

**PUBLIC ACCOUNTS COMMITTEE
1952-53**

FIFTH REPORT

**[Appropriation Accounts (Railways)
and
(Posts and Telegraphs) 1949-50]**

VOL. II—Evidence



PARLIAMENT SECRETARIAT

NEW DEZHI

June, 1953

CORRIGENDA

Evidence Volume of the Fifth Report of the Public Accounts Committee on the Appropriation Accounts (Railways) and (Posts and Telegraphs), 1949-50,

Page (i), line 2, for "Shri B. C. Das" read "Shri B. Das".

Page (i), S. No. 13 of the List of Members : for "Ranachandra" read "Rama-chandra".

Page 2, top left side corner : for "September, 1952" read "2 September, 1952".

Page 3, Col. 1, line 16 : for "is" read "in".

Page 11, Col. 1, line 8 : after "stores" insert "used".

Page 12, Col. 2, line 29 : for "Badh var" read "Badhwar".

Page 13, Col. 2, line 2 : after "a report was" insert ".....".

Page 14, Col. 2, line 31 : after "explained" insert a comma.

Page 27, Col. 2, line 40 : delete "ques".

Page 36, Col. 1, line 26 : for "procedure" read "estimates".

Page 48, Col. 1, line 6 : for "straightly" read "straightaway".

Page 52, Col. 2, line 10 from bottom : for "3:5" read "3.5".

Page 55, Col. 1, line 1 from bottom : for "heerings" read "hearings".

Page 73, Col. 1, line 14 : for "Rai" read "Rao".

Page 79, Col. 1, lines 1 and 2 : Transpose line 1 after the words "There is" appearing in line 2.

Page 79, Col. 2, line 33 : for "heme" read "Scheme".

Page 90, Col. 1, lines 2 and 3 from bottom : for "Switzerlend" read "Switzerland".

Page 92, Col. 1, line 9 from bottom : for "necessiate" read "necessitate".

Page 92, Col. 1, line 6 from bottom : for "o" read "or".

Page 109, Col. 2, line 13 : for "Commissione" read "Commissioner".

Page 109, Col. 2, line 10 from bottom : for "p aced" read "placed".

Page 111, Col. 1, line 28 : for "60" read "50".

Page 111, Col. 2, line 22 from bottom : for "interriated" read "interrelated".

Page 118, Col. 1, line 11 from bottom : for "in consistent" read "inconsistent".

Page 119, Col. 2, line 1 from bottom : for "ofr" read "for".

Page 127, Col. 1, line 9 : for "be" read "by".

Page 129, Col. 2, line 17 from bottom : for ".....lve" read "involve".

Page 132, Col. 2, line 20 from bottom : for " hat " read "that".

Page 133, Col. 1, line 31 : for "Accoun" read "Accounts".

Page 134, Col. 1, line 20 from bottom : after "Agreement " insert "I".

Page 134, Col. 1, line 10 from bottom : for "efore" read "before".

PUBLIC ACCOUNTS COMMITTEE, 1952—53

Shri B. C. Das.—*Chairman*.

2. Pandit Munishwar Dutt Upadhyay.
3. Shri M. L. Dwivedi.
4. Shri Shree Narayan Das.
5. Shri Tribhuan Narayan Singh.
6. Shri Balwant Nagesh Datar*.
7. Shri Ranbir Singh Chaudhuri.
8. Acharya Shriman Narayan Agarwal.
9. Dr. Mono Mohon Das.
10. Pandit Krishna Chandra Sharma.
11. Shri Uma Charan Patnaik.
12. Shri V. P. Nayar.
13. Shri B. Ramachandra Reddi.
14. Shri G. D. Somani.
15. Shri K. M. Vallatharas.
16. Shri H. V. Pataskar†.

SECRETARIAT

Shri M. N. Kaul—*Secretary*.

Shri S. L. Shakdher—*Joint Secretary*.

*Resigned on the 10th September, 1952.

†Elected on the 11th December, 1952 *vice* Shri B. N. Datar resigned.

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MINUTES OF EVIDENCE
Tuesday, 2nd September, 1952

PRESENT

Shri B. Das—*Chairman.*

MEMBERS

Shri Munishwar Datt Upadhyay
Shri M. L. Dwivedi
Shri Shree Narayan Das
Shri Tribhuan Narayan Singh
Shri Ranbir Singh Chaudhuri
Shri Acharya Shriman Narayan Agarwal

Dr. Mono Mohon Das
Pandit Krishna Chandra Sharma
Shri Uma Charan Patnaik
Shri V. P. Nayar
Shri B. Ramachandra Reddi
Shri K. M. Vallatharas

Shri V. Narahari Rao, *Comptroller and Auditor-General.*

Shri P. H. S. Rao, *Director of Railway Audit.*

SECRETARIAT

Shri N. C. Nandi, *Deputy Secretary.*

WITNESSES

Shri F. C. Badhwar, *Chairman, Railway Board, Ministry of Railways.*

Shri S. S. Vasist, *Member (Traffic), Railway Board, Ministry of Railways.*

Shri N. C. Deb, *Director of Finance (Budget), Railway Board, Ministry of Railways.*

Shri K. Sadagopan, *Director of Finance (Expenditure), Ministry of Railways.*

Shri V. Subramanian, *Under Secretary, Ministry of Finance (E.A. Department).*

the Committee met at Ten of the Clock)

**APPROPRIATION ACCOUNTS
(RAILWAYS), 1949-50 AND RAIL-
WAY AUDIT REPORT, 1951**

Chairman: Let me first introduce to the gentlemen from the Railway Board. Shri Badhwar is the Chairman of the Railway Board; Shri Vasist, Member of the Railway Board; Shri Deb, Director, Finance (Budget); and Shri Sadagopan, Director, Finance (Expenditure). The last two have come to assist the Financial Commissioner who is unfortunately away. I think Shri Badhwar will make a statement on behalf of the Financial Commissioner as to why no letter has been addressed to the Chairman about the circumstances which made the Financial Commissioner to be absent today, because the Public Accounts Committee should not brook any absence due to holidays. The date of meeting is circumscribed, and the Public Accounts Committee must examine the Accounts. The Officers taking holiday must suit the convenience of the Public Accounts Committee when it calls meetings. Shri Badhwar will tell me why the Financial Commissioner is not able to be present.

Shri F. C. Badhwar: I would like to explain that the Financial Commis-

sioner at present is on deputation and not on holiday. He had hoped to return by now and to be present at this meeting of the Public Accounts Committee, but due to certain delays in some rather delicate negotiations and other important matters in which he is engaged, we have had to ask Government to extend his deputation. He regrets very much, as I do on behalf of the Ministry, that he cannot be present here today. I hope to give to the Committee with the help of my colleagues, perhaps not as well as the Financial Commissioner would do, any information that is required.

Chairman: The convention must grow that whenever a Secretary cannot come, a letter ought to be written to the Chairman by you as Head of the Railways. The letter should have come to us directly. I want that convention to grow under this Sovereign Government in a better manner than it was under former conditions. It is not a new convention. I think it has been the practice for the last four years that every Head of Department, who is absent, writes a letter to the Chairman, and I would request you to follow that precedent.

Shri F. C. Badhwar: We will do that in the future, Sir, I am extremely sorry we could not do it this time.

Shri V. P. Nayar: Did the Secretary get any information that the Financial Commissioner will not be able to come sufficiently early so that we could have fixed this examination to a later date?

Chairman: We cannot suit the convenience of particular Ministries and we would not encourage that habit in the Ministries. We can consider the situation, and if the Secretary or the Financial Commissioner is absent, Shri Badhwar must give us the information. If anything is left over, we will call him again during the Session.

Acharya Agarwal: May I know if the Financial Commissioner is in India or outside India?

Chairman: Outside India—in London.

Shri F. C. Badhwar: He is actually today, I think, in Germany.

Chairman: He met me before going away and told me he would see me at the meeting. I am only looking to the interests of the Public Accounts Committee and the conventions which must grow. Before we go into details, there are two general issues which I will take up with Shri Badhwar and then we will take up the agenda that we decided last evening about the Railways. I do not know who will reply, whether Shri Badhwar or the Financial Section.

We found among the notes submitted by the Railways that one of them was not a reply to any of the outstanding questions that the Public Accounts Committee wanted the various Ministries to reply, but it was a note by the Railway Board on the reorganisation of accounting and the forms of accounting after the regrouping. The note is not in reply to any question that arose out of the previous Reports of the Public Accounts Committee nor did it arise out of any communication of the Secretary of the Public Accounts Committee; it is entitled "Memorandum for the Public Accounts Committee regarding the changes in the Financial and Accounting structure of the Railways with effect from the Accounts of 1952-53." It did not arise out of any points that were raised by the Public Accounts Committee. In the note it is stated that the above changes, which will take effect from Appropriation Accounts, 1952-53, are brought to the notice of the Public Accounts Committee. The Public Accounts Committee does not like that they should receive advice from any Ministry, however big it may be. They have to find out the constitutional propriety or impropriety. We would like to know why and how

this note was sent. It should have been published in your Appropriate Accounts. That you did not do. Why was this note sent to us?

Shri N. C. Deb: If you will permit me Sir, I may explain. In preparing the Budget of 1952-53, the Railway Ministry, with the concurrence of the Ministry of Finance, took certain decisions and these were also explained in para. 9 of the Budget Speech of the Railway Minister and communicated to Parliament. These decisions are: (i) from the Accounts of 1952-53, there will be no apportionment of earnings between the various Railway Zones; (ii) there will be no inter-Railway adjustments for various services rendered or work done by one zone on behalf of another zone; and (iii) there will be no adjustments for freight charges for carriage of Railway stores and fuel. These three decisions had been taken by the Railway Ministry in consultation with the Ministry of Finance.

Chairman: Sanction of Parliament does not mean the sanction of this Committee. This Committee has the liberty to examine anything.

Shri N. C. Deb: That is exactly the point. After the decisions had been taken by Government, we immediately intimated these to the Auditor-General.

Shri Narahari Rao: When did you send the intimation?

Shri N. C. Deb: On the 2nd May, 1952, that is, four months ago.

Shri Narahari Rao: You sent these after taking the decisions? Have you read Article 150 of the Constitution? I want to know whether you have.....

Shri N. C. Deb: This aspect was considered by Government and the Government thought that in a matter of this kind, it was perhaps not necessary to obtain the prior concurrence of the Auditor-General.

Chairman: You are making a statement on behalf of the Government of India that Government decided the constitutional propriety in the matter of Article 150, that any changes of forms and all these must receive the sanction of the President and the Auditor-General.

Shri N. C. Deb: I am coming to the question of forms later on. I am now talking about the financial and administrative decisions which were taken by the Government of India and which were included in para. 9 of the Budget Speech of the Railway Minister.

Chairman: The Budget is all right. It did not debar you from sending the papers relating to the changes in the forms to the President through the Auditor-General.

Shri Narahari Rao: Article 150 of the Constitution requires that the Accounts of the Union and of the States shall be kept in such form as the Comptroller and Auditor-General may, with the approval of the President, prescribe. These changes which have been made are changes in the form of the Union Accounts in respect of the Railways, and the orders had to be issued is so far as they involve changes of Accounts. Form of Accounts does not mean mere printed or tabular form. It means also procedure. If you do away with adjustments which had to be made in a certain procedure—I am not criticising or making any comment on the merits of what has been done; I propose to do so in due course, because my attention was drawn to this just yesterday—I should point out that there has been a violation of Article 150 of the Constitution. Changes have been made in the form of the Appropriation Accounts and various other changes have been made in the method of accounting which are not permissible for the Government to make because they are changes which had to be made by me with the approval of the President. The regular procedure has not been followed.

Shri N. C. Deb: I submit that no changes at all have been made up till now in the Appropriation Accounts that the Public Accounts Committee is concerned with. The changes which we have suggested will actually come into effect two years hence because...

Shri Narahari Rao: But you have issued the orders.

Shri N. C. Deb: We have not issued any orders. Whatever changes are required in the Appropriation Accounts consequent on Government's decision were incorporated in this Memorandum which was sent to the Director of.....

Shri Narahari Rao: After you have made the changes; here you have said "consequent on the above changes, the marginally noted statements and annexures of the Appropriation Accounts of the Railways which are based on the figures of earnings and expenditure of individual railways will cease to be compiled in future." If that is not an order, I would like to know what it is, Sir. In the annexure C it is stated that the percentage will be given for the Railway as a whole and not for individual Railways.

These are all therefore regular orders. This is a statement of decisions taken. My point is that these decisions may appear reflected in papers placed before the Committee two years hence but that does not alter the fact that the decision has been taken, which it is not within the competence of Government to take in this manner. The Chairman of the Public Accounts Committee has already made out this point. I am only adding to what he has said. There has been neglect in following the right procedure. I go further and say that when a big change of this kind is made as a result of regrouping—an enormous change in the structure of accounts, financial control, etc.—it involves a change in the structure of audit also. It was necessary, therefore, to give the Auditor-General sufficient notice after which the matter should have been discussed with him and then only the changes brought into operation. But no such thing has been done. It was only in the month of June or so that I had to sit down with the Director of Finance, and Shri Deb came and assisted me for two or three days for giving effect to the changes on my side.

Chairman: As far as this Committee is concerned, it will take cognizance of these notes only after the Auditor-General weighs them over. But this Committee deprecates any constitutional impropriety on the part of any Ministry, not to speak of the Railway Ministry in particular, which is responsible for one of our biggest commercial undertakings. Up till now proper consultations with the Auditor-General have not been made. Surely no Minister is bigger than the Auditor-General or the Public Accounts Committee or any Parliamentary Committee. Every Minister must observe the constitutional mode or procedure thoroughly. Yesterday we spent some two hours or so on a discussion of how a constitutional impropriety of this nature can happen under the Sovereign Government of India. We shall take the explanation from you as to why things were done in such haste, and what the necessity was to commit such an impropriety. In the meantime I hope the Auditor-General will take up the matter with the Ministry concerned. I would like to know from Shri Deb as to whether the Railway Ministry consulted the Finance Ministry (Audit Branch).

Shri N. C. Deb: We consulted the Finance Ministry.

Chairman: We shall take up the matter with the Finance Ministry. The Public Accounts Committee will

examine thoroughly the Finance Ministry about anything they have done or sanctioned without prior consultation with the Auditor-General, and find out what the need was to proceed in such haste over a matter of constitutional importance. No Minister is above the Constitution. Each Minister is a member of Parliament and a member of the Government. If he likes, he can bring in an amendment to the Constitution, and then proceed in the manner he likes. But he cannot defile the Constitution like this. This Committee will never allow any such thing.

Pandit K. C. Sharma: They have acted according to the sense of the Constitution.

Chairman: But we do not take that view.

Shri Narahari Rao: I would like to ask whether the constitutional provision has been observed, and whether the Audit Department agreed with Shri Deb in the matter of making that report.

Shri N. C. Deb: We sent this Memorandum to the Director of Railway Audit for his concurrence. He told us that this was under the consideration of the Auditor-General.....

Shri Narahari Rao: But if you have taken a decision already, it becomes a *fait accompli*, and what can the Auditor-General do?

Shri N. C. Deb: My submission is that it is not a *fait accompli*.

Shri Narahari Rao: Already four months are over in the year 1952-53, and these changes take effect from the 1st of April 1952, and these will come into account two years hence in the Appropriation Accounts beginning with the year 1952-53. But do you not maintain regular Accounts in the new form now?

Pandit Munishwar Datt Upadhyay: May I know whether the suggestion made in this note is to the effect that you mean to have a change in the form of keeping Accounts?

Shri N. C. Deb: We mean to have a change in the form, in so far as that we propose to abolish two forms, and modify two other forms. This is what is contained in the proposal. Unfortunately the wording of the Memorandum is not very happy, but that is the intention.

Chairman: I could forgive you and your predecessors on the unhappy wording, but a constitutional impropriety in the expression of notes, etc. is something which defiles the Constitution

and therefore requires very serious notice.

Shri Narahari Rao: I would suggest that further discussions on this matter may stop here. I shall take up this matter direct with the Government myself. The only thing I wish to point out for record is this. The Director of Railway Audit stated on the 24th April, 1952 in a letter to the Railway Board:

"The present decision involves fundamental changes in the existing audit and accounting arrangements of the traffic earnings of the Railways, and it is not clear why Audit was not consulted before taking such an important decision."

I feel bound to point out also that anything that involves a fundamental change or a change of any nature in the form of accounting requires my approval under Article 150 of the Constitution. So this is a matter on which prior consultation should have taken place. If it is admitted that there has been a mistake, then it is a different matter.

Shri Ramachandra Reddi: The Government representative might be asked to give us his full statement in the matter so that we can pursue it in due course.

Shri Narahari Rao: My Department will take up this matter with the Ministry; meanwhile further discussions on this may stop.

Shri V. P. Nayar: The representative of Government was telling us that this is a matter with which we are not concerned just now. This change will come into effect with the Appropriation Accounts for the year 1952-53 and onwards. I would like to know what form of Accounts is being kept from the 1st April, 1952. Under Article 150 of the Constitution, it is clear that he is not expected to do any such thing without the concurrence of the Auditor-General. It is true that the Appropriation Accounts for the year 1952-53 may come some two years hence. But what is the form in which the Accounts are kept from 1st April, 1952?

Shri N. C. Deb: In maintaining the monthly and annual accounts of the Railways as a whole from 1st April 1952, there has been no change whatsoever.

Shri Narahari Rao: I must contradict you at this point. It is a very inaccurate statement that you have made. There is no apportionment between the different Railways as used

to be done in the past, and yet you say there is no change, which I submit is an administrative decision.

Shri N. C. Deb: From the 1st April 1952, we are treating the Railways as one unified system.

Shri Narahari Rao: I am astonished at the statement that this is no change.

Shri N. C. Deb: I shall explain this point. We are maintaining the earnings of the Railways as one unit, and not separately for each Zone as used to be done in the past. I have already explained what are the key changes that we have made.

Firstly, we are treating all the Railways as one single unit, so far as the earnings are concerned.

Secondly, for the same reason we are not making any adjustments between the different zones for work done on one zone, on behalf of another.

Thirdly, we are not adjusting the freight charges on railway stores and fuel.

There is no modification of the system of accounting or the form of accounting. I emphasize the word 'form' in particular.

Shri Narahari Rao: This is a very highly intricate legal point. I cannot for one moment agree that this is not a change which falls within the scope of Article 150 of the Constitution.

Pandit K. C. Sharma: I can understand the position that when the Railways are to be treated as one unified system you are expected to keep one account. But why should there be two detailed Appropriation Accounts?

Shri N. C. Deb: Annexure B shows the total earnings of the Railways and the total under-charges. That is what has hitherto been used to be shown in this annexure. We have suggested that in future we shall not show the earnings of each zone separately, but only the total collections of each of the zones. That is the proposal in this Memorandum.

Pandit K. C. Sharma: You mean no details of each Railway will be given?

Shri N. C. Deb: We shall give the details of each Railway, but not what used to be formerly called 'the earnings'. As against the earnings, we shall show only the total collections.

Pandit K. C. Sharma: In column 4, you say you are giving the detailed accounts.....

Chairman: Let us not go into details, until the Auditor-General takes up the matter with the Ministry and gives us his report.

Shri F. C. Badhwar: I would like to make our position very clear. There is never any intention of altering anything without the permission of the Auditor-General and the President.

Chairman: I would like to invite your attention in this connection to the subsidiary rules 4(a) and 4(b) to which we drew attention in an earlier report. "The provision of Constitution and rule 4(b) of the subsidiary rules, etc. will be deemed to have been satisfied if the forms so determined are not questioned by the Auditor-General cum President."

Shri Narahari Rao: I shall take up the matter with the Ministry myself. I hope they will be reasonable enough to admit that a mistake has happened, and take steps to correct it.

Acharya Agarwal: I feel that in spite of all these explanations, the Public Accounts Committee should take a very serious view of this, because we find from the Auditor's report and others that follow that the Railway Ministry has not cared even to implement all the recommendations that we have made. They say either 'noted' or 'under consideration' or things like that. This is a breach of the Constitution which of course the Auditor-General will look into. But we, as Members of Parliament, should take a very serious view of it.

Shri Narahari Rao: I shall report to you if I am not satisfied.

Acharya Agarwal: I request you not to take a lenient view of it.

Shri Narahari Rao: I must draw your attention to any breach of the Constitution and any steps taken to rectify and so on. The whole matter will be reported to you in my next report or the next meeting of the Public Accounts Committee itself.

Chairman: Let it lie at that. We will go into it in the November Session. By that time the Auditor-General will give us his report.

My second general point is to be addressed to the Managing Director of the Indian Railways, Shri Badhwar. In the February report, the Public Accounts Committee mentioned to you about stricter financial and budgetary control. Today we are going to deal with the 1949-50 Accounts. You as the Managing Director—we are the

shareholders here—tell us what is your experience since 1949-50. We know there had been certain irregularities. I am not saying they are *mala fide*. I am talking of budgetary control. You please tell us whether your budgetary control as Managing Director is stricter and more accurate. What is your impression? I do not want to know the financial point of view. I want to know your views.

Shri F. C. Badhwar: Sir, I think I can best answer your question by referring you to the paper showing the financial results of the working of the Railways. In this paper, against a number of heads side by side are given certain revised estimates and actuals. If I may say so, Sir, for an enormous concern like the Railways which turns over expenditure of over Rs. 500 crores every year, these figures indicate a very high degree of financial control and accuracy.

I have some knowledge of the position in some of the largest and most enlightened industrial concerns in the private sector and I do not think that their control—and they have to be very careful—is any better, more effective or more accurate than the one that has been introduced on the Railways progressively during the last 2½ years. It is true that as far as procedures, codes, rules and regulations go, sometimes there are pulls in different directions between the civil services and the code aspects on one side and the commercial and the industrial and the time factor aspects to which railways have to work on the other. But I think if you take the procedural irregularities—and there must be many in a huge system like the Railways, for we are all human—and compare them with the turnover, you will find that progressively we have taken your advice to heart and have improved our financial and budgetary control appreciably. I think these figures will speak for themselves.

Shri Narahari Rao: May I ask whether these figures have been checked by the Director of Railway Audit?

Shri P. H. S. Rao: This came to us about five days ago and we have drawn their attention to the provisions of the 1934 Order.

Shri Narahari Rao: It is a Memorandum which has been given by you and when it contains figures and things like that, if you follow the procedure prescribed by the Government of India in 1934, ordinarily you have to get these figures accepted by Audit. There has been oversight in following it. Please do not do it again. Before you

send it to the Public Accounts Committee, you can get it vetted by the Director of Audit.

Chairman: It is understood that your Ministry is slack in sending reports that you send to the Public Accounts Committee and to the Auditor-General simultaneously. There is a strict order in 1934 to that effect.

Shri N. C. Deb: It is the practice every year to give the latest position of financial results of the working of the Railways to the Public Accounts Committee and it has never been checked in the past by the Director of Railway Audit.

Shri Narahari Rao: Are you sure about it?

Shri N. C. Deb: Last year also we prepared it. My point is that we show in this the latest position. You know our Accounts for 1951-52 have not yet been closed, but whatever figures we have got from the Railways we have given those figures to the Public Accounts Committee to keep them in touch with the latest trends in the working of the Railways. If you do not want it, we won't submit it in future.

Chairman: The point is that the Auditor-General does not receive copies from your Ministry.

Shri Narahari Rao: No, no. Copies have been sent. That is not the point. There is a specific order of the Government of India which says that when a Memorandum is required to be sent to the Public Accounts Committee involving financial statements or figures and so on, those statements ought to be sent beforehand to be vetted by Audit so that the figures which are sent here cannot be questioned and are accepted by both sides. I say it in the interests of the statements being accurate, otherwise if there are mistakes then it will be troublesome. I suggest that you follow this procedure in future. The fact that you have not done it all these years is no excuse for not following the prescribed procedure in future. I do not see why there should be any waste of time over it.

Shri U. C. Patnaik: Are the Railway authorities aware of that rule of 1934?

Shri Narahari Rao: It is a Government of India Order.

Shri U. C. Patnaik: I want to know whether they are aware of it.

Shri Narahari Rao: Why should they not be? If there is no further argument about it and they follow it in

future, I think we may stop discussion on that.

Shri F. C. Badhwar: May I just point to two other examples to confirm what I have said, that our financial and budgetary control is effective. Among the largest projects with which we have been concerned in the last three or four years are the enormous Assam Rail Link and the Chittaranjan Locomotive Works. I think you are aware, Sir, that the estimates for both of these have not varied by any significant amount from the completion costs. Now both these Works were executed during a difficult period when there were variations in price levels. The staff of the Assam Rail Link had to battle with the elements, and they had to battle against time, etc. Because of the national need, they had to be quick about everything and often they could not follow all the procedures because the work would not wait. Yet, Sir, you will find from the Accounts of these two enormous projects that much credit is due to our financial and budgetary control. The variations are negligible.

Chairman: We give you credit for what you have done.

Shri N. C. Deb: These Accounts will be audited in due course by the Auditor-General.

Shri Narahari Rao: That does not matter. If the figures are accurate, nobody is happier than we.

Chairman: We are happy to know that such things have gone the right way.

Shri U. C. Patnaik: I wanted to know, Sir, what the Railway authorities have to say about the 1934 Order and whether that has been in any way superseded by any later Order.

Shri Narahari Rao: That has been disposed of. They will follow it in future. That is the end of it.

Chairman: We are here representing the shareholders. Our Managing Director has told us that financial and budgetary control has been better. That is something to be happy about.

Shri T. N. Singh: When were these revised estimates made? On the 20th of March, I take it.

Shri N. C. Deb: Revised estimates are completed in the Railway Board's office about the middle of February every year.

Acharya Agarwal: These figures only show the disparity between revised estimates and the actuals. We would

have liked to know the disparity between the Budget and the actuals. This does not show much.

Chairman: They have tried their best to take us into the budgetary position. We need not...

Shri S. N. Das: In the Statement, the estimates have been given.....

Chairman: But we went over the Budget that was presented to us. If you want any further information or elucidation, they will send a supplementary statement.

Shri T. N. Singh: Unless of course it is checked by the Auditor-General, it is very difficult to form an opinion. These are the main items which are given. But we would very much like to know how under the various sub-heads the revised and actuals have worked. The sum total under a particular big head may tally, but the detailed control of Accounts is possible only when you go into every small head and see that the estimates are correct. Overall correspondence between the two figures does not help us, I would like to form an opinion only after I have seen those details.

Shri N. C. Deb: Those details are given in the Appropriation Accounts prepared by the Railway Board.

Shri T. N. Singh: For instance, you refer to the Chittaranjan Works. Can the Ministry give us the revised estimates and the actuals for Chittaranjan for these three years?

Shri F. C. Badhwar: In due course, Sir, because the Accounts are not quite ready.

Shri T. N. Singh: You have stated just now that Chittaranjan is worked on such-and-such lines—we shall be proud if it is done—but could you give us a statement to substantiate it?

Shri F. C. Badhwar: We would give it as soon as we have the full information.

Chairman: He has said that in regard to Chittaranjan Works and the Assam Rail Link they have kept very near to the estimates. That is creditable. I think the budgetary position has improved because last year we gave them a certificate in the Public Accounts Committee.

Shri T. N. Singh: Last year the Public Accounts Committee had taken objection to certain heads. For instance, take the Suspense Head. In para. 16 they refer to large amounts being kept under Suspense Heads without adjustment and proper accounting..

So we have not exactly given them a certificate.

Shri Narahari Rao: Why not wait till the appropriate paragraphs in the Audit Report are taken up.

Chairman: We shall now take up the Memorandum of more important points requiring special attention. Shri T. N. Singh.

Shri T. N. Singh: Even in Parliament when the Auditor-General's report was delayed a question was raised. Here also we find that the Appropriation Accounts for 1949-50 which were due for submission on the 15th March, 1951, could not be submitted until a year after. We would like to be enlightened on the point. What were the reasons for the delay and were they not avoidable?

Shri N. C. Deb: May I answer this question because I am responsible for the compilation of the Appropriation Accounts. After Partition there had been some dislocation of our accounting machinery and there have been delays in the compilation of Accounts. Railways should according to the regulations prescribed by the Railway Board, close the annual Accounts by the 24th May of the following year, but unfortunately, as the Director of Railway Audit is fully aware, they have not been able to close the annual Accounts in the post-Partition period, by that date, I must admit that even the Accounts for 1951-52 have not yet been finally closed and sent up to the Auditor-General and the Director of Railway Audit. We are however trying our very best and we have also introduced some new innovations in the procedure of compilation of Accounts so as to liquidate these arrears. We can assure you, Sir, that we shall spare no efforts to overtake the arrears as quickly as possible; if the arrear Accounts are not compiled in time then necessarily the Appropriation Accounts are also delayed. That is why the Appropriation Accounts for 1949-50 were delayed by about one year. We, however, hope that in the Accounts for 1951-52 we shall show some improvement and more improvement in the Accounts for the subsequent year.

Shri Narahari Rao: What about regrouping? How will regrouping affect your Accounts?

Shri N. C. Deb: We are taking adequate steps from now so that regrouping may not have an adverse effect on the closing of the annual Accounts and compilation of Appropriation Accounts.

Shri Narahari Rao: It may be a repetition of the effect of Partition by throwing the Accounts into confusion.

Shri N. C. Deb: Pre-Partition Accounts have not yet been closed and this factor also is partly responsible for the throwing back of the date of compilation of the post-Partition annual Accounts. For the pre-Partition Accounts we had to depend on the Pakistan Railways and they have not yet submitted their compiled Accounts to us. We are trying our best to improve the machinery for the closing of the Accounts for the post-Partition years and ensure expedition in the submission of the Appropriation Accounts.

Shri T. N. Singh: The Public Accounts Committee has previously been asking for expedition of the Appropriation Accounts. The Auditor-General has co-operated with us and we have overtaken a lot of arrears so far as account checking goes. After having overtaken the arrears if we find at this stage that we are again being delayed because some other factors are intervening, and we are unable to proceed with speed, that will hamper a very essential task which the Committee has to perform and perform in time. So we do want to be assured that because of delays on your part our work will not be held up. Parliament must proceed with examination of Accounts from year to year and in time.

Shri Vallatharas: Did you then and there intimate these difficulties to the Government and the Auditor-General?

Shri N. C. Deb: The Auditor-General is fully aware of the position and our difficulties and he knows what we have done during the last year to overcome them. To give an instance, we have introduced a system of quarterly closing of Accounts so as to facilitate and expedite the compilation of the annual Accounts.

Shri Vallatharas: You should try to solve your difficulties so that the work of the Public Accounts Committee may proceed smoothly. If you wanted any difficulties removed you should have asked the Government to make some temporary arrangements, but to say here that you faced so many difficulties and therefore you could not do the work is of no help.

Shri N. C. Deb: We had difficulties and we have taken every possible step to overcome them and expedite the closing of the annual Accounts and the compilation of Appropriation Accounts. That is how we have been able to

complete the 1949-50 Accounts. The Accounts of 1950-51 are very nearly complete—they have gone to the Director of Railway Audit. 1951-52 Accounts are being closed and we shall try to compile the Appropriation Accounts for 1951-52 within the current financial year.

Acharya Agarwal: May I know whether the post-Partition difficulties have been experienced by the Railway Ministry alone or by other Ministries also?

Shri Narahari Rao: It is a difficulty experienced everywhere. I am in general sympathy with what the Railway Ministry is saying but the gap has been gradually reduced in other cases. There have been delays on the Civil Accounts side also for which my Department is responsible but we have been gradually reducing the delays so much so that now we have put the Public Accounts Committee in arrears. My report for 1949-50 on Civil Appropriation Accounts was submitted to Parliament nearly a year ago, but about nine months earlier than the Railway Accounts were submitted. The Civil Accounts for 1950-51 are ready, and we hope very soon to keep up to the usual time-table. Likewise the Railways ought to reduce the gap and get into stride with the prescribed dates as soon as possible. I think that is all that Shri Singh wants.

Shri T. N. Singh: Yes, that is all.

Vizagapatam Port

[Page 372. Detailed Appropriation Accounts, para. 2]

Shri S. N. Das: I should like to ask a question on Vizagapatam Port. The Railway Department has been working at a loss for the last several years. It has been stated in the Audit comments on the financial review of the Vizagapatam Port for the year 1940-50 that the terminal charges are going to be revised. The Railway Administration submitted their recommendations to the Railway Board on the 22nd February, 1950. I want to know what final orders have been passed by the Railway Board and whether these terminal charges have been revised.

Shri F. C. Badhwar: The recommendations in this respect are understood still under examination.

Shri S. N. Das: What are the reasons for such delays when the Department is running at a loss? When these terminal charges are the only source of revenue why is the Railway Board taking so much time to examine the recommendation?

Shri F. C. Badhwar: We are not the only people concerned. There are so many people concerned who have got to be consulted and their repercussions noted.

Shri S. S. Vasist: The question of terminal charges at ports is not always entirely within the discretion of the Railway Ministry. Before we come to a decision we have to consult not only various other interests but other Ministries also. In this case the Ministry of Transport is vitally concerned and consultations have to take place between the Railway Ministry and the Transport Ministry because any decision that we may take may have repercussions on other ports also. This question of terminal charges for various ports has been under the examination of the Railway Board. I think the Public Accounts Committee would like us to come to a decision which would not only be appropriate and acceptable generally but also un- harmful to the interests concerned, i.e., it should not have any adverse repercussions on similar charges at other ports. I can assure the Public Accounts Committee that we shall not delay the decision a day longer than is absolutely necessary.

Shri S. N. Das: I would like to know whether the various interests concerned have met together and discussed these things or only paper consultations have taken place.

Shri S. S. Vasist: Consultations both on paper and through discussions have been held.

Shri V. P. Nayar: For how long have these consultations been going on?

Shri S. S. Vasist: It is now over two years since this matter has been under examination.

Chairman: Why can't these matters be solved by a discussion at a conference of the appropriate authorities concerned rather than being prolonged by correspondence?

Shri S. S. Vasist: I quite see your point but in a matter like this it is not a question of expressing opinion across the table. Various statistical data have to be gone into and analysed.

Shri F. C. Badhwar: There is a special factor here. As the Public Accounts Committee are aware, Vizagapatam Port is the only port owned by the Railways. The other ports are not owned by the Railways. So anything that we do may have its repercussions elsewhere and we might become the

target of criticism. We shall give you the up-to-date position tomorrow.

Shri T. N. Singh: I find that during this year also there was more traffic passing through the port with the result that your earnings should have increased. At the same time your cost of handling should have gone up. Can you give us an assurance that in so far as the additional expenses are concerned, you get the benefit of the extra income, or rather whether you are progressing economically or not?

Shri N. C. Deb: For the first time in the year 1951-52 this port has made a profit, although it is small. In the Budget for the year 1952-53 also, we have again estimated a profit of Rs 40,000. There is a definite improvement in the financial position of the port due to more traffic coming in.

Shri T. N. Singh: In estimating this profit have you taken into account any doubtful amounts that may have to be realised, but may not be realised later on? In this connection you will find that there are certain disputed items with the Defence Ministry. Similarly you may have taken credit for some income which may not materialise.

Shri N. C. Deb: In the estimates we take credit only for those amounts which are expected to be realised.

Chairman: What is the present position regarding recovery of outstanding dues from the Defence Department?

Shri F. C. Badhwar: We will let you know tomorrow whether any or all of this has been recovered.

Chairman: May I put a question to the Auditor-General? How is it that in a Sovereign Republic, the Ministries of the Government work in such watertight compartments that they are not able to settle even the Accounts among themselves? Why should the Defence Ministry be so sacrosanct?

Shri Narahari Rao: It is not within my capacity to remedy it. That is why I have come to you. I suggest you ask the Ministries to behave better.

Shri V. P. Nayar: Is it because that the Railway Ministry made a claim on the Defence Ministry without consulting them that this delay is taking place? It is said in paragraph 4:

"About Rs. 8 lakhs are outstanding from the Defence Department who have not yet accepted the revised rates of rents for the various plots of land leased to them as assessed by the Revenue Authorities."

Chairman: This is an unwanted baby which the Railway Ministry have adopted.

Shri Narahari Rao: The best thing would be that you suggest arbitration. In this case the Department should submit to arbitration. If you have no objection my Director of Audit, or one of my Officers appointed by me, or myself, may arbitrate in this case.

Shri F. C. Badhwar: Would it be possible to ask the Finance Ministry to use its good offices to expedite these inter-Ministerial adjustments. I think that will have a good effect.

Grant No. 5. Paragraph 9.
(Page 9 of Railway Audit Report, 1951).

Shri Ranbir Singh Chaudhuri: It is said:

"Of the total final excess of Rs. 31.43 lakhs under these three heads (on the B.B. and C.I. Railway) the excess of Rs. 26.47 lakhs, i.e., a little over 84 per cent. was explained as partly due to increase in the cost of stores and partly due to greater consumption of stores."

Does this not reveal gross negligence in watching the progress of expenditure?

Shri F. C. Badhwar: The main cause of the excess is due to increased output from these particular railway workshops. It will be recollected that towards the end of the war, and especially after Partition, due to various factors including the great shortage of materials, especially steel, wood and other components used for railway repairs, and also due to a certain amount of go-slow on the part of labour, the output of our workshops had dropped considerably as compared with the pre-war output. During the last three years, however, there has been a steady improvement and this improvement is of course very advantageous in the overall analysis. But it sometimes leads to inaccurate budgeting. For instance, the money set aside to pay for the work turned out from a certain workshop is usually based on the past year's performance. If the output increases you naturally have to spend more money. You fully get your money's worth, but you have to use more stores and sometimes more labour.

During the last couple of years we have been faced with this problem on most Railways and in some workshops we have increased our output by 20 to 30 per cent. All of this has to be paid for.

Shri T. N. Singh: I think the question put by Shri Ranbir Singh does not relate so much to workshop management as to utilisation of stores.

Shri F. C. Badhwar: Increase in the value of stores can be under two heads: either price level rise, or you use more stores of that kind.

Shri T. N. Singh: How does labour cost come in?

Shri F. C. Badhwar: Part of it only is increased payments to labour costs. Of course, labour costs would vary very little, because you have the same number of men. You may however be working a little over-time in a double shift but that is not very negligible in terms of costs.

Shri Narahari Rao: The question asked was—why should there be this excess in the final appropriation. Your answer is all right so far as the original appropriation is concerned. In making the final appropriation you should have taken into account all the reasons. Your answer would have been perfectly correct if the excess had been over the original appropriation, but this is over the final appropriation.

Shri F. C. Badhwar: One reason for this is that, as you know, the bulk of our stores are purchased for us through another agency—an arrangement that we do not like very much—but there is nothing we have been able to do about it for a number of years. Now, for the cost of those stores, the debit is passed on to us by this particular agency. We do not actually know the exact implication of the increase or variation in prices till we get the debit. We have had cases where at the last moment we have been landed with very heavy increases over our estimates pertaining to a couple of years ago. We do not always know what is the increase in cost till we get the debit.

Shri Narahari Rao: Haven't the Shroff Committee made some recommendations?

Shri F. C. Badhwar: Those that concern the Railway Ministry only have been adopted because we feel that both financially and in efficiency, they are of benefit to us. But there are certain recommendations which concern another Ministry on which complete agreement has yet to be reached.

Shri V. P. Nayar: You generally know this excess expenditure only at the time the Accounts are closed, or do you have any machinery to know the increase in expenditure as and when they occur?

Shri N. C. Deb: We watch the actual expenditure against the sanctioned Grants every month. We prepare what is called a financial review, and this shows the actual expenditure up to the end of the previous month, and the Budget provision to the end of that month. This review brings to notice all excesses, and, if necessary, we immediately appropriate funds if funds are available; otherwise we come up to Parliament for Supplementary Grants. In this case, what actually happened is that in the last month of the year we had a lot of repair work on locomotives, and carriage and wagon stock, but in the modification estimates which were prepared by the Railway in the month of March, the Railway did not foresee this and we did not make full provision. That is one factor. The other factor is that there are some unpredictable expenditures also, such as expenditure on machinery. Now it is rather difficult to forecast the delivery of machinery which mostly comes from abroad. It is impossible always, even at present, to predict correctly the supply programme or regulate the supply of machinery. This also has caused an excess over the final Grant. Of course, we could have been more careful but.....

Shri V. P. Nayar: It could have been reduced from Rs. 26.47 lakhs provided you were vigilant, as you say.

Shri N. C. Deb: The Railways prepare their final estimate in the month of March. Towards the end of the month they could have given us an intimation about the progress or expenditure up to the 20th March. If so, we could have given a larger Grant.

Shri V. P. Nayar: Are you taking any action to prevent such things?

Shri N. C. Deb: Yes. We have taken up the matter with the Railway concerned as to why they did not do it in this case, and to what extent this excess could have been avoided. Each such case is brought to the notice of the Railway administration, and then we see what improvements can be effected in the next year.

Shri V. P. Nayar: How far are you implementing? What procedural steps do you take to prevent repetition of such irregularities?

Shri N. C. Deb: In each case, we have pursued and found out who is responsible, what is the difficulty in following the correct procedure and how to remedy the defect. I think that is all that we can do.

Chairman: The Committee is determined this time to end this muddle of

lack of control in spending. We have been watching this for the last two years. The Auditor-General will now ask one question.

Shri Narahari Rao: I am not going to ask any questions. I only want to make an observation that Parliamentary control over expenditure, especially Exchequer issues, will mean nothing whatsoever if Departments say, "we are helpless in matters of excess and so on", but if excess means going on spending money in excess of what the Parliament has granted, that I think is a very serious offence. So it is in the United Kingdom. I think very soon steps will have to be taken to put an end to all that sort of thing if you are to have a system of Exchequer control as in the United Kingdom. There have been difficulties in introducing the system in this country—procedural difficulties—but they have to be surmounted and those are engaging my attention. But something will have to be done to stop this. You just cannot go and say: "Sorry, we drew Rs. 30 lakhs more than what you had granted". No Parliament will stand it when they come to know their responsibility and constitutional implications. I want to tell my friends there, because it is a thing which affects you and me particularly, because we have to put our heads together to put an end to this. This is only a statement I am making. I am not minimising the difficulties and the defects in the existing system. Those things are possible, but it is a serious matter which requires very serious consideration.

Shri F. C. Badhwar: Mine was a very practical difficulty. I am sure, you will appreciate it. You take a unit like a Railway administration. For all practical purposes it is a large commercial organisation.

Chairman: This we will discuss tomorrow. We are going to discuss it, and you have also placed some documents at our disposal. Let us not draw general conclusions from this particular individual case. The case stands that excess is spent than is budgeted. That is what the Auditor-General said.

Shri Narahari Rao: I hope there is no disagreement on that point, viz., that whatever Parliament has granted, you must keep within that. We have got to do that. I am only drawing attention to the importance of all of us concentrating on this thing and devising ways and means of preventing your drawing anything more.

Shri F. C. Badhwar: I completely agree with the Auditor-General that expenditure not sanctioned by Parlia-

ment must not be incurred and should never be incurred, but, Sir, as I said, the Railways have so many responsibilities to discharge. If you are going to be content with giving a block grant and tell the Railways: "This year you must not spend more than this amount", and leave the details to it, then there is something in the contention that the Railways must be held responsible, but otherwise there are certain practical difficulties that have to be recognised. For instance, when there was a famine in Bihar, we had to rush about 100 engines from the South and the West, and thousands of wagons. Look at the working expenses of that Railway serving Bihar during that year. Can you blame it for exceeding its original estimates?

Shri Narahari Rao: Those would be matters to be taken into account in determining the form of control, the form of the grant and so on.

Pandit K. C. Sharma: Has expenditure increased due to new machinery imported, the need of which you could not foresee?

Shri F. C. Badhwar: In respect of machinery, we find from experience it takes 2½ to 3½ or even 4 years to get the machinery indented for Railways do not buy direct.

Pandit K. C. Sharma: You mean to say that machinery already ordered may arrive and therefore expenditure increases?

Shri F. C. Badhwar: Yes. Secondly, we could not be sure of its price.

Pandit K. C. Sharma: The price factor will not take the sum to such a large extent.

Shri F. C. Badhwar: The price of some machinery has gone up three times in the last four years.

Shri V. P. Nayar: When you place an order, and before the time of delivery, does the price go up?

Shri F. C. Badhwar: Yes it sometimes takes over a year actually to place the order.

Chairman: The intention of the Public Accounts Committee is to make the Government and the Ministries concerned Budget-minded, and if your budgetary control is not accurate, naturally it will find a place in our next report, but you have to take serious notice that under the Sovereign Government of India, no licence or liberty will be allowed to any Ministry, however authoritative. You are controlling Rs. 800 crores of capital expenditure, and Rs. 300 crores of

revenues, and if you set a good example, the Posts and Telegraphs will follow suit and so will the Ministry of Production. We must pool our brain resources as to how to minimise this kind of thing. That is what we are attempting—not today, but for the last two years we have been attempting—and this year we will go into it in detail later. You will please appreciate what the Public Accounts Committee wishes to aim at.

Grant No. 3: Revenue—Miscellaneous Expenditure.

[Page 7 of Railway Audit Report, 1951].

Shri M. L. Dwivedi: If you will permit me, I want to ask one question. I want to draw attention to Page 7 of the Report, item No. 3, in which Rs. 2·37 lakhs (East Punjab Railway—Miscellaneous Establishment), and Rs. 1·08 lakhs (East Indian Railway—Surveys) have been shown. "The non-provision of arrear charges relating to the previous years, even at the final estimate stage, indicates not only defective budgeting, but also lack of proper watch over expenditure by the spending units." I want to know what action is being taken in this connection for the future.

Shri N. C. Deb: In this particular case, it was a mistake on the part of the E.P. Railway—a definite mistake, and there was also some confusion. I shall explain how the confusion arose. The debits for 1948-49 were received, but they did not know that 1949-50 debits would also be received. They made provision for one year, and not for both the years.

Chairman: In the East Punjab Railway, your General Manager is new, the Financial Adviser was also new. It was a new Railway carved out of the N.W. Railway. You had 2½ years' experience. It does not bring credit to the General Manager or the Financial Adviser and Accounts Officer. If you can realise it, Shri Dwivedi would not ask questions.

Shri N. C. Deb: We not only warned this Railway, but we have brought it to the notice of the other Railways also, pointing out that such mistakes should not recur.

Shri V. P. Nayar: What do you do in the case of such mistakes?

Shri N. C. Deb: If we can pin down the responsibility on any individual person, we will take action against him.

Shri V. P. Nayar: Has it been possible in this particular case?

Shri N. C. Deb: A thorough enquiry was made and a report was.

Shri M. L. Dwivedi: Papers come from the Accounts Clerk to the highest official in the Railway, and I think it is the responsibility of the highest official to look into the matter.

Shri N. C. Deb: Quite right.

Shri M. L. Dwivedi: You can pinpoint that Officer in charge of the Railway and find out why this happened.

Shri T. N. Singh: I was suggesting a discussion on two points, viz. (i) pinpointing the blame, and (ii) where there has unnecessarily been excess expenditure, they should be taken up separately, and all problems of a similar nature, may be taken up together.

Chairman: We will take it up tomorrow at about 12 O'Clock.

Grant No. 5: Paragraph 9 (Contd.)

Shri T. N. Singh: In regard to the question just now raised by my friend Shri Ranbir Singh Chaudhuri in Page 9 you have shown these expenses against maintenance of locomotives, maintenance of carriage and wagon stock and other expenses. Are these the three items under which the expenses have been shown? We find that the excess has been due to stores ordered and received for which more payment had to be made. There must be two accounts, Stores Accounts, and Maintenance Accounts. May I know when such orders are made and stores or other spare parts are received, whether they are debited to Stores Account or to Maintenance Account?

Shri N. C. Deb: Stores which we receive for stock purposes are debited to Stores Account. But if we draw from these stores and utilise such stores in the actual work of maintenance or any other project, then they are debited to the Maintenance or the Project Account.

Shri T. N. Singh: So that means that these expenses relate to amounts drawn from the Stores Account and not to amounts received from outside?

Shri N. C. Deb: All stores received from outside will also have to pass through the Stores Account.

Shri T. N. Singh: If you say that the excess expenditure was due to parts being received at a higher cost or more goods arriving all of a sudden after a lot of shipping difficulties, then that is understandable. But if you draw certain goods from the stores for maintenance of locomotives which are in commission, then that is a thing

which is normally done. I want to know as to what actually these amounts relate to.

Shri N. C. Deb: I shall explain this point. In 1949-50 our repair work was very much held up on account of shortage of spare parts. We even sent a Purchase Mission outside for getting spare parts to repair our carriages and locomotives, as we did not have adequate spare parts in stock. It has happened many times, that we had to procure these parts from the market either in India or outside for immediate use. In such cases, the immediate purchase price does affect the repair costs and that might have caused the excess in this case.

Shri F. C. Badhwar: At this period we were leading a hand-to-mouth existence, when the spare parts had hardly time to collect dust in the stores department, but were issued for immediate overhaul or repair or for maintenance purposes. The rate at which they pass through the stores depot is so fast that these two heads of accounts that the hon. member has referred to are hardly in operation.

Shri T. N. Singh: Mr. Chairman, the information that has so far been given does not satisfy me. The large balances in the stores, the actual lack of them when the question of utilisation comes, living from hand-to-mouth, etc.—these are all things which should be examined in further detail before the Committee can come to a right conclusion on this point. It is not merely a question of certain parts being received at a particular time and at a particular rate. Underlying this are certain other factors which need examination.

Chairman: I would suggest that we take up this matter tomorrow at 12 noon, after all of us have gone through the Shroff Railway Stores Inquiry Committee Report of 1950-51. We can have a useful discussion tomorrow, when the Department can throw light on what they are going to do to check such irregularities during the current year, and how far things are improving. As we mean to go into this stores irregularity in a much more detailed manner, we shall take it up tomorrow.

Shri Vallatharas: At the end of page 9 of the Audit Report, there is an observation:

"A large part of this heavy excess could have been possibly avoided if the Railway Administration had closely reviewed the position in consultation with the Stores Department of the Railway

at least in early March and taken into account at the time of final estimates the increased cost of stores and the progress in the receipt of materials towards the close of the year."

I would like to know whether the Railway authorities agree with this view or differ from it. If they differ, what are the reasons for their doing so? In the previous Audit Report also great stress has been laid upon this check being exercised periodically at regular intervals, with a view to preventing these excesses. I consider that this opinion in the Audit Report should have very great weight at this time. What have the Railway Board to say on this?

Shri N. C. Deb: The Stores Department is also a part of the Railway Administration. As I have already said, we actually review the position carefully.

Shri Vallatharas: Have you reviewed in the current year?

Shri N. C. Deb: Yes, we have reviewed. The first review is made in the month of August. There is a monthly review also, as I have already explained which is a financial review made by the department concerned in consultation with the Financial Adviser and Chief Accounts Officer, and is examined by the General Manager along with the Head of the Department concerned. The second review is made in the month of November, called the revised estimates. The third is in the first week of March called the first modification. The final and fourth review is made from the 20th March to the 31st March which is known as the final modification.

These are the various reviews that are made by the Railway Administrations. In this case, the review was done in early March, but the point was not carefully dealt with in the final review towards the end of March. To this extent I agree.

Shri Vallatharas: What steps have you taken to avoid such excesses, and how far have you succeeded in avoiding them?

Shri N. C. Deb: I think the Auditor-General will give a report on the Railways' work in due course.

Chairman: In the overall control of the financial matters, the Auditor-General has in mind the financial credit of India as a whole. If the Railway Board or any other Ministry thinks that they can spend the block grant in any way they like provided they do not exceed that, then I must

say that such an approach is not a correct one. The approach should be that there should be economy as far as possible. Though we are going into past Accounts, our main aim is to see that there will be economy in the current year; and our chief object is to see that there is adequate control over the expenditure of the Budgetary Grant.

Pandit K. C. Sharma: Is there anything to show that there were any goods which were not ordered before the Budget year, or which had not fallen within the purview of the programme of the Railways, but which were added later on?

Shri F. C. Badhwar: I think most of these stores were imported. To come to the Chairman's point, there is a very important factor regarding the expenditure incurred on locomotives and rolling-stock. Every anna of it is revenue earning. These carriages, wagons and locomotives, if they are out of use due to delayed repairs or lack of spare parts, are a dead loss to the nation. I quite agree that there should be no budgetary excess, but in this case, we should approach this question from the wider aspect. Our intention is to carry more traffic for the country.

Chairman: My point was this. The Financial Commissioner of the Railways is there to help the Finance Ministry by keeping a watch over excess or low expenditure. If there has not been a proper appreciation of the duties, then that is certainly something serious. I am not blaming anybody in particular. My point is that there should be perfect co-operation between your Ministry and the Financial Commissioner. If there is an excess, then certainly it results in an embarrassment to the Finance Ministry. On the other hand, it is the primary duty of the Ministry to help the Finance Ministry by maintaining a proper watch over these things.

Acharya Agarwal: As has been pointed out by the Auditor-General, these cases only show that the control of Parliament over the expenditure is yet not tight. Whether they are able to pin-point some Officers and what action they have taken we would like to know. But may I know when the Auditor-General hopes to prepare a sort of revised budgetary control policy?

Shri Narahari Rao: I think we had better discuss that in a general meeting, because it is a matter that arises over the whole field of Exchequer control. And that again is linked up with the separation of Audit from Accounts.

Acharya Agarwal: But I would say, to us it is very urgent, because here....

Shri Narahari Rao: I spoke about this matter at the preliminary meeting of the Public Accounts Committee last time and I think I also spoke about it to the Parliamentary Group. I have indicated sufficiently clearly there and at the moment I have just put two Officers on Special Duty—I have not done it but I hope to do so in another two days—to thoroughly go into the whole matter of simplifying Accounts—and Accounts have to be simplified on the Civil side also—and see how we can implement those portions of the Constitution which relate to Exchequer issues. It is a matter which is very complex. In fact, I hope to put forward concrete proposals for an Audit and Exchequer Act as in the United Kingdom which will make it possible to control Exchequer issues, i.e., the Reserve Bank of India will not honour cheques beyond certain limits.

Acharya Agarwal: Will this Public Accounts Committee have an opportunity to discuss your note?

Shri Narahari Rao: It is a matter which is being examined. I will have to formulate proposals and consult the various Governments, not only the Union Government but also the various State Governments, because money is drawn from treasuries and so on. It is a very complex matter. My directions are that before February this work must be completed and I should be given interim proposals as each self-contained proposal has been formulated so that we can take decisions as we go. It is a very formidable problem, but I hope to find some answer.

Chairman: The Public Accounts Committee is there to approach every Ministry to implore them to see that their Departmental Heads are correct in their expenditure and if any Officer acts *mala fide*, take action against him. These last three years we have examined the Accounts and I think we have succeeded a good deal in compelling Departmental Heads to come to quicker decisions. We find in the All-India Radio, the biggest official has been suspended. In the Food and Agriculture Ministry two Officers are being prosecuted. The Public Accounts Committee has its duty to Parliament and the country, apart from seeing whether the Ministries have been negligent and careless. We have been very soft with the Departmental witnesses. The Public Accounts Committee can name the particular person in a Ministry who is negligent of his duty and when we name him, Parliament must see that his name is removed from the Services.

Unfortunately, there has been a revolt from the Services, particularly the I.C.S. They say that they stand according to their rights during the British rule....

Shri Narahari Rao: Will you permit me, Sir, to intervene? I want my remarks to be taken as they are and not considered more seriously than I mean them to be. These excesses have occurred not only here but in various other Ministries due to certain inherent defects of control, but there are no *mala fides*. I must say that in fairness to the Department, I wish to make it clear that I do not want my remarks to be misunderstood. There are no *mala fides* whatsoever in these cases of excesses. We might say there has been very grave deficiencies of procedure or defects of control, but I would not for a moment ascribe any *mala fides*.

Chairman: I must enlighten my colleagues on the Public Accounts Committee. The Public Accounts Committee will be justified in naming persons who are negligent of their duties.

Shri Narahari Rao: I am not taking a service attitude, because I am above all Services. I do not belong to the Services. The moment I become Comptroller and Auditor-General, I have no politics, no service. I am free from all that. I must be fair and if I am not, my report is useless. In all fairness to the Department, I must say while they may be obstinate in accepting mistakes—at times at any rate they are so before the Public Accounts Committee—there are no *mala fides* in these cases. For instance, when adjustments are made there is some defect in the entire system of accounting in this country. We are following a procedure of accounting which was introduced nearly 100 years ago. We have only tinkered with it. Governments have not cared to pay sufficient attention to the accounting system. They have not listened to the Chief Accounts Officer or even the Auditor-General when he wants to make changes. Twenty years ago, there was a very important Committee. Government was going ahead with separation of Audit from Accounts and if they had pursued that, we would not have any of these defects. But in order to save a paltry sum, there was a reversal of policy and it combined Audit with Accounts. You do not know the money that has been lost long after. You have to rectify these very serious defects, before you take the administration too seriously to task. I must also be fair.

Pandit K. C. Sharma: I want a piece of information as I share the anxiety

of my friend, Shri Agarwal. Is there any provision made in Article 149 for the functions and powers of the Auditor-General apart from what they used to be prior to the commencement of the Constitution? Article 149 envisages that Parliament will make provision for the functions and powers of the Auditor-General. Under these powers and functions, the Auditor-General will prescribe the form and details of Accounts to be kept in a certain way. I want to know whether any provisions have been made under that Article or.....

Shri Narahari Rao: In Article 149 the provision has been made. No new provisions have yet been made. Article 149 defines the duties and powers of the Comptroller and Auditor-General in relation to the Accounts of the Union and of the States and of any other authority or body as may be prescribed by or under any law made by Parliament and until such a law is made, he shall perform such duties and exercise such powers in relation to the Accounts of the Union and of the States as were conferred on or exercisable immediately before. These were regulated by Orders-in-Council made under the Government of India Act and the Accounts Order of 1936 made by His Majesty-in-Council laid before both Houses of Parliament and these were adopted in the Independence Act. They continue to regulate the functions of the Comptroller and Auditor-General. They are adequate enough for the time being; I have not found any serious difficulty.

Pandit K. C. Sharma: The rules formerly laid down have been adopted *in toto*.

Shri Narahari Rao: That is not adequate at all for purposes of giving effect to Exchequer control, which is provided for in the new Constitution, and Exchequer issues.

Pandit Munishwar Datt Upadhyay: We should concentrate upon ascertaining facts from the Ministry; we might talk with the Auditor-General later. There are so many points to be gathered.

Shri M. L. Dwivedi: In connection with the pin-pointing of any particular person, the irregularities and many other defects, we have to find out some solution.

Chairman: It is the supreme privilege of the Public Accounts Committee. We will discuss among ourselves; there will be one full day to discuss this. We can mention that in our recommendations to Parliament—particularly

the attitude which has been developing among the Departments over the last two years.

Shri M. L. Dwivedi: I have got a case here, in page 37 of the Audit Report. They say the responsibility of the various officers for these irregularities was investigated by a high level executive committee and one of the officers resigned while his explanation was under consideration, and the resignation was accepted.

Chairman: When they reach their conclusion, they should let us know of it. If we do not approve of the punishment meted out, we will make our statement.

Shri M. L. Dwivedi: We have to come to certain conclusions in this connection so that the Ministries in future may know of them.

Chairman: We will take a decision. We do not want officials to be guilty of misconduct.

Shri M. L. Dwivedi: I want to say that some sort of instructions should be laid down so that when a person is found to be guilty, he should not be let off easily.

Chairman: That has been the British tradition and they are following it.

Shri V. P. Nayar: Again and again the representative of Government admits mistakes—in accounting and all those things. I want to know whether any action has been taken in respect of those cases so that we can decide upon....

Chairman: Let us come to concrete cases. We will judge upon them.

Shri V. P. Nayar: There are already two concrete cases in which he was frank enough to own his mistakes. We are examining the Accounts of 1949-50. We won't be able to do it again. Let us know what departmental action has been taken.

Chairman: General questions we can ask in Parliament and the Minister is there to reply. Let us come to concrete cases, as Shri Dwivedi just now pointed out.

Shri V. P. Nayar: I would not have asked this but for the Auditor-General's remarks on *mala fides*.

Shri Narahari Rao: In this particular matter.

Shri V. P. Nayar: It may be *mala fide* or not. There is, for example, an item in page 11, last paragraph, regarding Railway Board. It has been

brought to our notice by the Audit Report. The amount involved is 92.62 lakhs.

Chairman: That is the next item; we will come to that.

Shri Vallatharas: We can take question after question.

Shri V. P. Nayar: I would not have asked so but for the fact that the Auditor-General has said that he did not say anything about the Services.

Shri Narahari Rao: Sir, I must be fair to all. I do not hold any brief for or against the Services. I do not belong to the Services either. Therefore, you can expect me to be impartial. An incidental remark should not be interpreted this way.

Shri Ranbir Singh Chaudhuri: Shri Badhwar in the very beginning told us that the excess was due to repairs of more locomotives, wagons and carriage stock. I want to know whether these repairs were pending since long or they occurred in that very year. If they were pending for long, I want to know whether a part of the excess expenditure is due to the fact that the spare parts imported were not indented for earlier when the prices may have been more favourable.

Shri F. C. Badhwar: On this particular Railway, the E.B. & C.I., overhaul and repairs to locomotives, wagons and carriages were very heavily in arrears and it is so even now. Supposing a locomotive is overhauled every four years, there is a regular programme for each workshop that overhauls locomotives, that it will do so many a month. When these programmes are in arrears there are always too many engines awaiting repairs and therefore out of service. This arrear of engines awaiting repairs is a progressive thing; they form into a kind of queue when you cannot use them. You take so many from the front, repair them as fast as you can, and then those behind in the queue also move up for repairs. It is a continuous process. On this particular Railway very little headway was made and the position is unsatisfactory even today: they are very heavily in arrears.

That will answer a part of your question, namely, that some of the engines repaired during this period were overdue for repair and should have been repaired earlier. Now, in their endeavour to overtake arrears they had to work faster. I am digressing a bit, but the position has been so bad on this Railway and one or two other Railways that we have had to

rationalise our complete workshop facilities. In other words, if the B.B. & C.I. Railway cannot deal with all these engines we arrange that some of them should be farmed out to an adjoining Railway which is working a little faster. Also if B.B. & C.I. Railway could do more it would be given more to do. That explains the engines and wagons repair position.

The stores side is this. We have been short chronically of certain spares for both locomotives and wagon repairs. For instance, today we are short of steel plates. Not only is our repair position affected but the very manufacture of wagons in India today is being held up because there is no steel in the country. When there is a shortage and there is a steel control to look after it, there is nothing an individual consumer or an industry or a Ministry can do to get these stores quickly. We could not have foreseen the shortage and we could not have met it if we had foreseen it. This excess is partly due to more units being repaired and partly due to the higher cost of spares. That is the way it can be explained. It is not something we could have foreseen and prevented.

There is another factor. The Auditor-General—he may not belong to a Service now—has very vast experience of administration. Our system of budgeting, if I may say so with all due respect to Government, is rather artificial. Suppose I am the Manager of the Chittaranjan Locomotive Works and Government ask me to manufacture, say, ten locomotives, and supposing I give them an estimate and say under such and such conditions these ten locomotives will cost Rs. 50 lakhs, then there are certain factors to be taken into consideration. We know that it takes anything between 2 and 2½ years to manufacture a locomotive. That is, the total cost of that job will be spread over three financial years. I can give an accurate estimate saying that for these 10 locomotives I must be given so much money in the first year, so much in the second and so much in the third. My budget allotment is usually made accordingly. But I cannot control all the subsequent factors. I cannot control the supplies of materials and I will have to carry forward a certain amount of the sanctioned expenditure every year. That is a factor which we in the Railways have been up against in respect of projects which extend over more than one financial year. In this particular case you will find that though more locomotives were repaired in one year, naturally they would not have to be repaired again next year. There are great complications in working exactly

to the present system of budget allotment because of the time factor. Unfortunately, we also have a system of lapsable funds. If your Budget Grant is not spent by a certain date it lapses. We cannot possibly permit anybody to spend the money that is allotted to them except with great economy. If for some reason stores are delayed or the detailed estimates are not quite ready or there is an advantage in not spending it at once, naturally it lapses which means more money is required next year. It would, in my opinion, be a much more realistic arrangement if we were to follow the procedure followed in large enlightened commercial concerns. When they have a project they earmark money for it. When a man builds his house he also puts a certain sum aside and if the expenditure varies from month to month, or he cannot get his doors and windows this year, he carries the amount forward to the next—it does not lapse. But under our system of allotment funds are lapsable and that is another reason for variations in expenditure and budgeting every year.

Chairman: I think that should satisfy you, Shri Chaudhuri. Now we will go to the next question.

Shri T. N. Singh: If you look at page 10 of the Audit Report you will find that certain tariff rates were fixed for carriage of railway materials but in making estimates by the various Railways this change in tariff rate was not taken into account with the result that there were discrepancies in the estimates and the actuals. We would like you to explain as to why it was not possible to account for the change in the rates; when the Railway Board itself had made the change the Railways could easily have carried out the changes in calculations. Why this failure?

Shri N. C. Deb: This failure was due to reasons which I may explain. From the 1st April, 1949, the tariff rates for carriage of railway stores were revised. The Budget for the year 1949-50 was prepared in the months of November and December, 1948. Originally railway materials were carried at the railway material concession rate which was a fixed figure, uniform for all classes of railway materials irrespective of the nature of the material. But with the introduction of the tariff rates different rates were applied for different classes of materials. It was very difficult to find out what was the incidence of increase on each class of material. We had no data, we had only the actuals for 1947-48 at that time, and that too not for complete 12 months but only for 8 months; as the new rates, say, for coal were introduced

only a month or two back we could not calculate what would be the freight charges according to the new rate.

Chairman: That means a special system of estimates for yourself. Because you are the masters you can do anything you like.

Shri N. C. Deb: In this particular case we based our estimate, on the actuals of the previous year.

Shri Narahari Rao: That explains all right the variation between the original estimate and the actuals, but not between the final estimate and the actuals. The main criticism is against the final estimate: at that time you should have known what was happening.

Shri N. C. Deb: The same explanation would apply to the final estimates also.

Shri Narahari Rao: That only shows that you were not in possession of progressive actuals.

Shri T. N. Singh: When the rates of three or four months were available, you could have worked out at least to approximation.

Shri N. C. Deb: It was in the month of November 1948 that the Budget was prepared. These rates were introduced only from the 1st September 1948 in respect of coal and from the 1st April 1949 for other stores. By the time the Railways framed their estimates, hardly one month had passed and the Accounts of that one month were not available at that time.

Chairman: At any rate, we are not satisfied with your explanation. What we are anxious about is to safeguard the future. If you and the Public Accounts Committee co-operate, the future will be very bright and clean. The Railway Finance Commission, with a budget of Rs. 300 crores, should set an example of bright budgeting and bright expenditure. Why should I blame the Finance Ministry when I find that the Railway Ministry are so very bad?

The Railways, as your Chairman told us, are a commercial undertaking and should serve as a model for the other undertakings. You have got a good number of accountants. Anyhow, we are not satisfied with your explanation.

Grant No. 8. Revenue—Working Expenses—Operation other than staff and fuel.

[Para. 11(viii), Page 15 of the Railway Audit Report, 1951.]

Shri M. L. Dwivedi: Can the Railway Board explain why the Railway Administration failed so conspicuously

to make any provision at all for the special expenditure in connection with the *Kumbh Mela*, and to provide for adequately in the final estimates. The incident shows gross neglect even in routine anticipations of important seasonal requirements of the public.

Shri F. C. Badhwar: This is just my recollection. Due to the gathering of a large number of displaced persons in that area and its possible repercussions like communal trouble, there was a suggestion that they should 'play down' this *mela*, or not hold it. The suggestion was not accepted; but I have a recollection that there was a talk of trying to avoid the *Kumbh Mela* due to these factors. Still that does not excuse the Railway for not making provision for it in time.

The United Provinces Government also felt that we should go slow with it and I remember there was an Ordinance that everybody should get inoculated. This was resented to by some orthodox people and the estimate of the Railway was that it would not be a big *Mela* in consequence due to many absentees. I am afraid I am only talking generalities. There had to be a *Kumbh Mela* and the Railway should have provided for it.

Shri N. C. Deb: We had made an estimate of the stores required for the temporary works. These estimates were prepared in consultation with the Special *Mela* Officer of the U.P. Government. Ultimately it so happened that we had a larger number of passengers than we had originally anticipated and had to put up a larger number of temporary sheds for their accommodation. Moreover for attending to the needs of the pilgrims we had to get a larger volume of stores for sanitary and other arrangements and these two factors caused this excess over the final estimate.

Pandit Munishwar Datt Upadhyay: But the fact remains that no provision at all had been made in the Budget for this *Mela*. At least the Board must have been aware of part of the requirements, if not of the whole requirements.

Chairman: Did the Railway Board complain to the U.P. Government for their having given you wrong information, as a result of which you had to incur heavy expenditure at a later stage?

Shri N. C. Deb: There was constant consultations between our Divisional Superintendent at Moradabad and the U.P. Government.

Chairman: That means your Officers at the bottom failed; perhaps they were non-Hindus or were not aware of the requirements.

Shri N. C. Deb: They were perhaps all Hindus and also knew, as far as possible, the requirements of the pilgrims. But later on a larger number of pilgrims than anticipated originally came to the *Mela*.

Shri F. C. Badhwar: I think we have to accept that it is an omission on our part.

Shri Narahari Rao: Evidently there was failure both on the part of the Railways and on the part of the U.P. Government Special Officer.

Shri S. N. Das: May I ask whether the various Railways prepare any calendar of the *Melas* for which special arrangements are required to be made?

Shri M. L. Dwivedi: I particularly remember one section of the Central Railway, between Jhansi and Chitrakot, where every *Purnima* (Full Moon) there is such a large crowd that the trains cannot accommodate them, and several persons die or are wounded. I was stopping myself one day and I found that the checking staff when they came to the station, suspended their activities, and in the meanwhile all the persons got into the trains without any tickets, and there was so much crowd that the Railway could not control it. But if it is once or twice, I do not mind. But it happens every time, and no arrangement has been made for the pilgrims.

Shri S. S. Vasist: I think this is a different aspect altogether, relating to the comfort of the passengers, and has nothing to do with Railways making provision in the Budget. It relates to more accommodation being made available. We have pointed to the State Governments and organisations concerning *Melas* that our resources are very limited at present. If we bring stock from any other place to provide accommodation for all the pilgrims, we shall be putting passengers in those other places to inconvenience. All the same, we do make temporary arrangements for these big *Melas* and bring stock from all over the country. For instance, for the *Kumbh Mela*, we had to bring stock from the South—Trivandrum, Bangalore and Madras—and other far-off places in the Broad gauge. But as far as the *Purnima Mela* at Chitrakot is concerned, that is a very minor affair. We cannot bring three or four rakes from any place just for one day or one evening. We have not got the resources to run special trains between Allahabad and Chitrakot or

Jhansi and Chitrakot at present. When we have the spare stock at Jhansi, certainly we can look after the *Mela* better. At this time, we can only state that whatever is physically possible to do, we will do. We warn passengers that when they go to Chitrakot, they must know what inconvenience they might be put to, but the person who wants to go, does go.

Chairman: His question is similar, but you might answer Shri T. N. Singh's question.

Shri S. S. Vasist: The Railway Administrations are fully aware of the important *Melas*, the dates, the time and the places where they are to take place every year, and they are always in very close touch with the local civil authorities in that regard. In the case of the more important *Melas*, there are joint committees in which the Railways and the Civil authorities are represented from time to time. Public bodies concerned are also consulted, and action is jointly recommended by these committees. Then it comes to the Head of the Department or the Railway Administration, and they see that whatever is possible is done. For instance, take the case of this particular fair which my friend has mentioned in connection with the *er-O.T.* Railway. We were asked to provide 30 rakes, and we could not provide even one. Anyway, the fair took place and passengers came and went. We may not perhaps be able to provide 30 rakes for metre gauge for such occasions even during the next five years, and if, in spite of that, people go to fairs, they are most welcome. We do all we can possibly do, and we cannot prevent them from going to the fair.

Shri Vallatharas: But when such *Melas* take place, I see special advertisements in the Railway stations. When you feel diffident....

Shri S. S. Vasist: We are not publicising any fair to attract pilgrims. If we possibly can, we at present discourage pilgrims. When we know certain traffic must offer, we make arrangements, and we simply tell the public what arrangements only are being made, more from the point of view of letting them know what arrangements are not possible for them.

Shri S. N. Das: I want to know whether any efforts are being made to dissuade persons by saying that no tickets would be sold.

Chairman: Today we have got a Central Administrative Committee whose primary function is, I understand, to consider all the *Melas* and the comfort of the travellers. And if they

do not function, the Public Accounts Committee cannot do anything because it is not a Budget question, it is better if our Railway Standing Committee—I don't know if it exists—is more alert. I am recording this so that they may read our evidence, and must do their duty.

Shri F. C. Badhwar: Each Railway has a committee of representatives of Railway users, representatives of the State Governments and other interests to advise the General Manager in respect of such things, in respect of train timings, time-tables, etc. There are standing committees.

Shri M. L. Dwivedi: Can't we enforce measures to prevent ticketless travel on such occasions?

Shri S. S. Vasist: The Railways are doing all that is possible to prevent ticketless travel not only on these, but on all occasions.

Chairman: They have done very well in this respect. Let us go to Page 36, Para. 19.

Shri Vallatharas: I want to make a suggestion, in connection with the sub-para. in Page 11 which we have been considering. Because there was no original provision in the Budget, though there was time enough to make that provision, things had to be done in haste when the occasion came; there was thus occasion for waste of money because the arrangements had to be made in haste without any preparation before. So, I want to point out that the Railway Department is liable to be criticised when there is waste of money by not including that expenditure in the Budget, by resorting to hasty measures when the occasion came. So, I want to request the Committee to appreciate the fact that this is a circumstance in which the Railway had wasted money. If they had planned originally, they might have done it with leisure. They could have attended to it with some sort of caution, but they have not done so.

Chairman: They have admitted that.

Shri Vallatharas: Omission is admitted, but waste of money?

Shri F. C. Badhwar: I don't think there was any waste.

Chairman: The Committee will consider in due time his suggestion.

Shri F. C. Badhwar: We are so organised that to save interruptions to traffic owing to floods, earthquakes and various other emergencies, we carry certain emergent stocks of material for these temporary works on such occa-

sions. We plan ahead, and we have a regular system for dealing with these emergencies. I maintain it is not likely to be a waste.

Chairman: We will discuss it in the Committee.

Engineering Projects

[Page 36, para. 19 of Railway Audit Report, 1951]

Pandit Munishwar Datt Upadhyay: In Page 36, Para. 19, we find that a number of officials had been responsible for a number of irregularities and losses, and we find by looking at Para. 19(i) that there were certain claims which could be avoided. That is the responsibility of the Officials who had to look into these claims. Then we find that cement, steel and furniture valued at Rs. 61,250, Rs. 58,329 and Rs. 1,410 respectively were lost through thefts and alleged misappropriations. Delivery in such cases was taken by unknown persons. The steel was shown as issued to a certain firm for manufacturing doors and windows, but the materials were not received and acknowledged by the firm. Then we find that there were serious difficulties in the maintenance of Stores Accounts, and in the procedure for issue and receipt of stores in the Stores Department. Further, when we come to the next para., we find that the detailed instructions for the Stores accounting procedure to be followed on the project, both in the Accounts Office and in the Stores Department, had been drawn up in March, 1947, but the procedure was not put into effect. The receipt and issue notes which form the very basis of the accounting system were not sent regularly to the Accounts Department. We go further when we find that the Departmental verification of stores by actual count as prescribed in these instructions was not actually done. And then, another point is that we incurred a loss of about Rs. 24,400 on account of petty thefts. It appears that the theft cases were not properly pursued. The Administration explained that this was due to frequent changes among the staff after Partition as well as to the fact that the Officers were busy in taking final measurements of work done, despatching of materials to Chittaranjan and dealing with contractors' claims. That is the reason they assign for these irregularities and losses.

What has been done with these people? We find one of the Officers resigned while his explanation was under consideration, and his resignation was accepted, it is said, as the charges against him were not serious. His resignation was accepted when the

charges against him were being investigated: And then there is the second person to whom the Railway Board's displeasure alone was conveyed; he had been an Officer who was in charge of the stores where we find so many irregularities and losses; and then, in the case of the third Officer, it was decided that he should be reverted to his substantive grade and debarred from further promotion, but in view of his having proceeded on leave preparatory to retirement, it was decided that no further action need be taken in his case also.

What I submit is that in such cases, some serious action should have been taken against the conduct of these officials. Instead of that, one of them resigned, the other received only the displeasure, and the third was reverted to his substantive post. If even in such serious cases and such serious loss of public funds, when the persons are located, no action is taken, then we are encouraging corruption in the Department. So, I would submit that the Ministry should explain why no serious view was taken of these irregularities and losses, and why the Officers were allowed to go so cheaply and so easily.

Shri F. C. Badhwar: In this particular case, Sir, the Auditor's report rightly points out that there were losses to Government. As you know, we had planned to put down the locomotive works, before Partition, at Kancharapara. For various reasons, it had to be moved from there and it had to be moved quickly. Meanwhile, a great deal of machinery and other stores had accumulated and, as the report brings out, there was a certain amount of confusion in keeping the Stores Accounts up to date and filling in the right forms, and adopting the regular procedure. Now, Sir, the background of this is the Great Calcutta Killing. Kancharapara is a suburb of Calcutta. I make no excuse for these Officers. We expect all our Officers to work normally, whatever the emergency. But we cannot ignore the human factor. In this large stores depot, apart from the actual manual labourers, there were also others. Their attendance during this period was haphazard, and they were living under conditions when their thoughts were concentrated on their families. I agree that the Government did lose money under this head. When we heard of this, we took such action as we could, but the proceedings were long drawn-out, and, as far as I remember, we had a commission of inquiry. We issued charge-sheets against the persons concerned, and the whole proceedings dragged on for about a couple of years. Some

people had gone over to the other Dominion, some had been transferred. The English Officer mentioned here and one or two other English Officers, who might have made some contributions to the solution of this, left us and went away. It was this kind of atmosphere that was prevailing then. I admit that there was some loss to Government, we admit also the justice and correctness of some of the Audit comments.

As regards the punishment, we have taken what departmental action we could take against these particular Officers. I do not quite see what more we could have done in respect of any of them.

Some of these Officers were high Officers. Shri Chopra was the Chief Engineer, Shri Chatterjee was the Deputy Controller of Stores.

The hon. Member's contention is that the action should have been more severe. Whatever action we took was based on the recommendation of the Committee of Inquiry, which included the General Manager of the former East Indian Railway. Then there was the Financial Adviser and Chief Accounts Officer also besides others. They went into the evidence in detail and recommended certain action. The actual action that was taken was based on their findings. I do not see how we sitting in an office a thousand miles away can go against such recommendations based on certain evidence. It is a matter of opinion whether they should have been punished more severely, but there is this unfortunate background to the whole thing.

Chairman: But there is no reference to this background in the Audit Report. I would like the Director of Railway Audit to consider whether the punishment that has been meted out has been adequate in view of the unusual conditions that prevailed.

Shri M. L. Dwivedi: But there is another thing on which I want you to throw some light. As regards the payment to contractors, the Audit Report says:

'The nature of these claims had no direct relation to the decision regarding sudden stoppage of work at Kancharapara and would have arisen in any case. All these claims went before the arbitrators and as the arbitrators' awards do not indicate which claims were admitted and which rejected, it is not possible to say precisely what was the amount admitted on these counts.'

The nature of the claims for loss due to inferior quality of coal, damage to *kutch* bricks due to non-supply of coal, failure to arrange for clothes and rations, extra cost of transport, extra cost of maintenance and repairs, loss due to non-clearance of brick-fields had no relation to the decision regarding sudden stoppage of work at Kancharapara due to Partition; these are all things which normally occur due to mistakes on the part of the Officers concerned. We have similar cases with regard to other Ministries also.

Shri N. C. Deb: The contractors put in their claims before the arbitrator, because the Railway had not accepted their claims. The cases therefore had to go before the arbitrators according to the terms of the contract.

Shri M. L. Dwivedi: I would invite your attention to what occurs at the bottom of page 35, where it is stated that a scrutiny of these cases showed that in two cases even claims relating to items in respect of which the contractors had filed 'No Claim' certificates previously, were referred to arbitration.

Shri N. C. Deb: The contractors had originally accepted payments giving 'No Claims' certificates in respect of some items. But later on they put in additional claims in respect of two of them when they included these also. We repudiated them when the case went before the arbitrator whose finding we had to agree to.

Shri Narahari Rao: There is no point in including something in the claims, items in respect of which no claims were to be made. That was the mistake on the part of the Railways. That shows the careless stewardship over the financial interests of the State.

Shri N. C. Deb: The Railways on their part were strongly opposed to the inclusion of these claims. But when the contractors put in their other claims, these also were included by them.

Shri M. L. Dwivedi: Have you done anything to the particular Officer who was responsible for this?

Shri N. C. Deb: We have taken up the matter with the Railway Administration. We do not however know whether the arbitrator admitted these claims or not in his award.

Pandit K. C. Sharma: Are not these cases allowed to come before the Courts of Law? The agreeing to these arbitrators results in incurable corruption in these cases. I know of cases where the contractors pay a part

of the claims to the arbitrators so that they may give a decision in their favour. And the fact that the arbitrator is a Railway Officer also leads to some suspicion. I know of several cases like this in the Defence Ministry also. The provision regarding arbitration should be deleted in the contract itself.

Shri T. N. Singh: My impression is that when this Kancharapara work was started, the proper persons who could have maintained correct accounts and a control over expenditure were not there. The case is something similar to the Groundnuts affair in England where a whole corporation for the cultivation of groundnut crops without any proper accountants or cashiers or any experienced men to do the job was set up. I would like to be enlightened on this point, as to who were the Officers who were in charge of this and how much experience they had.

I think the Railway Board as a whole becomes responsible ultimately for such ventures if they are started without proper control over the expenditure. I would like to know whether the Railway Board had sent the proper men to the place, and whether the General Manager who was in charge had ensured that. Otherwise how can he come to a proper judgment over the disciplinary cases when the initial mistake itself was his own? I want an explanation on this point.

Shri F. C. Badhwar: We asked the Senior Accounts Officer as to why the various checks that should have been kept according to the rule in all such cases were not kept. His explanation is—he was in charge of this project for about five months out of the six months of the period to which this refers—that the period was too short compared to the magnitude of the transactions and the vastness of the project to allow any time for maintaining all the detailed accounts and registers as required under the rules.

Shri T. N. Singh: Just a minute before you proceed further. So the work was started beforehand and the reorganisation of the Accounts Department was taken in hand after that. Was the work started first and the accounting arrangements made after the work started or before that? That is a very vital point.

Shri F. C. Badhwar: The Senior Accounts Officer was posted there in good time, at the right time. We did not delay it.

Shri T. N. Singh: Then how does the question of five months' time and reorganisation arise?

Shri F. C. Badhwar: I am not saying about the period. It was roughly about six months and the Senior Accounts Officer was there for five of these six months. He maintains the period was too short. He also refers to the situation in Calcutta and says it is not possible for him to keep all these registers under those conditions. That is as far as his explanation is concerned.

Shri T. N. Singh: Are you satisfied with it?

Shri F. C. Badhwar: Personally not quite.

Shri N. C. Deb: I would like to supplement the information given by the Chairman of the Railway Board, The Senior Accounts Officer was posted in good time and he was there for only about six months. He was then withdrawn as soon as the Partition question was decided and he was put on Partition work. But during this period owing to the abnormal conditions prevailing in Calcutta he could not collect more than six to eight men for attending to the entire work of the project and even these six to eight men had to come from Calcutta. He could not find any in Kancharapara. There was curfew for at least two or three months during that period and it often happened that even the Senior Officer was absent from the office for five days at a time. We extremely regret that this has happened. We fully realise that the Senior Accounts Officer did not rise to the occasion. But these are the circumstances which have led to this situation. He was withdrawn for more urgent work, then we put another Officer; he was there for a month and then was replaced by another Officer. There were a number of changes during that period which could not be helped. But still we have taken action against the Senior Accounts Officer and Government has expressed its displeasure against him.

Shri T. N. Singh: How is it that similar cases have happened elsewhere also? Take Chittaranjan. There also the accounting was not proper and the management was not efficient. How does it happen that before an undertaking is started, you do not have the accounting, cash-checking and stores arrangements well in advance? As a matter of fact, these should precede the starting of the undertaking.

Shri N. C. Deb: In Kancharapara we could not collect sufficient number of men both on the stores side as well as on the accounts side. The Chittaranjan case is actually a projection of the Kancharapara case. It was, so to say, transferred there.

Shri T. N. Singh: So you mean that the disturbances are not the point.

Chairman: Chittaranjan should be kept apart from this. I do not blame the poor Accountant or the clerk. It is those who select who are responsible.

Shri T. N. Singh: I am also not blaming the Accountant.

Paandit Munishwar Datt Upadhyay: Was the accounting as serious a thing as the Partition itself?

Shri N. C. Deb: Whether it is as serious a problem as Partition itself. I cannot say. In the wake of Partition we had to do so many things. Here this also was a big problem, i.e., the shifting of the project from Kancharapara to Chittaranjan.

Chairman: When the Partition occurred I do not know what all difficulties were there.

Shri F. C. Badhwar: There was no loss in respect of this. There was only delay in sorting out stores, etc.

Chairman: I am not very particular about the accounts clerk, but the high officials have not behaved correctly. This is my reaction. The Committee is not satisfied with it and we will make our recommendations. This Committee, being the poor man's representative, are not particular about the accounts clerk or whoever it is; we find that the administrative officials have failed to exercise their responsibility and all these mistakes have occurred. We will discuss about it with regard to other points tomorrow. I think we may let it lie at that now.

Shri U. C. Patnaik: Before we adjourn for tomorrow, may I ask the Officers concerned to give us an idea of the individual cases of disputes between contractors and the Railway Administrations and the details thereof?

Chairman: Do not put a question like the one that is put in Parliament here. We have here the Audit Report. We can take five or ten cases and pronounce our opinion.

Shri U. C. Patnaik: We will go into that question. But I feel grateful to Shri Sharma who has given us an idea of the *modus operandi* in certain Departments including the Railways and Defence. We want to pursue it to its logical conclusion.

Chairman: The Public Accounts Committee cannot make them their Secretariat. We can consult the Director of Audit as to how many

cases are in dispute. He can help us in understanding the gravity of the situation. But if Shri Deb is willing to help, we will be most glad. But on your behalf I make this request to Shri Rao, Director of Railway Audit.

Shri Narahari Rao: *(To Shri Patnaik)* You mean how many cases are under arbitration? That, as the Chairman has said, is a question for Parliament.

Pandit K. C. Sharma: We want the form of contract, the provisions with regard to arbitration, the amounts involved and the number of cases.

Chairman: In this case?

Pandit K. C. Sharma: Yes.

Chairman: I am sure Shri Deb will kindly give us a note on the point.

Shri N. C. Deb: It may take a little time.

Chairman: Whatever is in the file now.

[The Committee adjourned at 1-15 P.M. till 10 A.M. on Wednesday, the 3rd September, 1952.]

Wednesday, 3rd September, 1952

PRESENT

Shri B. Das—Chairman.

MEMBERS

Pandit Munishwar Datt Upadhyay. **Dr. Mono Mohon Das.**
Shri M. L. Dwivedi. **Pandit Krishna Chandra Sharma.**
Shri Shree Narayan Das. **Shri Uma Charan Patnaik.**
Shri Tribhuan Narayan Singh. **Shri V. P. Nayar.**
Shri Ranbir Singh Chaudhuri. **Shri B. Ramachandra Reddi.**
Acharya Shriman Narayan Agarwal. **Shri K. M. Vallatharas.**
Shri V. Narahari Rao, Comptroller and Auditor-General.
Shri P. H. S. Rao, Director of Railway Audit.

SECRETARIAT

Shri N. C. Nandi, Deputy Secretary.

WITNESSES

Shri F. C. Badhwar, Chairman, Railway Board.
Shri S. S. Vasist, Member (Traffic), Railway Board, Ministry of Railways.
Shri V. Nilakantan, Member (Staff), Railway Board, Ministry of Railways.
Shri N. C. Deb, Director of Finance (Budget), Railway Board, Ministry of Railways.
Shri K. Sadagopan, Director of Finance (Expenditure), Railway Board, Ministry of Railways.

(The Committee met at Ten of the Clock.)

**APPROPRIATION ACCOUNTS
(RAILWAYS), 1949-50—(Contd.)**

Chairman: Shri Deb, I thank you for sending that statement. The second thing is that you have sent a letter stating that when the coal issue is discussed you would like that representatives of the Ministry of Production should also be present, and that when dealing with purchases made by India Supply Mission, Washington representatives of the Ministry of Works, Housing and Supply should be present. Now if these purchases come under State Trading we can take them up on the 8th or 9th, the dates fixed for examination of State Trading Schemes. We can allow it to stand over till then and you and Shri Badhwar can kindly come then.

Shri F. C. Badhwar: I had arranged about ten days' tour from tomorrow.

Chairman: Then Shri Deb will come and Shri Vasist and Shri Nilakantan also will come. As it is an inter-Ministerial question I think it will be better if we take it up on the 8th or 9th. You will be informed of the time in due course.

Now, coming to today's business, are you going to submit a statement about Defence Ministry payments? You said you will submit a note.

Vizagapatam Port*

Shri K. Sadagopan: Yesterday, two points were raised in connection with the Vizagapatam Port. Let me first take up the question of terminal charges. We have since been able to study this file and the facts briefly are as follows. Under an agreement which came into force from the 7th October, 1933 between the Port of Vizagapatam and the ex-B.N.R. and M. S. M. R. Administrations, the Railway Administrations were to pay to the Port certain terminal charges for terminal services rendered by the Port to the Railways. I will give briefly the salient points of this agreement. These terminal charges were fixed at 4 pies. Subsequently the Railways revised their terminal charges to 8 pies and 6 pies—8 pies where the loading and services are rendered by the administration and 6 pies where the consignors themselves do certain terminal services. The B. N. Railway approached the Railway Board in 1950 for crediting the Port the full terminal charges of 8 pies and 6 pies

*Page 372, Part II—Detailed Appropriation Accounts.

as against the previous low rate of 4 pies. This was under consideration, and the procedure in Calcutta and Bombay Ports was also investigated. Finally it was decided that from the 1st April, 1951 the full terminal charges collected by the Railway and retained by the B. N. Railway should be credited to the earnings of the Port and this has been done from the 1st April, 1951.

Shri S. S. Vasist: With your permission, Sir, may I just supplement the information given by Shri Sadapogan? From the trend of questions raised in the Committee yesterday it appeared that the impression was that due to a delay in determining the terminal charges payable to the Port a certain loss of money recoveries which we otherwise might have recovered from the public has occurred. If that is the impression I might make it clear by saying that it is just a question of book transactions on the B. N. Railway itself: instead of crediting the earning from the terminals to the Railway side the earning will now be credited to the Port side, and both these are administered by the same Department.

Shri Narahari Rao: Then what you said yesterday was incorrect? You said that you had to settle this question with various other interests. It did not appear as if it was an inter-departmental affair.

Shri S. S. Vasist: Where other ports were concerned similar questions had arisen. For instance, in the case of Madras the Railways were levying the charges and the ports were also levying these terminal charges on the public. That question also has been put right. When I referred to various other interests concerned, I referred to other Ports like Madras.

Shri K. Sadagopan: The second point is this question of Rs. 8 lakhs due to the ports from the Defence Ministry on account of rent of land. In 1943 the late War Transport Department, when they were in control of the Vizagapatam Port, decided to charge as rent for the land leased to the Defence Department an amount equivalent to the annual valuation of the land, worked out at the Government borrowing rate of interest, on the capital value of the land which was subject to an upper limit of 1½ times the acquisition cost. After 1946 the Vizagapatam Port came under the management of the Railways. The question was whether in accordance with the standard practice obtaining on Railways we should

charge rent for the lease of this land at 6 per cent. on the market value of the land. This matter has been under prolonged correspondence with the Defence Ministry. The Defence Ministry wanted to pay only about 3½ per cent. or 3¼ per cent. according to the Government borrowing rate, but we on the Railway side insisted that we cannot make any exception in favour of Defence and our standard charge was 6 per cent. according to the Engineering Code of the Railway Department. Ultimately, Sir, finding that correspondence was not productive of results we arranged a meeting with the Defence Ministry in July 1951 and I shall just read out to you the settlement that has been reached.

Chairman: You only give us the result. We can circulate the Memorandum.

Shri K. Sadagopan: The Defence Ministry, after these inter-Ministerial meetings, have agreed in principle to pay us at 6 per cent. on the capital cost. The B. N. Railway were accordingly instructed to send bills to the Defence Ministry. The Defence Ministry raised certain questions of detail about the bills which have been referred back to the B. N. Railway for clarification.

Chairman: Which Officer of Defence is concerned with this? Is it the Financial Adviser or somebody on the Secretariat side?

Shri K. Sadagopan: One on the administrative side. One Major Sethi actually came along to discuss the question with us.

Chairman: Did you draw his attention to the prolonged discussion over this between two arms of Government?

Shri K. Sadagopan: Yes, we have stressed that point and they have also agreed, with a view to closing this long-outstanding case, to the enhanced rentals in respect of the lands leased to them at the rate of 6 per cent. on the market value. So far as the principle is concerned they have accepted it now. Certain details are outstanding which shall be settled.

Chairman: We will take it up with the Defence Ministry and tell them of this prolonged delay on little matters. We shall make a note of it. So you expect within this year the B. N. Railway will receive the arrears?

Shri K. Sadagopan: Yes, I can give the Committee that assurance.

Assam Rail Link Project

Shri T. N. Singh: With your permission, Sir, I would like to bulk together most of the points raised in the Audit note in regard to the Assam Rail Link Project. If the Railway officials will look at pages 37 and onwards they will find that there is one category of objections which relates to tenders of this or that kind of work. Tenders were in certain cases not called at all. In other cases contracts were given according to certain schedule of rates fixed by the Railways. A number of claims arose out of these contracts and many of them were not justified. The system of negotiated tender basis was also introduced.

We do realise the difficult situation then when the Railways were asked to construct the Assam Rail Link in record time. Personally, I would not be very meticulous about these things. At the same time we see no reason why despite the urgency of the project certain obvious things could not have been done. There was enough time for getting tenders as the Audit note points out and it could have been done. We would like you to clarify, in the first instance, these points and we shall put further questions later.

Chairman: The Auditor-General will make certain observations and the discussions will be conducted on the lines indicated by him.

Shri Narahari Rao: In order that the Audit paragraph might be correctly understood and appreciated, I wish to say that we fully realise that the Assam Rail Link was a matter of very considerable urgency and national importance and for that reason the authorities concerned with the execution of the project had to be given some special powers, in excess of what they are normally allowed. Not only that, the powers permitted them to deviate from the strict rules relating to tenders and so on. I am satisfied that Government acted correctly in doing that, because the project was of such urgency and national importance. On the whole, my Audit Officer says that this is a project which deserves commendation generally speaking. So, it should not be understood that we are always trying to pick holes. At the same time it must be recognised that the relaxation of rules and grant of special powers must always be regulated by the requirements of each case. This should not be regarded as a general thing which you can permit everywhere. That is one thing. In

spite of my preliminary remark, I have to observe that there have been a few cases of departure which could not be wholly justified. Of course, I do not want any general inference to be drawn that on the whole there has been a very serious failure.

Chairman: Before Shri Badhwar replies, I want to impress on you, the officials of the Railway Ministry, that you should not carry an impression that we are only critical of your faults and not alive to the good work done. The Public Accounts Committee seldom gives certificates, though we gave one to the Railways last year.

Shri F. C. Badhwar: As you yourselves have realised, time was the essence of this particular work and certain procedures very correct in themselves could not be followed because of lack of time.

In that part of India local resources and facilities are very limited. There is also—I say this with great regret, I do not mean to cast aspersions on anybody—a noticeable inertia among local inhabitants to get on to their toes and do anything quickly. Now in a huge project of this kind we found very early that it was necessary to import not only machinery, not only materials and plants, but also reliable contractors and labour. As a matter of fact that was one of the major headaches of a very competent engineer who was in charge of this work. He was building a very important line of communications without having any adequate communications to feed himself with materials, etc.

Now, under these conditions, even if it had been possible in certain cases to go through the regular procedure of tenders, I would ask you to consider the exact implications, from the point of view of time, of the procedure. In the case of every project, the preparation of what we call tender documents, drawings, etc., takes some time. Especially in a project of this kind, you cannot do it in a few months. For a major project it sometimes takes six months or more to prepare tender documents. Then you have got to give 30 days or 90 days to reputable contractors to study these documents and make their offer. Usually the wiser ones among them come up to the site and examine the local conditions. They sound the local sources of supply of labour, local sources of feeding their labour, for housing their labour and it really takes longer to place an important contract through the tender system than most people

think. There was also in this particular case reluctance on the part of contractors to go up into the wilds just on the off-chance of getting a particular work. It was, therefore, reasonable for the team in charge of this work to earmark certain firms or certain contractors who were potential workers in this area and to concentrate on negotiations with them.

Now, in regard to rates, negotiations always have a basis. Where there is a prevailing schedule of rates, that is generally used as the basis. Where negotiations are based on initial quotations, these initial quotations are first invited and the most favourable, that is, the lowest of them, are used as the basis for further negotiations.

I would in this connection like to make it quite clear that in the business or commercial world (that is outside Government) this system of open tenders is hardly ever resorted to. The system most commonly followed by commercial concerns is, as I have indicated, a system of negotiations. There is nothing inherently wrong in the system of negotiations and commercial concerns would not go in for it, if it resulted in higher cost to them. In cases of construction—shall I say in the wilds—and especially urgent constructions, I think you will find that negotiations are by no means exceptional. There are only usually three or four reliable sources that one can depend upon. To call for tenders among them is sometimes harmful, because they form a 'ring'. They know that nobody else would come. So, by negotiations it is sometimes possible to play one against the other. It was pointed out that there has been a number of cases of departure from procedure. But going through these paragraphs, I do not think that there has been a single case which involved unreasonable or excessive expenditure to Government.

Shri Narahari Rao: They did not maintain any schedule of rates—that is precisely the point.

Shri F. C. Badhwar: I did not think that I was expected to prove that it would have been better by some other method. I thought it would be enough if I tried to explain to your satisfaction that there was no excessive expenditure of Government funds over this system. In fact, supply and demand more or less balanced. That is what happens in negotiations.

Shri Narahari Rao: You need no negotiation for earth-work. Attention has been drawn to expenditure of

nearly Rs. 80 lakhs on earth-work alone. This work does not require preparation of any blue-print or anything of that sort.

Shri F. C. Badhwar: There is one very large cutting on this Assam Rail-Link before you get to Teista. They went through a long range of low hills. On cutting they found that these hills were purely sand with about a foot or two of earth on top, covered by grass. Now, that cutting had to be attended to almost after every heavy shower in the beginning. Later on we designed a device of saving recurring expenditure. In other words, after having excavated this very large 70 or 80 feet deep cutting, we had to build something like a lining over certain portions of it, to prevent the sand from coming down.

Shri Narahari Rao: It is admitted that there were certainly difficulties in the earlier stages of the project. There was no justification for continuing those methods in regard to works undertaken later on. That is the point that has been made. Earlier, most definitely you had to do something and get on with the job. It is fully recognised, and certainly there is no question about it. But when you had the time to follow the regular procedure you should have done that. That is the whole point. Again to talk about negotiated tenders and the practice by private commercial concerns and so on, is far too general for us to accept. If you are buying a warship and you can get it only from one or two countries, you advertise and do not ask for tenders; in other cases, the established procedure is to invite tenders. Unless the whole system is altered, you have to adhere to that. That is the best way of getting the best terms. There are cases where open tenders are not suitable. That is recognised and Government has to agree to waive that procedure. But that is not so in the case of ordinary public works like earth-works, construction of masonry and so on.

Shri F. C. Badhwar: I am not arguing against your viewpoint. I am saying the system of negotiation is not a rare system and is often of advantage in certain circumstances. You raised the point about the latter part of this project, after the first year or 18 months. Actually, the conditions there today—I speak with full knowledge of what is happening; only yesterday afternoon I attended a meeting of these experts who had come back from Assam—are not very far different.

If anybody were to try a large project in these areas of Assam, apart perhaps from some help from isolated tea gardens, the conditions now would not be much of an improvement on those existing when this railway was laid, and if there is an improvement, it would be due to this Railway.

In the second year and the third year during both of which periods I visited these works at least twice, there was not much difference in the conditions. As a matter of fact, labour collected by contractors after one rainy season and an outbreak of malaria were inclined to disperse and the whole position in so far as labour and local resources were concerned was as difficult as it is today. It is not an easy job.

Shri U. C. Patnaik: Wherefrom were the contractors taken, and was it by negotiation?

Shri F. C. Badhwar: I have not got the details of the contractors for the various works with me, but if you would like a list of various contractors and where they came from.....

Chairman: I am only trying to elicit information. The point was everything was disorganised. We started this communication with the hope that Assam will improve, but it has not improved in its economic condition. The local men do not work in these undertakings. All your labour was imported from the Calcutta side. The contractors were perhaps from India, but there were very few Assamese contractors even to do the earth-work.

Shri F. C. Badhwar: One example I will give you. In some of these major projects, after foundation, it was necessary to use what is known as pneumatic well-sinking. In other words, special equipment which gives an air log in which people can work had to be used. There is only one firm in India with this equipment. If you call for tenders where this work is wanted, that firm can quote what it likes. In this particular case, before bringing that firm in, we felt there was some advantage in negotiating.

Shri Narahari Rao: I understand from the Director of Railway Audit that he has not criticised the tenders for projects at all.

Chairman: Let us understand the financial position. You give us your unvarnished appreciation of the position, first of the story of the Assam Rail Link and then we will later on ask you questions.

Shri F. C. Badhwar: I am trying to explain certain departures from recognised and accepted procedure which is otherwise followed, in respect of open line works.

Chairman: The Auditor-General appreciates the position. It was a very difficult position, and I think, you were in more difficult circumstances than most of us were. You were negotiating for many things at that stage with many parts of the world.

Shri F. C. Badhwar: As the Committee is aware, six days' notice was given to the Engineer-in-Chief to complete over 30 miles of railway line between Haldibari and Siliguri. He finished it in two days. Now, was there any time to go through the regular procedure. That is an isolated and extreme case.

Chairman: The question is that you the Secretary or your predecessor, the Chief Commissioner, were all the time alive to the difficult situation and kept informed and nothing was left to the man on the spot.

Shri F. C. Badhwar: This work was done directly under the supervision of the Railway Board. The Engineer-in-Chief was directly under the Railway Board for this purpose, and he used to get any instructions he wanted by telephone, by wire or by a flying visit to any one of us. All three of us here, including Mr. Bakley, the Chief Commissioner, paid more than one visit whenever necessary.

Chairman: You were alive to the factors we are discussing?

Shri F. C. Badhwar: We were aware of them the whole time, and we were consulted.

Shri Narahari Rao: In para. 21, the Director of Railway Audit has drawn attention to cases in which the orders of the Railway Board were not carried out by the local authorities. That is to say, if they were your orders, we presume you issued good orders which were practicable and they have not been followed. That is the main criticism in para. 21 as far as I can make out.

Shri T. N. Singh: In the matter of stores purchased where *post-facto* sanction was given as a matter of course, and things were purchased without prior approval or tenders....

Shri V. P. Nayar: That comes later.

Shri T. N. Singh: One thing before we take up the rest. It may be an

exception which you refer to, but to justify an exception may lead also to dangerous practices later on.

Shri F. C. Badhwar: I admit that.

Shri T. N. Singh: And probably in certain cases negotiated tenders may be good. At the same time, to have a panel of men with whom you will negotiate may lead to very dangerous results later on, because, there is a general complaint in the country—in Parliament and outside—that there are shady dealings between contractors and those who give the contracts. I am referring not to any particular department or officer. I am just stating what the country actually says and feels. That is a thing which we cannot ignore. I would very much like to know as to what is the protection against the eventuality when your proposition for negotiated tenders or *ad hoc* tenders given just for a particular occasion may lead to serious disasters later on. So I would like to know where you want to draw a line, a very firm line, which shall not be exceeded in any case.

Shri F. C. Badhwar: If I may speak on first impression, I would say that if two conditions were satisfied, I do not think we need view negotiated contracts with suspicion. One condition is this. Where you keep an established accepted schedule of rates and can negotiate for prices below that, it is to Government's advantage to do so. Another is, where you cast your net wide enough and collect quotations not only from one or two, but from dozens of reputable firms, and perhaps from a number of countries, and then, on the basis of the lowest quotation, negotiate for prices which are still lower. There is every advantage from such negotiation.

Shri T. N. Singh: But in the first case, I understand, that even the schedule of rates that you have got is subject to variations according to local conditions. Naturally, costs of earth-work here and earth-work in Assam where the man has to import labour differ, and you have to make allowance for that, and that allowance in many cases, or certain cases, may be very great. There is danger there. After all, there is discretion to allow variation in rates.

Shri F. C. Badhwar: But we have settled rates for various localities. Price of bricks in Delhi today for building is somewhere between Rs. 29 and Rs. 30 a thousand. The price in Chittaranjan is somewhere about Rs. 52

a thousand. So you cannot have the same schedule for both. That is why, Chittaranjan does not use bricks.

Acharya Agarwal: There should be standard schedule of rates, and when a negotiated contract is entered into, if it is to be appreciated, the prices ought to be below the lowest. Are you satisfied that these two general conditions are followed here?

Shri F. C. Badhwar: Here there was an emergency. Normally, this kind of work is done under war conditions.

Acharya Agarwal: Was the sanction of the Railway Board obtained for departure from the rules in this emergency? Has the Railway Board by any Resolution declared that on account of the vital urgency, as you say, of the work, the rules ought to be waived and need not be followed.

Shri F. C. Badhwar: Not in those terms. No responsible administration would ever instruct anybody to waive rules.

Acharya Agarwal: How could you expect to control your people when you neither give them definite authority to go ahead in view of the urgency of work, nor you pass any Resolution or give them written authority? If it is mostly oral, it is very difficult.

Shri F. C. Badhwar: May I read out the directive issued to the head of the team who built the Link.

Acharya Agarwal: We would like to know if the Railway Board has said anything specific.

Shri F. C. Badhwar: This is the directive:

"The Government of India attached the highest importance to the construction of the Assam Railway in as short a time as possible, and the Chief Commissioner has told the Assam Government that the Ministry of Railways has set a target of two years for the opening of direct through communication between Assam and the rest of India lying within the Indian Dominion, and you are requested to take all necessary measures to ensure this undertaking is fulfilled."

That is the directive to the head of the team.

Acharya Agarwal: That does not anywhere say that the rules will have to be waived and need not be followed. There is nothing specific about that.

Shri V. P. Nayar: Will you please read the last sentence?

Shri F. C. Badhwar: "You are requested to take all necessary measures to ensure this undertaking is fulfilled."

Shri V. P. Nayar: No departure from the general rules is contemplated there. The supposition on that order can only be that they must do the work in strict conformity with the rules, but do expeditiously. That does not authorise the taking of such a decision.

Shri F. C. Badhwar: That does not authorise any irregularity. My contention is these were not irregularities.

Dr. M. M. Das: It means within the present rules, not beyond the limit.

Shri V. P. Nayar: The emphasis there is only on urgent completion of the work.

Shri F. C. Badhwar: The emphasis is on the time-factor.

Shri V. P. Nayar: No suggestion of departure or possibility of a departure from the rules is made there. It only means all necessary steps to get the work done should be taken.

Shri M. L. Dwivedi: The report says:

"Audit view is that whatever justification there might have been in the earlier stages for dispensing with open tenders, there was not the same justification after the first working season. Even if the adoption of the open tender in isolated cases in the initial stage had not proved fully encouraging, partly due to adequate notice not having been given, and partly due to the special conditions prevailing at the commencement of the project, it cannot be accepted that sufficiently valid grounds existed for the general disregard of the open tender system throughout."

What are the special reasons against this point of view?

Shri F. C. Badhwar: I may just explain that local factors still obtain.

Shri V. P. Nayar: When once you found that the local factors required a departure from the rules, did you try to save the situation by some other means? You mean to say that these factors remained throughout for the period of three years?

Shri F. C. Badhwar: To a lesser or greater extent.

Shri V. P. Nayar: That is very unsatisfactory.

Shri S. N. Das: I want to know whether at any stage the team working there made a report that some specific departure from the rules be made and the Railway Board considered the case?

Shri F. C. Badhwar: When you talk about rules, there are no rules that actually prohibit the adoption of a procedure of this kind in an emergency. We do certain works on what is known as 'emergency certificate'. Supposing there is a flood and something is washed away, we do all that is necessary at once. Time is overriding; it does not matter what the normal procedure is. But we try and correct it as soon as possible and afterwards we submit the estimate. Now the practice being that, there is nothing absolutely objectionable in this particular procedure.

Shri T. N. Singh: This was an emergency project itself. We do not question that. The main point is: Where it was possible for you to follow the normal procedure, why was shelter taken under the emergency provisions?

Shri F. C. Badhwar: That is a good point. I am not familiar with every single contract or every arrangement made to say where it was possible to adopt the normal procedure.

Shri T. N. Singh: For instance, there are two specific instances.....

Shri F. C. Badhwar: ...where the normal procedure was not adopted. But there must be hundreds of cases where it was adopted.

Shri T. N. Singh: You have no objection to admitting that the cases pointed out here could have been done under the normal procedure.

Shri F. C. Badhwar: I do not think they could be; otherwise the Chief Engineer would have adopted the normal procedure.

Shri T. N. Singh: That is the main point which the Committee is trying to emphasise.

Pandit Munishwar Datt Upadhyay: Was the Railway Board kept informed of all these transactions?

Shri F. C. Badhwar: It depends on the size of a particular transaction. There is a Committee which deals with it in every Railway Administration—a Tender Committee. The Railway Board is kept informed of cases above a particular figure.

Pandit Munishwar Datt Upadhyay: What about the transactions mentioned here?

Shri F. C. Badhwar: It depends on the size. Supposing there is a small purchase for Rs. 5,000, we are not consulted.

Shri M. L. Dwivedi: What we want to know is this. The contracts were entered into and the Railway Board was not informed of things being done. Now, as these were not being done in accordance with the normal procedure, what steps were taken by the Railway Board to see that either the work was according to the normal procedure or some sort of exemption was given?

Shri F. C. Badhwar: In the case of these construction projects, the team includes Accounts Officers, Financial Advisers and so on up to a certain level. That is adequate for the work. The whole team is there to deal with it; there is somebody to see the rules and regulations are observed.

Shri M. L. Dwivedi: When you are doing something which is not according to the normal procedure, some special sanction is necessary for this purpose.

Shri F. C. Badhwar: Sir, you will find in all administrations that have to work to a time that they cannot always meticulously follow all the codes and rules. If that is to be guaranteed, there is no need for audit.

Shri Narahari Rao: I just want to assist in this discussion by pointing out what is stated on page 37, para. 20. Out of the 371 contracts amounting to Rs. 2.09 crores, each costing more than Rs. 5,000, 300 approximately of the value of Rs. 1.7 crores were given out otherwise than on open tender. Only 71 were given on open tender. The difficulty in dealing with a matter of this sort, since we did not follow the tender procedure, is to satisfy ourselves that you have done the best possible job. We are rather arguing in the dark now because we say you have not followed the correct procedure and therefore, something must have gone wrong. What precisely has gone wrong it is not possible to say because we have not got the facts before us. All that we know is that you did not follow the correct procedure. I suggest, Sir, if the Committee has no objection, that a comparison be made by the Chief Accounts Officer and the Audit Officer concerned of the rates for various items which they obtained for the 71 works with those not on open tender. They could investigate

that and let us see how they compare with the remaining 300 contracts and the Committee will be in a position then, on the basis of such information, to say whether on the whole we got the best rates. The Committee will nevertheless say that in a procedure like this, departure from the rules must be confined to the minimum number of emergent cases.

Chairman: I was a member of the House in those days and most of us were concerned about it. Last year there was the case of the Pathankot railway. But it happens that in emergent cases financial and accounting rules are all broken. We want you as the Managing Director, to see that special precautions are applied to avoid loss to the taxpayer. This is the duty of the Public Accounts Committee.

Shri F. C. Badhwar: It is a very good suggestion which will help us in confirming our own impressions. These estimates are always prepared by schedules of rates, accepted rates. Comparing the whole—I am talking roughly—we are satisfied that by and large the work was done at reasonable prices. There was an emergency, but as the Auditor-General points out, this check will be a most useful check.

Chairman: You will have to work it up. You can produce a statement which the Auditor-General will help us to properly understand.

Shri T. N. Singh: This is agreed upon, Sir, that the Auditor-General's representative and the Accounts Officer will go into select cases and then let us know what the position is.

Shri Narahari Rao: This Committee has nothing to do with the work.

Shri F. C. Badhwar: We will certainly accept this.

Chairman: I would suggest that we go over this matter in the third week of October; Parliament will be meeting on the 5th November.

Pandit Munishwar Datt Upadhyay: We have not taken any decision yet.

Chairman: I do not want to stifle discussion. We have come to a definite point that a certain enquiry will be held and after that we will discuss it in the third week of October.

Pandit Munishwar Datt Upadhyay: Just now Shri Badhwar said that he could not say in what cases the Engineer-in-Chief kept the Board informed. I would like to know whether

in respect of these 371 cases to which reference was made by the Auditor-General, the Board was kept informed and decisions were approved by the Board or it was the Chief Engineer himself who decided these cases.

Shri F. C. Badhwar: It will depend on each. The Engineer-in-Chief in this case has the power of a General Manager.

Pandit Munishwar Datt Upadhyay: Each contract cost Rs. 5,000—were such cases necessarily brought to the notice of the Board?

Shri F. C. Badhwar: No, Sir.

Pandit Munishwar Datt Upadhyay: So the criterion is not the amount.

Shri F. C. Badhwar: The amount involved in each case.

Pandit Munishwar Datt Upadhyay: What is the minimum amount involved which will require the attention of the Board?

Shri F. C. Badhwar: Rs. 10 lakhs, in a Tender Committee.

Pandit Munishwar Datt Upadhyay: Tenders are called or negotiated contracts are entered into?

Shri F. C. Badhwar: There is a Tender Committee on each Railway Administration consisting of at least three Officers, one of whom is the Accounts Officer. It is this Committee who, in the name of the General Manager, disposes of such cases—cases below Rs. 10 lakhs.

Pandit Munishwar Datt Upadhyay: So the small cases come before the Committee.

Shri F. C. Badhwar: There is a certain level. Cases involving a few hundreds will be dealt with there.

Shri Narahari Rao: Did the Tender Committee come to the conclusion that regulated tenders might be accepted?

Shri F. C. Badhwar: I could not answer that offhand.

Dr. M. M. Das: What is the maximum expenditure that the Engineer-in-Charge at that place could decide upon?

Shri F. C. Badhwar: In respect of the construction in this particular case, the Engineer-in-Charge was given the powers of the General Manager. Perhaps if we submit a schedule of the powers of the General Managers, that will make the position clear.

Shri V. P. Nayar: You mean that there was power for the General Manager to decide cases up to such a limit, and that power was delegated to the Engineer-in-Charge?

Shri F. C. Badhwar: Yes, Sir.

Shri V. P. Nayar: How could that be?

Shri F. C. Badhwar: He was treated as a General Manager for the purposes of this project. If I submit to you a schedule of the powers of the General Manager, you will find that this delegation of powers has also been provided for. Decisions of this nature are never taken by one man; there is always a committee.

Shri V. P. Nayar: Did you make any efforts to get tenders, before the idea of giving the works to the lowest tender was dropped? If so, what were the efforts? Was there any advertisement in the papers?

Shri F. C. Badhwar: In paragraph 20 of the Audit Report, on page 37, it will be seen that a number of tenders came to the Board for approval. Obviously, therefore, we started out with the idea of getting tenders for the large works.

Shri V. P. Nayar: Did you exhaust all steps before you fixed up on this system of negotiated rates? Did you exhaust all steps to find out the possibility of giving the work on tenders?

Shri F. C. Badhwar: We did not negotiate any rates from the Railway Board.

Shri V. P. Nayar: My question is this. Did you exhaust all steps to see that works were given on tenders?

Shri F. C. Badhwar: I have no doubt that the Chief Engineer did. I was not in charge of the work myself. I have no doubt that the Chief Engineer-in-Charge took all steps to follow the regular procedure.

Shri V. P. Nayar: Do you not exercise any check over him personally?

Shri F. C. Badhwar: In my capacity as Member, I exercised the check which I should.

Shri V. P. Nayar: You said that if the system of giving works on tender were adopted at that particular time, there were certain monopolist firms who would collude against the Government.

Shri F. C. Badhwar: I mentioned one case only.

Shri V. P. Nayar: The same difficulty of collusion arises in the case of negotiated rates also, because you are negotiating only with certain known firms. How did you get over this difficulty? When you negotiate with those firms—it may not be through any paper advertisement—the possibility of their colluding against Government certainly exists. How did you get over that?

Chairman: You are assuming that Assam was a prosperous State like other States. . . .

Shri V. P. Nayar: I am not talking about the topographical difficulties or economic backwardness, Sir. The system of negotiated rates was resorted to, because there was a fear that if there were an open tender system, certain monopolist enterprises would collude together to the detriment of Government. My point is that the very same difficulty will arise in the case of negotiations also, because the negotiations are done only with certain recognised and known firms. Did you take any steps to get over the possibility of their collusion against the Government? If so, what were the steps?

Shri F. C. Badhwar: One safeguard was that the negotiated rates that they were asked to pay were compared with the rates of earth-work paid on other large constructions that were taking place at the same time.

Shri Narahari Rao: The hon. Member's first assumption that the negotiating parties would collude is not correct. I do not think they collude.

Shri V. P. Nayar: There is no rule as far as I know which makes it absolutely necessary for the lowest tender alone to be accepted. If tenders had been invited, you could have had an idea of the rates, and then thrown off all the tenders after inviting them.

Shri F. C. Badhwar: I shall tell you the actual practice, from an extract of a report which I have:

"It may be stated that in July 1948, the Engineer-in-Charge had a meeting with his deputies to consider the arrangements in regard to the earth-work to be done during the working season 1948-49. In the course of these discussions, it was brought out that the experiment carried out during the previous season to try and get work done at cheaper rates proved unsuccessful. Many good firms who were contacted were unwilling

to undertake the work because of the difficulty of access and unhealthy conditions of living in that area. The rates paid on other railway works such as the Barwadih-Sarnadih construction, the Chittaranjan locomotive project, etc. which were situated in much more favourable circumstances, were higher. The engineering officers of the Assam Railway Link Project were therefore unanimously of the view that they should agree to pay at the rate of Rs. 35,000 per 100 sq. feet earth-work. . . . Any attempt to beat this rate by calling open or limited tenders was not likely to be successful."

The point is that at various times in this construction, they take stock of the whole position, because they have to answer the Audit enquiry, this Committee and also Parliament, if there is any irregularity.

Shri T. N. Singh: I would like to make one observation in this connection. While we have no desire to cramp the work of the Government in cases of emergency, especially when we have fixed a target and probably minor considerations will not be allowed to hinder the progress of the work and I personally feel that the Assam Link Project is the only project in recent years which has been done not only within time but before time, what we are concerned with here is whether there has been a proper and full use of the money that has been expended. There the matter ends since we have already agreed with the suggestion that the Auditor-General and a High-Power Committee will go into the whole question.

Chairman: The Auditor-General will go into the explanations of the Railway Board, and we can make our observations, after we hear from the Auditor-General in the matter.

Pandit K. C. Sharma: As the estimates are subject to fluctuations due to market prices, cost of labour, etc. may I know how these estimates were prepared? Did you take advantage of any expert advice from foreigners or anybody else?

Shri F. C. Badhwar: These estimates we prepare ourselves. Supposing for instance there is a *prima facie* proposal to build a new railway line from a place A to a place B, we first prepare an estimate of the cost of a preliminary survey, which may be a few lakhs or a few thousands of rupees depending upon the length of the line.

Then we appoint an officer if it is a big line or an inspector if it is a small line, to physically survey the ground with his instruments, to find out from the local authorities the prevailing rate of labour for earth-work, to assess the number of bridges over any rivers that flow in the course of that line, etc. After this, he submits a preliminary estimate. Then a competent authority looks into the whole thing, and takes a decision as to whether the project is worthwhile undertaking; then they go on with the work of estimates of details, very carefully. Cross-sections at frequent intervals are taken, and as far as possible exact quantities are worked out, and it generally takes a year or two to get detailed estimates. After all in these detailed estimates, the possibility of a price fluctuation is still there. The actual cost is to a greater degree based on these final estimates. There is nothing foreign about these procedure.

Acharya Agarwal: It is all right that the Auditor-General and a Committee will look into all these things. There is one point which I want to emphasize and it is that the Railway Ministry should have specific rules even in the case of emergencies. I am not satisfied with Shri Badhwar's explanations that the rules are specific already as regards delegation of powers or the fixing up of the time limit. All these things must be in writing specifically in the rules of procedure.

Shri F. C. Badhwar: These rules of procedure are already there.

Acharya Agarwal: Then I would request the Auditor-General to investigate whether the rules of procedure have been followed or not.

Shri Narahari Rao: There is nothing unsatisfactory about the rules. They are all in the administration. But the trouble arises only with regard to their application. It is only because the recognised procedure has not been followed, and the explanations offered for the same have not been complete or satisfactory, that this Audit comment is there. If on open tender system, the lowest tender had been accepted, you would have shown to the satisfaction of everybody that the thing could not have been done better. If on the other hand, some special procedure has been followed, such as negotiated contracts or limited tenders then it has to be shown to the satisfaction of my officers that even so they have obtained a rate

which is about the best that they could get, and that they could not have done better by following the regular procedure.

If they could show that the rates for the works for which they went in for negotiated tenders were the same or even less than those they could have had on open or limited tender system, then no question at all would arise, and the Audit Report in that case would have been: 'In the following cases, tenders were not invited as required by the ordinary rules; nevertheless the rates seem on the whole reasonable, and there has been no wastage.'

But in this particular case, we have not been able to satisfy ourselves that the said works could not have been done better. Moreover, there has been no schedule of rates which could act as a guide in judging the negotiated rates. I have suggested a way now, by giving the Railway Ministry an opportunity to show that even where they have departed from the rules, they have generally done the job in a better way. If in the 300 odd cases the various rates could be taken out and compared with the rates obtained in the 71 cases where they got the tenders, we shall have some yardstick for judgment. That is the sum and substance of it and I suggest we ask the Railway Ministry to go into this matter by appointing a good engineer who had nothing to do with the work and their own Accounts Officer in association with the Audit Officer, and give us a report before we come to any further conclusion.

Acharya Agarwal: I quite appreciate what you say, but I am anxious that such cases should not occur and they will not recur if this practice of departing from the rules is not continued.

Shri Narahari Rao: You can make any number of rules but cases like this will continue to occur.

Acharya Agarwal: In how many cases can you go into in detail? Therefore, instead of departing from rules they should have some emergency rules.

Shri Narahari Rao: The rules are there. They have to satisfy us that the general principles have been followed. While the rules are adequate they have not been able to show to us that the rules and orders have been adequately and correctly followed. Now, after the Ministry have accepted the particular suggestion of mine and the Committee has accepted

it, further discussion will be rather fruitless.

Shri Ramachandra Reddi: In all such urgent cases of execution by-passing the normal procedure, is there any way of reviewing the action of the Chief Engineer by the higher authorities, by the Railway Board or by the General Manager?

Shri F. C. Badhwar: We have such a thing as urgency certificate.

Shri Ramachandra Reddi: Issued by the Chief Engineer?

Shri F. C. Badhwar: No, there are certain levels—in certain cases an urgency certificate can be issued by an Executive Engineer. To deal with emergencies there are certain specific rules and these rules provide for review by the competent authority in due course.

Shri Ramachandra Reddi: Who is the competent authority?

Shri F. C. Badhwar: That depends on the level of expenditure. If it is a small thing the District Officer regularises it, if it is bigger still the General Manager, and if it is a very big thing the Railway Board.

Shri S. N. Das: Regarding purchases it has been stated at page 39, paragraph 21 (iii):

“Reasons for not inviting open tenders for the local purchases, valued above Rs. 5,000 have not been furnished in numerous cases. Similarly, where the “lowest suitable tender” accepted was not actually the lowest quotation, the reasons for accepting the higher quotation have not been recorded, as required by the rules.”

This is a very simple thing. Why did the authorities fail to record the reasons for accepting the tender which was not the lowest?

Shri F. C. Badhwar: May I start with a partial reply to that at the moment? In calling for open tenders for these smaller items of Rs. 5,000 the usual practice throughout is to advertise in the papers, for the Assam Rail Link the nearest papers are the Calcutta papers and any other dailies in the locality. The cost of advertisement was about Rs. 1,700 on each occasion. In some cases when the value of the item was so small the Railway Administration may not have thought it worthwhile to incur the cost of advertising for each individual item. There

is no reference here to any loss to the Railway.

Shri S. N. Das: It is a question of procedure. The Officer-in-Charge has not recorded the simple thing, namely, the reason for not accepting the lowest tender.

Shri F. C. Badhwar: You mean the second part? If the reason for not accepting the lowest tender was not recorded that was a mistake.

Shri S. N. Das: And it was not done even after it was pointed out by Audit.

Chairman: In future I hope if any such departure is made they will record the reasons.

Shri Narahari Rao: May I ask whether you obtained any explanation from the Officer concerned for departing from the rules? Accepting tenders other than the lowest ones shows that he did these things deliberately and for good reasons but failure to record those reasons makes it serious. In fact, it creates a sort of suspicion.

Shri F. C. Badhwar: I have not any up-to-date information with me. I shall take action on this point. I have noted it.

Chairman: You wanted to say something, Shri Singh?

Shri T. N. Singh: I was only going to suggest that if action is not taken the Public Accounts Committee is going to take a serious view of things and probably the officers will be censured by this Committee formally and in writing.

Chairman: Shri Badhwar, did you take special care to appoint as your Chief Engineer one with sufficient administrative experience of such difficult tasks? Secondly, what did you do in the way of appointing a very experienced Accounts Officer to examine the project, and to be in charge of the project? Was that precaution not taken by the Railway Board?

Shri F. C. Badhwar: For a job of this kind we usually hand-pick the very best of our men because time is very important, and we give them adequate staff.

Chairman: I want you to give us a note if you like; we hope every precaution was taken to recruit the best Engineer, a very experienced Engineer, and also an experienced Accounts

Officer in view of the work you were going to do in the Assam Link.

Shri Narahari Rao: At the end of paragraph 21 it is stated that Audit has pointed out instances of uneconomical purchases. May I know what action has been taken on those cases? I do not know whether the Ministry will be able to answer that because the details may not be here. I suggest that they send us a report through the Audit Officer on the uneconomical cases.

Shri M. L. Dwivedi: May I also suggest that some personal explanation should be called from the persons responsible?

Contracts: Premature Agreement with a Foreign Firm

(Page 43, para. 26 of the Railway Audit Report, 1951).

Shri Narahari Rao: I must admit that I do not quite like the heading of this item. Premature agreement is only one aspect of the transaction. It is not only a premature agreement; it is not only an agreement made without proper planning at this end; but also there are other features involved, namely, money being locked up with a company and making payments to a company for stuff which has not been supplied in accordance with the contract. I would therefore ask you not to be led away by the heading.

Chairman: Let us first ask the Chairman of the Railway Board to make a statement of the facts *vis-a-vis* the audit comments. Thereafter let individual Members who have studied the subject put questions.

Shri T. N. Singh: I find that there is an agreement entered into. According to that we have got certain advantages from the firm and the firm is getting certain advantages from us. In any business transaction we must clarify as to what is the balance of advantages. If the Chairman of the Board keeps this factor in mind that will help us in coming to a judgment on the deal itself.

Shri F. C. Badhwar: Mr. Chairman, I had better give a little bit of background to this agreement and then come to the agreement itself.

As you are aware, passenger traffic on Indian Railways doubled itself during the war and since then continued to increase at a rate that we were quite unable to keep pace with with our existing carriages. It was decided that immediately the war was over we

must take some special steps to provide more passenger trains. About 1945 or 1946, shortly after the end of the war, we started planning in this direction. With the loss of Burma our source of supply of teak, with which we used to build carriages, having dried up the first thing to decide was a design that would be both economical and suitable for Indian conditions. We decided to study all the leading designs in the world before reaching a decision.

During this study, or towards the end of it, we inclined to what is known as the Swiss design. This design has many attractive features and for us a number of considerations carried weight. One was that it was economical in the use of steel which is in short supply in our country. Another was that it was a very safe design from the point of view of accidents. The third reason was that its popularity had already been established throughout Europe where most countries were using the principles of this design. It was economical both in use of steel and in weight.

We feel on the purely railway side that perhaps we delayed this particular arrangement with a view to build the new coaches rather than enter into any hasty or premature arrangement. There were certain interests that were against this design and they readily campaigned on behalf of certain British and American interests with a view to play down this particular design and to boost up their own. It happened in those days that we were not quite clear of the British connection. We still had certain British consulting engineers who crabbled this particular design and were in favour of others. At any rate we sorted things out in 1949 and carried out certain negotiations with the Swiss firm which eventually resulted in an agreement. During the course of these negotiations it was indicated to us at one time that the Swiss firm would like to come into partnership in the factory or factories to be built in India as a long term measure.

At that time this proposal or suggestion was not favoured. We did not want any long-term foreign connection. We indicated that we would prefer a shorter term connection with payment for service and goods delivered and a clear break at the end of it. This Swiss firm, as far as its technical equipment goes, is without doubt a first-rate one. In size it is not a big firm; but in quality its products are high. It is really a firm,

of designers, though they also manufacture rolling stock.

Shri T. N. Singh: What is their capital?

Shri F. C. Badhwar: I could not tell you offhand; they have got limited business.

Shri T. N. Singh: What is their standing?

Shri F. C. Badhwar: It must be the oldest firm in Switzerland.

Shri M. L. Dwivedi: Have they any previous experience in this line?

Shri F. C. Badhwar: This is the leading firm in Switzerland.

Shri Narahari Rao: Do they supply all coaches for the Swiss Railways?

Shri F. C. Badhwar: All the coaches of Swiss Railways are designed on their principle. There are two other firms which are their associates.

Shri T. N. Singh: Are they old as consulting engineers, designers, or manufacturers? Since when did they start manufacture? —

Shri F. C. Badhwar: They are experienced as designers and manufacturers of railway coaches for a long time. The agreement eventually entered into was really in two parts. The first part concerned technical aid, supplying us with specialists and the know-how and helping us to evolve designs suitable for Indian conditions on the principles of their coach. At the time, we were rather optimistic and thought that it would be a matter of some months, perhaps six months at the most, to finalise Indian designs on those principles. As it turned out, a great deal of study had to be carried out due to many factors. First of all, our weights and sizes and axle loads are completely different. Secondly, the kind of steel that is available in India to build these coaches is different from the one used in Europe, and we had to adapt that to Indian conditions. Thirdly, the trains in Europe, the passenger trains, are never so heavy, and our trains are about 50 per cent. heavier, and the strength that we wanted specially against shock and 'squeeze' had to be greater. And there were various other technical factors which induced us to go very carefully into the design and see that it satisfied us in all respects. Another important factor was that in Switzerland and other parts of Europe, they have different kinds of

shells and bodies for different purposes. Their sleeping car is one design; the ordinary car in which one travels in day-time is a different type with passage in the middle; the dining car is different and so on. We thought it would be economical in India to finalise one particular body design which we could mass-produce and which could be used for any class and any purpose. All this took considerable time. Their designers and our designers were engaged on it, and during the course of these studies, a very important factor came to light. It was this: that there was no particular advantage to us in adopting the principles of this design for our metre-gauge. This could not be foreseen at the start. I am telling this to you in detail to explain why it took about 15 months to finalise the design that should be adopted in India. This design is connected with the first part of the agreement.

The first part of the agreement also contained arrangements whereby we obtained some of these coaches conforming to the Indian design from Switzerland. We wanted first a few samples to try out for physical strength and mechanical defects, and later on we wanted to introduce two or three complete train services with these coaches in different parts of India to assess the public reactions and their popularity and their general suitability from the point of view of the travelling public as distinct from technical considerations before embarking on mass production in a factory for this coach. Now, Sir, the first part of this agreement, rather the implementation of it, was delayed. It was delayed due to the design taking much longer than expected. There were other delays, at their end in Switzerland, in producing the samples. Naturally, until the samples had been seen and tested and passed, the production of coaches and trains could not be carried out. There has been a delay in introducing trains of this kind for the public to judge. So, as far as the first part of the agreement goes, there has been delay, an unfortunate delay, at all stages.

You might also say that we on the Railway Board could have taken greater advantage of the first part of this agreement while we were waiting for these tests and the public reactions to complete trains. We could, under this agreement, have trained more of our people in the techniques of this kind of manufacture. There is force in that view, but it should also be

realised that this arrangement was not for a few years only. It was a twelve-year arrangement, and we thought, rightly or wrongly, that there was time for us, after we had proved each aspect of these new trains, to train our people in adequate numbers. There had also been some worsening in our foreign exchange position in late 1949 that had indicated that we should postpone foreign expenditure, even the smallest item, if we could do so without any harm, to a year or two later.

Shri Narahari Rao: That was rather penny-wise and pound-foolish, if I may venture to say so.

Shri F. C. Badhwar: I am afraid, Sir, I must accept that criticism, but that was a factor. In those days in 1949, devaluation had come in.

In this agreement there were a certain number of clauses concerned with obtaining coaches from Switzerland. The idea was to order 50 each year for the first four years in order to provide certain services where trains only with these coaches will run. We wanted to put these coaches on the Frontier Mail to start with and later on, run one service of the Bombay-Calcutta trains with this, and later still, run either the Grand Trunk Express or a Bombay-Madras line service, before we went in for bulk production here. The relevant provisions in the agreement about these orders were that in those days the idea was only to get the bare shells from Switzerland, and to furnish the coaches here—each time we placed an order, we should give the firm half the estimated cost of that order, and the other half to be paid after delivery. Under this arrangement, due to various delays, there was a stage during which we had paid out large sums of money, and had received, on the other hand, nothing much in the way of coaches, but this was only a stage. Later on, the coaches started coming; for instance, the position last month, in August, 1952 was, I think, 20 coaches had either arrived or were reported on the way, another 8 or possibly 10 or 12 were ready in the workshops to be shipped. The point I am making is that this balance of payment—how much money was locked up and how much goods and services rendered here.....:

Shri T. N. Singh: How many had been imported so far or on ship?

Shri F. C. Badhwar: About 20.

Shri T. N. Singh: And 12 had been received earlier?

Shri F. C. Badhwar: No, about 12 are ready in their workshops awaiting shipping. So far they have roughly built 30 coaches. The day-to-day position varies. They are turning them out at the rate of 4, 5, or 6 a month.

Acharya Agarwal: We should like to know the exact figures. How many are on the way?

Shri F. C. Badhwar: We could give the information as on any particular date. I am just trying to go over the position roughly. That is the position today. The position last August was that we had received services and goods of a value that was higher than the money that we had paid to them at the time because our bill came to about 4½ million Swiss francs or some figure of that kind.

Shri T. N. Singh: For the coaches?

Shri F. C. Badhwar: Coaches and services. I am trying to keep a balance between payments made to them and goods and services received. At the time the Auditor examined this particular case.....

Pandit K. C. Sharma: At this time you have received value for your money paid to them?

Shri F. C. Badhwar: According to the agreement the price is for services and goods they will supply, the balance if any is in our favour. At the time the Auditors checked it.....

Shri Narahari Rao: I do not think my Auditor accepts that.

Shri P. H. S. Rao: You have paid Rs. 61 lakhs as advance for the 100 coaches and what you have already received cannot exceed Rs. 61 lakhs.

Shri F. C. Badhwar: It depends on the value you place on them.

Shri Narahari Rao: Apparently the pricing of the articles has gone up. Probably the prices have gone up four times. The contract itself is so bad with cost plus profit basis, that they could vary the cost. The cost has gone up since you made the contract. Evidently that only makes the thing much more worse.

Shri F. C. Badhwar: I am just trying to narrate the story, not to explain or justify. There was also another point that is quite relevant. Though, to start with, we had visualised getting from them bare coaches with shells

and wheels and no furnishings or fittings, due to the delay and the fact that we wanted at least one train service to be tried out by the public, it was decided to ask for the first 50 to be furnished by them—some in third, some in inter, some in second, some in first, just as their rakes are made out. This is one factor which has increased the cost. And the first lot of coaches coming now are furnished.

Now, Sir, we come to the second part of the agreement. The second part of the agreement had to do with the setting up of a factory in India to manufacture these coaches. In this part of the agreement, the payment to be made to the foreign firm depended on the quantum of either services or goods or technical staff that we might require in connection with the production in India of these coaches. For instance, if it had been decided that we won't have them at all, then the agreement would just have been on paper; there would have been nothing to pay. On the other hand, if it was decided to obtain a large quantum from them, then we would have to pay more.

However, in implementing the second part of the agreement, there has been considerable delay due to a number of adverse factors. As I explained once to some Members of Parliament, we first intended the new coach building unit to be connected with the Hindustan Aircraft Factory at Bangalore. One advantage in this arrangement would be that many of the fittings required for these coaches could be manufactured from the existing capacity of the Hindustan Aircraft Factory, without putting in new machinery. Later on, this decision was slightly modified to the extent that this would be a self-contained unit in the H.A.F. compound so to speak. Various factors including certain difficulties which the H.A.F. experienced in raising funds to finance the new factory—later on the Industry and Supply Ministry which was controlling the H.A.F. also found it difficult to get the money—delayed the construction of the factory; there was also the fact that we had not tried out these coaches and were not quite ready for production.

As time went on, and the overcrowding on the Railways became worse, we decided that we could no longer delay the building of this factory, and so we would build it as a railway factory, rather than waste

more time. The only thing we left open was the fittings of the factory, the machinery and the equipment. We designed the factory so that it could build almost any kind of carriage which is usually the design adopted by most factories. The position today is that this factory is under erection, in a part of the Perambur Workshop near Madras. Certain machinery and equipment which would be needed for all kinds of coach-building have already been ordered. The special presses, the special electrical and welding equipment required for building this special Swiss coach are still being checked up, because we feel that there is an advantage in altering the second part of the agreement and revising it to our advantage.

Shri T. N. Singh: Have you got the final estimates in detail for this factory?

Shri F. C. Badhwar: Yes.

Shri T. N. Singh: Are they also subject to further revision?

Shri F. C. Badhwar: No. We have got these estimates examined in detail very carefully, with regard to the erection of the factory. The reason why we have not gone full speed ahead with the special equipment of the factory is this. We feel now that there is an advantage in referring the Swiss firm back to their original offer to come in as partners, to some extent, with us. If they come in as partners, then not only do we get their technical know-how and advice, but they can actually be associated also with the production of the articles which they themselves have built for so long. The negotiations in this connection regarding the revision of the agreement are still in a fluid stage, and have not yet been finalised.

The sample coaches, besides having been shown to certain Members of Parliament, have been subjected to our standard tests which are rather severe. They have stood the test very well and there is no question that as an article it is better than our Indian standard coach. There is a saving of about 5 to 6 tons of steel in each one of them. We feel that this coach, when it is mass-produced in India, can be built comfortably at a cost not higher than that of our standard coach. Its riding qualities are decidedly better. There is a patent about the bogie which gives it very good riding qualities, and

I think many people have tested that and noticed the difference. So, the coaches have passed these technical tests, but we have still not put them on the general train services for the public. This is the background to the present position.

Acharya Agarwal: In view of the saving of steel, would not the cost be lower?

Shri F. C. Badhwar: I cannot say, unless we mass produce them. It may be lower. But then the workmanship is higher, because instead of riveting, we are welding.

Acharya Agarwal: Is the revision of the agreement being done with the consent of the Cabinet or the Ministry of Railways?

Shri F. C. Badhwar: Yes, Sir, it has got the official blessing of the Government of India.

Shri T. N. Singh: Before we go into the merits of the contract and the terms of it, I would like to clarify one or two points. Please let me know what was the price of the coach before you placed the order in 1950, what was the estimated cost then, what is the estimated cost today, and how far the same has altered?

Secondly, what changes in specifications have been made as a result of which the costs have gone up or down.

Thirdly, as a result of the changes in specification, has there been any reduction in room space, the width, etc. or have any other things been altered; and to what extent has the cost gone up or down commensurate with those changes?

Chairman: The Audit comments on page 45 are valid even today, and to that extent, you must satisfy us as regards the present and also the future position of the contract.

Shri F. C. Badhwar: If I answer Shri Singh's point, I think that will cover all the other points.

The estimated cost given to us by this firm is only for a shell, namely a coach without any furnishings or fittings—at the time the agreement was being negotiated in the year 1949—to be built in Switzerland. This was before we evolved the Indian design here in our country. The cost given was 113,000 Swiss francs. The estimate after the Indian design here was finished was 130,000 Swiss francs, and this was towards the end of 1950. This also is for the shell only.

Shri T. N. Singh: What are the changes in specification or modification that have resulted in this additional cost?

Shri F. C. Badhwar: The cost was first based on the fact that the shell was to be ordered from Switzerland. There is a provision in the agreement that after 25 coaches have been manufactured in Switzerland and the costs of these have been audited, the firm price for subsequent coaches would be agreed upon. The initial intention was that the cost plus arrangement should apply to the first 25 coaches only.

Shri T. N. Singh: Does the agreement provide for the auditing of the costs of the first 25 coaches?

Shri F. C. Badhwar: Yes, it does. The changes in specifications that have been made which may or may not justify the changes in cost are these. The Swiss firm had allowed for a mechanical strength in their coach somewhat less than we insist upon in India. We have heavier trains here, and we follow the American practice of allowing 200 tons squeeze test against the buffers, as against the Swiss practice of 100 tons only.

Shri T. N. Singh: Does it mean double the metal?

Shri F. C. Badhwar: No, it does not mean double the metal. Their steel is of a higher quality than ours.....

Shri T. N. Singh: Does it then mean more steel?

Shri F. C. Badhwar: By using more steel, more strength can be got. Their first cost was based on a coach weighing about 30 tons. The final coaches that have arrived here weigh about 35 to 36 tons. The squeeze test is for the entire carriage and not the body only. It is something like a tube or a pipe. The under-carriage is integral with the body because that is one of the principles of design.

They allowed stresses of about 6 tons per square inch in the skin of their coach, which was made from copper bearing American steel of very high quality. We in India wanted a coach that would utilise our own steel, which is not such a fine product. We insisted on about 3 or 4 tons per square inch. There was another point also. Sometimes there is excessive overcrowding in our trains and consequent overweight. Also at some future date, we may want the common body to carry more weight; for instance, we may convert it into a dining car with a heavy store or we

may convert it into an air-conditioned coach with an air-conditioning plant weighing about 6 to 7 tons. We wanted even the roof to withstand such overcrowding not that we visualise that such things will be permitted. But this is a factor which has added to the weight of the carriage. Also, we had the anti-telesopic features reinforced. Moreover, our coaches are broader in gauge—ours are 10 ft. 8 in. as against the Swiss of about 9½ ft. Besides, we wanted one common shell for every type of lay-out inside. So they had to provide for something that will fit into everything which would be cheaper to produce but may want a little more metal to start with. These are the factors which made them revise their quotation upwards, when they started building the Indian shell. Then, Sir, because of the delay to get the first lot of 50 shells completely furnished, it was decided that in the same order as you would have your trains, each lot should have so many different classes, etc. Their estimate for supplying these fully furnished given to representatives of the Board in 1950 in Switzerland was 150,000 Swiss francs per coach.

Shri T. N. Singh: When was that?

Shri F. C. Badhwar: October-November 1950. In rupees it is 1,65,000.

Chairman: Let us get the main point and then we will go into details.

Shri F. C. Badhwar: After that when they actually started building the coaches, they had to make two or three of one class, two or three of another, etc. as we wanted them train-wise. They maintained that this form of furnishing and construction made it impossible for them to use mass production methods and so they were actually producing prototype trains which involved them in much higher costs. Their latest quotation per coach, completely furnished, is 213,000 Swiss francs.

Shri Narahari Rao: What is the date of that? How much is it in rupees?

Shri K. Sadagopan: Rs. 2,31,522.

Shri F. C. Badhwar: The first lot of 50 will only be furnished; the second lot will be unfurnished. This is also 10 ft. 8 in. wide.

Shri T. N. Singh: What is the price for 11 ft. 8 in.?

Shri F. C. Badhwar: We did not make any enquiry.

Shri T. N. Singh: Did you not change the width in subsequent negotiations?

Shri F. C. Badhwar: That decision had been taken before. Now, Sir, only the first 50 are intended to.....

Shri Narahari Rao: What is the latest price?

Shri F. C. Badhwar: 2,13,000 Swiss francs.

Shri Narahari Rao: I thought my Director found it mentioned somewhere as high as 3,75,000 per coach.

Shri F. C. Badhwar: I am quoting the ex-works price.

Shri T. N. Singh: Is it cost price plus 10 per cent.?

Shri K. Sadagopan: Cost plus something.

Shri F. C. Badhwar: The first lot are coming furnished; the second lot will be unfurnished and will be furnished here in one of our workshops.

Shri T. N. Singh: What will be the 'unfurnished' price?

Shri K. Sadagopan: 'Unfurnished' will be Rs. 1,55,435. Additional charges for furnishing will be Rs. 76,000.

Shri T. N. Singh: In francs?

Shri K. Sadagopan: 143,000 Swiss francs for shell and 70,000 for furnishing.

Acharya Agarwal: It has risen from 115,000 to 213,000 Swiss francs. It is a very high price.

Shri Narahari Rao: It is not yet the final price. It goes on varying. Afterwards the cost has to be determined; it is only an estimate.

Acharya Agarwal: What is this higher cost due to—material or labour cost?

Shri T. N. Singh: Cost of production is going up. That is what they say.

Shri Vallatharas: Have you any standard of verification to determine what the actual cost is?

Shri F. C. Badhwar: It is all subject to cost audit.

Shri Vallatharas: Suppose they exaggerate the price, who does the verification?

Shri F. C. Badhwar: Our Auditors and their Auditors jointly.

Shri Vallatharas: Suppose a particular thing is quoted at Rs. 3 lakhs. Have we got a standard of verification to satisfy ourselves that that amount is justified?

Shri Narahari Rao: In my judgment it is a kind of thing that is extremely difficult. It is supposed to be audited by us, but I have very little means of auditing this kind of thing. We do not have very many conveniences in a foreign country to go and audit the books of a company. It is a kind of thing which is extremely unsatisfactory. We have stated it once for all and we repeat it. We have had many such instances and we had a lot of trouble. We have had other very big contracts, not connected with Railways, where the payments are made on the basis of cost plus something. In an emergency, during the war, that sort of thing was done, but to treat it as a normal method of business is extremely unsatisfactory. It provides every kind of inducement for the cost being put up. We have very little control. When you have no control over the bill that can be presented, whatever is given as cost you have to accept. It is an extremely unsatisfactory state of affairs.

Pandit K. C. Sharma: From your remarks it appears that the most relevant point is, how this form of contract was arrived at, how this contract was negotiated. May I know whether the form of contract is the same in all big contracts or it differs? I am asking whether the conditions under which this contract is made are almost the same for all contracts or they differ in material particulars from similar contracts with other firms.

Shri Narahari Rao: The contracts must differ. One contract may be for building a factory, another for coaches.

Pandit K. C. Sharma: After all the Government of India is a big concern; they must be getting a lot of things of the same kind. In what particulars do the contracts differ or is it the same contract for all?

Shri Narahari Rao: This is a contract by itself.

Chairman: I would like my friends to ask the Auditor-General to elucidate a point. Questions can very well be put to the witnesses.

Shri Narahari Rao: The point here is: you do not know what you will have to pay, and as you have seen here, it is going up.

Shri F. C. Badhwar: This cost plus condition applies only to the first 25 coaches, the intention being that after the cost is audited, we come to some arrangement for firm prices.

Shri Narahari Rao: We find that during this period of two years, it has gone up from 115,000 to 213,000 Swiss francs. It may go up still further and when the cost is established to the satisfaction of whoever it be, you may find it is at a very much higher level than in the beginning and you will be bound by that rate for all future supplies. It is for the consideration of the Committee whether that is a good kind of contract as a model.

Pandit K. C. Sharma: I take it that in every transaction this was not possible because both parties were uncertain of the events as they were likely to take place.

Shri Narahari Rao: If the Committee takes that view, it is entitled to do so.

Chairman: The Committee has not come to any decision. Pandit Sharma is anticipating conclusions. We have not yet seen the contracts; if it is the desire of the Members, I will ask the contracts to be circulated.

Shri F. C. Badhwar: This cost plus something is only for the first 25 coaches. When you are developing a new kind of design or a new object in India—quite often we decide to try out some new design, we make two, three or four of them—whoever builds these is not going to lose money on it. The least he will accept from you, if you are a very old and large customer, is your cost. He will say: 'Will you give me my cost at least?' More often he will say, "Give me cost plus a little", but it usually relates to very few units and only for the development period. The intention behind it was that we should limit it to 25 shells, then come to some idea of what the fair cost would be, and on that negotiate for bulk orders.

Shri M. L. Dwivedi: You have included profit also in this?

Shri F. C. Badhwar: Yes.

Shri M. L. Dwivedi: Is this the only such contract with foreign firms?

Shri F. C. Badhwar: This is the only cost plus contract. I may say that when I want something, when you sell and I have to buy, it is not for me to dictate.

Chairman: Shri Badhwar has made his statement. I would now request the Auditor-General to make his observations.

Shri Narahari Rao: I have no observations to make beyond what is contained in the Report.

Chairman: The subject is now open for discussion.

Would the Members of the Committee like to have a copy of the contract to go over so that they may understand it? It will then be for the Railway witnesses to examine how their legal advisers advised them to enter into a legal or illegal contract with foreign firms over which my Sovereign country has no control.

Pandit Munishwar Datt Upadhyay: A copy of the statement just made by Shri Badhwar may also be given to us.

Chairman: The Parliament Secretariat will do that. But it seems we cannot take any decision today. The discussion may be postponed.

Shri F. C. Badhwar: I hope a copy of my statement will not be published because the negotiations are still going on.

Chairman: No. No proceedings of the Public Accounts Committee are published unless the Chairman sanctions and unless they are placed before Parliament. Everything must be placed before Parliament. But let me tell you, this year very likely Parliament will insist on the publication of the evidence, as it used to be before 1946, and it will be laid on the Table of the House. That very moment it becomes public property all over the world. Of course your statement will be sent back for revision; if there is any slip you can correct it, but do not carry out any big changes. But I would request the Railway Board or the Parliament Secretariat to circulate a copy of the contract because it is our desire to go through it. We are going to finalise the contract and the agreements this year. We cannot permit individual Ministries to follow their own way; there must be a certain amount of uniformity. We have been attempting this since last year and we shall pursue it further.

Pandit Munishwar Datt Upadhyay: I would like that a copy of the statement made by Shri Badhwar be given to us before the 10th.

Chairman: Now I would request our Railway Board friends to be ready to appear before the Committee on the 10th or the 11th. Let us now put specific questions arising out of

the Audit statement and the statement of Shri Badhwar.

Shri S. N. Das: I want to know whether before this agreement was reached or after that, any scheme was prepared to avail of the opportunities going to be provided by this agreement?

Shri T. N. Singh: That is, whether any spade work was done by your Department so that in the event of the agreement going through, your administration will be found ready to take over and implement the terms of the agreement forthwith.

Shri S. N. Das: Yes. My question is whether any scheme was prepared by you to take advantage of this agreement.

Shri F. C. Badhwar: Yes, Sir, it was.

Shri S. N. Das: If so, it should be made available to us so that we may be able to assess that in making this agreement Government was fully prepared to take advantage of it.

Shri F. C. Badhwar: My answer is, yes.

Shri T. N. Singh: There have been cases where we placed orders for supply of certain materials. We did not know whether we had the necessary packing arrangements, the port facilities, the transport facilities, to the proper place, etc. with the result that things came and lay just like that. Therefore, we want to know whether you had prepared any scheme to implement the agreement.

Shri V. Nilakantan: There was a definite scheme for taking advantage of the agreement as soon as it was signed. One of the portions of the agreement is that the Swiss firm was going to help us to establish a manufacturing factory here. Immediately the agreement was concluded, we started negotiations with the Swiss firm for the establishment of the factory. We put an Officer on Special Duty to go to Switzerland and work out the details of the factory with them. In the meantime the delays took place here, which Shri Badhwar explained, because of the H. A. L. wanting to come into it and Government considering those schemes. But actually, very soon after the agreement was signed an Officer whom we intended to be put in charge of the factory was placed on special duty here to work out the details of the factory. Then he went to Switzerland and worked out there, as far as he could manage at that time, the details of

the lay-out of the factory, the machinery required for it, the scheme for training, etc.

Shri T. N. Singh: Supposing that the details of the factory were worked out within three months, that is, all the details and blueprints were ready. Could we have started immediately thereafter in Perambur? Had you the land, had you the necessary staff and everything else to start the preliminary work?

Shri V. Nilakantan: The working out of the details of a factory takes time and as soon as the decision as to where the site of the factory is going to be made, then immediately steps are taken to get land for the factory.

Chairman: You had, yourself no spare land in Perambur?

Shri V. Nilakantan: Actually the idea of locating the factory at Perambur came about later on.

Shri T. N. Singh: Supposing details were fixed up within three months, what would have happened?

Shri V. Nilakantan: It could not have happened because you cannot fix up details within three months.

Shri T. N. Singh: There was a motor factory going to be started and they were going to make their own plans and drawings. At least you will know the area of land required, or the housing arrangements required for workers. Were you prepared for that preliminary work or not?

Shri F. C. Badhwar: Yes, Sir. Two Officers were engaged, on this, a Civil Engineer for the building and survey part, and a Mechanical Engineer for the machinery. The first site selected was on land belonging to the H.A.L. We have got the plan showing the site. We tied up what you mentioned about water-supply, roads and buildings in consultation with them, the first intention being to site this factory in H.A.L.

Shri T. N. Singh: Then after that what happened? You changed the factory site to some other place?

Shri F. C. Badhwar: The change was not originated by us. It was due to the inability of H.A.L. to progress further with the capital required to build this factory.

Shri T. N. Singh: Was the H.A.L. aware or not of the capital at the time of the agreement?

Shri F. C. Badhwar: They were roughly aware.

Shri Narahari Rao: Why did you not provide the capital? After all it was a Railway concern and it did not look a very complex financial business.

Shri F. C. Badhwar: Between two Departments of Government this would be most uneconomical.

Shri Narahari Rao: A decision like this should not have been allowed to be influenced by the refusal or difficulty of H.A.L. to find the capital. I think Government, including the Railway Ministry, should have found the capital somehow. Otherwise there was no point in having this agreement.

Shri V. Nilakantan: The land on which we are building the factory has been with us—it is railway land. There is no need of acquiring any fresh land for puffing up the factory at Perambur.

Shri T. N. Singh: Supposing tomorrow the high-powered Officer whom you have sent abroad comes with his blue-print for the construction of the factory. Are you in a position to start work?

Shri V. Nilakantan: Yes. By the time the machinery which is ordered arrives and is erected, the factory would be ready for starting work.

Shri T. N. Singh: What is the normal time you expect for the machinery to arrive?

Shri V. Nilakantan: It takes from 18 months to two years.

Shri T. N. Singh: I take it that the factory is now under construction?

Shri V. Nilakantan: Yes.

Shri T. N. Singh: How is it that when your man is negotiating there, this blue-print has been arrived at and the factory is being constructed?

Shri V. Nilakantan: The lay-out of the factory has been settled on the technical side.

Shri T. N. Singh: When was it settled?

Shri V. Nilakantan: Nearly a year ago.

Shri T. N. Singh: When did you start construction?

Shri F. C. Badhwar: We have been in constant touch with this Swiss firm. Last year one or two of their engineers came here. The plans for the factory

are mutually agreed upon by both of us.

Shri T. N. Singh: How much have you spent on preliminary construction so far?

Shri K. Sadagopan: Tenders have been invited.

Shri T. N. Singh: You said that construction has started?

Shri N. C. Deb: In the current year the provision is about Rs. 1½ crores.

Shri T. N. Singh: Supposing there is a break with the Swiss firm. One has to take into account all possible contingencies. In case there is a break down of the negotiations, are the Government prepared to proceed with the completion of this factory? Have you consulted the Finance Ministry and are they prepared to find the money, if the Swiss firm does not come as a partner?

Shri F. C. Badhwar: Having been stung once by people who wanted to associate with us for our mutual benefit, we have now decided to proceed with this as a purely railway project along the lines indicated by the Auditor-General. This is now our own baby and we have provided funds for it.

Shri T. N. Singh: You are reported to have made a statement in the Press and outside that your schemes could not progress because Finance came in your way. There was an economy drive and so you could not proceed ahead. Suppose a similar eventuality arises. Have you got the prior sanction of the Finance Ministry for the commitment that this money could be spent whether there is a deficit in your budget or not.

Shri F. C. Badhwar: Yes, Sir. We can give you that assurance. We are handling it now as a purely railway project, just as we do the Chittaranjan.

Shri T. N. Singh: If Government could find the money, why could not you proceed with it, as your own concern? What was the necessity of associating the Swiss firm at all?

Shri F. C. Badhwar: Quite frankly the best way to run a production unit is not under Civil Service Rules. If you want to run it as a commercial concern (especially when we are building a new type of coach) for a certain number of years association in partnership with a firm whose interest it is to make a success of it, is of very great advantage.

Shri T. N. Singh: So, the Railways are not run as a commercial affair as they are governed by Civil Service Rules?

Shri F. C. Badhwar: We are making a stuff for the first time. It is true that we can gain by experience; but it may take some years to achieve full economic production. As you know, a production unit depends for its financial success on its output.

Shri T. N. Singh: When this agreement was made the Railway Ministry was satisfied with the technical personnel available here. What has happened within these three years to change that opinion?

Shri F. C. Badhwar: We are still of the opinion that we could carry on. But it will take us a longer time to achieve full economic production by ourselves. The advantage of associating experts as shareholders is that it is to their advantage to make it a success quicker.

Shri T. N. Singh: You mean to suggest that they will be more keen on making it a success?

Shri F. C. Badhwar: They will be if their share of money is in it. It really means that their share of the profit depends on the progress of the factory.

Shri Narahari Rao: I think you said earlier that it was to avoid a long-term commitment that you entered into a twelve-year agreement; but now you are talking of a partnership?

Shri F. C. Badhwar: It is not an indefinite partnership. It is a partnership for a limited number of years until the factory is in full blast.

Shri Narahari Rao: Do you expect any one to come in with their capital for twelve years?

Shri F. C. Badhwar: Yes, Sir. It has been indicated to us that they are prepared to.

Shri M. L. Dwivedi: What are the advantages of this type of coaches?

Shri F. C. Badhwar: In Bangalore they are building metal bodies—mostly steel. The weight of the coaches is high—about 42 tons. The method of construction is not one that we very much like. But we want coaches quickly in large numbers. There is no comparison between the body built at H.A.L. and the Swiss type of body.

Shri Narahari Rao: Can't you get quicker deliveries from H.A.L.?

Shri F. C. Badhwar: There is room for both.

Shri Narahari Rao: I want to know why, having had Railways in India for nearly a hundred years, we are still unable to agree straightly what exactly are the precise specifications we want for our coaches. It appears the specifications were altered three times. Could not the Railway Administration definitely put down once and for all "these are the specifications we want" and got the quotations for that. It is not as if we are experimenting with Railways in primitive condition. I think we have sufficient experience of Railways.

Shri F. C. Badhwar: These are completely new types of design so much so that this coach is now creeping into America in spite of American vested interests.

Shri T. N. Singh: You referred to the new quality of steel that is being used, requiring a change in specification. You said that you sent a technical man to examine the Swiss coaches there. Did he not take care to see and find out what is the quality of material that is being used? After all that quality will have to be used here. Having known that it should have been possible for him to ask the Railway Administration here to get ahead with the calculations according to the changes.

Shri F. C. Badhwar: Until you sign the agreement he cannot go.

Shri T. N. Singh: So before the agreement was signed you did not know of the material used in these coaches?

Shri F. C. Badhwar: We were told all about it; but not all the technical details.

Chairman: They would have known of the general design, but it has to be modified to suit Indian conditions.

Shri T. N. Singh: In view of all these reasons, may I ask why the agreement was made operative immediately? The Ministry was fully aware that there was bound to be a time-lag. Why was no provision made for the time-lag in the agreement?

Shri F. C. Badhwar: The time-lag is the time taken to complete the factory.

Shri T. N. Singh: You should be aware of the changes in the design of the coaches. Why did you enter into a

commitment of making certain payments at the beginning of every year? Having known the likelihood of delay in starting manufacture, I want to know why we were not protected under the agreement itself against that time-lag?

Shri K. Sadagopan: I wish to put it to the Public Accounts Committee that here we are trying to do something in the nature of a pioneering effort. The Auditor-General remarked that we must have had experience of Railways for over hundred years in India. It is quite true. But here is a type of coach which is considered to be the most modern, which has the best riding qualities tested in the most advanced countries. We, in the Railway Ministry, in the wake of independence, tried to advance Railways by entering into a technical aid agreement. In any big industry like the Railways, it is better to spend as much time as possible in the technical examination of the project, so that the best results might be obtained.

Chairman: Better you realise your responsibility at the beginning.

Shri K. Sadagopan: I would crave the indulgence of the Committee, and I hope they will give us all the time that is required to deal with this very important matter.

Chairman: We will give you full time. We will give you two days.

Shri K. Sadagopan: This is a very complicated matter, and I would implore you to join with us in examining all the details.

Chairman: Would you admit that this is your first venture to go into partnership with foreigners with all the diplomatic problems that are behind it?

Shri K. Sadagopan: I only submit that we have taken care of all those points.

Chairman: That is for us to judge.

Shri K. Sadagopan: I am prepared to go into all these details with the Committee.

Chairman: The point is that this is your first venture to enter into a partnership with foreign countries and giving them the upper hand. That is what Shri T. N. Singh is trying to make out. You know there is criticism by the public and the Press in this connection. I do not express

my views. I will express them towards the end.

Shri K. Sadagopan: My duty consists only in placing all the relevant facts and considerations before this Committee. It is for you to come to your conclusion.

Chairman: Our duty we will do. You have to explain why you took such steps.

Shri K. Sadagopan: The first point Shri Singh has raised is this: Why did you not bargain for this time lag when you entered into this contract. My point is.....

Chairman: I do not want individual points.

Shri K. Sadagopan: I must apologise. Our view of the matter is that in this technical aid agreement, only after one enters into a technical aid agreement, the contracting party is prepared to go into the details of what you want. Then they start their technical examination.

Chairman: I have not come here to cross-examine you, but did you consult the Solicitor-General and the Attorney-General in this regard?

Shri K. Sadagopan: We did consult the Law Ministry.

Chairman: And you have got their views in writing? Are they available?

Shri K. Sadagopan: Yes, Sir. May I elaborate the point? The broad principles are settled. Then, for a coach to be tried out in tropical conditions, there are so many details to be examined.

Shri Narahari Rao: And yet these coaches were so urgently required. That is the point. Well, you made this agreement, but the urgency is the argument advanced.

Chairman: It is 1 P.M. already, and I have promised Shri Nayar to allow him to put one question. In the meantime, do you want to meet this afternoon?

Shri M. L. Dwivedi: No.

Chairman: Do you want to meet on Sunday? If afternoons are barred, let us meet on Sundays.

Shri M. L. Dwivedi: We have no objection to meet on Sundays.

Chairman: We will decide the time later on and inform the Railway Board.

We will meet on Sunday or on the 10th.

Shri V. P. Nayar: I want some information about the origin of this contract.

Chairman: Please put your question specifically.

Shri V. P. Nayar: Sir, as far as I know, Switzerland is a country, the economy of which is based on the supply of highly valued articles of small volume, and the opinion seems to be that in Switzerland there could be no mass production of voluminous articles because they are faced with ever so many transport difficulties. How did it happen that with all these things, you contracted with a Swiss firm, for the manufacture of these massive coaches? Did you explore the possibilities of getting the coaches from other countries before you entered into the contract with this Swiss firm?

Shri K. Sadagopan: Two questions have been raised. One is, why we entered into a contract with the Swiss firm which is reputed to make only specialised articles, and is not good at mass production. The second is whether we consulted other coach builders.

The answer to the first question is this Switzerland is probably the most highly advanced country so far as engineering is concerned. For example, when we have specialised types of rolling stock, big wagons, tank wagons, cranes and things like that, we had necessarily to go to Switzerland, and here is a design of a coach which, although they may not be able to produce on a large mass scale, they have perfected which only shows their advance in engineering, and this design is proposed to be worked in India, and on a mass scale, and we hope to get results.....

Shri Narahari Rao: A design which has not been tried on a mass scale in Switzerland itself!

Shri K. Sadagopan: In Switzerland, they have a capacity for 100 coaches. We are prepared for 350/400 coaches. I may assure the Committee here that we hope to build to this design, and produce a coach which will compare favourably with the coach that is being produced in Bangalore in cost, with very much better technical qualities.

Chairman: At a cheaper price or same price?

Shri K. Sadagopan: Same if not cheaper. The second question is whether we did consult other big coach builders. We have consulted probably all big coach makers in the world, Americans, English and also Continental.

Shri V. P. Nayar: Did you consult the U.S.S.R.? Do you know that the U.S.S.R. is building coaches? Let it not be understood that I am putting this question from a partisan point of view alone.

Chairman: I do not think they were consulted, but we shall insist in Parliament.

Shri M. L. Dwivedi: How many technicians have been trained to build these coaches in India?

Shri K. Sadagopan: That we have definitely held over. A complete Hindustan Factory coach now costs Rs. 1,30,000. We hope to manufacture this type of coach also, when mass production will have been established, at this rate, with very much better qualities and much greater satisfaction to the travelling public.

Shri T. N. Singh: I think Shri Santhanam announced that the Perambur factory will go into production in 1950 or 1951.

Shri K. Sadagopan: Work has already started.

Shri T. N. Singh: What was the announcement that he made?

Shri K. Sadagopan: I am not certain. It will take another couple of years.

Chairman: Let me adjourn the Railway discussion either till Sunday or the 10th and the 11th. But before we disperse, I have to tell you that tomorrow we examine the Communications Ministry from 10 A.M. to 11 A.M. and then the Posts and Telegraphs Department which will take another two hours. Secretary may telephone the Communications Ministry to come first, and the Posts and Telegraphs at about 11 A.M. Shri Badhwar, you will have to accommodate yourself to the meeting on Sunday if the Committee wants to meet on that day.

Shri F. C. Badhwar: I have to carry out rather an extensive tour, but if the Committee insists, I shall cancel it. The only thing is this tour means a certain number of appointments with the oil companies in Bombay.

Chairman: You make all appointments after the 11th night. We request you to stay here till the 11th.

I am sorry the Auditor-General cannot go all over India. For us, he has to postpone.

Shri F. C. Badhwar: I am just explaining my position.

Chairman: Let me make it the 11th. Most of us are booked to go elsewhere. We have engagements. Up to the 11th we will engage your attention. Thereafter, you make your own engagements. If anything is left over, we will ask you to come after the 20th October. This Committee will adjourn till the 20th or 22nd October.

Shri F. C. Badhwar: I was going to ask your indulgence that my colleagues may be present, because.....

Chairman: It should be an Engineer's point, not an Establishment Member's point. I do not want to hear much from the Finance Section on what the Engineer will have to say. I want to know what the Engineer had in his mind in 1948 when he thought of accepting this design. I always confine my questions to technical matters. You are the Financial Director, and I am the shareholder. I want satisfaction from you all.

Shri F. C. Badhwar: Perhaps I could go now, and come back on the 11th.

Shri T. N. Singh: When are you going?

Shri F. C. Badhwar: I am going tomorrow morning. I have got these appointments with various people.

Chairman: Would you come on the 7th or 11th?

Shri F. C. Badhwar: I will come back for the 11th.

Chairman: Make it 10th afternoon. Tenth is Wednesday. Supposing we shorten our work, we may meet on the 10th.

Shri F. C. Badhwar: With your permission, if this will suit you, I will try and fly back for the 10th and 11th for this meeting.

Chairman: That will be all right. You give us a holiday on Sunday. Shri Deb has kindly promised to send copies of the agreement, and every Member will receive it by tomorrow morning. Thank you for the moment. We will meet on the 10th.

The Committee adjourned at 1.10 P.M. till 10 o'clock on Thursday, the 4th September, 1952.

Thursday, 4th September, 1952

PRESENT

Shri B. Das—Chairman

MEMBERS

Shri M. L. Dwivedi, Dr. Mono Mohon Das.
Pandit Munishwar Dutt Upadhyay, Pandit Krishna Chandra Sharma.
Shri Shree Narayan Das, Shri Uma Charan Patnaik.
Shri Tribhuan Narayan Singh, Shri V. P. Nayar.
Shri Ranbir Singh Chaudhuri, Shri B. Ramachandra Reddi.
Acharya Shriman Narayan Agarwal, Shri K. M. Vallatharas.
Shri Y. Narahari Rao—Comptroller and Auditor-General of India.
Shri P. C. Padhi—Accountant-General, Central Revenues.
Shri K. S. Malhotra—Accountant-General, Posts and Telegraphs.
Shri V. D. Dantiyagi—Deputy Comptroller and Auditor-General of India.

SECRETARIAT

Shri N. C. Nandi—Deputy Secretary.

WITNESSES

Shri A. V. Pai, I.C.S.—Secretary, Ministry of Communications.
Shri K. V. Venkatachalam—Deputy Secretary, Ministry of Communications.
Shri R. Narayanaswami, Joint Secretary, Ministry of Finance.
Shri V. V. Sohoni, Director-General of Observatories.
Shri D. Chakravarty—Deputy Director-General, Civil Aviation.
Shri Krishna Prasada, I.C.S.—Director-General, Posts and Telegraphs.
Shri B. R. Batra—Chief Engineer, Posts and Telegraphs.
Shri A. K. Roy—Deputy Director of Observatories.

(The Committee met at Ten of the Clock.)

APPROPRIATION ACCOUNTS
(POSTS AND TELEGRAPHS), 1949-50
AND AUDIT REPORT, 1951

POSTS AND TELEGRAPHS DEPARTMENT
Balance of Stores

[Page 4, para. 6 of the Audit Report]

Chairman: I will draw your attention to page 4, para. 6 of the Audit Report—the Director-General's financial review regarding stores balances.

Shri M. L. Dwivedi: Regarding stores balances, the value of stores in stock including the value of works in progress on the 31st March, 1951, was Rs. 4.35 crores against the revised limit of Rs. 3.5 crores. The question is why was this stock in excess of the revised limit retained? Heavy accumulation of stock unnecessarily locks up capital and involves risk of deterioration in storage.

Shri B. R. Batra: In regard to the stores procured in England, the debts raised by the High Commissioner towards the end of the year were more than anticipated, because it cannot be foreseen with any accuracy whether any particular stores will be delivered in time or not. The same thing occurred about the purchases made in India, and the last item was that a large stock of recovered copper wire was returned from the works to the stock, about Rs. 60 lakhs or so. These things were, to a great extent, responsible for the increased stock, but since then we have taken steps. As you will appreciate during the war years, a lot of stores had collected, some of which may not be required, and so we have taken steps now to issue substitutes or use stores which would normally not be used and so on, so as to reduce stocks and we hope that in the near future a very effective position will be available.

Shri Krishna Prasada: We have also commissioned a firm of experts to advise us in regard to this matter.

Chairman: From outside? Did you find outside experts necessary?

Shri Krishna Prasada: They are to advise us about accounting procedure, what stores and how much stores should be kept and all that.

Chairman: This Audit Report is for 1949-50. The Accounts of 1950-51 and 1951-52 are almost now completed. What is the present position of stores balances? Has it improved? Has it reduced?

Shri B. R. Batra: The position is that last year we actually issued more stores from the stocks and reduced the balance for 1951-52.

Shri T. N. Singh: By transfer entry only to the workshops?

Shri B. R. Batra: By actual issue to works. The firm of advisers have really been asked to advise the Department about the method of provision, planning and control of stores and about the redundant stock position and about the requirements of stores lay out and so on, so as to have better control, purchases and so on. Their report is expected in about a month or two. Two preliminary reports have been received and action is being taken on them.

Shri T. N. Singh: Who is this "Ibcon"?

Shri Batra: It is a Swiss firm of consultants. They have a team of experts who have advised Ordnance factories and so on.

Chairman: Do you compare your last stores balance with that of the Railway workshops and do you benefit by consultation with the Railway?

Shri B. R. Batra: So far we have not done so.

Chairman: You are never in consultation with the Railway workshops?

Shri B. R. Batra: The stores that we use are of a different type, but there is no doubt that a certain amount of consultation would be helpful to ensure what percentage of stores the Railways maintain for maintenance or construction purposes, and what percentage should be maintained by the Posts and Telegraphs.

Shri T. N. Singh: As far as I remember, under the Railways, they put a life to each item of stores and also the total replaceability every year, and that is the basis on which they arrive at the minimum stores balance that they should have. What is the principle on which this figure of Rs. 3.5 crores has been arrived at? Is it

something like that on the Railways or has some other principle been followed?

Shri Narahari Rao: I would like to add to that question, whether they make some distinction between Indian articles—obtainable and manufacturable in India without use of imported articles—and imported articles, because conceivably, some sort of stock-piling may have to be done when international conditions are somewhat obscure, and a larger limit may have to be permitted for imported articles. Do you bear that also in mind, because the Committee's recommendations that the stores balance ought not to be excessive must be interpreted, in the context of these considerations?

Shri Krishna Prasada: In fact, it has been very difficult to obtain certain kinds of stores.

Shri B. R. Batra: In practice, the indigenous stock is kept only for six months requirements whereas imported requirements are maintained for a year.

Chairman: Formerly it was three months.

Shri B. R. Batra: That was long ago when it was a buyers' market when you needn't even have three months' stock. It is a sellers' market today, and the position is so difficult that at times we have had to face hold-ups in the workshop because iron sheets and various things are not available.

Chairman: Is the scarcity in iron sheets and all these so much that you must maintain six months' stock?

Shri B. R. Batra: During the elections, for example, red hot priority was given for making ballot boxes, and for several months, we could not get it.

Chairman: That will occur only once in five years.

Shri B. R. Batra: The position has eased now, and actually we at times had only a fortnight's stock on hand, but now we have built about three months' stock, and we mean to have at least six months' stock.

Chairman: That will again increase it. It won't be Rs. 3.5 crores. It would be more.

Shri B. R. Batra: At present, the balance has been fixed on an *ad hoc* basis, but we have decided to fix the maximum and minimum limits and then arrive at the exact figure on a scientific basis.

Chairman: The expert will make some recommendations and then you

will recommend to Shri Pai, and then the figure will be arrived at?

Shri B. R. Batra: That is so.

Chairman: Will you put a financial man with knowledge of telephone working, to supervise the stores? Do you think the expert will be a super-man to do everything?

Shri B. R. Batra: After they have submitted their recommendation, we will consult our Finance Ministry, and arrive at certain figures.

Chairman: Have they got experience of management of such huge stores and the difficulty that you just now narrated?

Shri B. R. Batra: They say they have vast experience.

Shri Krishna Prasada: Actually the people to whom they entrust the job—those who do the work for them—are specialists in this very particular line and they know commercial practice too.

Chairman: Commercial practice in small countries like Switzerland. Switzerland has been on the mind of our Government recently I find, but we have to bear in mind the large area of India. I have experience of so many experts who have come and gone and their reports are not made available to Members of Parliament unless a curious man like me wants to see, out of curiosity, what that particular expert had recommended.

Shri Narahari Rao: I was wondering whether these experts would deal with general organisational methods, amenities and so on. I did not know they would give expert assistance in determining your location or the amount of stores that you should keep, the kind of stores, etc. I thought that would require for more technical inside knowledge and departmental administration. I thought you would be more competent to deal with that. I am telling you this because I myself toyed with the idea of inviting this firm for assisting my Department because I have in my Department 1,500 people huddled together, amenities are poor and so on. But they wrote to me how they would organise the entire system of accounts and audit, and I got frightened and dropped the idea.

Chairman: You take on a Railway man and two others and form a committee.

Shri Krishna Prasada: The original letter about the employment of this firm came to us from Shri M. K. Sen

Gupja, who was our Financial Adviser and later became Deputy Auditor-General.

Shri Narahari Rao: He did not suggest it as Deputy Auditor-General.

Chairman: Within the first few years of our sovereignty we are having a lot of foreign experts. Let us have some reliance on ourselves. I would very much value if you take a Railway expert from the Stores Department, and one Accounts authority.

Shri Krishna Prasada: We tried to obtain a Stores Officer from the Railways and we tried very hard. I went and saw the Chief Commissioner of the Railways myself and asked him to give us a man so that we could put our Stores organisation on a proper basis.

Chairman: May I suggest it is not a Posts and Telegraphs problem? The stores are in any industrial concern even in the Railways. It is the biggest industry with Rs. 800 crores of capital. Why not the Government of India think at a higher level to go into the stores problems with the help of the Auditor-General and appoint a committee, so that we could arrive at a basis on which our stores should be maintained? The Railway are recently having a Staff Committee. Did you read the Staff Committee reports and their recommendations?

Shri K. Narayanaswami: So far as this particular thing is concerned, it was done with the full knowledge of the Accountant-General concerned. We had a full meeting at Calcutta, when the representatives of the company, the Chief Engineer, Shri Sivaramakrishnan and myself were present. We fully went into this question, and it was the considered view of Shri Sivaramakrishnan that this could be given to a specialist of this nature.

Shri Narahari Rao: We shall await the results.

Paadit K. C. Sharma: What is the total cost?

Shri Krishna Prasada: The total cost is Rs. 18,000.

Shri T. N. Singh: This stores question is coming up very often in regard to almost every Department. You were kind enough to send some of us to examine the stores of the Defence Department. I think from what the Committee has observed, it appears that the whole position regarding stores in all Departments is very unsatisfactory.

Shri Narahari Rao: Most unsatisfactory.

Shri T. N. Singh: I wish the Committee would make a detailed examination of the whole question in its proper perspective.

Chairman: We shall bear this in mind as we proceed with the examination of witnesses from the various Ministries. Apart from any expert inquiry that may be made, we may offer our suggestions in our Report, and place them before Government for action.

Renewals Reserve Fund

Pandit Munishwar Datt Upadhyay: On page 5, under item No. 8 it is stated:

"A detailed review of the method of contribution to the Renewals Reserve Fund was undertaken by the Department and the Comptroller and Auditor-General suggested that a scientific method should be adopted to fix the annual contribution to the fund, based on the average lives of assets which should first be determined by a committee consisting of an Engineer and an Accounts Officer."

Chairman: What are the main recommendations of the Committee set up for this purpose?

Shri Krishna Prasada: The Committee has prepared a report, and it is being submitted to us. The main recommendations of the Committee are two in number. The first is that the Committee thinks that the present life of the assets is rather on the low side and that it could be longer. The second is that the Committee feels that the renewals reserve fund should be replaced by a depreciation reserve fund.

Shri B. R. Batra: The depreciation reserve fund is the commercial practice, and probably it was at the instance of the accounts people that the renewals reserve fund was created.

Pandit Munishwar Datt Upadhyay: Could you be more definite about the first recommendation?

Shri B. R. Batra: For instance, the present life of telegraph posts is 45 years; the report says that it could well be 60 years. Similarly copper wire has a life of 40 years, and the proposal is to have a life of 60 years. At present, the contributions are more or less on an *ad hoc* basis. In future when the lives have been laid down, it would be on a scientific basis—that it will require replacement in so many years, that the contribution will be made not on any *ad hoc* basis, or any fixed amount.

Chairman: In the expert committee, did you have any expert from the Railways, like the Chief Engineer, or any stores authority?

Shri B. R. Batra: Yes, all sources were consulted.

Chairman: I want to know whether the Railways which are also using copper wire like the Posts and Telegraphs were consulted in this matter.

Shri B. R. Batra: It is Posts and Telegraphs that provides these poles and other things for the Railways. The Railways do not do anything themselves.

Chairman: Can you give us the names of the experts and say whether there was anybody from the C.W.P.C.?

Shri Krishna Prasada: The committee consisted of two Officers, one Posts and Telegraphs Engineer, and the other Deputy Accountant-General from the A.G.'s Office.

Chairman: The C.W.P.C. who are concerned with these multi-purpose projects will also be using these things. I wanted to know whether the same common figure as to the life of these things is kept in view, for all these Departments under the control of the Government of India.

Shri T. N. Singh: How is it now that they say that the contribution to the depreciation fund should be at a higher rate when I believe the original principle was one of replacement value? The prices have been rising, and how is it that you worked at a lower rate on the renewal fund than on the depreciation basis?

Shri B. R. Batra: Once this depreciation fund is based on the life of the assets, the contribution will be higher than at present. The contribution at present is about Rs. 75 lakhs a year, and on this scientific basis it will be Rs. 109 lakhs a year.

Shri T. N. Singh: The contribution to the depreciation reserve fund is based on the previous book value of the asset, and a certain percentage of it is deducted year after year, while in the case of replacement or renewal fund, as a result of rising prices, the rate of contribution should be higher than in the depreciation fund case.

Shri R. Narayanaswami: This *ad hoc* contribution was based on considerations of capital at charge, when it was much lower than what it is. The capital outlay has been growing.

Shri Narahari Rao: It was lower for a different reason.

Chairman: This subject will be discussed at length in Parliament, when this question of increased life comes up, because it will have repercussions on other concerns also.

Loss in a Head Post Office

[Page 27, para. 18 of the Audit Report]

Pandit Munishwar Datt Upadhyay: In connection with the case reported in para. 18 on page 27, I want to know on whom the responsibility was fixed, on the Treasury contractor or his agent?

Shri Krishna Prasada: We fixed it on the contractor, the agent is only his employee. The agent has been prosecuted; the civil responsibility has been fixed on the contractor, and the criminal one on the agent.

Pandit Munishwar Datt Upadhyay: On page 28, para. 3, it is stated:

"The loss was rendered possible by the non-observance on the part of the Postmaster and also the employees of the Imperial Bank of certain departmental rules relating to the receipt and clearance of cheques, and their remittance to the Bank."

I would like to know what action has been taken against the Officials who were involved in this?

Shri Krishna Prasada: We have prosecuted the Head Treasurer, Accountant, and Supervisor of the Post Office. The Accountant-General has taken up the question of fixation of the responsibility upon the Accounts Officers who neglected their duty.

Shri Narahari Rao: That is a different matter altogether. The money has been lost in the Post Office, and the primary responsibility for the failure rests with those who have lost the money. As for the delay in the detection of this, I have already issued a directive to the Accountant-General asking him to write to the Civil and Posts and Telegraphs Accounts Officers and find out why such a long time was taken in discovering the discrepancy between the remittance shown by the post office as having been paid to the Treasury and the amount shown as recovered in the Civil Treasury. Charge-sheets have already been issued to the persons concerned.

Shri Krishna Prasada: There was some negligence on the part of the bank officials also, and I believe the Audit concerned has taken up that matter. As far as we are concerned, we have forfeited the security of the contractor. The criminal case is proceeding, and up till yesterday there have been six hearings. When the case is finalised

we shall recover the balance from the contractor. The contractor had deposited in this case Rs. 30,500, and this we have forfeited. He has got with us other contracts, in which the total security comes to about Rs. 3,64,000.

Shri Narahari Rao: Why have you not recovered the entire loss from the contractor?

Shri Krishna Prasada: We are awaiting the disposal of the criminal case.

Shri V. P. Nayar: Supposing the case goes against you, what will you do?

Shri Krishna Prasada: We can institute a civil suit in a Court of Law.

Shri Narahari Rao: Under the terms of the contract, you are entitled to recover the full money or forfeit the security. I feel that the security should have been straightaway forfeited and not left to the Court.

Shri Krishna Prasada: The entire security of Rs. 30,000 which was filed for the Allahabad Head Post Office has been forfeited. As for the balance, we have to await the judgment in the criminal case.

Shri Narahari Rao: That shows that the security amount is inadequate.

Shri Krishna Prasada: We have a formula for working out how much the security should be, and it was on this basis that the security in this case also was fixed up.

Chairman: In instances of such defaultation by contractors, you are taking only penal measures against the contractor after terminating the contract. Are you not exercising any departmental authority over these contractors, with a view to avoiding the delay of eight to ten years which is caused, if the case goes before a Court of Law?

Shri Krishna Prasada: We have got our own agency for exercising supervision over our people. It is a matter of laxity on the part of the Postmaster, not only the Postmaster but three or four other people.

Shri U. C. Patnaik: What action did you take against the Postmasters?

Shri Krishna Prasada: We have reverted two Postmasters.

Shri V. P. Nayar: Is that adequate punishment in such cases?

Shri Krishna Prasada: We have prosecuted three people.

Acharya Agarwal: Prosecuted with what result?

Shri Krishna Prasada: It is going on.

Shri Narahari Rao: What I would suggest is that you have done the right thing, of course, in forfeiting the security of the man. Why can't you persuade him to pay up also whatever is due in case you are continuing him as your contractor?

Shri Krishna Prasada: I think there will be no difficulty, but I should like...

Shri Narahari Rao: The longer you delay the more difficult it may become to get that money.

Shri Krishna Prasada: Under the law, we could only get the Rs. 30,000 which we have as security.

Shri Narahari Rao: That is under the law, but can't you persuade him and tell him that his reputation is at stake...

Shri Krishna Prasada: He has got other contracts. The total security is Rs. 3,64,000.

Shri Narahari Rao: You cannot forfeit his security in connection with other contracts.

Acharya Agarwal: Then the securities ought to be revised.

Chairman: They can't forfeit even in the other contracts provided there is a decree of the civil court against him.

Shri Narahari Rao: I am suggesting that the man with whom Government is dealing extensively should be told: 'Look here, you are dealing extensively with us' and then you persuade him and get the money from him without waiting for anything.

Pandit Munishwar Datt Upadhyay: I do not think that the security in other cases can be forfeited.

Shri Narahari Rao: That is quite true; I agree. That is precisely the reason why I suggest that they may use persuasion. My simple suggestion is that you persuade the contractor to pay up the money instead of having to go to a civil court.

Shri Krishna Prasada: We shall take it up with the contractor.

Shri Narahari Rao: That is the kind of thing you ought to do.

Shri Krishna Prasada: It is to our advantage.

Shri Narahari Rao: It is to his advantage also. His own reputation is at stake.

Pandit Munishwar Datt Upadhyay: I wanted to know whether these

persons—clerks, superintendents, etc.—whom you have prosecuted, were found to be in collusion with the contractor in these transactions.

Shri Krishna Prasada: It is a criminal breach of trust and forgery also, because they were forging the accounts.

Pandit Munishwar Datt Upadhyay: You found that the two Postmasters whom you reverted had not participated in it?

Shri Krishna Prasada: There is no evidence. It has been investigated by the police. They have got nothing against them except negligence.

Shri V. P. Nayar: Do you think that in such cases, although legal guilt cannot be established by the police, it is advisable in the interests of the Department to punish by reversion? What is the loss of pay in this reversion?

Shri Krishna Prasada: They used to be gazetted Postmasters; they have become non-gazetted.

Shri V. P. Nayar: What is the loss of pay per month?

Shri Krishna Prasada: The loss would be at least Rs. 100 a month.

Shri U. C. Patnaik: 'Non-gazetted' is an advantage to them because they can continue in service for five years more.

Shri Krishna Prasada: It is up to us to retain them or not.

Chairman: Let us leave it at that. There are other circumstances under which this Committee is not very hard on low-paid servants.

Pandit Munishwar Datt Upadhyay: These things might recur.

Chairman: We have made a note of it. There are other cases coming.

Shri V. P. Nayar: Here is a case in which the postal authorities have had to revert a particular Officer from a gazetted post to a non-gazetted post. The very fact that he has been reverted shows that at least in the mind of the postal authorities, there is positive guilt on his part—positive negligence.

Shri Krishna Prasada: Certainly.

Shri V. P. Nayar: By reversion from a gazetted to a non-gazetted post, by the time he retires he may have earned thousands of rupees more in the non-gazetted post, because in the gazetted post he must retire at 55 while in the non-gazetted post he may retire only at 60.

Shri Narahari Rao: Not necessarily. That has been altered.

Shri V. P. Nayar: I am using the word 'may'. He may be, so that you are giving a longer handle for him.

Shri Krishna Prasada: Then what shall we do? We can only revert him to a non-gazetted post.

Shri V. P. Nayar: Why not mete out more deterrent punishment?

Shri Krishna Prasada: When he has been so negligent, why should we go out of our way to grant him extension?

Shri V. P. Nayar: If there are sufficient reasons for reversion, why don't you give some more deterrent punishment?

Pandit K. C. Sharma: Why not dismiss him?

Shri V. P. Nayar: Why not dismiss him in the interests of the country?

Shri Krishna Prasada: That depends upon the degree of his negligence. This factor was taken into consideration.

Chairman: I congratulate you (pointing to *Shri V. P. Nayar*) on your observations, because my experience in the Public Accounts Committee with the Director-General of Posts and Telegraphs and others in connection with these punishments is the opposition of the Labour and Trade Unions. I am glad you advocate such punishment.

Shri V. P. Nayar: The real purpose is, if he was found to have committed something wrong, irrespective of his post—whether he is a worker or not—let there be drastic punishment.

Chairman: Thank you for enunciating that principle. *Shri Nayar*.

Shri Krishna Prasada: The punishment must be adequate to the offence or the degree of negligence.

Shri V. P. Nayar: Is the order of reversion or dismissal an appealable order?

Shri Krishna Prasada: Yes. All punishments are appealable.

Shri V. P. Nayar: Who is the authority who hears such cases—the same authority as passes the order of reversion or.....?

Shri Krishna Prasada: Appeals go to the authority higher than the punishing authority.

Shri S. N. Das: Did the Departmental enquiry—not the police enquiry—reveal

that the Officers concerned were in conspiracy?

Shri Krishna Prasada: No; if there was conspiracy, then we would have got them prosecuted too. The police themselves would have done it.

Shri S. N. Das: Did not the persons inquiring into the matter find any conspiracy?

Shri Krishna Prasada: May I add that if as a result of these criminal cases we find that these people were grossly negligent, then we can punish them further.

Shri V. P. Nayar: You can never do that. You can never use the evidence against them in a Court and then punish them. It is most illegal.

Shri Krishna Prasada: In Departmental proceedings we can.

Shri Narahari Rao: The judgment can be used in the evidence.

Chairman: Let us go on to the next item.

Shri T. N. Singh: We have got a number of cases—at least three or four of them are of great importance—namely, the Japanese cables, the Calcutta telephone affair and the National Savings Certificates and one or two more.

Chairman: Let us go up to 1.30 p.m. if we can finish Posts and Telegraphs.

Shri V. P. Nayar: It must be noted that the particular punishment referred to is a blessing in disguise.

Shri S. N. Das: That we can discuss again in the meeting.

Chairman: This will come up again. We have been dealing with punishment cases—adequate or inadequate—for the last 25 years. My efforts to please the Labour Unions have been appreciated. I am only giving my personal reaction. It is the same thing with many of us.

Shri V. P. Nayar: I can assure you that there shall be no place for corruption in Labour Unions.

Chairman: On behalf of us all, I thank you for that assurance. Then we take up National Savings Certificates.

National Savings Certificates

[Page 29, para. 20 of the Appropriation Accounts (Posts and Telegraphs), 1949-50 and Audit Report, 1951].

Acharya Agarwal: It is on page 29, para. 20 of the Appropriation Accounts (Posts and Telegraphs), 1949-50, and the Audit Report, 1951. The National

Savings Certificates ought to have been for 12 years; later on they were only for 5 and 7 years and most of these certificates were cashed, with the result that about 3½ lakhs of rupees were wasted in all this effort. What is the explanation for this?

Shri R. Narayanaswami: There are two aspects to this question. One is that in the matter of small savings and national savings certificates the Posts and Telegraphs Department purely acts as an agent on behalf of the Government in the Finance Ministry and the policy regarding these certificates is decided by the Finance Ministry. In this particular case it was decided at the very highest level and an Ordinance was issued. In the beginning they made it payable—this bonus—in the form of certificates in which there is a lock-up period of about 18 months thereby ensuring that the money will remain with Government for at least a year and a half. But then there was so much pressure from the Labour Unions that Government had to climb down and make it payable in the form of five and seven year certificates in which there is no lock-up period, but even so it was hoped—probably against hope—that at least half of the money thereby paid would still remain in the hands of Government, thus counter-acting inflationary tendencies. But it was in the nature of an experiment, because there was no past experience to guide Government in this matter, and as it transpired, it proved that the bulk of the amount was encashed very soon after it was paid in the form of certificates.

Shri Narahari Rao: They got them at one window and cashed them at another.

Shri R. Narayanaswami: So far as the Posts and Telegraphs Department were concerned, they were paid all the expenses incurred.....

Shri Krishna Prasada: It was a matter of policy actually.

Shri M. L. Dwivedi: But when such frequent cancellations took place you could have represented to the Government that the sums may be paid by cash and not by certificates, and you could have obviated this expenditure.

Shri R. Narayanaswami: The decision having been taken at the highest level and the Ordinance having been issued the Department had no alternative except to do its best and cooperate in the scheme.

Acharya Agarwal: Was it considered at Cabinet level?

Shri Narahari Rao: Surely this suggestion would have occurred at a lower level—it would not have occurred to Cabinet Ministers to do it.

Shri V. P. Nayar: May I know what was the actual amount held by Government in the form of certificates?

Shri R. Narayanaswami: About Rs. 2 crores.

Shri V. P. Nayar: Were the labour unions consulted beforehand?

Shri R. Narayanaswami: Yes.

Acharya Agarwal: I would like to know what action Government has taken in order to obviate such loss in the future. Was the point brought to the notice of the Cabinet and have they taken any action for future guidance?

Shri Narayanaswami: It has been brought to the notice of the Finance Minister—I don't know if it has gone to the Cabinet.

Shri Narahari Rao: The Audit Report will bring it to their notice. This is creation of unnecessary work and it meant enormous strain to the post offices and to the postal accounts offices. Over Rs. 2 crores worth certificates were issued to no purpose; not understanding the psychology of the workers and ignoring the fact that they have no money to pay, you force these certificates on them; they took them from one counter and cashed them at the next counter. The very fact that Government had to change the law and enable the certificates to be cashed at any moment showed that Government were aware that the certificates could not be held. Why issued them at all?

Shri S. N. Das: Mr. Chairman, will not the Finance Ministry explain these circumstances to us?

Chairman: I will not compel Shri Negi—he has come as an observer—but Shri Negi may convey this to the concerned person in Finance and ask him to make a note of it so that we may ask him when Finance comes before us.

Contracts: Loss due to failure to observe the stipulated terms and conditions in a contract for supply of mustard oil.

[Page 31, para. 22 of the Appropriation Accounts (Posts and Telegraphs), 1949-50 and Audit Report, 1951].

Pandit Munishwar Datt Upadhyay: Please refer to page 31, paragraph 22, In this case it is stated that as the Sub-store Clerk who handed over the

cheque has since died, no disciplinary action could be taken. Probably he was the only person held responsible and because he is dead no action has been taken. I would like to know whether it was only the Sub-store Clerk responsible for checking the stores or sanctioning payment or there was some other authority also who was responsible for it. If there was any other authority responsible for it I would like to know who that was and whether the responsibility for this action has been attached to any higher official. What is the result of your enquiries in the matter?

Shri Krishna Prasada: I should like to explain that the firm was on the approved list of the Controller of Civil Supplies, Bengal and the contract was entered into by the Controller of Civil Supplies. It provided for payment against delivery ex-godown. This incident happened during the war years, 1942-43, when supplies especially of foodstuffs and mustard oil, were very hard to procure in Bengal. We were buying lakhs and lakhs worth of foodstuffs. This was one isolated instance where there was a slip.

Pandit Munishwar Datt Upadhyay: In all the cases you used to pay the amounts before taking delivery?

Shri Krishna Prasada: These conditions of payment against delivery ex-godown were fixed by the Controller of Civil Supplies. He could not obtain things on better terms.

Pandit Munishwar Datt Upadhyay: What about the other cases? There also the same rules were observed?

Shri Krishna Prasada: Whatever terms he could obtain and whatever terms were quoted to us we had no option but to accept.

Pandit Munishwar Datt Upadhyay: Was any Official of the State or of the Central Government held responsible for this?

Chairman: Bengal Government Officials cannot be responsible for our requirements. We only use them as agents to enter into contracts on our behalf.

Shri Narahari Rao: The real point is that the Officer-in-charge did not see that the quality was up to the standard. He just received the tins and paid the cheque.

Pandit Munishwar Datt Upadhyay: When the delivery was taken you said the quality was not examined and when the tins were opened they were found to contain oil unfit for human consumption.

Shri Krishna Prasada: We proceeded against the contractor and he was convicted. He is serving a sentence of 1½ years R.I.

Pandit Munishwar Datt Upadhyay: What I want to know is whether the Official concerned who took delivery looked into these articles.

Shri Krishna Prasada: We took the precaution of entrusting the cheque to an Official who was the Sub-store Clerk and he took it along.

Chairman: His question is whether the Officer responsible checked up the mustard oil, that is, did he exercise his responsibility?

Shri Krishna Prasada: Actually, Sir, he should not have made the payment.

Shri Narahari Rao: He paid for 300 maunds while actually he got 50 and another 50 later on.

Pandit Munishwar Datt Upadhyay: I want to know whether the Official who received delivery of the article looked into it to examine whether it was fit for human consumption.

Shri Krishna Prasada: The trouble is that the Official is dead.

Acharya Agarwal: The question is what action you have taken against the Official.

Shri M. L. Dwivedi: The Clerk is dead but the Officer under whom the Clerk was working must take some responsibility.

Shri B. R. Batra: The Officer got the cheque issued and gave it to the Sub-store Keeper to deliver it to the supplier on receipt of the goods.

Chairman: The Officer had no responsibility?

Shri B. R. Batra: The Storekeeper is the man responsible for receiving the articles.

Chairman: We are concerned with your Officers. Do they only write cheques or do they take responsibility?

Shri Narahari Rao: And why this anxiety to write a cheque long before delivery of the articles?

Chairman: I do not like the practice of throwing responsibility on a Stores Clerk. Is the particular Officer still in our service? If so, what action have you taken against the Officer and how have you reprimanded him? And whatever you say I will ask the Accountant-General, Shri Malhotra, to

examine the records and to tell Shri Krishna Prasada about it.

Shri K. S. Malhotra: We are clear in our mind that they should not have done so.

Shri Krishna Prasada: Under the terms of the contract payment had to be made for delivery ex-godown, and when the Clerk went for taking delivery at the godown he was foolish enough to part with the cheque.

Shri V. P. Nayar: It means any goods produced at the godown irrespective of quality has to be paid for. If it is not so the guilt must be fixed on the Officer.

Shri Narahari Rao: Moreover the order was for 300 whereas only 50 came and another 50 later, and payment was made for 300. The Officer has acted wrongly. The contractor has been punished rightly but the Officer should also have been punished.

Chairman: I conclude that the Officer behaved not in the responsible manner he ought to have.

Shri Krishna Prasada: I myself felt it was very indiscreet of the Officer to have issued the cheque. There is also this thing, that we had to take the conditions obtaining in Bengal at the time into consideration. I was the Post Master General there at the time—of course I had no hand in this transaction—and I could not get mustard oil. Our staff said, "We are not able to get food, how shall we come to office?" So we were at the mercy of the Controller of Civil Supplies.

Chairman: But your Officer was not under anybody's mercy to issue a cheque without checking up the delivery?

Shri Krishna Prasada: The mistake was that he issued that cheque.

Shri U. C. Patnaik: Who is that Officer and what action have you taken against him? He committed two offences: one, that he did not take the proper quantity, secondly, he did not satisfy himself about the quality. If action has not been taken against him, why not? (After a pause) No answer is being given.

Chairman: You can note that fact.

Shri V. P. Nayar: I have three specific questions to which I want categorical answers: (1) how much time expired between the handing over of the cheque to the Clerk and the death of the Clerk; (2) what is the present position of that Officer;

where is he employed; in what capacity; what is his name; (3) was there any enquiry conducted particularly to find out whether there was complicity on the part of this Officer with the contractor.

Shri Krishna Prasada: This matter was thoroughly investigated into by the Accountant-General and he came finally to the conclusion after much correspondence and discussion with us that it was a bona fide mistake on the part of the Officer who signed the cheque.

Shri Narahari Rao: I do not see how the Accountant-General could investigate a matter of that kind at all. All he could say is, "Here is a case in which payment has been made without verification of the stock of the stores—either the quality or the quantity". Beyond that he cannot go and say whether there was collusion. That would not be a matter for him to go into.

Shri Krishna Prasada: We tried to satisfy him and he was satisfied that it was a bona fide mistake.

Shri Narahari Rao: In other words, you had made other investigations with which you satisfied the Accountant-General?

Shri Krishna Prasada: We put the whole case before him.

Shri Narahari Rao: The point is whether you were yourself satisfied on investigation that there was no collusion? The point of Shri Nayar's question is that the answer to this would determine the quantum of punishment awarded to the Officer. If there is no collusion, then you may let him off with a lighter punishment. If there is collusion, then he should be prosecuted.

Shri Krishna Prasada: The case went to Court. If there was collusion he would not have been let off.

Shri V. P. Nayar: The Court is not expected to arrive at any finding on a point which is not referred to it. My point is: did the Department conduct an enquiry particularly directed towards finding out whether this Officer was guilty of collusion?

Shri Vallatharas: It is apparent that no enquiry took place. He has not answered the question, although it has been repeated so many times.

Shri M. L. Dwivedi: The proprietor of the firm was prosecuted and convicted for a rigorous imprisonment of 1½ years, but were any civil proceed-

ings instituted for recovering the money which was paid to him?

Shri Krishna Prasada: We should examine this case again and satisfy ourselves.

Shri V. P. Nayar: I insist upon an answer.

Chairman: If we put questions and get unsatisfactory answers, we reach our own conclusions. But I find that Shri Krishna Prasada is rather hesitant to reply, but one thing he has admitted; and that is that the Official was negligent.

Shri Narahari Rao: There is no question about that. That goes without saying. He was grossly negligent and it has been admitted by the Director-General. But on the question of collusion, he is unable to give a reply to us maybe because he has not gone through this particular case. He may not know that these questions will be asked today. What I suggest is, let them go through the papers again and give an answer later. I am sure the Department must have considered the question of collusion. When you prosecute somebody, you won't take only the prosecution case. You will be dealing with all other persons. So, that point must have been considered. They may not be ready right now to give an answer. Let them study the facts and having done so, if they find that adequate action has not been taken, then they can re-open the case. That is my suggestion. Let them have an opportunity.

Chairman: A copy of the record will be supplied and you may let us have a full answer covering all the points, including Shri Dwivedi's question about full recovery of the money from the firm.

Shri V. P. Nayar: Can you at least tell us what is the present position of that Officer and what is the time that elapsed between the handing over of the cheque and the death of the Clerk?

Shri Krishna Prasada: The Officer's name is N. K. Sen Gupta. He is a Director-General of Telegraphs at Ambala.

Shri V. P. Nayar: When you give your note please mention about the time that elapsed.

Chairman: I may tell Shri Nayar that this is a minor case out of tens of thousands that happened during the war.

Shri Krishna Prasada: Shri Sen Gupta was only the Officer who signed

the cheque but it was authorised by the Director of Stores and Workshops who has since been dismissed on another count.

Shri V. P. Nayar: That does not exonerate him.

Chairman: In 1943 it was a foreign Government and there was a different tradition. Anyhow, Shri Krishna Prasad will give us a detailed note.

Stores: Loss of copper wire consigned by one Engineering Division to another

[Pages 31-32, para. 23 of the Appropriation Accounts (Posts and Telegraphs), 1949-50 and Audit Report, 1951].

Chairman: Will someone explain the position?

Shri B. R. Batra: This copper wire, about 47,000 lb., valued at Rs. 30,000 were required for a particular work at Belgaum-Poona. The work was of very high priority and the stores were withdrawn from Secunderabad to execute the work expeditiously. After conclusion of the work, these stores were returned back to Secunderabad. Actually, they should not have been sent back to Secunderabad but sent to Bombay Store Depot. The particular Official at Poona has gone away to Pakistan and the Official who received it at Secunderabad has also gone away to Pakistan. This consignment was sent in two portions. The first one was received by the store lineman. This man has been discharged from service some time ago for some other reason. The second one was received by a contractor and soon after that there was the Police Action and we have not been able to trace that contractor. Steps are being taken to trace the whereabouts of this lineman and contractor to see what happened to those stores.

Shri V. P. Nayar: Did you publish their photos and announce a reward?

Shri B. R. Batra: It will be done now.

Shri Narahari Rao: Do you send a man of the status of a lineman to receive stores of such great value, particularly at a time when copper was in great demand?

Shri B. R. Batra: That is the normal practice, Sir, in the Department. A lineman receives the stores at the railway stations, brings them to the godown and the man in charge of the godown takes it over and accounts for it.

Shri Narahari Rao: I think you should take a lesson from this incident and revise your procedure.

Shri T. N. Singh: Is it the practice of the Railways to deliver anything to anybody who happens to have been a contractor or who happens to have been a lineman without the production of the necessary documents? Why were enquiries not made from the Railways and they were held responsible for making wrong delivery?

Shri B. R. Batra: The railway receipt was handed over to the lineman in one case and to the contractor in the other.

Shri Narahari Rao: Why did not the consignee take care to see that the lineman returned in time, and if he did not, complain to the police. Perhaps, he slept over the matter.

Shri B. R. Batra: Sometimes it takes a considerable time between the receipt of a railway receipt and the actual receipt of stores. But obviously, the S.D.O. should have taken precautions.

Shri V. P. Nayar: Tons of copper wire cannot be hidden in a lineman's pocket. I think proper action was not taken at the proper time.

Shri Narahari Rao: That is why I say that there are many people involved in this affair.

Chairman: You said the Officer has left for Pakistan. That Officer must be of the rank of a Director or Engineer. Have you made enquiries into the matter?

Shri B. R. Batra: We have made enquiries. The Officer is unable to say anything. He says that unless he has the papers and various other things he is unable to say from memory what happened.

Chairman: Have you not appointed a committee to inquire into this case. You know in the name of War and Partition we have excused many irregularities. But we cannot go on like that. This Committee does not like Government Heads of Departments to allow their Officials to go on on pre-war traditions. Last year we told the Ministries that the past is past. We are not going to allow such things henceforth. This is the first year that we are going to be strict on you and the service of any Officer found guilty by this Committee will be terminated. In regard to this case you will have to report to us whether you are going to appoint a Committee of Inquiry to look into the Officer's conduct. At any rate what steps have you taken to prevent the recurrence of such things in future? Have you issued any instructions to prevent the recurrence of such thefts?

Shri Krishna Prasad: We have issued instructions.

Chairman: Will you please send us a copy of that letter? Please also give us a note showing what action you have taken to punish Officers who are negligent in the discharge of their duties.

Purchase of Japanese Underground Cables

[Pages 32-33, para. 24 of the Appropriation Accounts (Posts and Telegraphs), 1949-50 and Audit Report, 1951.]

Shri A. V. Pai: When the first complaints were received that the jute coverings of the Japanese cables were peeling off, the P. and T. Department made expert investigation. They came to the conclusion that there was nothing seriously wrong with the cables as such, but only the outer covering of jute had not been up to the standard. So they prevailed upon the Japanese firm which supplied the cables to recover the cables lying unused in Calcutta. There was about a lakh and a half of yards. After that when the Auditor-General's report came to the notice of Government, the Ministry immediately had another examination made. We called for the experts and had discussions with them. The expert opinion is that there is no reason to believe that these Japanese cables will not last for 35 years. They are intrinsically sound. It is only the outer covering which is bad. Government thought that as the matter was very important they should have an independent investigation made by a committee. Their idea now is to appoint an independent committee. They would like to associate with the committee one or two Members of Parliament who have some engineering experience. I would on behalf of Government request you, Sir, as one of the senior Members of Parliament with engineering experience to be the Chairman of this Committee. The other Member of Parliament which Government have in view is Shri Sarangadhar Das, who is also an ex-Engineer. To associate with them we would like to have an expert scientist from the National Physical Laboratory. With these three will be associated one Engineer from the P. and T. Department with experience about cables, and an Officer of the Supply Department which arranged for the purchase of these cables. I suggest we might await the result of the investigations of this committee. For its Chairman we cannot think of anybody else except yourself and I would request you to accept the Chairmanship of this committee.

Chairman: The point is whether as Chairman of the Public Accounts Committee, I can be associated with an

investigation into points raised by the Auditor-General. That is for the Auditor-General to decide.

Shri V. P. Nayar: Before you order for cables, which have not been tried in Indian earth conditions, have you any machinery in your Department to go scientifically and give you information whether on account of the soil texture of our country they will last or not?

Shri A. V. Pai: We have to go on the advice of experts who go into all aspects.

Shri B. R. Batra: There is no proper machinery for determining whether a particular cable would give a particular life. In this particular case it has to be appreciated that when we as the P. and T. Department placed an order with the Industry and Supply Ministry, they called for quotations and tenders. On receipt of the tenders they found that the Japanese tenders were for Rs. 82 lakhs as against the British tender of Rs. 1 crore and 2 lakhs. There was a difference of Rs. 20 lakhs in the quotations. There was considerable discussion by the Supply Department with their Finance and with the P. and T. They felt that it would be desirable to accept the Japanese offer, considering that it was cheap, provided the cable was satisfactory. At that time we also had some misgivings and the question was whether the order should be placed for half the quantity or full quantity. The advice of the Finance was that it was worthwhile to go in for the whole quantity; otherwise the difference would not be much. So enquiries were made about the credit-worthiness of this firm, whether they were in a position to supply the cables according to specification. We had consultations with our Mission in Japan and they made enquiries from the American experts. There was one Mr. Coatsman of the Western Electric Company and Clement Jenings....

Chairman: The only question is whether the Japanese cables conform to the technical specifications. There is no point in going into details. We are not discussing today the Auditor-General's comments. The technical point raised by Shri Pai has placed me in a delicate position. He invokes my knowledge as an ex-Engineer and suggests my sitting on that committee. I hope the Auditor-General would accept the request that this discussion may be postponed now, when a technical committee of scientists is going to enquire into the matter. That report must be made available to the Auditor-General and to this Committee. Of course, I shall consider whether I shall accept the suggestion to sit on that

committee. At present the question is whether this discussion may be postponed now.

Shri A. V. Pai: That is my suggestion. Let the committee go into the question.

Chairman: I would like to consult the Auditor-General.

Shri Narahari Rao: The Auditor-General never functions privately. I have to think a little more about this suggestion made here and its implications. It is a very good idea, because it shows the willingness of the Government; to enquire further into the allegations which have been made and so on. I for my part would welcome such a technical examination. I further welcome this idea. It is a departure from the usual practice. The idea of associating one of the important Members and the Chairman of this Committee with that technical committee shows further that they are willing to lay all their cards on the table. As Auditor-General I would welcome this idea. But there is a little delicate point. After this committee has reported, that report must be subject to scrutiny by the Auditor-General. The Auditor-General cannot surrender or abdicate his right to look into the report of any such committee. I do not think the Chairman of the Public Accounts will object to that because his regard for constitutional procedure is so great. When it comes to the Auditor-General, we shall pay due attention to the report of a committee of that kind. Subject to what the committee may say, I personally see no objection to it; I would rather welcome Shri Pai's suggestion.

Chairman: If I go there, I go as a Member of Parliament and not as Chairman of the Public Accounts Committee.

That committee has only to discuss the technical aspects and it will not touch any of the observations of the Auditor-General.

Shri Narahari Rao: You would be welcome to go into those observations.

Shri V. P. Nayar: The whole discussion arose out of those observations.

Chairman: I shall bear them in mind. But, it will be premature for me now to review the Auditor-General's comments.

Shri Narahari Rao: The real point is this. It is stated here:

"None the less the possibility cannot be ruled out that Japanese cables, which have already been laid, may require wholesale replacement long before the expiry of their normal life of 36 years;

in which case, the huge expenditure of about 82 lakhs together with the Engineering expenses incurred on laying them would prove to be nugatory to a large extent."

After all, it is only a possibility. It is only after 30 years that you would be able to say whether it is right or wrong. Meanyhile, examination by an impartial technical committee would be of help to Parliament and to Government to assess the damages that might have been caused. I would welcome such an examination.

Chairman: With all diffidence and with such extremely poor knowledge of engineering that I possess, I can only say that engineers are not prophets and no technical committee can hope to behave like prophets. When experts try to become prophets, they are not experts.

Shri A. V. Pai: They are not prophets; they will bring to bear an impartial and independent mind.

Chairman: With the consent of the Committee, we will postpone discussion of this point. The Committee approves of one of your colleagues accepting a seat on that committee of Government. It is not a Parliamentary Committee.

Shri T. N. Singh: I think we may adjourn now and meet at 3-30 or 4 P.M. There are a number of other important items left over, particularly, the Calcutta Telephones.

Chairman: We adjourn now and meet at 4 P.M. We may sit till 5-30 P.M.

(The Committee then adjourned till Four of the Clock for Lunch)

(The Committee re-assembled at Four of the Clock)

Chairman: We find this time the Posts and Telegraphs Department have not submitted their memorandum in time. We must have some convention by which all memoranda may reach us five days or ten days before the Committee meets.

Shri T. N. Singh: It must be at least 10 or 15 days in advance because, in turn, they have to print, and send it to all of us.

Chairman: The Auditor-General must also get a copy of it simultaneously. It is the duty of every Ministry to send a copy of every memorandum to the Auditor-General.

Shri Krishna Prasada: We have sent all except two. One we sent to the Accountant-General and the file somehow got held up. I wrote to him in fact that the file should be sent back in time.

Shri R. Narayanaswami: The Accountant-General is verifying the figures with the Deputy-Accountant-General in Calcutta.

Shri Krishna Prasada: One got held up as I said, and in respect of the other, we had to consult other Ministries.

Chairman: Your Officers should see that the memoranda reach us in time. We want the Auditor-General should be on a par with the Committee because he is our guide. In some cases, the Auditor-General did not receive certain memoranda.

Shri Krishna Prasada: Actually, we sent them quite a long time back except in regard to two.

Shri V. D. Dantiyagi: One P. and T. memorandum was received by us on the 25th August, another on the 29th August, one on the 30th August, and only one was received on the 23rd August, 1952.

Chairman: We are going to recommend to all the Ministries to cooperate with us.

Shri Krishna Prasada: It is our duty to do so.

Chairman: Thank you.

Store Accounting

[Page 33, para. 25 of the Appropriation Accounts (Posts and Telegraphs), 1949-50 and Audit Report, 1951.]

Shri T. N. Singh: I am referring you to Store Accounting beginning from page 33 at the bottom of the Appropriation Accounts and Audit Report. It is stated therein:

"No authorised schedules of materials and labour were maintained even for standard products. The estimates prepared for work orders were consequently defective and there were very often considerable discrepancies between the actuals and the estimates."

Then again:

"In a conference held in August 1949, between the Audit and the executive authorities, the following measures, *inter alia*, were decided upon for remedying the defects referred to above".

Now, we want to know what is the position after the conference, whether

all these standards that were fixed then are now being followed.

Shri B. R. Batra: As far as the schedules of material required for standard items is concerned, those lists have been compiled and are being used now. As far as labour is concerned, we have had considerable difficulty in coming to any conclusions, because it is a very laborious process unless the normals are worked out as to how many man-hours are required on a particular job, and there is always difference of opinion between the management and labour because both sides are not willing to accept a certain figure. So we have recently considered that matter at the Workshop Board, and it was decided that the Finance Ministry should be requested to lend us their Chief Cost Accounts Officer to go into this matter and advise us the Department as to how best this should be worked out.

Shri T. N. Singh: You have got a costing section, I believe, in your workshop.

Shri B. R. Batra: Yes, Sir We have no proper Cost Accounts Officer experienced in the matter. We have set up a small section where they are analysing the amount of labour required for any particular job, and some figures have been worked out for the Jubbulpore workshop and they will be considered in consultation with the Chief Cost Accounts Officer of the Finance Ministry, and some conclusion will be arrived at.

Shri Vallatharas: To prevent the recurrence of loss or even a lesser amount of loss, it is quite essential that you should have proper and efficient staff. Have you prepared the staff to any extent? Will the present staff be suitable?

Shri Krishna Prasada: We have also a Deputy Accountant-General who is associated with us and conducts a sort of resident audit, and after the receipt of the "Ibcom" report, I think, things will be very much better.

Shri Vallatharas: Our anxiety is that if there is lack of sufficient or efficient staff, you must adopt measures by which that lacuna can be made up without any loss of time.

Shri Krishna Prasada: I think we will be all right.

Shri Ramachandra Reddi: If you pick up a few Indian officers from your Department and give them training for one or two years, in some big manufacturing firms, they will be able to help you.

Shri Narahari Rao: I think that is a very good suggestion.

Shri Krishna Prasada: We will consider that.

Shri T. N. Singh: It should be possible for you even with existing resources at least to get an idea of the prime cost, meaning thereby the actual labour and material cost involved. That is usually done in all business workshops by the job-card system. I believe at least that is there in existence.

Shri Krishna Prasada: We are following the same system.

Chairman: Of course, you are trying to improve your organisation in the matter of cost accounting, but the Railway Ministry and the Defence Ministry have also gained experience independently, and I want to know whether you profit by each other's experience, whether there is an annual conference or six-monthly conference between you and the Defence and Railway Ministries. Is there any attempt made?

Shri R. Narayanaswami: We have an experienced Chief Cost Accounts Officer in the Finance Ministry. We have asked for his help.

Chairman: Suppose you evolve a good method after experimenting, do you transfer it to the other Ministries to utilise the advantage of that system?

Shri R. Narayanaswami: At the moment there is no such arrangement.

Chairman: What the Committee would like is that any method of economy should be applicable to all Government of India industries.

Shri Narahari Rao: They must also train their subordinates. I do not think sufficient attention is paid to this. This is one of the things I have seen everywhere. In matters of this sort, what I have found is that the subordinate staff just do not take interest. Probably they are not paid adequately also. It is a very laborious and difficult work, and people who can look after workshop accounts and so on will not go on the low rates of pay that they pay there, and they will all go to various British firms in Calcutta and Bombay and other places. That is one of the things I think the Financial Adviser of the Department should look into along with the administration.

Chairman: The Committee can recommend to Parliament as to how the organisation of cost accounting can be done.

Shri R. Narayanaswami: The recruiting is done by the Union Public Service Commission. The problem is more one of recruiting the proper men than that of pay.

Shri T. N. Singh: But cost accounting is a specialised subject, and the ordinary general accounts person will not fit in unless he has got the training needed for it.

Shri Krishna Prasada: Professor Mahalanobis is giving his attention to this problem.

Shri T. N. Singh: But statistics and cost accounting are two entirely different things.

Shri A. V. Pai: I am thinking whether we cannot get an expert under the Colombo Plan for about six months or so.

(The Committee then agreed at the instance of the Chairman that the Auditor-General will make recommendations in this behalf and that the Committee could follow them up later on.)

Stores Cases

[Page 34, para. 26 of the Appropriation Accounts (Posts and Telegraphs), 1949-50 and Audit Report, 1951]

Acharya Agarwal: I would like to know the latest position about the appeals pending in the High Court in connection with the stores cases referred to at the bottom of page 34?

Shri B. R. Batra: The appeals have been accepted by the High Court and the High Court has ruled that the tribunal was not properly constituted, because one of the judges either resigned or died or something happened to him. So a new tribunal will have to be constituted, before any new trial could be initiated.

Shri Krishna Prasada: Steps are being taken to establish a new tribunal to order retrial.

Acharya Agarwal: What is the position of the Controller of Telegraph Stores who was sentenced to four years' rigorous imprisonment and payment of fines?

Shri Krishna Prasada: He is now on bail, but is to be tried again. He is not in service now.

Shri Vallatharas: How is this loss of Rs. 30 lakhs to be recovered? Has his provident fund been seized, or any other civil suit against him been instituted to recover the money?

Shri Krishna Prasada: His bank balance was frozen, and the amount is nearly Rs. 2 lakhs in the case of that person. As the others did not have much of a balance, the recovery in the other cases is not large.

Shri A. V. Pai: We could not recover all the Rs. 30 lakhs.

Irregularities in connection with expenditure incurred by a Telegraph Engineering Division on account of jungle-cutting.

[Page 35, para. 27 of the Appropriation Accounts (Posts and Telegraphs), 1949-50 and Audit Report, 1951]

Shri S. N. Das: I would like to refer to the irregularities in connection with the expenditure incurred by a Telegraph Engineering Division on account of jungle-cutting referred to on page 35 of the Audit Report. The police in their report suggested that Departmental action should be taken. What is the reason for postponing such action, when so many irregularities are there, and so many Officers are involved?

Shri A. V. Pai: We have referred the question to the Union Public Service Commission, as to whether we have to punish them.

Shri T. N. Singh: What is the case that has been suggested to the Commission?

Shri A. V. Pai: We are not supposed to tell them what punishment we would like to give him. But the case whether the action is to be taken is before them.

Shri T. N. Singh: Against how many Officers?

Shri A. V. Pai: Only one.

Shri T. N. Singh: How long has it been pending before the Commission?

Shri A. V. Pai: For about three or four months.

Shri Krishna Prasada: In 1946, six charges were framed against him. Of them, one group of charges was kept pending, awaiting the disposal of the case against the contractor in the High Court, which was disposed of only last year. In January 1952, a charge-sheet was framed, and an explanation was asked for. The same has now been sent to the U.P.S.C. We do not suggest what punishment should be given, but he was asked to show cause why the maximum amount of money should not be recovered from him under the rules.

Shri T. N. Singh: On page 36, item (iv) shows that alterations were alleged to have been made by the Divisional Engineer himself in tender

rates. That is a very serious matter. If a responsible Officer makes changes of that nature then that is something which calls for serious action and not merely adjustment or reimbursement of the losses.

Shri A. V. Pai: His offence was not keeping his superior Officer informed of the change that he has made. He did not take the prior permission, but acted on his own discretion.

Shri T. N. Singh: In that case, the flood-gates will be thrown open for any Officer to make such changes.

Shri Krishna Prasada: The charge-sheet that was issued to him required him to show cause why he should not be dismissed. Four grounds were given, in respect of one category of charges, where although he was guilty, yet they were not of such a serious character as to result in his dismissal in view of the fact that he had already suffered enough by remaining under suspension, and lost his seniority by eleven places.

Shri V. P. Nayar: But he will get back the suspension period salary if he is re-instated, in a lump. So in what way will he suffer, except in his grade?

Shri A. V. Pai: Government's opinion was that that punishment was sufficient.

Shri T. N. Singh: We were told by Shri D. C. Das, Secretary to the U.P.S.C., when he was examined by us a few days ago, that they do not take more than two months to dispose of cases. Now you say the case has been pending for more than three or four months.

Shri A. V. Pai: This case has been before them since April 1952. The delay is because the original documents have to be obtained from the Court.

Chairman: You give us a list of such cases pending, and we shall include them in our Report.

Shri V. P. Nayar: The irregularities pointed out by the Auditor-General on page 36 are no doubt of the most serious kind. What is the present position of that Officer? Is he still in service?

Shri A. V. Pai: Yes, he is still in service.

Shri V. P. Nayar: Is it not a Departmental rule that any further inquiry into the matter should be done after suspending him from service?

Shri Krishna Prasada: It depends upon the case. It is not in every case that when a Departmental inquiry is initiated the man is suspended.

Shri V. P. Nayar: Is not the higher authority competent to place him under suspension before the inquiry is started, so that he may not tamper further with anything?

Shri A. V. Pai: If there is any suspicion that his being in service will prejudice the inquiry, then only he is suspended.

Shri V. P. Nayar: Here is a case of a very highly placed Officer who instead of setting an example to his lower staff, tampers with public money, tenders, and contracts, etc. and does some mischief himself. Is it not a fit case for severe punishment?

Shri A. V. Pai: It is not a case for warranting a suspension before inquiry.

Shri V. P. Nayar: What is the amount he would have drawn from the date it was brought to the notice of the Government, up to this date?

Shri A. V. Pai: Roughly a Rs. 1,000 a month.

Shri V. P. Nayar: For how many months?

Shri Krishna Prasada: For quite a long period.

Shri V. P. Nayar: Is it your opinion that a serious irregularity of this nature does not warrant suspension before inquiry?

Shri A. V. Pai: It was considered by Government that suspension was not justified.

Shri Narahari Rao: All that has happened is that he lost a few places in seniority, but not in pay.

Shri Krishna Prasada: He was not promoted, and to that extent naturally he has lost something in pay also.

Shri V. P. Nayar: He has lost only the possibility of getting an enhanced salary. He is getting the salary that he was drawing earlier. What has happened to this case after the appeal was dismissed by the High Court? You said that in 1950 the High Court dismissed the case.

Shri Krishna Prasada: His case has got nothing to do with the High Court, but only the contractor's case where a suit had been filed.

Shri V. P. Nayar: On page 37 it is mentioned that the Departmental action is being further delayed because the original documents are being detained in the High Court of Assam where the contractors have filed an appeal against the judgment of the Lower Court. Did you ever think that this was a serious case where it was necessary to direct

'the Officer who inquired to get access to the records in the High Court itself.

Shri Krishna Prasada: We got copies from the Advocate-General who conducted the case on behalf of Government in the Court.

Shri Narahari Rao: That is as to the question whether you have prosecuted, but not as to the question whether Departmental action has been taken..

Shri Krishna Prasada: It was in the prosecution of Shri Sen Gupta.

Shri V. P. Nayar: The matter was filed up pending the findings of the civil court in connection with the suit filed by the contractors. The original documents are with the High Court of Assam where the contractors have appealed against the judgment. That is what you say. Was any attempt made to speed up the inquiry by having access to the documents in the High Court?

Shri Krishna Prasada: Yes.

Shri V. P. Nayar: Was every possible minute saved? What prevented you from 1950 to 1952 to refer the case to the Public Service Commission?

Shri A. V. Pai: In January 1952 we framed charges and called for an explanation. Then the matter was referred to the Union Public Service Commission.

Shri V. P. Nayar: All that took about a year and three months?

Shri Krishna Prasada: The appeal was decided on the 5th July, 1950.

Shri V. P. Nayar: So what I say is correct.

Shri Krishna Prasada: But we received the judgment in October.

Shri V. P. Nayar: Did you apply for a copy of the judgment?

Shri Krishna Prasada: Of course.

Shri V. P. Nayar: What is the time which you have spent after that?

Shri Krishna Prasada: Copy was applied for on the 25th July, 1950 within 20 days.

Shri V. P. Nayar: And yet they did not send the copy?

Shri Krishna Prasada: We received it after two months.

Shri V. P. Nayar: So about 10 to 12 months you took in referring the matter to the Union Public Service Commission?

Shri Krishna Prasada: The accused in this case, Shri Sen Gupta, had also asked for copies of certain documents.

Shri V. P. Nayar: Don't you think this is a very inordinate delay in the matter of an inquiry about a very serious case against a very highly placed Officer?

Chairman: Shri Prasada, you were not present in the last discussions before the Public Accounts Committee.

Shri Krishna Prasada: No.

Chairman: The Committee attempted to bring Ministries to book in respect of long delays in the matter of Departmental punishments. As a result of their recommendations, some of the Ministries have taken very expeditious action, as in the All India Radio and the Food and Agriculture Ministry. The Departments must take expeditious action. The Departments are not taking such action. With the action taken by the Ministry of Information and Broadcasting against one of their high officials and the prosecution launched by the Food and Agriculture Ministry against Shri Swamy and somebody else, we thought that Government was becoming active and alive in this matter. But these cases again make us suspicious that Government is following musty rules and laws framed under the former regime which will not be satisfactory to the present sovereign Parliament. I am sorry you were not there last time, but these cases must receive attention at the Secretary level and at the Financial Officers level. The Executive authority cannot rule now by rules framed by the foreigners who wanted to safeguard their skin and their proteges. Today the tendency of the Executive should be to punish the guilty.

Shri Narahari Rao: I cannot help feeling that in this case very minor technical reasons have been allowed to stand in the way of continuing this gentleman and not bringing him to justice. Sir, it seems that the Accountant had actually recorded objections to what this man was doing. He overruled him. Here, as you see, the rates accepted were exorbitant, being about eight times the rates prevalent in the Railway Department and three times those prevalent in the Forest Department. Such alterations were made in the tenders. "The two particular contractors selected had, it is stated, very close association with a Saw Mill business in which a brother of the Divisional Engineer got appointment as the Managing Director". The Court tried the case earlier and made very serious aspersions on the whole thing.

Another thing I would like to suggest, Sir, in this connection. It will be a general thing for the consideration by the Committee. Very often absence of papers is an excuse for failure to take action—either departmentally or by the police and so on. I have in mind a suggestion that before you part with important documents of this sort, you should take photostat copies. I do not know whether these documents have been with the Court or whether they are still in the possession of one of your Officers who is only producing them before the Court when required.

Shri Krishna Prasada: In this case, they are with the Court.

Shri Narahari Rao: It would have been desirable for you to obtain photostat copies even now. The High Court could not be using these documents all the time. You could take their permission, get photostat copies at your own expense and proceed with the case.

Pandit Munishwar Datt Upadhyay: They could do that. The documents will not be returned unless the case is disposed of.

Shri Narahari Rao: That is correct. What you want is proof.

Shri V. P. Nayar: They can get the permission of the Registrar to take these documents.

Shri Krishna Prasada: I sent several letters to my Director of Posts and Telegraphs in Assam asking him to get the copies at once. He tried very hard and he has sent four or five letters saying that he was unable to get at these documents. Even the attested copy took three months to come.

Chairman: There is something wrong with your Director and there is something wrong in your instructions. You are a business concern and should be run on business principles. No business can run like this. Why did not the Director get the copies?

Shri V. P. Nayar: I submit that this point must be viewed with the most serious anxiety.

Chairman: Thank you. We have been doing it all along.

Shri V. P. Nayar: You will find that it is a Civil Court which has said these things, and subsequently it has been held correct by the higher tribunal. There is no escape from that. Irrespective of the fact that there have been decisions on it, there has been inordinate delay, the more so in the

case of an Officer of this status, because it will spread to the subordinate ranks also. It will be a matter of encouraging the subordinate ranks, when a higher Officer against whom there is a decision by a competent authority continues in service drawing such a fat salary. I think the Department was certainly wrong in not speeding up the proceedings and the Committee should take very serious notice of it.

Shri T. N. Singh: Sir, if I may be permitted to say a few words, I entirely agree with what Shri Nayar says. Our impression has been growing for the last three years at least that I have been in this Committee, Sir, that higher Officers somehow get off with a lighter or no punishment and it is the smaller man who suffers easily and promptly. Several cases have come to our notice. An ordinary clerk or somebody is dismissed forthwith. After all, whether it is a big man or a small man, if he commits dishonesty, he is the same before law and before your rules. Then again I was really amazed to find that the only recommendation that you have made to the Union Public Service Commission is that he may be let off with minor punishment.

Shri Krishna Prasada: The decision was taken by the Ministry.

Shri A. V. Pai: The first question was whether he should not be dismissed and orders were taken on that. Then he was asked why money should not be recovered from him.

Shri T. N. Singh: That is all. Here is a case where a man defies all rules and gives contracts to men of his choice; he revises the tenders himself and there is also the fact that one of his own very close relations was concerned with a sister concern of the contractors. All these things being there and a civil court judgment being there you demand only this minor punishment. And what is that punishment? That is no punishment at all. I submit it is taking a very lenient view of his action. If he had been a minor clerk who was responsible for this action I am sure you would have taken immediate action for his dismissal.

Chairman: When you have the power to dismiss the man why did you take shelter under legal advice?

Shri A. V. Pai: We cannot dismiss a man without consulting the Union Public Service Commission.

Shri S. N. Das: I would like to know what were the grounds on which

Government came to the conclusion that even suspension was not desirable.

Pandit Munishwar Datt Upadhyay: Did he draw pay for the period of suspension or not?

Chairman: That is determined by the rules. It is a bigger issue which we have to take up later with Finance.

Shri Narahari Rao: When he was reinstated he must have got his back pay for the period of suspension.

Shri Krishna Prasada: But he was not under suspension.

Shri V. P. Nayar: I would like to know what time the Department takes in punishing Class III and Class IV employees. Are they not immediately put under suspension?

Shri Krishna Prasada: It really depends on the case concerned.

Shri V. P. Nayar: But I think the bigger the offence the lower the punishment.

Pandit Munishwar Datt Upadhyay: There could not be a worse case of corruption. That a man of that standard should be left to be in service getting full pay is a very serious matter and I think we should take a very serious view of it.

Chairman: The Committee has taken serious notice of it but we are trying that the Departmental Heads co-operate with us in appreciating the position. The Committee holds that expeditious punishment should be meted out, but it is for the Departmental Heads to agree with the Committee.

Shri V. P. Nayar: I would like to get a copy of the Departmental Rules of Enquiry and also to know from the Director-General whether there is any provision which would justify prosecution now after the recommendation of the Union Public Service Commission.

Chairman: The rules are there in the Library.

Shri A. V. Pai: The police suggested Departmental action.

Shri V. P. Nayar: That does not mean that you cannot take the matter to a Court of Law.

Shri K. V. Venkatachalam: We have to make an assessment as to whether the evidence available will enable us to get a conviction. There we rely upon the police people.

Shri T. N. Singh: Probably you were doubtful whether by going to Court you would be able to establish a case against him. But Departmentally you were convinced that there was a case of suspicion. Did not the Department think of giving him a plain, simple notice saying, "We do not want you"?

Shri A. V. Pai: We have to frame charges, ask him for an explanation and then send the case to the Union Public Service Commission. We framed charges; he gave his explanation; it was placed before the Government and Government came to the conclusion which I have told you just now.

Shri T. N. Singh: I suppose you need not go to the Service Commission before giving notice to him?

Shri Narahari Rao: They have to. They cannot remove a man from service without framing charges against him, taking his explanation and sending the case up to the Commission.

Shri T. N. Singh: But Government can terminate anybody's services after giving due notice?

Shri Narahari Rao: But the Constitution makes it administratively very very difficult.

Shri A. V. Pai: You cannot even censure a person.

Shri Narahari Rao: The whole position is unsatisfactory in regard to disciplinary measures. The Constitution and the rules thereunder require modification—at present they are very unsatisfactory. Meanwhile, within the framework of the Constitution the measures that have been taken in this particular case appear to be most inadequate. That I think is the view of the Committee. What has been stated is that the papers were not available to you to proceed in the case but, as Shri Nayar has pointed out, you had a year within which something could have been done when nothing was done. I understand this gentleman has now got a promotion to a higher job.

Shri V. P. Nayar: I also demand, Mr. Chairman, that the Director-General should be asked to place before this Committee all connected records of this case so that we may know whether there are any other officials involved in that.

Chairman: We do not like to become a judicial body and take decisions. We have to point out the administrative defects in the machinery and we

can suggest the adoption of stricter administrative methods. Even in this Session you have found that we have invoked the assistance of the Auditor-General and the Accountant-General—they know the constitutional procedure.

Shri Narahari Rao: I think we better ask the Ministry whether they will agree to review this case with the least possible delay with a view to seeing that adequate disciplinary action is taken in this case. That is a question that you might ask and they may agree to accept that suggestion.

Shri A. V. Pai: We will have to take Government's orders on that.

Shri Narahari Rao: Will you agree to review this case forthwith?

Shri A. V. Pai: We are prepared but we will have to take orders from the Government.

Shri Narahari Rao: You are the Government's representatives. But you have to say that you are prepared to review the case and take the orders of the Minister and let us know what the final decision is. It is said here that the matter has been pending—if it is pending it can be expedited.

Shri T. N. Singh: The action they have recommended so far is that this man shall reimburse to Government the losses incurred by Government according to Audit.

Shri Narahari Rao: The loss is something like Rs. 3½ lakhs. It is a futile suggestion. How can any honest Officer have that amount to reimburse?

Pandit Munishwar Datt Upadhyay: So it is not a question of review but one of taking a decision because the case is pending before them.

Shri T. N. Singh: In the note sent to the Union Public Service Commission what has been asked of the Officer?

Shri A. V. Pai: We asked him to show cause why he should not be asked to pay the maximum that can be recovered from him—one year's pay according to the rules.

Acharya Agarwal: We have seen such cases coming before us. Their idea of punishment and ours as representatives of poor people differ very much. They think merely demoting the persons concerned, or someone censuring them or showing displeasure is enough. We think that the time has come when the least that should be done is that they should be sent to jail. The point is what we can do in

this connection. So I would suggest two or three of us should go into all these rules, enquire what the existing rules are and see whether we can make any concrete suggestions.

Shri Narahari Rao: The rules do not preclude you from prosecuting or dismissing anybody or recovering the money. There is nothing wrong with the rules—everything is wrong with the action taken under the rules.

Chairman: Shri Agarwal, we are trying to expedite action and we are trying to see, particularly in the case of the Posts and Telegraphs, which is a commercial concern, that it works like a commercial concern. If you like we may appoint a sub-committee to go into the rules but you cannot go through the rules unless the Auditor-General gives us an Officer to work as Secretary to enable us to go into the interpretations of the various rules, etc.

Shri Narahari Rao: I think we are straying away from the point. I think what Acharya Agarwal has in mind is to examine the rules governing disciplinary action. That is not really the point. Of course those rules are rather complex and contain many things which have been invented by way of safeguards for the services. But that is not the thing that is holding up action in this case. As Shri Nayar pointed out there was a whole year during which they could have taken action.

Chairman: Shri Agarwal, as we proceed and go through the other Ministries if we find there is deliberate attempt to avoid these rules then we shall consider the question.

Shri Narahari Rao: I think last year you made a recommendation. When you come to the examination of Home Ministry you can refer them back and ask them what they are doing about it. You remember a year ago they said a Committee had been appointed to go into the matter. The Committee has not met at all so far. It was intended to go into the entire procedure for taking disciplinary action and for considering existing rules and regulations and law on the subject. The Committee has not met so far. The Prime Minister himself appointed the Committee.

Acharya Agarwal: We should like to have more information about this Committee.

Chairman: You can find it on page 52.*

*First Report of the Public Accounts Committee, 1951-52, p. 52.

Pandit Munishwar Datt Upadhyay: But it has been stated in the same paragraph that the rules as they exist do not need revision.

Chairman: We will let it rest at that. We only want to make the Government feel that we are at one and we want the screw to be tightened on such employees.

Shri T. N. Singh: In this particular case, let it go on record that we are much dissatisfied with the manner in which the Department has proceeded with this case.

Chairman: We shall make a strong recommendation or condemnation, whichever way you call it.

Infructuous Expenditure on Works

[Page 37, para. 28 of the Appropriation Accounts (Posts and Telegraphs) 1949-50 and Audit Report, 1951]

Shri S. N. Das: Infructuous expenditure on works exceeds Rs. 1 lakh and no action has been taken so far.

Shri Krishna Prasada: This relates to the construction of a carrier line between Allahabad and Agra. It was decided to put up this line as part of the war effort and it was work of very high priority. The work was sanctioned in February, 1944 and we were given the target date of November, 1944. Normally all stores come from the Stores Depot and where work has to be stopped for any length of time labour is disbanded. In this case it was not disbanded. The reasons are these. The parties would have had to remain idle for the right type of stores which was in short supply. If the coolies had been disbanded, it would have been very difficult to recruit them at the scheduled rate during that period since war time industries were offering much better prospects. Also, during rains the out-turn of the coolies was small. There was also the heat in the months of June/July. Besides, the first erection was done by inexperienced military parties and we had to rectify it.

Chairman: Apart from the merits of this case, did your Ministry convey this loss of one lakh of rupees at the time of settlement with the Allies and the U.K.?

Shri Narahari Rao: They would not have known very much about the financial settlement between U.K. and India and as a matter of fact this poor country must have borne the loss herself.

Shri B. R. Batra: Actually a considerable portion of these liabes was paid for by the Defence and later after

the war was over we took over a considerable portion of these assets at a very small valuation, say 20 per cent.

Shri Narahari Rao: But this particular thing could not have been recovered; otherwise, it would not have featured here.

Shri Krishna Prasada: There is a figure of Rs. 56,000 and odd. It does not take into consideration the fact that stores worth Rs. 2,54,000 were returned on account of not being utilised. Actually, therefore, according to our calculation, the infructuous expenditure was Rs. 23,300.

Pandit Munishwar Datt Upadhyay: But this relates to cost of freight incurred in returning surplus stores and not to labour.

Shri B. R. Batra: The freight charges are based on a certain percentage basis and those percentages have been assumed here too in arriving at the infructuous expenditure. Actually, the bulk of the stores were utilised in the neighbourhood.

Chairman: How did you credit these recoveries from the Allies—I mean copper wires, etc.—in your accounts? Did you credit them to stores or lines? I remember, you mentioned that the capital cost of your lines increased.

Shri B. R. Batra: Yes, the capital of our assets increased.

Shri V. P. Nayar: Is the Officer who is primarily responsible for over-indenting still in service?

Shri B. R. Batra: Yes.

Shri V. P. Nayar: Why should he be retained? Simply because he did a mistake in war-time, it does not mean you should overlook it.

Shri B. R. Batra: Stores were normally indented for from the Stores Department. At the time these works were carried there used to be a D.S.L.C. Board composed of P. and T. and military officers. Whenever there was difficulty in getting stores, they authorised the issue from some defence dumps. This led to the excess issue. As far as the Officer is concerned, he has gone to Pakistan now.

Pandit Munishwar Datt Upadhyay: It is said that the entire expenditure had been incurred without any estimate. Why was it done? Who is the official responsible?

Shri B. R. Batra: The normal procedure is that no expenditure on account of any work can be incurred until the relevant estimates have been sanctioned

by the competent authority but sometimes when the urgency is great the works have to be sanctioned even without estimates. For example, recently there was a fear of attack on our border and we were asked to carry out certain works in an emergency.

Execution of works relating to big Engineering Projects without proper sanction.

[Page 37, para. 29 of the Appropriation Accounts (Posts and Telegraphs), 1949-50 and Audit Report, 1951]

Shri Narahari Rai: Leaving those other cases aside, can you deal concretely with the cases in this paragraph? What is the justification for carrying out these works without proper estimates?

Chairman: Yes. Were these civil projects? If so, why was not the necessary sanction taken?

Shri B. R. Batra: The other reason is that sometimes the schemes are sanctioned or approved by the Standing Finance Committee and the detailed estimates are prepared afterwards.

Chairman: Can an engineer carry out any scheme without taking the sanction of the Financial Adviser?

Shri B. R. Batra: We consult our Finance.

Chairman: It is not enough if you consult them: you have to take their sanction. Was the necessary sanction taken from the higher authorities in regard to these five schemes? Only last year we, the Public Accounts Committee recommended in regard to the P.W.D. as well as the Railways that before you start any work you should have the estimates for them sanctioned.

Shri Narahari Rao: It is all provided for in the codes.

Shri Krishna Prasada: Works costing five lakhs or more are covered by the sanction of the Standing Finance Committee and also the Ministry of Finance. The snag in this case is that full and detailed estimates were not prepared.

Shri Narahari Rao: The competent sanctioning authority in this case, I take it, is the Government of India. If their sanction is obtained the Chief Engineer is authorised to accord technical sanction to the sub-works as and when necessary. Four of these five works were not sanctioned by the Government of India. Sanction in these cases regularises an irregularity committed by you. Of course, such a thing would be permissible in works of an emergent nature.

Shri B. R. Batra: We have issued instructions now that no work should be carried out unless sanction is obtained.

Shri Narahari Rao: I am astonished that you should talk like that. I was in the Posts and Telegraphs Accounts dealing with telegraph engineers about thirty-two years ago. In those days there were very strict codes and rules and such offences would have been looked upon far more seriously than you do now. What is the actual position in regard to these cases?

Shri B. R. Batra: The first case relates to installation of an automatic exchange at Nagpur. Now this equipment was originally received for installation at Amritsar. It was in the year 1948. At that time the conditions on the frontier were very much unsettled and the Department felt that it could not risk putting so much capital in Amritsar. There was great need for such an exchange at Nagpur and the Chief Minister of Madhya Pradesh impressed on us the necessity for that. So, we were more or less compelled by force of circumstances—since the equipment was already there and a building was available at Nagpur—to instal it at Nagpur.

Shri Narahari Rao: I can understand the reason for abandoning the work at Amritsar, but not for proceeding with the work at Nagpur, without a proper sanction.

Chairman: The point is that you have been defying your higher authorities. You have not taken the necessary sanction from the Financial Adviser and the Government of India in the Finance Ministry. I am surprised to hear this argument in regard to the year 1949-50, when everything had come to normality.

Shri Narahari Rao: Not that I am putting a leading question—has the Nagpur exchange anything to do with the Hyderabad situation?

Shri T. N. Singh: How are these works started? At what level are they decided?

Shri B. R. Batra: The decision is normally taken by me or the Director-General and Officers of the Directorate and Finance are usually consulted.

Chairman: But even the Chief Engineer is subject to certain rules of procedure in the conduct of his business. You are not the final authority. The Government of India, in this instance, has not been consulted. You should give us a detailed note on these five cases.

Shri B. R. Batra: The point is, if the installation of this equipment had been delayed there would have been interest charges incurred without any use being made of it.

Chairman: But there is a Financial Adviser whom you should have consulted. I do not want engineers to make any departures as they did in war-time. It is for the Government in the Finance Ministry to satisfy itself about the necessity of its installation. Whatever justification there may have been for such irregularities during War or Partition days, there is no such justification now and it is most reprehensible that such things should happen. In this case this Parliamentary Committee has been defied by Departmental Heads. It is for the Financial Adviser to satisfy himself about the necessity of this work. I wonder why this mentality should exist in 1950.

Shri R. Narayanaswami: All these cases have been reported to the Ministry for proper action to be taken in future.

Chairman: You will take proper action after four years! It astounds us that the mentality of 1944-45 still continues in the Posts and Telegraphs Department among its Engineers. We have been observing similar cases in the Railways and P.W.D. with the result that we do not know whether the sovereignty is with our Engineers or with Parliament. We hold you responsible. We will not accept the explanation of any Engineer. You are there to see that the proper procedure is followed in the P. and T. Department. You can give us a report after the Government of India have enquired into the matter. But if we find that the Head of the Posts and Telegraphs Department does not realise the gravity of the irresponsible actions he has taken, then I think there is something wrong and we have to consider drastic measures to remedy such irregularities.

Shri Narahari Rao: You may suspend your judgment in this case until we receive a report from the P. and T. Department.

Calcutta Telephone Automatisation Project

[Page 37, para. 30 of the Appropriation Accounts (Posts and Telegraphs), 1949-50 and Audit Report, 1951].

Shri T. N. Singh: This again unfortunately begins with the same aspect of the problem which we have been discussing just now, namely, non-preparation of estimates before a project is launched. This project is going to cost us crores. There are certain disturbing features about it. It involves a contract with a foreign

firm which unfortunately is again very indefinite. They have been paid consultants' fees at a particular ratio. Previously in all arrangements with foreign firms when you buy their material, they are paid only installation charges, T.A. of their Engineers, etc. That is how the work has been done in the past. There has been a distinct departure from the normal practice in regard to this project. Then again, there has been no planning from the beginning. Stores have arrived. There is no arrangement to make use of them—they are just lying there. As a matter of fact, it is stated that all these stores have to be kept in air-conditioned rooms. Now, if anything goes wrong the supplying firm can easily get away with the complaint that you did not store these goods in this or that fashion. They may not be damaged actually, but the foreign firm gets an excuse to get out of its commitment. It is needless for me to go into details. It is all given in pages 37 to 40 of the Audit Report. I have just told you the salient points. We shall go into details after we have heard you.

Shri B. R. Batra: There was some delay in the preparation of the project estimates, because considerable amount of details had to be collected. The consultants had originally prepared estimates only for the equipment and certain other items. Details had to be obtained of land, buildings, cables, the exchange equipment, instruments and installation charges. There was considerable delay in getting figures, particularly for the cables as fuller and more details had to be worked out. The total number of detailed estimates on these projects is of the order of 250. So you will appreciate the amount of work to be done was colossal. Out of these, so far the number of estimates prepared is somewhere about 90. The total number of 250 estimates is not necessary at this stage, because the work at present is only in progress on stage 1, namely the installation of equipment.

As far as stage 2 is concerned, the building is going up and air-conditioning work is in progress.

In regard to stages 3, 4 and 5, the sites have been acquired and estimates prepared. In regard to buildings some of the estimates have been sanctioned and the rest are under sanction. As far as equipment and installation is concerned, those estimates are not necessary at this stage. They will be prepared in due course.

Shri T. N. Singh: How do you say that? After all when the nation launches a project it commits itself.

It has got certain financial commitments which have to be met. If things happen as they happened in Sindri, where the estimates went on increasing at every stage, that lands us in trouble. We must have a comprehensive idea as to what the commitment of the whole country is going to be on a particular project and we should not be kept in the dark as to what will happen in the future. That of course is not keeping trust with the people.

Shri B. R. Batra: We have reviewed the position and our present estimate is that the estimate is not likely to be exceeded to any considerable extent. It will not be more than 10 per cent.

Shri T. N. Singh: It is a very vague statement to make; the word 'to any considerable extent' is rather dangerous.

Shri Narahari Rao: I take it you mean that it will not exceed permissible limits.

Shri B. R. Batra: Yes; permissible limit of 10 per cent. You will appreciate, Sir, the project is to cost 13 crores.

Shri Narahari Rao: There is much difference between considerable extent and permissible limit, I was wondering whether you meant permissible limit. If you say considerable extent, one does not know what it conveys.

Shri B. R. Batra: We are hoping that it may not be even 10 per cent. Actually, it must be even less than that figure considerably.

Shri T. N. Singh: I would like to know the reason for this. Everytime a project is launched, our Departments are caught napping. They do not seem to be prepared in advance as to the requirements. Here are machines coming. But, sites have to be acquired, etc. There are certain preliminary things which have got to be done, and which will take time. Somehow announcements are made in Parliament and Ministers are made to say that such and such projects will be completed by such and such time; they will cost so much. All these things are said and done.

Shri Narahari Rao: Said and not done.

Shri T. N. Singh: That would be more correct. You will realise that it is easy for you to get away with such statements like "not considerable extent", etc. "no considerable delays", etc. Actually speaking, before Parliament and before people we cannot go on making such statements. We must be more precise in what we say.

Chairman: Your question is to be replied by the Ministers and not by the Engineers.

Shri T. N. Singh: The Ministry is represented here.

Chairman: Government must tell us why they sanctioned these things, whether they were essential, whether Government has any machinery to keep to the time schedule, etc.

Shri T. N. Singh: When machines come, where to house them? You know that it will take one or two years to acquire a site. Why were you found unprepared for all that?

Shri B. R. Batra: The position is that in a town like Calcutta, sites are difficult to obtain.

Shri T. N. Singh: Calcutta is an old city; you knew of the difficulties.

Shri B. R. Batra: We have been doing our best. We have got all the sites practically. Buildings are under construction. Originally, our idea was that the buildings would take 18 months. Experience tells us that it takes 2½ years to complete a building.

Shri T. N. Singh: For acquiring a site, how long does it take?

Shri B. R. Batra: It might take from two months to two years. There have been cases in Bombay where it has taken three years to get a site.

Shri T. N. Singh: What was your original estimate? How long did you originally think that the acquisition of a site would take?

Shri B. R. Batra: About a year normally.

Shri T. N. Singh: The Department must have made some allowance for the time lag between the acquisition of a site and the start of work. How long did you allow for that time lag originally?

Shri B. R. Batra: For acquisition of site, roughly a year.

Shri T. N. Singh: That was allowed even in the beginning.

Shri Batra: That was what we felt in the beginning.

Shri T. N. Singh: But, actually, it has taken how long?

Shri B. R. Batra: It has taken longer in some cases; less in some cases.

Chairman: But, the point is this. You have 32 Gazetted Officers and 313 non-gazetted staff. They are not required when they have no work.

Shri B. R. Batra: They are doing a lot of work.

Chairman: You will have to satisfy this Committee that these Officers are doing some work. What *quid pro quo* are you getting even when the buildings are not ready. You have not got the sites.

Shri T. N. Singh: If I may supplement what you, Mr. Chairman, have said, the reason why I was asking these questions is this. You have got a big staff, gazetted and non-gazetted. Probably, the Department thought that there will be no delays in the preliminaries. But the preliminaries have been delayed. What justification is there for this long list of Officers, etc. when the work has not been done? We are judging by the results and not by what you thought.

Shri B. R. Batra: Before staff is sanctioned, a case is made out and then the Finance examines it carefully. In fact, Shri Narayanaswami and his Deputy had been to Calcutta and have examined on the spot the necessity for the staff. After they have been satisfied, the staff has been sanctioned. You will appreciate that so far we have incurred an expenditure of Rs. 1,83,00,000 on sites and buildings, Rs. 41,00,000 on lines, etc.; cables have been laid.

Chairman: By your staff or by contractors?

Shri B. R. Batra: As far as buildings are concerned, they are built by the P.W.D. The general plans, specifications, and lay-outs have been discussed by the architect with the P. and T.

Chairman: You have got 32 Officers and 313 non-gazetted staff drawing 10,68,000 a year. What is the *quid pro quo* that you are getting from them? What is the total estimate on your staff?

Shri B. R. Batra: The work that this staff is doing is this. They have got to do forecasting work. Certain areas have been assigned for each Exchange by the Consultants. We have to find out as to how many telephones will be in a particular street or in any particular area. Development plans by the Corporation, by the Improvement Trust, by private bodies have got to be consulted and then these figures are arrived at as to how many telephones will be required in any particular area during the next 10 or 20 years. On this basis cables are laid. This is an international practice which is followed by our Telephones. The reason is that the cost of laying cables is high. If you take these considerations into

account, in the long run, you spend less. If you take only the immediate requirements into account, in the long run, the cost is heavier. Roads have to be disturbed. A lot of forecasting has had to be done.

Shri T. N. Singh: I believe that in every city where there are telephones, there is a certain schedule already, as to the growth of the demand, pace of demand, etc. That must be there already. With your experience of 20 or 30 years, you must have some data about the growth of demand in every quarter.....

Shri B. R. Batra: We know how many telephones are there in a particular area. There is a set procedure for determining the requirements.

Shri T. N. Singh: You have waiting lists and you know how the pace of requirements is growing.

Shri B. R. Batra: These waiting lists get disturbed often.

Shri Narahari Rao: Does not this forecasting relate to the normal working of the Department? That, I think, has to be done in the normal way.

Shri B. R. Batra: The Consultants drafted their report in 1946-47. Since then, there has been a lot of change in the population of Calcutta due to Partition and the position in Calcutta has been so disturbed that we have had to revise our requirements in any particular area or exchange. The position is most unfortunate, but it is there. We have had to revise after detailed study. Otherwise, the amount to be spent in the long run will be much heavier.

The next item of work done by them is this. All the staff in Calcutta are working on the manual telephones. The lower staff have no idea of the automatic system. The entire staff has had to be trained. For that purpose, a number of training classes have had to be set up—right from the non-gazetted staff, from *mistries* up to the gazetted staff. That is a colossal task.

Shri T. N. Singh: These Officers are posted in Calcutta?

Shri B. R. Batra: These Officers are training the existing Officers. First, we have got to explain the theory; then with sample models, the working is explained.

Shri Ranbir Singh Chaudhuri: How much time it will take to train?

Shri B. R. Batra: Two to three years to complete the training.

Shri T. N. Singh: How many of the gazetted Officers are engaged in training? Not all the 32, I think.

Shri B. R. Batra: Only a limited number are responsible for training. Three or four Officers are engaged in training.

Shri M. L. Dwivedi: How many persons are receiving training?

Shri B. R. Batra: Actually, we have to train about 400 or 500 operators. In the earlier stages, there will be partly automatic system and partly manual system. With the use of keys just as in a typewriter, great speed has to be attained. Therefore, intensive training has to be given?

Shri M. L. Dwivedi: So, 400 or 500 have to be trained?

Shri B. R. Batra: Yes; 400 or 500 operators.

Shri M. L. Dwivedi: How long will it take to train them?

Shri B. R. Batra: It will take three years, as I said.

Shri M. L. Dwivedi: You are training them by turns?

Shri B. R. Batra: Yes.

Shri V. P. Nayar: While training, are they taught with the use of dummies or with the automatic telephones?

Shri B. R. Batra: They are given actual training.

Shri M. L. Dwivedi: How many are receiving training at a time? What is the duration of the course?

Shri B. R. Batra: Normally we train 16 operators in a class. The duration is about two to three months depending on the individual.

Chairman: I have forgotten this scheme. What is the net result of the automatization? Will it increase the capital cost of the telephone system or decrease it? What will be the effect on the cost of running? Will the efficiency go up?

Shri B. R. Batra: The position is this. The present telephone system in Calcutta is very old. It has outlived its useful life. Government took over these telephones in 1943. Actually this manual system should have been replaced at about that time, but the company, knowing that the Government were taking over, did not want.....

Chairman: What will be the additional capital expenditure? Give me the figures. I will understand.

Shri B. R. Batra: The scheme will show profit, I think, towards the fifth year of its working. Normally a project is considered remunerative if it shows profit within five years, and most of our schemes show profit immediately.

Chairman: Then, what is the capital expenditure? We have already sunk some capital into it. What is the additional capital expenditure?

Shri B. R. Batra: Rs. 13.40 crores is the estimated cost of the Scheme at Calcutta.

Chairman: Will it show appreciation on your earning?

Shri B. R. Batra: In the fifth year, it will start showing profit.

Chairman: Profit above the existing level?

Shri B. R. Batra: After paying for interest, depreciation and working expenses.

Chairman: And will it increase your efficiency?

Shri B. R. Batra: The position is this, that the telephone system in Calcutta is about the worst in India, and those who have any experience of it, would readily concede that it is absolutely essential. There are two ways of looking at any project; one is whether it is remunerative or not, and the other is what we consider protective works.

Chairman: Another point you must bear in mind is whether the Government of India can provide the necessary finance to increase the capital cost of the telephone system.

Shri R. Narayanaswami: That has been discussed with the Planning Commission, and they have made provision for it in the Five Year Plan.

Chairman: This is a project which was considered before the Planning Commission came into existence.

Shri Krishna Prasada: But it is included in the Five Year Plan.

Chairman: After all, the Government of India have to provide the necessary finance. I want to know whether the overall efficiency and overall earning of the telephone system will go up by this process.

Shri B. R. Batra: As far as the justification of the scheme is concerned, it was first considered by the Department and put up to Government and after they were convinced about the necessity of it, it was put up before the

Standing Finance Committee, and they went through the project, and finally were satisfied, and the project was approved.

Chairman: They were satisfied that the increased earnings will be better on this capital expenditure?

Shri B. R. Batra: If it was not done, the sixty or seventy lakhs of rupees that we were earning from Calcutta would not be there.

Chairman: Out of this additional plant of Rs. 13 crores, perhaps Rs. 8 crores you are purchasing from abroad?

Shri B. R. Batra: The equipment that is being obtained from abroad will be about Rs. 2 to Rs. 3 crores.

Chairman: Plus cables?

Shri B. R. Batra: Of course, in the earlier stages, cables will be coming from abroad and some exchange equipment, but from the second stage, some of the equipment is under assembly and manufactured in the Indian Telephone Industries, Bangalore, and as far as cables are concerned, by about June or July 1953, I expect the cable factory will be in production. Towards the end of 1953, I think by December at the latest, they hope to be able to supply cables to the P. & T.

Shri V. P. Nayar: Will you please refer to Page 40? You are taking supplies of equipment from probably the only source which, according to you, can supply these articles, and their expert technical advice is that this should be preserved, as they were delicate, in air-conditioned, dust-free and damp-free rooms. Did you know that these were the conditions of storing these articles beforehand, or did you know it only after the articles were received?

The next point is that when the supplier himself says that this sort of meticulous care is necessary for preserving these articles, on whom can you fix the responsibility for storing it? Supposing at a later stage it is found that these articles are damaged, and thereby a loss is incurred, on whom will that responsibility rest? Later on, the Public Accounts Committee will be sitting in judgment over you. Has the Engineer concerned taken the responsibility, and if so, have you taken any guarantee from him?

Shri B. R. Batra: The equipment has been received and is under installation now, and no damage has occurred. And as far as the packing is concerned, usually the equipment that is sent from abroad is packed in silica jelly, and that does not allow moisture or anything to get in.

Shri V. P. Nayar: Then why did those people say that it must be preserved in that manner, and to such people who have given wrong advice, you are paying so many lakhs as consultation fees?

Shri B. R. Batra: It was given as a precautionary measure. Every man likes to be more cautious than necessary.

Shri Krishna Prasada: We had consulted them, and they had said that no damage would be done provided the packing cases were not opened.

Shri B. R. Batra: The difficulty was that the buildings were not finished and the question arose whether the equipment should be brought to India or stored in the United Kingdom, and the Company said that they would have to make a charge—so much for rental, and for the insurance and so on. We had a discussion with them, and we came to the conclusion after consultation that perhaps it would be better to bring it to India.

Shri V. P. Nayar: Was this discovery of necessity because you did not have storage capacity, or was it a scientific fact?

Shri B. R. Batra: I think it was partly necessity also.

Shri V. P. Nayar: That means you did not have the foresight to consider it in time, so that it might be stored by the Company.

Shri Krishna Prasada: The Central P.W.D. took too long a time.

Shri V. P. Nayar: Did you make any complaint about that to the Ministry concerned?

Shri Krishna Prasada: We have complained scores of times.

Shri Narahari Rao: But they did not have the site ready. There is one question I would like to ask. You say you have not opened these packing cases. Do these remain the property of the Company or are they your property? If they are your property and if you have not opened the packing cases, how are you sure that you have got the things right there and that they are not damaged? How will you raise your claims against the suppliers?

Shri B. R. Batra: They are covered by insurance and the same is extended till they remain in storage. The actual equipment was opened some time ago, last year, and installation has been started.

Shri Narahari Rao: Wholly?

nothing in storage now.

Shri B. R. Batra: Wholly. There is **Shri Rambir Singh Chaudhari:** What is the advantage of buying these stores earlier than the construction was ready?

Shri B. R. Batra: The orders were placed on certain anticipations, and these anticipations about the construction, the requisition of site and building, did not materialise.

Shri V. P. Nayyar: The Department can now advise the firm that for further consignments of telephone equipment, they need not insist upon the purchasers storing them in that manner, so that future purchasers may get some relief.

Shri B. R. Batra: Future purchases will be mostly in India. They will be manufactured in the Bangalore factory.

Shri S. N. Das: Is there necessity for the entertainment of such a huge staff? As this has been questioned by Audit, was it considered by Government?

Shri B. R. Batra: Actually, we consider that the staff is not sufficient really for the proper execution of the scheme. It is a very complicated scheme, and this is the first type of Director system that is being installed in the East.

Shri T. N. Singh: That is what you are saying, and as a matter of fact, there is going to be very serious objection. When the scheme was launched, the Audit was not consulted which is the normal procedure which should have been followed. The Audit, after making a thorough examination, comes to a certain conclusion about the staff. We have also gone into the question and we find that out of 32, only two or three are engaged in training the personnel. With all this, what justification have you to throw over such very important recommendations made by the Audit? And you have not even had the courtesy to consult the Audit before the project was launched.

Shri B. R. Batra: This statement is not quite correct, that the Audit was not aware of it, because I have got a paper here which indicates that there were discussions with the Audit.

Shri T. N. Singh: Intimation of the scheme was given to the Audit?

Shri B. R. Batra: The Audit were informed as early as 1945 when the first commitment was entered into by the Government for the foreign consultants to come to India at a cost of ₹25,000.

Shri Narahari Rao: Have you given those details? I am not aware of

that. But this statement has been accepted by you—what has been put down in the Audit Report. I am sure you have seen the paragraph. You might have merely told them that you were having this scheme and consultants were coming. The point that has been made by Shri Singh is.....

Shri Krishna Prasada: This point was objected to, I am told. We pointed out what exactly the position was, but they insisted on putting it down in the present form.

Shri Narahari Rao: The point really is this: the scheme as a whole, the implications of the scheme, the magnitude of the scheme, the amount of expenditure to be incurred, what items and so on—these details were not furnished to the Audit; they were not kept in touch to enable them to organise their own side of the work. That is the real complaint that has been made. That is the usual thing that happens not only in your case but in many Departments of the Government; long after considerable sums of money have been spent, the Audit people have just to rub their eyes, and try to adjust it. It is no use your sending the sanction for the scheme of Rs. 13 crores and saying this has been sanctioned. It takes time for the Audit Department also to organise its own accounting and audit arrangements. That is the real complaint that has been made. Sending us copy of the sanction is not consultation or giving us intimation.

Chairman: That is the fundamental point. Let them say this is a mistake. It is no use reading some 'musty' letter of 1945. This Committee is constrained to find that the Auditor-General and the Accountant-General, Posts & Telegraphs, were kept in the dark about the estimates.

Shri Narahari Rao: In sub-para. 3 of page 38, it is clearly stated:

"Normally whenever new schemes involving large outlay on a Project are launched by Government, the standing instructions are that Audit should be apprised of the proposals well in advance of the actual launching of the Project, so as to enable it to settle the details of the audit and accounting procedure in connection with the schemes. But in this case, although substantial amounts had been spent on the scheme Audit was not initially kept in the picture about the full details of the scheme."

That is the real thing, and I hope that you will avoid it in the future. This has not been said here to make a song about it, but you can understand what happens. It is like trying to seal the stable after the horse is stolen. I have got to take the strongest exception to it not particularly with reference to this one, but that is what is happening throughout the country, and I have to write to all the Governments in this country, Union as well as State Governments, to avoid this sort of thing. You can just imagine what happens. The Audit office gets a sheaf of bills which they cannot make any sense of. Meanwhile everything has gone on, all sorts of things have happened, and that is the reason for my feeling rather strongly about this. This is not the only instance, and you are not the only culprits. Do not defend it. Please say you won't do it again, and we will be very happy.

Chairman: It is the duty of the Financial Adviser to be alive and alert in his duties, and to help the Finance Ministry, in the budgetary control and in the control over the expenditure of these grants. So when the Audit Report makes certain observations, it is his duty to see that the recommendations suggested therein are given effect to.

Shri R. Narayanaswami: Whenever anything comes to our notice, we always consult the Accountant-General, Posts and Telegraphs. In fact, the complaint is that we consult them too often.

Shri Narahari Rao: In fact it is the other way round. You do not consult him at all when you should, you consult him where you should not, when the matter is something which is your own responsibility. That is why that complaint is there.

Chairman: In fact, what is happening is that the Accountant-General, Posts and Telegraphs office has been kept far away from you, with the result that any consultations that have to be made are made more difficult. After all, you are the government, and you should try to provide him with the necessary accommodation for his office, and get him over here to Delhi.

Shri Krishna Prasada: I myself feel that the Accountant-General, Posts and Telegraphs should be associated with us much more closely, because it will be to our advantage if he is by our side. In our plans for construction of a building, I have provided for his office to be in the same building as that of the Director-General, Posts and Telegraphs.

Chairman: So you are thinking that Audit also is an essential thing. I want you to use your personal influence with the Works, Housing, and Supply Ministry and try to bring the Audit and Accountant-General's office here to Delhi.

Shri Krishna Prasada: In the British Post Office, the same thing has happened, the A. G., P. & T. is considered an integral part of the P. & T. Department. We want to have the same thing here also.

Shri M. L. Dwivedi: Before we adjourn, I would like to know one thing. It is proposed to have some new equipment in Calcutta, which is under installation. What will happen to the equipment which has been there already till now?

Shri B. R. Batra: The equipment in use has served its useful purpose, and most of it will be scrapped.

Shri M. L. Dwivedi: So that means that nothing will be utilised?

Shri B. R. Batra: Some bits and pieces may be used, but the bulk of it has become so old that it will become scrap. Normally the life of the manual exchanges is only about 20 years, but actually the companies that manufactured these happened to be so very good and thorough business people that the equipment has till now been serving well. Some of the equipment was salvaged many years ago from Singapur, Hong-kong. They used to get the old equipment from these places, and get them going, and it is these that we have been having there. Actually the service is so atrociously bad in Calcutta now.

Pandit Munishwar Datt Upadhyay: On page 39 it is stated:

"The normal practice in the past has been to make it a part of the condition of purchase of the equipment that the supplying company should undertake satisfactory installation of the Exchange Equipments on payment of actual expenses such as salaries, passage, T.A., etc. of the technical staff deputed to India for the purpose of installation. The present arrangement whereby the cost of the installation of equipment is determined at a percentage of the total cost of equipment is not only not in consonance with the previous practice, but is also much more expensive to the Department."

Do you agree with this view? If you differ, what are the reasons for doing so? Why has a different arrangement

been made in this case? The explanation for this has been given that this was the present practice in the British Post Office, and you have tried to follow it up here.

Shri B. R. Batra: Earlier the practice was that when the equipment was purchased, the suppliers were asked to loan an Engineer on certain terms agreed upon, so as to supervise and aid in the installation. Now all installations, including the one going on in Delhi, are done completely by the Department. We have a similar installation going on in the Bihar coal-fields. The installation that I referred to earlier is the Director Telephone System, which is a very complicated installation, and our people have no experience of it. When the consultants drew up their report, they also expressed the opinion that instead of undertaking a complicated installation ourselves, it would be advisable that the installation should be done by the company who have the experience of it. In the British Post Office, the Post Office never does any installation, but all of it is done by the Telephone Companies. Here in India we have decided that the first two stages will be done by the company, and the third, fourth and fifth stages will be done departmentally, after the people had received the necessary training and experience thereon.

Pandit Munishwar Datt Upadhyay: Then it should have been part of the agreement?

Shri B. R. Batra: The position is this. The equipment was being obtained from the Indian Telephone Industries. After the agreement with the A. T. E. Co. the orders were transferred to Indian Telephone Industries by the Government, because it was not envisaged when the agreement was entered into in 1948 by the Government that such a corporation would arise.

Shri Narahari Rao: Two stages are done by the company while the other three stages are done by the Department. If anything goes wrong, how will the fixation of responsibility be done? Each may try to blame the other.

Shri B. R. Batra: They are separate exchanges, and so the fixation of responsibility could be easily done.

Shri T. N. Singh: As there is no time, I am referring you to certain other points in bulk. Please send replies in writing about them. The first relates to part (b) of item No. 33 on page 42, in which the Postmaster-General carried on certain works, even though the

State which had first taken the responsibility later on said that it had nothing to do with the scheme; the work was still proceeded with by him. I want an explanation for that.

Chairman: Our tentative opinion is that the Postmaster General had acted wrongly. It is for you to send us an explanation for the same.

Uneconomical expenditure on leased rented accommodation for the location of offices.

[Page 44, para. 35 of the Appropriation Accounts (Posts and Telegraphs), 1949-50 and Audit Report, 1951.]

Shri T. N. Singh: Then as regards this renting out of buildings, in Calcutta, Delhi, Madras, etc. the position at all these three places is unsatisfactory. In one case, you have got rented buildings at long distances, the accommodation also is very bad and unsatisfactory. Even one office is bifurcated, and the two portions are working some two miles apart in Calcutta. In Madras, none knows on what conditions you have taken up that building. Similarly in Delhi we have got rented buildings, and in all these places we have sites available, and plots ready, where buildings could have been constructed very rapidly. Meanwhile a lot of loss is occurring.

Shri Krishna Prasada: I agree with what the hon. member has said. The accommodation that is being offered to us, and is in our possession at the present moment, is not adequate. We really want bigger places for our offices, and we want departmental buildings, as these rented buildings do not serve our purpose very well and do not conduce to efficient working. We have taken up the question with the Ministry, who in their turn have requested the Planning Commission to give us more money; if you will also lend your weighty support, then it will help matters very much.

Shri Narahari Rao: But this is a question which comes within the day to day administration of the Department; it does not involve any expansion of the Department. It is a question of housing your existing offices properly. These are therefore matters of your own administration and are not to be referred to the Planning Commission, which is wrong in procedure. I am just putting this to you for your consideration.

Shri B. R. Batra: But we want money; we need about Rs. 63 lakhs for constructing the buildings needed.

Shri T. N. Singh: But you are spending on repairs on these rented buildings, besides paying the rent, in certain cases.....

Shri Krishna Prasada: We agree with you that we should have departmental buildings, but it is a matter of our being given the necessary money allotment needed for the construction of these buildings.

Shri T. N. Singh: Then you will find reference to these points on pages 44-45 of the Report, para. 35—uneconomical expenditure on leased buildings.

Shri Krishna Prasada: We agree with you there.

Shri T. N. Singh: Then on page 110, note 2, there are a number of cases where expenditure was incurred in excess of sanctioned estimates, without the sanction of the competent authority. You may also look up sub-para. of para. 14. That is the report by your Department of the Accounts for 1947-48. This very point is brought out there. This excess expenditure without proper sanction is really a very regrettable thing which should not occur. I hardly think any excuse can be advanced for it except that it has not been done. You kindly send us a note on that point.

Then the last point is on page 114, Grant No. 93—Stores suspense account. We want to know what progress has been made in the adjustment of the outstandings under the above heads in accordance with the orders of Government on the overall physical verification of stores carried out in June 1948.

Shri Narahari Rao: I suggest that these questions may be written out by Secretary and sent to them.

Shri T. N. Singh: Then they will have to send a note on the implementation of the previous Audit Report.

Consideration of the statement showing action taken on the outstanding recommendations

Shri M. L. Dwivedi: It was recommended that a decision should be taken in regard to the introduction of the mechanisation of stores accounting—vide page 33 of the recommendations. It has been remarked that the system had been introduced in the C.A.O. and W.C.A. and is working satisfactorily for about two years and now the question of retaining the same on a permanent basis is under consideration.

Shri Krishna Prasada: We are going to retain it. We have adopted it.

Shri M. L. Dwivedi: In the Posts and Telegraphs entirely or only in these two places?

Shri B. R. Batra: It is one office at present.

Shri M. L. Dwivedi: The recommendation was for the entire Department.

Shri Narahari Rao: It was not for the entire Department.

Shri M. L. Dwivedi: Another point is that the principle of discrimination in the grant of concession for the free supply of meals and tea to a section of the staff of the Calcutta Telephone District is unjust and should be discontinued and the decision arrived at in the matter should be reported to the Committee. The remark by the Ministry is that the case is being examined in the light of the recommendations of the Committee and a memorandum will be submitted to the Committee in due course.

Shri Krishna Prasada: The memorandum has been sent to Accountant General, Posts and Telegraphs for scrutiny; they have to verify the figures.

Shri M. L. Dwivedi: Another recommendation was regarding the shortage of postal forms. Will you explain the difficulty in this? We fully support the case for a separate Press for you. What steps have been taken in this direction?

Shri Krishna Prasada: We have been allotting work to private presses on a much larger scale, but even so the present arrangement has not been very satisfactory. The Ministry is going to take it up with the Ministry of Works, Housing and Supply. A note has been prepared which will form the basis of our discussions with the Ministry of Works, Housing and Supply.

Shri M. L. Dwivedi: Are any negotiations going on for a separate Press?

Shri Krishna Prasada: We have been pressing for it. We also want the responsibility for distribution of forms. So these two aspects are going to be taken up by the Minister.

Shri Narahari Rao: It is a commercial concern. They must run it efficiently and not be tied down by this sort of thing. They do not even send forms to the post offices. I come to know of it because accounts come in miserable manuscript forms and so on. Just see how inefficient it is. I do not know why you should get it done only in Government Presses. You have got to print them anyhow.

Shri S. N. Das: For months together I have seen that no money order forms are supplied.

Shri Krishna Prasada: The position is unsatisfactory and it has to be tackled very boldly. We have suggested that the control of the Aligarh Press should be made over to us. We have also asked for greater capacity—more

machines for printing forms—and that we should be allowed to print forms on a regional basis, i.e., for Bombay in some Bombay State Press and so on. The Minister also proposes to address the Chief Ministers on the subject.

Shri Narahari Rao: Why can't you use private presses? There is enough printing capacity available in the country for this purpose.

Shri Krishna Prasada: In certain States the quotations which have been given by the private presses are very much higher than the quotations which we get in Calcutta—four or even five times.

Shri Narahari Rao: I am very much interested in this because accounts come in miserable manuscript forms.

Shri T. N. Singh: From my own experience of this line—I have been in the newspaper line and was connected with the newspaper press—the usual practice at least in the provinces is that they have a schedule of rates and whoever is prepared to do the work on those rates, gets the printing work, so that the work is done in a particular time and at the same rates—no loss to the Department at all. You fix your rates and then accordingly get things done.

Shri Krishna Prasada: We are prepared to pay even 25 per cent. more for printing forms.

Shri T. N. Singh: You do not pay anything extra. If you ask the State governments, they may get it done for you.

Shri Narahari Rao: This is a matter

on which they should have consulted the Government. Somebody in your Department is frightened to get this job done. It also requires experience. It is very easy to say that the order has been given to the Printing Department and they will supply us. Probably there is some defect in organisation.

Shri Krishna Prasada: We have got no control over printing.

Shri Narahari Rao: I know. I am trying to help you. This is a kind of difficulty with which I am also faced. My codes are not printed at all.

Shri Krishna Prasada: It affects the Accounts seriously.

Shri M. L. Dwivedi: One more point. That is concerning the investigation into the causes of the fire in the Calcutta Telephone Exchange. What action has been taken against the officials who were negligent in their duties.

Shri Krishna Prasada: We have submitted a memorandum on this.

Chairman: We have received it. We will examine it and if any further information is wanted, Secretary will write to you.

Shri M. L. Dwivedi: I draw attention to this so that prompt action may be taken on our recommendations. If it is done, we shall be satisfied.

Chairman: I thank you all for your valuable help.

The Committee then adjourned.

Thursday, 11th September, 1952

PRESENT

Shri B. Das—Chairman.

MEMBERS

Pandit Munishwar Datt Upadhyay.

Shri Ranbir Singh Chaudhuri.

Shri M. L. Dwivedi.

Pandit Krishna Chandra Sharma.

Shri Shree Narayan Das.

Shri V. P. Nayyar.

Shri Tribhuan Narayan Singh.

Shri B. Ramachandra Reddi.

Shri V. Narahari Rao, *Comptroller and Auditor-General of India*.

Shri P. H. S. Rao, *Director of Railway Audit*.

SECRETARIAT

Shri N. C. Nandi, *Deputy Secretary*.

WITNESSES

Shri F. C. Badhwar, *Chairman, Railway Board, Ministry of Railways*.

Shri S. S. Vasist, *Member (Traffic), Railway Board, Ministry of Railways*.

Shri V. Nilakantan, *Member (Staff), Railway Board, Ministry of Railways*.

Shri N. C. Deb, *Director of Finance (Budget), Railway Board, Ministry of Railways*.

Shri K. Sadagopan, *Director of Finance (Expenditure), Railway Board, Ministry of Railways*.

(The Committee met at Half Past Ten of the Clock.)

APPROPRIATION ACCOUNTS
(RAILWAYS), 1949-50 AND AUDIT
REPORT, 1951.

Contract with Messrs. 'Schlieren' of Switzerland.

Chairman: Shri Badhwar, there are certain important issues which we postponed the other day. We will first take up the contract with Schlieren. Then we will take the agreement with TELCO.

Shri F. C. Badhwar: Do I understand that you want a further statement on the position of the agreement with the Swiss firm?

Chairman: Yes, and the discussions we had on those two days.

Shri T. N. Singh: When we discussed it last time you felt that you needed further consideration on the question of the revision of this contract with Messrs. Schlieren. We want that enlightenment on that point.

Shri F. C. Badhwar: Sir, as far as the agreement goes, as you are aware, the Finance Commissioner went to Switzerland to explore ways and means of revising the agreement with the Swiss firm. I am afraid we won't know the final picture as it emerges after his discussions till he comes back.

Shri T. N. Singh: You mean to say that an agreement has already been reached and signed by the Commissioner?

Shri F. C. Badhwar: We do not know the position.

Shri T. N. Singh: What actually is the position? Had he the authority to come to an agreement with Messrs. Schlieren there without letting you know what the final position was going to be?

Shri F. C. Badhwar: No, Sir. There will be no alteration in the *status quo* till he gets back and we discuss these things and Government's approval is obtained. Finance consulted and so on. His talks are just exploratory. I am afraid we won't know the full picture till he comes back.

Shri T. N. Singh: Are you sure he has not the authority to make the best of a bad job there and avoid unnecessary inter-communication between yourself and himself and come to a decision even there if considered necessary?

Shri F. C. Badhwar: No, Sir. The decision will be taken here. As far as the practical side of building these coaches is concerned, we are quite certain that we are doing the right thing by adopting this type and building up as quickly as possible as large a number of coaches as possible.

Shri Narahari Rao: Why have Schlieren been unable to deliver the goods according to the terms of the contract?

Shri F. C. Badhwar: You mean the orders placed already? I think I explained that.

Shri Narahari Rao: Orders have been placed for at least two years, year after year, while the first-year contract was not implemented.

Shri F. C. Badhwar: There is undoubtedly delay on their part, very long delay.

Shri Narahari Rao: You have under the terms of the contract with Schlieren power to terminate the contract in case of their failure to implement the contract—under clause 10 of the contract. I suppose your difficulty is there is no provision for any penalty for their failure.

Shri F. C. Badhwar: Sir, we actually have not at present considered this matter of terminating the contract, because we feel there are some advantages to us in our technical tie-up with them.

Shri Narahari Rao: What is the justification for giving money for goods not received? That seems very bad business.

Shri F. C. Badhwar: In an arrangement which extends over a number of years, the position at any one particular time should not really decide the excellence or otherwise of it. There was a time when we had paid out more than we had obtained by way of consignments received, but the position has changed substantially since. I am not, of course, defending the delay on their part.

Shri Narahari Rao: That is an important point.

Shri S. N. Das: When deliveries for first year were not received, what was the necessity for making payment for another instalment?

Shri F. C. Badhwar: It was part of the agreement.

Shri Narahari Rao: One-way traffic.

Shri F. C. Badhwar: If I may point out, the emphasis seems to be on the orders placed on the firm. From our point of view that is the least and most unimportant part of the agreement.

Shri Narahari Rao: You have to pay for it.

Shri F. C. Badhwar: That is true.

Shri Narahari Rao: Why is it unimportant to give away about 30 lakhs of rupees?

Shri F. C. Badhwar: The most important part of the agreement is to enable us to build these coaches in large numbers economically in India. In order to do this, we had entered into a technical aid arrangement with them and from their side they insisted as part of this technical aid agreement the placing of certain orders on them on certain conditions. These orders are the result of those conditions.

Shri V. P. Nayar: Don't you think that it is 'immoral' that we go on fulfilling our part when they do not?

Shri F. C. Badhwar: There has been a shortfall on their part. Deliveries have been delayed. But I do not think there has been any *mala fides* on their part. They are trying to fulfil the contract. I am not defending the delay.

Pandit Munishwar Datt Upadhyay: You said the other day that the price had increased from 115,000 to 213,000 and when it was put to you that that cost a good deal, your reply was that the cost plus profit principle was applied only to the first 25 coaches. Well, I think this increase is going to apply to all the coaches.

Shri F. C. Badhwar: The higher figure that you have quoted refers to the fully furnished coach. The first estimate refers to the shell only. It was our intention to get shells only from this firm and future orders would be placed for shells only.

Pandit Munishwar Datt Upadhyay: I want to know what would be the highest price for shells. Is it likely to go still higher?

Shri F. C. Badhwar: We will have to wait for the audit examination. There is going to be a costs audit, which will settle the price for future orders.

Pandit Munishwar Datt Upadhyay: What is the machinery for testing this cost?

Shri Narahari Rao: This firm is supposed to be a reputed firm. Even the preamble to the agreement says: "Schlieren have long and varied experience of manifold character in the manufacture of all-metal, light-weight coaching stock....." We were also told the other day that they were regular suppliers to many countries and so on. If they are, surely there is no need for a cost plus basis contract with a firm like that. They

should be able to quote you a definite price, a price which you can check up with the price at which they supply to other countries.

The cost plus contract is a kind of thing which was devised during war-time when you gave orders to all kinds of people who had no experience of that kind of goods. It was experimental. Things had to be made. They had the capacity to make, but there was no regular market or market price and so on. That would not apply to commodities or articles like wagons, locomotives etc. You would not enter into a cost plus contract for the purchase of locomotives in Britain, Germany or Canada. You negotiate what is the price they are going to charge. I cannot imagine a well-reputed firm of manufacturers of coaches entering into a cost plus contract with an outside country. It is an extraordinary thing. This is really abominable—I use very strong words. They are bad enough in our own country. They are simply abominable if they are in a foreign country. We have no means whatsoever of controlling the price or even of seeing if the accounts are in order. They are all in a foreign language. We have to rely upon foreign auditors and accountants. I have at the moment considerable difficulty with a few other contracts of this nature, not connected with the Railways, and I must, Sir, ask you to record that cost plus contract should not be entered into in foreign countries, because we have no means whatsoever of controlling either the manufacture or the price, etc. It may be all right in one's own country where you are controlling the price of commodities, raw materials and so on, but not so in a foreign country.

Shri Narahari Rao: You can enter into this cost plus contract in your own country in very special circumstances as, for instance, when there is a national emergency, or very deliberately with a view to encouraging nascent industries for a period of time, but even then it requires a good deal of internal control to see that it works properly.

Shri F. C. Badhwar: I shall try and explain the position. This firm is one of three firms that manufacture railway coaches in Switzerland and it is the premier firm among these three. It has evolved certain principles of design and certain patents but these principles of design and these patents have to be adopted, to various kinds

of coaches that the customer prefers. I will give you an example. The principle of cantilevers in bridges is well-known but no firm can give you a firm quotation for a cantilever bridge unless they examine all the peculiar factors of the particular bridge, what is the span, what load will it carry, what is it meant for, what is the wind pressure, etc. The point is that these principles of the Swiss design had to be adopted to a coach that we wanted, that was suitable for Indian conditions. It took some time to evolve the details of this design and not knowing what the design was going to turn out like at the end, the Swiss firm represented that for a certain number of these coaches they should be paid cost plus and after auditing this a firm price should be fixed for any subsequent bulk orders. Now, Sir, I fully agree with the Auditor-General that a cost plus contract is an abomination at any time.

Chairman: Abomination in a foreign country.

Shri F. C. Badhwar: I would go further and say anywhere in a competitive economy. But it is a thing that everybody has had to accept under different circumstances. For instance, there is very little difference between the cost plus contract and a contract where escalators are conceded in respect of all cost variations. Perhaps you know that every single contract placed by Director-General, India Stores Department (who orders the bulk of our foreign requirements) is a contract where full cost escalators are conceded. That is the position today.

Chairman: Has the Director-General got that power?

Shri F. C. Badhwar: It is the standard form of contract accepted by all departments of Government who have to buy through him. It is the standard form.

Chairman: In this case nobody anticipated the cost of manufacture?

Shri F. C. Badhwar: Because our own requirements were for Indian conditions and as I explained at some length the other day there were various detailed factors that we insisted upon should influence the design. Not knowing what the final design would be they could not offhand—no reputable firm offhand could—give you a firm figure. Therefore we thought that we were being nothing more than reasonable in accepting this condition

for a certain number of coaches after which a firm price would be fixed.

Chairman: But then such an arrangement involves so many difficulties. For instance, we have to check their accounts, we have to appoint Indian Audit Officers able to read accounts written in German.

Shri F. C. Badhwar: The Director-General, India Stores Department whose organisation is a part of the High Commissioner's organisation in London does not buy only in the U.K. We buy all our stuff through him. We may negotiate and settle the prices and designs but we purchase through him.

Chairman: The Director-General does not bother about costs or inspection and execution. In certain contracts belonging to the Defence Ministry we have found he was ignored.

Shri Narahari Rao: No, Sir. He signed on the dotted line.

Chairman: The Public Accounts Committee is going into the duties and functions of our Supply Missions and the Director-General. But you are trying to add to the troubles of the Auditor-General and his staff. They have no business to look into accounts anywhere and everywhere.

Shri Narahari Rao: No, no. Actually they should, but I think we are straying away from the point that it was a very unusual thing to enter into a cost plus contract with an established firm of this kind and the reply given by the Secretary of the Ministry, if I understand him rightly, is that it was not an established design that we were after, that we were asking them to design something special for our own use. What attracted you to these people if they did not already have the design you wanted?

Shri F. C. Badhwar: There are certain principles of design as I disclosed to you the other day. This coach was an integral coach; it did not have a separate underframe and a separate body; it was designed in the form of a tube. Certain other types are like boxes. We preferred this. There were also very attractive features: for equivalent strength less steel was used, a commodity in which we are hard up; there were also anti-telescopic features.

Shri Narahari Rao: You say you had to enter into a cost plus contract

because the design had not been finalised and that until the design had been worked out you could not assess the cost. But the design was finalised in 1950 and you could then have finalised the price. Even now the price has not been finalised.

Shri V. Nilakantan: The design of the coach was not started by the firm before the agreement was concluded. Actually the firm had to give us the design of the coach according to our specifications. The design itself was not started until the agreement was concluded.

Shri Narahari Rao: In 1949?

Shri V. Nilakantan: That is right. But when the agreement concluded we knew that the firm would not be able to quote us a firm price until the design was completed. Therefore it was as a precaution that we said that for the first 25 coaches manufactured it would be a cost plus basis and that on the basis of that we would fix the firm price.

Shri Narahari Rao: That is right but the design was completed in 1950 and what you say applies up to that period.

Shri V. Nilakantan: But before that this clause had existed and therefore the first twenty-five coaches had to be built before we applied the firm price. Part of the agreement was that they would help us to design the coach and that we would place orders on them for coaches of that design.

Shri T. N. Singh: I am not convinced by what I have heard so far about the possibility of arriving at some price schedule for your new type of coaches. Firstly, you say that you had arranged specifications according to which you wanted these coaches to be manufactured. Secondly, you say that the firm has its own designs and principles according to which the specifications were to be applied when the coaches were manufactured. Why was it not possible for such an experienced firm to estimate the cost of a coach when they knew the design which they were going to manufacture and when they knew all the specifications?

Shri V. Nilakantan: Actually it took them nearly a year—the firm's experts and our experts sitting together here—to finalise the design and until the design was finalised no estimate could be prepared.

Shri V. P. Nayar: Have you any facts which would show that at any time after conclusion of the designing you had made any attempt to fix a price?

Shri V. Nilakantan: But as I said before the design was taken in hand this agreement was concluded and in the agreement it is provided that the first 25 coaches will be paid for on a cost plus basis and after auditing the cost of these 25 coaches a firm price would be fixed. About 22 of these 25 coaches have just arrived.

Shri V. P. Nayar: For the first 25 coaches we can presume that they will purchase materials at retail prices to enhance the cost. Was such possibility ruled out by your efforts?

Shri Narahari Rao: You say the design was not finalised till September, 1950. But in February, 1950 you paid Rs. 27 lakhs and placed an order for a coach even the design of which had not been finalised. We seem to have been financing them—they do not seem to be people of any standing. Why do you make an agreement which makes you pay long before you buy? It is not a kind of an agreement that can be supported.

Shri S. S. Vasist: The explanation is very simple. Finalising of the design in September 1950 does not mean that none of the important details was finalised by that period.

Shri Narahari Rao: Six months before the design is ready you go and pay nearly Rs. 27 lakhs to these people. If you are not financing the company I do not know what else it is. It is an extraordinary thing to defend it.

Shri S. S. Vasist: I am trying to explain the details regarding finalisation of design. Designing of a coach includes designing and settling the balance of the various components of the coach. For example, what is going to be the strength of the steel plate which is going to be used in the construction of the coach? After finally deciding this we can give them money to go ahead with the buying of steel so that as soon as the complete design is finalised they can go ahead with the construction.

Shri V. P. Nayar: Your explanation can mean one simple thing that this company with such long experience is so broke as to require Rs. 30 lakhs in advance to do their job.

Shri S. S. Vasist: I think it depends on how you look at it. Design was our work too because they were not designing on their own. The design was finalised jointly by their technical men who had come here and our technical men who sat with them. Our men placed before them our requirements and then with mutual consultation the designs were finalised. Every little detail was discussed before the design was completed. It was not a question of helping a company which was broke.

Shri Narahari Rao: I do not see the justification for paying these Rs. 30 lakhs long before even the design was ready and long before the stuff had arrived. The stuff had not arrived for three years. I maintain that this money had been given to Schlierens for financing their enterprise and if this is the kind of defence that is being put forward, I think there is very little hope of further contracts of this kind. A mistake, if admitted, is I think more hopeful.

Shri Ramachandra Reddi: May I ask whether after the agreement had been entered into any defects have been noticed in it either in the actual wording of it or in the working of it and if so, what are the defects and to what extent have they been rectified?

Shri F. C. Badhwar: No, Sir. The idea behind our trying to revise the agreement is due to the change of circumstances, not so much to any defects noticed in the agreement. There have been no defects noticed.

Shri V. P. Nayar: We would like to know who was the Officer on our side who first recommended this payment of Rs. 30 lakhs.

Shri F. C. Badhwar: It is in the agreement.

Shri V. P. Nayar: The actual payment of Rs. 30 lakhs in advance even before the designs were ready must have originated from somebody.

Shri F. C. Badhwar: The payment was made according to the timing of the order.

Shri Narahari Rao: In the agreement, it is provided that you have to cough up the money the moment it is asked!

Shri V. P. Nayar: Was there any Officer who said that now that we had reached such and such a stage the money should be paid?

Shri T. N. Singh: Even after all the explanations that you have given for

making the payment well in advance of even the completion of the design and even after your offering the excuse that you were bound by the agreement, I feel there was hardly any justification for advance payment. Will you please explain how far it was considered by the Board to be an economic proposition to make payment for things which you did not even know what they would be like.

Shri K. Sadagopan: The delay in the design, of course, we have to admit. Six Swiss engineers were working in India from June 1949 to January 1951 in the finalisation of the designs. Actually, as the Auditor-General remarked, the design was finalised in September 1950. So, the delay is partly on us, i.e. the Railway Board, in finalising the design because several experiments had to be made before the designs could be finalised. So, Schlierens could not be held responsible unilaterally for this delay.

Shri T. N. Singh: Under clause 9 of the agreement it is stated that you shall pay 50 per cent. of the estimated cost. Why was payment made when the costs were not estimated even up to September?

Shri K. Sadagopan: The cost was there. There was the first estimate of 115,000 Swiss francs in which we had to pay half.

Shri T. N. Singh: So, without the designs there was an estimate.

Shri K. Sadagopan: There was a broad estimate. The details of the designs had not been finalised, I admit. But this amount was paid to the firm not, if I may venture to say so, to finance it but to enable it to collect the materials, to order the stores, which took about twelve to eighteen months for it to get and help it to produce this coach. It was for this purpose we had to make this advance payment.

Shri T. N. Singh: Was it not possible for you to take the plea before making payment that since the estimates were vague and not final estimates, you could not make payment?

Shri K. Sadagopan: It was an estimate, though a first estimate, and we were paying only 50 per cent.

Shri T. N. Singh: But an estimate is an estimate and you could not go on revising it.

Shri K. Sadagopan: We have not paid on the changing estimates. We have paid only on the first estimates.

Pandit Munishwar Datt Upadhyay: You admit that the money was advanced for the purchase of materials.

Shri K. Sadagopan: Yes.

Shri Narahari Rao: May I ask a few more questions? I would invite your attention to clauses 6 and 7 of the agreement:

"Clause 6.—In the first place Schlieren will send to India immediately on the execution of this Agreement a team of not less than three officers for the preparation in India of the initial design of all-metal, light-weight coaching stock in consultation with the Government. Schlieren will then manufacture in their works two prototype coaches to this design. When these prototypes have been tested, Schlieren will arrange for the production of coaches to the requirements as set out in clause 7.

Clause 7.—Government shall orders on Schlieren for fabrication at their works to Government's approved design for not less than fifty coaches per year for the first four years of the Agreement. The coaches will consist of unfurnished bodies..... etc.... etc."

If you read clauses 6 and 7 together, it is only after Government has approved the design that the order can be placed. It is extraordinary that we have heard so much on this subject ignoring this factor. I am sorry that this point has not been more clearly stated in the Audit Report, but we had it in mind all the time, because there is a reference to it in para. 26. But it is so clear when you look at the agreement itself. We are therefore astonished that we should be told today that the delay was due to the design. But there was no justification for placing the order before the design had been approved by Government and that approval could be given only after the two prototype coaches had been produced and I have to say with great regret and with much respect to you, Mr. Chairman, that if such justification is put forward before this Committee it is almost insulting the intelligence of everybody here.

Shri K. Sadagopan: If I may explain, the intention was that we should place the order to the Government's approved design, but these were proceeding concurrently.

Chairman: Will you please tell us when the order was placed by the Railway Board?

Shri K. Sadagopan: The first order was placed in January 1950.

Chairman: And when was the design completed and approved by the Railway Board?

Shri K. Sadagopan: But the payment was made only to help the industry.

Shri Narahari Rao: To help the industry—that is precisely the point.

Chairman: Our Officers have entered into some agreement and this Committee has to examine whether the letter of the agreement has been followed, leave aside the spirit. If your Ministers have not gone into it, it is their negligence but here was an agreement and it had been considered by the Financial Commissioner, the Chief Commissioner and the Secretary. This Committee expects our Officers to satisfy us that they followed the agreement to the letter. You made some statement but we are intelligent enough to understand the position for ourselves. That is the reason we were not satisfied with your previous explanation and asked for Shri Badhwar to throw some further light. But we do not approve of the interpretation of the clauses of the agreement that you have given. Of course, we are not financiers, but it is in plain English and you should credit this Committee with some intelligence. As Chairman of this Committee, I entirely endorse the Auditor-General's observation. This kind of thing has never occurred in the past. The Railway Board has gone beyond its sphere and entered into an agreement with a foreign company, and made advance payment.

Shri Narahari Rao: Even the terms of the agreement have not been followed.

Chairman: Of course, that point we shall come to and we shall make our observations on it in the Committee, but the limited power of the Railway Minister and the Ministry was exceeded in the acceptance of the terms of this contract. Then there is another point that the Auditor-General has noticed. If there is trouble, you have to institute the suit in Switzerland. Why should India's money be squandered in Switzerland?

Shri Narahari Rao: The area of the agreement is said to be India. Suppose you want to sue this company, you can only sue in India according to this agreement. Is there a clause to that effect?

Shri K. Sadagopan: There is a clause.

Shri T. N. Singh: What about the objection raised by me that under clause 7 of the agreement you could have avoided making the payment?

Shri Narahari Rao: There was no justification for the payment. You might leave that point.

Chairman: We have noted your halting explanations and will come to our conclusions in the Committee.

Shri K. Sadagopan: The only explanation is that we wanted to gain time.

Chairman: The Financial Commissioner is not a lawyer. You are appearing before us on behalf of the Finance Ministry or rather whatever statements you make you make on behalf of the Finance Ministry and you are supposed to have taken the instructions of Dr. Matthai or whoever was the Finance Minister then. We are not here to hear arguments. We want the co-operation of the Heads of Departments. We expect them to tell us the right position. If they have misunderstood the matter, let them say so. Let them say that this aspect had been overlooked. That is a much better way of saying things. This kind of argument will not do. We are not High Court Judges here. We are a Financial Committee of Parliament and we are here to see that the Heads of Government Ministries follow strict financial principles. You said that in regard to this agreement you consulted your lawyers. Who are your lawyers? Are they different from the lawyers employed by the Government of India?

Shri K. Sadagopan: We have no separate lawyers. It is the Law Ministry.

Chairman: We will take it up with the Law Ministry.

Shri T. N. Singh: Did your financial section raise this point about clause 7 when the payment was made? I mean, did you draw the attention of the Railway Ministry or Railway Board that in terms of that clause the payment could be withheld?

Shri K. Sadagopan: We were quite aware of it.

Shri T. N. Singh: And then payment was made?

Shri K. Sadagopan: Yes. The design and the production of the prototype were largely due to the discussions of the Railway Ministry and not the firm. The firm was not responsible for it.

Shri T. N. Singh: You as Financial Commissioner knew the provisions of clause 7?

Shri K. Sadagopan: Yes.

Shri T. N. Singh: You knew that advantage could be taken of that clause for not making the payment or for delaying the payment?

Shri K. Sadagopan: Yes.

Shri T. N. Singh: Even then the payment was made with your full approval?

Shri K. Sadagopan: Yes.

Shri V. P. Nayar: Under clause 15, there is a very definite provision that the contract can be terminated by giving six months notice in writing in this behalf. There is a very clear unambiguous provision in this contract (clause 15) that in case of a breach of condition of the contract, the transaction can be terminated. Did you ever take any steps under clause 15 of this agreement when you found that there was a breach of contract on the part of the firm?

Shri K. Sadagopan: We do not agree that there was a breach on the part of the firm; there has been delay no doubt.

Shri Narahari Rao: It is an astonishing reply to say that coaches which were due to be provided to India were not provided and still it is not a breach of the contract. It just takes my breath away. If you were to say that it is a breach of the agreement and that for certain reasons, you were prepared to condone it, we can understand that. If, on the other hand, your interpretation is that it is no breach of contract, the English language ceases to have any meaning.

Shri K. Sadagopan: I am sorry, Sir, what I meant to convey was that it was not such a breach as could not be condoned.

Chairman: Financial Advisers of the Government of India ought to follow strict financial principles. In what you are saying, you are only under-rating the control of the Finance Ministry and of the Financial Adviser.

Shri V. P. Nayar: I am very much surprised at this explanation. The fundamental conception of a contract is that it is an agreement enforceable by law. It is not open to one of the contracting parties to put his interpretations upon words. It is not for you to interpret whether the breach is such as would affect the terms of the contract. You just act as an agent of Government. It is very wrong to put forth an explanation like this and say that there was a breach, but that breach was not enough to send a notice.

Shri Narahari Rao: The real implication of this is that it was very difficult to terminate this contract. In the contract you will find there is no penalty clause. If you terminate the contract what would you do? You may have to whistle for the money. The area of the contract is India. You have paid this money in Switzerland. I do not know what the legal position is. But the contract is very defective as regards penalties.

I would like the Committee to make a clear note of these points. Here is a contract entered into with a foreign firm. You advance about Rs. 50 lakhs over that; there is no kind of guarantee; no penalty clause; no bank guarantee; no security. It is a very important point which, I hope, the Committee will take note of. It is because they have no kind of a whip hand (or means of enforcing it) that they have to make use of the agreement for heaping irregularity upon irregularity.

Chairman: I wish to make one point clear here. The Public Accounts Committee is alarmed at the way contracts have been entered into by the various Ministries. We have, therefore, decided to appoint a Sub-Committee of the Public Accounts Committee to go into all these agreements and contracts entered into by the Railway Ministry or by the Communications Ministry and we want the co-operation of every Financial Adviser of the Ministry to come to a uniform practice by which the sovereign Government of India may not repeat the mistakes of the foreign rulers.

Shri Narahari Rao: Such contracts were never made in the past.

Pandit K. C. Sharma: What was the harm in terminating the contract?

Shri Narahari Rao: It would have precipitated the scandal.

Shri F. C. Badhwar: The main object of the contract is to manufacture coaches in India based on those specifications and designs.

Shri U. C. Patnaik: How many Indians have been trained by the Swiss Engineers?

Shri F. C. Badhwar: Three or four; a certain number of designers were trained here by the Swiss technicians.

Shri U. C. Patnaik: Have the persons who were sent to Switzerland finished their course and come back?

Shri F. C. Badhwar: Yes. The intention was to send many more. We wanted to train about a hundred altogether.

Shri T. N. Singh: The territory of this contract is India and not Switzerland. So, if any disputes arise or any claims are made by either side, they will have to be decided in India. Supposing the Government of India have got certain claims against this firm: the suit will be filed in India. How will the decree of our court, be enforceable in Switzerland?

Shri K. Sadagopan: Provision has been made for it in clause 19.

Shri T. N. Singh: That is in regard to arbitration. I am referring to a case where you have to go to a court of law.

Shri K. Sadagopan: According to this agreement if there was any difference or dispute arising from the performance of this contract, we would naturally resort to arbitration as provided for in clause 19 of the contract.

Shri T. N. Singh: But there may arise cases in which no decent Government would accept arbitration. What do you envisage in such cases?

Shri K. Sadagopan: This agreement was vetted by the Law Ministry and they said that this provision was adequate, but if there are cases which necessitate reference to a court of law, we would naturally consult the Law Ministry, whether it should be referred to an International Court or a Court in India.

Shri Narahari Rao: International Court in the case of a common contract! I have never heard of it. You know that quite recently the Hague

Court held that it has no jurisdiction in the Anglo-Iranian oil dispute.

Shri T. N. Singh: Assuming that at this stage they somehow break off—what knowledge and experience or technique would we have gained on the 11th September (today) by our association with this firm?

Shri F. C. Badhwar: Not very much beyond design. Then, some of our Officers have been trained by them.

Shri T. N. Singh: Supposing we were to terminate the agreement now on our own, then under clause 15(2) we shall be entitled to make use of the design and the technique we have so far learned.

Shri F. C. Badhwar: Yes.

Shri T. N. Singh: To that extent we shall not be the losers. Can we utilise their patents and copyrights?

Shri F. C. Badhwar: We will have to pay them a royalty.

Shri T. N. Singh: Subject to that, we will be entitled to use their copyrights and patents?

Shri F. C. Badhwar: Yes.

Shri T. N. Singh: I wanted only to understand the implications of either side terminating the contract. I am not suggesting in any way whether the contract is going to be terminated or not.

Shri F. C. Badhwar: I would like to point out that in any arrangement which extends over a certain period of time, a certain number of years, 5, 10 or 12 or whatever you like, if it is cut in the middle, one side or the other is going to suffer because your design takes into account the full period. For instance, if you are building a house, it takes three years. If it is left unfinished you suffer; you have got no house, but you have to pay the contractor something. I think that general consideration would apply to all agreements.

Shri T. N. Singh: It means that if we had sent during all these years our men earlier to get training, even though the factories were not got going, at least technical personnel could have been trained by this time even under the terms of the contract.

Shri F. C. Badhwar: But, there was no *mala fides* either on this side or that. We intended to plan over the full period and train people.

Shri T. N. Singh: After all, accidents may happen in any arrangement. Every cautious Government makes provision for all eventualities. The firm may go into liquidation or it may be taken over by somebody else. For some reason, the agreement may be terminated. At least, you could have made the best use of the time available to you.

Shri F. C. Badhwar: I admit that we did not take full advantage of the training facilities offered under this agreement.

Shri Narahari Rao: Apparently the factory was not ready.

Shri F. C. Badhwar: That is quite true and so we could not train our people.

Shri Narahari Rao: Their factory?

Shri F. C. Badhwar: Our factory was not ready. They had a factory for years.

Shri T. N. Singh: May I take it that not sending our men for training was due to the fact that your factory had not been got going?

Shri F. C. Badhwar: That is right.

Shri T. N. Singh: And that prevented you from sending your men for getting the necessary training to which primary importance is attached in this agreement?

Shri F. C. Badhwar: Yes.

Shri T. N. Singh: Even though under the terms of the agreement we have to have a factory and that is delayed, am I right in taking it that we could have sent our men for training?

Shri F. C. Badhwar: We admit that we did not take full advantage of the training clauses. We should have and we could have trained more men.

Chairman: Any other questions?

Shri U. C. Patnaik: May we know how long after the agreement we sent out trainees for training?

Shri F. C. Badhwar: Almost immediately. We sent a Technical Officer, who, it was intended, should be the general manager of the new factory here. We wanted him to be associated with the firm from the beginning so that he may know their techniques. He was already an experienced Officer. All that he had to do was to pick up certain new techniques. But, the designers that were sent to work

in their workshops and to learn their welding techniques were sent, I think, after the design of the coach had been finalised.

Shri U. C. Patnaik: So, we sent one Officer in the beginning and later we sent three Officers.

Shri F. C. Badhwar: Three designers.

Shri U. C. Patnaik: At what point of time did we send the three designers?

Shri F. C. Badhwar: I think after the design was finalised.

Shri U. C. Patnaik: That is, about October or November, 1950.

Shri F. C. Badhwar: Early 1951.

Shri U. C. Patnaik: There is another question that I wanted to ask. The prices were rising from 115 to 130 thousands, from 130 to 150 thousands and from 150 to 213 thousands. May I know if any Officers were deputed in between before the prices were negotiated and the rise of the prices there? What is the rank of those Officers that were deputed? The prices rose on three or four occasions, every time by 30,000 or 40,000. What is the rank of the Officers that were deputed for negotiating these prices?

Shri K. Sadagopan: These prices were not negotiated.

Shri F. C. Badhwar: They were the estimates given from time to time. Some refer to the completely furnished coach and some only to the shell. The prices have not been accepted.

Chairman: Shri Sadagopan was going to make some statement. He may supplement the observations of Shri Badhwar.

Shri K. Sadagopan: 115,000 was the first estimate they gave for the shell. That was raised to 130,000 at a later stage.

Shri U. C. Patnaik: How many months after was it raised?

Shri K. Sadagopan: I will give the period.

Shri T. N. Singh: I want to say one thing. I want the representatives of the Ministry to be cautious and supply the correct information. From certain information that I have been able to gather, I find that their statements regarding the estimated cost the other day were not exactly accurate. We want specification by specification and the varying cost from time to time. We also want the quotations that were given for the furnished

coaches, that is the gap between the shell and the furnished coaches in the first instance, and the gap between the shell and the furnished coach subsequently. All these points should be clarified.

Chairman: He is giving them now.

Shri T. N. Singh: I am making it clear now. After hearing this, if they make a statement, let it go on record.

Chairman: They are the highest officials representing the Ministry. They are giving information from their files. If we find any discrepancies in the evidence, we have the privilege to look into it and pass strictures.

Shri K. Sadagopan: We admit there have been changes in the estimates from time to time. We do not yet know—I must put this before the Committee—what the final price is going to be.

Shri Narahari Rao: That is precisely the point.

Shri U. C. Patnaik: You have been receiving offers from time to time. We want you to give us an idea of the probable time when these offers rose and the Officers who had been deputed to Switzerland just before the raising of the offers.

Shri K. Sadagopan: That is what the Chairman asked me to answer. I must explain here that the firm was giving different estimates at varying periods. One was at the time of the contract; then somewhere about October 1950; then, again, in September 1951. They have been giving varying estimates. I must say this. These prices were not discussed with them. There was no negotiation. All these prices were merely estimates from time to time given by the firm according to the cost of the material and labour they have incurred. The whole thing can be finalised only after we know the results of cost audit.

Shri U. C. Patnaik: May I put the question in another form so that you may appreciate the question that we are putting. You will please remember that from time to time Officers of the Railway Board are going to Switzerland. Contemporaneously there is an enhancement in the price. They may be disconnected facts. But, still we would like to draw our own inferences from that. Therefore, we would like to know who were the Officers that were sent from time to

time to Switzerland, whatever may be the purpose of their deputation.

Shri K. Sadagopan: I can only answer this question in my humble way. Whenever we have any opportunity to go on this procurement of rolling stock for the Government of India, when we visit Switzerland, naturally, it is part of our responsibility and duties to ascertain what the actual position was. It may have happened that they have given us these estimates at that time. Beyond that, I am unable to say.

Chairman: Shri Patnaik's question is which Officers of the Railway Board went into these negotiations from time to time. The second point is which Technical Officers were sent by you for training in the manufacture of tubular coaches.

Shri F. C. Badhwar: Supposing we give you a statement.

Chairman: If you suggest that you will send us a statement on that issue, we will be quite satisfied.

Shri V. P. Nayar: Shri Badhwar only wants to know our reactions to the suggestion: suppose he sends a statement.

Pandit K. C. Sharma: That is important. We will judge whether inflationary conditions existed there, etc.

Shri F. C. Badhwar: We will send a statement which will be accurate.

Shri U. C. Patnaik: You have no idea as to what Officers were sent from 1949?

Shri F. C. Badhwar: I myself visited Switzerland on two occasions.

Shri U. C. Patnaik: The probable dates when you visited? You can give exact dates later on.

Shri F. C. Badhwar: I was there twice, in 1951, with an interval of about 14 days: either late August and came early September or early September and late September. I forget the exact dates. I think it is safe to say early September and late September. I myself was in Switzerland again this year for about four days in July. I think it was somewhere about the 6th or 10th.

Chairman: Your predecessors and other subordinate Officers?

Shri F. C. Badhwar: In 1951, the Director of Finance and myself were together. When we paid these visits,

we inspected the work from every angle, more especially from the technical angle. In Switzerland, inspection of the work is done by arrangement with the Director-General, India Stores Department, London, with the Experts of Swiss firms.

Shri Narahari Rao: Are not they hand-made coaches?

Shri F. C. Badhwar: In the sense that they are not mass-produced as in America. There is much more handiwork. They have got skilled welders. There is more handiwork and less automatic work.

Shri U. C. Patnaik: May we know the details about your predecessor and other Officers of the Railway Board going there?

Shri F. C. Badhwar: I will send a statement.

Shri V. P. Nayar: What was the last occasion when the price was enhanced?

Shri Narahari Rao: Latest; not the last.

Shri K. Sadagopan: We will send all the details.

Chairman: We need not go into all those details. Shri Badhwar will send a detailed note. I do not remember how many notes we have asked him to send. There is another question. You talk of cost accounts. The other day you gave us the notion that you did not consult at any stage the Auditor-General or the Director, Railway Audit. How can the Director of Railway Audit devise a machinery to go into cost accounting in Switzerland? I want to know whether that point was in the mind of the Railway Board or the Railway Ministry.

Shri K. Sadagopan: The Director-General, India Stores Department, has entered into contracts all over Europe on this pattern, and we employed Chartered Accountants of international reputation.

Chairman: He does?

Shri K. Sadagopan: He consults us also, and we engage firms.....

Chairman: He engages?

Shri F. C. Badhwar: Yes, Sir, he signs the contract.

Chairman: You are giving me a new picture of the Director-General, India Stores Department. You feel confident

that the D. G., I. S. D. has the necessary machinery for cost accounting.

Shri K. Sadagopan: I will give my reply so far as cost audit is concerned. In this case, we took particular care to make enquiries ourselves, we did not leave it to the D. G., I. S. D. alone to institute this machinery, and we got into touch with a firm of international reputation, as I said.

Chairman: You, the Railway Board?

Shri K. Sadagopan: Yes, and asked the D. G., I. S. D. to negotiate the details of the terms. You know the status of firms of auditors and with what meticulous care they would go into all these things. And in this case, we have appointed Messrs. Price Waterhouse—they have branches all over, and they have a branch in Switzerland also. We consulted our Legation at Berne also as to the firm of auditors who should be employed and we took care to see, if I may tell you in all confidence, not to appoint any Swiss firm as such in this case, because it.....

Chairman: You did not consult the Auditor-General who is responsible for the finances and expenditure of the Union Government?

Shri K. Sadagopan: I should concede the Auditor-General may have his problems, but this is the precaution.....

Shri U. C. Patnaik: Did you consult him or not?

Shri K. Sadagopan: No.

Shri U. C. Patnaik: Did you consult the Director of Railway Audit?

Shri K. Sadagopan: There was no occasion, if I may submit.

Shri U. C. Patnaik: That is a matter of opinion. Did you or did you not consult the Director of Railway Audit?

Shri K. Sadagopan: No; nor was there any occasion, as I said to consult him.

Shri Narahari Rao: Do you still maintain that there was no necessity to consult the Auditor-General?

Shri K. Sadagopan: I should think so, with all respect. There was no need for prior consultation, but if the Auditor-General could elucidate the point, I would like to.....

Shri Narahari Rao: I should have thought that the financial representatives on the Railway Board knew

something of the functions of the Auditor-General. It is their business to know, with several of my Officers there on loan, and in any case, whether there were my Officers or not, I think they ought to know the provisions of the Constitution and the rules and so on.

Here is a contract made under which the ultimate payment to be made is to be based on cost plus something, and as the Auditor-General of India, it is my duty to satisfy myself that the payments are in order. Therefore, when you make a contract of this sort, especially in a foreign country, you ought to ascertain beforehand whether it would be possible for me to discharge my functions if you entered into a contract of this sort. That shows complete lack of understanding of my responsibilities and lack of coordination. I hope it is agreed that I am responsible to Parliament to see whether I am or am not satisfied that this expenditure is in order, that the payments are lawfully due, that there is no overpayment and so on. If I am not in a position to satisfy myself, you will realise that I may refuse to certify your Accounts and the consequences of my doing so would be very disastrous to the Railway Board. It is a warning which I think the Railway Ministry should clearly take before they embark upon things of this sort. After all, in accounting matters and other things involved, it is necessary to consult the Auditor-General and here I think I have shown it quite clearly that it is very difficult—I do not know whether I shall be able to discharge my responsibility at all in respect of a contract of this sort—unless I am instructed or I am to accept any dictation from the Railway Ministry, that so-and-so is a good Chartered Accountant firm, that I should accept their certificate. It is for me and me alone. It is entirely a matter for my discretion, and nobody is in a position to dictate to me what instruments I shall employ for the purpose of my audit. I may or may not choose to accept the certificate of any Chartered Accountant. After all, I have my own responsibility and I have to discharge it in my own way. It is mere courtesy at least that I should be consulted, if not prudence.

Shri K. Sadagopan: With your permission, Sir, can I discuss this in greater detail with the Auditor-General, show him all the papers, the arrangements.....

Shri Narahari Rao: I think there ought to be straightaway an admission of oversight or failure, and further defence of what has happened is most aggravating. I think there is a failure, and if you say: "Yes, we overlooked; we are sorry"—that is all you need say. If you take any other line, I shall feel very distressed

Shri K. Sadagopan: The only point I would submit is that I shall place the whole file at the disposal of the Auditor-General and discuss the matter with him and satisfy him on the audit side.

Chairman: The Auditor-General's responsibility was not realised by your Ministry from 1948 to 1952. State trading concerns or corporations like the Railways, though they are under a Ministry, are behaving independently and are not recognizing the Auditor-General as the highest authority on accounting and audit matters, and we note for the present that the Auditor-General was not consulted these five years, nor has any expression of regret come from you or from the Chairman.

Shri U. C. Patnaik: I find he is of opinion still that there was no occasion for him to consult.

Shri K. Sadagopan: I have not said the last word. If there is lack of coordination, we must express our regret. My point is here is a case which we are discussing, and we have negotiated with this firm of Auditors.....

Shri Narahari Rao: They may be Auditors, but they are Auditors for the purpose of internal satisfaction of the Railway Board which may be in order, but I was not consulted as to whether these arrangements would be satisfactory, whether if they entered into an agreement of this sort, it would be acceptable to Audit, and whether it would be possible for me to discharge my own statutory responsibility to Parliament. I must again say that if I am not in a position to certify these Accounts, you will have a lot of trouble to face. That is a thing which you should bear in mind in discharging your own responsibility to Parliament.

Shri F. C. Badhwar: There is absolutely no intention to by-pass the authority of the Auditor-General. I apologise to the Auditor-General for any serious omission on our part. We fully recognise his authority. His views have always been respected, and we have taken note of his strictures on our omissions or mistakes

in the past. And I speak with the full concurrence of my colleagues that there has been no intention to by-pass or question the authority of the Auditor-General. Mistakes we might have made.

Shri Narahari Rao: I never suggested myself there was any deliberate omission. When it was pointed out just now, I expected forthwith an unconditional statement that a mistake had been made and would not be made again. The Chairman has made it now, and I admit that mistakes are made by everybody.

Shri V. P. Nayar: I would like to know whether there are mandatory rules which require prior consultation with the Auditor-General and his permission, because here is a transaction which has been questioned at every stage; Shri Sadagopan was telling us some time back that he did not feel it necessary to consult the Auditor-General.

Chairman: We will make the Railway Ministry realise their responsibility.

Shri U. C. Patnaik: May I put one or two questions to the Financial Adviser in order to appreciate the background in which the Auditor-General was not consulted?

Chairman: The Chairman has apologised. It is sufficient.

Shri U. C. Patnaik: I would crave your indulgence for putting one question more. During the last five years, how many times did the Financial Adviser go to Switzerland, how much T. A. he drew approximately, and what was the nature of the work he did there?

Chairman: But that is a question you can ask in Parliament.

Shri U. C. Patnaik: I would not have put the question, had not the Financial Adviser told us that it was not necessary for him to consult the Audit.....

Chairman: The Chairman of the Railway Board has expressed his regrets in regard to non-observance of duty in regard to Audit matters and the relationship of Audit with the Railway Board. So let us not pursue the matter further.

Shri V. P. Nayar: When it is a question of violation of the Constitutional provision, then certainly it is for us to accept or reject the "regrets"

that have been given expression to. We shall show no mercy in cases where the Constitution is infringed.

Shri T. N. Singh: I think no one is less zealous in this matter, and surely the Committee is never going to show any latitude or any laxity in this matter to anybody. So we need not repeat this statement so often, because all of us are alive to our duties with regard to the revenues and accounts of the Government being kept properly.

Pandit K. C. Sharma: Were the accounts in respect of these contracts kept in India also?

Shri K. Sadagopan: Yes.

Pandit K. C. Sharma: Were these accounts audited under the instruction of or through the staff of the Auditor-General?

Shri K. Sadagopan: Yes.

Pandit K. C. Sharma: Were certain accounts kept in Switzerland also?

Shri K. Sadagopan: Yes.

Pandit K. C. Sharma: Then where is the question of the accounts being audited by some Chartered Accountant?

Shri F. C. Badhwar: The price of coaches is fixed on the basis of the manufacturing cost, the amount of material used, the man-hours, and the machine-hours spent; and these costs are the works costs which are incurred in the workshop in Switzerland. The proposal was that they should be audited by an independent Auditor in Switzerland, and the Auditor-General has referred to certain difficulties in this connection and also to the fact that he was not aware of this, nor was he consulted in regard to this contract. That is the position.

Pandit K. C. Sharma: Are there specialised firms of Chartered Accountants in Switzerland to audit this sort of business, or was this Price Waterhouse one such specialised firm? If so, then your mistake is only in not consulting the Auditor-General in regard to giving the audit work to that firm?

Shri Narahari Rao: That is not the point at all. The point is that there is no objection to their employing Price Waterhouse or any other firm of Auditors. The term 'audit' is used for checking up the accounts, before the terms are settled, and the amount

to be paid is settled. As the statutory Auditor-General of India, I have got my own responsibility. I have to satisfy myself that the payments are in accordance with the terms of the contract. I cannot abdicate my functions to any internal check or internal Auditors. For instance, in the Railway Board, there are Chief Accounts Officers and Financial Advisers, whose business it is to conduct day to day audit internally in a complete manner. But over and above that, there is a statutory audit, which is my responsibility and I have to see that every payment that is made is in order. But I do not go into the same degree of detail, so long as I am satisfied that the people who do the internal check have been efficient. So the extent to which my organisation probes into these things depends on the efficiency of the internal auditors. The checks that are exercised by Price Waterhouse and Co., or any other internal auditors does not absolve me of my responsibility. If in order to enable me to discharge my responsibility, they had consulted me, I would have given my views on this contract, with regard to audit, and the preliminary discussions would have resulted in some form of agreement. So consultation beforehand was therefore necessary and desirable, with a view to enable me to discharge my own part of the statutory responsibility. This is the point to which I was drawing attention a little while ago.

Pandit K. C. Sharma: You mean before appointing that auditors' firm, they should have consulted you?

Shri Narahari Rao: This contract is in a foreign country, and the payments are to be based upon cost plus something; in respect of this item, I should have been consulted, not in regard to the entire contract.

Pandit K. C. Sharma: You mean that a copy of the contract should have been sent to you?

Shri Narahari Rao: In regard to the particular provision relating to payment based on cost plus something, the subject matter of the provision should have been referred to me, for my comments thereon.

Shri K. Sadagopan: We have made a note of that point.

Shri Narahari Rao: This is a general issue, and I want the Committee to make a general recommendation in

regard to such contracts in their report. Actually in respect of a contract with the TELCO, the Director of Railway Audit was asked to give his views, and I understand he has given a favourable decision on that matter. But this TELCO is in India and we can easily find out the machinery for the necessary audit; whereas if it is in Switzerland or any other country, then it becomes a difficult thing because we do not have the sufficient machinery well-versed in foreign languages like Swiss, French or German.

Dr. M. M. Das: I would like to know whether from now on these irregularities will not occur again, and whether the terms of the contract will be honoured properly by the other contracting party?

Shri F. C. Badhwar: I have no reason to think that it will not be honoured, because their output of coaches now is more regular, and every month, some three or four coaches are coming off the assembly line, and there should be no shortfall on their part again.

Dr. M. M. Das: Have you got any other grounds to believe that these irregularities will not recur again?

Shri F. C. Badhwar: Do you mean by irregularities, the accounting and audit irregularity?

Chairman: I would suggest that further discussion on this point may be postponed to a later date.

Agreement with TELCO.

Shri T. N. Singh: About the agreement with the TELCO, we have not yet heard the last thing on it. Though the Chairman of the Railway Board stated that they would prefer a detailed examination of this agreement, yet there are certain points at least, on which we should have known something by now. I would invite your attention to pages 35 and 36 of the Second Report of the Public Accounts Committee of 1948-49:

"The Financial Commissioner assured the Committee that they were not trying to slur over the defects but were doing everything that was possible to safeguard the interests of Government. The Committee wanted to be furnished with a note stating specifically whether any payment by way of subsidy had been made to the TELCO during the periods 'A' and 'B'. The Financial Commissioner,

Railways, informed the Committee that they could work out this figure by calculating the difference between the landed cost of imported locomotives and the amounts paid to the firm and he promised to furnish this information to the Committee."

This information has not so far been furnished. Then again, it is stated:

"He also promised to submit to the Committee a note outlining the fresh arrangements agreed upon with the TELCO after the discussions which the Railway Board contemplated to have with them in regard to the finalisation of the payments made during the periods 'A' and 'B' and the fixation of the firm price for period 'C' were concluded."

So, these were the points on which information had to be submitted to us. I would like to know why this information has not so far been submitted to us.

We have had similar occasion to criticise another Ministry. We want to know what action actually is taken by your Ministry once the Report of the Public Accounts Committee and the Audit Reports are in your hands.

Shri K. Sadagopan: After the Financial Commissioner gave this undertaking to the Public Accounts Committee, the Railway Board took active steps to convene a meeting at the highest possible level—between the Chairman and Members of the Board and the Chairman and Directors of the Tata Locomotive Engineering Co.

Shri V. P. Nayar: What was the year?

Shri K. Sadagopan: 1951, December. Various matters were discussed at this meeting, which lasted for four days continuously, 7th, 8th, 10th and 11th December 1951. The point raised here is about periods 'A' and 'B'. We were not satisfied, Sir, with the progress of production in TELCO. Period 'C' was to commence on 1st January 1949, as you know, but that period 'C' was to commence only when TELCO had maintained consistently a production of 8 boilers a month.

Shri Narahari Rao: I understand that is not correct. My Director of Railway Audit will explain.

Shri P. H. S. Rao: Clause 5 of the Agreement says period 'C' is to commence with the end of period 'B'. It

does not say that it commences when full production is attained. It is purely a time factor.

Shri K. Sadagopan: I would invite attention to the production plan of period 'B'. That plan contemplates the manufacture of 100 boilers a year—so I said roughly about 8 boilers a month.

Shri P. H. S. Rao: Period 'B' also commences at the end of period 'A'.

Shri K. Sadagopan: That is true. There are two aspects. That is a time factor. There is also the production factor, and the production was lagging behind.

Shri Narahari Rao: The Agreement is defective inasmuch as if the extent of the period is mentioned specifically in regard to 'A', 'B' and 'C', the production plan—which is only an intention, a desire as to what should happen—should not have been mentioned there. That should have been done separately.

Shri K. Sadagopan: Production is very important.

Shri Narahari Rao: Undoubtedly it is important. The whole object of the Agreement is production. But when you talk definitely of the extent of the period, I do not know if it was to be linked with the production plan. You should then have stated: 'Provided however that this shall be the extent until a minimum of 50 boilers is produced during this period'. It was not provided like that. I think we ought to be more precise. The letter of the Agreement is '12 months'.

Shri P. H. S. Rao: It is clear that the time factor was important, because when there was delay in the production period, 'C'—which should have started in June 1947—was extended to January 1949.

Shri K. Sadagopan: We extended it from 1947 to 1949 in order to give the firm—the industry—a chance to establish full production. This is very important as the Auditor-General has already recognised.

Shri Narahari Rao: I have recognised a defect in the drafting of the Agreement.

Shri K. Sadagopan: You have recognised that production is important. In period 'C' there is a firm price to be negotiated and that firm price per

boiler would be a realistic and economical price only after full production is established. Otherwise, if you are still in the developmental stage, your expenditure would be very high and you will not be able to negotiate.

Shri Narahari Rao: Are you admitting that there was a defect in the drafting of para. 5?

Shri K. Sadagopan: I had not thought of it. I would go into that aspect.

Shri Narahari Rao: Legally speaking, when you have specifically stated what that period covers there is no escape from that. You have not stated: "Twelve months from the date of this Agreement or the period during which the minimum of 50 boilers is produced, whichever is longer or whichever is shorter.....". Surely you must have found what was meant by the periods 'A', 'B' and 'C'. You have to be precise.

Shri T. N. Singh: Did your Department ever take the stand with TELCO that you insist on the extent of the period and that anything that would be done would be just a matter of concession, which is optional?

Shri K. Sadagopan: It is not in our interest, Sir.....

Shri T. N. Singh: We know what is in Government's interest. We shall also judge about it.

Shri K. Sadagopan: Quite so.

Shri T. N. Singh: I want to know whether any insistence was made by your Department on the time schedule.

Shri K. Sadagopan: In fact, the Finance wing of the Railway Board would rather insist upon the production being established and would not go merely by the time factor. It is important that production.....

Shri T. N. Singh: May I take it that the Finance section of the Railway Board was of the view that it did not matter whether the period was further postponed to any length of time and that the present system of payment could continue indefinitely—in the interest of production, of course? I want you to tell me specifically what is the attitude you took.

Shri K. Sadagopan: Until and unless the Finance section are satisfied that production is well-established and boilers could be had on an economical basis, we would not settle.....

Shri T. N. Singh: I take it that the Financial Adviser's view was that the balance of advantage lay in preferring the 'fluid' state of payment to continue rather than any firm period coming sooner.

Shri K. Sadagopan: You have put it correctly. We would rather face the developmental stage than enter into a firm commitment in regard to period 'C' which is to last till the rest of the contractual period.

Shri T. N. Singh: Somewhere you have said that it has to be examined whether the payments being made to TELCO are also in one shape or form a subsidy. Would you let us know in this period the amount of subsidy which has been paid to this firm according to this interpretation?

Shri K. Sadagopan: I could give you a rough idea. We have made a total payment of Rs. 1,61,69,000 to TELCO. The total number of boilers that has been delivered from the commencement is 146. The Financial Commissioner had suggested that we might ascertain the subsidy element by deducting the landed cost from the actual cost we have paid. On that basis the landed cost comes to Rs. 91,76,000 and the subsidy element comes to about 69.....

Shri Narahari Rao: Excluding customs duty?

Shri K. Sadagopan: Landed cost includes it.

Shri Narahari Rao: It should not.

Chairman: You have paid Rs. 91 lakhs subsidy to TELCO?

Shri K. Sadagopan: The balance only represents the subsidy element.

Chairman: What capital you have provided and what capital have Tatas provided in TELCO?

Shri K. Sadagopan: The capital of TELCO? It comes to Rs. 3 crores and odd. Government have provided about Rs. 2 crores.

Chairman: You say you have settled matters with Tatas. But they do not declare any dividend in TELCO. They tell their shareholders that they have not settled the whole financial affairs....

Shri K. Sadagopan: It would be of interest if I answered your point by reading from the report of the general meeting they held recently. They say 'the company hopes to enter the stage at which it will be entitled to profits'

on the boilers supplied to the Government of India by the end of 1953; until then the Government will pay your company for boilers only an amount equal to the price of similar boilers imported into India. The balance of our cost of production including depreciation will be carried to a boiler development account and will be paid to us by instalment after the profit-earning stage is reached.' If TELCO had made a few lakhs profit it was on other lines of production.

Chairman: Last year it emerged in discussions that TELCO were unable to come to a finality about this or even at Chittaranjan they were unable to come to any final decision about this because costing was not done by the Government of India up to date. You seem to be embarrassing TELCO.

Shri Narahari Rao: The point is comparison with landed cost inclusive of customs duty in an extraordinary thing, and to pay the TELCO a price based on such a comparison is very strange indeed. If Government imports anything it does not pay customs because it would be transferring money from one pocket to another pocket. I am astonished that we are practising so much self-deception.

Shri K. Sadagopan: The only point I shall explain is that our Department is a separate Department.....

Shri Narahari Rao: If that is the mentality, well, I am surprised at the Director of Finance of Railways talking like that. This is an overall financial matter and you are paying the customs revenue, which ought to go to the Government of India, as a subsidy to the company. It is most astonishing.

Shri K. Sadagopan: But it goes into our costs, Sir, and we have to pay 4 per cent. on the capital.

Shri Narahari Rao: You are imagining that you are doing very well when you buy an article produced in India at a price comparable to foreign products inclusive of customs duty. You imagine that the customs duty goes to somebody else and not to your pocket.

Shri K. Sadagopan: We are applying to TELCO this criterion: What would it cost us to get the boiler for use on the Railways? It would naturally include freight and customs.

Shri Narahari Rao: If the Railway Board take such a compartmental view of financial management, then it

should go on record, I really cannot express myself, I feel so strongly over it.

Shri F. C. Badhwar: If I may interrupt I think we recognise this is a form of subsidy.

Shri Narahari Rao: Then say so and include customs duty also as an element of subsidy.

Shri F. C. Badhwar: It is no use deluding ourselves—it is a subsidy to help the Indian industry.

Shri T. N. Singh: According to the Agreement on page 13, the landed cost shall include besides customs duties, landing charges, cost of erection, testing and trial. As a matter of fact, in this there are two elements of subsidy apart from what has been stated. One is the inflated landed cost which we are paying to the concern, the second is the actual difference which we are paying. There is a third point. I understand that all these payments of Rs. 1.69 crores which you have made so far are also "on account" payments and you don't know when the final settlement is made what it will be. It may be Rs. 2 crores or Rs. 2½ crores. So to that extent the subsidy will again be enhanced. We want to know what are the items of subsidy so that we may know at least what we are paying.

Chairman: I entirely agree but I may say that subsidy was an element to encourage TELCO to build locomotives. So while I agree on this question before us, I do not wish to subscribe to any whittling down in the policy of development of Indian industry. That I would put to the Auditor-General as an Indian.

Shri Narahari Rao: It is perfectly true, but let us be true to facts. The suggestion I have made is that a Government which imports articles from outside for its own consumption should have a certain yardstick. I am not talking of how an industrialist looks at prices. I am talking about the attitude that Government should adopt in regard to indigenous purchase or manufacture and imported articles. The yardstick for Government should be: What is the net cost, that is, *minus* the customs duty, what is it costing the Exchequer, because the customs duty is a thing that goes from one pocket into another pocket. You must take the landed cost without the customs duty for purposes of comparing relative advantages to the Government in deciding whether you should purchase it locally at a certain price or

you should get it from outside. Any-way those are calculations which no finance man can refuse to look at. After having got those figures it is for Government to decide whether in spite of those considerations they are prepared to pay a higher price for an indigenous article. But the comparison should be without the customs duty. With the customs duty you are really taking false standards for comparison. It is not good financial management. If you are prepared to pay to TELCO landed cost plus customs duty, you must bear in mind that the customs duty is an element of subsidy and if you are not going to do that you are deceiving yourself or the State. It is an important principle which applies not only to the Railway Ministry but to all kinds of business of this sort.

Shri K. Sadagopan: I can understand it but we pay that much when we import these things.

Shri Narahari Rao: Supposing you were a private concern and had this privilege of getting things free of customs duty. How would you look on this transaction?

Pandit K. C. Sharma: The contract is between the Governor-General of India and Tata & Sons.

Shri K. Sadagopan: If it is the opinion of the Committee we shall accept it. If it is your view we shall omit customs duty. Customs duty is after all not much—it is only 5 per cent.

Shri Narahari Rao: 5 per cent. is only Rs. 5 lakhs in this case. Not much?

Shri K. Sadagopan: Having regard to the development of Indian industry, I think.....

Shri Narahari Rao: That is not your concern. Your concern is to keep correct account. Protection of industry is a different issue and you must know precisely the price you are paying for the development of the industry.

Shri T. N. Singh: Sir, my question should not be side-stepped. I want to know why they did not submit a note.

Shri K. Sadagopan: Our idea was this. The meetings took place in December but certain problems have arisen in the actual implementation, in the way of distribution of overheads, depreciation and other things. After that we have had several exchanges of letters with them. We thought we

might be able to finalise it before this Committee met but unfortunately we have not been able to complete this and we thought we might submit a comprehensive memorandum once this thing is settled.

Shri T. N. Singh: One observation I would like to make for the attention of the Committee. Here is an Agreement which is supposed to develop so rapidly year after year. A small point in regard to accounting was raised by the Public Accounts Committee and although one year is over, yet the Department is unable to clarify that small point. If that is the way we are going to proceed with any business I would only observe that this Ministry as it is today is entirely unfit for conducting such business. Such delays would only mean further complication of the business.

Chairman: I would not subscribe to the view to that extent. There are big industries with a capital of Rs. 300 crores and we have trusted them; we have superimposed the Ministry to look into their management. But here we are dissatisfied.

Shri T. N. Singh: Anyway there is no reason why they could not have explained to us much before that these were their difficulties. When they are confronted and they have no choice but to explain, they come and explain things. After all a certain procedure has to be observed in these things and the Department has to show particular attention to that. If this is the way things are done how can we exercise our vigilance over finances? One year goes and no information is available. And here is money being spent, subsidy being paid, and the agreement being delayed and not implemented. All these things are occurring in regard to this particular Agreement. The Railway Ministry is supposed to look into these things and if they do not they certainly fail in their duty.

Shri K. Sadagopan: We have informed the Committee that the whole thing is still under consideration.

Chairman: But when we ask for it you say it is not ready.

Shri K. Sadagopan: We have brought it to your notice that unfortunately it has not been possible for us to finalise the thing.

Shri T. N. Singh: If this is the consideration shown to a request of a Committee of Parliament I can understand what can happen to notes of Ministers.

Shri K. Sadagopan: You naturally wanted something final and satisfactory to you.

Shri F. C. Badhwar: I would try and explain what has actually happened in this case. I think the Committee's point is that we undertook to submit a note to them and that note is not forthcoming. They want to know why. I think our mistake has been an endeavour to submit a comprehensive and conclusive note. Unfortunately we have not been able to reach agreement and as you know it takes two parties to reach the agreement. We could, however, have submitted an interim note on the position but I am sure that that would have been of little value.

Chairman: But your efforts would have been valued by us. We are a Committee of Parliament; we are here to see that our Ministers and Ministries are doing their duties properly in the field of finance.

Any statement that you are making now may have been made to us before and we would have felt a bit reconciled and the observations that Shri Singh made in the matter may not have been necessary. We in the Public Accounts Committee have been noticing a tendency on the part of the Secretaries to Government to sleep over our recommendations and get up just three or four days before our meeting. That is the feeling we have.

Shri T. N. Singh: I may point out that there were two notes that we wanted. One was a note stating specifically whether any payment by way of subsidy had been made to the TELCO during the period 'A'. It was a question of fact, which could have been easily replied. The second was a request to be furnished with an idea of the arrangements to be made or which were being made. I can understand your saying that the arrangements were in the process of being made and therefore you could not supply the information. But why was the first note entirely ignored?

Shri K. Sadagopan: But even that depended upon a settlement of the second. We could not say anything unless the accounts were finalised and the finalisation of the accounts was under negotiation.

Shri T. N. Singh: Even in your statements today you have said that your payments are being made "on account" and that position will continue for the

next one year until you reach stage 'C'. God knows when you will reach that stage. That means that this note will go on getting postponed for another two years.

Shri K. Sadagopan: The distribution of overheads will have a material effect on the cost per boiler and that is the big subject of the negotiation.

Shri Narahari Rao: Just now Shri Singh said that these are "on account" payments. We are not prepared to admit in audit that they are "on account" payment. They are *ad hoc* payments. They have not been able to relate them to supplies. "On account" payment is very different from advance and *ad hoc* payment. *Ad hoc* payments have been made by the Financial Adviser and the Chief Accounts Officer of the works from January 1951 and the total comes to something like Rs. 50 lakhs. These are *ad hoc* payments and they have not been cleared. They are not "on account" payments.

Shri T. N. Singh: That is still more serious.

Shri K. Sadagopan: My only explanation is that we will give firm figures of subsidy as soon as the accounts for periods 'A' and 'B' are finalised.

Chairman: I am very sorry you are making us feel by your reply that the authority of this Committee is being ignored.

Shri K. Sadagopan: With the greatest respect, that is not the intention.

Shri F. C. Badhwar: If this Committee would be satisfied for the time being with such interim information as we can place before you, we shall prepare a note and place it before you.

Chairman: We have accepted such interim notes from many Ministries and you are not excluded. The only point that we object to is your saying that because a decision has not been taken, therefore no answer will be given. We go through these voluminous reports and examine every item and if you give this reply, our labours become trivial. Let there be cooperation between the Ministry and this Committee. I am the non-official and you are the official. You should settle all the issues with your Director of Railway Audit. If you do that, the task of this Committee would become lighter.

Shri Narahari Rao: I understand that their Chief Accounts Officer himself is in difficulties in settling these matters. That is the information I have received.

Shri P. H. S. Rao: In January 1949 the fixed price period is supposed to have started, but under some new formula they have evolved, they have postponed it till full production can be attained. In the meantime, TELCO have told the Financial Adviser and Chief Accounts Officer that he cannot see the costs from 1950-51. The information I got a fortnight ago was that the 1950-51 costing has not yet been checked by the Financial Adviser and Chief Accounts Officer because the cost sheets were not made available to him by TELCO on the plea that it was a fixed price period. So, for Audit they call it fixed price period, but for you, you give them profit and actual price. Incidentally, I may say that the statement that no profit was paid does not appear to be correct according to the balance sheet. The Railway Board informed this Committee that they were not able to prepare the memorandum because the new arrangements have not yet been finalised, but here are Tatas telling their shareholders what the new agreement is. They say that under the terms of the agreement the company is entitled to profits on its outturn of locomotives only when it has attained and is in a position to maintain manufacture at a certain rate. Similarly for boilers, this is the position about profits, namely, "the continued low output of boilers resulting in high costs to Government has led them to revise their decision and strictly enforce the terms of the agreement under which the company is not entitled to profit....." This decision "will not affect the profits shown in the accounts for the past years". So, from 1949 they have taken profits into account and, even though the fixed price period has not come, still we are paying profits.

Shri K. Sadagopan: This whole thing is under settlement.

Shri P. H. S. Rao: If Tatas can tell their shareholders, why cannot the Railway Board tell the Public Accounts Committee?

Shri F. C. Badhwar: The Managing Director in his speech to the shareholders can be a lot more vague than we can be before the Public Accounts Committee.

Shri Narahari Rao: He will be hauled up if what he says is not true. It is a criminal offence under the company law.

Shri K. Sadagopan: All these things will be gone into in the memorandum which we shall submit. Nothing has been finalised.

Shri F. C. Badhwar: We have not yet reached a final settlement over this. Certain details may have been agreed upon, but the final settlement has yet to be reached. We had a four-day meeting with Tatas. Since then there has been continuous correspondence. I think from our side we are trying our best to reach a quick agreement. It is not easy.

Chairman: This Committee has the right even to send for TELCO Directors to appear before us. But I deprecate the extension of our duties and responsibilities. That is why I said earlier that a special Sub-committee will be appointed by the Public Accounts Committee to go into contracts and agreements.

Shri T. N. Singh: I am really very much upset and that has caused some of the remarks I offered. How can the commitments on behalf of this vast country remain in a fluid state? Agreements are entered into every time with fluid commitments. It is a very serious state of affairs and at least I take a serious view of it. We must stop the entering into of commitments for indefinite periods for indefinite amounts. It is very good of you to appoint a committee like the one you suggested to see that the nation is not burdened with such haphazard commitments.

Shri V. P. Nayar: At the whims and caprices of certain officers! I would go to that extent.

Shri K. Sadagopan: If you were only charitable enough to understand that we are grappling with this problem, you will realise that here is a new industry where there are all sorts of teething troubles.

Chairman: Did your Minister refer to those troubles and difficulties in his Budget speech in Parliament? Why was Parliament kept in ignorance of either your inefficiency or the obstruction that you were receiving from outside?

Shri K. Sadagopan: There is no doubt that we will have to give all the facts to you. We are fully aware of it. I would only request you to get from each witness the full facts and then come to your judgment.

Shri Narahari Rao: It is so difficult to get at the facts.

Chairman: You are acting with the mentality of the pre-1947 Railway Board officials.

Shri T. N. Singh: We cannot wait for your facts indefinitely.

Shri K. Sadagopan: They have got difficulties. They say that their production has become disappointingly small and they have got labour troubles and they have not got the boiler-makers. They have got difficulties in getting the parts and components. We are trying to grapple with this whole problem in the best interests of the country and to the best of our ability.

Chairman: Are you making this statement on behalf of the Chief Accounts Officer and the Financial Commissioner or on behalf of the Railway Ministry?

Shri K. Sadagopan: As the finance man, I have to take a realistic view of the situation and take stock of what has been done and guide the administration on how to proceed.

Chairman: You again constrain me to say that you are not treating us with the respect and courtesy that is due to us. Whatever you are saying in explanation is no concern of this Committee. This Committee requires facts and facts only and what you will do in future is for your Minister to see, not for this Committee. We are here as a non-official Committee authorised by Parliament to carry on a thorough examination of the accounts and guard against mismanagement. This Committee cannot be defied by any Ministry. I as the Chairman of the Public Accounts Committee will discuss with the Finance Minister how these things occur in the financial sector of the Government of India. That is a bigger issue. For the present, I wish to say that we find that the attitude of the Ministries in respect of finance is very lighthearted. It looks to me that it is no use our continuing the examination of the Railway Accounts any more.

Shri Narahari Rao: There is much more to be said about it. There are certain further cross-contracts with German firms, the implications of which are being reported in the next Audit Report. In fact the Audit Report has been held up on account of delay in verification of facts. But, in the meanwhile, I would ask the Railway Ministry to give you a full and completely frank statement of everything that has happened in connection with this agreement, to do a certain amount

of heart searching and come out with all the facts, telling you plainly: "this is what has happened; we have gone wrong here." But it must be a free and frank statement, without any attempt to suppress or gloss over things resulting in arguments and cross-examination.

I would, in this connection, wish to point out to the Committee the practice in this respect in the United Kingdom. The official head of the Ministry there is regarded as the Chief Accounting Officer for the whole of the administration responsible to Parliament and it is his duty to present at times to the Public Accounts Committee cases in which any irregularities have been committed by a Ministry contrary to his advice. That is the tradition of the British Government and of the Public Accounts Committee there. For instance, a Minister orders something to be done against the considered advice of the official head of the Ministry who is technically the Chief Accounting Officer. Chief Accounting Officer is the Officer accountable to Parliament. He may have the assistance of an Accountant-General or Chief Accounts Officer. When a Minister orders him to do anything contrary to his considered advice he puts it down in writing: 'I am afraid, I won't be able to justify this before the Public Accounts Committee if a question is asked on this matter. I submit this to you again for your considered orders, with the right of having to bring it to the notice of the Public Accounts Committee, in case it is challenged.' The Minister may say: 'Go ahead. You can report it to the Committee, in case it is raised, but carry out my orders.' Very few Ministers dare do that even in Britain.

I mention this with a view to pointing out to you that before the Public Accounts Committee there should be no mental reservation whatsoever. This is not a police station where something has to be hidden in the course of the cross-examination. You are to assist Parliament in the discharge of their responsibilities to the country. I hope I have your permission to say all this, because it is my duty to assist Parliament in the discharge of its duties to the country. With these preliminary remarks, my suggestion is that you produce a complete memorandum on the present state of affairs from the beginning of this business, except in so far as anything which may be really secret, but I cannot believe there is any such thing in a contract of this kind.

Chairman: We are grateful to the Auditor-General for the clear elucidation of the practice in the U.K. I, as Chairman of this Committee, feel as Shri Singh felt, that the Ministries of the Government are not cooperating with us in the maintenance of the financial principles and the credit of the Government of India, with the result that some of us feel that no useful purpose would be served by our working on this Committee. If Ministries come with pre-1946 ideas that they can dictate terms to the Auditor-General and the Public Accounts Committee and defy their recommendations, as your predecessors used to do throughout the British days, then it is not a happy state of affairs.

Shri F. C. Badhwar: As far as this particular direction to us goes of preparing a complete and self-contained note of what has happened up to date in respect of TELCO, we shall certainly do it.

Shri Narahari Rao: Please get it checked by Audit also.

Shri F. C. Badhwar: But I would in this connection like to clarify our position. It is not our intention in the slightest degree in any respect to

keep anything back either from the Auditor-General or the Public Accounts Committee. It should however be realised that various Ministries of the present Government work to certain directives, according to certain rules, regulations, customs, codes and so on. In this respect the Ministry part of the Railway Board has to follow suit. Now, whatever the position might be in the U. K. where the permanent head of the Department.....

Shri Narahari Rao: I was mentioning it only to point out that before the Public Accounts Committee there should be no mental reservations in the statement of facts. We are not asking you to disclose what advice you gave to the Minister and what orders he passed. They are internal matters of administration.

Shri F. C. Badhwar: There has been no mental reservation in so far as we are concerned before the Public Accounts Committee. We shall prepare this note about TELCO and submit it to you as soon as possible.

Chairman: We shall discuss your note when we meet in October.

[The Committee then adjourned sine die.]

Monday, 3rd November, 1952

PRESENT

Shri B. Das, *Chairman.*

Pandit Munishwar Dutt Upadhyay.

Dr. Mono Mohon Das.

Shri Shree Narayan Das.

Pandit Krishna Chandra Sharma.

Shri Tribhuan Narayan Singh.

Shri V. P. Nayar.

Shri Ranbir Singh Chaudhuri.

Shri B. Ramachandra Reddi.

Shri V. Narahari Rao, *Comptroller and Auditor-General of India.*

Shri P. H. S. Rao, *Director of Railway Audit.*

SECRETARIAT

Shri M. N. Kaul, *Secretary.*

Shri S. L. Shakhder, *Officer on Special Duty.*

WITNESSES

Shri F. C. Badhwar, *Chairman, Railway Board, Ministry of Railways.*

Shri A. K. Chanda, *Financial Commissioner, Railways.*

Shri K. Sadagopan, *Director, Finance (Expenditure), Railway Board.*

Shri N. C. Deb, *Director, Finance (Budget), Railway Board.*

Shri H. S. Negi, *Deputy Secretary, Ministry of Finance.*

The Committee met at 12 Noon.

RAILWAY AUDIT REPORT, 1951

MINISTRY OF RAILWAYS

Contracts with TELCO and Schlieren

Chairman: I wish to tell my colleagues that when Shri Chanda returned from Europe, he wrote to me a letter asking whether the Committee will give him an opportunity to make a review of the position of the two Agreements—the TELCO and the Schlieren contracts.

If we do not finish by 1-15 or 1-30 p.m. we will have to sit in the afternoon. I suggest we sit from 4 to 6 p.m.

Mr. Auditor-General will first make his observations, then I shall throw open the discussion to the members.

Shri Narahari Rao: The Financial Commissioner might give us a comprehensive statement including a review from his experience, of the whole performance of these contracts, from the very beginning and what his present views are.

Shri A. K. Chanda: I am indeed grateful to you Sir, the Public Accounts Committee and the Auditor-General for giving this opportunity of appearing before you and giving a fuller exposition of the Schlieren and TELCO agreements, so that you could

view them in their proper perspective. At the outset, I should like to make it clear that I have always felt, as the Financial Commissioner for Railways, a special responsibility towards the Public Accounts Committee, and therefore there can be no question of my slurring over any of the deficiencies of the agreements or any lapses on our parts. It is for the Committee, after listening to me to decide whether there were any errors of judgment or whether in the circumstances and conditions prevailing at the time these agreements were entered into, anything better was possible.

Before I do so, I should like to dispel any erroneous impression which might have been formed about the attitude of the Railway Ministry towards the Public Accounts Committee and the Audit Department. We feel that we all fulfil a complementary role, and the objective of all of us is to get the value for the money we spend. There may be differences of opinion on the methods adopted or on the ultimate result. But I do not think there can be any difference of opinion on the ultimate objective. There seems to be some misapprehension also about our attitude towards the Audit.

Department. We have always welcomed the criticisms in the Audit Report. It is through that Report that we get to know what is happening in our subordinate organisations, things which might not have come to our notice otherwise. Similarly we appreciate the Auditor-General's constructive and objective criticism of our own conduct, namely that of the Railway Board.

It is an appreciation by somebody impartial. We adjust our attitude from time to time on the basis of the observations of the Auditor-General and the Public Accounts Committee.

If you would permit me to digress a bit, I should like to remove the erroneous impressions regarding indigenous capacity and our plans for utilising it. I was not present at the last meeting of the Public Accounts Committee and I have not been able to go through all the minutes but I have the impression that the Public Accounts Committee felt that as a result of the Schlieren agreement, our indigenous capacity would be disturbed or not be fully utilised. I am referring particularly to the Hindustan Aircraft Limited. If you would permit me, I would like to give you the background of our relations with the Hindustan Aircraft Limited. I was in charge of Supply (Finance) when the War came to an end, and we had this magnificent asset which had employed at one time 13,000 people, in our hands and we came to consider, how to maintain its productive potential as an aircraft factory. I was on the other side of the house, and I discussed with the Railway Board, the question of giving it a remunerative load. Ultimately it was agreed that Hindustan Aircraft Limited should start production of railway coaches and in pursuance of that, the production has been started there.

When the Schlieren agreement was negotiated, the question of siting the new factory arose. I personally held the view that the best place for this factory was the Hindustan Aircraft Limited, and we had discussions here with the controlling Ministry, i.e. the Ministry of Industry and Supply. The Railway Minister and I also went down to Bangalore, had a meeting with the Directors of the Hindustan Aircraft Limited, to finalise the arrangements for siting this new unit at Bangalore as an ancillary of the

Hindustan Aircraft Limited. But shortly after that discussion, the control of this factory was transferred to the Defence Ministry, with the plan to develop this factory to produce aircraft in India. Therefore, we had to review the whole position. As a result of the discussions between the Defence Secretary and myself, we came to the conclusion that it would not be possible to establish two new productive units at the same place, and that it would be to the detriment of both the projects. Government had, therefore, to make other arrangements for siting this new factory: Even so there was no question of Hindustan's production potential being disturbed in any manner; on the contrary, at a meeting which took place, I think late last year or early this year, between the Defence Ministry and ourselves—the Defence Secretary was present at the meeting—we decided that the production potential of Hindustan Aircraft Limited should be further developed and expanded, because whatever we did, there would always be a load for a large production unit in India outside the railway organisation, and Hindustan is planning on that basis. I wish to make it clear, that whatever happens to the Schlieren contract, it would not in any manner affect the capacity of Hindustan, and possibly in the years to come, we might even ask for further expansion of the capacity with reference to our requirements at the time. These are the two points which are not strictly relevant to what we are going to discuss, but I thought that I should make the position on these two questions clear.

Agreement with the Schlieren

Now, the Schlieren agreement. In 1947 some officers of the Indian Railways went abroad to the International Railway Conference; they were asked to keep their eyes open and take notice of all the developments which had taken place in Europe, so that we might consider to what extent these developments could be introduced on the Indian Railway system, and to what extent they could be adopted for our peculiar needs and conditions. A Report was submitted by these Engineers to the effect that the welded all-metal light-weight coaches, which we loosely refer to as the Schlieren type of coaches, were the best type of coaches in use in Europe, and that all the other European countries also were progressively switching over to this type, and that these were lighter than the normal

conventional type of coaches and thus they would lead to conservation of steel, that they would be lighter to operate, and that there would consequently be fuel economies etc. In 1948 this Report was considered by Government who felt that the possibilities of establishing this type of manufacture in India should be further explored. So in 1948 when the Chief Commissioner went out of India, in connection with the purchase of new W. P. locomotives in America he had discussions with some American manufacturers and he had discussions also in England, France and Switzerland. He came back and reported to the Government that we should adopt the Schlieren type of coaches, as the future standard for the Indian Railways, firstly as we were short of steel; secondly from the safety angle, they were far superior to anything in use on the Indian Railways; and thirdly these coaches being lighter there would be considerable economies in operating with these type of coaches. There was also exchange of correspondence between our Minister in Switzerland and the Railway Board, and our Minister indicated that this firm was capable of producing 150 coaches or something of that order, and that they were the pioneers in this field, and that they were the best equipped for assisting us in a project like this. Subsequently, a plan was approved in India and broadly the terms of the Agreement were drafted for internal use. There were no discussions with them at this stage on the question of technical participation...

Shri T. N. Singh: So, the Agreement was originally drafted by the Government of India?

Shri A. K. Chanda: Yes, in the Railway Ministry.....

Shri T. N. Singh: I wanted to know whether the draft was first submitted by them or by the Government of India.

Shri A. K. Chanda: There was no question of submission of drafts at that stage. There were discussions at this end, the Railway Board submitted certain proposals to Government, as to what should be the pattern of this technical aid participation. This agreement was taken by the then Chief Commissioner, Mr. Bakshie.....

Pandit K. C. Sharma: You prepared your side of the contract?

Shri A. K. Chanda: Whoever was in charge at that time.

We prepared this on the basis that these will be more or less the heads of agreements on which we could discuss technical aid participation with these people. Then in 1949, February, or March, these were discussed with the Schlieren people in Switzerland and the heads of agreements were mutually discussed and settled, and then a team came out to India to finalise the Agreement.

I would give my own point of view, as the Financial Commissioner--I do not know whether my colleague would agree with my appreciation of the position. As I have said earlier, I have a special responsibility towards this Committee, and I should certainly express my views here. Normally a project estimate should have been prepared before entering into this Agreement with the Schlieren people. Usually we do get a project estimate before we enter into technical aid agreements with any foreign firm. In this particular case, presumably this was not done in the light of the previous discussions and assessment of the position by our technical advisers, and also the fact that this type of coaches was progressively being adopted by all the European countries, indicated that it must be an economical proposition. Otherwise, they would not have adopted it. That is the only justification that perhaps exists for not having had a project estimate before the Agreement was concluded.

Coming to the terms of the Agreement, there are certain flaws in the Agreement. For instance, Clause 10 lays down that deliveries would be made within a year of placing the orders.

Shri T. N. Singh: But there were other Clauses.....

Shri A. K. Chanda: That Clause stands modified to some extent by Clauses 6 and 7.

I shall first make my statement and then if there are any points of doubt, I shall try to answer them later.

The agreement provided that any order placed with them would be completed within a year of placing that order. To my mind, this Clause has no meaning at all. I do not know whether we appreciated it or not, but the Schlieren people should certainly have appreciated it, that they could not supply something for which even the design was not ready within a year of orders. If we were buying

something off the shelf the type of coaches which they were producing, then certainly they could have met our demand within the year. But when a new design is to be developed and prototypes are to be produced on that basis, then obviously delivery could not be made within the year.

Pandit K. C. Sharma: But you said that similar coaches were already on the run in Europe.....?

Shri A. K. Chanda: But our coaches are entirely different. For instance, the type of windows, doors etc. all these things are different.

Pandit K. C. Sharma: So there have been certain modifications.

Shri F. C. Badhwar: It is a completely new design with completely changed specifications.

Pandit K. C. Sharma: But you said that these coaches were on the run in Europe, and were very economical.

Shri F. C. Badhwar: We wanted our design on the same principles; it was the European principles that appealed to us.

Pandit K. C. Sharma: You wanted an agreement for production on the same model.

Shri A. K. Chanda: I shall just give you an illustration that will possibly clarify the position.

The old motor-cars used to have springs, but the present ones have no springs. The whole chassis and the body are mounted on wheels. In the same way our conventional type of coaches have underframes which are really in the nature of springs but this new type of coaches has no underframe at all; it is simply the chassis and bogie mounted on wheels. It is a new conception in design.

Pandit K. C. Sharma: So you entered into an Agreement without designing your model?

Chairman: Let Mr. Chanda complete his statement first, and then we can put questions.

Shri A. K. Chanda: It took well over a year to design our own coach and even after the prototypes were ready certain changes in the design had to be made at our instance. Now, I think the Committee will agree entirely with me that if we are going to have something new on the Indian

Railways for all times to come, we must be perfectly certain, both technically and otherwise, that the design evolved was going to stand the test of time. It was no good hurrying over a design like that because it has to be the standard on the Indian Railways for years to come. Therefore, I think our technical officers and our engineers quite rightly took a great deal of pain in the final design which necessitated various alterations even at late stages in the prototypes. I am sure there can be no two opinions that, for just accelerating production we could ignore such important considerations or factors.

Secondly, Sir, there has been some criticism, I understand, about the 50 per cent. payment made at the time of the order. As you all know, it is usual to make provision for 'on account' payments on any orders that we place. Even in India, we usually pay 90 per cent. of the cost of materials, and sometimes of the value of work done from time to time. Now, normally that would have been adequate for incorporation in this Agreement also, but, as you know, Sir, all Swiss firms though very efficient are not big units. This firm could not have financed the procurement of materials etc. against such a large order without any financial accommodation from us. In these circumstances we made a 50 per cent on-account payment; otherwise, we would not have got them to do this work.

Shri Narahari Rao: Please correct yourself. You said you made an on-account payment. You would normally make an on-account payment, but this is not an on-account payment. You made advance payment.

Shri A. K. Chanda: Perhaps, strictly not on-account payment. What I said was, the normal practice is to make an on-account payment. In this particular case, we made an advance payment of 50 per cent of the value of materials because we wanted this firm to co-operate with us and produce these coaches. They could not have done it without this financial assistance. But I would submit, Sir, that even if we had followed the normal practice of making 90 per cent. payment of value of materials at site and value of work, ultimately we would have paid very much more than what we have paid. We might put it this way: this was only ante-dating payments. We paid it earlier than we would have paid if the 90 per cent. procedure had been applied to this case. This financial accommodation was

necessary; otherwise this firm could not have gone ahead with this agreement.

Shri Narahari Rao: You could have made 'progress' payments, as you say.

Shri A. K. Chanda: As I have explained to you, 'progress' payments would have been all right if the firm had enough cash resources.

Shri Narahari Rao: You could have adjusted that.

Shri A. K. Chanda: May I point out that when orders for materials etc. are placed the suppliers usually demand advance payment and this firm could not have met that demand without financial assistance. I am only pointing out the circumstances which existed in Europe at the time and if we wanted this firm to enter into an agreement with us, we had to make this provision. It is true that we paid this in advance, but even if the normal procedure had been adopted, ultimately, we would have paid perhaps a little more than what we have paid *ab initio* in one lump. I would also point out that this 60 per cent. payment was made on the basis of the estimated cost of shells only. But as the first order was changed into an order for fully furnished coaches,—the cost of which is very much more than the cost of shells—the payment made became only a 25 per cent. payment. We had, however, to deviate from the normal practice so that this agreement could go forward.

Sir, there is one point to which I would like to draw attention because I think we can reasonably expect credit from this Committee for what we have been able to advise. Clause 11 (c) says "for purposes set out in Clause 5 Consultants' fees as normally payable to Consulting Engineers and as may be mutually agreed upon." This Agreement provides for various items of work being done by the Schlieren people and one of the items was that they would act as Consulting Engineers to us and give advice and assistance in setting up the factory etc. etc. In terms of the Agreement they demanded that they should be paid 2.75 per cent. of the total cost of the factory which at that time came to a little over 9 million Swiss francs. I understand from our technical people and from professional people outside, that 2.5 per cent. is the normal minimum Consultants' fees which are paid in this country as well as elsewhere. That proposition was

brought to us by the Chief Commissioner—there had been some sort of understanding on that issue, but we in Finance could not accept that basis we felt that for acting as our Consultants they should be paid nothing more than their actual cost plus 5 per cent. for overheads:

Shri Narahari Rao: 5 per cent. or 10 per cent.

Shri A. K. Chanda: This was what we suggested to them—5 per cent. or 10 per cent., I forget. But actually in November, 1950 when we happened to be in Switzerland, it was agreed with them that for this service they would receive only the salary of the officers actually employed on this work plus 50 per cent. of the salary to cover all overheads. We have not yet got the bill, but I should not, by any stretch of imagination, think that the payment to be made to them would exceed 200,000 Swiss francs. In other words, we have certainly saved on this Clause about half a million Swiss francs.

I believe some point was raised about this Agreement being executed in India. The real reason why we always insist—not in this case alone but in others as well—on Agreements being signed in India is on considerations of prestige. We feel that any Agreement which the Government of India enters into with a foreign firm...

Shri T. N. Singh: That was not the point. The question was as to where, when a dispute arose, the matter would have to be settled.

Shri A. K. Chanda: I will answer that, later. These are interrelated issues. We have in all Agreements concluded between the Government of India and foreign firms, when the work is executed in India, insisted that Agreements should be governed by the laws of our own country rather than the laws of a foreign country.

I am sure the Committee will agree with me that we should not subject our agreements to the laws of foreign countries.

Shri Narahari Rao: To the extent that the agreement is enforceable in India, it is perfectly correct. But to the extent that the agreement is enforceable in a foreign country it is not correct.

Shri A. K. Chanda: I have had a discussion with our legal people on this particular aspect and I will give you that explanation. It is quite true

that only if the foreign firm has any assets in India, can we attach their property if a court of law gives an award in our favour. Where a firm has not got any property in India, of course, the position is different. But there again I have been told that if we file a suit in India and win the suit, the decision of the court in India on the merits of the case would have a profound influence on the Swiss Court also, where we must seek redress in cases of this type. We cannot legislate for all eventualities. The contract must either be signed in India and be subject to our laws or be signed in Switzerland. We cannot have it both ways. As I have explained, for reasons of prestige and policy we always insist that all contracts should be governed by the laws of India. Where a complication like the one you have mentioned arises.....

Shri Narahari Rao: I think even from the practical point of view you must be very careful about it where a contract is operable in two countries—for instance in this case, they make the coaches in Switzerland and deliver them to you—payments are made in Swiss Francs and so there is no manner and means of excluding the Swiss laws, because the Company may not come to India at all. They just say: 'Here are the coaches, take them'. To the extent that they come to India and start setting up a factory, I agree you may make payments in India and you can really seize them or give effect to any decree of any court of law in India to the extent the laws of India would apply. But there is no way of excluding the Swiss laws for transactions taking place in Switzerland as there is no way of excluding the Indian laws in respect of transactions taking place in India. So I think the best thing would be to examine the matter further.

Shri A. K. Chanda: I fully appreciate that but I thought I had answered the point. If this Company or any other Company with whom we enter into agreement has any assets in India, this provision will naturally give us a right on their assets.

Shri Narahari Rao: What I was saying was that it might make it difficult for you to enforce any claims in Switzerland.

Shri A. K. Chanda: I fully appreciate that.

Shri Narahari Rao: That is a matter for the legal people. You can take notice of what we have said and get it examined still further. This is not the only contract; there are a number of contracts for supplies elsewhere and I think it is better to consider it further.

Shri A. K. Chanda: I think there are two separate issues on this point. One is that when a contract is entered into by the Government of India with a foreign company for execution in India, whether the laws of India should govern the contract or the laws of the country of the contracting party—on that point we have always—I am talking on behalf of the Government and not the Railway Board alone—taken the view that the contract must be subject to the laws of India.

Shri Narahari Rao: It goes without saying. Your stating it in any contract will not affect the legal position. The legal position will be to the extent that the laws of India are applicable, they apply.

Shri A. K. Chanda: I cannot join issue with you on a legal point; I am not a lawyer. If any foreign company has any assets in India and if we get a decree of an Indian court, it is enforceable against the assets held in India.

Shri Narahari Rao: Even if you did not say it, it would be there.

Pandit K. C. Sharma: Whether you say it or whether you do not say it, the position remains the same.

Shri Narahari Rao: You might examine it further in consultation with us.

Shri A. K. Chanda: I have nothing more to say about this agreement except that.....

Chairman: You ought to have supplemented your remarks. You talked of the laws of India. What about the laws of Switzerland?

Shri A. K. Chanda: The position is this, that in the first instance, we shall file a suit against this Company here. The Indian court may give us a decree but that decree would not be enforceable because these people have not got any assets in India. We are not thereafter precluded from filing a suit in Switzerland even though the agreement is signed in India.

Shri Narahari Rao: That is the point.

Shri A. K. Chanda: We are not precluded from filing a suit.

Shri T. N. Singh: There is another clause here which says: "The territory of this agreement shall be India".

Shri Narahari Rao: It should be "India and Switzerland".

Shri T. N. Singh: If it was worded like that, we could have understood.

Shri A. K. Chanda: I am only giving the legal advice that we received both at the time of the finalisation of the agreement and later. The advice is that if you get a decree from an Indian court and you cannot enforce it in India, there is nothing to prevent Government as the aggrieved party from filing a suit in Switzerland. The decree in India will strengthen the case.

Shri Narahari Rao: I am very convinced about this; you say it is "India and Switzerland" and then the law can take its course.

Shri A. K. Chanda: I am only pointing out.....

Shri Narahari Rao: So many bad agreements have been drafted in recent times and we find there have been legal difficulties in enforcing claims for compensation. There are a series of such cases, and we are always told there were defects in drafting. That is the reason why I have asked you to be careful.

I do not think there is need for further discussion on this. If you just accept what I say there is nothing more to be said.

Shri A. K. Chanda: I have taken note of the views expressed here. It is really for our legal advisers to see that our position is safeguarded. This matter has been placed before the Law Ministry and they will undoubtedly give due consideration to the views expressed here.

Shri Narahari Rao: If you say the territory of this agreement is India, you may be creating difficulties for yourself in Switzerland. This agreement is really in two parts: One for the manufacture of coaches for us in Switzerland, the other for their coming to India and assisting us by giving technical aid in setting up a factory. Therefore, there will be physical operations and financial operations taking place both in Switzerland and in India, and enforcement may have to take place in either or both places. We are

very anxious that it should not be impossible for you to enforce this agreement in Switzerland if necessary.

Shri A. K. Chanda: We are as anxious as you are. We shall certainly place this matter before the Law Ministry so that they could reconsider this. In future such provisions as may be necessary will be included.

Now I must frankly state here that we have not been particularly happy with all the provisions of this contract or the manner in which they have been implemented. There have been difficulties on both sides. I am not trying to indulge in mutual recriminations. We have now come to the conclusion that we should replace this agreement by another which avoids some of the clauses which have come under criticism, and which we feel are not very desirable though in regard to them we had no option at the time. I think this Agreement can be treated as dead for all purposes.

Shri Narahari Rao: Except in respect of liabilities incurred.

Shri K. C. Sharma: Have you got the worth of the money advanced by you? How many coaches have you got?

Shri A. K. Chanda: 26 have already reached India and future despatches are at the rate of six a month.

Shri K. C. Sharma: What is the value of the coaches already received?

Shri A. K. Chanda: Roughly Rs. 52 lakhs.

Shri K. C. Sharma: So you are in arrears regarding receipt of coaches to the extent of Rs. 44 lakhs.

Shri A. K. Chanda: But the supplies are coming forward.

Shri Narahari Rao: Can you give us a rough idea of the amount advanced and the coaches received?

Shri A. K. Chanda: Rs. 96 lakhs is the amount advanced so far, 26 coaches have been received already, the value of which will be roughly Rs. 52 lakhs. When we get our 50 coaches the value will be over Rs. 1 crore.

Shri Narahari Rao: When do you expect to finish this off?

Shri A. K. Chanda: Deliveries are now being made at the rate of six a month. We have already got 26 and in another four months we should get the balance.

Shri Narahari Rao: They say 16 were shipped in August. Had there been an improvement?

Shri A. K. Chanda: Yes.

Shri Narahari Rao: We have advanced about Rs. 96 lakhs. What is the value so far received?

Shri A. K. Chanda: About Rs. 35 lakhs worth already received in India.

Shri Narahari Rao: So there is about Rs. 41 lakhs due against them.

Shri A. K. Chanda: But the supplies are coming at the rate of 6 a month which is about Rs. 12 lakhs a month.

Shri Narahari Rao: I will tell you why I am asking these questions. We do not want to have another jeep affair.

Shri A. K. Chanda: I can assure you on that point.

Shri Narahari Rao: I am very relieved, I must say, on the whole with all that the Financial Commissioner has said, because the liability has been decreased and the coaches are coming, and from the Agreement, on the whole, we are told there will be no loss.

Shri A. K. Chanda: I can assure this Committee that there will be absolutely no loss.

Shri Narahari Rao: I think that is a satisfactory aspect of the Agreement. But there are certain features of the Agreement which the Financial Commissioner himself, I am pleased to say, has frankly admitted, because it is good for the State and for the management of its finances that past mistakes and defects are frankly recognised. They are also trying to alter things so that better arrangements may be made. In this particular case I am glad again that he has frankly admitted that the Agreement has been designed with a view to financing this Company to be able to do this job of work. That was precisely my point right from the beginning and I am sorry it was not frankly accepted. Because this Company was a small Company; they knew the design, they had the know-how, and they manufactured just a few but were not able to produce coaches on the scale that we ordered, and they required the finances for it. This was a method of financing them, by giving them 50 per cent. of the estimated cost as an advance. It is a kind of thing one must be extremely careful about because you

have no security for that advance. no kind of security except the honour of that company and its good name. It is a matter for thankfulness that we have not lost in this case. I am glad the Financial Commissioner himself was fully conscious of the risks that we took, and he was very frank about it. I wish the Railway Ministry had been equally frank when they appeared before us earlier. We would not have had so much trouble then. When it was suggested that this was really financing a private concern, we were told it was quite a normal method of contract. It is not a normal method of contract. There was no security, no penalty clause as far as I am aware and very big risks were taken. I hope that such things will not be tried in future in this manner. There must be adequate security. You could give them a loan on the guarantee of the Swiss Bank, you could have done so many things..

Shri T. N. Singh: As a matter of fact, may I remind you that on the last occasion it was not the Railway Ministry but the Director, Finance (Expenditure), Railway Board who made the statement:—

“But this amount was paid to the firm not, if I may venture to say, to finance it”.

That was the statement of Mr. Sadagopan.

Shri Narahari Rao: I have taken due note of it. Anyway we need not go into those things so long as we have a proper picture of the matter now. There is an admission that this is not a normal method of financing, but if we had to do it under special circumstances—perhaps they had to—then it should have been done with proper guarantee. This is a kind of thing that must be avoided and must be taken great care of in future. Otherwise there might be any amount of loss. Your own representative said this is not the kind of financing.....

Shri A. K. Chanda: I think there is a slight misunderstanding, but in any case, we are in complete agreement with you. If in any event, for getting a particular thing very quickly we have to finance a company we should take proper care to safeguard the advance.

Shri Narahari Rao: Say so in the Agreement itself. Say that as this Company is unable to cope with it, with a view to financing them this arrangement is made.

Shri A. K. Chanda: If we have to do that we should certainly take adequate securities.

Shri Narahari Rao: Or if you are taking a risk, take it openly. If a Bank guarantee is available take it. I think in this case you could have taken a Bank guarantee but that too was not taken. There are very unsatisfactory features in the contract and it will be a matter of satisfaction if things turn out well.

You should keep a watch over the performance of this contract. We are very anxious to see that there will be no loss to the State. As to the winding up of this contract, I do not know if they are going to wind up this contract or enter into other things. Perhaps those are details. In this contract there is a commitment that for four years from the commencement of the contract Government shall place orders for coaches of approved designs to the extent of 50 every year. Technically, we are switching over to some other arrangement and terminating the present commitment. Therefore, I suppose you will be coming into some arrangement with them. I do not like to ask too many detailed questions, because there must be negotiations going on still. I do not expect any answer except 'Yes' or 'No'.

Shri A. K. Chanda: We are in complete agreement with the Auditor-General that if for unavoidable reasons in the interests of our own country it becomes necessary to make any such provision as in this contract for making advance payments, we should definitely secure the advance paid either by a mortgage on the assets of the company or by obtaining a Bank guarantee. I can assure the Auditor-General—a fact which can be checked up by his Officers, if they have not already done so—that in all subsequent orders that we have placed, wherever even an on-account payment has been made—we have always obtained hypothecation of the materials or a Bank guarantee. There has not been a single case in which we have not taken steps to secure the advance or any payment that we have made. We shall naturally bear the points raised here in mind in negotiating the next agreement and I am confident that when that agreement is concluded there will be no audit comment upon it, just as there has been no audit comment on the Agreement relating to the Chittaranjan factory.

Shri Narahari Rao: Are these fully furnished coaches? You might show them to the members of the Committee some time.

Shri A. K. Chanda: I was myself going to suggest that. If this Committee, the Auditor-General and perhaps some members of the Press want to see these coaches and have a ride then, we shall be only too happy to arrange this.

Chairman: The Press should be kept away from the Public Accounts Committee.

Shri Narahari Rao: There is a provision for the audit of Schlierens by an auditor appointed by Government. I took exception to it at the last meeting, and I understand that the Financial Commissioner agrees with me that it is an erroneous provision. You should not have excluded the Audit by the Comptroller and Auditor-General. The Government may have an auditor but the Auditor-General has the right to look into these things and I have tried to get over the difficulties that have arisen by suggesting to the Financial Commissioner that the auditors whom they appoint should include an officer nominated by me.

Shri A. K. Chanda: Speaking on behalf of the Railway Ministry, I shall be only too glad if the Auditor-General himself nominates the auditors for this audit.

Shri Narahari Rao: That is precisely one of the difficulties I want to point out. Instead of having a fixed price you have this sort of contract. That means there are difficulties. You have to have some internal accounting officer of your own—because it is something apart from the audit—and satisfy yourself about the price you pay and you have to have this check done on your own behalf. For my part, I shall be satisfied if one of my officers whom I nominate is associated with whomsoever you nominate. I have not got the means for these things and if you make provision for contracts of this kind abroad, there are difficulties.

Shri A. K. Chanda: We shall be quite happy if the Auditor-General indicates the agency which we should employ for this purpose.

Shri Narahari Rao: You have heard our comments, and in future you must be very careful. If you agree we shall go to the next point.

Shri P. H. S. Rao: I want to know whether the cost audit will be of furnished coaches, because the bulk orders will be for shells only. Two

orders have already been placed and both were for shells. The contract says that the price for the bulk order shall be based on the cost as determined by your auditor. Now, the first 25 were all furnished coaches. Will he determine the cost of the shell only or of the whole coach?

Shri A. K. Chanda: The first 50 are all furnished. I do not foresee any difficulty even though the whole lot are furnished coaches.

Shri Narahari Rao: We need not raise it at this stage. We will have to wait and see till the objection is raised by Schlieren.

Pandit K. C. Sharma: Was the draft Agreement approved by the Finance Ministry?

Shri A. K. Chanda: The Financial Commissioner is the Finance Minister for Railways.

Pandit K. C. Sharma: That means it was not submitted to the Finance Ministry, nor to the Finance Minister.

Shri A. K. Chanda: If you say Finance Minister, it is a different thing. The position is that the Finance Minister has two Secretaries functioning directly under him—one for Revenue and Expenditure and the other for Economic Affairs. There is a third Officer who is the *ex-officio* Secretary. He is with the Railway Ministry as the Financial Commissioner and he exercises identical powers as the Finance Secretaries do in the Civil field. Where necessary, he obtains the orders of the Finance Minister himself, not of the Ministry.

Pandit K. C. Sharma: Then may I ask whether, before the contract was signed, it was brought to the Finance Minister's notice?

Shri A. K. Chanda: Yes.

Pandit K. C. Sharma: And he approved of it?

Shri A. K. Chanda: Yes.

Pandit K. C. Sharma: Have you got his approval on the file?

Shri A. K. Chanda: I am not making an incorrect statement here, when I say that.

Chairman: Let us not go into the elements of the procedure as between the Secretary and the Minister.

Pandit K. C. Sharma: Did the Law Ministry see the draft?

Shri A. K. Chanda: The Law Ministry saw and approved it. No agreement is entered into by the Government of India in any Department without its being vetted by the Law Ministry.

Pandit K. C. Sharma: My simple point is this. Indian law will have jurisdiction only in India, not abroad, and Swiss law will apply only in that country. The Agreement says that the contract would be governed by Indian law. How can a foreign subject be brought within the jurisdiction of Indian law?

Chairman: We have the High Commissioner in London. He makes crores of rupees worth of payments abroad.

Pandit K. C. Sharma: But you make payment only after the supply of the thing.

Chairman: Not necessarily. In the jeep contract the High Commissioner advanced nearly a £ 1 million.

Pandit K. C. Sharma: If you have not got the goods and you make the payment, you should have good control over the firm. That is my point.

Chairman: The simple question is this. The Telco, Agreement and this Schlieren contract are not proper. The defects of the Law Ministry and the Finance Ministry cannot be thrown at Mr. Chanda. We will have to take them up in Parliament. Mr. Chanda has made a statement on behalf of the Railway Ministry and in view of it, the Auditor-General has almost given his blessings.

Shri Narahari Rao: I have not given my blessings to any shortcomings. They have assured us they will take care in future.

Shri T. N. Singh: There are a number of points to be pursued. Mr. Chanda's statement has cleared a lot of mist.

The Committee then adjourned for lunch till 3-45 P.M.

Monday, 3rd November, 1952

PRESENT

Shri B. Das, *Chairman.*

Pandit Munishwar Dutta Upadhyay. Dr. Mono Mohon Das.
Shri Shree Narayan Das. Pandit Krishna Chandra Sharma.
Shri Tribhuan Narayan Singh. Shri B. Ramachandra Reddi.
Shri V. Narahari Rao, *Comptroller and Auditor-General of India.*
Shri P. H. S. Rao, *Director of Railway Audit.*

SECRETARIAT

Shri M. N. Kaul, *Secretary.*
Shri S. L. Shakhder, *Officer on Special Duty.*

WITNESSES

Shri F. C. Badhwar, *Chairman, Railway Board.*
Shri A. K. Chanda, *Financial Commissioner, Railways.*
Shri K. Sadagopan, *Director, Finance (Expenditure), Railway Board.*
Shri N. C. Deb, *Director, Finance (Budget), Railway Board.*
Shri H. S. Negi, *Deputy Secretary, Ministry of Finance.*
The Committee reassembled after Lunch at quarter to Four of the Clock.

RAILWAY AUDIT REPORT, 1951—contd.

MINISTRY OF RAILWAYS

Agreement with Schlieren

Shri T. N. Singh: So far as this Agreement is concerned, my only hope is that we would profit by experience and will not commit the same mistake over again. At the same time we should see what we can safeguard even under this Agreement. I do feel that the Railway Board, including the Financial Commissioner, have been trying to do something about it.

There are certain clauses in the Agreement which we could have availed of.

I would, in this connection, refer specifically to Clauses 6 and 7 of the Agreement. As you know, the main criticism inside the Legislature and outside has been in regard to the payments that we have made to Schlieren. Clause 6 of this Agreement says:

"In the first place Schlieren will send to India immediately on the execution of this Agreement a team of not less than three officers for the preparation in India of the initial design of all-metal, light-weight coaching stock in consultation with the Government. Schlieren will then manufacture in their works two prototype coaches to this design. When these prototypes have been tested, Schlieren will arrange for the production of coaches to the requirements as set out in Clause 7."

Clause 7 runs as follows:

"Government shall place orders on Schlieren for the fabrication at their works to Government's approved design for not less than fifty coaches per year for the first four years of the Agreement. The coaches will however consist of unfurnished bodies complete with buffers, draw gear and bogies and such other ancillaries as may be required, the internal furnishing being carried out in India. In the third year of the Agreement Government will determine the extent to which orders if any should be placed on Schlieren for the fifth to the eighth year of the Agreement and this will be communicated to Schlieren. Similarly, in the seventh year of the Agreement the schedule for the last four years of the Agreement will also be determined and communicated."

Now this is where the snag has come in—the fact of your having placed orders for 50 coaches. Clause 6 protects you to the extent that you need place orders only after the designs have been approved and the prototypes made available. I, therefore, would like to know why the payment was at all made and why the Financial Commissioner, with all his alertness did not take shelter under Clause 6

Shri A. K. Chanda: I do not see anything in consistent between Clauses 6 and 7. Clause 7 says that bulk production will start to specification after the prototypes have been approved. Naturally until the design has been approved and the prototypes have been tested, bulk production cannot commence. Actually at the prototype stage we made a lot of changes. This was going to be our standard coach and we were very cautious, and anxi-

ous to see that we got the perfect type for the Indian Railways. If we had not placed an order, it would have taken another year before they got materials and started manufacture.....

Shri T. N. Singh: If the approved design is not in existence, how can you place orders.

I would in this connection refer you to the proceedings of the previous sitting of this Committee when this was discussed. The Auditor-General very pointedly put this question:

"May I ask a few more questions. I would invite your attention to Clauses 6 and 7 of the Agreement. If you read Clauses 6 and 7 together, it is only after Government has approved of the design that the order can be placed. It is extraordinary that we have heard so much on this subject, ignoring this factor. I am sorry that this point has not been clearly stated in the Audit Report....."

Shri A. K. Chanda: May I point out that even assuming that we interpret it in the manner in which you have now suggested, what would have been the result? We would still have placed the order ultimately.

Shri T. N. Singh: We could have postponed that payment by one year.

Shri A. K. Chanda: And we would have postponed by two years the receipt of coaches.

Shri T. N. Singh: Experience has shown that we would at least have been no worse off.

Shri A. K. Chanda: May I point out that we would certainly have been worse off. Actually the prototypes were ready in Switzerland in September or October, 1950. When we examined them we did not accept the strength at the ends in the coaches which was according to what was conventional in Europe. We said that the ends of the shell must be capable of sustaining a greater pressure. Perhaps the Chairman of the Board would be in a position to explain it better.

Shri F. C. Badhwar: The European coaches are designed for a 100 tons

squeeze test. We prefer here, with our heavier stock, to adopt 200 tons which America does.

Shri T. N. Singh: Do we load more passengers here?

Shri F. C. Badhwar: Many more: and we have much heavier trains than they have in Europe. The average European train is about 400 tons, ours is about 600 tons.

Shri T. N. Singh: Even then, as the Financial Commissioner, you should have been convinced, I believe, that the system of payment in advance is not a very healthy system. And particularly when you had some protection under this Agreement, it should have been your duty to say that we may delay payment.

Shri A. K. Chanda: How does it protect us. The payment would have been made when the order came to be placed.

Shri T. N. Singh: In clause 7 of the Agreement, it is stated:

"In the third year of the Agreement Government will determine the extent to which orders, if any, should be placed on Schlieren for the fifth to the eighth year of the Agreement and this will be communicated to Schlieren."

The third year has come and gone, and probably nothing has been done in this regard. Suppose this Agreement continues. In the third year you were to apprise Schlieren of the orders to be placed for the fifth to the eighth year. If you fail to do so, they will at least take it that the *status quo* continues and is not altered—or the *status quo ante* will continue, because the Agreement will remain in force for 12 years.

Shri A. K. Chanda: No, so far as the ordering of coaches is concerned the wording is quite different. The wording is "in the third year of the Agreement Government will determine the extent to which orders, if any, should be placed".

Shri T. N. Singh: And if you do not determine it in the third year, what happens? The Agreement is silent on that point.

Shri A. K. Chanda: They do not get anything.

Shri F. C. Badhwar: No orders have been placed in 1951 and 1952.

Shri T. N. Singh: If I may correct you, you are committed to the third year.

Shri F. C. Badhwar: We have not placed any orders in the third year.

Shri T. N. Singh: When they wanted to purchase materials for the third-year programme you have indicated your requirements and therefore you are committed to the third-year order, whether you wrote it or not.

Shri Narahari Rao: I want to place an interpretation in our own favour without deceiving myself. "Government will determine the extent to which orders, if any, should be placed"—if Government determines to place zero order and if you do not place an order with them the Company must assume it is a zero order. I do not think they could claim that we were bound to place orders for any length of time—I hope so.

Shri T. N. Singh: My point is that there should be no room for doubts.

Fandit Munishwar Datt Upadhyay: In para 8 of the Agreement it is said "the cost per coach will be calculated on the cost of fabricating the first twenty-five coaches audited by an auditor appointed by the Government with a ten per cent addition as profit margin". It is only after we have fixed the firm price that orders can be placed. And for fixing the firm price it is said "On the basis of the cost so established a firm price will be determined which will hold for the first four years subject to the condition that if the prime cost fluctuates more than five per cent, either way consequential adjustments in price will be made." So, as a matter of fact, this bulk order was to be placed only when the firm price was fixed, and that price was to be determined by fixing the price of those two prototype coaches.

Shri T. N. Singh: If that is accepted, then the second and third year orders also need not have been placed.

Shri A. K. Chanda: The fixation of price and the placing of orders are different issues. And the explanation given by the Auditor-General regarding that Clause is also the explanation which the Law Ministry gave to us.

Shri Narahari Rao: You may make that position quite clear of yourself.

The point raised by Mr. Singh is important. If in the third year you don't tell them that you are not placing any more orders you may get stung. It is worth while doing it quickly. I do not think three years are over yet. I am not a lawyer but I hope what I have said is the legal position.

Shri A. K. Chanda: May I explain why this Clause was drafted this way? They wanted that for the entire duration of the contract they should get orders for 50 coaches a year. We said that we would not agree to orders for more than four years at that stage. That is why it has been worded in this manner, in consultation with the Law Ministry. "If any" means that it can be zero.

Shri Narahari Rao: I accept that position. But the point of Mr. Singh is that the third year has passed, and if you have not placed an order, will you be in difficulties. I personally think it is not so but it is better to be clear about it.

Shri A. K. Chanda: We will ask the Law Ministry. It has been seen by them.

Shri T. N. Singh: I am not a lawyer, but from whatever commonsense I have I feel that if an Agreement is valid for 12 years and if one party does not do its part of the job, the normal operation of the Agreement will not be stopped and it will be assumed that what has been happening previously would continue. In any case, it is not so easy as far, Chanda is making out.

Shri Narahari Rao: It is a caution worth taking.

Shri A. K. Chanda: I am not a lawyer either, but may I say that when the Agreement was drafted they asked for 12 years.

Shri Narahari Rao: Why do you waste your time over that—I am sorry to say so—it is conceded that this contract is not a commitment for 12 years. But you have to do a certain thing in the third year and you have not done it. Mr. Singh's point is: Does it commit us? If so, you should take care of that.

Shri A. K. Chanda: As I said, we will consult the Law Ministry on this matter.

Shri S. N. Das: It is said in the Agreement that "in the third year of

the Agreement Government will determine the extent...etc". Has anything been done in this respect?

Shri A. K. Chanda: We are thinking of terminating this Agreement and replacing it by a new one.

Shri Narahari Rao: Meanwhile get out of as many snags (like this) as possible.

Shri S. N. Das: I read in the papers that Agreements with three Swiss firms have been entered into by the Government of India with regard to this. I want to know the actual position.

Shri A. K. Chanda: Agreement on principle for participation has been reached, but further discussion have to take place before we reach any finality in the matter.

Shri T. N. Singh: There is another thing that has been going on which the Ministry has to face and that is in regard to the pricing of these coaches. We are *ipso facto* accepting a certain basis for the price. They have been quoting from time to time different prices. That is one thing against which we do require to guard ourselves. As you will admit, the prices have gone up in the course of a year and a half by almost 100 per cent. to what they were before. Formerly, it was 110,000 Swiss francs per unit. I think the August 1952 price is not given here.....

Shri A. K. Chanda: Because we have not bought any shells.

Shri T. N. Singh: But according to the difference of 40,000 or 50,000 francs for furnishings it should be about 220,000 or 230,000 francs for an unfurnished coach.

Shri A. K. Chanda: No, it is nowhere near that figure. If you look up the August 1952 figure you will find that 220,000 Swiss francs is the price of a fully furnished coach.

Shri T. N. Singh: That will mean 180,000 francs.

Shri A. K. Chanda: Actually in September they had said that the price of the shell will be 138,000 Swiss francs.

Shri T. N. Singh: Why are you now having furnished coaches?

Shri A. K. Chanda: To get them commissioned as quickly as possible. We were arranging at the Indian end to furnish these shells at our own workshops. But when this plan was processed we found that because of our preoccupations with repairs and maintenance we could not divert so much capacity in advance for furnishing these shells. So the first fifty were ordered fully furnished.

Shri T. N. Singh: How many coaches do you furnish in one month in your workshop?

Shri F. C. Badhwar: For whole coaches (i.e. constructing them as well as furnishing them) the capacity in the Railway Workshops is of the order of about twenty or twentytwo per month. But they were all fully occupied with this work.

Shri T. N. Singh: Suppose you are getting the shells at the rate of 6 per month. If you do the furnishing here that may mean six less out of the other coaches that you are doing here, but at the same time you would have saved foreign exchange.

Shri F. C. Badhwar: The first programme had been fixed and we felt that for some years we could not put more coaches to deal with overcrowding.

Shri T. N. Singh: At the same time, by importing more coaches you have saved the manufacturing capacity. Suppose you had not resorted to imports, then you would have fallen short by this number.

Shri F. C. Badhwar: The main consideration that swayed us in the furnishing of the first fifty coaches was this:

If they came unfurnished—this would be the first batch—we anticipated that it may take between 6 to 12 months to arrange for all the fittings for all these coaches.

Shri T. N. Singh: Hereafter you are going in for all furnished coaches?

Shri F. C. Badhwar: No; unfurnished coaches.

Shri T. N. Singh: You are going in only for shells?

Shri F. C. Badhwar: Yes; only shells.

Shri T. N. Singh: From Schlierens?

Shri F. C. Badhwar: Only shells.

Shri T. N. Singh: Barring these 50?

Shri F. C. Badhwar: Yes. Only the first 50 will be furnished.

Shri T. N. Singh: Then, what is the meaning in having the latest quotations only for furnished coaches?

Shri A. K. Chanda: It is an estimate, not a quotation.

Shri T. N. Singh: It is better to have estimates for unfurnished coaches. It is the estimates for furnished coaches that have raised doubts in my mind.

Shri A. K. Chanda: We have to pay for these coaches. They have therefore given estimates of their costs. We have only paid half the price of the shells. We are getting fully furnished coaches. We have to pay the difference. That is why these estimates have been given. These are subject to Audit, of course.

Shri Narahari Rao: What is the advantage of getting furnished coaches, barring the question of gaining time?

Shri F. C. Badhwar: Only the first 50 will be furnished. We wanted to set up a pattern of these fittings which will go into mass production in our own workshops for furnishings in future.

Shri T. N. Singh: A few prototypes would have been quite sufficient.

Shri F. C. Badhwar: It was thought better to put on whole trains and then get public reaction and make certain improvements or adjustments as may be necessary.

Shri T. N. Singh: As a matter of fact, you are incurring a loss by getting these second class coaches which have been found very unsatisfactory. So far as Schlierens coaches go, you may have to scrap it and re-do it. You can get a limited number and see the public reaction instead of scrapping coaches in large numbers.

Chairman: As an Engineer, Mr. Badhwar says that he wants to see the public reaction.

Shri A. K. Chanda: That is the whole idea: to see the public reaction.

Shri T. N. Singh: Public reaction is available with a lesser number of coaches.

Shri F. C. Badhwar: There is this difference. If we decide to go on for furnishings up to a certain standard of these coaches without trial, we may have committed ourselves to lakhs of rupees worth of fittings. It was much better to run a few trains and see the results.

Shri T. N. Singh: That is exactly why I was saying we could have got a few only. About the material also, you are now getting double the former strength and the coaches will be heavier. What would have been the difference in life between the two? Can you estimate that?

Shri F. C. Badhwar: I do not think the difference in normal life would have been appreciable. But the point is this: This squeeze test establishes the measures of stresses if very heavy weights collide and this squeeze test is meant to give us some idea of what might happen in a possible collision. As I have explained, the Indian train is heavier than a European train by almost 50 per cent: 400 tons of a European train against 600 tons of an Indian train. When there is an impact, the impact is proportionate not only to the weight, but you have to multiply it by the speed. It is necessary to safeguard ourselves against very high stresses that may be set up should there be a collision. To do this, with our trains' speed, we adopted this factor of 200 tons. As I said, it is sound engineering based on the experience of other countries with heavy trains, like America.

Shri T. N. Singh: In a real head-on collision, with this 200 and 100 tons, what difference will it make?

Shri F. C. Badhwar: All the difference.

Shri Narahari Rao: I am myself a physicist; it will mean enormous difference.

Chairman: I am myself an Engineer. Are we as the Public Accounts Committee going into all these questions of stresses?

Shri T. N. Singh: This is a very important point. My question is whether the increased payment that we are making is commensurate with the values that we are getting.

Shri Narahari Rao: That is a legitimate question. The point that you seem to be making is that lighter trains make for greater speed, but all trains must be of equal lightness. If you have light trains and if they

collide with the old heavy Indian trains, what will happen?

Shri F. C. Badhwar: The idea is to adopt the Schlieren train as a standard and you have to build up gradually. You cannot do it overnight.

Shri Narahari Rao: And you cannot put Schlieren coaches with other heavy coaches in the same train also. I am only trying to learn. It is an interesting point.

Shri F. C. Badhwar: Actually, even a lighter all steel coach with even 100 tons squeeze test at the buffer would, in a case of collision, be safer than a much heavier coach of wooden construction. If actual collision takes place only at the buffer level.....

Shri Narahari Rao: I do not think it would be reduced all to match wood.

Shri F. C. Badhwar: Sometimes, buffers override. In this squeeze test which I have roughly indicated, I have only given the stresses at the buffers. There are different forces higher up. For instance, one foot above the buffers, we stipulated 80 tons for this coach. In Europe they are content with about 40 tons for their lighter trains. There are different stresses all the way up. This is very scientifically measured and designed.

Shri Narahari Rao: Most of our coaches are wooden?

Shri F. C. Badhwar: At present most of our coaches are wooden though we are going in gradually for steel coaches in the new constructions.

Shri A. K. Chanda: In regard to the price quotation, I want to make one point. When this quotation was given, it was for a Swiss shell which was 5 or 6 tons lighter than the shell which we have adopted our design is heavier by 5 or 6 tons. Five or six tons of steel costs a quite bit of money. Secondly, since early 1950, there has been an increase of at least 20 per cent in the price of steel. In Germany, the rise is 78 per cent. Therefore, when we compare the figures of 1950 and the figures given in 1951 and 1952, we must bear in mind two factors: (i) the present shells are 5 or 6 tons heavier and (ii) there has been a substantial rise in the price of steel, in Europe.

Shri T. N. Singh: What is the price of a fully furnished composite coach, I, II and III class which is manufactured here and what is the landed cost of this coach?

Shri A. K. Chanda: The landed cost of a fully furnished coach is very much more than the cost of our Indian coaches.

Shri T. N. Singh: How much?

Shri A. K. Chanda: Very nearly double.

Shri F. C. Badhwar: The duty alone is between 18 and 20 per cent.

Shri Narahari Rao: I do not mind the duty. It goes to the State.

Shri T. N. Singh: I mean the landed cost in the same manner as you calculate for the TELCO.

Shri F. C. Badhwar: The price is F.O.B. Rotterdam. We do not insure. You have only to add the freight charges.

Shri T. N. Singh: What is the difference between the cost C.I.F. of this coach and a third class Indian coach?

Shri A. K. Chanda: It will be roughly nearly twice.

Shri T. N. Singh: How many coaches do we require?

Shri F. C. Badhwar: Our intention is to build new coaches here.

Shri T. N. Singh: How many would you be able to manufacture?

Shri F. C. Badhwar: Somewhere about 350; perhaps up to 500, depending on the state of development.

Shri T. N. Singh: The actual cost may go up by Rs. 35 crores per year.

Shri F. C. Badhwar: The cost of these complete coaches in India is expected to be no higher than the cost at present.

Shri A. K. Chanda: Maybe 5 per cent. more. That is the technical position. We have gone into this in great detail. Until we go into bulk production and overcome the teething troubles, the Indian price will be high.

Shri T. N. Singh: In purchasing the 150 coaches ordered so far, we have incurred an additional expenditure of Rs. 15 crores. That is what it amounts to.

Shri F. C. Badhwar: Rs. 1½ crores.

Shri T. N. Singh: May I know from the Auditor General how much extra we would have paid, supposing we are content with a less luxurious type?

Shri Narahari Rao: It is difficult to say what standard of luxury you have in mind.

Shri T. N. Singh: We are manufacturing at present.

Shri Narahari Rao: I think the answer to that can be given by the Railway Board by comparing the cost of furnishing at Bangalore and the cost of furnishing these coaches in Switzerland.

Shri A. K. Chanda: I will give the cost of a complete coach.

Shri Narahari Rao: That is not the point. The point is about furnishings.

Shri A. K. Chanda: Rs. 70,000 is the cost of furnishing in Switzerland. We expect that in India we should be able to furnish these coaches, when we go into bulk production, for about Rs. 40,000 to 50,000.

Shri F. C. Badhwar: Say, Rs. 45,000.

Shri Narahari Rao: What is the cost of furnishing one of these Hindustan Aircraft coaches?

Shri A. K. Chanda: Rs. 130,800.

Shri Narahari Rao: Furnished?

Shri A. K. Chanda: Complete with underframe.

Shri P. H. S. Rao: This is how it compares. The cost of a Hindustan Aircraft coach, complete with wheels, axles, underframes (3rd class coach) fully furnished is, as they have mentioned, Rs. 130,000. The August 1952 estimates for a fully furnished third class coach is Rs. 2,15,800 F.O.B. Switzerland. You have to add the freight which is about 20 per cent. and the total comes to Rs. 2,65,000, as against 1,30,000. That is exactly double.

Shri T. N. Singh: That is what I have been saying. For 150 coaches, it is.....

Shri A. K. Chanda: Rs. 1½ crores.

Shri T. N. Singh: That is the total capital we have to invest in this firm.

The reason why I have been asking these questions is this. This agreement will have to be revised. Probably, Government may take these things into account. Is it really desirable, when we are not able to maintain the poor standards that we have, that we should go on with experiments and agreements and big

schemes for a much higher standard which is possibly beyond our means. Should we really aim at these things which give a wrong direction to our economic activities and ventures? That is a fundamental principle arising out of these questions.

And in relation to this future Agreement as well as other Agreements, we have always to keep in mind the fact whether our country can afford to imitate those Western standards, and whether we should really run after them. They may be really very excellent things, but can we not postpone these high-faluting ideas for some time.

Shri A. K. Chanda: I should suggest that you see the Swiss coach and the Bangalore coach.

Shri Narahari Rao: Mr. Singh's point cannot be side-tracked.

Shri A. K. Chanda: This is not the forum for discussion of that, I would respectfully suggest.

Shri T. N. Singh: It is for us to decide.

Shri A. K. Chanda: I can express no opinion on that. That is all I am saying.

Shri T. N. Singh: That is another thing.

Shri A. K. Chanda: It is a point on which we cannot express an opinion here, at any rate.

Chairman: You will be guided by our opinion if we express.

Shri A. K. Chanda: Mr. Singh has raised a very important issue and...

Shri Narahari Rao: And I suggest that the Railway Ministry should examine it with the respect which it deserves. The point is from all that we hear the Swiss coach may be excellent, and the chances of having your bones crushed may be fifty per cent less than with the existing coaches. That is one of the things you have in mind. Even so, on your present estimates, those coaches will cost about twice.

Shri A. K. Chanda: Not in India.

Shri Narahari Rao: When they are made in India?

Shri F. C. Badhwar: The cost will be comparable with the cost of the present traditional coach.

Shri Narahari Rao: Then why don't you say it? That is his point. Will you be able to make them comparable in cost with the coaches of the Hindustan Aircraft Factory?

Shri F. C. Badhwar: Yes, Sir.

Shri Narahari Rao: That is the point Mr. Singh wants to know. He is not criticising so much the immediate expenditure that is being incurred as the danger of your incurring a permanent liability for all time, of double the present costs. We are a poor people and we cannot afford it. That I think is a perfectly legitimate point, and I venture to suggest it is not proper to say that this is not the forum and so on; and now that you tell me that the future production of Schleiren coaches in India is not expected to cost more than the H.A.L. coaches, a point which must go on record, I hope the situation is different.

Shri T. N. Singh: Because our estimates are likely to vary from month to month and year to year, and whereas no detailed estimates have been worked out for these coaches, it is really a very high responsibility which the Ministry has undertaken.

Shri A. K. Chanda: I am sorry I had misunderstood Mr. Singh's question. Actually, on that particular point, I mentioned earlier that the shell in India will cost, with the best estimates we have got, about Rs. 78,000/-. Adding to that the cost of furnishing, which is of the order of Rs. 40,000 to Rs. 50,000 it comes to Rs. 120,000 to Rs. 125,000.

Shri Narahari Rao: It is about the same as the present coach and better?

Shri F. C. Badhwar: It should be taken as about the same order, and they use less of our precious steel and they are safer. So, for this long-term advantage, we think it is worth while paying for a few years.

Shri A. K. Chanda: Also the operating costs will come down. Even though they are heavier than originally we thought they would be, they are about 7 tons lighter than our conventional coach.

Shri T. N. Singh: You are satisfied that the estimates have been checked properly. You can take responsibility as a Finance man, because if there is

only 5 per cent. variation, it does not matter.....

Shri A. K. Chanda: I can accept no responsibility for variations in estimates. No finance man under the sun will take responsibility for that.

Shri Narahari Rao: Within certain limitations.

Shri A. K. Chanda: Supposing the price goes up.

Shri T. N. Singh: I particularly know of this because I have been examining this type of question. There is a certain legitimate variation allowed, and with that variation, other things being equal, the estimates stand.

Shri A. K. Chanda: A Finance man goes on the estimates prepared by the technical people. How much material goes into it no Finance man can say—whether it is too much or too little—unless he has previous experience. Nobody can say. The Auditor-General who has filled the post of Finance Secretary with distinction for a long time, will be able to tell you that no Finance man can say whether any particular estimate will stand.

Shri T. N. Singh: Can Mr. Badhwar assure us that these estimates have been prepared with fair accuracy of details.

Shri F. C. Badhwar: I would like to put this before you. Here is the new steel coach that is using 14 to 16 per cent. less steel than that of the steel coach, manufactured at H.A.L. Even allowing for a little more in labour, which I do not admit.

Shri T. N. Singh: We are not concerned with the details.

Shri F. C. Badhwar: I put it to you how can it cost more?

Shri T. N. Singh: Don't put it to me. As an Engineer responsible.....

Shri F. C. Badhwar: I am satisfied that it will cost no more, but cannot go any further.

Chairman: In one our paras in the Report we will mention that the question of prices was raised about the coaches manufactured in perambur and H.A.L. factory vis-a-vis the Schlieren factory and.....

Shri Narahari Rao: What are you going to do with the H.A.L. so far as their coaches are concerned? You must have some plan, because they are working, and money has been invested on that.

Shri F. C. Badhwar: I had a meeting with H.A.L. people about ten days or a fortnight ago. We were planning for their future. H.A.L. are just as keen to make meter-gauge coaches as broad-gauge ones. They are, if anything, keener on manufacturing the meter-gauge coaches, because for meter-gauge ones there is a potential export market. For the broad-gauge coaches there is none. But they have expressed themselves without any reservation completely willing to make either meter or broad-gauge coaches as we want. The arrangement at present is that we give them a certain amount of notice—actually, it is two years notice—when we want them to switch on to meter gauge.

Shri Narahari Rao: I do not think you should worry about this notice for H.A.L. and stop production. After all it is a Government concern. You want to take a sort of technical line and stop production before Schlieren has.....

Shri F. C. Badhwar: It is but conversion.

Shri A. K. Chanda: We have said that they can plan for at least ten years' orders upto capacity. That assurance has been given to them.

Shri F. C. Badhwar: Fifteen years.

Shri Narahari Rao: Not broad-gauge coaches?

Shri A. K. Chanda: They will produce meter-gauge coaches.

Shri F. C. Badhwar: Their manufacturing plant can be converted for both.

Shri A. K. Chanda: Reverting to what Mr. Singh said, may I read out from a report about the position of costs?

Shri T. N. Singh: Report by whom?

Shri A. K. Chanda: Swiss technical experts and our technical experts, jointly.

Shri T. N. Singh: I am satisfied if Mr. Badhwar is making a statement which is going on record here. You

are also sitting here, and the Railway Board is committed to what has been stated here.

Another question. I am glad you admitted that no Project estimates were made for this Project. May I know what is the position, firstly, regarding Project estimates; and now since it appears from the information I have got, very soon you may start your Perambur factory, have you taken steps to prepare detailed estimates well in advance and in time?

Shri A. K. Chanda: Regarding the Perambur Factory Project, I am very sorry you have used the word "Admit".

Shri Narahari Rao: The best thing is to admit always.

Shri A. K. Chanda: I myself volunteered the statement. Anyhow, that is beside the point.

Certainly for Perambur, very detailed estimates have been drawn up. They have been administratively approved and financially accepted. There is no question of the Perambur factory going ahead without any estimates being prepared. Tenders have been accepted, steel has been ordered, and work has started on the Project.

Shri S. N. Das: It appears from the last part of the preamble to the Agreement that:

"the main purpose of this Agreement is the manufacture of all-metal, light-weight coaching stock in India",

and it is stated:

CI.4(v): "The supply of technical assistance to the Government by receiving in its factory and instructing technicians and engineers as may be directed by the Government."

But in the answers given in the meeting of the last Committee when the Railway Board appeared, it was said that only three trainees have so far been trained there, and no advantage has been taken of the various terms given in this agreement. And it is also stated here in Clause 11(a):

"For the technical aid which Schlieren undertake to give under this Agreement, the following amounts as basic fees the first payments being made in their three months of the signing of the Agreement and subsequent payments at twelve monthly intervals..."

I think four instalments have been paid already.

Shri A. K. Chanda: We have withheld these payments. We have not made them.

Shri S. N. Das: Three years have passed, and Government has not been able to take advantage of the training and assistance offered by them.

Shri A. K. Chanda: It is not a question of our not taking advantage. Supposing we train a large number of men for this Project, when they come back to India they will not be employed on the job for which they have been trained. They would come back and have to do what they were doing before. There is a likelihood that they would resign their jobs and go elsewhere. Our object is to see that the training keeps in step with our production plans. We do not wish to train people far ahead of our requirements. We can ask them to train as many men as we like and when we like. There is no difficulty about that.

Shri S. N. Das: We have paid two instalments, and my question is whether we have been able to get any return for it.

Shri Narahari Rao: I want to supplement that question. The point which Mr. Das really has in mind is that we have not received value for the payments we have made. Will Schlieren be prepared to train our men without any extra cost, giving us the benefit of that payment?

Shri A. K. Chanda: May I point out that the arrangement with them is that when our men go for training, they are actually paid by Schlieren at the rates at which they pay their own employees.

Shri Narahari Rao: That does not answer my question.

Shri A. K. Chanda: We will certainly get the benefit.

Shri Narahari Rao: My question is this. They have so far trained only three or four. Will they train for us the balance without charging us extra? That is the point. For the money we have paid, can we get value in future? Can we send our men?

Shri F. C. Badhwar: Yes, in principle.

Shri Narahari Rao: Is it a cumulative thing? Or, is the money payable whether you send anybody or not? Is it like that?

Shri A. K. Chanda: No.

Shri S. N. Das: It is stated here:

Cl. 4(v) "The supply of technical assistance to the Government be receiving in its factory and instructing technicians and engineers as may be directed by the Government, the total number not to exceed one hundred in the first three years and thereafter not more than fifteen per year for the purpose of training in the offices....."

Shri A. K. Chanda: By mutual agreement we have varied a large number of the terms of the contract. We have not placed the third year's order yet, though the third year is practically over. We have not paid them fees as Consulting Engineers. And I must point out that the fee we are paying is not for training our people. That is but a small part of the whole thing. The fee that we are paying is mainly for their giving us the know-how.

Shri Narahari Rao: They are going to, you mean.

Shri A. K. Chanda: They have done all the design work for us. They have given us the lay-out of the factory. They have given us a full list of the equipment we have to order.

Shri Narahari Rao: They have given you the design?

Shri A. K. Chanda: Yes.

Shri Narahari Rao: That does not answer this little point.

Shri A. K. Chanda: They will certainly train our men.

Shri Narahari Rao: Should we practically write off this money which we have given them, because we did not send our men?

Shri A. K. Chanda: Why should we?

Shri Narahari Rao: Because of the terms of the contract, literally. After all, a contract is a contract, and they may stick to it. One hundred men in the first three years.

Shri A. K. Chanda: Mr. Badhwar has answered that at any time we can send our men.

Shri F. C. Badhwar: We can send the men without extra payment.

Shri Narahari Rao: Have you reached an understanding?

Shri A. K. Chanda: They are agreeable to take our men any time we want.

Shri Narahari Rao: Free from payment?

Shri A. K. Chanda: Yes. I hope in the new Agreement, there will be no payment of basic fee either.

Shri S. N. Das: Are you satisfied that you have taken advantage of Clause 4(v) fully?

Shri Narahari Rao: Why didn't you say that when the Audit Report was drafted, viz., that we shall certainly get value for the money we have already paid, and that we can send the men at any time. Then we should have mentioned it in the Report, and it would have saved all the trouble.

Shri A. K. Chanda: I am very sorry. I had suggested that this thing should be kept in abeyance for a little while, but that request was not acceded to.

Shri Narahari Rao: The Report could not be kept in abeyance. Had you given the facts.....

Shri A. K. Chanda: Anyway we are making a factual statement. All these things can be checked up from our files by the Director of Railway Audit. I do not think we have made any statement which is even slightly inaccurate.

Shri P. H. S. Rao: Have they given it in writing? Is it on the file?

Shri A. K. Chanda: It has been discussed. There is nothing in writing.

Shri Narahari Rao: But you should get it in writing.

Shri T. N. Singh: We are paying certain Swiss Francs every year. That payment will have to be made whether we send 10 or 200 men.

Shri A. K. Chanda: As I pointed out, sending the men is the least part of the Agreement. It is made for an entirely different purpose, for getting them to give us their technique, their design and so on. And if I may be permitted to say so, despite the fact that this Agreement is not an ideal one, this provides for payments staggered over a period of 12 years. I know of many contracts in India and

elsewhere, where you have to make one single lump-sum payment, and if a single payment had been made, the amount would have been much more than what we have paid. For instance, for the third year, we have not placed an order, in terms of the Agreement, even though we are half way through the fourth year.

Shri. T. N. Singh: Whatever it may be, once a liability has been incurred by the Government of India, as an honourable Government, they are bound to honour it, and not disown it.

Shri A. K. Chanda: I am only pointing out that as a result of certain discussions and agreements, we have varied the terms of the Agreement to our advantage. That is my point.

Shri Narahari Rao: You have varied the terms in order to make them equitable to us.

Shri A. K. Chanda: I see no objection to using the word 'equitable'.

Shri Narahari Rao: I am deliberately using the word 'equitable' for altering a thing to make it equitable is not the same thing as altering it to one's advantage. If you say that you have made an advantage out of this, then you would be making a misleading statement, which will create trouble for you elsewhere. After all, these statements which you have made are public documents, and I do not want any one to think, that you have made an advantage of the Agreement, by varying the terms.

Shri A. K. Chanda: If you choose to use that word, I shall bow to your wishes. In the morning I had drawn attention to a saving of about half a Million Swiss Francs, where it is legally due. If you would like to use the word 'equitable', we shall accept your wording.

Shri M. N. Kaul: I would like to inform the witnesses of one thing. So many questions and so many answers have been given that it is important that the entire evidence was examined by them, and they may suggest or indicate if there are any portions which they wish should be kept confidential, because the proceedings of the Committee will now be printed and laid on the Table of the House.

Shri A. K. Chanda: We have nothing to hide.

Shri M. N. Kaul: I just wanted to know whether there is anything which should be kept confidential in public interest and not from the point of view of this Committee or Parliament.

Shri Narahari Rao: We have not entered into any discussions of details of the future negotiations, but I think that everything that has been said is perfectly in order and ought to be on record. There is nothing secret or confidential in it, which would in any way prejudice their negotiations for future contracts.

Pandit Munishwar Dutt Upadhyay: Mr. Chanda has explained to the Committee the whole position and has stated that he would see that this Agreement is modified to our advantage; I would like to know whether his attention has been drawn to certain objectionable features in the Agreement, and whether he proposes to have a replacement of them in the future, especially the payment in Swiss currency for the manufacture and supply of prototype coaches to be made on cost plus 10 per cent. basis, referred to in Clause 8. There had been very violent variations between the original estimated price and the firm price that you are going to have. We do not know what the cost price is going to be, and to what limits it will go either. That is our apprehension. Could you give us any idea about what that cost price is likely to be?

Shri A. K. Chanda: The estimates have been given in the Schedule submitted to you?

Pandit Munishwar Dutt Upadhyay: But they have been varying.

Shri A. K. Chanda: But these are the final estimates given by them. As regards prices, I have already given an explanation. I am not saying that we accept these prices; I am only pointing out to you that the first quotation was adopted as the basis of criticising subsequent prices. The first quotation was based on a particular design and weight, and we have exceeded that weight by about 5 to 6 tons. The variation we have to allow for is the price of 5 to 6 tons of steel. Then naturally there is increase due to the general price increases which have taken place between 1950 and 1952. We know that in all the 1950 contracts placed by the Government of India we have on an average paid anything between 10 to 20 per cent. more than the original price. If we apply all these corrections to the

original quotation and compute a price, I do not think there will be any difference between the two.

The Auditor-General has very kindly agreed that in the cost examination that would take place, his Officers also be associated. They will examine the original records of the firm, and we should be in a position to give the correct picture.

Pandit Munishwar Dutt Upadhyay: My point is, especially because you are going to have better terms, this kind of arrangement should not be there...

Shri A. K. Chanda: I may assure you, that it will not be a cost plus contract. It is all going to be firm price agreements. The Auditor-General is aware, as I informed him after my return to India, that for the new railway orders, we have not accepted any price variation clauses. We have only firm prices.

Pandit Munishwar Dutt Upadhyay: You said that it was in your interests to vary the Agreement, because you wanted the coaches; you also said that there was nothing in the Agreement by means of which you can discontinue the contract.

Shri A. K. Chanda: Only if there is a default, it can be determined.

Pandit Munishwar Dutt Upadhyay: If you read Clause 10, you will see that all deliveries for the annual orders will be completed within the year.

Shri A. K. Chanda: I have given an answer to that already. They cannot supply anything until the design and other details have been finalised.

Pandit Munishwar Dutt Upadhyay: But then if the design was not finalised, it was not the fault of one party only; it was the fault of the other party also.

Shri A. K. Chanda: Well, we were not buying what was being produced by Schlieren. If we were buying what they were producing, then they could have certainly met the order within the year. The gauge was different; we wanted mere ventilation, different types of windows. The whole thing has to be designed in such a way that the stresses and strains, arising out of the position of the windows, the width of the windows etc. will have been taken into account. A very detailed mathematical calculation of stresses and

strains is involved depending on the shell that you want. I will give you an example. If we want to have a brake-van of the Schlieren type, an entirely new design will have to be prepared. So also with a dining car because the lay-out is entirely different. It is a very delicate mechanism. I understand the whole coach has to be very carefully designed and stresses and strains calculated accurately to ensure uniform strength throughout the coach. It should not give way at any particular point on an impact.

Shri Narahari Rao: Are you getting dining cars of Schlieren type?

Shri F. C. Badhwar: Just to start with, until we have our own factory going at full speed. We intend using our own dining cars on Schlieren trains and not Schlieren dining cars.

Shri Narahari Rao: Is it safe?

Shri F. C. Badhwar: Completely safe. It is no more unsafe than it is today.

Shri A. K. Chanda: We are not placing an order with Schlieren because the cost would be very high and deliveries will not be quick. We would rather do it ourselves.

Chairman: We find the Ministry and Auditor-General nearer today. They have agreed almost and the Auditor-General, as I said this morning, has given an indirect blessing.

Shri Narahari Rao: I will have to correct that. I maintain those criticisms, but those criticisms are of a different character from what they were before. This Committee will still have to recommend that in the matter of contracts of this kind, which involve advancing of large sums of money to assist the financing of the business, it is not suggested that the financing should not be done, but that it was not the right way of doing it.

Shri A. K. Chanda: We accept that point.

In fairness to us you should also state that no orders have been placed subsequently in which we have not either obtained a bank guarantee or have not got.....

Shri Narahari Rao: That is irrelevant. I do not propose to go into that.

Shri A. K. Chanda: We are only saying.....

Shri Narahari Rao: We are glad to hear that you are getting financial-minded, conscious of the right things.

Chairman: This Committee is grateful to Mr. Singh for raising the issue of comparative prices between the imported coaches and the coaches manufactured in India. Our recommendations must contain that aspect of price comparison which was done by the technical expert, Mr. Badhwar.

We are glad that the Agreement is going to be modified on a more satisfactory basis. Mr. Chanda, I may just add that this Committee has decided to go into all the contracts and agreements because they are at variance with each other. The Defence Ministry contracts do not tally with yours and yours do not tally with those of the Supply Ministry. The Auditor-General is helping us. A note is being prepared and we will be going through it. At that time we will seek your assistance to give us valuable suggestions. But I would suggest that you must acquaint the Ministries with the features of these contracts, the variation in payments etc. This is incidental to the inquiry we are having, but I hope there is some method by which the experience gained and the conclusions reached by a person of your eminence are available to them. We find every Ministry is working on a compartmental basis; there is no co-ordination and co-operation. For the present, we will record what notes we have made, but we will next year examine the Agreement and we hope it will be satisfactory.

Shri Narahari Rao: I think, Sir, you might recommend that the next Audit Report should contain a report on the further operation of the existing Agreement and any further Agreement that has been made. That, of course, I promise will be done.

(Agreement with TELCO)

Chairman: Now we take up TELCO.

Shri Narahari Rao: It is rather important. I wish that it should be gone into. There is an important recommendation I have to make on TELCO.

Shri A. K. Chanda: So far as the TELCO Agreement is concerned, I must apologize to the Committee for our failure in not submitting a statement on the subsidy paid to TELCO

for the production of boilers. This subsidy is the difference between actual cost and the landed cost of boilers. There are practical difficulties in preparing a statement. We had a series of meetings last December with the Directors of Tata industries—five Directors were present including Mr. J. R. D. Tata—and certain agreements were reached regarding the allocation of the capital employed in the business. Now, although the TELCO Agreement provides for the production of 50 boilers and 50 locomotives, the installed capacity is sufficient for the manufacture of 100 locomotives and 100 boilers. This is all to the good because I think in future we shall need it all. We took up the point in discussion that we could not be made liable for the depreciation and overheads attributable to this excess capacity. An Agreement was reached between TELCO and ourselves regarding the division of capital between our capacity and excess capacity. Later on when this particular item of Agreement was to be implemented, certain difficulties arose. This took place in my absence and we have again convened a series of meetings with TELCO to iron out these differences in interpretation. We have given a memorandum but that does not give the actual audited figures. We cannot establish until an allocation of capital is agreed upon.

Now, the problem of TELCO is a very serious one and it is really for this Committee to consider as to how this is to be tackled. As I mentioned at the meeting in 1950, the object of the whole Agreement was to establish production of locomotives and boilers in the country and for that we were prepared to pay a price, that is the actual cost as against the landed cost of imported equipment. The period was supposed to come to an end in 1947; then it was extended to 1949 and then to 1952 until they attained full production. Now, a situation has arisen—I will put it very briefly—in which when we are paying the actual cost which is very much higher than the landed cost of similar boilers or similar equipment. That is, by continuing period A and B we are continuing to pay a subsidy, even seven years since the Agreement commenced. That is one of the reasons why we could not fix a firm price. The firm price has to be related to the cost of production in period B. Now if we fix a firm price on the basis of production of 15 or 20 boilers, the price will be so excessive that we would

have no justification for adding a profit on top. At the same time, we cannot continue to pay them this heavy price year after year because of their failure to attain the target production. That is the problem before us. The Agreement does not provide for any cancellation; nor do I think that even if there was a provision for cancellation, Government would have invoked it. Having established production in the country we could not say that we shall not place any orders. This is, briefly, the problem as regards TELCO. We are very unhappy over this and we do not quite see light as to how this is to be handled. We had some meetings with one of the top Directors of TELCO today and we shall have further meetings. But I think it would be a good idea if the Auditor-General who has studied this Agreement in detail were to tell us what his assessment of the situation is and how he would like this to be processed. In his previous incarnation he was also Finance Secretary to the Government of India. With your permission, we should request the Auditor-General to tell us what his reading of the situation is and how best we could handle it.

Shri Narahari Rao: I am glad that sometimes they want the help of the Auditor-General also. If any unpleasant suggestion has to come, it must come from him. I hope it will be a pleasant suggestion that I propose to make.

Shri A. K. Chanda: I have nothing more to say on this.

Chairman: Are you not benefited by Chittaranjan in any way?

Shri A. K. Chanda: Yes. The position is this: Are we to go on paying the actual cost year after year because they had not been able to reach the production target?

Chairman: Is the cost at Chittaranjan lower than that at TELCO?

Shri A. K. Chanda: It is a completely different kind of equipment, and while Chittaranjan production has been going up, I regret that I cannot say the same thing about TELCO. Of course, there have been difficulties both at Chittaranjan and TELCO; When we have to rely on foreign assistance in the initial stages, if the foreign people for one reason or another do not give us the full measure of assistance or if there is any lack

of balance in the supply of components the entire production programme is upset. It has happened in Chittaranjan, it has happened in TELCO. I must also point out that there are many difficulties almost insuperable difficulties, in establishing production on an economic basis, of a complicated product like a locomotive or a boiler. These are the extenuating circumstances, but at the same time I feel that we could not possibly continue to go on paying these exorbitant costs *ad infinitum* merely because they have not been able to attain full production. This is a matter which I am placing before the Committee. We feel almost helpless in the matter. We have discussed it so many times, we have given assistance in the technical field, and in the financial field, but the desired results have not been achieved yet.

Chairman: It is a new proposition before the Committee. We are going to examine the TELCO Agreement to see whether it is bad or good.

Shri A. K. Chanda: It was an Agreement concluded in 1945. The Agreement is very difficult to understand. Let me tell you straightaway that I cannot understand many of the Clauses. In 1949 after we took over, I discussed it with Sir Ardeshir Dalal saying, this Agreement was very complicated and unworkable; could we not substitute it by something simpler, something rational?

Chairman: Your predecessor drafted it?

Shri A. K. Chanda: It was not merely my predecessor, but the predecessor Government.

Shri K. C. Sharma: You say Chittaranjan production is going up. You have to import material for Chittaranjan as for this. What then is the difference? Why is the production not going up in TELCO's?

Shri A. K. Chanda: Actually I happen to be a Government Director on the TELCO Board. At a Board meeting last year I raised this specific issue, that as the representative of the largest shareholder I felt very distressed to notice this uneconomic cost and inadequate production.

Shri K. C. Sharma: No, no. What difficulties are there in the way of more production? Generally it is the accepted principle in India that the private enterprises have greater production at lower costs as against Government enterprises.

Shri Narahari Rao: That is so when they produce for a market and for a profit. That is not so when they produce for Government.

Shri A. K. Chanda: Where competition exists and competition is the corrective private industry certainly ensures sufficient economies in its production methods. But where there is no competition and the only consumer is Government then the situation is somewhat different.

Shri K. C. Sharma: Do you think there is a *mala fide* slackness on their part?

Shri A. K. Chanda: I would not say that, I could not possibly say that.

Shri T. N. Singh: What will be the situation if the TELCO's were to stick to their guns and say "no, we shall not budge an inch from the Agreement" and it has to be followed? Then is there any way to get out of the situation?

Shri Narahari Rao: Yes, there are ways. I know what you are thinking of. Your mind perhaps is working in the way of nationalisation.

Chairman: The Financial Commissioner has made an appeal to the Auditor-General. The Auditor-General knows both TELCO and Chittaranjan. So, let him from his level give us his advice and suggestions, then we will carry on the discussion.

Shri Narahari Rao: This Agreement took effect in June 1945. Actually it was not drafted till 1947; and in spite of their having had two years time to think of the draft, they seem to have thought it out in the most confused manner possible. I have never come across an Agreement better designed to create confusion and to blur all the issues. When I looked at it I got very hesitant about my own Accounts knowledge. I thought that probably I did not understand enough Finance and Accounts when I first saw the Agreement. I got quite alarmed. But I cut through all the maze and discovered that all ingenuity had been wasted in making the Agreement as difficult to understand as possible. For instance quite obviously, when you had to start a big factory for manufacture of boilers or locomotives which had not been made in the past in this country, you had to assist them by giving them some subsidy or things of that sort. I cannot understand the Clauses which divide the Agreement into two periods:

Period A for one year and period B also for one year. There is no distinction between periods A and B. During period A as well as period B the Agreement provides for the payment of the actual audited cost but the same sentence goes on to say that only the landed cost will be paid. The balance is obviously a subsidy—it is not a profit—subsidy in the sense that you have to pay a higher price. It is no profit to Tatas, but it is expenditure which they have incurred in the manufacture of boilers, but you withhold that difference during periods A and B and say they must finance it from a Development Account which is a fictitious, non-existing Account without any balance therein. That will be made good during period C which was to begin after two years from the commencement, but it has not commenced yet for ordinary purposes. And this Development Account is a fiction. It really is an addition to Capital Account. The money has to come from the working capital. And they have kept it as their money. It is a fine way of progressing a new industry. I have yet to meet the Financial Advisers on the other side and ask them how they made this Agreement. We of course feel a bit suspicious about the whole thing. I do not see how they kept the difference between the audited cost and the landed cost. Obviously it was not workable, so they had gone on paying for a few years the entire estimated cost. They said, this is the audited cost—and no audit has been conducted—and they paid up for a couple of years. So far as they were concerned it was good because by doing so they would not have to pay interest. There is a Clause which provides for 7 per cent. interest during period C on the capital, and the Development Account being a part of the capital that would earn the same interest. I do not know whether that was a trick in the Agreement.

However, I regard it all as a very complicated, unsatisfactory Agreement. Thereby I do not mean that there was any intention on the part of either side to do the other side down. I have not been able to discover any *mala fides* in the drafting of the agreement but the whole thing is so utterly blurred that Government would never be able and the public would not be able to understand the true implications of such an Agreement, and a great many mistakes could happen later and some mischief too, because if an Agreement is not clear that sort of thing can happen.

I have spent quite a lot of time on this, much more than I could usually be expected to do. As I said, I am not clear at all about the advantage of debiting this balance to the fictitious Development Account. It could only have added to TELCO's difficulties, and those difficulties had to be circumvented in a roundabout manner by Government saying, "We will pay you the estimated full cost". And eventually they had to take shares, they have taken shares to the extent of Rs. 2 crores, to diminish the financial difficulties thereby. All that is not in question because I have had a talk with the Financial Commissioner and he agreed that this was really the case. But the increase of the capital due to the Development Account has resulted in certain extra payments by way of interest to the tune of 7 per cent. This has been partially counteracted by Government taking shares to the extent of Rs. 2 crores.

.. Shri T. N. Singh: Did you refer to seven lakhs?

Shri Narahari Rao: No, I said interest to the extent of 7 per cent., had to be paid on this additional capital in the Development Account. There was no profit during periods A and B. During period C the price had to be established, based upon the performance or averages of previous periods and so on, and that was the fixed price to be paid during period C, that is when full production had been attained. In addition to that TELCO was to yet 7 per cent. per annum on the capital. That was the general outline of the arrangement if I have understood it correctly in spite of it being a very complicated looking Agreement.

Period C has not commenced. All the same, they have shown a profit of Rs. 7 lakhs for the period 1949-50 and 1950-51. It has been agreed subsequently that until full production is reached, Period C should not be treated as commenced and in any case prices have not been fixed. If Period C has not commenced, therefore, there could be no profit and there could be no Rs. 7 lakhs and these Rs. 7 lakhs appear to represent the interest at 7 per cent. on their capital for a period of two years. This sum of Rs. 7 lakhs would be objected to by Audit anyhow, but the accounts of TELCO have to be adjusted over the whole period.

The real snag is in the determination of the audited price, i.e. the price acceptable to Audit and the Administration. At present, even the internal accounting officers have not been able to agree upon what the price to be paid should be, with the result that the whole thing is nebulous and payments have been made more or less on account, so to speak. This has gone on for seven years now as against two years by which time a stable position was to have been reached. This is a very unsatisfactory situation. To rectify it, I would suggest that they should take steps for a very early costing of this. This is important from another point of view also. TELCO do many other things, some for Government and some other things for the public too. They make road rollers, underframes and so on. Unless you cost this properly you may be foisted with extra price on account of something else. I do not suggest that they would do it deliberately, but in any case where you have a cost contract, you cannot afford to be careless. So I recommend that they should take steps forthwith, if necessary for an arbitration on the settlement of these costs. That is suggestion No. 1. Then, another observation which I have to make in this connection is that after all TELCO are producing boilers and locomotives entirely for State Railways and they have not yet reached a stage of producing these for export. God knows when it will happen and even if it happens, this is an industry where the Government is the sole consumer, and it seems rather funny that you should go and have a partnership with somebody else for production of things of which you are the sole consumer. No private business will do anything for nothing. It seems you are just making a present of something to somebody else. I do not wish it to be understood that I am not conscious of the great work that TATAS and TELCO have done for this country. That is a different issue altogether. What I do suggest is that—and this is an important national point, especially in the light of planning and other things that are going on—where an industry is producing something solely for the State, the bringing in of a partner from outside can only mean that you are wantonly giving away something to somebody. I have my own doubts, as this Committee knows, about State enterprises and State

management and I have been a very strong critic of that but there is an important exception to it and this particular case is an ideal one for the State to take over the enterprise and manage it itself. Of course, certain checks will be required viz., checks to see that they do not produce at a loss and so on—the same thing as in the case of munitions factories for instance. In the case of munitions, you do not propose to ask somebody else to manufacture munitions for you with a view to presenting him with something. The checks required are that in regard to the prices and in regard to your standards, both in regard to quality and durability, the article that you manufacture at your factory is not worse than in any other country where the industry has been well established. You might compare your standards with U. K., Switzerland, France and so on. That is a constant efficiency audit. Of course, you must internally have an efficient administration and good accounting and audit. Subject to that, this is the way in which my mind is working. It is very different when I talk of the State working its own industry. Here it must not be understood that I go in for State trading and nationalisation blank. If, for instance, the State says that it will manufacture all the textiles in this country, I will feel alarmed. There is a clear distinction between the two fields, and this particular instance is a field in which Government could legitimately take over the industry and manage it themselves if they have all these difficulties.

Shri A. K. Chanda: We are obliged to the Auditor-General for this exposition. We are in complete agreement with him as regards the Agreement, myself have not been able to appreciate the difference between Period A, B and C etc. That is why we were trying to revise this Agreement, but for one reason or another that has not been found possible. As regards Auditor-General's views as to the future, that is a matter for Government to consider and decide, and we will undoubtedly put the case before Government. The difficulties we mentioned were practical, but the Auditor-General has looked at it from a different angle altogether, viz., the principle that should determine the nationalisation of industries. That is his approach to this question. Ours was a practical approach.

Shri Narahari Rao: Mine is not?

Shri A. K. Chanda: Yours raises a principle. I am saying that so far as our problem is concerned, it is a practical problem.

Shri Narahari Rao: I hope you also have some principles.

Shri A. K. Chanda: Anyhow, this is a matter which will be placed before Government and Government must make up its mind as to what should be done.

Chairman: After all this discussion, I am convinced that it would be better to take over the locomotive manufacture—not the whole TELCO, but the locomotive manufacturing side.

Shri A. K. Chanda: There is only locomotive and boiler. There is nothing else.

Shri Narahari Rao: But there are road rollers.

Shri A. K. Chanda: They were produced in an ancillary plant.

Chairman: Otherwise, Government will come to grief, because TATAS have got a system of paying three months' bonus to the staff and in State industries, up to now we have not gone in to that issue and we have never bothered about this three months' bonus. Therefore, what occurred to me was this. The moment the State takes away a slice of the Jamshedpur concern of TATAS, it will have to face that problem.

Shri Narahari Rao: The location at Jamshedpur is unfortunate from that point of view. Bangalore would have been better.

Dr. M. M. Das: So far as my information goes, the privileges regarding bonus which are available to the employees of TATAS are not available to the staff of TELCO.

Shri T. N. Singh: How is that possible? According to this agreement, the employees of TELCO have to be paid on the basis of the employees of TATAS.

Shri A. K. Chanda: The question of bonus does not arise. In TATA STEEL Co. the bonus was related to actual profits, i.e. if the profits went above a certain figure, the staff got a bonus, and it was on a slab system,

but so far as TELCO is concerned, when it does not earn any profits, the question of bonus cannot arise.

Pandit K. C. Sharma: That is the lump sum payment and how many boilers have they delivered so far?

Shri A. K. Chanda: The total payment is Rs. 146 lakhs, which is Rs. 75 lakhs more than the landed cost and this represents the subsidy we have paid to this industry. They have delivered 148 boilers so far.

Shri T. N. Singh: Last year we expressed a good deal of anxiety about this question and we went away with the impression that things were going to be set right, but it seems our optimism is misplaced.

Shri A. K. Chanda: I am taking this pessimistic line today because of the developments since the last meeting. TELCO had told us that they would attain full production of boilers by December, 1952, but we find now that they are very far from that position. When I gave you some figures at the last meeting, that was based on the current level of production then and TELCO programme as given to us.

Shri T. N. Singh: That is where the snag comes in. Somehow I have felt that mere statement by some party or other does not take us very far. The result is that we have burnt our fingers.

Shri A. K. Chanda: That is why I have at this meeting expressed our pessimism. We had relied on what they had said and on the basis of that I had made certain statements to you before. Today we find that these expectations have not materialised and we are as much worried as this Committee. This is one of the Agreements which has given us a lot of trouble and headache.

Shri T. N. Singh: So they are not manufacturing anything?

Shri A. K. Chanda: So far as locomotives are concerned they are only assembling them. We were discussing boilers that they are manufacturing.

Shri T. N. Singh: All the vital parts even?

Shri A. K. Chanda: It is merely steel plates. In the case of locomotives what they are doing is the right thing. Even at Chittaranjan we first started

assembling and then we went on reducing the incidence of imported components. As time goes by we expect to manufacture the whole locomotive. Our estimate is that at the end of five years we shall be manufacturing all the components which are necessary for a locomotive.

Shri T. N. Singh: Are you able to manufacture the components of a boiler—the chambers and all that.

Shri F. C. Badhwar: You mean the tubes? The manufacture of boiler tubes has not yet been attempted in India and actually for the number of boilers we consume, to set up a plant in India would be quite uneconomical. But quite recently, we have come across a firm in India which specialises in a particular kind of stripped steel. There is another firm which specialises in electrical welding. One of my Officers is exploring the possibility of getting those firms together so as to give us electrically-welded tubes of the quality that we could use as boiler tubes.

There is also another firm of world-wide reputation which is thinking of a tie-up with TATAS themselves, with a view to manufacturing various kinds of welded tubes in India, including boiler tubes. So, though it may not be very probable, there is a possibility of boiler tubes being manufactured in India within the next few years. But to set up a plant especially for the manufacture of boiler tubes would not be justified.

Chairman: So, what should be the recommendation of this Committee?

Shri Narahari Rao: There are two problems involved here. One is in regard to the payments that have already been made. To make payments on a provisional basis for seven years (a sum of Rs. 146 lakhs) is a very unsatisfactory feature. The only way of settling it is to explore the difficulties that have arisen in getting an agreement on the actual audited cost. If they cannot agree, let them go to arbitration.

Shri A. K. Chanda: Under the terms of the Agreement, if any other work is executed, we are supposed to get a credit. But these people are trying not to give us any credit. That is why we are not accepting their cost; that is the reason why the audited costs cannot be established.

Shri Narahari Rao: I was only suggesting that those obstacles must be got over.

3 November, 1952]

PUBLIC ACCOUNTS COMMITTEE

[Ministry of Railways

Again, since the products of this concern are meant mainly for consumption by the State, the best course for Government is to take it over as a State industry. That is a very simple proposition.

Shri A. K. Chanda: I think this is a matter which is really for the Government to decide.

Shri Narahari Rao: This is a general recommendation which covers all industries which cater to Government needs.

Chairman: May I suggest that Mr. Chanda and the Auditor-General can together give us a note?

Shri A. K. Chanda: I am only a witness before the Committee.

In the end, I wish to thank the Committee for having given us an opportunity to explain the position. We have certainly done whatever is possible to safeguard the interest of Government and so long as the Committee appreciates that, we shall feel very happy.

(The Committee then adjourned sine die.)