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**AVOIDABLE EXTRA EXPENDITURE
ON THE PURCHASE OF CROSS-BAR
TELEPHONE EXCHANGE EQUIP-
MENT FOR VARIOUS EXCHANGES**

MINISTRY OF COMMUNICATIONS

(Department of Telecommunications)

**PUBLIC ACCOUNTS
COMMITTEE**

1990-91

NINETEENTH REPORT

NINTH LOK SABHA



**LOK SABHA SECRETARIAT
NEW DELHI**

COLL. NO. 13, A/1
1991

NINETEENTH REPORT

PUBLIC ACCOUNTS COMMITTEE (1990-91)

(NINTH LOK SABHA)

AVOIDABLE EXTRA EXPENDITURE ON THE PURCHASE OF CROSS-BAR TELEPHONE EXCHANGE EQUIPMENT FOR VARIOUS EXCHANGES

MINISTRY OF COMMUNICATIONS

(Department of Telecommunications)

[(Action Taken on the 53rd Report of Public Accounts Committed
(8th Lok Sabha)]



Presented to Lok Sabha on 27 February 1991

Laid in Rajya Sabha on 27 February 1991

LOK SABHA SECRETARIAT
NEW DELHI

January, 1991/Magha, 1912 (Saka)

P.A.C. No. 1308

Price: Rs. 9.00

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Published under Rule 382 of the Rules of Procedure and Conduct
(Seventh Edition) and printed by the of Business in Lok Sabha
Manager, Government of India Press, PLU, Minto Road, New Delhi.

CORRIGENDA TO THE 19TH REPORT OF PUBLIC
ACCOUNTS COMMITTEE (9TH LOK SABHA)

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PUBLIC ACCOUNTS COMMITTEE

(1990-91)

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18. Shri H. Hanumanthappa

*Appointed w.e.f. 4-1-91 vice Shri Shantilal Purushottamdas Patel ceased to be member of the Committee on his appointment as Deputy Mtnister,

**Appoi nted w.e.f. 10-1-91 vice Shri Kamal Morarka ceased to be member of the Committtee on his appointment as a Minister of State.

INTRODUCTION

I, the Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this Nineteenth Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their 53rd Report (Eighth Lok Sabha) on Avoidable extra expenditure on the purchase of cross-bar telephone exchange equipment for various exchanges.

2. The Committee have not agreed with the conclusion arrived at by the one man Committee that the extra expenditure of Rs. 1264.01 lakhs that had to be incurred for the procurement of 1,70,000 lines was entirely due to the circumstances prevailing in the international markets and obviously were not foreseeable or avoidable. The Committee have found that under the then existing circumstances it was a miserable failure of the Department of Telecommunications not to take timely steps for the necessary foreign exchange and obtaining the financial sanction. The Committee have been of the firm opinion that the delay in finalising the main tender of 1.34 lakh lines has resulted in huge avoidable expenditure to the tune of Rs. 1264.01 lakhs. The Committee have strongly deprecated the lackadaisical approach on the part of the Department of Telecommunications in processing their well established requirements and also their utter lack of concern for the financial interests of the country. In the opinion of the Committee the Department will learn a suitable lesson from the sad experience in this case and take all corrective steps in the light of the comments contained in their 53rd Report (8th Lok Sabha) so as to obviate the chances of such recurrence in future.

3. The Report was considered and adopted by the Public Accounts Committee at their sitting held on 11 January, 1991 Minutes of the sitting form Part II of the Report.

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

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

NEW DELHI;
January 24, 1991

Megha 4, 1912 (S).

SONTOSH MOHAN DEV,
Chairman,

Public Accounts Committee

CHAPTER I

REPORT

1.1 This Report of the Committee deals with the action taken by Government on the Committee's recommendations/observations contained in their report* on Avoidable extra expenditure on the purchase of cross bar telephone exchange equipment for various exchanges.

1.2 The 53rd Report which was presented to Lok Sabha on 6 August, 1986 contained 17 recommendations. Action Taken notes on all these recommendations/observations have been received from the Ministry of Communications (Deptt. of Telecommunications) and these have been broadly divided into two categories as indicated in Appendix I.

****Delay in finalisation of orders**

1.3 The requirement of local telephone exchange equipment and its availability from indigenous production in the context of 'Agreed Programme of Development' for the 5 year period 1978-83 was reviewed in May 1978. The requirement was then estimated at 15.27 lakh lines against the likely supplies of 10.66 lakh lines from indigenous sources. The shortfall thus estimated at 4.61 lakh lines was provisionally proposed to be met from various sources including import of 2.94 lakh lines under various credits under World Bank/OECF during 1979-80 to 1982-83. Action for bridging the gap by imports for meeting requirements of 1979-80 and 1980-81 comprising of 1.34 lakh lines of cross-bar exchanges equipment and 10,000 lines of electronic SPC exchanges (Total 1.44 lakh lines) was taken, whereas import requirements for 1981-82 and 1982-83 were left to be considered later.

1.4 In the notice for tender (NIT) issued on 4-10-1978 for import of equipment, provision was made for import of 1.34 lakh lines of cross-bar exchanges to cover the gap upto 1980-81.

1.5 Provision was also made in the NIT for an option for placing a repeat order on the same terms and conditions for addition of 1.7 lakh lines to cover the requirements upto 1982-83 provided such option

*Fifty third Report (8th Lok Sabha) on Paragraph 17 of the Report of Comptroller and Auditor General of India for the year 1983-84, Union Govt. (Posts & Telegraph).

**Sl. Nos. 7, 9, 11, 13, & 16 - Paragraphs 1.55, 1.57, 1.59, 1.61 & 1.64 of the 53rd Report.

was exercised not later than one year from the date of complete supply of equipment under the original order. In fact, the letters of intents issued to the three foreign suppliers on 7-12-1979 also contained a specific provision in this behalf.

1.6 The Committee had observed in their 53rd Report that in addition to the import of 1.34 lakh lines for 1979-80 and 1980-81, the need to bridge the gap for 1981-82 and 1982-83 through imports was patent at all points of time while assessing requirement of local telephone exchange equipment and its likely availability from indigenous production at both the reviews made in May, 1978 for 1978-83 and then in November 1979 for 1979-84. So much so that on 18/20-7-1978 tentative programme of import of 2.94 lakh lines of cross-bar exchanges was finalised and even list of exchanges for four years 1979-83 was identified and tentative targets for commencement of installation were also indicated. Further while making the proposal to undertake firm action for import of 1.34 lakh lines of cross-bar exchange equipment to cover the gap for 1979-80 and 1980-81 with imports, the gap for 1981-82 and 1982-83 was left to be covered after a fresh review later, which was in fact made in November, 1979

1.7 The following data indicate the time taken by the department in finalising the tender for 1.34 lakh lines:

(1) Tender announced	4-10-1978
(2) Tender opened s	29-1-1979
(3) Tender Evaluation Committee (TEC) set up	29-1-1979
(4) Report submitte by TEC	30-4-1979
(5) Report submitted by the study team after visit to Japan	5-6-1979
(6) Report submitted by the High level Committee on pfacing of orders	24-7-1979
(7) Letters of intent released by the Department.	7-12-1979
(8) Detailed orders issued	21-5-1980 (firm 'C')
	17-7-1980 (Firm 'A')
	24-7-1980 (firm 'Bf')

1.8 As a result of delay in the issue of detailed orders for supply of 1.34 lakh lines all the three firms expressed their inability to supply additional equipment under repeat order clause, on the procurement of which an extra avoidable expenditure to the tune of Rs. 1264.01 lakhs had to be incurred.

1.9 Commenting upon this avoidable expenditure of Rs. 1264.01 lakhs, the Committee in paragraph 1.55 of their 53rd Report recommended as follows:

“The question for which a satisfactory answer is required by the Committee is: why action for processing of repeat order for 1.7 lakh lines was not initiated simultaneously with the floating of indent for import of 1.34 lakh lines pending further review of the overall requirement later on when the need for import of this much cross-bar equipment had already been established and even a decision had also been taken during further review in November, 1979 that the crossbar equipment should be obtained upto 1982-83. The Committee find that there is absolutely no acceptable explanation forthcoming from the Department. The supplies could have been staggered over a period to tailor out financial arrangements. The Secretary, Telecommunications, admitted during evidence that if the repeat purchase order had been placed earlier, we could have got the equipment at the lower price. The Committee, therefore, have no choice but to concur with the Audit observation that the delay in finalising the main tender of 1.34 lakh lines resulted in huge avoidable expenditure to the tune of Rs. 1264.01 lakhs. The Department of Telecommunications is squarely responsible for this costly lapse. The least that the Committee expect is that a high level enquiry must be conducted expeditiously to pinpoint the responsibility for this lapse and action must be taken against the officers responsible for this costly lapse and the steps taken in that direction intimated to the Committee.

1.10 In paragraph 1.57 of the 53rd Report, the Committee had emphasized upon the Department the need to examine the methodology of periodical reviews of requirements of various types of equipment for the country's telecom network so as to make it more realistic.

1.11. In paragraph 1.59 of their 53rd Report, the Committee had also desired the Department to prescribe a suitable realistic time limit within which tenders should be finalised.

1.12. In paragraph 1.61 of their 53rd Report the Committee had also observed that the entire process of study, evaluation and acceptance of tenders could have been simplified in a very realistic and business like manner and the inordinate delay could have been easily avoided.

1.13. In paragraph 1.64 of their 53rd Report, the Committee had recommended as follows:

“The Committee have no doubt that inordinate delay on the part of the Department in finalising the main order was the real cause for the suppliers to refuse to accept the repeat order. The Committee cannot accept the Department’s pleading of the case on behalf of the supplier firms that they would not have insisted on price increase but for the unprecedented price rise in the international market due to increase in oil prices. This was not foreseen.”

1.14. In pursuance of the aforesaid recommendation of the Committee, the Government of India had *appointed Shri S. N. Ranganathan, Retd. Member (TD), Telecommunications Board as a one man committee. The terms of reference of this Committee were as follows:

- “(a) To pin point the responsibility for the lapses resulting in avoidable expenditure of Rs. 1264.01 lakhs in connection with ordering of 1.34 lakh lines.
- (b) To examine the methodology of periodical review of requirement of various types of equipment for the country’s network so as to make it more realistic.
- (c) To review the present procedure, process of study & evaluation of tenders and indicate action to be taken to simplify the same and make it more realistic and business like so as to avoid inordinate delay.”

1.15. The *one-man committee in its Report has opined that the extra payment that had to be made for 1,70,000 lines, was entirely due to the circumstances prevailing in the international markets and obviously were not foreseeable or avoidable. Reference has been drawn by the one-man Committee to a meeting held on 6-7-1978 in the Finance Minister’s Chamber when Finance Minister, Minister of Communications, representatives of the Ministry of Communications, Department of Electronics and the Planning Commission participated. Para 9 and 10 of the Report of the one-man Committee read as follows:

“It was also decided in this meeting that the P&T Department could be permitted to go ahead with the import of 1,34,000 lines of cross bar exchange equipment by floating

*Not vetted by Audit.

global tenders. It was further agreed that the P&T Department would be permitted to invite global tenders for setting up of 10,000 lines local exchanges of SPO electronic type in addition to some electronic trunk automatic exchanges and some electronic Telex etc.

Thus, at this stage foreign exchange funding was available to cover 1,34,000 lines of import of local cross bar exchanges and the Government had also approved of purchase of only 1,34,000 lines of cross bar equipment. Accordingly the DCT proposed floating tenders under the World Bank procedures for 1,34,000 lines covering the requirements of 1979-81 leaving 10,000 lines for electronic exchanges. The balance requirements upto 1981-83 approximately 1,70,000 lines was also proposed to be included in the tender under an optional clause. The files do not indicate the exact reasons for including this optional provision as neither foreign exchange was available nor was financial sanction obtained for this purpose. Apparently the reason was to cut out the formalities of inviting fresh tenders and evaluating them and which also would avoid the possibility of different kinds of equipments being imported for the future requirement."

1.16. In the matter under consideration, it is also pertinent to bring out the following contents of *Paragraph 27 (d, g and h) of the one-man committee report:

- (d) The fact that the 1,70,000 lines mentioned in the optional clause was tentative is borne out by the fact that the list of exchanges and their capacities as originally indicated in files underwent substantial changes when the orders came to be placed.
- (g) The contention of the suppliers that they would not be able to supply, under the optional clause 5.3, equipment upto 1,70,000 lines owing to long lapse of time is not tenable as such optional orders could be placed till one year after the last supply under the original order which, as originally indicated in the tender would have been one year after end of March, 1981 (as original supplies were required during 1979-80 and 1980-81) i.e. March 1982.
- (h) So the real and only reason appears to be the steep rise

in international market of raw materials arising out of the rise in oil prices and fall in yen value witnessed during 1979-80 although the tenderers kept on extending the validity of their tenders for 1,34,000 lines at the same prices. It appears that while they showed interest in getting orders against the requirement of 1,34,000 lines their interests had waned for further orders for which they had not apparently planned the production at that time.

1.17. At the instance of the Committee, the Ministry of Communications (Department of Telecommunications) furnished on 27 June, 1980 the following latest position with regard to the aforesaid specific recommendations of the Committee in the light of the one-man Committee Report:

Para No. of the 53rd Report of PAC	Committee's observation	Recommendations of one Man Committee (Brief)	Action Taken by the Department
1	2	3	4
1-55	High Level Enquiry to pinpoint the responsibility and suggest steps taken in that direction	In pursuance of recommendation, One Man Committee was constituted. The report of the Committee was received. The Committee opined that the extrapayment that had to be made for 1,70,000 lines was entirely due to the circumstances prevailing in the international markets and obviously were not foreseeable or avoidable.	PAC's No further action due 'One Man Committee was constituted. The report of the Committee was received. The Committee opined that the extrapayment that had to be made for 1,70,000 lines was entirely due to the circumstances prevailing in the international markets and obviously were not foreseeable or avoidable.
1-57	The Committee would also like the Department to examine the methodology of periodical reviews of requirements of various types of equipments, for the country's Telecom Net work so as to make it more realistic.	A detailed examinations and review of all aspects of material managements was entrusted to TCIL. M/s TCIL* has accordingly studied all aspects of material management of DOT and submitted its report. DOT may take necessary steps to ensure that the recommendations are effectively implemented.	Based on the report of *TCIL and departments experience many improvements have been made in material management and Telecom Stores organisation. Computerisation has been introduced and is being further expanded to exercise greater control and co-ordination. For casting of requirement being done in systematic manner.

*Telecommunication Consultants India. Ltd.

1	2	3	4
1. 59	The Department should prescribe a suitable realistic time limit within which tenders must be finalised.	All steps have to be effectively taken to ensure that the processing of procurement cases takes least possible time. It is, therefore, necessary to continuously monitor the progress of each purchase case.	For all major cases a monthly review is being done and a statement of giving status of each major tender is being circulated for effective monitoring.
1. 61	The entire process of study, evaluation and acceptance of tenders could have been simplified in a very realistic and business like manner and the inordinate delay could have been easily avoided.	<ol style="list-style-type: none"> 1. Computerisation of tender evaluation may prove beneficial. 2. Floating of tenders for instruments on not more than two occasions in a year. 3. While nominating members to any TEC, the continued availability of the officer chosen through out its term may be checked up. 4. Officers who are furnished tender documents should be provided with necessary admirals et c. under lock and Key. 5. Withdrawal of tender documents from TEC Members and maintaining one copy of tender documents in TRC for record. 	<ol style="list-style-type: none"> 1. This is being gradually implemented. 2. Various Planning Sections of DOT have been instructed to send their requirement for the period April to September by 31st October and for the requirement for October to March by 30th April. 3. It is being implemented. TEC's are issued suitable guidelines and the timeframe in which evaluation report is to be finalised. 4. Implemented. 5. Suitable instruction issued.
1. 64	The Committee have no doubt that inordinate delay on the part of the Department in finalising the main order was the real cause for the suppliers to refuse to accept the repeat Order. The Committee cannot accept the Departments pleading of the case on behalf of the supplier firms, that they would not have insisted on price increase but for the unprecedented price rise in the international market due to increase in oil Prices. This was not foreseen.	For this additional requirement no foreign exchange funding was available or allocated.	Action to peace order expeditiously already being taken as indicated against paras 1. 57 and 1. 61

1.65 The delay caused the deptt. The intention in including No further action required a loss of Rs. 1264.01 lakhs by not placing further order for 1.7 lakh lines under the repeat order cause with in the stipulated period agreed upon with the firms. The optional additional requirement seems to have been to cut out the time required in tendering procedures for the 1.7 lakh lines if and when, approval for the purchase was obtained and foreign exchange becomes available. The extra payment that case to be made for 1.7 lakh lines compared to 1.34 lakh lines was entirely due to the circumstances prevailing in the international markets and were not foreseeable or avoidable.

1.18 The Committee note that the requirement of local telephone exchange equipment and its availability from indigenous production for the 5 years' period 1978-83 was reviewed in May 1978. The shortfall of 4.61 lakh lines revealed as result of this review was provisionally proposed to be met from various sources including import of 2.94 lakh lines under various credits under World Bank/OECF during 1979-80 to 1982-83. In the notice for tender issued on 4.10.1978 for import of equipment, provision was made for import 1.34 lakh lines of cross-bar exchanges to cover the gap upto 1980-81. Provision was also made in this notice for tender for an option for planning a repeat order on the same terms and conditions for addition of 1.7 lakh lines to cover the requirements upto 1982-83 provided such option was exercised not later than one year from the date of complete of supply of equipment under the original tender. Whereas this tender was opened on 29.1.1979, detailed order on three foreign firms 'A', 'B' and 'C' were issued after a long period of about one and a half year i.e. on 17.7.1980, 24.7.1980 and 21.5.1980, respectively. The Committee had concluded in their earlier Report that inordinate delay on the part of the Department in finalising the main order was that real cause for the supplies to refuse to accept the repeat order for the procurement of the optional quantity of 1.7 lakh lines, which resulted in huge avoidable expenditure to the tune of Rs. 1264.01 lakhs. The Committee had, therefore, inter alia recommended for conducting a high level enquiry to pin point the responsibility for this lapse. In pursuance of the Committee's recommendation, the Government of India had appointed Shri S. N. Ranganathan, Retd. Member (TD) Telecommunications Board as a one man Committee.

1.19 The Committee fail to agree with the conclusion arrived at by the one man Committee that the extra expenditure of Rs. 1264.01 lakhs that had to be incurred for the procurement of 1,70,000 lines was entirely due to the circumstances prevailing in the international markets and obviously were not foreseeable or avoidable. In fact such a plea was earlier placed before the Committee but was not accepted. Another supporting plea taken by the one man Committee is that the relevant files do not indicate the exact reasons for including this optional provision for 1.7 lakh lines in the original tender as neither foreign exchange was available nor was financial sanction obtained for this purpose. The very fact that the need to bridge the gap for 1981-82 and 1982-83 through imports was patent at all points of time while assessing requirement of local telephone exchange equipment at both the reviews made in May, 1978 for 1978-83 and then in November 1979 for 1979-84, contradicts the said contention of the one man committee. In fact, the Secretary, Telecommunications while deposing before the Committee had clearly admitted that 'if the repeat purchase order had been placed earlier, we could have got the equipment at the lower price.' The Committee have no doubt that under the then existing circumstances it was a miserable failure of the Department of Telecommunications not to take timely steps for the necessary foreign exchange and obtaining the financial sanction. The Committee are of the firm opinion that the delay in finalising the main tender of 1.34 lakh lines has resulted in huge avoidable expenditure to the tune of Rs. 1264.01 lakhs. The Committee therefore, strongly deprecate the lackadaisical approach on the part of the Department of Telecommunications in processing their well established requirements and also their utter lack of concern for the financial interests of the country. The Committee further believe that the Department will learn a suitable lesson from the sad experience in this case and take all corrective steps in the light of the comments contained in their 53rd Report (8th Lok Sabha) so as to obviate the chances of such recurrence in future.

CHAPTER II

RECOMMENDATIONS AND OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

The committee note that the requirement of local telephone exchange equipment and its availability from indigenous production in the context of 'Agreed Programme of Development' for the 5 year period 1978—83 was reviewed in May 1978. The requirement was then estimated at 15.27 lakh lines against the likely supplies of 10.66 lakh lines from indigenous sources. The shortfall thus estimated at 4.61 lakh lines was provisionally proposed to be met from various sources including import of 2.94 lakh lines under various credits under World Bank/OECF during 1979-80 to 1982-83. Action for bridging the gap by imports for meeting requirements of 1979-80 and 1980-81 comprising of 1.34 lakh lines of cross-bar exchanges equipment and 10,000 lines of electronic SPC exchanges (Total 1.44 lakh lines) was taken, whereas import requirements for 1981-82 and 1982-83 were left to be considered later.

[S. No. 1 (Para 1.49) of Appendix I to 53rd Report of PAC
(8th Lok Sabha)]

Action Taken

Observation is noted.

[Ministry of Communications (Department of Telecommunications), Letter No. 27-11/86-B dated 5-2-1987]

Recommendation

A further reassessment of requirement for the next five year period 1979—84 made in November, 79 (when tender for 1.34 lakh lines was announced) revealed requirement (including a bit of carryover from 1978-79) of 17.46 lakh lines against the supplies to the tune of 9.80 lakh lines expected from all sources leaving an estimated gap of 7.66 lakh lines.

[S. No. 2 (Para 1.50) of Appendix I to 53rd Report of PAC
(8th Lok Sabha)]

Action taken

Observation is noted.

[Ministry of Communications (Department of Telecommunications), Letter No. 27-11/86-B dated 5-2-1987]

Recommendation

The gap between supply and demand was so large that unlike in the past it was not possible to restrict import in units of 10,000 lines. Thus, it became necessary to consider imports for smaller exchanges also. As a result of identification of smaller category of exchanges for possible import, the total requirement came to 5.93 lakh lines. However, keeping in view the orders already placed and a decision taken, to restrict provision of cross-bar exchanges upto 1982-83 import finally decided in November, 1979 was for 1.83 lakh lines of cross-bar switching equipments.

[S. No. 3 (Para 1.51) of Appendix I to 53rd Report of PAC
(8th Lok Sabha)]

Action taken

Observation is noted.

[Ministry of Communications (Department of Telecommunications), Letter No. 27-11/86-B dated 5-2-1987]

Recommendation

The committee also note that in the notice for tender (NIT) issued on 4.10.1978 for import of equipment provision was made for import of 1.34 lakh lines of cross-bar exchanges to cover the gap upto 1980-81. As the import was to be financed by World Bank Loan. The NIT had to fulfill normal conditions applicable to such loans which, *inter-alia*, provides a minimum period of 4 months for keeping tender quotations open for acceptances at the rates quoted. The Department of Telecommunications have stated that for very large orders and many bidders, and in cases where in addition, clearances have to be obtained from a number of agencies, the time taken often exceeds the limit of 4 months. In such cases, extension of validity is obtained from the tenderers and the World Bank. In the present case also, the tenders had extended the validity upto 15.12.1979 without any pre-conditions.

[S. No. 4 (Para 1.52) of Appendix I to 53rd Report of PAC
(8th Lok Sabha)]

Action taken**Observation is noted**

[Ministry of Communications (Department of Telecommunications), Letter No. 27-11/86-B dated 5-2-1987]

Recommendation

As a matter of discretion, provision was also made in the NIT for an option for placing a repeat order on the same terms and conditions for addition of 1.7 lakh lines to cover the requirements upto 1982-83 provided such option was exercised not later than one year from the date of complete supply of equipment under the original order. Letters of intent issued to the suppliers on 7.12.79 also incorporated the above-mentioned provisions. Though the anticipated gap was 1.5 lakh lines (2.94-1.44 as brought out in paragraph No. 1.49) the quantity provided for repeat order was 1.7 lakh lines to cover the slippages of supply from other sources.

[S. No. 5 (Para 1.53) of Appendix I to 53rd Report of PAC (8th Lok Sabha)]

Action taken**Observation is noted**

[Ministry of Communications (Department of Telecommunications), Letter No. 27-11/86-B dated 5-2-1987]

Recommendation

From the facts brought out above, the Committee have come to the inescapable conclusion that in addition to the import of 1.34 lakh lines for 1979-80 and 1980-91 the need to bridge the gap for 1981-82 and 1982-83 through imports was patent at all points of time while assessing requirement of local telephone exchange equipment and its likely availability from indigenous production at both the review made in May, 1978 for 1978-83 and then in November 1979 for 1979-84. So much so that on 18/20-7-1978 tentative programme of import of 2.94 lakh lines of cross-bar exchanges was finalised and even list of exchanges for four years 1979-83 was identified and tentative targets for commencement of installation were also indicated. The committee are astonished to note that inspite of making periodical provisions for import of additional equipment on the basis of the established need and for import of atleast this much equipment and the fact that the order for it was to be placed within one year to take advantage of the rates already agreed upon with the foreign supplier of 1.34 lakh lines, the Department did not bother to think about the matter with the seriousness it deserved. While making the proposal to undertake firm action for import of 1.34 lakh lines of cross-bar exchange equipment to cover the gap for 1979-80

and 1980-81 with imports, the gap for 1981-82 and 1982-83 was left to be covered after a fresh review later (which was made in November, 1 1979). The Committee feel that the later part of this proposal had overtaken the entire Department and the Question of import of additional 1.7 lakh lines under repeat order clause was relegated to the second position and then completely lost sight of.

[S. No. 6 (Para 1.54) of Appendix I to 53rd Report of PAC
(8th Lok Sabha)]

Action Taken

Observation is noted.

[Ministry of Communications (Department of Telecommunications), Letter No. 27-11/86-B dated 5-2-1987]

Recommendation

This also shows lack of coordination and understanding between various units of the same Department connected with periodical assessment of the requirements of telephone exchanges equipment for local exchanges and those responsible for procuring such equipment from abroad. Otherwise the provision already made for import of 1.7 lakh lines under repeat order clause and likewise the import requirements for the four years 1978-83 having been identified as early as in May 1978 when the review for overall requirement was conducted by the Department, could not have been overlooked.

[S. No. 8 (Para 1.56) of Appendix I to 53rd Report of PAC
(8th Lok Sabha)]

Action Taken

Observation is noted.

[Ministry of Communications (Department of Telecommunications), Letter No. 27-11/86-B dated 5-2-1987]

Recommendation

The Committee find that the proposal to import 1.34 lakh lines was finally approved by the Minister of Communications on 4-9-1979, by the Minister of Finance on 30-10-1979 and the detailed orders were placed on the three foreign suppliers on 21-5-1980, 17-7-80 and 24-7-80, respectively. Thus, instead of the stipulated period of 4 months, it took the Department about 16 to 18 months to finalise the

orders. The most regrettable part of the case is that it took the Department 5 to 7 months to issue the final orders even after the release of the letters of intent on 7-12-1979.

[S. No. 14 (Para 1.62) of Appendix I to 53rd Report of PAC
(8th Lok Sabha)]

Action Taken

Observation is noted.

Ministry of Communications (Deptt. of Telecommunications), Letter No. 27-11/86-B dated 5-2-1987]

Recommendation

In justifying the extraordinary longtime taken in processing the case, the Deptt. of Telecommunications have furnished a long list of events leading to finalisation of the order. Review of the itemwise analysis of the events mentioned in the list, shows that the case was handled at all levels in a very casual and slipshod manner.

[S. No. 12 (Para 1.60) of Appendix I to 53rd Report of PAC
(8th Lok Sabha)]

Action Taken

Observation is noted.

[Ministry of Communications (Deptt. of Telecommunications), Letter No. 27-11/86-B dated 5-2-1987]

Recommendation

The Committee find that a lot of other formalities such as approval by the Minister of Communications/Finance, Department of Economic Affairs, clearance from World Bank, DGT etc, were gone through after the high level committee had recommended placement of orders for import of 1,34,000 lines which took further four and a half months enabling the Department to issue only Advance Purchase Order/Letter of intent to the three firms, followed by further dialogue with these firms for finalisation of the material list by deputing their representatives for direct discussions on various points.

It was only after completion of all these requirements that detailed purchase orders could be released on these firms from 21-5-80 to 24-7-80. There may be scores of import orders from various Ministries/Departments of the Government of India including those

for the vital sectors like Defence etc. involving much bigger amounts. The Committee wonder whether this much time is taken in all these cases. The crux of the matter is that in reply to the Committee's query whether the Department did not visualise all these difficulties at the time of floating the tenders, the Secretary, Telecommunications stated in evidence that 'that is usual time which we thought was sufficient for finalising the tender evaluation. The only thing we wanted was to take advantage of the price preference and try to keep it that way.' The other problem mentioned in this context by the Secretary was that in the tenders from three Japanese firms the prices quoted varied. The quotation from the lowest one provided for some equipment which had not generally been used here, so the Department wanted a technical evaluation/exposition as to how that equipment would work. The Committee agree that this may have delayed processing of the order to some extent but the overall time taken in finalising the order is so large that it cannot be justified on any count.

[S. No. 14 (Para 1.62) of Appendix I to 53rd Report of PAC
(8th Lok Sabha)]

Action Taken

Observation is noted.

[Ministry of Communications (Deptt. of Telecommunications), Letter No. 27-11/86-B dated 5-2-1987]

Recommendation

Yet another aspect which baffles the Committee is that the letters of intent were issued on 7-12-79. While accepting the offers of the three Japanese firms, the letters, inter-alia, stated that the price for exchanges would be the same as quoted in the summary of prices in the firm's original offer of 29th Jan. 79 and will include the additional quantities as indicated in the subsequent correspondence exchanged. Earlier to that, one of the suppliers in their letter dt. 4-12-79 had agreed to the extension of the validity of their offer on the same terms and conditions and so had agreed the other two firms. The Committee fail to understand how these firms finally refused to honour their commitment when they had kept silent about this aspect in response to the letters of intent. The Committee note from the correspondence furnished by the Deptt. of Communications in this regard, that the earliest communications about refusing to accept the repeat order on the same terms and conditions was dt. 2nd May 80 (after a gap of 5 months) when one of the firms referred to above had, in

their letter addressed to the DGP&T stated that 'As you are aware, the tender for 1,34,000 lines was opened on 30-1-79 and during this long period of over 18 months, many unprecedented changes in prices have taken place in the world markets resulting in sharp upward increases. In view of the unprecedented and uncontrollable circumstances, our Head Office against their wishes has been compelled to revise their offer regarding clause 5.3 of your tender relating to acceptance of additional orders for similar telephone exchanges on a repeat order basis upto a total of 1.7 lakh lines. The same firm in their letter of acceptance of the detailed orders dt. 14-8-80 for supply of 1.34 lakh lines defining this situation as 'Force majeure' had stated; 'moreover, it is not known to us as to what quantities and when enquiry for repeat orders will be floated by you'. Yet another firm, while accepting the detailed order placed on them on 21-5-80 had in their letter dt. 20-6-80, inter-alia, stated that 'A very long time has elapsed between issuance of your tender and placement of order for the present contract and moreover we feel there will be still further gap by the time you issue the actual enquiry for additional exchanges. We therefore, reserve the right to consider our prices depending upon the price situation at that time and we will submit the offer accordingly.'

[S. No. 15 (Para 1.63) of Appendix I to 53rd Report of PAC
(8th Lok Sabha)]

Action Taken

Observation is noted.

[Ministry of Communications (Deptt. of Telecommunications), Letter No. 27-11/86-B dated 5-2-1987]

Recommendation

The committee feel that since the highest increase in oil price was between Jan. and Nov. 79 and the extension of validity period of the offer upto 15-12-79 had been accepted by these firms without any precondition, the plea of increase in oil price does not hold good. As stated earlier, the delay had caused the exchequer, according to Audit estimation, a loss of Rs. 1264.01 lakhs by not placing further order for 1.7 lakh lines under the repeat order clause, within the stipulated period agreed upon with the firms. This aspect of the affair is most regrettable.

[S. No. 17 (Para 1.65) of Appendix I to 53rd Report of PAC
(8th Lok Sabha)]

Action Taken

Observation is noted.

[Ministry of Communications (Deptt. of Telecommunications), Letter No. 27-11/86-B dated 5-2-1987]

CHAPTER III

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

--NIL--

CHAPTER IV

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

Recommendation

The question for which a satisfactory answer is required by the Committee is: why action for processing of repeat order for 1.7 lakh lines was not initiated simultaneously with the floating of indent for import of 1.34 lakh lines pending further review of the overall requirement later on when the need for import of this much cross-bar equipment had already been established and even a decision had also been taken during further review in November, 1979 that the cross-bar equipment should be obtained upto 1982-83. The Committee find that there is absolutely no acceptable explanation forthcoming from the Department. The supplies could have been staggered over a period to tailor out financial arrangements. The Secretary, Telecommunications, admitted during evidence that 'if the repeat purchase order had been placed earlier, we could have got the equipment at the lower price'. The Committee, therefore, have no choice but to concur with the Audit observation that the delay in finalising the main tender of 1.34 lakh lines resulted in huge avoidable expenditure to the tune of Rs. 1264.01 lakhs. The Department of Telecommunications is squarely responsible for this costly lapse. The least that the Committee expect is that a high level enquiry must be conducted expeditiously to pinpoint the responsibility for this lapse and action must be taken against the officers responsible for this costly lapse and the steps taken in that direction intimated to the Committee.

[S. No. 7 (Para 1.55) of Appendix I to 53rd Report of PAC
(8th Lok Sabha)]

Action Taken

Shri S. N. Ranganathan, Retd. Member (TD) of Telecom Board has been appointed as One Man Committee to pinpoint the responsibility for the lapses resulting in avoidable expenditure of Rs. 1264.01 lakhs. Copy of notification No. 13—15/84-MMD (Vol. II) dated 26-11-86 is enclosed. The report is awaited. The recommendations of the Committee and the action taken by Government thereon, will be intimated to the PAC in due course.

[Ministry of Communications (Deptt. of Telecommunications),
Letter No. 27-11/86-B dated 5-2-1987]

ANNEXURE

(To be published in the Gazette of India, Part I, Section I)

Government of India

Department of Telecommunications

Sanchar Bhawan, New Delhi 110 001.

No. 13-15/84-MMD (Vol II)

Dated: November, 26, 1986

RESOLUTION

In pursuance to the recommendations of Public Accounts Committee in 53rd Report (1986-87) 8th Lok Sabha regarding extra expenditure on purchase of Crossbar Telephone Equipment for various Exchanges, the Government of India have appointed. Shri S. N. Ranganathan, Retd. Member (TD), Telecommunications Board as One-man Committee.

2. The terms of reference of the Committee are:—

- (a) To pinpoint the responsibility for the lapses resulting in avoidable expenditure of Rs. 1264.01 lakhs in connection with ordering of 1.34 lakh lines.
- (b) To examine the methodology of periodical review of requirement of various types of equipment for the country's network so as to make it more realistic.
- (c) To review the present procedure, process of study & evaluation of tenders and indicate action to be taken to simplify the same and make it more realistic and business like so as to avoid inordinate delay.

3. The Committee will devise its own procedure and may call for such information and take evidence as it may be considered necessary.

4. The Headquarters of the Committee will be in New Delhi.

5. The Committee will make its recommendations within a period of two months from the date of its formation.

Sd/-

(ISHWAR CHANDER)

Assistant Director General (MT)

No. 13-15/84-MMD (Vol.-II)

Dated: November 26, 1986.

ORDER: Order that a copy of the Resolution be communicated to the Public Accounts Committee, New Delhi C&AG., New Delhi and other concerned.

Ordered also that the Resolution be published in the Gazette of India for general information.

Sd/-

(ISHWAR CHANDER)

Assistant Director General (MT)

Recommendation

The Committee would also like the Department to examine the methodology of periodical reviews of requirements of various types of equipments for the country's telecom network so as to make it more realistic.

[S. No 9 (Para 1.57) of Appendix 1 to 53rd Report of PAC (8th Lok Sabha).]

Action Taken

The terms of reference of the one man committee appointed in pursuance to recommendation arising out of Sl. No 7 Para 1.55, includes examination of the methodology of periodical review of requirement of various types of equipment for the country's telecom. network so as to make it more realistic. Report is awaited.

[Ministry of Communications (Deptt. of Telecommunications), Letter No. 27-11/86-B dated 5-2-1987]

Recommendation

Inordinate delay in finalising the tender will have totally demoralising effect on the tenderers and would naturally result in the tenderers playing safe in giving their tender quotations. This would deprive the Department the opportunity of getting competitive bids and efficient execution of the works. The Committee, therefore, recommend that if the department considers that four months time is not sufficient in dealing with the tenders they should prescribe suitable realistic time limit within which tenders must be finalised.

S. No. 11 (Para 1.59) of Appendix I to 53rd Report of PAC
(8th Lok Sabha)]

Action Taken

The terms of reference of the one man committee appointed in pursuance to recommendation arising out of Sl. No 7 para 1.55 includes examination of the present procedure, process of study and evaluation of tenders and indicate action to be taken to simplify the same and make it more realistic and businesslike so as to avoid inordinate delay.

[Ministry of Communications (Department of Telecommunications), Letter No. 27-11/86-B dated 5-2-1987]

Recommendation

The first in the series is the appointment of four Committees one after the other to process the tender offers from various angles. Though the Ministry have pleaded that it was not appropriate to combine and entrust all these functions to one team as these were constituted to perform different functions, a perusal of the personnel of these committees reveals that some of the members were common in these committees. Not only that, the two officers constituting the study team deputed to Japan which took 21 days to visit that country and submit its report were also members of the Tender Evaluation Committee (TEC) which already had taken 3 months to evaluate six offers received against tender enquiry. The committee have every reason to believe, though in retrospect, that the functions of the high level, committee, which took further 45 days to examine the report of TEC and that of the study team to Japan, could conveniently be clubbed into one committee and the same team could have been despatched to Japan, if at all necessary, simultaneously with the appointment of the TEC. The entire process of study, evaluation and acceptance of tenders could have been simplified in a very realistic and businesslike manner and the inordinate delay could have been easily avoided. This in itself is a sad commentary on the planning of projects of this magnitude by the Department of Telecommunications.

[S. No. 13 (para 1.61) of Appendix I to 53rd Report of PAC (8th Lok Sabha).]

Action Taken

The terms of reference of the one man committee appointed in pursuance to recommendation arising out of Sl. No. 7 Para 1.55, in-

cluded examination of the present procedure, process of study and evaluation of tenders and indicate action to be taken to simplify the same and make it more realistic and business-like so as to avoid inordinate delay.

[Ministry of Communications (Deptt. of Telecommunications),
Letter No. 27-11-86-B dated 5-2-1987]

Recommendation

The Committee have no doubt that inordinate delay on the part of the Department in finalising the main order was the real cause for the suppliers to refuse to accept the repeat order. The Committee cannot accept the Department's pleading of the case on behalf of the supplier firms that 'they would not have insisted on price increase but for the unprecedented price rise in the international market due to increase in oil prices.' This was not foreseen.

[S. No. 16 (Para 1.64) of Appendix I to 53rd Report of PAC
(8th Lok Sabha).]

Action Taken

Observation is noted.

[Ministry of Communications (Deptt. of Telecommunications),
Letter No. 27-11-86-B dated 5-2-1987]

CHAPTER V

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

-NIL-

NEW DELHI,
January 24, 1991

Magha 4, 1912 (S)

SONTOSH MOHAN DEV
Chairman,
Public Accounts Committee.

APPENDIX I

(Vide Para 1-32)

Statement showing classification of action taken notes received from Government

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

Sl. Nos: 1, 2, 3, 4, 5, 6, 8, 10, 12, 14, 15, and 17

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

Sl. No: 7, 9, 11, 13 and 16.

APPENDIX II

Statement of Conclusions/Recommendations

Sl. No.	Para	Ministry/Deptt. concerned	Recommendations/ Conclusions
1	2	3	4
1	1.18	Ministry of Communications (Deptt. of Telecommunications)	The Committee note that the requirement of local telephone exchange equipment and its availability from indigenous production for the 5 years' period 1978—83 was reviewed in May 1978. The shortfall of 4.61 lakh lines revealed as a result of this review was provisionally proposed to be met from various sources including import of 2.94 lakh lines under various credits under World Bank/OECF during 1979-80 to 1982-83. In the notice for tender issued on 4.10.1978 for import of equipment, provision was made for import of 1.34 lakh lines of cross-bar exchanges to cover the gap upto 1980-81. Provision was also made in this notice for tender for an option for placing a repeat order on the same terms and conditions for addition of 1.7 lakh lines to cover the requirements upto 1982-83 provided such option was exercised not later than one year from the date of complete supply of equipment under the original tender. Whereas this tender was opened on 29.1.1979, detailed order on three foreign firms 'A', 'B' and 'C' were issued after a long period of about one and a half year i.e. on 17.7.1980, 24.7.1980 and 21.5.1980, respectively. The Committee had conclud-

ed in their earlier Report that inordinate delay on the part of the Department in finalising the main order was the real cause for the suppliers to refuse to accept the repeat order for the procurement of the optional quantity of 1.7 lakh lines, which resulted in huge avoidable expenditure to the tune of Rs. 1264.01 lakhs. The Committee had, therefore, *inter alia* recommended for conducting a high level enquiry to pin point the responsibility for this lapse. In pursuance of the Committee's recommendation, the Government of India had appointed Shri S. N. Ranganathan, Retd. Member (ID) Telecommunications Board as a one man Committee.

2

1,19

—Do—

The Committee fail to agree with the conclusion arrived at by the one man Committee that the extra expenditure of Rs. 1264.01 lakhs that had to be incurred for the procurement of 1,70,000 lines was entirely due to the circumstances prevailing in the international markets and obviously were not foreseeable or avoidable. In fact such a plea was earlier placed before the Committee but was not accepted. Another supporting plea taken by the one man Committee is that the relevant files do not indicate the exact reasons for including this optional provision for 1.7 lakh lines in the original tender as neither foreign exchange was available nor was financial sanction obtained for this purpose. The very fact that the need to bridge the gap for 1981-82 and 1982-83 through imports was patent at all points of time while assessing requirement of

8

local telephone exchange equipment at both the reviews made in May, 1978 for 1978—83 and then in November 1979 for 1979—84, contradicts the said contention of the one man Committee. In fact the Secretary, Telecommunications while depositing before the Committee had clearly admitted that 'if the repeat purchase order had been placed earlier, we could have got the equipment at the lower price'. The Committee have no doubt that under the then existing circumstances it was a miserable failure of the Department of Telecommunications not to take timely steps for the necessary foreign exchange and obtaining the financial sanction. The Committee are of the firm opinion that the delay in finalising the main tender of 1.34 lakh lines has resulted in huge avoidable expenditure to the tune of Rs. 1264.0 lakhs. The Committee therefore, strongly deprecate the lackadaisical approach on the part of the Department of Telecommunications in processing their well established requirements and also their utter lack of concern for the financial interests of the country. The Committee further believe that the Department will learn a suitable lesson from the sad experience in this case and take all corrective steps in the light of the comments contained in their 53rd Report (8th Lok Sabha) so as to obviate the chances of such recurrence in future.

PART-II

MINUTES OF THE 19th SITTING OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON 11-1-1991 IN COMMITTEE ROOM 'C' PAR- LIAMENTARY HOUSE ANNEXE

The Committee sat from 1500 hrs. to 1600 hrs.

PRESENT

Shri Sontosh Mohan Dev—*Chairman*

MEMBERS

2. Shri Mallikarjun
3. Shri Manjay Lal
4. Shri Kailash Meghwal
5. Shri M. S. Pal
6. Shri Ajit Kumar Panja
7. Shri Janardhana Poojary
8. Shri H. Hanumanthappa
9. Shri Sunil Basu Ray
10. Dr. Nagen Saikia
11. Shri Vishjit P. Singh
12. Shri Rameshwar Thakur
13. Shri A. N. Singh Deo

SECRETARIAT

1. Shri G. L. Batra—*Joint Secretary*
2. Shri G. S. Bhasin—*Director (PAC)*
3. Shri B. S. Johar—*Under Secretary*
4. Shri K. C. Shekhar—*Assistant Director*

REPRESENTATIVES OF AUDIT

1. Shri S. Saundararajan—*ADAI*
2. Shri S. B. Krishan—*Principal Director*
3. Shri A. K. Menon—*DG Defence Audit*
4. V. A. Mahajan—*DG Telecom Audit*

5. Shri D. S. Iyer—DG (ESM)
6. Shri T. Sethumadhavan—Principal Director
7. Shri K. Krishnan—Director
8. Mrs. Ajanta Dayalun—Director
9. Mrs. Sudarshana Talpatra—Director

2. The Committee considered the following draft Reports and adopted the same subject to certain modifications and amendments as indicated in Annexures I and II*:

- (i) Draft Report on Action Taken on the 53rd Report of PAC (8th LS) re. Avoidable extra expenditure on the purchase of cross-bar telephone exchange equipment for various exchanges.
- (ii) xxx xxx xxx xxx
- (iii) xxx xxx xxx xxx
- (iv) xxx xxxxx xxx xxx

3. The Committee authorised the Chairman to finalise these draft Reports in the light of verbal changes and minor modifications/amendments arising out of factual verification by the audit and present the reports to the House.

4. xxxxx xxx xxx xxx
5. xxxxx xxx xxx xxx

The Committee then adjourned.

ANNEXURE I

AMENDMENTS/MODIFICATIONS MADE BY THE PUBLIC ACCOUNTS COMMITTEE IN THEIR DRAFT REPORT ON ACTION TAKEN ON THEIR 53RD REPORT (8TH LOK SABHA) RELATING TO AVOIDABLE EXTRA EXPENDITURE ON THE PURCHASE OF CROSS-BAR TELEPHONE EXCHANGE EQUIPMENT FOR VARIOUS EXCHANGES.

PAGE	PARA	LINE	FOR	READ
13	1.19	5	falsifies	contradicts
13	1.19	2nd line from bottom	as the	as to

*Not appended.

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P.A.C. 1308

Price Rs. 9.00

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PUBLISHED UNDER RULE 382 OF THE RULES OF PROCEDURE AND CONDUCT
OF BUSINESS IN LOK SABHA (SEVENTH EDITION) AND PRINTED BY
MANAGER, LETTERPRESS UNIT, GOVERNMENT OF INDIA PRESS
MINTO ROAD, NEW DELHI.