

**HUNDRED AND TWENTY-FIRST REPORT  
PUBLIC ACCOUNTS COMMITTEE  
(1987-88)**

**(EIGHTH LOK SABHA)**

**REVIEW OF THE WORKING OF  
CONTROLLERATE OF PROCUREMENT**

**MINISTRY OF DEFENCE**

**[Action Taken on the 51st Report (8th L.S.)]**



*Presented in Lok Sabha on 18-4-1988*

*Laid in Rajya Sabha on*

**LOK SABHA SECRETARIAT  
NEW DELHI**

*March, 1988/Chaitra, 1910 (Saka)*

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CORRIGENDA TO THE 121ST REPORT (7TH LOK SABHA)  
OF PUBLIC ACCOUNTS COMMITTEE

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(1987-88)

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## INTRODUCTION

I, the Chairman of the Public Accounts Committee as authorised by the Committee do present on their behalf this Hundred and Twenty-first Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their Fifty-First Report (Eighth Lok Sabha) on Review of the Working of Controllarate of Procurement.

2. In their earlier Report the Committee had observed that no action had been taken by the Government to implement some important recommendations of the Expert Team from Defence Institute of Work Study which was set up in 1980 to streamline the Working of Controllarate of Procurement and had desired that action on these recommendations should be finalised and Committee informed within a period of six months. The Committee had also desired to know the action taken on the recommendation of the Material superintendent's Performance appraisal report for 1984. In their Action taken reply, the Ministry of Defence have stated that financial powers of Rs. 50,000/- for Direct Purchase have since been enhanced to Rs. one lakh and the case of enhancement of proforma payment has been initiated and rests with CDA(N) for audit. As regards the setting up of a Market Survey Team, a full fledged Finance Section and strengthening of the Controllarate by positioning of additional officers, the Ministry of Defence have stated that this could not be taken up earlier as the requirements of man power falls under banned and non-banned categories but the same is being processed now. In this Report, the Committee have deprecated the casual approach of the Government in dealing with important recommendations made with a view to streamlining the working of the Controllarate of Procurement.

3. The Committee considered and adopted this Report at their sitting held on 28 March, 1988. Minutes of the sitting form Part II of the Report.

4. For facility of reference and convenience the recommendations and conclusions 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 the Appendix to the Report.

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

NEW DELHI ;

April 7, 1988

Chaitra 18, 1910 (Saka)

AMAL DATTA

Chairman

Public Accounts Committee.

## **CHAPTER I**

### **REPORT**

1. This Report of the Committee deals with the action taken by Government on the Committee's recommendations and observations contained in their Fifty-First Report (Eighth Lok Sabha) relating to Review of the working of the Controllorate of Procurement (Ministry of Defence). The Report contained 22 recommendations and observations. Action Taken Notes have been received in respect of all of them and these have been broadly categorised as follows :

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

Sl. Nos. 1, 3, 8-9, 14, 16-19 and 22.

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

Sl. Nos. 4, 10-12, 13, 15, 20-21.

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

Sl. Nos. 2 and 5

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

Sl. Nos. 6-7.

2. The Committee are unhappy to note that Ministry of Defence has not been able to furnish final Action Taken Notes on some of their recommendations till date. The Action Taken Notes were required to be furnished within six months of the presentation of the original Report i.e., by 12 February, 1987. In the instant case, the Action Taken Notes have been received on 24 September, 1987. In spite of the excess time talsou two Action Taken Notes are found to be of interim nature. It is highly deplorable. The Committee desire that final replies to the recommendations included in Chapter V, duly vetted by audit be furnished to the Committee at an early date.

3. In the following paragraphs, the Committee deal with the action taken by Government on some of their recommendations.

*Setting up of a Market Survey Team and Finance Section*

**Paras 1.96 and 1.99 (S. Nos. 2 and 5)**

4. An expert Team from the Defence Institute of Works Study, Mussorie set up in 1980 to streamline the working of Controllerate of Procurement had, *inter-alia*, recommended enhancement of financial limit for placing purchase orders on the basis of limited tender enquiry from Rs. 50,000 to 1,00,000 ; increase in the limit of proforma payment Rs. 20,000 to Rs. 50,000 ; setting up of a full fledged Finance Section headed by a Financial Controller and formation of a Market Survey Team headed by a Market Survey Officer. The Committee in their earlier report had observed that no action had been taken by the Government on these recommendations and had desired that action on these recommendations should be finalised and Committee informed within a period of six months. The Committee had also desired to know the action taken on the recommendation of the Material Superintendent Performaece appraisal report for 1984 that there was a need for close monitoring of follow up action against each order placed and strengthening of work area of the Collectorate by positioning of additional officers.

5. The Ministry of Defence in their Action Taken note\* dated 18 September 1987 have stated that financial powers of Rs. 50,000/—for Direct Purchase have since been enhanced to Rs. one lakh and that the case of enhancement of proforma payment has been initiated and rests with CDA(N) for audit. As regards the setting up of a Market Survey Team, a full fledged Finance Section and strengthening of the Controlleraie by positioning of additional officers, the Ministry of Defence have stated that this could not be taken up earlier as the requirements of manpower falls under banned and non-banned categories but the same is being pr ocessed now.

6. The Committee are not at all satisfied with this reply of the Ministry and deprecate the casual approach of the Ministry in dealing with important recommendations made with a view to streamlining the working of the Controllerate of Procurement which was established to improve to material management in the Navy. It is imperative that the recommendation of the Expert Team from the Defence gistitute of Works Study be implemented with promptitude and the Committee apprised of further progress in this regard.

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\*See Chapter IV.

## CHAPTER II

### RECOMMENDATIONS AND OBSERVATIONS WHICH HAVE BEEN ACCEPTED OR NOTED BY GOVERNMENT

#### **Reccommendation**

The Controllerate of Procurement (CPRO) was established in 1971 with the merger of two procurement organisation—Naval Stores Organisation (for purchase of Naval Stores) and Spare parts Distribution Centre (for purchase of machinery spares) to improve the material management in the Navy. The new organisation is headed by a Material Superintendent who is assisted by four Controllers—(a) Controller of warehousing (CWH), (b) Controller of Technical Services (CTS). The objectives to be achieved by the Organisation were ;—

"Prompt supply of required material at minimum cost with fewer occasions for rush purchases.

Reduced investment in the quick turnover of stocks."

The Committee have been informed that for the achivement of these objectives a monthly evaluation report has been introduced w.e.f. January, 1983 to evaluate the progress on various types of purchase requisitions made by CPRO. An analysis of these reports show reduced lead time and higher materialisation of stores against orders placed by CPRO.

Committee note that the working of CPRO was examined by an Expert Team from Defence Iugstitute of work-study, Mussorie in 1980 to suggest improvment in the working of the Organisation. The Expert Team recommended enhancement of financial powers of CPRO and various Naval Authorities, use of selective control for items required urgently, use of modern office equipment, equipment like Plain Paper Copier for reducing Typing work, use of labour saving devices like Postal Franking Machine and use of stationery etc. Excepting a few, all other major recommendations of the Expert Team are stated to have been implemented. However, the information gathered by the Committee and the facts brought out by the Audit amply brings out that all is not well with the functioning of CPRO and the objec-



tives of setting up of CPRO as enumerated above are not fully achieved. These aspects are discussed in detail in succeeding paragraphs.

[Appendix V, Sl. No. 1, Para 1.93, 1.94 and 1.95 of the 51st Report of PAC 1986-87—Eighth Lok Sabha]

### **Action Taken**

This is narration of facts and does not demand any action.

[Ministry of Defence O M No. 2(15)/84-PC. IV/D(N-I)  
Dated 18th Sept. 1987.]

### **Recommendation**

The Committee observe that the Material Superintendent, in his performance appraisal of CPRO dated 28 Feb. 1985 has brought out *inter alia*, “(i) the list of registered suppliers and vendors had not been scrutinised and updated for long, (ii) no strict yardsticks were followed for registration of suppliers in the past, (iii) no formal orders on procedures to be followed for registration of suppliers existed prior to Jan 1984, and (iv) there was no manual for the guidance of the Controllorate”. These deficiencies gave access to dubious and unscrupulous suppliers to the Controllorate. It is astonishing that even after 13 years of its coming into existence, no procedure has been prescribed by CPRO for registration of suppliers and vendors. The Committee note that the general guidelines issued in August, 1982 for registration of suppliers by the Ministry of Defence were not as rigid as those of DGS&D. The Committee desire the procedure in this respect should be as far as possible, identical to that followed by DGS&D.

[Appendix V, Sl. No. 3, Para 1.97 of the 51st Report of PAC 1986-87 Eighth Lok Sabha]

### **Action Taken**

A directive regarding the procedure to be for registration of firms on the lines as being followed in the DGS&D has been issued *vide* NHQ letter No. SE/2038 (SQ) of 17 Nov. 86.

[Ministry of Defence OM No. 2(15)/84-PC-IV/D(N-I) Dated 18th sept. 1987]

### Recommendation

The Committee note that CPRO processes indents/demands for all by items of stores and machinery spares required by Naval Units/Ships handled the Material Superintendent (MS) valued upto Rs.0.50 lakh per annum; Ad-hoc requirements of Naval Ships for meeting their urgent requirement; stores required to replenish stocks costing upto Rs. 0.40 lakh per item; Base demands of Naval Headquarters and any other indents projected by them. The Committee further note that a Central Purchase Cell was created at CPRO in June 1976 for purchase of items required exclusively by the Navy. All recurring requirements were to be met centrally and local purchases resorted to only for urgent and essential requirements. Local purchase as opposed to direct purchase is intended to meet the immediate requirements which may arise due to delay in the materialisation of supply against normal indent or sudden requirement which could not be anticipated earlier. However, the Committee find that local purchases made by CPRO during the last couple of years had been very high as compared to Central purchases. In 1980-81 and 1981-82 local purchases were far in excess of the items purchased centrally. As pointed out by Audit, 98.3 per cent and 76.7 per cent of the total number of items covered by the orders placed during 1980-81 and 1981-82 respectively were procured through local purchase as compared to 1.7 per cent and 23.3 per cent procured through central purchase. Though the value of central purchase viz., Rs. 29 lakhs vis-a-vis local purchase viz., Rs. 816.3 crores as reported in the Audit para for the years 1980-81 have been disputed by the Ministry of Defence, yet the Committee have reasons to believe that local purchases have been resorted to excessively. They fail to understand why full facts were not placed before the Audit earlier. The corrected figures of local purchase provided to the Committee amply bears testimony to the fact that the local purchases were far in excess. The local purchases have shown persistent rise from Rs. 5.24 crores in 1977-78 to Rs. 15.33 crores in 1980-81. During 1981-82 when it started declining local purchase was far Rs. 12.58 crores. The Defence Secretary has explained the reasons for this rise in local purchases in terms of reduction in "Procurement Quantities from 3 ACL to 1 ACL because it was felt that with computerisation and other facilities and streamlining of procedures it should be possible to make up with only one ACL". Subsequently—"bins were emptied with the purchase orders placed on the DGS&D which were not coming through, the number of denials of requisition was very large and consequently a modification had to be made in the year 1981 taking it back to 3 ACS. During this period the pressure on the local purchase increased very much. The Committee are unable to accept this explanation as they find that volume of local purchases in the years 1982-85 (when the impact of 3 ACL was fully realised) was still very large

ranging between Rs. 6 crores to 8 crores a year. The Committee recommend that every efforts should be made to improve the availability of stores through central purchase so as to reduce the quantum and need for local purchase to the barest minimum. The Committee also desire that such factors which make local purchases unavoidable are controlled and purchases are made in a most cost effective manner.

[Appendix V, Sl. No. 8 Para 1.102 of the 51st Report of)PAC 1986-87  
—Eighth Lok Sabha]

### **Action Taken**

A directive for strict adherence to the existing instructions on provisioning/procurement of stores and machinery spares and accounting of expenditure under correct Head of A/c has been promulgated vide NHQ letter No. SE/2038 (SQ) of 11 Nov. 86.

[Ministry of Defence OM No. 2(15)/84-PC. IV/D(N-I) Dated ;  
18th Sept. 1987]

### **Recommendation**

The Committee note that with the growth of Indian Navy work of inventory control management has increased manyfold with CPRO handling inventories of various types that touch about half a million items. The very range of the items creates enormous difficulties in identification and inspection and a lot of paper work, Wide fluctuations in usage rates and difficulties in demand forecasting coupled with untrained personnel handling procurement function besides out-moded procurement procedures have adversely effected the material management and inventory control in the Controllorate of Procurement.

Avoidance of (i) large inventory (ii) higher inventory carrying costs (iii) Obsolescence and (iv) frequent deviation from the prescribed procedures for purchase of stores is a must for efficient store keeping for organisation of the size of CPRO. To achieve these objectives the Committee would like the Ministry of Defence to introduce modern office equipments and aids like the latest computer system, besides training the staff put on procurement of stores in modern material management including computer techniques. The Committee trust that with those aids the demand forecast would also be

precise, leading to better inventory control and effective material management.

[Appendix V, Sl. No. 9 Para 1.103 of the 51st Report of PAC 1986-87  
—Eighth Lok Sabha]

### **Action Taken**

It may be clarified in this connection that CPRO, Bombay is responsible only for the procurement of stores and has nothing to contribute so far as the planning of the material for the Navy is concerned. Planning functions are looked after by the Controllerate of Material Planning.

The job regarding rationalisation of the inventory declaration of obsolescence is being constantly undertaken by a specific cell at Naval Headquarters. The rationalised list of the item and the obsolescence is promulgated from Naval Headquarters. This is a step forward to curtailing the inventory and its carrying costs. For planning functions Controller of Material Planning, Bombay has availability of the computer and the provisioning reviews of Naval Stores are conducted by him through the computer only. The installation of the latest computer is being progressed and expected to be installed in the near future. However, it may be mentioned that the reduction of the inventory and its carrying costs an promulgation of obsolescence etc., are the jobs which can be manually looked after and fed to computers subsequently. Computer on its own cannot decide these functions. So far as the deviation from the prescribed procedure is concerned, suitable directive has been issued to the concerned authorities, *vide* NHQ letter No. SE/2038/S dated 11 No. V. 86.

With regard to the training of the personnel it may be mentioned that regular refresher courses are arranged by the Navy to apprise/acquaint the personnel with the latest material management techniques. Also, the officers are detailed for specialised training in material management in National Institute for Training in Industrial Engineering, Bombay, Defence Institute of Workstudy, Mussorie, Administrative Staff College of India, Hyderabad and other institutions of national repute.

[Ministry of Defence OM No. 2 (15)/84-PC. IV/D(N-I) Dated : 18th  
Sept. 1987]

### **Recommendation**

The CPRO had obtained quotations from a firm on a single tender basis for supply of raincoats of nylon finish quality suitable for use by scooter

riders at Rs. 45 each and the quality suitable for normal use at Rs. 37 each in response to a telephonic enquiry and had purchased 7 number each of the two qualities of raincoats for trial purposes. In May 1980 instead of going through the normal procedure afresh of inviting quotations from prospective bidders, the Local Purchase Orders were placed on same firm for supply of 5000 numbers of raincoats at Rs. 37 each and 5000 numbers of souvesters at Rs. 4 each at a total cost of Rs. 2.05 lakhs. The committee consider it highly objectionable particularly in view of the high value of the purchase order. The explanation that "previous year this firm had supplied these items and they were found satisfactory" is not at all convincing. The Committee would like the Ministry of Defence to ensure that prescribed procedure is scrupulously adhered to in indenting requirements. The tendering process should also be modernised.

[Appendix No. V Sl. No. 14, Para 1.108 of the 51st Report of PAC  
1986-87, Eighth Lok Sabha]

#### **Action Taken**

A directive for strict adherence of purchase procedures had been issued vide NHQ SE/2038/SQ dt 11 Nov. 86.

[Ministry of Defence O.M. No. 2(15)/84/PC.IV/D (N-I) dated  
18th Sept. 1987]

#### **Recommendation**

Again, the Committee find that large quantities of Synoolite mosaic layer and topping and refractory materials procured at enormous cost through local purchase orders have remained unutilised for long time. This unnecessary procurement of stores has resulted in not only blocking of large storage space and funds for considerable period, but also deterioration of its quality. This can only be termed as bad provisioning. The committee feel that with better material management, this position could have been avoided. Deliveries of stores against local purchase orders could have been rescheduled and suppliers advised to hold the supplies for the time being when central purchase of an item materialised unexpectedly after along period of indenting.

[Appendix-Vn, Sl. No. 16, Para 1.10 of the 51st Report of PAC  
1986-87, Eighth Lok Sabha]

### Action Taken

This was also the subject matter of investigation by the board of Inquiry and the findings of the Board of Inquiry are as under ;—

#### Refractory Materials

“At the outset it must be brought out that the entire Naval requirements for boiler refractory has been met through import, as this is a very critical item based on which the operational availability of the boiler depends. i.e., the main steam generating plants., To reduce this dependence on import a start was towards indigenisation and subsequently some materials were found to be satisfactory only in 1984. In view of the receipt of the imported stock, Refractory Mortar Cement (Air Setting Mortar) 4905 kgs and plastic refractory mix (100) 19,000 kgs were not used by the Naval Dockyard and were returned to CWH, obviously due to greater confidence level placed in the imported material rather than the indigenous one. The remaining stock of 3915 kgs of Refractory Mortar Cement and 11,900 kgs of Plastic Refractory Mix will be progressively issued”.

#### Syncolite Mosaic Layer and Topping

“The observations of the audit in that out of a total of 32,000 kgs of Syncolite Mosaic Layer, 20,100 kgs of Syncolite Mosaic Topping Yellow and 25,300 kgs of Syncolite Mosaic Topping Green which were received from the firm between Feb. and May 1983, only 1000 kgs of Syncolite Mosaic Layer were issued till Mar 84 and the balance remained in stock. This is not found tenable as can be observed from the following issues made (noted in the respective ledgers) as given below :—

S. No.	Item	1983	1984 (Upto Mar)	1984 (Apr-Dec)	1985 (Upto 22 Aug)
1.	Syncolit Mosaic Layer	5000	10,000	20,000	800
2.	Mosaic Topping Yellow	500	1,000	6,000	7,000
3.	Mosaic Topping Green	2,600	1,500	—	3,000

Present stock balance of Syncolite Base Layer, Mosaic Topping Yellow and Syncolite Mosaic Topping Green are 14,200 Kgs and 18,800 Kgs respectively

Both these items have been inspected and found useable *vide* NSIB Signal DTG : 051601/Sep 85. Thus there is no loss to the state."

It may be mentioned that local purchase action is normally resorted to when the supplies of the Central Purchase is not foreseen in the near future or are uncertain. However, the situations do arise when the supplies against outstanding CP indent do materialise alongwith the supplies of LP Orders. In cases where the delivery period stipulated in the contracts has not expired possibilities of cancelling such orders or deferring/resheduling supplies without incurring financial liabilities are considered remote. However, to tie over such situations instructions have been issued to the concerned authorities to take advantage of the expiry of the delivery period of the LP Orders and cancel the same without incurring financial liability. NHQ letter SE/2038/SQ dated 26 Nov 86.

[Min of Def O.M. No. 2 (15)/84-PC. IV/D (N-I)  
Dated 18th Sept. 1987]

#### **Recommendation**

The Committee are deeply perturbed to find that indents of paint bituminous black and paint bituminous enamel placed as early as May 1976 with the DGS&D materialised after five years in 1981. The Committee have already commented on the aspect of indents materialising after long intervals in preceding paragraphs. The long unjustified delays in supplying the materials leads to local purchase with itself takes a considerable time and building of unnecessary and avoidable inventories which are not consumed during their shelf life besides locking of large of large funds. The Committee note that there is total absence of system of reviewing supplies likely to materialise against pending indents and to cancel pending over-due indents against which supplies have not materialised on due time and the stores no more required. The Committee recommends suitable procedural measure to mitigate such situation should be devised immediately.

[Appendix V Sl. No. 17, Para 1,111 of the 51st Report  
of PAC 1986-87, Eighth Lok Sabha]

#### **Action Taken**

Directive on the subject has been issued *vide* NHQ letter SE/2038 (SQ) of 27 Nov. 86.

[Min of Def O.M. No. 2 (15)/84/P.C IVD (N-I), dated 18.9.87]

### Recommendation

The Committee view with serious concern the total absence of examination of the credentials of the suppliers before enlistment viz. majority of firms registered were either agents or suppliers ; Banker's reports regarding their financial standing was not obtained even in a single case: the capability and capacity of the firms as manufacturers/stockists were not assessed by competent inspection authority or by the CPRO. Basic requirement of production of Income-Tax clearance, sales tax and ownership certificates were also not complied in a large number of cases. The Defence Secretary informed the Committee that he has recommended to Naval Chief to constitute a Board of Inquiry to investigate into the working of Controllerate of Procurement to ensure :—

- (a) Whether the instructions issued in various Govt. letters on purchase had been meticulously complied with.
- (b) If not implemented, the officers responsible therefore and the extent of their culpability ;
- (c) Disciplinary/administrative action to be taken against them ;
- (d) Naval Headquarters recommendations as regards remedial measures that should be adopted to obviate recurrence of such lapses in future.

[Appendix-V, Sl. No. 18, Para 1.112 of the 51st Report of PAC-1986-87, Eighth Lok Sabha]

### Action Taken

Naval Headquarters directive for the registration of Suppliers on the lines of as followed by the DGS&D has been issued *vide* naval Headquarters letters no. SE/2038 (SQ) dated 17 Nov. 86, copy enclosed. The Board of Inquiry constituted to investigate into the working of Controllerate of Procurement has commented on points raised by PAC as under :—

#### *Para (18) 1-112 (a)*

The audit observation that non-compliance has been noticed only in 32 cases of tender enquiries over a period of 5 years with effect from 1978 covering over 48,000 LP orders, though valid and correct seems insignificant. The regulations stipulate that a minimum of 15 firms for value of item exceeding Rs. 20,000/- subject to the requisite number of firms being



registered for the particular item be sent tender enquiries. In most cases, due to the high specifications and peculiar nature of naval requirements this may not always be possible. In all the 32 cases a minimum of 6 firms were invited to tender which is considered reasonable.

**Para (18) 1.112 (b)**

Though the culpability of individuals for over provisioning cannot be directly established due to a fault in the computer programme, that cause items to be local purchased when suspended CP stocks (e.g., Soap Hard Yellow) existed, the Board finds the following officers 'Prima facie' culpable in the cases mentioned against each :—

- (i) Cmde SP Kakar (50054 H). For the procurement of 5,000 Plastic Raincoats and 5,000 Plastic Souvesters on a single Tender Proprietary basis from M/S Real Rainwear in May 1980. These raincoats were later found to be sub-standard and accepted under a price deviation of 5%.
- (ii) Cmde SR Das, (50091 T). The procurement of 7 lakh labels Manila (Paper Labels) at an exorbitant rate of Rs. 63/- per thousand from M/S K K Enterprises, Bombay in Sept 1980 and subsequently at rates varying Rs. 50 to 62.70 per thousand between Nov 1980 and January 1981 when the prevalent market rate was Rs. 22.20 per thousand. The current market rate as established by CPRO on a Limited Tender Enquiry is also less than Rs. 25/-per thousand.
- (iii) Capt AK Dhir (50136 W). Laxity in investigation past purchase date to answer audit queries and preliminary slips, adequately and convincingly to the satisfaction of audit, when first raised, and for dealing with these most cursorily.
- (iv) Last but not the least the concerned Material Superintendent i.e. Commodore SK Bhalla, (40044 H), Commodore, VKM Shahane, (60031 W) and Commodore AK Ghose, (40052 B), have failed to supervise the functioning of the Controllorate of Procurement effectively during their respective tenures.

**Para (18) 1.112 (c)**

So far as disciplinary action against the officers is concerned the Board of Inquiry vide para 38 of the recommendations have recommended :—

“Suitable disciplinary action may be initiated against the MS, ex MSs, CPRO and ex-CPROs, determined culpable.”

The recommendations of Board of Inquiry were scrutinised at Naval Headquarters and it has been decided by NHQ that since no malafides have been proved, the following officers will incur the displeasure of the Flag Officer Commanding-in-Chief, Western Naval Command, Bombay for neglecting rules and regulations in the procurement of certain items :—

- (i) Cmde S.P. Kakker (50054 H)
- (ii) Cmde S.R. Das (50091 T)
- (iii) Cape A.K. Dhir (50136 W)

Thy letters of displeasure have been issued by the Flag Officer Commanding-in-Chief, Western Naval Command. Such letters are kept in the dossiers of the concerned officers for a period of one year and during this period if the officer's performance has to be evaluated, such letters are taken into consideration.

*Para (18) 1-112 (d)*

Suitable insiructions have been issued to the concerned authorities for strict adherence of the instructions.

[Ministry of Defence O.M. No. 2 (15)/84/PC. IV/D(N-I)  
dated 18-9-87].

### **Recommendation**

The Naval Chief is reported to have been requested to furnish to the Ministry, investigations made by the Board of Enquiry alongwith his recommendations regarding the improvement in the procurement within six months. Besides, the Chief of Logistics has also been asked to identify the lacunae in the existing procedure. The Committee would like to know, in due course, the outcome of the investigations made by the Board of Enquiry and the action taken by the Ministry of Defence in pursuance thereof to plug the lacunae that are found in the existing procedure.

[Appendix-V, Sl. No. 19, Para 1.113 of the 51st Report of  
PAC 1986-87, Eighth Lok Sabha].

### Action Taken

Another copy of the Board of Inquiry is enclosed.\* To plug the lacunae the following directives have been issued :—

- (a) NHQ letter No. SE/2038 (SQ)/1 dated 28 Feb., 86, clarifying position on splitting up of the orders.
- (b) NHQ letter No. SE/2038 (SQ) dated 1 May, 86 delegating powers for purchase based on proprietary article certificate.
- (c) NHQ letter No. SE/2038 (SQ) dated 11 Nov., 86 prescribing the guidelines for provisioning review and procurement of stores.
- (d) NHQ letter No. SE/2038 (SQ) dated 17 Nov., 86 containing instructions on :
  - (i) Registration of the suppliers on the lines as being followed by the DGS&D
  - (ii) Weeding out of the suppliers who do not meet the conditions now prescribed for the registration.
  - (iii) Weeding out of those suppliers whose performance has not been found to be satisfactory.
  - (iv) Instituting system for renewal of registration of suppliers on an interval of three years.
- (e) NHQ letter No. SE/2038(SQ) dated 26 Nov., 86 stipulating instructions for review of dues in at the time of granting extension in delivery period.
- (f) NHQ letter No. SE/2038 (SQ) dated 27 Nov., 86 regarding cancellation of dues in where considered surplus while conducting provisioning review.
- (g) Also the following officers have been awarded punishment :—
  - (i) Cmde S.P. Kakar (50054 H)
  - (ii) Cmde S.R. Das (50091 T)
  - (iii) Capt. A.K. Dhir (50136 W)

[Min of Def. O.M. No. 2(15)/84/PC. IV/D(N-I), dated 18-9-87].

### **Recommendation**

The Committee note that Fast Transaction Team (FTT) headed by a Technical Officer functioning under the direct control of the CPRO was created to procure operationally, required stores and machinery off the shelf. In keeping with the urgency of the requirements, the FTT deviated from the normal procedure in handling tender enquiries and collection of quotations by hand delivery as against the normal procedure of sending them by post; allowing limited time for submission of quotations; and obtaining lesser number of quotations thereby making the tenders less competitive. These deviations from the prescribed procedure make it imperative that procurement of items by the Fast Transaction Team should be confined to immediate requirements to keep the ships operational. However, the Committee find that during the years 1981-82, 1982-83 and 1983-84, the aggregate purchases effected by Fast Transaction Team amounted to Rs. 106.43 lakhs, Rs. 85.83 lakhs and Rs. 84.15 lakhs respectively and the procured stores included items of entertainment and furnishing. Volume of purchases through Fast Transaction Team is indicative of the failure of the CPRO to cater to the needs of the indentores through normal stores provisioning methods. The Committee desire that concerted steps should be taken to resort to purchases through Fast Transaction Team only in cases of dire necessities.

[Appendix-V, Sl. No. 22, Para 1.116 of the Report of PAC 1986-87, Eighth Lok Sabha].

### **Action Taken**

It is correct that the board in its findings did feel that the FTT should be disbanded at the earliest but the board in its recommendations No. 1 has recommended that the FTT function must be restricted to the provisioning of only operational requirement and barest inescapable requirements and not for stocking purposes. Accordingly, NHQ have not issued any directive for its disbandment and have directed vide para 2(e) of NHQ letter SE/2038/SQ dated 11 Nov., 86 to strictly follow guidelines provided in procedures for local purchases.

[Min of Def. OM No. 2(15)/84/PC. IV/D(N-I) dated 18th Sept., 1987].

### **CHAPTER III**

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

##### **Recommendation**

The Committee find that the Project Report of Defence Institute of Workstudy, Mussorie had also recommended setting up of a separate cell consisting of senior experienced sailors to be positioned permanently in CPROs organisation to establish correct specifications and description for all items, update the information as and when required and progressive computerisation of non-computerised items.

[Appendix-V, Sl. No. 4, Para 1.98 of the 51st Report of  
PAC 1986-87—Eighth Lok Sabha]

##### **Action Taken**

The proposal for the enhanced complement for MO(B) recommended by NSEC consists of requirement of manpower under banned and non-banned categories. This is being pursued and the final approval of the Govt. to these proposals is likely to take some time. It may, however, be added that there is an acute shortage of sailors in the Navy and in particular the technical branches and the existing personnel of technical branches have to be perforce preferably deployed on board ships for the maintenance of the machinery for keeping the fleet operational. This shortage of sailors will continue for quite sometime as the Navy is rapidly expanding and induction of personnel can not keep pace with the expansion programme.

Once the enhanced complement of the civilian personnel is sanctioned and positioned, the existing strength of the senior sailors available with MO(B), would be deployed to man the cell recommended by the institute of Workstudy, Mussorie.

[Ministry of Defence OM No. 2(15)/84-PC-IV/D(N-I)  
Dated 18th Sept. 1987]

### **Recommendation**

The Committee find that though the prescribed procedure of invitation to tender in the case of local purchase under limited tender system was not followed in 32 cases of tender enquiries for purchases exceeding Rs. 20,000 issued during the year 1978-79 to 1982-83, due to unreliability of vendors registered and lesser number of registered vendors than that stipulated in the procedure. This is not at all a convincing explanation. It is in fact a sad commentary on the functioning of such a large and important organisation as CPRO which is entrusted with the procurement of stores of various kinds for Naval stores to have been carried unreliable vendors on its registered list of vendors. It is shocking to note that no vendor rating and analysis has been carried out ever since the inception of CPRO. Equally deplorable is the fact that sufficient number of vendors has not been registered even to comply with the procedural requirements. The Committee take serious view of these lapses and would like the whole issue to be probed into in depth to find out if it was a deliberate failure on the part of some one with malafide intentions. The Committee expect that Ministry of Defence would take expeditious action to carry out vendor rating early with a view to eliminate the unreliable vendors from the registered list and review the position periodically. The Committee recommends that suitable periodical inspection procedure for vendor list should be instituted immediately to avoid recurrence of such lapses. They would also like that sufficiently large number of reliable vendors are enlisted with a view to get competitive bids when tender enquiries are floated in future.

[Appendix-V, Sl. No. 10, Para 110.4 of the 51st Report of  
PAC 1986-87 Eighth Lok Sabha]

### **Action Taken**

The matter was investigated by the Board of Inquiry headed by Rear Admiral SW Lakhkar NM, VSM. The BOE vide para 49 of the findings has brought out that :—

“The audit observation that non-compliance has been noticed only in 32 case of the tender enquiries over a period of 5 years with effect from 1978, covering over 48,000 LP Orders, though valid and correct seems insignificant. The regulations stipulate that a minimum 15 firms for value of item exceeding Rs. 20,000 subject to the requisite number of firms being registered for the particular item he sent tender requires. In most cases, due to the high specifications and peculiar nature of

Naval requirements this may not always be possible. In all the 32 cases a minimum of 6 firms were invited to tender which is considered reasonable."

With regard to review of the performance of vendors, NHQ vide letter SE/2038 (SQ) of 17 Nov 86 has already requested HQs WNC, to arrange regular review of vendors with a view to review of weeding out such of the vendors from the list which do not meet the conditions stipulated for registration of the vendors for direct purchase.

Though every effort is made to register sufficient number of the suppliers it may always not be possible to enlist a large number just to make the procedural requirement due to lack of applicants.

The Board of Inquiry which investigated the cases has not brought out any case of deliberate failure with mala fide intentions on the part of any individual. Instead, the Board of Inquiry in its findings has stated that in most of the cases due to high specifications and peculiar nature and limited availability of Naval requirements in the open market, it may not be always possible to send the requisite number of inquiries. They have stated that in all the 32 cases, a minimum of 6 firms were invited which is considered reasonable.

Vendor Rating is a continuous process and it does not cease on any one day. The performance of vendors needs to be watched for a reasonable period of time and only then his rating should be changed. Moreover, there are a large number of factors that need to be considered and that too over a period of time before any decisions can be taken to change the Vendor Rating. As stated earlier, this is a continuous process and it takes a long time before any decisions can be taken to change the vendor Rating.

[Ministry of Defence OM No. 2 (15)/84-PC-IV/D (N-I)  
Dated : 18th Sept. 1987]

### **Recommendation**

The Committee find that there were regular and recurring requirements in considerable quantities of "laundry soap" "Soap soft grade-II" "cuprous oxide" "rope polypropylene paraprop" (of different types) and paint admar chocolate by the Navy. The Committee note with concern that local purchase orders of these requirements and also of other items which should have been procured through central purchase were split up so as to bring

them within the delegated financial powers of Admiral Superintendent (ASD/CPRO). Part and frequent purchase of each of these items ranging between 14 to 78 numbers during the year 1980-81 exceeding Rs. 50,000. Similar splitting of order were also resorted to in 1981-82, 1982-83 and 1983-84.

[Appendix-V, Sl. No. 11, Para 1.105 of the 51st PAC  
Report 1986-87—Eighth Lok Sabha]

### **Action Taken**

See comments against Sl. No. 12

[Ministry of Defence OM No. 2 (15)/84-PC. IV/D (N-I)  
Dated : 19th Sept. 1987]

### **Recommendation**

The Committee also note with concern that no orders for Central purchase of “laundry Soap” “soap soft grade II” “Puprous oxide” and “rope polypropylene paraps” were placed during the years 1980-81 to 1982-83 as sufficient dues in existed from central purchase indents which had not materialised and were awaited at the time of reviews. The Committee are informed that DGS&D 21 with whom indents are placed, take a very long time ranging from 12 to 18 months for tender acceptance and for supply of indent material another 12 to 15 months are taken. To mitigate the situation working arrangement was arrived at by considering demand received on a single day for a particular item as a separate item and effect local purchase therefore separately. The Committee view this situation with grave concern. They gain the impression that working arrangements in violation of the prescribed procedure were arrived at without bringing the matter to the notice of higher authorities. The Committee strongly deprecate the tendency of splitting of purchase orders in order to escape scrutiny by Tender Purchase Committee. The Committee would like the Ministry to ensure that this practice was not resorted to with ulterior motives by the unscrupulous officials. The Committee also recommend that the actual requirement for these items over a period should be reflected in the annual review documents to avoid local purchase orders as far as possible. As a Board of Enquiry to enquire into these cases is already seized of the matter the Committee would like to know its findings and the follow up action taken by the Ministry in the matter.

[Appendix-V, Sl. No. 12, Para 1.106 of the 51st  
Report of PAC 1986-87—Eighth Lok Sabha]



### Action Taken

Instructions to review of the Naval Stores provide provision upto 3 ACLs only, on the principle of liabilities minus assets. The existing dues in and the stocks are considered assets for the purposes of arriving at procurement quantities. There is no provision where by existing Dues in whether against direct purchase or otherwise can be ignored and additional quantities projected for procurement. There are cases where no additional procurement quantities are revealed in the provisioning reviews due to existing dues in and in such cases when the existing due in does not materialise, action is initiated to procure items under local purchase. It is felt that the local purchase powers have been provided with a view to tie over such conditions arising due to non delayed materialisation of central purchase orders. However, in these specific cases the matter was investigated by Board of Inquiry headed by Rear Admiral SW Lakhkar, NM, VSM, who has brought out :—

“The audit observation is technically correct. However, the Board has observed that the requirement was split so as to ensure timely availability by bringing them under the financial powers of the ASD in view of non-materialisation of outstanding OP/DP indents of Soap Laundry, Soap Soft Gr II, Cuprous Oxide and Paint Admar Chocolate. Rope Polypropylene is a newly introduced item and as such no indents are outstanding. Further the Auditors at a meeting with CDA(N) had agreed to accept one purchase order for one requisition. Had the requirement been clubbed, then the requirements would have had to be referred to Naval Headquarters, who in turn would have raised the indent on the same agency on which the indents were already pending. This action would be infructuous and counterproductive. Also, it is observed that the price of LP rate is comparable to that of DGS&D rate and in some cases was even lower. It is, therefore, observed that if one purchase is resorted to by CPRO against one requisition, the purchase should not be constituted as splitting. This should be taken up for issue of a formal directive to avoid future audit queries. This was agreed to by the auditors at a meeting held at the behest of the then CPRO (Cmde SR Das) with CDA (N) in 1980-81.” The Board of Inquiry has not proved any malafide on the part of the concerned officials and also indication of any ulterior motives behind their actions in splitting up of requirements for bringing them under the local Financial powers of ASD/CPRO. The requirements were split basically to ensure availability of items in good faith. However, the board has found the following Officers *Prima jace* culpable in certain specific cases :—

- (a) Cmde SR Kakar (50054 H)
- (b) Cmde SR Das (50091 T)
- (c) Capt AK Dhir (50136 W)

Suitable disciplinary action has been taken against the officers. NHQ directive on the splitting of requirement clarifying the position has already been issued *vide* NHQ letter SE/2038 (SQ) 1 dated 28 Feb. 86. This letter has been issued with the concurrence of Ministry of Defence (Fin/Navy) *vide* their u.o. No. 277/NC dated 24 Feb. 86.

[Ministry of Defence OM No. 2 (15)/84-PC. IV/D (N-I)  
Dated : 18th Sept. 1987]

### **Recommendation**

The Committee also deplore the unduly time ranging from 12 to 18 months taken by DGS&D for tender acceptance and another 12 to 15 months taken for supply of materials. In the instant case the position is more disquieting. Indent for laundry soap was placed with them in March 1979 and the supply materialised in Feb. to Apr. 1984, i.e., after 5 years. In the interregnum, no fresh orders were placed with them for Central Purchase of items which were required in considerable quantities on regular basis. The unduly prolonged delay in the supply of materials led to procurement of materials through local purchase often at a considerable higher prices. Besides, as brought out in the subsequent paras old indents materialised at a time when indenter had procured the supplies from other sources resorted to between Nov. 78 to May 80 because neither a copy of rate contract nor the DGS&D publications for list of items covered under rate contracts were stated to be available with the CPRO at that time. The Ministry have pleaded ignorance of both, the existence of the rate contract and the chemical name of the product. The Committee cannot believe that the officers dealing with stores purchase were oblivious of both the facts mentioned above. They do not consider it an insurmountable obstacle to obtain a copy of the DGS&D rate contract when the same was not available with the CPRO. Again, the problem of educating the specification given in Royal Navy BRs with commercially available items could have also easily been tackled by CPRO. As such resort to local purchase because of ignorance and non-availability of DGS&D list can hardly be justified. The secretary, Ministry of Defence admitted during evidence "I submit that at some stage at lower level there was some sort of confusion. For the period DGS&D rate contract was available, it should have been purchased through DGS&D". Unless proved otherwise, the Committee are inclined to suspect the *bonafide* of purchases

of this items at much higher rates locally by CPRO. The Committee desire that if it is reasonably possible to identify the personnel responsible for purchase, they may be called upon to explain their conduct with a view to institute disciplinary action, if necessary. They also desire that commercial nomenclature of various items required by the navy should be inserted into Royal Navy BRs to remove any ambiguity in the specifications for purchase and procurement.

[Appendix V., Sl. No. 13 Para 1.107 of 51st Report  
of PAC 1986-87 Eighth Lok Sabha]

### **Action Taken**

The purchase of Soda Ash outside DGS&D contract has been investigated by the Board of Inquiry headed by Rear Admiral SW Lakhkar, NM, VSM. The findings of the Board of Inquiry as under :—

“In view of the item appearing on rate contract intermittantly in certain years only during the period 1978 to 1983 and also due to non-availability of copies of rate/running contract, the procurement of Soda Ash through local purchase is considered justified. It is, however, recommended that procurement of such common usage item which is also fast moving and high turnover should be done as far as possible through DGS&D on an annual rate/running contract basis as the usage of the item is recurring and continuous nature.”

With regard to inserting the commercial nomenclature of the items in the Royal Navy BRs it may be mentioned that these are promulgated by the Ministry of Defence (Navy) UK and Naval Headquarters at New Delhi have no control over them. However, the matter regarding equation of Royal Navy's pattern Number with the items of the DGS&D rate contracts has been referred to DPI (N), the AHSP for rendering necessary advice to the purchase organisations. However, DGS&D also has been requested *vide* NHQ letter No. SE/2038/SQ dated 18 Dec 86 to despatch copies of all rate contracts to all DDO's of the Navy and specifically to Material Superintendent (Bombay) and Material Superintendent (Vishakhapatnam).

It would be seen from the findings of board of inquiry that they have not observed any *malafide* in procurement outside rate contract. The commission took place as observed by the Board of Inquiry, due to the fact that the item was on rate contract intermittantly during 1978 to 1983 and the copies of rate contract were not available with CPRO. In view of the above, it is not considered necessary to hold another inquiry on this specific subject.

[Ministry of Defence OM No. 2 (15)/84-PC. IV/D (N-I)  
Dated : 18th Sept. 1987]

### **Recommendation**

The Committee are distressed to find that in the cases mentioned below due to excess purchases unnecessary stores valued at Rs. 9.83 lakhs were held in stock by the CPRO through its shelf life had already expired or was nearing expiry. Paint bituminous enamel was indented against the projected requirement of 12,000 Kgs., when stock of 14,300 Kgs., was already held. The indent was covered by 11 Local Purchase Orders placed between 30 Dec. 1980 and 10 Jan. 1981 on a local firm at a total cost of Rs. 1.56 lakhs. The supplies materialised during March and May 1981. The entire stocks remained unutilised upto March 1984. Its shelf life expired in May 1982 resulting in a loss of Rs. 1.56 lakhs. Another supply of 27,425 Kgs of this paint was received during Jan., April 1981 against pending Central Purchase Orders. Out of this only 682 Kgs., could be used upto Mar. 1984. The shelf life of the remaining quantity of 26,743 Kgs of paint stock expired in April 1982 and the paint deteriorated in quality. Similarly in Mar. 1984, the CPRO was maintaining a stock of 20,754 litres of paint bituminous black costing Rs. 1.34 lakhs with shelf life of one year already expired. The stock instead of depletion, swell to 24694 litres, in Aug. 1985 and was expected to meet the requirements of next two years. The plea that no complaint has been received from customers about the deterioration of its quality is not convincing as the deterioration in the quality of paint is a slow process and cannot be detected easily. The contractual shelf life for these items is 12 months and the actual shelf life of marine paints are stated to be three years or even more. But the optimum gain from its use is derived only when its use is close to the date of manufacture.

[Appendix V. Sl. No. 15, Para 1.109 of the 51st Report  
of PAC 1986-87, Eighth Lok Sabha]

### **Action Taken**

Matter regarding alleged overprovisioning of paint Bituminous Enamel and paint Bituminous Black was investigated by the Board of Inquiry headed by Rear Admiral SW Lakhkar, NM, VSM, and the findings of the Board of Inquiry are as under:-

#### *Paint Bituminous Enamel*

- (a) The large stock namely 27,425 Kgs materialised through Central Purchase against outstanding indents of May 1976 sometimes in Jan/April 1981 alongwith the LPO of 12,000 Kgs which

materialised between 06 Mar. 81 and 12 May 1981. This is a clear case of over provisioning due to materialisation of long outstanding CP indents (5 years old) alongwith the LPO. Further the paint has been certified as useable vide NSIB Signal DTG: 051601/Sep 85 on the present stock balance of 29416 Kgs. As such no loss due to shelf life expiry of the above items has taken place. To avoid recurrence of such nature it is essential that all future LPOs must endorse a statement to the fact that "that the item is not under Central Purchase", duly signed by CMP before referring to CPRO for procurement.

*Paint Bituminous Black*

- (b) This is again a case of overprovisioning due to materialisation of overdue Exclusive indent along with the LP purchase almost simultaneously resulting a total quantity of 57,500 ltrs, received between Apr. and Dec 1981. The LPOs were placed to meet Dues Out. The balance stock of 21,054.5 ltrs has been inspected and found useable as in the case of paint Bituminous enamel vide NSIB Signal DTG: 051601/Sept. 85",

NHQ do not agree with the suggestion that each LPQ should be endorsed 'item is not under Central Purchase ; Such an endorsement clearly implies that if an item is under Central Purchase, no local Purchase can be resorted to. This surely cannot be the intention behind making this recommendation as Local Purchase is an accepted fact of life and cannot be done away with completely.

To avoid overprovisioning of the items NHQ has already issued directives. Subpara 2 (j) of NHQ letter SE/2038/SQ dated 11 Nov. 86 read in conjunction with para 2 of NHQ letter of even No. dated 27 Nov. 86 clearly lays down the steps that need to be taken before resorting to Local Purchase.

[Ministry of Defence O.M. No. 2 (15)/84-PC-IV/D (N.I) dt  
Dated 18th Sept. 1987]

**Recommendation**

The Committee are surprised to find that majority of the firms registered as suppliers with the Controllorate of Procurement are either agents or retailers. In 1981-83, out of 176 suppliers registered, 93 were either agents or retailers. The Controllorate is not dealing directly with the manufacturers

in small scale sector though a fair number of items required by it are manufactured by them. The Committee would like Controllorate of Procurement to encourage and register small scale manufacturing units also as suppliers of various items required by them as it would be beneficial to the Controllorate. The Committee feel that by procuring goods directly from the small scale manufactures, not only the middlemen's margins will be eliminated but also the price will be more competitive and the delays in supplies will also be curtailed. Such a measure would give impetus to the Govt. policy to encourage small scale units.

[Appendix-V. Sl. No. 20, Para 1.114 of the 51st Report of PAC 1986-87—Eight Lok Sabha]

### **Action Taken**

Under the existing regulations 2 separate lists—one for local purchase suppliers and the other for the direct purchase suppliers are to be maintained. While the Government policy decided based on the recommendations of working group of the high power committee headed by Additional Secretary, Defence, has recommended, that registration of suppliers for direct purchase should be from manufacturers, they have recommended enlistment of the manufacturers, traders etc also for suppliers against the local purchase order. In conformity with the recommendation made by the working group instruction were issued to the procurment agency strictly to follow the system for registration of suppliers. However, the revised and elaborate instructions on the similar lines as being followed by the DGS&D have been issued for registration of suppliers. NHQ letter SE/2038 (SQ) dated 17 Nov. 86.

[Min. of Def. OM No. 2 (15)/84/PC. IV/D (N-I),  
dated 18th Sept 1987]

### **Recommendation**

The Committee are perturbed to find that CPRO has incurred extra expenditure of Rs. 1.44 lakhs on procurement of waste cotton coloured and rag cotton coloured due to non-acceptance of lowest tender and resorting to reteuaring. The Ministry of Defence have stated that the lowest tenderer withdrew his offer and tender of the next lowest tenderer was not acceptable as the performance of this firm was not found satisfactory. This decision is stated to have been based on the poor performance of its sister concern on earlier occasion when substandard and unhygienic material was stated to have been supplied by that firm. In view of this fact, a market survey team had

inspected the premises of this firm and submitted a report. It is strange that this report of the survey team is not available with the CPRO and the same was not furnished to the Committee when they asked for it. The Committee take a serious note of it. They are also concerned to find that suppliers with unsatisfactory and poor performance continued to be registered with the CPRO. The Ministry owe an explanation to the Committee on this account. It is equally a matter of concern that normal procedure of getting approval of Tender Purchase Committee to the decision not to process the tender of this firm was done away with in this case on the plea of urgency which is also not convincing.

[Appendix-V, Sl. No. 21; Para 1.115 of the 51st Report of PAC 1986-87, Eighth Lok Sabha]

#### **Action taken**

The matter was investigated by the Board of Inquiry headed by Rear Admiral SW Lakhkar, NM, VSM and its findings are reproduced below :—

“Naval Headquarters had raised an exclusive indent dated 05 May 79 for the procurement of 4.344 tons of Waste Cotton Coloured and 149,995 tons of Rags Cotton Coloured at a total cost of Rs. 8.56 lakhs at the rate of Rs. 2.90 per Kg for Waste Cotton Coloured and Rs. 4.85 per kg for Rags Cotton Coloured with the EDS 30 Sep 1979. The first tender was not acted upon as the firm who was the lowest tenderer namely M/s Bombay Rags and Waste Supply Company was the same firm as M/s Thakkar and Company on whom LPOs were pending for supply ; the items supplied were sub-standard and the firm had a poor record. The decision taken there after by MS to tenderer is, therefore, justifiable though technically it should have been appropriate to seek approval of the TPC, of which MS was the Chairman. Procurement effected through rendering, as subsequently cleared by the TPC for a quantity of 62,000 Kgs of Waste Cotton Coloured at the rate of Rs. 4/—per kg (against lowest offer in the first tender enquiry of Rs. 3.86 per kg) and 60.550 kgs of Rags Cotton at the rate of Rs. 6.87 per kg (as against lowest offer in first tender enquiry of Rs. 6.94 per kg), it shall be observed that difference in the price per kg between the lowest offer in the first tender enquiry and the one subsequently concluded are Rs. 0.14 more per Kg. for Waste Cotton Coloured and Rs. 0.07 less per kg for Rags Cotton Coloured. In view of the past record of lowest tender in the first tender enquiry being unsatisfactory, the decision to re-tender and subsequently award contract through a

TPC is considered fully justifiable though, a loss has occurred to the state due to non-conclusion of the lowest quotation. It must be emphasised that for the Defence Services quality is of paramount importance and has to be achieved even at a higher price if need be."

With regard to the report of the survey team, it may be clarified that no formal market survey system was in existence but to clarify the apprehensions about the performance and capacity of the firm, MS (B) deputed an officer and a sailor separately to ascertain whether M/S Bombay Rags Supply Co. and M/S Thakkar & Co. were owned by the same proprietors and having received the confirmation in this capacity as Chairman TPC, gave a ruling to scrap the tenders, and invite fresh tenders including inquiries to the reliable and tried suppliers. In this connection of the guide lines prescribed by the Ministry of Defence, Deptt. of Supplies for the purchase of stores exclusive to the services, is appended below :

"Vide OM No. F7 (67)/73-DS dated 23 Mar 76 (para 14)"

#### *Scrapping of Tenders*

Prior approval of the TPC should be obtained before scrapping the tenders. In case of urgency, approval of the Chairman TPC may be taken and action reported to TPC at its next meeting. It was only with a view to stopping local purchases that the Central purchase had to be expedited.

As regards continued registration of suppliers with a record of unsatisfactory and poor performance record by the CPRO, it may be clarified that the tenders for the cotton rags and waste were in response to an advertised tender enquiry which could be submitted by any supplier whether registered or otherwise.

Non-production of the report of the officer and the sailor who visited the firm's premises, is regretted. In this connection answers to questions No. 158,369 and 370 of the proceedings of the Board of Inquiry would further clarify.

Also revised instructions have been issued regarding the registration of contractors.

[Ministry of Defence OM No 2 (15)/84-PC. IV/D (N-I)  
dated 18th Sept. 1987]



## CHAPTER IV

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

#### Recommendation

The Expert Team from the Defence Institute of Work study, Mussorie set up in 1980 had *inter alia* recommended that financial limit for placing Purchase Orders on the basis of limited tender enquiry be enhanced from Rs. 50,000 to Rs. 1,00,000 ; limit of proforma payment be increased from Rs. 20,000/- to Rs. 50,000/-, a full fledged Finance Section headed by an Accounts Officer designated as Financial Controller be set up under CPRO ; A Market Survey Team consisting of experienced clerks and headed by a Market Survey Officer be formed under CPRO. No concrete action appears to have been taken on these important recommendations though these have been accepted by the Naval Standing Establishment Committee since long. The Committee regret to find that action on these recommendations has been pending for long. The Committee desire that action on these recommendations should be finalised and Committee informed within a period of six months.

[Appendix V. Sl. No. 2, Para 1.96 of the 51st Report  
of PAC 1986-87, Eighth Lok Sabha]

#### Action Taken

- (a) The Financial powers of Rs. 50,000/- for D.P. have been enhanced to Rs. 1 lakh *vide* Govt. of India, Min. of Def. letter SE/0141/2/ NHQ/2931/81/D(Navy-III) of 17 Nov. 1981.
- (b) The case regarding enhancement of proforma payment has been initiated, and rests with CDA(N) for Audit report before taking up with the Min. of Defence.
- (c) The NSEC case of the MD(B) consists of requirement of manpower which falls under 'Banned' and 'non-banned' categories, and hence could not be pursued with the Govt. earlier. However, this

is now being processed. After the complement is sanctioned the finance section and market survey team etc. will be formed.

[Ministry of Defence OM No. 2(15)/84-PC. IV/D(N-I)  
Dated 18th Sept. 1987]

### **Recommendation**

The Material Superintendent also in his performance Appraisal Report for 1984, while stressing the need for a close monitoring for follow up action against each order placed, has pointed out that it had not been possible due to shortage of man-power. He has stated that Computer can only help in giving the record or pending orders but it cannot expedite the supplies by itself. This is a work area of the Controllorate, which is required to be strengthened by positioning of additional officers. The Committee understand that these recommendations have been accepted. If so, the Committee would like to know the action taken on these recommendations.

[Appendix V. Sl. No. 5, Para 1.99 of the 51st Report  
of PAC 1986-87, Eighth Lok Sabha]

### **Action Taken**

See comments at (c) against para (2) 1.96.

[Ministry of Defence OM No. 2(15)/84/PC-IV/D(N-I)  
Dated 18th Sept. 1987]

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

**Recommendation**

Performance Appraisal of CPRO by Material Superintendent, Naval Dockyard, Bombay states that "a more selective vender list had resulted in better response to tender enquiries and more competitive purchase. The prices paid for various products were much lower than the rate at which they were procured in the past. This is borne out from the computer data in respect of procurement prices available in computer. The saving to the Govt. on this account has been stated to be about Rs. 2 crores for the year 1984." This statement viewed in the context of price escalation year after year indicates that purchases in the previous years were not made at fair prices. The Committee consider that purchases made since the formation of CPRO need to be gone into thoroughly. The Committee have been informed that the matter is being investigated in detail by the Ministry of Defence. The Committee would like to be informed, in due course, of the result of investigation and the follow up action taken in this regard.

[Appendix V, Sl. No. 6, Para 1.100 of the 51st Report  
of PAC 1986-87, Eighth Lok Sabha]

**Action Taken**

Towards the implementation of the recommendations of Board of inquiry the following instructions have been issued :—

- (a) NHQ letter No. SE/2038(SQ)/1 dated 28 Feb. 86, clarifying position on splitting up of the orders.
- (b) NHQ letter No. SE/2038(SQ) dated 01 May 86 delegating powers for purchases based on proprietary article certificate.
- (c) NHQ letter No. SE/2038(SQ) dated 11 Nov. 86 prescribing the guidelines for provisioning review and procurement of stores.

(d) NHQ letter No. SE/2038(SQ) dt. 17 Nov. 86 containing instructions on :—

- (i) Registration of the suppliers on the lines as being followed by the DGS&D.
- (ii) Weeding out of the suppliers who do not meet the conditions now prescribed, for the registration.
- (iii) Weeding out of those suppliers whose performance has not been found to be satisfactory.
- (iv) Instituting system for renewal of registration of suppliers on an interval of three years.

(e) NHQ letter No. SE/2038(SQ) dated 26 Nov., 86 stipulating instructions for review of dues in at the time of granting extension in delivery period.

(f) NHQ letter No. SE/2038(SQ) dated 27 Nov., 86 regarding cancellation of dues in where considered surplus while conducting provisioning review.

(g) Disciplinary action has been taken against the undermentioned officers, in that they have incurred the displeasure of the Flag Officer Commanding-in-Chief, Western Naval Command, Bombay :—

- (a) Commodore SP Kakar (5C054-H)
- (b) Commodore SR Dass (50091-T)
- (c) Captain AK Dhir (50136-W)

With regard to the probing of the purchases made by CPRO since its formation, a Board of Officers has been convened to look into the working of CPRO, Bombay and to suggest measures regulating the purchases made by CPRO at fair prices.

[Ministry of Defence OM No. 2(15)/84-PC-IV/D(N-I)

Dated : 18th Sept. 1987]

### **Recommendation**

Another important recommendation made by the Defence Institute of workstudy, Mussorie to streamline the functioning of CPRO was with regard

to the enhancement of financial powers and for de-centralisation of authority. A proposal in this regard was made to Naval Headquarters on 6 July, 1984. The existing financial powers as enhanced in 1982 were delegated in Oct., 1976. The Committee have been informed that further enhancement of financial powers, and de-centralisation of authority is presently under study at Naval Headquarters. A considerable delay has already occurred in this case. The Committee trust that the matter will be dealt with utmost urgency and early decision would be taken in this regard.

[Appendix V. Sl. No. 7 Para 1-101 of the 51st  
Report of PAC 1986-87—Eighth Lok Sabha]

### **Action Taken**

The enhancement of financial powers is under examination at interservice level and the progress thereon will be intimated from time to time.

[Ministry of Defence OM No. 2 (15)/84-PC-IV/D (N-I)  
Dated : 18th Sept 1987]

NEW DELHI ;  
*The 7 April, 1988*  
*18 Chatra, 1910 (s)*

AMAL DATTA  
*Chairman,*  
*Public Accounts Committee.*

MINUTES OF THE 39TH SITTING OF THE PUBLIC ACCOUNTS  
COMMITTEE HELD ON 28 MARCH, 1988

The Committee sat from 15-30 hrs. to 16-30 hrs.

PRESENT

*Chairman*

MEMBERS

1. Shri Amal Datta
2. Shri Ajay Mushran
3. Shri Chiranji Lal Sharma
4. Genl. R.S. Sparrow
5. Dr. Chandra Shekhar Tripathi
6. Shri M.S. Gurupadaswamy
7. Shri B. Satyanarayan Reddy
8. Shri T. Chandrasekhar Reddy

SECRETARIAT

1. Shri B.D. Duggal—*Chief Financial Committee Officer*
2. Shri S.M. Mehta —*Senior Financial Committee Officer*

REPRESENTATIVES OF THE AUDIT

1. Shri G.M. Mani—Addl. Dy. C&AG
2. Shri S.S. Roychoudhry—DACR-I
3. Shri Baldev Rai—Director of Audit (Air Force & Navy)
4. Shri A.K. Sitaram—Jt. Director (Railways)
5. Shri P.K. Jena—Dy. Dir. of Audit (Air Force & Navy)

2. The Committee considered and adopted the following draft Reports :

- |      |   |   |   |
|------|---|---|---|
| (i)  | * | * | * |
| (ii) | * | * | * |

- (iii) Draft Report on action taken on recommendations contained in 51st Report (8th Lok Sabha) regarding review of the Working of the Controllarate of Procurement.

3.

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4. The Committee authorised the Chairman to finalise the 3 Reports mentioned in paragraph 2 *supra* in the light of changes arising out of factual verification by the Audit and present them to the House.

*The Committee then adjourned.*

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## APPENDIX

### *Statement of Observations Recommendations*

S. No.	Para No.	Ministry/Deptt. concerned	Observations/Recommendations
1	2	3	4
1	2	Defence	The Committee are unhappy to note that Ministry of Defence has not been able to furnish final Action Taken Notes on some of their recommendations till date. The Action Taken Notes were required to be furnished within six months of the presentation of the original Report i.e., by 12 February, 1987. In the instant case, the Action Taken Notes have been received on 24 September, 1987. In spite of the excess time taken two Action Taken Notes are found to be of interim nature. It is highly deplorable. The Committee desire that final replies to the recommendations included in Chapter V, duly vetted by audit may be furnished to the Committee at an early date;
2	6	-Do-	The Committee are not at all satisfied with this reply of the Ministry and deprecate the casual approach of the Ministry in dealing with important recommendations made with a view to streamlining the working of the Controllorate of Procurement which was established to improve the material management in the Navy. It is imperative that the recommendations of the Expert Team from the Defence Institute of Works Study be implemented with and the Committee apprised of further progress in this regard.



