5.8 crores, as <i>ex-gratia</i> . The Committee had recommended that comprehensive guidelines should be drawn up by Government with regard to the negotiations and implementation of defence contracts, so as to improve efficiency and effectiveness within the specific time frame. In pursuance of the Committee's recommendation, Government have issued comprehensive guidelines relating to the conduct of negotiations and conclusion of the major defence contracts. The Committee recommend that these guidelines should be effectively followed both in letter and spirit by all concerned and any unauthorised deviation from these guidelines should be viewed very strictly. These guidelines should also be reviewed periodically with a view to further re-vamping them in the light of the experience gained.
2.	1.13	Ministry of Defence	In their earlier report the Committee had noted that the construction of the two special purpose vessels by the Public Sector Undertaking which has originally estimated to be completed in 1987 and 1988 respectively were now expected to be completed by 1990 and 1991. The Committee are concerned to note the wide

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

slippages even from the revised schedule for the construction of both the vessels. While the first vessel was commissioned on 7th February, 1992 with a delay of about five years as per the original schedule, the second vessel is still under construction and is expected to be commissioned in September, 1993. The Committee express their strong displeasure over this inordinate delay in meeting the urgent requirements of the Navy for these vessels. The Committee recommend that efforts should be made by all concerned to ensure the construction and commissioning of the second vessel at the earliest.

PART II

MINUTES OF THE 21ST SITTING OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON 28 APRIL, 1992

The Committee sat from 1000 hrs. to 1100 hrs. on 28 April, 1992.

PRESENT

CHAIRMAN

Shri Atal Bihari Vajpayee

MEMBERS

LOK SABHA

2. Shri Girdhari Lal Bhargava
3. Shri Nirmal Kanti Chatterjee
4. Shri Arvind Netam
5. Shri Kashiram Rana
6. Shri R. Surender Reddy
7. Shrimati Krishna Sahi
8. Shri Pratap Singh

RAJYA SABHA

9. Shri Dipen Ghosh
10. Shri H. Hanumanthappa
11. Shri Vishvjit P. Singh
12. Shri Ish Dut Yadav

SECRETARIAT

- | | |
|----------------------|-------------------------------|
| 1. Shri G.L. Batra | — <i>Additional Secretary</i> |
| 2. Shri S.C. Gupta | — <i>Joint Secretary</i> |
| 3. Smt. Ganga Murthy | — <i>Deputy Secretary</i> |
| 4. Shri K.C. Shekhar | — <i>Under Secretary</i> |

REPRESENTATIVES OF AUDIT

1. Shri N. Sivasubramaniam — ADAI (Reports)
2. Shri A.K. Menon — ADAI (Air Force & Navy,
and Ordnance Factories)
3. Shri A.K. Banerjee — Pr. Director (Reports)
4. Shri P.K. Bandhopadhyay — Pr. Director (Indirect Taxes)
5. Shri S.C. Anand — Director General of Audit (P&T)
6. Mrs. Sudarshana Talapata — Director of Audit,
Defence Services.

2. The Committee took up for consideration the following draft Reports:

(i) * * * * *

(ii) * * * * *

(iii) * * * * *

(iv) Infructuous and avoidable extra expenditure in the acquisition of certain special purpose naval vessels [Action Taken on 187th Report of Public Accounts Committee (8th Lok Sabha)]

(v) * * * * *

3. The Committee adopted the draft Reports at (i), (iii) and (iv) above with certain modifications as shown in Annexures I*, II* and III respectively. The Committee adopted the draft Report at (ii) above without any amendment. The Committee further decided to defer adoption of the draft report at (v) above.

4. The Committee authorised the Chairman to present the Reports to the House after incorporating therein modifications/amendments arising out of factual verification by Audit and clearance of the Report relating to Procurement of defective imported parachutes from the security angle by the Ministry of Defence.

The Committee then adjourned.

AMENDMENTS/MODIFICATIONS MADE BY THE PUBLIC ACCOUNTS COMMITTEE IN THE DRAFT REPORT ON ACTION TAKEN ON 187TH REPORT (8TH LOK SABHA) RELATING TO INFRACTUOUS AND AVOIDABLE EXTRA EXPENDITURE IN THE ACQUISITION OF CERTAIN SPECIAL PURPOSE NAVAL VESSELS AT THEIR SITTING HELD ON 28TH APRIL, 1992.

PAGE	PARA	LINE	AMENDMENTS/MODIFICATIONS
8	1.13	11	<i>Add "Still" after "Vessel is"</i>