

**PUBLIC ACCOUNTS COMMITTEE
(1978-79)**

(SIXTH LOK SABHA)

HUNDRED AND NINETEENTH REPORT

DEFENCE SERVICES

MINISTRY OF DEFENCE

[Paragraph 26 of the Report of the Comptroller and Auditor General of India for the year 1976-77, Union Government (Defence Services) relating to Contract for Supply of Empty Bodies of an Ammunition.]



*Presented in Lok Sabha on 3-4-1979
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**LOK SABHA SECRETARIAT
NEW DELHI**

March, 1979/Chaitra, 1901 (S)

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PUBLIC ACCOUNTS COMMITTEE (SIXTH LOK SABHA).

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55	Line 16 under column 4		codified	modified
59	Lines 13-14 under column 4		un-quivocal	unquivocal
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*Part II

Minutes of the sittings held on

- 10-8-1978 (AN)
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INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Hundred and Nineteenth Report of the Public Accounts Committee (Sixth Lok Sabha) on paragraph 26 of the Report of the Comptroller and Auditor General of India for the year 1976-77, Union Government (Defence Services) relating to Contract for Supply of Empty Bodies of an Ammunition.

2. The Report of the Comptroller and Auditor General of India for the year 1976-77, Union Government (Defence Services) was laid on the Table of the House on 6 May 1978. The Public Accounts Committee examined the paragraph at their sittings held on 10 and 11 August 1978 and considered and finalised this Report at their sitting held on 26th March 1979.

3. A statement containing main conclusions/recommendations of the Committee is appended to this Report (Appendix). For facility of reference these have been printed in thick type in the body of the Report.

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

5. The Committee would also like to express their thanks to the Ministry of Defence for the cooperation extended by them in giving information to the Committee.

NEW DELHI;
March 30, 1979
Chaitra 8, 1901 (S).

P. V. NARASIMHA RAO,
Chairman,
Public Accounts Committee

REPORT

Contract for supply of empty bodies of an ammunition

Audit paragraph

1.1. Heat and practice versions of empty bodies for an ammunition were being manufactured by an ordnance factory (sanctioned capacity 42,000 numbers : actual production about 21,000 numbers). In December 1963, an order for 25,000 numbers of empty bodies (heat version) was placed through the Director General Supplies and Disposals on firm 'A'. Under the terms of this order, bulk production was to commence only after the approval of a sample. On the successful completion by the firm of development of a sample of this item in August 1968 (i.e., after 5 years), approval for bulk production was under consideration by the Department of Defence Supplies. In August 1969, the Department decided to meet part of the then existing deficiency of empty bodies by placing an order on trade. In January 1970 the Director General, Ordnance Factories (DGO) suggested that the order on trade should be for practice version only as the ordnance factory was not manufacturing this version any longer. Since development work on the heat version had already been completed (by firm 'A'), it was decided by the Department of Defence Supplies to modify the design of the practice version to conform to that of the heat version and to place orders on trade for 75,000 numbers of empty bodies (practice version). The Department of Defence Supplies, after negotiations with firm 'A' and another firm 'B', concluded (December 1970) a contract with firm 'B', (the offer of which was lower) for supply of 75,000 numbers (at the rate of Rs. 252 each for the first 50,000 and Rs. 239.40 each for the remaining), the delivery to be completed within 25 months of the approval of a sample. Firm 'B' did not, however, make any supply owing to financial difficulties.

1.2. In January 1972, the Army Headquarters reviewed the requirements of the ammunition (both heat and practice versions) in the context of a proposal to introduce a more sophisticated weapon in service. At a meeting held in February 1972 in the Ministry of Defence, it was decided that manufacture of the ammunition by the DGO should be suspended and that the contract with firm 'B' for supply of empty bodies should be cancelled without financial repercussions. The contract with firm 'B' was not, therefore, pursued further.

1.3. In July 1973, the Army Headquarters, on a further review of the requirements of the ammunition (heat and practice versions), revived their outstanding order for the ammunition and suggested that the supply be completed in a period of two to three years. In March, 1974, the DGOF requested the Department to expedite the supply of empty bodies (practice versions).

1.4. The Department of Defence Supplies thereupon invited (March 1974) fresh quotations for supply of 75,000 empty bodies (practice version). Negotiations were initiated with 3 firms 'A', 'C' and 'D', the quotations of which ranged from Rs. 600 to Rs. 1,000 per unit.

1.5. In June 1974, at the instance of the Ministry of Finance (Defence), the Army Headquarters reviewed their requirement of practice ammunition and agreed to reduce the order to 50,000 numbers covering the requirement upto 1981-82 at reduced scales of training as induction of the new weapon (referred to earlier) was likely to commence from 1978-79 and phasing out of the existing weapon would be completed by 1982-83 only. The schedule of manufacture of practice ammunition that was considered acceptable to DGOF was as follows:

<i>Year</i>	<i>Numbers</i>
1974-75	10,000
1975-76	15,000
1976-77	15,000
1977-78	10,000
	<hr style="width: 100%; border: 0.5px solid black;"/> 50,000

1.6. It was also stated that the DGOF would not require supply of empty bodies from trade for the above schedule of manufacture. The Ministry of Finance (Defence), therefore, suggested (June 1974) that empty bodies might be manufactured by the ordnance factory in view of the cheaper cost of manufacture by it (Rs. 527) when compared to the offer of the trade (Rs. 600).

1.7. However a contract was placed in October 1974 on firm 'C' with the concurrence of the Ministry of Finance (Defence), for 37,551 numbers of empty bodies (the balance of 12,449 numbers to be manufactured by the ordnance factory) of the practice version at a cost of Rs. 600 per unit (total value: Rs. 2.25 crores) for delivery during July 1975—July 1976, on the following grounds:

the trade price compared favourably with the cost of production in ordnance factory, if elements of profit, escalation, financial charges were taken into account;

the capacity for production of empty bodies in ordnance factory had already been diverted to other items of manufacture and the DGOF would have no objection if orders were placed on trade after consideration of balance of advantage;

negotiations had already been finalised with the firm.

1.8. In February 1976, the contract with firm 'C' was amended providing for grant of 'on account' payment to the extent of 90 per cent of the value of raw materials and components upto a ceiling of Rs. 20 lakhs. The 'on account' payment was to be made against suitable bank guarantee and was to carry interest at 12 per cent per annum. A total sum of Rs. 13.55 lakhs was paid as 'on account' payment to firm 'C' in 2 instalments (Rs. 7.49 lakhs in August 1976 and Rs. 5.86 lakhs in September, 1976).

1.9. Firm 'C' submitted advance samples in November, 1975 against the stipulated date of April, 1975. Clearance for bulk production was given by Inspectorate of Armaments in February, 1976. The first consignment of supplies was delivered in August 1976 but was rejected in November 1976 by the Senior Inspector of Armaments as "the store was found not acceptable." Consequently the Department of Defence Supplies cancelled (November 1976) the contract. The 'on account' payment of Rs. 13.55 lakhs made to firm 'C' was outstanding but the bank guarantee furnished by firm 'C' was not invoked. In December 1977, after review by the Department of Defence Supplies, the contract with firm 'C' was revived for a quantity of 28,000 numbers (against the contracted quantity of 37,551 numbers) to be supplied by October, 1978.

1.10. The Department of Defence Supplies stated (December 1977) that as the contract had been revived the bank guarantee furnished by firm 'C' stood automatically revalidated.

1.11. Since only a very limited supply of practice ammunition was being made by the DGOF since 1971-72, the Army had been meeting the requirements of training at reduced scale with heat ammunition which was more expensive.

[Paragraph 26 of the Report of the Comptroller and Auditor General of India for the year 1976-77, Union Government (Defence Services)].

Production of the ammunition in the Ordnance Factories

1.12. Heat and Practice Versions of empty bodies for an ammunition were being manufactured by an ordnance factory. The representative of the Ministry of Defence informed the Committee during evidence that this weapon was introduced in the Indian army during 1957-58 on imports from a certain country. The Committee desired to know the exact quantity of this ammunition imported in 1957-58 and also the details of the imports of this ammunition undertaken subsequently. In a note, the Department of Defence Supplies intimated as follows:

“The first supply of the ... ammunition during the year 1957-58 was as follows:

Heat	.	.	1,17,856 No.
Practice	.	.	54,650 Nos.

No subsequent imports of the stores were made.”

1.13. The Committee desired to have a brief description of both the Heat and Practice type of the ammunition. Explaining the position, the Secretary of the Department stated as follows:

“This was first imported in 1957-58 from a certain country. We imported two types of ammunition—the heat version (required for battlefield and exercises) and the practice version (required for training the troops). After importing for some time, we decided to manufacture both these in our country and the decision was taken in 1963 to set up alternate sources in the trade for manufacturing heat version, which is this ammunition. It was decided that Ordnance Factories would manufacture both heat and practice versions, so that in case more Heat version is required in emergencies, there would be two sources, the trade and also ordnance factories.”

1.14. The Committee enquired about the dates on which the production of the ammunition *vis-a-vis* the production of the bodies for heat and practice versions was established in the ordnance factories. As intimated by the Department of Defence Supplies, the

dates of establishment of production in Ordnance factories of empty bodies and the filled ammunition were as follows:

	Empty Body	Filled and passed-proo. ammunition issue to Depot.
Heat version	June 1963	1963-64
Practice Version IA	1965-66	1967-3

1.15. According to Audit paragraph, the factory manufacturing the empty bodies of the Heat and Practice versions of the ammunition had a sanctioned capacity of 42,000 Nos., but actual production achieved was to the extent of only 21,000 Nos. The Committee desired to know the reasons for the non-achievement of the sanctioned capacity for the production of the empty bodies in the factory. In a note, the Department of Defence Supplies stated as follows:

"No project was allocated to the Ordnance Factories specifically for the manufacture of either the hardware or the filling of this ammunition. Production was planned on the basis of using the existing facilities available in the Ordnance Factories, with marginal additional balancing plant. Since no separate facilities were provided, the production rate was obviously related to the available capacities depending on the product-mix and priorities of other items. In 1961, in the context of the then prevailing conditions, a production rate of 3500 Nos. p.m., i.e., 42,000 Nos. per year was assessed as possible."

1.16. The Committee desired to know whether technology for the manufacture of this ammunition was also imported along with the ammunition. The representative of the Ministry of Defence stated as follows:

"We did not go into any collaboration. We manufactured it with the samples and drawings that we could procure."

1.17. On an enquiry as to the time taken at the Ordnance Factories to commence manufacture of the equipment, the representative of the Ministry explained as follows:

"Serious efforts were made from 1960. The task was relating to four different aspects—

1. To develop new type of propellant.

2. Hardware manufacture.

Though we got indent in 1959, we had to make tools. By 1960—63 we started issuing small quantities to Army and much more from 1963-64. So, we took about three years to start manufacture of this item."

1.18. The Committee enquired from the C & AG the basis for the incorporation in the Audit paragraph of the capacity of the Ordnance Factory to produce 42,000 numbers of empty bodies. The C & AG explained that it emanated from the statement made by the Director General of Ordnance Factories at the meeting held in the room of the Special Secretary (Defence Production) on 25 August 1969 to discuss the indigenous development of the ammunition as per the extracts from the relevant minutes reproduced below:

"...Although its sanctioned capacity was 3,500 per month, i.e. 42,000 per annum, its actual production was 2,000 per month, i.e. 24,000 per annum. He was not in a position to increase production because some of his equipments had been diverted for producing other items."

1.19. When the Committee desired to know whether it was the Ministry's contention that the aforesaid statement was not factually correct, the Secretary of the Department explained as follows:

"I would not dare to suggest that, but the point is that I have not been able to trace from our records this figure of 42,000 being mentioned as the production at that point of time, in 1962-63. Later on, in the minutes of the meeting held on 25-8-1969 the DGOF has mentioned that there was a sanctioned capacity of 42,000 and he was unable to achieve more than 24,000, but no new projects or new lines of production were specifically sanctioned for manufacture."

1.20. The Committee desired to know the details of the types of things to which the capacity of the Ordnance Factory was diverted to, which affected the production of empty bodies. The representative of the Ministry of Defence stated as follows:

"In October 1962 the Army wanted to maximise the production of arms and ammunitions and, at the same time, the Army took a decision to modernise their equipment. So they asked us to change over to better types of arms and ammunition."

1.21. Subsequently, at the instance of the Committee, the Department of Defence Supplies, furnished the following note indicating the details of the other items/activities for which the said diversions were made:

“While originally it was contemplated to establish a capacity of 3500 p.m. with the then product-mix, the position had itself changed radically by 1963 when the production of a number of items like Primers, Fuzes, had to be stepped up and introduction of some new item of Ammunition.

It was in this context that decision was taken in Defence Secretary's meeting on 16-5-1963 that, as it would not be possible to achieve increment in production of empties in Ordnance Factories without disturbing planning of other stores of equal importance, it was considered essential that Trade assistance should be sought for augmenting of capacity of empty components in Ordnance Factories.”

1.22. The Committee desired to know the annual requirements of the Army for this ammunition. In a note, the Department of Defence Supplies stated as follows:

“The annual training requirements of the Army had been varying from time to time due to the increase/decrease in force and change in scales, as will be seen from details of a few years shown below:—

<i>Year</i>	<i>Heat</i>	<i>Practice</i>
1960	1109	31670
1971	31228	66718
1972	24456	54708
1975	26459	5123

1.23. The Committee desired to know the annual production in the Ordnance Factories of Empty Bodies for Heat and Practice Versions. In a note, the Department of Defence Supplies have furnished the following year-wise production in the Ordnance Factories of Empty Bodies for Heat and Practice Versions:

<i>Year</i>	<i>Heat</i>	<i>Practice</i>	<i>Total</i>
1	2	3	4
1962-63	1040	Nil	1040
1963-64	5780	Nil	5780
1964-65	13230	Nil	13223

1	2	3	4
1965-66	15225	Nil	15225.
1966-67	16240	Nil	16240
1967-68	8120	4520	12640
1968-69	19905	2525	22430
1969-70	16242	4020	20262
1970-71	7105	6030	13135.
1971-72	19785	7035	26820
1972-73	13195	Nil	13195
1973-74	4060	Nil	4060
1974-75	Nil	Nil	Nil
1975-76	2030	Nil	2030
1976-77	7105	Nil	7105
1977-78	8120	13065	21185

1.24. When the Committee sought confirmation whether after 1962, the training might have become more serious and intensive. The Dy. Director of Ordnance Services stated as follows:

“...the ammunition were not coming. So there is no question of training being serious. When I came to the period about 1965-66, I had to completely ban the training for the Practice ammunition.”

He further added:

“In 1957-58, when we got weapons ex-import, we imported 54,650 practice ammunition... My stocks of practice depleted to 10,091 by 1 October 1961 and by 1 October 1962 I had only 4,863. That was the time when the Army started banning the use of it for practice. When we banned we fired only 6 per cent or sometimes 25 per cent.”

1.25. The Deputy D.O.S. confirmed when the Committee pointed out that the practice was badly depleted and training was affected for want of practice version.

1.26. The Committee pointed out that till 1967-68, there was no production of empty Practice version in the Ordnance Factory. It was produced for the first time in 1967-68 and the production was

4520 only. They desired to know the reasons for that. The Secretary of the Department stated:

"We were not able to manufacture or develop this item of practice ammunition as fast as it should have been."

1.27. The Committee desired to know the steps taken by Government to increase the capacity of the Ordnance Factory for the production of this item instead of seeking assistance of trade. The Director General of Ordnance Factories informed the Committee as follows:

"If you recollect, there was a deliberate Government decision for creating a Department called Department of Defence Supply by late Mr. T. T. Krishnamachari so as to simultaneously develop the Trade capability to undertake defence work. In many cases, the work was distributed, although to a lower extent to the industry, so that an alternative source is also developed in the country. That policy we are still following in the case of many of the items."

1.28. To a question as to when the aforesaid decision was taken, the Director General, Ordnance Factories informed that it was in late 1963 or in early 1964.

Procurement of the empty bodies of ammunition from Trade.

1.29. According to the Audit paragraph, in December 1963, an order for 25,000 numbers of empty bodies (heat version) was placed through the Director General, Supplies and Disposals on firm 'A'. Under the terms of this order, bulk production was to Commence only after the approval of the sample. The firm took 5 years for successful completion of the sample in August 1968.

1.30. The Committee desired to know whether the design and technology of production of empty bodies were already available with the Department when order was placed on firm 'A' in December 1963 and if so, the reasons for entrusting the development of a sample to this firm. In a note, the Department of Defence Supplies have stated:

"While the design of the store was available with the DGOF, the establishment of manufacture of the empty store commenced during 1962-63. As the rate of production in Ordnance Factories was inadequate and capacity limited,

it was considered essential to augment the requirements by obtaining supply from trade so that the immediate requirements of the services could be met."

1.31. The Committee desired to know the specific reasons for seeking the assistance of trade, when the ammunition was under production in the Ordnance Factory. In a note the Department of Defence Supplies have stated as follows:

"The outstandings as on 1-6-63 against firm demands placed by the Army totalled upto 2,27,500 Nos. (116,500 Heat, 111,000 practice version) and the Army's requirements were very urgent in order to build up their reserves as early as possible. The limiting factor was the manufacture of empties due to allocation of existing capacity for other stores required equally urgently by the Services. A decision was, therefore, taken in a meeting held in the Defence Secretary's room on 16-5-63, to obtain Trade assistance for supply of empty bodies. An indent was accordingly placed on DGS&D for 50,000 Nos. of empty bodies for Heat version of 19-6-63 which was covered by DGS&D A/T No. SCA|1|29013-P|63|60, dated 12-12-63 on the firm 'A' the quantity against which was subsequently reduced to 25,000 Nos. in February 1965, because the firm could not effect supplies."

1.32. Explaining the reasons for taking recourse to trade channels for meeting part of the requirements, the Secretary, Department of Defence Supplies stated during evidence that unless production capacity was also built up in the private sector, "in the case of emergency, there would not be a second line of production."

1.33. The Committee desired to know the requirement of empty bodies in the light of their actual production at the Ordnance Factories with reference to which it was decided to place an order on trade. In a note, the Department of Defence Supplies explained as follows:

"Since there was an urgent requirement to build war wastage reserve as early as possible and there was a limitation in the manufacturing capacity of empties, due to allocation of capacity for other stores required by services, it was proposed to place an indent for 50,000 Nos. of empties to cover approximately six months filling capacity."

1.34. Explaining the reasons for the firm taking 5 years for development of the sample for heat version, the Secretary, Department of Defence Production stated as follows during evidence:

"The delivery was to be effective after 12 to 16 weeks after the receipt of the raw materials, imported machinery, etc. That was the period of acute shortage of raw materials particularly the raw materials which are required for manufacture of this particular equipment. In addition, the firm was absolutely new to the production of a highly special and sophisticated equipment."

He further explained:

"According to the contract, even before any sample is made, the raw materials have to be approved. Part of the raw materials which were indigenous were got approved earlier in 1965 but later on, the imported raw materials had taken quite a long time to come, were approved. During the process, certain components were made and they got approved. Finally, the sample was approved in 1968."

1.35. The Committee desired to know whether any period was prescribed for development of the sample for heat version by firm 'A'. The Committee also enquired whether the long period of 5 years taken by the firm was due to design complications of incapacity of the firm. In a note, the Department of Defence Supplies intimated as follows:

"The original DGS&D A/T No. SCA/1/29013-P/63/60, dated 12-12-1963 did not specify the date by which advance samples were to be submitted. By an amendment letter dated 15 September, 1967 DGS&D stipulated the DP for submission of advance samples upto 31-12-1967. It was further extended upto 29-2-1968. The delay in development may be attributed to the fact that this particular store is highly specialised and complicated and rather difficult to manufacture. The private sector was also not accustomed to the rigid quality control requirements of armament production in the initial stages. The complicated design of the store, and in general the complexities of manufacture of defence stores resulted in a fairly long period for the development of this item."

1.36. Explaining further the reasons for this delay, the Department of Defence Supplies, *inter alia*, intimated as follows through another note :

“The firm had started production of Dies, Jigs and Punches immediately after the receipt of the order and samples of the 11 components out of the 43 components had been produced and offered for inspection within 4 months. However, on account of intricacy of the stores it had not been possible to produce complete sample before April 1968.”

1.37. The Committee desired to know the amount of foreign exchange made available to firm ‘A’ for importing material and plant and machinery for executing the order placed on them together with the details of such machine actually purchased by them. In a note, the Department of Defence Supplies stated as follows:

“DGS&D had provided F.E. to the extent of Rs. 32,128 for the import of Tin (1.005 ton), Zinc (0.045 ton), Cadmium (0.68 ton) and Steel Tubes (3.9 MT). Iron and Steel Controller had also provided Import Licence for Rs. 3,59,941 for the import of 198,236 tons of various categories of ferrous items. It had not been possible to provide any F.E. for the import of plant and machinery.”

1.38. According to Audit, contract with firm ‘A’ was closed with a supply of 1,000 numbers made between 1971 and 1974 at a price of Rs. 125 per set for the first 100 Nos. and at Rs. 252 per set for the balance 3,900 Nos.

1.39. The Committee desired to know the date on which the clearance for bulk production was accorded to firm ‘A’ together with the details of the actual supplies effected by it. The Department of Defence Supplies intimated that clearance for bulk supplies was accorded to the firm during June 1968 after satisfactory proof of 20 advance samples submitted by it. About the position of actual supplies effected by the firm, the Department intimated as follows:

“An order for 50,000 Nos. was placed on the firm ‘A’ in December 1963. However, the quantity on order with this firm was subsequently reduced to 25,000 Nos. Against this order, the firm supplied only 4,200 Nos.”

1.40. The Audit paragraph reveals that in January 1970, the Director General, Ordnance Factories suggested that the order on trade should be for practice version only as the ordnance factory

was not manufacturing this version any longer. Since development work on the heat version had already been completed by firm 'A', it was decided by the Department of Defence Supplies to modify the design of the practice version to conform to that of the heat version, and to place orders on trade for 75,000 number of empty bodies (practice version). The Department of Defence Supplies, after negotiations with firm 'A' and another firm 'B' concluded in December 1970, a contract with firm 'B' (the offer of which was lower) for supply of 75,000 numbers, the delivery to be completed within 25 months of the approval of a sample.

Financial implications of the change of Design

1.41. The Committee desired to know the cost of production in Ordnance Factories of Heat and Practice Versions of Empty Bodies from 1966-67 onwards. They also desired to know the date on which the production of practice version was stopped by the Ordnance Factory together with the reasons therefor. In a note, the Department of Defence Supplies intimated as follows:

"A statement indicating the cost of production in Ordnance Factories of Heat and Practice version of Empty Body from 1966-67 onwards as published in the Annual Accounts is given below:

Year	Heat	Practice
1966-67	235.20	Not produced
1967-68	301.74	92.86
1968-69	367.22	246.26
1969-70	381.05	285.12
1970-71	428.56	295.16
1971-72	5457.33	350.20
1972-73	*Nil production	Nil production
1973-74	1225.00	"
1974-75	Nil production	"
1975-76	805.00	"
1976-77	1050.80*	"
1977-78	1020.00	452.87 (Provi - sional)

*Excludes abnormal rejection of Rs. 32.12 per unit.

*The production of empty bodies heat version during 1972-73 was 13,195 Nos. according to another note furnished by the Department of Defence Supplies which is referred to para 1.23 of this Report.

Production of Practice version in Ordnance Factories was practically stopped w.e.f 1972-73 due to suspension of the outstanding order in February, 1972. It was revived in 1977-78."

1.42. The Committee further enquired the reasons for modifying the design of empty bodies of practice version to that of heat version and also the date on which the order for effecting this modification was issued. In a note, the Department of Defence Supplies intimated as follows :

"The question of ways and means of meeting the requirements of the Army for this ammunition...was discussed in meetings held under the Chairmanship of Spl. Secretary Department of Defence Supplies on 25-8-1969 and 7.1.70 Keeping in view the limited production of empties in the Ordnance Factories, it was agreed that it was necessary to establish alternative source in the trade to make up the gap and a quantity of 55,000 empty bodies should be diverted by DGOF to Department of Defence Supplies for placement of order on trade. Since DGOF had already taken provisional action conveying his requirement for empties of Heat version against outstanding order of DGOF, taking into consideration the fact that if the trade orders were placed for the Heat version, which had already been established in the trade, such supplies could be conveniently diverted to make live ammunition, in the event of hostility, it was proposed that adoption of a combined design of both Heat and Practice version may be accepted after examining the pros and cons of such a decision. It is elucidated that while training can be done with live ammunition, the design 1A—Practice version cannot be adapted for combat purposes.

The orders for changing the design were issued by DI(ARM) to CI(A) Kirkee on 31-1-1970 "

1.43. The Committee pointed out that in 1971, the Ordnance Factory had achieved the production of 19,785 of Heat version against the much higher requirements of the Army for this version. The Committee, therefore, enquired whether at that moment it was not considered necessary to review the earlier decision of seeking trade assistance for Heat version. The Secretary of the Department explained as follows :

"In addition to the annual requirement there is the backlog... uncomplained indents from year to year were accumulating."

1.44. The Committee referred to the requirements of the Army for Heat and Practice versions during 1960 and 1971 and enquired if there were some other requirements of the Army in addition to this. The Deputy D.O.S. explained the need for WWR and he added that to meet the requirements a demand was placed on DGOF. This, however, represented only a very small part of the Army requirements.

1.45-46. The Committee were informed that in the year 1961, Army had placed a demand for Practice version on the DGOF. There was no demand for this item on DGOF after that. The Committee desired to know the reasons for not placing any demand for this item after 1961. The Deputy D.O.S. replied :

"...my last demand was for 6000 and thereafter, there has been no demand at all because till today since the DGOF was not producing anything there was no use in my merely making a theoretical demand."

1.47. When the Committee desired to know the total outstanding demand for Practice version in August 1961 they were informed of the figure.

1.48. While desiring to know the reasons for not placing the indent for practice version after 1961, the Committee also enquired whether at that time Heat version was being used for practice. The Deputy DOS explained as follows :

"No Sir. I had some imported stocks but there was no use in my placing the demand unless the DGOF manufactured it."

1.49. The Committee pointed out that after sustained efforts, the Ordnance Factories were able to produce about 4520 empty bodies of practice version in 1967-68. The production rose to 6030 in 1970-71. The Committee enquired whether at that point of time, it was not practical to augment the capacity for the production of this item rather than modifying its design to that of Heat version. The Secretary of the Department informed as follows :

"The point is that the DGOF, in a meeting held in January 1970, did say that since he was not able to establish the practice version 1-A, it would be better to change the

design from 1A to 1B so that the empty bodies will be common to both the Heat and Practice versions. Since, at that time there were indications that the trade was developing the heat version, they adopted a common design for the empty body which would cater both to the heat version which was called 1A and the practice version which was called 1B."

1.50. The Secretary of the Department stated that this was a conscious decision and referred to the relevant minutes of the meeting held in January, 1970.

1.51-52. Pointing out the difference in cost of production of empty bodies of Practice and Heat versions, the Committee desired to know the rationale of the decision to modify the design for the practice version. The Secretary of the Department explained :

"Apart from the question of difference in cost which you have pointed out, the main rationale is the advantage we have got of inter-changeability, because the same empty body can be used for the heat version as well as the practice version."

1.53. The Committee pointed out that the practice version was meant for practice and was not actually used as a weapon. The Committee, therefore, enquired from Deputy DOS, the main factors for using the Practice version (1A), for practice purpose and not the Heat version. The Deputy DOS confirmed:

"The cost is the main factor."

Supplementing the Secretary of the Department added as follows :

"It also does not spoil the armour plate. There is no penetration of the armour because there is no chemical."

1.54. The Committee desired to know the reasons for not placing the order for empty bodies of practice version on trade when the Ordnance Factories were finding it difficult to meet the requirements of the army for this version. While enquiring the approximate difference in the cost of empty bodies for Heat and Practice versions, when it was decided to modify the design of Practice version to that of the Heat version, the Committee also sought detailed explanations for changing the design of Practice version to

that of Heat version, which was costlier. In a note, the Department of Defence Supplies stated as follows :

"At the initial stages of production of ammunition in view of the limited capacity of the DGOF and the necessity to build up stocks of the vital service Heat ammunition, it was considered essential to utilise the capacity of the Ordnance Factories to the maximum to meet the requirements of the Heat ammunition. Also with the same end in view, to augment the supply of empties, order was placed to develop alternative source of supply from trade, and indent was placed on DGS&D for supply of the empties for Heat ammunition.

As the supplies from trade could not be made, the capacity of manufacture in Ordnance Factories was restricted to meet the requirements of Heat ammunition.

Subsequently when the supplies against the 1st order placed on trade through DGS&D could not materialise, the question of establishing a reliable source was taken up by Department of Defence Supplies. As by that time manufacture of heat empties in the trade had just been established it was viewed to be advantageous to change the design of practice ammunition to that of heat and procure the hardware which would meet the requirements of either store with the added advantage of utilising the hardware of practice for that of heat in case of emergency.

The cost of manufacture of empty bodies for heat and practice version in Ordnance Factories in 1970-71 was Practice IA Rs. 295.16 and Heat Rs. 428.56.

Against the above cost of manufacture of empties in Ordnance Factories, the order placed on 12-10-1970 on firm 'B' was for Rs. 252 for the first 50,000 and Rs. 239.40 for the balance 25,000. The private firms offer was same as heat.

The reasons for changing the design of practice version to that of heat version were as brought out above. It is however, mentioned that for training purpose both practice as well as heat ammunition is utilised while for operational use 'practice' cannot be used."

1.55. The Committee were informed that in all their indents, Army had clearly been indicating their requirements for heat and practice versions, separately, but consequent on the change of

design of Empty Body of Practice to that of Heat version in 1970, the supplies were generally made of modified version. The Committee, therefore, enquired about the dates when supplies of a modified version were effected against the specific requirement of practice version. The Committee also desired to know the approximate costs of the empty body of original practice version *vis-a-vis* the modified version, when the supplies were made together with extra cost incurred in these supplies of modified version against practice version. In a note, the Department of Defence Supply stated as follows :

"The first issue of practice version with IB design was made in 1977-78.

The cost of the empty bodies of the practice IA is Rs. 452.87. This does not include the financing charges and the profit normally allowed to any trade firm. As against this, the supplies from trade obtained against modified version was at Rs. 600 each.

The modified version is intended also to be interchangeable with the heat version and hence the question of extra cost as compared to practice IA design should not arise as the comparison would not be on like to like basis."

Conclusion of a contract in December, 1970 with firm 'B'.

1.56. The Committee desired to know whether tenders were invited for conclusion of the contract for supply of 75,000 Nos. of empty bodies in December, 1970 and if so, the circumstances under which the contract was awarded to firm 'B' particularly in view of the fact that firm 'A' had earlier taken as much as 5 years for the development of the sample and the stores were required urgently by the Army. In a note, the Department of Defence Supplies have stated as follows:

"Formal tenders for placement of an order for the supply of 75,000 Nos. of empty bodies on trade firm 'B' were not invited. However, in a meeting held in the room of MDP (Minister for Defence Production) on 26-6-70, the procurement of this item was discussed. In reply to a query from MDP, in the said meeting, Secretary (DP) stated that there was no other offer for consideration for this item from any other party except from firm 'A' who had al-

ready developed this item. It was also pointed out that it might delay the procurement of the store if it was entrusted to a new party. MDP stated that the firm 'B' might be capable of undertaking the work and some quantity might be entrusted to them if they were prepared to undertake the job on the same terms and conditions which might be offered to the firm 'A'. He further expressed that establishment of an additional source was always in the interest of the Department's effort to indigenise an item. Accordingly, a letter was issued to firm 'B' inviting quotation. A negotiation meeting was held in the room of Secretary (DP) on 25 July, 1970. In this meeting the existing firm 'A' was also invited alongwith firm 'B'.

The existing firm 'A' in September, 1969 had quoted a price of Rs. 336 for supply of 1,000 sets per month and a price of Rs. 277 per set, if supply was increased to 2,000 sets per month. However, the firm 'A' quoted a unit price of Rs. 510.25 in 1970, whereas the quotation of the firm 'B' was Rs. 252 only. Since the quotation of firm 'B' was much lower than the price demanded by the existing firm 'A', who was not prepared to come down to the level of the price quoted by firm 'B', the order was placed on firm 'B'."

1.57. The Committee further enquired whether the technical capability and financial capacity of firm 'B' was verified before placement of the order so as to examine the capability of the firm for executing the order for an item of such a sophisticated nature. In a note, the Department of Defence Supplies stated as follows:

"From the records it cannot be said that the technical capability|financial capacity of the firm 'B' was actually verified before placement of the order. However, the subject was discussed in the meeting held in the room of Secretary (DP) on 25-7-70 when it was pointed out that firm 'B' had not produced the store in the past. It was, however, explained that they had produced similar stores and that they were considered competent to undertake the manufacture of this store as well.

The existing firm 'A' had been demanding substantial sums in foreign exchange for import of machinery and equipment to establish its production capacity at the rate of 2,000 to 3,000 per month against its existing meagre capacity of 200

to 300 per month. The firm also asked for increase in rates. The firm 'B' was also being considered for placement of another order for which import of similar machinery would have been required by this firm. It was, therefore, considered expedient to allow only one of the firms to import the machinery so that the same could be utilised for production of both the items."

1.58. Explaining the position about the procedure followed in those days for award of such contracts, the representative of the Ministry of Defence informed as follows:—

"In those days, the procedure was more of inspecting by the development officer by going down and assessing the firm whether they had certain infrastructure by way of machinery; whether they had some skilled labour what type of management they had got and whether they had a little bit of background of it."

1.59. The Committee desired to know whether this procedure was followed in the instant case. Secretary of the Department read out the following extract from the minutes of the meeting held on 25 July, 1970 in the room of the Secretary, Defence Supplies in support of this procedure having been followed:

"There was some discussion regarding the capacity of firm 'B'.

It was pointed out that this firm had not produced this store in the past. It was, however, explained that they had produced similar stores and that they were considered competent to undertake manufacture of this store as well. The Deputy Financial Adviser Suggested that if there was any doubt about the capacity of this firm, we could take performance guarantee. The Secretary, Defence Supplies, however, explained that there was no doubt. Hence there was no necessity of getting performance guarantee."

1.60. Quoting the following extracts from the papers for the aforesaid meeting of 25 July, 1970, the Committee desired to know the action taken in accordance with that—

"In the circumstances, it will be desirable that if any orders are to be placed on this firm, their capacity and capability governing this store should be inspected by the Inspector..."

1.61. The Secretary of the Department explained that it was not stated in the meeting but it was contained in the brief for the meet-

ing. According to the Audit paragraph, firm 'B' did not, however, make any supply owing to financial difficulties.

Suspension of production due to mis-interpretation of orders.

1.62. According to the Audit paragraph, in January, 1972, the Army Headquarters reviewed the requirements of the ammunition (both heat and practice versions) in the context of a proposal to introduce a more sophisticated weapon in service. At a meeting held in February 1972 in the Ministry of Defence, it was decided that manufacture of the ammunition by the DGOF should be suspended and that the contract with firm 'B' for supply of empty bodies should be cancelled without financial repercussions. The contract with firm 'B' was not, therefore, pursued further.

1.63. The Committee desired to know whether there was any penal provision in the contract for application in case the firm failed to execute the contract and if so, the penal action taken against the firm. The Secretary of the Department informed as follows:

"According to the terms of the contract, the firm had to deposit Rs. 9 lakhs. They never deposited that amount at all. So, the contract in actual practice never took any effect. We were only going by the offer. Neither did they give any security nor did they produce anything."

1.64. Explaining the position about the aforesaid review of January, 1972 by the Army, the Deputy DOS stated as follows:

"We had imported the new weapon of a different type. We reviewed our requirement and reduce our demand for Heat version on DGOF."

1.65. The Committee desired to know as to when the aforesaid decision of February, 1972 regarding the suspension of the manufacture of the ammunition by DGOF and cancellation of the order on firm 'B' without financial repercussions was communicated to the Ordnance Factory. The Committee also enquired whether the contract with firm 'B' was formally cancelled. In a note, the Department of Defence Supply stated as follows:

"On receipt of advice from Department of Defence Production that pending final decision no fresh commitments should be made for production of this item vide M of D TPM No. PC.16/45/64/D(Prod) dated 31-1-72, the Ordnance Factories concerned were suitably advised vide DGOF TPM No. 250/G/P/A dated 1-2-72.

Details of production of filled ammunition in January|February 1972 are as follows:

	<i>January, 1972</i>	<i>February, 1972</i>
Heat	3894	3985
Practice	988	Nil

No formal letter of termination of the contract on firm 'B' was issued. However, a notice was given to the firm for compliance with one of the clauses of the contract in which it was categorically stated that the failure to comply with this requirement by 5-5-72, the contract would be treated as cancelled."

1.66. Explaining the position about the production of this ammunition subsequent to the orders of January 1972, the Additional DGOF stated as follows:

"There was an order of 75,000 on firm 'B'. In 1972, we not only suspended the order on the Firm but we suspended our own production till a clear position came up regarding the proper requirement of the Army. The Army was reviewing the position and was thinking of introduction a better weapon."

1.67. Elaborating the position about the interpretation of the minutes of the meeting of 4th February, 1972 relating to the aforesaid suspension of future production of the items, the Secretary of the Department stated as follows:

"I have gone through this. There has been a communication gap, I must admit, between the Ministry of Defence and the DGOF. The DGOF misunderstood the minutes of the meeting of 4-2-72 because it was stated in the minutes that no further financial commitment should be made by the DGOF for practice. It was taken to mean that DGOF should issue instructions to stop production."

1.68. The Audit paragraph points out that in July 1973, the Army Headquarters, on a further review of the requirements of the ammunition (heat and practice versions), revived their outstanding orders for the ammunition and suggested that the supply be completed in a period of two to three years. The Committee desired to know as to when and how the so-called misunderstanding was cleared. The Secretary of the Department explained as follows:

"In August 1973, a letter was issued to the DGOF.

This is a letter dated 25th August, 1973. It says:

"It has now been decided that outstanding orders in respect of...heat and practice will not be cancelled. As such, please confirm that the total outstanding demands for both heat and practice would be completed within 2 to 3 years from now'.

So there has been a gap between May 1972 and August 1973."

1.69. The Committee asked the Deputy D.O.S. to explain his viewpoint about the so-called misunderstanding resulting from the review of requirements made by the Army. The Deputy DOS stated as follows:

"This was the time when we reviewed our requirements and the decision was that in view of the fact that we were getting the new... (weapon), the Army was to take a realistic view of the requirements. So the DGOF did not make any fresh commitments."

1.70. When the Committee desired to know the exact connotation of the words 'Fresh commitments', the Deputy DOS explained as follows:

"The decision taken on 9th February, 1972 reads as follows:

'Meanwhile no further financial commitment will be made by the DGOF for either the weapon or the ammunition'."

1.71. Referring to the inference drawn from the above by the DGOF, the Committee desired to know the steps taken by the Army to clear this misunderstanding. The Deputy DOS explained:

"In the month of May 1972 we disputed the decision. The DGOF wanted those outstanding orders still to be given to them. There has been some gap and although we wrote to the Ministry of Defence and DGOF, for some unfortunate reason we have not been able to clear the misunderstanding until August 1973."

1.72. When the Committee desired to know as to how the Army had precisely acted to clear the misunderstanding the Deputy DOS stated as follows:

"That there was no requirement this year for Practice version is not correct. The Practice version were required to

meet training during 1972-73 and demands for much larger quantity were outstanding on DGOF on 1st April, 1972. It was the DGOF who stated that no production of practice versions was planned during 1972-73 and only 30,000 heat versions would be produced.

It may be pointed out that in the event of cancellation of the outstanding quantity, the DGOF may indicate any financial repercussions. This would, however, not be acceptable to us as the cancellation would be effected due to DGOF's inability to meet our requirements in time—meaning thereby that our requirements still stood."

1.73. It was stated during evidence by the Additional DGOF that in the years 1972-73-74, DGOF was not very sure about the Army's requirements of ammunition. He added that while the Army was writing to them about their requirements, the DGOF was also getting instructions not to make any financial commitment. The Committee asked for a detailed note analysing the whole position in the light of the intimation received by DGOF from the Army about their requirements and the instructions received by DGOF from the Ministry about financial commitment. The Department of Defence Supplies in a note stated that DGOF acted as per instructions of Ministry of Defence Production. The note further stated as follows:

"On 28-1-72 intimation was received from the Department of Defence to the effect that with a view to review the orders outstanding on the DGOF for... (the weapon), Heat ammunition and practice ammunition for considering cancellation of a substantial number of the orders a meeting was being arranged on 4.2.72 in the room of JS(O) and meanwhile DGOF should be advised not to make any further financial commitment in respect of these items except those which are already in the pipeline. Accordingly DGOF was advised, *vide* TPM No. PC, 16/45/45/D(Prod.) dated 31-1-72.

A meeting was held in the room of JS(O) on 4.2.72 regarding cancellation of order for the... weapon... heat ammunition and... practice ammunition. Minutes of the meet-

ing was forwarded to DGOF on 11.2.72. The gist of discussions in the above meeting was as follows:

- (i) DWE stated that a decision had been taken to purchase(a certain quantity of new weapons and ammunition). He further stated thaton account of the technological changes that have taken place over a period of 2 decades, it was necessary to substitute... (the existing weapons).
- (ii) As regards the outstanding order for 75,000 Nos. of bodies for the ammunition, placed by the Department of Defence Supplies on firm 'B' no concession either administrative or financial or technical should be given and when an opportunity arises, maximum quantities possible could be cancelled without financial implications.
- (iii) A final view on the quantities to be cancelled could best be taken when the financial implications of the cancellation will be made available from the DGOF.
- (iv) A further meeting would be held after the financial repercussions from DGOF are available and meanwhile no further financial commitments will be made by the DGOF for either weapons or ammunitions.

DGOF issued instructions to the Factory *vide* TPM No. 250/G/P/A dated 1.12.72 on receipt of the Department of Defence Production letter dated 31-1-1972. The factories were advised not to make any further commitments and to intimate financial repercussions. The Department of Defence Production thereafter reminded DGOF number of times for the information regarding financial repercussions. In this connection JS(F) DO letter dated 21-9-72 is relevant. It has been clearly indicated in this DO that the question of cancellations of outstanding orders was still under consideration pending receipt of information regarding financial implications.

Meanwhile in the Production Review Meeting held on 20.4.72 this ammunition items was discussed and the recorded minutes are as follows:

'DDOS stated that there was no requirement for this year for Practice ammunition. It was agreed that the total requirements for the year would be 30,000 Heat'.

With the revival of the original order from Trade by the Hqrs. the original planning of the DGOF to obtain part quantity of empties to supplement Ordnance Factories' Production was reinstated. Department of Defence Supplies was requested *vide* U.O. Note No. 4934/70/TI/SP/CA dated 4-3-74 to take necessary action to arrange supply of empties from Trade in even flow."

1.75. According to the Audit paragraph on receipt of a request for empty bodies, the Department of Defence Supplies invited fresh quotations in March 1974, for supply of 75,000 (practice version) empty bodies. Negotiations were initiated with 3 firms 'A', 'C' and 'D', the quotation of which ranged from Rs. 600 to Rs. 1000 per unit.

1.76. The Committee desired to know whether this quotation for 75,000 Nos. was for practice or heat empty bodies. The Additional DGOF stated as follows:

".....it was against the Army indent for practice, but it was capable of being used for both purposes."

1.77. The Committee pointed out that separate empties were required for IA practice, and if the order of 75,000 empties was for practice ammunition then they would only relate to IA. The Secretary of the Department explained as follows:

"They are called IB so that there is no confusion at the time of filling in the factory as to what to fill in IA and what to fill in IB. The three types are IA heat, IA practice and IB practice corresponding to IA heat."

1.78. When asked whether there was anything like IB heat, the Secretary of the Department stated that for Heat and Practice version IB, the empty body was the same.

1.79. The Audit paragraph reveals that in June 1974, at the instance of the Ministry of Finance (Defence), the Army Headquarters reviewed their requirements of practice ammunition and agreed to reduce the order to 50,000 numbers covering the requirement upto 1981-82 at reduced scales of training as induction of the new weapon was likely to commence from 1978-79 and phasing out of the existing weapon would be completed by 1982-83.

1.80. The Committee desired to know the reasons for conducting the aforesaid review. The following position was explained by the Department of Defence Supplies with reference to the letter of 75 LS-3.

DCOAS dated 22nd June, 1974 to the Additional Secretary (Defence):

* * * * *

.....The weapons will continue in service for another 7 to 8 years and for that period there will be an inescapable requirement of both Heat and Practice ammunition to keep the weapon and users operation worthy.

There has only been a very limited supply of Practice ammunition since 1971-72 and the training requirements were largely met from Heat ammunition but on a limited scale.

If in the future also Practice ammunition is not produced, we would be further eroding for meeting training requirements the existing stock of Heat ammunition, which is much below.....WWR already. Though Heat ammunition is also authorised for training we are endeavouring to conserve it by seeking Practice ammunition, which is cheaper. Considering the existing financial constraints and the abnormal escalation in prices, the COAS is prepared to accept a total of 50,000 Practice ammunition to meet the Army's training requirements at reduced scales upto 1971-72."

1.81. The Committee desired to know the actual requirements of the Army for this ammunition in respect of which the position was reviewed. In a note, the Department of Defence Supplies stated that:

"On 1st October, 1973 DOS had a requirement of.....Practice ammunition to meet training upto 19-7-78. Outstanding orders on DGOF were only for a small quantity. The DCOAS accepted in 1974 to have 50,000 practice ammunition as an all time requirement upto 1981-82 at reduced scales."

1.82. According to the Audit paragraph, the schedule of manufacture of practice ammunition that was considered acceptable to DGOF was as follows:

<i>Year</i>	<i>Numbers</i>
1974-75	10,000
1975-76	15,000
1976-77	15,000
1977-78	10,000
	50,000

1.83. It was also stated that the DGOF would not require supply of empty bodies from trade for the above schedule of manufacture. The Ministry of Finance (Defence), therefore, suggested (June 1974) that empty bodies might be manufactured by the ordnance factory in view of the cheaper cost of manufacture by it (Rs. 527) when compared to the offer of the trade (Rs. 600).

1.84. However, a contract was placed in October 1974 on firm 'C' with the concurrence of the Ministry of Finance (Defence) for 37,551 numbers of empty bodies (the balance of 12,449 numbers to be manufactured by the Ordnance Factory) of the practice version at a cost of Rs. 600 per unit (total value: Rs. 2.25 crores) for delivery during July 1975—July 1976, as DGOF would have no objection if orders were placed on trade.

1.85. Recalling that in June 1974, the Ministry of Finance (Defence) had suggested that the empty bodies might be manufactured by the Ordnance Factory, the Committee desired to know the reasons for the placement of the order in October 1974, on firm 'C' in consultation with DGOF. In a note, the Department of Defence Supplies stated as follows:

“The question of meeting Army's requirements for the ammunition was discussed in a meeting held under the Chairmanship of Secretary (DP) on 29-7-74. During the discussion, DGOF intimated that there was no specific line for production of this item in the Ordnance factories and whatever machinery had been utilised earlier for its manufacture had been partly diverted to other priority items. It was in this context that DGOF expressed no objection to the placement of orders after making an assessment of the semis already available in the Ordnance Factories after taking into account the reduction of the orders for Practice ammunition.

The balance of advantage was also considered in the same bodies. The cost of production of empty rockets in the ordnance factories was Rs. 527. In relation to this, the trade quotation which was Rs. 600—625 was considered to be quite competitive. Finance had desired that the cost of production in the ordnance factories should be checked before orders were placed. This was done before the orders were placed.

The DGOF was not asked specifically to examine the time which he would require to revive the full production capacity. There was also no commitment to the firm 'C' at the time of negotiations with regard to the placement of any order on them."

1.86. The Committee desired to know the relative prices of IA and IB empties at the Ordnance Factory in March 1974. The representative of the Ministry of Defence explained:

"In 1974 the estimated cost of production in the Ordnance Factory was Rs. 507* for IA practice empties. We do not have the cost of production for IB type Because IB empty was not made in Ordnance Factories. In 1973-74, it was about Rs. 1225."

1.87. The Audit paragraph states that the cost of manufacture of the empty body was Rs. 527 in 1974 as compared to the offer of Rs. 600-625 from the trade but according to the position explained above, the trade price of Rs. 600 is actually comparable with the Ordnance Factory cost of about Rs. 1225. The representative of the Ministry stated that at that time the comparison was made with the factory price of IA practice, but actually it should have been made with the factory price for the heat version and it has come to their notice only now. He further added:

"Then it was thought that if we made a comparative study of the prices of the practice version, the price from trade was cheaper. Now we compare IB price with IA heat and it turns out much cheaper. This is no true comparison like IA practice and IB practice because the latter can substitute for IA heat."

Subsequent amendment of contract with firm 'C'.

1.88. The Audit paragraph reveals that in February 1976, the contract with firm 'C' was amended providing for grant of 'on account' payment to the extent of 90 per cent of the value of raw materials and components upto a ceiling of Rs. 20 lakhs. The 'on account' payment was to be made against suitable bank guarantee and was to carry interest at 12 per cent per annum. A total sum of Rs. 13.35 lakhs was paid as 'on account' payment to firm 'C' in 2 instalments (Rs. 7.49 lakhs in August 1976 and Rs. 5.86 lakhs in September 1976).

* Rs. 527 as per written note reproduced in the preceding Paragraph.

1.89. The Committee desired to know the changed circumstances which compelled the Ministry for grant of advance payment to the firm. In a note, the Department of Defence Supplies stated as follows:

“An order was placed on the firm ‘C’ for supply of 37,551 Nos. of Practice IB... Empty at a unit price of Rs. 600 vide supply order dated 16-10-74. There was no provision for payment of ‘on account’ payment to this contract. The firm made a request vide their letter dated 17 February for giving them advance of Rs. 20 lakhs to purchase raw materials against bank guarantee. It was explained by the firm that they had hoped at the time of negotiating the contract to get bank loan for procurement of raw materials. But due to credit squeeze policy of Reserve Bank of India they had not been able to get financial assistance from their bankers and financial institutions and value of raw materials was large. The request of the firm was examined in consultation with the Ministry of Finance (Defence) and with the concurrence of Ministry of Finance (Defence) an amendment to the contract was issued on 25 February 1976 providing ‘on account’ payment against purchase of raw materials and components to the extent of 90 per cent of the value of raw materials and components purchased subject to a ceiling of Rs. 20 lakhs. The ‘on account’ payment so drawn by the firm was subject to an interest @12 per cent per annum and interest shall be recovered from bills of the contractor towards 95 per cent payment.

It is generally decided in the negotiating meetings as to whether ‘on account’ payment to the firm should be allowed or not. If ‘on account’ payment is agreed to, in the negotiating meeting, the same is taken into consideration while settling the price with the firm. However, if the ‘on account’ payment is not discussed in the negotiating meeting and any firm comes up with the request for ‘on account’ payment, the same is allowed with the concurrence of Ministry of Finance (Defence) with 12 per cent interest per annum. This is the usual practice followed in the Department of Defence Supplies.”

Cancellation of contract with firm ‘C’ and non-realisation of advance money

1.90. Audit paragraph reveals that firm ‘C’ submitted advance samples in November, 1975, against the stipulated date of April 1975.

Clearance for bulk production was given by Inspectorate of Armaments in February, 1976. The first consignment of supplies was delivered in August 1976 but was rejected in November 1976 by the Senior Inspector of Armaments as "the store was found not acceptable." Consequently the Department of Defence Supplies cancelled (November 1976) the contract. The 'on account' payment of Rs. 13.35 lakhs made to firm 'C' was outstanding but the bank guarantee furnished by firm 'C' was not invoked.

1.91. The Committee desired to know the reasons for delay in submission of the advance samples in November 1975 against their stipulated submission by April 1975. The Secretary of the Department informed the Committee as follows:

"They asked for extension of time. Extension was given." The representative of the Ministry of Defence further elaborated as follows:

"The firm agree to supply by a certain date and later on they tried to manufacture components. Being a production development order, if there is some snag which had to be overcome, it takes time. Whenever the firm's effort is sincere, extension is normally granted."

1.92. The Committee desired to know the detailed reasons for cancellation of the contract with firm 'C'. The Committee also ascertained the quantity which was tendered by firm 'C' and rejected and the actual defects on account of which this rejection was made. In a note, the Department of Defence Supplies stated as follows:

"The firm had submitted lot 1 (quantity 1100) during August 1976 which was rejected. Subsequently, during October and November 1976, they had submitted lots 2, 3 and 4. From the records it is seen that the following factors led to the rejection of lot 1:

Heavy proof samples from the first lot were taken up for HE filling at Ammunition Factory, Kirkee prior to the despatch to CPE, Itarsi for proof firing. Out of 30 rounds filled it was observed that 29 contained less high explosive than specified and also 15 rounds out of 30 filled recorded lower weight. Thus the samples did not meet the specified weight stipulated in the proof schedule, which was quoted in the relevant specifications supplied to the firm. Proof schedule is a mandatory document and acceptance of all armament stores is based on meeting proof require-

ments satisfactorily. Since these rounds did not satisfy the proof requirements, the stores warranted rejection.

The relevant clause 21(b) of Schedule 'A' to the Supply Order provides that the contract shall be liable to cancellation at the sole discretion of the Purchaser without any financial repercussion to the purchaser if as a result of the tests/trials carried out on the samples during the initial stages of production, it was revealed that the stores were not coming to the required standards. Legal advice was obtained which confirmed that the contract could be cancelled under this clause. On the basis of the Technical Report and Legal advice mentioned above, the contract with firm 'C' was cancelled."

1.93. It was stated during evidence that the firm 'C' did not make any security deposit in respect of the contract, as being established supplier of defence supplies, the security deposit requirement was waived on specific request from the firm. The Committee desire to know whether the firm was a registered firm as per requirements of the Ministry and whether the firm had made a specific request for waiver of the security deposit. In a note, the Department of Defence Supplies stated as follows:

"The firm 'C' made a specific request for waiver of the security deposit. Their request was examined and the security deposit was waived. This firm is registered as per requirements of the Technical Committee under the Ministry of Defence."

Revival of contract with firm 'C'

1.94. According to the Audit paragraph, after review by the Department of Defence Supplies, the contract with firm 'C' was revived for a quantity of 28,000 numbers (against the contracted quantity of 57,551 numbers) to be supplied by October 1978. The Committee desired to know the circumstances leading to the revival of the order with firm 'C' in December 1977. The Committee also enquired whether at that time the possibility of meeting this requirement by production at Ordnance Factory was also examined and if so, the outcome thereof. In a note, the Department of Defence Supplies stated as follows:

"The cancellation of the order was formally conveyed to the firm 'C' on 30 November 1976. On the 3 December 1976, the firm represented against the cancellation of the order placed on them and followed it up with a number of re-

mindings. On their persistent representations dated 30 March 1977 and 14 April 1977, a high-powered Technical Committee was constituted by the Government on 17 June 1977 to enquire into the circumstances leading to the cancellation of the order on the firm. The terms of reference, *inter alia* included the following:

'To examine whether the rejection of the first lot of supplies as defective after bulk production clearance was given was justifiable to the extent of warranting complete rejection or whether the supplier could have been given an opportunity to rectify the defects so that the stores could be accepted after such rectification'.

The Committee submitted its report on 12 August 1977. Considering all the technical grounds for which the first lot was rejected and also the views of the technical authorities, who were earlier associated with the technical appreciation of this supply, the Committee came to the conclusion that the rejection of the first lot of supplies, after clearance for bulk production was given was not justifiable. Consequently, the Committee, *inter alia*, recommended that 'the proof samples of lots 1, 2, 3 and 4 which were still available at Ammunition Factory, Kirkee, should be immediately subjected to proof firing'.

The recommendations of the Committee were carefully examined in the Department. It was decided to subject the store to proof firing with the specific agreement of the firm that they would not have any objection to the proof firing of the samples at their cost and that in the event of supply order being restored on the successful completion of the proof testing of the samples, the terms and conditions stipulated in the cancelled supply order shall remain unchanged and no claim whatsoever shall lie on the Government by the firm for the loss, if any, suffered by them. This undertaking was given by the firm *vide* their letter dated 22 September 1977.

The requisite samples were subjected to dynamic proof firing on the 14 and 15 October 1977 at CPE, Itarsi. The proof results were found satisfactory and the overall performance of the store was also considered quite satisfactory.

Taking all the factors into consideration including the need of the Army for this item and also the capacity of the DGOF,

it was decided to reinstate the order with the firm in December 1977 for the supply of 28,000 number with an option for another 10,000 numbers to be exercised during the currency of the contract on the same terms and conditions as stipulated in the original supply order. The order was accordingly reinstated with the agreement of the firm for the above mention quantity *vide* our letter dated 2nd December, 1977.

The production of practice in the Ordnance Factories in 1977-78 was 13,065 Nos."

1.95. The Committee desired to know the concrete recommendations made by the Enquiry Committee constituted to enquire into the reasons for earlier rejections of the supply made by firm 'C'. In a note, the Department of Defence Supplies intimated as follows:

"A Committee was constituted by the Ministry of Defence (Department of Defence Supplies) to examine, *inter alia*, whether the rejection of the first lot of supplies as defective after bulk production was given, was justifiable to the extent of warranting complete rejection or whether the supplier could have been given an opportunity to rectify the defects so that the stores could be accepted after such rectification.

The Committee considered all the aspects leading to the rejection of the first lot as defective and also the views of the technical authorities who were earlier associated with the technical appreciation of this ammunition and came to the conclusion that there was no justification for passing the rejection sentence on the first lot of supplies without subjecting them to proof firing. They also could not appreciate why samples of lots 2 and 3 were not proof fired when they were stated to be an improvement over the first lot. The Committee, therefore, recommended in its report submitted to the Government on 12th August, 1977 that the proof samples of lots 1, 2, 3 and 4 which were still available at Ammunition Factory, Kirkee should be immediately subjected to proof firing.

The recommendations of the Committee were examined in the Department and in the light of the recommendations samples from lot 1 to 4 of the store were subjected to dynamic proof at CPE, Itarsi on 14 and 15 October 1977. The proof results were found satisfactory and all the four

lots were sentenced as serviceable. The overall performance of the stores was also considered to be quite satisfactory.

This matter was then again examined in the Department and taking all these factors into consideration, it was decided to reinstate order on firm 'C' in December 1977 for the supply of 28,000 Nos. of the store with an option for another 10,000 Nos. to be exercised during the currency of the contract on the same terms and conditions as stipulated in the cancelled order.

1.96. It is understood that the following were the two main terms of reference of the Committee constituted to enquire into the cancellation of order placed on firm 'C':

- (i) whether the original bulk production clearance, which was subject to eliminating discrepancies listed therein was correct;
- (ii) whether the rejection of first lot of supplies has defective even after clearances having been to bulk production was correct.

1.97. With regard to the aspect at Serial No. (i), it is understood that according to the Enquiry Committee in view of the advance samples having been gauged and critically examined by the testing authorities and the results found satisfactory, the initial bulk production clearance given was perfectly in order, as the discrepancies found were trivial in nature and were easily rectifiable.

1.98. It is further understood that as regards the justification or otherwise of the rejection of the first lot of supplies at defective after bulk production clearance had been given, the Enquiry Committee have not found it justifiable particularly in view of the fact that the defects based for rejection were minor in nature and were more in the nature on observation and could easily be taken care of in subsequent productions.

1.99. The Enquiry Committee are understood to have decried the passing of rejection sentence without getting results of proof faring. The Enquiry Committee are further understood to have, *inter alia*, pointed out that at the time of recommending rejection of first lot, proof samples of lots 2 and 3, which were already available with the authorities, should have also been carried out and considered.

1.100. The Enquiry Committee are also understood to have confirmed that pressure was exerted by some defence authorities on their sister authorities to point out some reason or other warranting rejection of lot No. 1.

Realisation of advance payment made to the firm by making use of Bank Guarantee.

1.101. The Committee desired to know as to why the advance of Rs. 13.35 lakhs made to the firm was not recovered at the time of cancellation of contract in November 1976 by encashing the bank guarantee. In a note, the Department of Defence Supplies stated as follows:

“When the contract with firm ‘C’ was cancelled on 30-11-76, the bank was immediately asked under a letter of the same date to make payments equivalent to the amount covered by the Bank Guarantee to the Government. The letter was issued in consultation with Legal Adviser, Defence Services. The bank was expedited in consultation with Legal Adviser, Defence Services through our letter dated 18-12-76. On 7-1-1977, the bankers of firm ‘C’ stated that their client had informed that they had taken up the matter with us regarding these guarantees. Further they requested to know the nature of breach committed by the firm before the amount could be remitted to the Government. The bankers also intimated on 19-1-77 that the Bank Guarantee was still valid. The matter was again discussed with Legal Adviser, Defence Services and the Bank was informed on 7-2-77 that as per the Guarantees furnished by them the purchaser was the sole judge as to whether the supplier had committed any breach or breaches of any of the terms and conditions of the said contract and the extent of monetary consequence thereon. The Bank was again reminded on 14-3-77 to make immediate payments failing which the Government would initiate legal proceedings against them at their risk and cost.

The Bank acknowledged receipt of these letters vide their letter dated 21-3-77 wherein they requested their clients firm ‘C’ to remit to them the amount equivalent to Bank Guarantee issued to them. The Bank also gave a time of 10 days from the receipt of their letter to firm ‘C’ for depositing the amount failing which the firm ‘C’ was

warned that the amount would be debited to their account alongwith an interest @ 16½ per cent plus other charges. The Bank was again reminded to remit on 26-4-77 in consultation with Legal Adviser, Defence Services to remit the amount latest by 1-5-77 failing which the Government would be forced to initiate the legal proceedings against them. In the meantime, the firm 'C' had been representing against cancellation of this order. A committee was constituted on 17-6-77 to go into the circumstances leading to the cancellation of the order on firm 'C' which gave its report on 12-8-77. The firm 'C' again requested *vide* their letter dated 27-9-77 to stay action on the encashment of the Bank Guarantee. Their request was examined in the light of the recommendations of the Enquiry Committee and it was decided to withhold action on the instructions issued to the Bank for encashment of the Bank Guarantee previously till they heard from us again in the matter. When, however, the supply order was reinstated on the firm 'C', the question of encashment of Bank Guarantee did not arise."

1.102. The Committee were informed that an advance of Rs. 12.35 lakhs towards 'on account' payment was made to the firm against a Bank Guarantee by the firm.

The Committee desired to know whether it was not the policy of the Government to insist upon such a Bank Guarantee from one of the Nationalised Banks. The representative of the Ministry informed:

"Not necessarily."

Subsequently the Department of Defence Supplies confirmed in a note that it was their policy to obtain bank guarantee from any Scheduled Bank which need not necessarily be a Nationalised Bank.

Present position about the requirement and supply of the ammunition.

1.103. The Committee desired to know the present requirement of practice version of the ammunition together with the annual supply of this version made by DGOF. The Committee also desired to know the mode by which the shortfall of practice version was made up. The Committee called for confirmation from the Department whether the shortfall was met by reducing the training further; and if so, the extent by which it has affected the preparedness. In

a note, the Department of Defence Supplies had indicated the year-wise requirement upto 1981-82 taking into account the replacement programme of this weapon by a new one. It is stated that—

“On assessment made by the Deputy Chief of Army Staff in 1974, it was decided with the approval of the Chief of the Army Staff that the Army would accept a total of 50,000 practice versions to meet their training requirements at a reduced scale upto 1981-82.

A statement showing production/issue of Practice version by DGOF is as under:

Year	Issues from AFK to DGS*
1962-63	NIL
1963-64	NIL
1964-65	NIL
1965-66	NIL
1966-67	NIL
1967-68	2,462
1968-69	4,498
1969-70	NIL
1970-71	5,901
1971-72	9,680
1972-73	1,000
1973-74	NIL
1974-75	NIL
1975-76	NIL
1976-77	95
1977-78	17,072

During 1977-78 firm 'C' supplied 9,300 and further 6,087 Nos. till July, 1978 making a total of 15,387 Nos. approximately.

Keeping in view the stock and expected production level the training requirements had to be curtailed. The shortfall would be met by placing restrictions on expenditure of this item at training. Expenditure at training for 1978-79 is restricted only to 50 per cent for both Heat and Practice ammunitions.

When the replacement of the weapon by indigenous production of the new weapon commences, it will be possible to meet full training requirements of Heat... The units will be able to fire more than 60 per cent of the laid down scale for Heat and Practice combined and their efficiency is not likely to be impaired much.

The efficiency of the troops does suffer when the full practices laid down are not carried out and this ammunition is no

exception. In case of this item we had no alternative but to put up with shortfalls in our requirements, as DGOF had stated that with the existing capacity, production of only 25,000 rounds per year (combined Heat and Practice) was possible."

1.104. The Department of Defence Supplies subsequently intimated the Committee that the firm had submitted the entire quantity of 28,000 Nos. within the delivery period. The last two lots comprising about 2,300 Nos. were still under inspection and the earlier lots have been accepted.

The final position in this regard was intimated to the Committee by the Department of Defence Supplies, on 5 March 1979, as follows:

"... the balance quantity of 1,000 Nos. was also submitted for inspection by the firm within the schedule of delivery as stipulated in the contract. This lot comprising of 1,000 Nos. was inspected, proof fired and found acceptable by the Inspector. Thus, the supplies of the total quantity of 28,000 Nos. stand completed by the firm. The consignee has not so far reported any discrepancy in regard to the supplies of 28,000 Nos. already made by this firm."

1.105. The Committee note that the Heat and Practice versions of ammunition for a weapon, introduced in the Indian Army in 1957-58. were initially imported from a foreign country. The actual imports of these versions of the ammunition were 1,17,856 Nos. of Heat and 54,650 Nos. of Practice. An idea of the annual requirements of the Army for Practice version, meant for imparting training to the troops in the use of this weapon, can be gathered from the fact that by October 1962, out of the imported 54,650 Nos. of the Practice version of the ammunition, the Army was left with only 4,863 Nos. With a view to meet their future requirements for this weapon, the Army had in 1958 itself placed an indent on Director General, Ordnance Factories for this ammunition, but according to the Department, serious efforts for its production were made from 1960 only. As on 1 June 1963, against the firm demands placed by the Army on DGOF the outstandings totalled 2,27,500 Nos. (116,500 Heat, 111,000 Practice version). The Committee regret to note that due to a very limited balance stock of 4,863 Nos. of Practice version with the Army and non-materialisation of the indents for fresh supplies placed by the Army on Director General, Ordnance Factories, the Army had to seriously restrict the use of this ammunition for practice

affecting the training in the Army and bottle worthiness of the troops.

1.106. The Committee were informed during evidence that production of this ammunition was undertaken in the Ordnance Factories on the basis of samples and drawings procured from the country of export. The Committee also note that the development of the empty bodies of this ammunition has been the vital limiting factor with the DGOF in meeting the pressing demands of the Army for this weapon. The Committee further note that though serious efforts were made in 1960 for the production of this ammunition at an Ordnance Factory, actual production of empty bodies for Heat and Practice versions was achieved only in 1962-63 and 1967-68, respectively. From the facts placed before the Committee in writing as well as during evidence, the Committee cannot help concluding that there has been complete lack of purposive and coherent approach by the concerned Ordnance Factories and other connected authorities resulting in poor execution of the orders of the Army for this weapon. Some of the notable features which the Committee would like to highlight are indicated in the following paragraphs.

1.107. The Committee regret to note that as against the allocated annual capacity for the production of 42,000 Nos. of empty bodies in an Ordnance Factory, the actual achievement of production remained miserably low. During the 16 years from 1962-63 to 1977-78 when this ammunition was under production in the Ordnance Factories, the peak production was reached only in 1971-72 touching a total of 26,820 only. In the following years, the production tapered off to 'Nil' in 1974-75, picking up again to a figure of 21,185 in 1977-78. All this reveals lack of systematic effort on the part of the factory authorities to evolve a regular pattern of production so as to achieve a level of production approximating to the annual production capacity of 42,000 Nos. This once again clearly indicates the absence of an inbuilt system of regularly and systematically monitoring the production in Ordnance Factories, identifying bottlenecks and taking remedial action. The Committee reiterate the recommendation made in paragraph 1.105 of their 109th Report (Sixth Lok Sabha) that such a monitoring system covering all the Ordnance Factories should be established without further delay.

1.108. The Committee do not agree with the plea advanced by the Department for non-achievement of the annual optimum capacity in the Ordnance Factory for the production of 42,000 empty bodies that 'no project was allocated to the Ordnance Factories speci-

fically for the manufacture of either the hardware or the filling of the ammunition but production was planned on the basis of using the existing facilities available in the Ordnance Factories, with marginal additional balancing plant'. The specific allocation of annual optimum capacity of 42,000 was admitted by the Director General of Ordnance Factories at the meeting held in the room of the Special Secretary (Defence Production) on 25th August, 1969 when he pleaded that "...although its sanctioned capacity was 3500 per month, i.e., 42,000 per annum, its actual production was 2,000 per month, i.e., 24,000 per annum," and that "he was not in a position to increase production because some of his equipments had been diverted for producing other items." The Department have adduced another plea of diversion of the capacity of the Ordnance Factories after 1962, when the production of a number of items like Primers, Fuzes etc. had to be stepped up. The Committee nevertheless feel that with better planning and coordinated approach it would not have been out of reach of the Ordnance Factories to achieve optimum capacity utilisation and meet to a substantial extent the large outstanding orders of the Army for this ammunition.

1.109. The Committee note that production of the Heat version of the ammunition was established in the Ordnance Factory in 1962-63 and with concerted action it could have been possible to increase production of this version to meet the requirements of the Army. On the other hand, the production of the Practice version in the Ordnance Factories was not contemplated or planned until 1967-78 when its production come to be established for the first time. Yet, even though the imported stock of the Practice version had well-nigh depleted completely and the Army was badly in need of this version, an indent for 50,000 numbers of empty bodies of Heat version only was placed on Director General, Supplies and Disposals on 19th June, 1963, which was covered by A/T of 12th December, 1963 on firm 'A'. The Committee are at a loss to understand as to why the assistance of trade was not sought at that time for the empty bodies of the Practice version, which was so badly needed by the Army for practice purposes. Besides, contracting out to private party the Heat version of the ammunition also involved the security aspect. The Committee feel that the need of the hour was to take assistance of the trade for empty bodies of the practice version and to allow the Ordnance Factory to concentrate on the production of the Heat version.

1.110. The Committee note that firm 'A' took as long as five years to develop sample for empty body of Heat version in April 1963, when this version was already developed and in production in the Ordnance Factory since 1962-63. The long time taken by the firm

has been attributed by the Department to the fact that this store "is highly specialised and complicated and rather difficult to manufacture" and further "the private sector was also not accustomed to the rigid quality control requirements of armament production in the initial stages." The casual approach of the Department in securing compliance of the order for supply of samples is evident from the fact that the original order of 12th December, 1963 did not even specify the date by which the advance samples were to be submitted by the firm and it was only after a period of four years, as a result of after thought, that the firm was asked on 15th September, 1967, to submit advance samples upto 31st December, 1967, which date was later extended upto 29th February, 1968. As the Department at that time was fully aware of the urgency of the need for supplies of the store, the contract with the firm should have, at the initial stage, provided for a date by which the sample was to be submitted by the firm. The Committee feel that in the absence of this stipulation, the firm did not take the order as seriously as it should have done, resulting in an undue delay in the fabrication of the sample. The Committee are also at a loss to understand as to why a prototype of the item already under production in the Ordnance Factory together with its know-how was not made available to the firm so as to enable it to commence production straightway and not waste time, energy and resources in developing the same item de novo.

1.111. Another note worthy feature of the deal is that the original order of December 1963 for 50,000 units was subsequently reduced to 25,000 Nos. in February 1965 because according to the Department, "the firm could not effect supplies." The reason indicated for reduction in the quantity to be supplied by the firm is strange particularly when the requirements of the Army continued to be urgent. In fact the failure to make supplies within a reasonable period should have attracted a stiffer action such as cancellation of the contract and award of work to some other more competent party.

1.112. The Committee understand that on 1st April, 1969, the outstanding orders on DGOF for Practice version were more than those for Heat version. According to the Audit paragraph, DGOF suggested in January 1970 that an order on trade should be for practice version only as the Ordnance Factory was not manufacturing this version any longer. The Secretary of the Department, however, informed the Committee during evidence that the DGOF had suggested in January 1970 a common design for the empty bodies of heat and practice versions. According to the Department keeping in view the DGOF's aforesaid suggestion and also due to the fact that heat version of the empty body had already been developed by trade, it

was decided in January 1970 to modify the design of the Practice version to that of the heat version. Consequently, an order for the supply of 75,000 empty bodies of modified combined version was concluded with firm 'B' against the specific order of the Army for Practice version.

1.113. The Committee feel that the decision of modifying the design of Practice version to that of Heat version was not properly considered. The empty body of Heat version is much costlier than that of Practice version. As against the cost of production at the Ordnance Factory of empty body of Practice version of Rs. 92.86, Rs. 350.20 and Rs. 452.87 during the years 1967-68, 1971-72 and 1977-78, the corresponding cost of production of Heat version was Rs. 301.74, Rs. 545.33 and Rs. 1020.00 respectively. It is thus obvious that financial implications of this modification and the resultant recurring additional financial burden in meeting Army's future requirements for Practice version were not fully examined at the time of taking this decision. The representative of the Army confirmed during evidence that the cost consideration was the main factor in using the empty body of the Practice version for practice purposes. The other consideration for effecting this modification was that the heat version had already been developed in trade. This plea ceased to hold good when in December 1970 the supply order for 75,000 units of the new composite type was awarded to a new firm 'B' which had to commence the fabrication of the sample de novo. These facts compel the Committee to conclude that the decisions at that point of time were being made on ad hoc basis without considering fully the pros and cons of a course of action. This is regrettable.

1.114. Yet another glaring lapse on the part of the Department was the award of the contract for the supply of 75,000 empty bodies to firm 'B' in December 1970. It is perplexing to note that although firm 'A' had earlier taken five years to develop a sample, this contract was awarded post haste to another firm 'B' without even verifying its technical capability and financial capacity for the execution of the contract. At the meeting held on 26 June 1970 to discuss the procurement of this item, it was stated that there was only one offer from firm 'A'. When it was pointed out that it might delay the procurement of the store if it was entrusted to a new party, a suggestion was made that "firm 'B' might be capable of undertaking the work and some quantity might be entrusted if they were prepared to undertake the job on the terms and conditions which might be offered to firm 'A'." In the brief prepared for the meeting proposed to be held in the room of Secretary (Defence Production) on 25

July 1970, it was clearly stated that "...it will be desirable that if any orders are to be placed on this firm, their capacity and capability governing this store should be inspected by the Inspector...." Further, at the meeting of 25 July 1970, the Deputy Financial Adviser had also stated that "if there was any doubt about the capacity of this firm, we could take performance guarantee." All this sufficiently proves that genuine doubts were entertained about the capability of the firm. Yet, the contract was awarded to firm 'B' on the plea that it had earlier produced similar items and also as its quotation was Rs. 252 only as against the quotation of Rs. 510.25 in 1970 of firm 'A'. The much lower quotation of firm 'B' should have been an indication of the fact that it had no real conception of the complexities of the job. It may be mentioned in this context that the cost of production of the same item in Ordnance Factory was Rs. 545.33 in 1971-72 and Rs. 1225.00 in 1973-74. No wonder, the firm did not execute the supply order resulting in failure of the Ordnance Factory to honour the indents of the Army for the weapon so urgently required by it. Another lapse noted by the Committee is that the firm was not pressed in time to make security deposit according to the terms of the contract.

1.115. The Committee are perturbed at the irregular manner in which contract was awarded to firm 'B'. They would like Government to investigate the part played by authorities and individuals at various levels which led to contract being awarded to the firm without proper verification of technical and financial credentials and other irregularities with a view to fixing responsibility for the lapses.

1.116. The Committee were informed during evidence by the Secretary of the Department of Defence Production that it was stated in the minutes of the meeting held in the Ministry of Defence on 4 February 1972 to review the requirements of this ammunition in the light of the introduction of a new weapon that 'no further financial commitment should be made by the DGOF for practice'. This was interpreted to mean that DGOF should issue instructions to stop production of empty bodies and the ammunition for the existing weapon even against the pending orders. Consequently, the DGOF's organisation not only suspended the order placed on firm 'B' in 1970 for supply of 75,000 empty bodies but also suspended their own production. Due to this wrong interpretation, which according to the Secretary (Defence Production) was due to the communication gap between the Department and the DGOF's organisation, the production of empty bodies (both heat and practice)

of the ammunition in the Ordnance Factory, came down from 26,820 during 1971-72 to 13,195, 4060, nil, 2030 and 7105 during the years 1972-73, 1973-74, 1974-75, 1975-76 and 1976-77 respectively.

1.117. The Committee fail to be convinced with the plea of the Department that the wrong interpretation of the minutes of the meeting held on 4 February 1972 was the sole reason for slackening of efforts in the production of the empty bodies and ammunition at the Ordnance Factory and procurement of empty bodies from trade. This plea could hold good at best till May 1972, when the Army had very specifically written to the Department of Defence Production to clear this misunderstanding. The Committee deeply regret that even when the Army had cleared the misunderstanding in unequivocal terms, the DGOF and other concerned authorities took no steps to resume production and procurement and consequently the Army's urgent requirements for practice version remained unfulfilled.

1.118. The Committee are pained to discern the same halting approach by the Department in meeting the subsequent requirements of the Army for Practice version. In their note of 25 August 1973 to DGOF headquarters, the Army Headquarters revived their outstanding orders for Heat and Practice versions and also requested that the supply of these quantities should be completed in 2-3 years' time. The figures of production of the ammunition upto the year 1976-77 clearly prove that the DGOF's organisation did not make serious efforts to step up the production of the ammunition in the Ordnance Factories. Further, the DGOF's organisation moved leisurely even to arrange procurement of empty bodies from trade. It was only after a delay of about 67 months, i.e., in March 1974, that the DGOF's organisation requested the Department of Defence Supplies to arrange for 75,000 (Practice version) empty bodies from trade. The Committee deprecate the leisurely working of the DGOF's organisation resulting in long delay in the production of the ammunition in the Ordnance Factory and also in the procurement of empty bodies from trade.

1.119. The Committee note that the Army Headquarters further reviewed their requirements of practice ammunition and agreed to reduce the order to 50,000 numbers covering the requirements upto 1981-82 as against the much larger actual requirements. In the letter of 22-6-1974 from DCOAS to Additional Secretary, Department of Defence Supplies, the former clearly emphasised the urgent need for meeting the requirements of the Army for practice version, when

he stated that "there has only been a very limited supply of Practice ammunition since 1971-72 and the training requirements were largely met from Heat ammunition but on a limited scale. If in the future also practice ammunition is not produced, we would be further eroding for meeting training requirements the existing stock of Heat ammunition." The Committee deeply regret that even under these pressing circumstances so plainly brought out in the aforesaid letter the DGOF and other concerned authorities had failed to make serious efforts to supply the requisite ammunition to the Army on a regular basis.

1.120. The Audit paragraph reveals that for meeting the revised requirements of 50,000 of the Army for Practice version upto 1981-82, the schedule for manufacture of this equipment drawn by the DGOF for the years 1974-75, 1975-76, 1976-77 and 1977-78 was 10,000, 15,000, 15,000 and 10,000 respectively. However, by 1977-78, only 17,167 units could be supplied by the Ordnance Factory to the Army. Further, though initially it was contemplated that the DGOF would not require supply of empty bodies from trade for this schedule of manufacture, subsequently in October 1974 an order for supply of 37,551 empty bodies was placed on firm 'C'. This shows a serious lack of planning by the DGOF for meeting the requirements of the Army. If this is indicative of the general pattern observed by DGOF in meeting the minimum requirements of the Army for weapons and ammunition, the production planning and control mechanism of the DGOF is in dire need of a thorough review. The Committee recommend that the Department of Defence Production may consider appointment of a high level committee to review the performance of the DGOF in meeting on a regular and timely basis the requirements of weapons and ammunition by the Army and suggest measures to effect improvement therein.

1.121. The Committee note that on account of the first lot of supplies tendered for delivery by firm 'C' in August 1976 having been rejected by the Senior Inspector of Armaments the contract with the firm was cancelled in November 1976. As a result of several representations by the firm, a Technical Enquiry Committee was appointed on 17 June, 1977 to examine whether the rejection of the first lot of supplies was justifiable to the extent of warranting complete rejection. The Technical Enquiry Committee submitted its report on 12 August 1977. The Enquiry Committee had, in its report, inter alia, stated that pressure was exerted by some defence authorities on their sister authorities for rejecting the lot of supplies.

The Committee would like the Ministry of Defence to take action against the officers responsible for pressurising as also those who succumbed to the pressure.

NEW DELHI;

March 30, 1979

Chaitra 8, 1901 (S).

P. V. NARASIMHA RAO,

Chairman,

Public Accounts Committee.

APPENDIX

Conclusions/Recommendations

Sl. No.	Para No.	Ministry/ Department	Conclusion/Recommendation
1	2	3	4
1.	1.105	Ministry of Defence (Department of Defence Supplies and Defence Production)	<p>The Committee note that the Heat and Practice versions of ammunition for a weapon, introduced in the Indian Army in 1957-58, were initially imported from a foreign country. The actual imports of these versions of the ammunition were 1,17,856 Nos. of Heat and 54,650 Nos. of Practice. An idea of the annual requirements of the Army for Practice version, meant for imparting training to the troops in the use of this weapon, can be gathered from the fact that by October 1962, out of the imported 54,650 Nos. of the Practice version of the ammunition, the Army was left with only 4,863 Nos. With a view to meet their future requirements for this weapon, the Army had in 1959 itself placed an indent on Director General, Ordnance Factories for this ammunition, but according to the Department, serious efforts for its production were made from 1960 only. As on 1st June, 1963, against the firm demands placed by the Army on DGOF the outstandings totalled 2,27,500 Nos. (116,500 Heat, 111,000 Practice version). The Committee regret to note that due to a very limited balance stock of 4,863 Nos. of Practice version with the Army and non-materialisa-</p>

tion of the indents for fresh supplies placed by the Army on Director General, Ordnance Factories, the Army had to seriously restrict the use of this ammunition for practice affecting the training in the Army and battle worthiness of the troops.

2. 1.106 Ministry of Defence (Department of Defence Supplies and Defence Production)

The Committee were informed during evidence that production of this ammunition was undertaken in the Ordnance Factories on the basis of samples and drawings procured from the country of export. The Committee also note that the development of the empty bodies of this ammunition has been the vital limiting factor with the DGOF in meeting the pressing demands of the Army for this weapon. The Committee further note that though serious efforts were made in 1960 for the production of this ammunition at an Ordnance Factory, actual production of empty bodies for Heat and Practice versions was achieved only in 1962-63 and 1967-68, respectively. From the facts placed before the Committee in writing as well as during evidence, the Committee cannot help concluding that there has been complete lack of purposive and coherent approach by the concerned Ordnance Factories and other connected authorities resulting in poor execution of the orders of the Army for this weapon. Some of the notable features which the Committee would like to highlight are indicated in the following paragraphs.

3. 1.107

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The Committee regret to note that as against the allocated annual capacity for the production of 42,000 Nos. of empty bodies in an Ordnance Factory, the actual achievement of production remained miserably low. During the 16 years from 1962-63 to 1977-78 when this ammunition was under production in the Ordnance Factories, the peak production was reached only in 1971-72 touching a total of 26,820 only. In the following years, the production tapered off to 'Nil' in 1974-75, picking up again to a figure of 21,185 in 1977-78. All this reveals lack of systematic effort on the part of the factory authorities to evolve a regular pattern of production so as to achieve a level of production approximating to the annual production capacity of 42,000 Nos. This once again clearly indicates the absence of an inbuilt system of regularly and systematically monitoring the production in Ordnance Factories, identifying bottlenecks and taking remedial action. The Committee reiterate the recommendation made in paragraph 1.105 of their 109th Report (Sixth Lok Sabha) that such a monitoring system covering all the Ordnance Factories should be established without further delay.

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4. 1.108

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The Committee do not agree with the plea advanced by the Department for non-achievement of the annual optimum capacity in the Ordnance Factory for the production of 42,000 empty bodies that 'no project was allocated to the Ordnance Factories specifically for the manufacture of either the hardware or the filling of the ammunition but production was planned on the basis of using the existing facilities available in the Ordnance Factories, with margi-

nal additional balancing plant'. The specific allocation of annual optimum capacity of 42,000 was admitted by the Director General of Ordnance Factories at the meeting held in the room of the Special Secretary (Defence Production) on 25th August, 1969 when he pleaded that "...although its sanctioned capacity was 3,500 per month, i.e. 42,000 per annum, its actual production was 2,000 per month, i.e., 24,000 per annum," and that "he was not in a position to increase production because some of his equipments had been diverted for producing other items." The Department have adduced another plea of diversion of the capacity of the Ordnance Factories after 1962, when the production of a number of items like Primers, Fuzes etc. had to be stepped up. The Committee nevertheless feel that with better planning and coordinated approach, it would not have been out of reach of the Ordnance Factories to achieve optimum capacity utilisation and meet to a substantial extent the large outstanding orders of the Army for this ammunition.

5. 1.109 Ministry of Defence
(Department of Defence
Supply & Production)
- The Committee note that production of the Heat version of the ammunition was established in the Ordnance Factory in 1962-63 and with concerted action it could have been possible to increase production of this version to meet the requirements of the Army. On the other hand, the production of the Practice version in the Ordnance Factories was not contemplated or planned until 1967-68 when its production came to be established for the first time. Yet,

even though the imported stock of the Practice version had well-nigh depleted completely and the Army was badly in need of this version, an indent for 50,000 numbers of empty bodies of Heat version only was placed on Director General, Supplies and Disposals on 19th June, 1963, which was covered by A/T of 12th December, 1963 on firm 'A'. The Committee are at a loss to understand as to why the assistance of trade was not sought at that time for the empty bodies of the Practice version, which was so badly needed by the Army for practice purposes. Besides, contracting out to private party the Heat version of the ammunition also involved the security aspect. The Committee feel that the need of the hour was to take assistance of the trade for empty bodies of the practice version and to allow the Ordnance Factory to concentrate on the production of the Heat version.

6. 1.110 -do-

The Committee note that firm 'A' took as long as five years to develop sample for empty body of Heat version in April 1968, when this version was already developed and in production in the Ordnance Factory since 1962-63. The long time taken by the firm has been attributed by the Department to the fact that this store "is highly specialised and complicated and rather difficult to manufacture" and further "the private sector was also not accustomed to the rigid quality control requirements of armament production in the initial stages." The casual approach of the Department in securing compliance of the order for supply of samples is evident from the fact that the original order of 12th December, 1963 did

not even specify the date by which the advance samples were to be submitted by the firm and it was only after a period of four years, as a result of afterthought, that the firm was asked on 15th September, 1967, to submit advance samples upto 31st December, 1967, which date was later extended upto 29th February, 1968. As the Department at that time was fully aware of the urgency of the need for supplies of the store, the contract with the firm should have, at the initial stage, provided for a date by which the sample was to be submitted by the firm. The Committee feel that in the absence of this stipulation, the firm did not take the order as seriously as it should have done, resulting in an undue delay in the fabrication of the sample. The Committee are also at a loss to understand as to why a prototype of the item already under production in the Ordnance Factory together with its know-how was not made available to the firm so as to enable it to commence production straightway and not waste time, energy and resources in developing the same item *de novo*.

7. 1.111 Ministry of Defence (Department of Defence Supply & Defence Production)

Another noteworthy feature of the deal is that the original order of December, 1963 for 50,000 units was subsequently reduced to 25,000 Nos. in February, 1965, because according to the Department, "the firm could not effect supplies." The reason indicated for reduction in the quantity to be supplied by the firm is strange particularly when the requirements of the Army continued to be urgent. In fact the failure to make supplies within a reasonable period

should have attracted a stiffer action such as cancellation of the contract and award of work to some other more competent party.

The Committee understand that on 1st April, 1969, the outstanding orders on DGOF for Practice version were more than those for Heat version. According to the Audit paragraph, DGOF suggested in January, 1970 that an order on trade should be for practice version only as the Ordnance Factory was not manufacturing this version any longer. The Secretary of the Department, however, informed the Committee during evidence that the DGOF had suggested in January, 1970 a common design for the empty bodies of heat and practice versions. According to the Department keeping in view the DGOF's aforesaid suggestion and also due to the fact that heat version of the empty body had already been developed by trade, it was decided in January, 1970 to modify the design of the Practice version to that of the heat version. Consequently, an order for the supply of 75,000 empty bodies of codified combined version was concluded with firm 'B' against the specific order of the Army for Practice version.

The Committee feel that the decision of modifying the design of Practice version to that of Heat version was not properly considered. The empty body of Heat version is much costlier than that of Practice version. As against the cost of production at the Ordnance Factory of empty body of Practice version of Rs. 92.86, Rs. 350.20 and Rs. 452.87 during the years 1967-68, 1971-72 and 1977-78, the corresponding cost of production of Heat version was

Rs. 301.74, Rs. 545 33 and Rs. 1020.00 respectively. It is thus obvious that financial implications of this modification and the resultant recurring additional financial burden in meeting Army's future requirements for Practice version were not fully examined at the time of taking this decision. The representative of the Army confirmed during evidence that the cost consideration was the main factor in using the empty body of the Practice version for practice purposes. The other consideration for effecting this modification was that the Heat version had already been developed in trade. This plea ceased to hold good when in December, 1970 the supply order for 75,000 units of the new composite type was awarded to a new firm 'B' which had to commence the fabrication of the sample *de novo*. These facts compel the Committee to conclude that the decisions at that point of time were being made on *ad hoc* basis without considering fully the pros and cons of a course of action. This is regrettable.

10 I.114 Ministry of Defence (Department of Defence Supplies and Defence Productions)

Yet another glaring lapse on the part of the Department was the award of the contract for the supply of 75,000 empty bodies to firm 'B' in December, 1970. It is perplexing to note that although firm 'A' had earlier taken five years to develop a sample, this contract was awarded post haste to another firm 'B' without even verifying its technical capability and financial capacity for the execution of the contract. At the meeting held on 26th June, 1970 to discuss the procurement of this item, it was stated

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that there was only one offer from firm 'A'. When it was pointed out that it might delay the procurement of the store if it was entrusted to a new party, a suggestion was made that "firm 'B' might be capable of undertaking the work and some quantity might be entrusted if they were prepared to undertake the job on the terms and conditions which might be offered to firm 'A.'" In the brief prepared for the meeting proposed to be held on the room of Secretary (Defence Production) on 25th July, 1970, it was clearly stated that "...it will be desirable that if any orders are to be placed on this firm, their capacity and capability governing this store should be inspected by the Inspector..." Further, at the meeting of 25th July, 1970, the Deputy Financial Adviser had also stated that "if there was any doubt about the capacity of this firm, we could take performance guarantee." All this sufficiently proves that genuine doubts were entertained about the capability of the firm. Yet, the contract was awarded to firm 'B' on the plea that it had earlier produced similar items and also as its quotation was Rs. 252 only as against the quotation of Rs. 510.25 in 1970 of firm 'A'. The much lower quotation of firm 'B' should have been an indication of the fact that it had no real conception of the complexities of the job. It may be mentioned in this context that the cost of production of the same item in Ordnance Factory was Rs. 545.33 in 1971-72 and Rs. 1225.00 in 1973-74. No wonder, the firm did not execute the supply order resulting in failure of the Ordnance Factory to honour the indents of the Army for the weapon so urgently required by it. Another lapse noted by the Committee is that the

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firm was not pressed in time to make security deposit according to the terms of the contract.

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Ministry of Defence
(Department of Defence
Supplies and Defence
Production)
The Committee are perturbed at the irregular manner in which contract was awarded to firm 'B'. They would like Government to investigate the part played by authorities and individuals at various levels which led to contract being awarded to the firm without proper verification of technical and financial credentials and other irregularities with a view to fixing responsibility for the lapses.

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The Committee were informed during evidence by the Secretary of the Department of Defence Production that it was stated in the minutes of the meeting held in the Ministry of Defence on 4 February, 1972 to review the requirements of this ammunition in the light of the introduction of a new weapon that 'no further financial commitment should be made by the DGOF for practice'. This was interpreted to mean that DGOF should issue instructions to stop production of empty bodies and the ammunition for the existing weapon even against the pending orders. Consequently, the DGOF's organisation not only suspended the order placed on firm 'B' in 1970 for supply of 75,000 empty bodies but also suspended their own production. Due to this wrong interpretation, which according to the Secretary (Defence Production) was due to the communication gap between the Department and the DGOF's organisation, the pro-

duction of empty bodies (both heat and practice) of the ammunition in the Ordnance Factory, came down from 26,820 during 1971-72 to 13,195, 4060, nil, 2030 and 7105 during the years 1972-73, 1973-74, 1974-75, 1975-76 and 1976-77 respectively.

The Committee fail to be convinced with the plea of the Department that the wrong interpretation of the minutes of the meeting held on 4th February, 1972 was the sole reason for slackening of efforts in the production of the empty bodies and ammunition at the Ordnance Factory and procurement of empty bodies from trade. This plea could hold good at best till May 1972, when the Army had very specifically written to the Department of Defence Production to clear this misunderstanding. The Committee deeply regret that even when the Army had cleared the misunderstanding in unequivocal terms, the DGOF and other concerned authorities took no steps to resume production and procurement and consequently the Army's urgent requirements for practice version remained in fulfilled.

The Committee are pained to discern the same halting approach by the Department in meeting the subsequent requirements of the Army for Practice version. In their note of 25 August 1973 to DGOF headquarters, the Army Headquarters revived their outstanding orders for Heat and Practice versions and also requested that the supply of these quantities should be completed in 2-3 years' time. The figures of production of the ammunition upto the year 1976-77 clearly prove that the DGOF's organisation did not make serious

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efforts to step up the production of the ammunition in the Ordnance Factories. Further, the DGOF's organisation moved leisurely even to arrange procurement of empty bodies from trade. It was only after a delay of about 6-7 months, i.e., in March 1974, that the DGOF's organisation requested the Department of Defence Supplies to arrange for 75,000 (Practice version) empty bodies from trade. The Committee deprecate the leisurely working of the DGOF's organisation resulting in long delay in the production of the ammunition in the Ordnance Factory and also in the procurement of empty bodies from trade.

15 Ministry of Defence (Departments of Defence Supplies and Defence Production)

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The Committee note that the Army Headquarters further reviewed their requirements of practice ammunition and agreed to reduce the order to 50,000 numbers covering the requirements upto 1981-82 as against the much larger actual requirements. In the letter of 22-6-1974 from DCOAS to Additional Secretary, Department of Defence Supplies, the former clearly emphasised the urgent need for meeting the requirements of the Army for practice version, when he stated that "there has only been a very limited supply of Practice ammunition since 1971-72 and the training requirements were largely met from Heat ammunition but on a limited scale. If in the future also practice ammunition is not produced, we would be further eroding for meeting training requirements the existing stock of Heat ammunition." The Committee deeply regret that even

under these pressing circumstances so plainly brought out the
oversaid letter the DGOF and other concerned authorities had
failed to make serious efforts to supply the requisite ammunition to
the Army on a regular basis.

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The Audit paragraph reveals that for meeting the revised re-
quirements of 50,000 of the Army for Practice version upto 1981-82,
the schedule for manufacture of this equipment drawn by the DGOF
for the years 1974-75, 1975-76, 1976-77 and 1977-78 was 10,000,
15,000, 15,000 and 10,000 respectively. However, by 1977-78,
only 17,167 units could be supplied by the Ordnance Factory to the
Army. Further, though initially it was contemplated that the DGOF
would not require supply of empty bodies from trade for this
schedule of manufacture, subsequently in October 1974 an
order for supply of 37,551 empty bodies was placed on firm
'C'. This shows a serious lack of planning by the DGOF for
meeting the requirements of the Army. If this is indicative
of the general pattern observed by DGOF in meeting the mini-
mum requirements of the Army for weapons and ammunition,
the production planning and control mechanism of the DGOF is in
dire need of a thorough review. The Committee recommend that
the Department of Defence Production may consider appointment
of a high level committee to review the performance of the DGOF
in meeting on a regular and timely basis the requirements of wea-
pons and ammunition by the Army and suggest measures to effect
improvement therein.

17. 1.121 Ministry of Defence (Departments of Defence Supplies and Defence Production)

The Committee note that on account of the first lot of supplies tendered for delivery by firm 'C' in August 1976 having been rejected by the Senior Inspector of Armaments the contract with the firm was cancelled in November 1976. As a result of several representations by the firm, a Technical Enquiry Committee was appointed on 17th June 1977 to examine whether the rejection of the first lot of supplies was justifiable to the extent of warranting complete rejection. The Technical Enquiry Committee submitted its report on 12th August, 1977. The Enquiry Committee had, in its report, *inter alia*, stated that pressure was exerted by some defence authorities on their sister authorities for rejecting the lot of supplies. The Committee would like the Ministry of Defence to take action against the officers responsible for pressurising as also those who succumbed to the pressure.