TWENTY-NINTH REPORT

PUBLIC ACCOUNTS COMMITTEE (1985-86)

(EIGHTH LOK SABHA)

MANUFACTURE OF DEFECTIVE COMPONENTS FOR VEHICLES AND PROCUREMENT OF DEFECTIVE EQUIPMENT FROM ABROAD

MINISTRY OF DEFENCE

[Action Taken on 151st Report (Seventh Lok Sabha)]

Presented in Lok Sabha on 7 April, 1986

Laid in Rajya Sabha on 21 April, 1986

LOK SABHA SECRETARIAT
NEW DELHI

March, 1986/Phalguna, 1907 (S)

Price : Rs. 2.40

CONTENTS

PUBLIC ACCOUNTS COMMITTEE

(1985-86)

CHAIRMAN

Shri E. Ayyapu Reddy

MEMBERS

Lok Sabha

2. Shri J. Chokka Rao
3. Shri Amal Datta
4. Shri Ranjit Singh Gaekwad
5. Shrimati Prabhawati Gupta
6. Shri Harpal Singh
7. Shri Vilas Muttemwar
8. Shri G. Devaraya Naik
9. Shri Rameshwar Neekhra
10. Shri Rajmangal Pande
11. Shri H.M. Patel
12. Shrimati Jayanti Patnaik
13. Shri S. Singaravadivel
14. Shri Simon Tigga
15. Shri Girdhari Lal Vyas

Rajya Sabha

16. Shrimati Amarjit Kaur
17. Shri Nirmal Chatterjee
18. Miss Jayalalitha

19. Shri Ghulam Rasool Kar

20. Shri Chaturanan Mishra

21. Shri K.L.N. Prasad

22. Shri Ramanand Yadav

SECRETARIAT

1. Shri N.N. Mehra—*Joint Secretary*
2. Shri K.H Chhaya—*Chief Financial Committee Officer*
3. Shri O.P. Babal —*Senior Financial Committee Officer*

INTRODUCTION

I, the Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this 29th Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their 151st Report (7th Lok Sabha) on manufacture of defective components for vehicles and procurement of defective equipment from abroad.

2. In their earlier report, the Committee had pointed out a number of acts of omission/commission in regard to purchase of 6 units of an equipment from abroad in 1978 to meet the urgent requirements of the defence forces for mobile communication and had recommended a thorough investigation by a high powered team of officials drawn from the Ministry/Army Headquarters. From the perusal of the Enquiry Committee Report, the Committee have observed that there were lapses on the part of Technical Evaluation Committee, Negotiating Committee, the second team of Government officials, the resident Inspector who cleared the item before preshipment and of officers who did not initiate legal action against the firm as early as in July/August 1979. As the Enquiry Committee has unfortunately not pinpointed responsibility for the various irregularities, the Committee are compelled to reiterate their earlier recommendation for fixation of responsibility for lapses at various stages

3. The Committee had also stated in their earlier report that this was not a solitary instance and there were 9 other cases of imports of defective equipments involving large amounts of foreign exchange during the period June 1976 to June 1981. The Committee have desired to know whether the cases pointed out by them have been examined and if so, the outcome thereof.

4. The Report was considered and adopted by the Public Accounts Committee at their sitting held on 27 February, 1986. Minutes of the sitting form Part II of the Report.

5. 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.

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

E. AYYAPU REDDY,

NEW DELHI ;

March 4, 1986
Phalguna 13, 1907 (Saka)

Chairman,
Public Accounts Committee.

REPORT

CHAPTER I

1.1 This Report of the Committee deals with the action taken by Government on the Committee's Recommendations and observations contained in their 151st Report (7th Lok Sabha) on Paragraphs 15 and 30 of the Reports of the Comptroller and Auditor General of India for the years 1980-81 and 1979-80, Union Government (Defence Services) regarding manufacture of defective components for vehicles and procurement of defective equipment from abroad respectively.

1.2 The Committee's 151st Report presented to Lok Sabha on 29 April, 1983 contained 19 recommendations and observations According to the time scheduled the notes indicating the action taken by Government in pursuance of the recommendations and observations contained in the 151st Report, duly vetted by Audit, were required to be furnished to the Committee latest by 28 October, 1983. However, the Ministry of Defence submitted advance copies of their action taken notes on the recommendations No. 1 to 12 on 13th January, 1984 and the Enquiry Committee Report on 21 January, 1985 Action taken notes in regard to other recommendations were furnished by the Ministry on 20th September, 1985.

1.3 The Action taken notes received from the Ministry have broadly been cetegorised as under :

(i) Recommendations and Observations that have been accepted by Government :

Sl. Nos. 4, 8, 9, 10, 13, 14, 15, 16, and 17.

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

Sl. Nos. 3, 6 and 11.

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

Sl. Nos. 1, 2 and 5.

(iv) Recommendations and Observations in respect of which Government have furnished linterim replies :

Sl. Nos. 7, 12, 18 and 19.

1.4. The Committee expect that final replies to those recommendations and observations in respect of which only interim replies have so for been furnished will be made available expeditiously affter getting them vetted by Audit.

Failure to achieve the installed capactty of vehicles in a factory
(Paragraphs 1.61 and 1.62—Sl. No. 1 and 2)

1·5. Expressing their shock over the failure of the vehicle factory 'B' in achieving their installed capacity, the Committee had, in paragraphs 1·61 and 1·62 of their Report stated :

"The Committee note that the production of Shaktiman vehicles in the country started in 1959 after collaboration agreement was concluded with M/s. MAN in September 1958. Manufacture of Nissan Vehicles started in 1961-62 after a separate collaboration was concluded for these vehicles with M/s. Nissan Motors, Japan. The production of various components of these vehicles was undertaken in a number of factories which individually or jointly contributed to the manfacture of component which were finally assembled at factory 'A'. After 1962 conflict, the requirements of Army in armaments stores increased manifold necessitating a review of production of armaments stores and vehicles for meeting increased requirements of army in the then existing factories. A decision was taken to set up a separate integrated factory for manufacture of vehicles. The Government accordingly sanctioned a project in November, 1965 at a cost Rs. 46·84 crores for manufacture of Shaktiman, Nissan—1 ton and Nissan Patrol vehicles. The installed capacity of the factory 'B' as per Detailed Project Report, was 13200 in a mix of 6000 Shaktiman and 7200 Nissan vehicles. However, the total production of the vehicles during 1970-71 to 1981-82 (12 years) has been 70534 numbers and the production in 1981-82 was only 7970 vehicles (consisting of 3670 Shaktiman vehicles, 3100 Nissan carrier and 1200 Nissan Patrol). A project to augment the capacities of the factory to 10,000 vehicles per annum has been sanctioned in Junuary, 1982 by provisioning of balancing plant and equipment and civil works at an estimated cost of Rs. 8·48 crores."

"The Committee are shocked that although original installed capacity of the vehicle Factory was 13,200 the actual production in the factory has been much less. The maximum production achieved in any year was 8,576 vehicles in 1976-77. The factory has a huge outstanding demand of 45,985 from the army consisting of 22,022 Shaktiman, 10677 Nissan 1-ton and 13,236 Nissan Jonga vehicles. Clearly all is not well with the setting up of this factory and its operation. The Committee recommend that Government should look into the deficiencies in this regard and take necessary corrective measures so that at least after the provisioning of balancing plant and equipment at an estimated cost of Rs 8 48 crores, the factory is able to achieve the production target envisaged."

1·6. In their action taken note dated 13 January, 1984 the Ministry of Defence have stated as under :

"It is true that according to the detailed project Report, the installed capacity of factory 'B' was for production of 13,200 vehicles per annum in a mix of 6,000 Shaktiman and 7,200 Nissan vehicles. The actual achievable capacity at Factory 'B' was, however, not more than 8,000 vehicles per annum, mainly due to the following reasons : –

(i) Lower productivity of indigenous machines actually procured in lieu of imported machines provided in the detailed Project Report.

(ii) Extra maching time required as compared to the time provided in the Project Report, due to inferior quality of indigenous forging/ castings etc., which restricted the maching capacity at Factory 'B'.

(iii) Changes made in the Production-mix, as certain items which were planned to be "bought out" items, according to the Project Report, are being manufactured at Factory 'B' and *vice-versa*.

2. Some of the other constraints in the capacity of Factory 'B' are as under :

(*a*) *Shortage of Power* :

The shortage of power is one of the constraints in increasing the vehicle production at Factory 'B'. Further, frequent load shedding and power interruptions have adversely affected the Factory 'B'. It may be mentioned that during the period September, 1982 to February 1983, there were 44 cases of power interruptions resulting in about 10 hours loss of production and 15 cases of load shedding/voltage fluctuations resulting in loss of about 155 man hours.

(b) Inadequate supply of components by Indigenous Suppliers etc.

The supply of components/forgings from the indigenous suppliers have not been adequate due to adverse labour situation in Trade firms. For example, in 1982-83, there were strikes and lock outs at the Suppliers Works viz. ISR Thana (approximately 3 weeks in April, 1982), M/s. Sankey Wheels, Durgapur (From 10-2-1982 to 19-7-1982) and M/s. Korula Rubber Co., Aurangabad (For about three months) as a result of which supply of critical components were adversely affected.

The question regarding actual achievable capacity at Factory 'B' was investigated by an independent Technical Committee appointed by Government of India, which corroborated that the achievable capacity was not more than 8,000 vehicles per annum at Factory 'B'.

On a technical assessment of the plant and equipment it was found that if certain balancing plant and equipment in certain sectors were provided, the production level at Factory 'B' could be increased to 9,000-10,000 vehicles per annum. Government have sanctioned in January 1982, balancing plant and equipment and connected civil works at a cost of Rs. 8 48 crores. This Project, after completion will enable the Factory 'B' to give an output of 9,000-10,000 vehicles per annum from 86-87 onwards."

"The reasons for actual production at Factory 'B' being lower than the installed capacity have been explained in the Action Taken Note.....(above). Government have also sanctioned in January 1982 a Project to augment the achievable capacities of Factory 'B' from the present achievable level of 8,000 per annum to 9000-10,000 vehicles per annum.

On the basis of the recommendations made by the Rajyadhyaksha Committee, the powers of the General Manager of Factory 'B' have been enhanced and also the powers have been delegated down the line up to the level of Deputy Manager in order to enable the Factory to ensure regular flow of components/materials etc to optimise the production in the Factory. A "vendor-rating" system has been introduced in the Factory 'B' to improve the procurement system.

With the above steps and with the augmentation project having been sanctioned, it would be possible for the Factory 'B' to achieve the production targets envisaged. The augmentation project is proceeding according to schedule and will be completed by 86-87."

1.7. The Committee note that the installed capacity of the factory 'B' as per detailed project Report was 13200 in a mix of 6000 Shaktiman and

7200 Nissan vehicles and the total production of the vehicles during 1970-71 to 1981 82 (12 years) had been 70534 vehicles Against this installed capacity of 13200 vehicles per annum the maximum production achieved was 8576 vehicles in 1976-77. According to Ministry of Defence the question regarding actual achievable capacity at factory 'B' was investigated by an inde pendent technical Committee appointed by Government of India, and its finding was that the achievable capacity was not more than 8000 vehicles per aunum at Factory 'B'. The Committee were informed that a project to augment the achievable capacities of the factory to 10000 vehicles per annum was sanctioned in January 1982 by providing balancing plant and equipment and civil works at an estimated cost of Rs 8·48 crores. From the reply of the Ministry of Defence now furnished, the Committee find to their surprise that the capacity is expected to be augmented from the present level of 8000 to between 9000 and 10000 vehicles per annum only. The Committee consider that this is a serious discrepancy and calls for a detailed explanation : it cannot be treated as a minor matter that after incurring an expenditure of over Rs. eight crores expressly for the purpose of increasing the production by two thousand vehicles, one should accept without question that the increase will be some figure between a thousand and two thousand.

Import of transmission assemblies for Nissan Petrol Vehicles

(Paragraph 1·65—S. No. 5)

1 8. As transmission assemblies for Nissan Petrol worth Rs. 112·66 lakhs were imported during August 1974 to February 1980 without utilising fully the installed capacity in the country, the Committee had, in paragraph 1·65 of the Report desired.

> "The Committee note that while there were rejections of the assemblies produced in the Ordnance Factories, import of 420 sets of the assemblies for Nissan 1 ton vehicles in September 1974 and 3,110 sets for Nissan Petrol vehicles (1660 during August 1974—December 1975 and 1450 during February 1979 – February 1980) at a total cost of Rs. 112·66 lakhs (free on board) were arranged. Thus the factories could not supply the assemblies fully although the requirement was much less, considering the fact that the actual production of the vehicles during 1974-75 to 1979-80 ranged from 1550 to 4,170 for Nissan 1-ton and from 550 to 914 numbers for Nissan Petrol per annum, as against the installed capacity of 4200 number of Nissan 1-ton and 3,000 numbers for Nissan Petrol vehicles per annum. The Committee would await an explanation for the failure to meet even the grossly reduced demand for the assemblies."

1.9. In their reply dated 13 January, 1984 the Ministry of Defence have stated :

"The requirement of Shaktiman Transmission Assemblies has been fully met indigenously by Factory 'N' and Factory 'B'. In the case of Nissan 1-Ton vehicles, except for a one-time assistance ex-import in the year 1974-75, the requirement of Transmission Assemblies has been met fully from indigenous production by Factories 'N' and 'B'. Limited import of Transmission Assemblies for Nissan 1-Ton Vehicles was done to create a buffer stock and to provide production cushion to cover any contingency of failure by the supplying firms of input materials, like forgings, castings, etc. The development/manufacture of Transmission Assemblies for Nissan Petrol Vehicles was undertaken by Factory 'B' for the first time, after the establishment of production of Transmission Assemblies for Nissan 1-ton Vehicles because the production line of Nissan 1-Ton and Nissan Petrol Vehicles is common. In order to supplement the indigenous production and to meet increased requirements, a certain quantity of transmission Assemblies for Nissan Patrol had to be imported. The Import of Transmission Assemblies of Nissan Patrol Vehicles was reduced gradually over the period and finally stopped in the year, 1980."

1.10 The Committee are not satisfied with the reply of the Ministry that 'limited import of transmission assemblies for Nissan 1-ton vehicle was done to create a buffer stock and to provide production cushion to cover any contingency of failure by the suppliers of inputs like forgings, castings etc.' The actual production of the vehicles during 1974-75 to 1979-80 ranged from 1550 to 4170 for Nissan 1-ton and from 550 to 914 for Nissan Patrol per annum against the installed capacity of 4200 and 3000 vehicles per annum respectively. In the opinion of the Committee a rate of production which falls so far short of installed capacity should be a matter of serious concern. In any event there cannot be clearly any justification for importing transmission assemblies in a situation in which there was already idle capacity in the plant for their production. The Committee are not averse to bridging imports to meet the urgent needs of the Defence, but they cannot view with equanimity the imports of items, the demands for which could be met by Defence Production Units themselves.

Holding an enquiry in procurement of defective equipment from abroad

(Paragraph 2.37—Sl. No. 17)

1.11. As the Army had imported six defective units for meeting their urgent requirements for mobile communications and the entire deal had

resulted in not only financial loss to the Government involving heavy amount of foreign exchange but also proved infructuous as armed forces were denied a much needed facilities, the Committee had, in paragraph 2.37 of their Report, recommended—

> "From the above facts, it is quite clear that the entire deal has resulted in not only financial loss to the Government involving heavy amount of foreign exchange but also proved infructuous as the armed force have been denied a much needed facility for improved communicotion system. The Committee consider that the following acts of omission/commission in respect of the deal need to be thoroughly investigated by a high-powered team of officials drawn from the Ministry/Army Headquarters :
>
> (i) Whether it was really necessary to go in for import of the equipment and what efforts were made between 1971 and 1976 to get the equipment developed indigenously by M/s. BEL ?
>
> (ii) Was the selection of firm made judiciously and after taking into account its capability, past performance, technical expertise etc. ? How did the terms of the contract compare with the offers made by other firms in the field ?
>
> (iii) Considering that a number of defects were observed in the four equipments offered by the firm for pre-slipment inspection, why the remaining two equipments were not inspected any why the firm's inspection certificate was considered sufficient ?
>
> (iv) How the equipment developed further defects when the defects noticed during inspection were stated to have been rectified and modified by the firm ? Was the pre-shipment inspection adequate and whether there was any failure/connivance on the part of our inspectors with the foreign firm ?
>
> (v) Since the delay in delivery was not due to delay on the part of the inspectors in carrying out pre shipment inspection, why did the Ministry agree to reduce the amount of liquidated demages from the firm by US$ 45.076 ?
>
> (vi) What precautionary steps should be taken in order to ensure tha such situations are obviated ?

1.12 In their reply dated 21st January, 1985, the Ministry of Defence had intimated the Committee that an inquiry Committee headed by the Joint Secretary (G) of the Ministry of Defence, Shri K. A. Nambiar and comprising

Director of Staff Duties, Army Hqs., Lt. Gen. I. J. Khanna, Additional Financial Adviser, Shri B. S. Ramaswamy (now Director General, Employees State Insurance Corporation) and Director (Planning) Ministry of Defence, Shri A. N. Tiwari, examined the whole matter in considerable detail and submitted the Report. In evaluating the technical aspects of the subject, the Inquiry Committee was advised by Brig. B. N. Kapoor, Director, DEL, R & D Organisation The Government have accepted the findings of the Report and taken the following decisions :—

(a) To constitute a broad based committee of experts to advise on the whole procedure for import or equipments including their evaluation and inspections; and

(b) To obtain legal advice on further action against the supplier firm.

1.13. The acts of Omission and Commission pointed out by the Committee and the finding of the Inquiry Committee appointed by Government are given below seriatim :

"(i) Whether it was really necessary to go in for import of the equipment and what efforts were made between 1971 and 1976 to get the equipment developed indigenously by M/s. BEL."

Action Taken

The Government agree with report of the Inquiry Committee that the decision to go in for limited import of the tropscatter equipment simultaneously with its indigenous development through Bharat Electronics Ltd. was a sound decision in the circumstances in which it was taken.

(ii) Was the selection of firm made judiciously and after taking into account its capability, past performance, technical expertise etc. ? How did the terms of the contract compare with the offers made by other firms in the field ?

Action Taken

Government is of the view, that adequate precaution was taken to assess and ascertain the financial viability of the Aydin Energy Systems, before the orders for the import of the trapescatter equipment were placed on it.

We, however, feel that little more detailed enquiry by the Technical Evalution Committee and the Negotiating Committee regarding the veracity of

the claim of Aydin Energy Systems to be in possession of tried and tested system even at the stage of theoretical examination of the documents as produced by the various firms would have revealed that the claim was not sustainable.

As regards the terms of contract as offered by the various firms, it needs to be mentioned that neither the Technical Evaluation Committee nor the Negotiating Committee examined the 'Contracts as offered by the firms. What were examined, in face, were the quotations as given by each firm. As a detailed contract was already prepared and vetted in 1972, before it was concluded (with REL Reeves), it was perhaps decided that whichever firm finally received the approval would be made to agree to the terms of the contract. The Technical Evaluation Committee and Negotiating Committee, therefore, examined mostly the technical parameters of the equipment offered and negotiated the price.

As the contract negotiations were conducted only with Aydin Energy Systems and the other firms did not offer draft contracts, it has not been possible to compare the offers made by the other firms.

It needs to be mentioned here that since all other firms except Aydin Energy Systems were found not to possess the required equipment, the choice was confined only to one firm i.e. Aydin Energy Systems Following negotiations with Aydin Energy Systems, the value of the equipment was finally settled at US$ 2,947,655.28.

(iii) Considering that a number of defects were observed in the four equipments offered by the firm for pre-shipment inspection, why the remaining two equipments were not inspected and why the firm's inspection certificate was considered sufficient ?

Action Taken

Two equipments were accepted on firm's certificate because the stay of Resident Inspector deputed for inspection could not be extended. The two equipments accepted on the firm's certificate were no worse or no better than those inspected and cleared by the Resident Inspectors. In actual fact, the first shelter, which was one of those cleared for acceptance by the Resident Inspectors, had much higher percentage of defects than the rest including the two accepted on the Firm's certification.

(iv) How the equipment developed further defects when the defects noticed during inspection were stated to have been rectified and

modified by the firm ? Was the pre-shipment inspection adequate and whether there was any failure/connivance on the part of our inspectors with the foreign firm ?

Action Taken

The Government agree with the view of the Enquiry Committee which are as follows :

"As is seen from the history of the import of this equipment, even in the course of transit, it developed several defects. Such a thing happen only to an equipment which had not been manufactured according to the highest reliability standards. This fact also proved the correctness of the view of the Resident Inspectors, Col. Katkar and Mr. Rao who had raised serious doubts about the reliability of the equipment at the factory itself.

It is also our view that the Board of Officers who assembled to perform acceptance inspection on the equipment would not have been within their right to recommend for transfer to the field, equipment whose performance was derated although the contract was for a far higher level of performance.

We are, therefor, not prepared to go with the view that mere transfer of the equipment to the field would have ensured its serviceability. This view suffers from the defect of extreme optimum which is not saustained either by the history of the case or by the later events.

The Public Accounts Committee have asked us to examine how the equipment developed further defects when they were tried during specification trials in USA by the Government of India officers and the Government of India Inspectors.

Different views have been expressed on this issue. The AES (Aydin Energy Systems) has been taking the stand that they had delivered the equipment in fully fuctional state at USA to the Government of India Inspectors and that the defects developed during the transhipment of the terminals. They have also said that some defects were not actually defects as the paramaters applicable to them were totally subjective. They have even been blamed the mishandling by users for the defects in the equipment. They have also pointed out the non-availability of the test equipment to perform any satisfactory repair works even for minor defects. The Board of Officers assembled at COD Agra to examine the

equipment found one equipment in unserviceable state and five others having minor defects but serviceable.

As is clear by now the further defects in the equipment developed when Mr. Callins, the AES Engineer mishandledt hem."

(v) Since the delay in delivery was not due to delay on the part of the inspectors in carrying out pre-shipment inspection, why did the Ministry agree to reduce the amount of liquidated damages from the firm by US $ 45,076 ?

Action Taken

The Government agrees with the views of the Inquiry Committee which are as follows :

"It is obvious that the reduction in the amount of liquidated damages was agreed to as a compromise. By this time, the equipment had arrived at COD Agra and several defects were noticed in them. The Government of India were keen that the ASD must continue to depute their engineers to repair the equipment which were to meet opertionally pressing requirements of Army. A compromise on the amount of liquidated damages was, therefore, considered a preferable alternative to long drawn out and expensive legal proceedings to establish the respective contractual obligations and claims."

(vi) What precautionary steps should be taken in order to ensure that such situation are obviated ?

Action Taken

The Government endorsed the views of the Inquiry Committee which are as follows :

"(a) The technical and user evaluation report of the US Defence Force along with the data should have been examined by us before placement of contract.

(b) Since a large portion of the equipment was ab-initio development, the Technical Evaluation of the equipment through an inspection Evaluation of the equipment through an inspection agency on behalf of the Services should have been carried out after the equipment was successfully developed by the firm. A user trial should also have been done as it is done in case of indigenously developed equipment.

The technical evaluation report and the user trial report then should have been examined by technical people in order-to ensure that the equipment not only meets the user's requirements as laid down in the QR/ASR but also to ensure that the equipment is reliable and worthy of introduction into the Indian Army which operates in extremely varied environments.

(c) It would have been prudent to obtain a second opinion on the reliability aspect of the equipment. If this was done, probably the situation could have been mended in time.

(d) The continuity of the members who had done as part of the Government of India High Powered Team for the first time should have been maintained and the same team should have been sent the second time as well in order to ensure that the experience gained by the complete team during the first visit was fruitfully applied during their second visit. If it was done, the situation would have been different,

(e) Since this equipment was being purchased as a one time buy and a major sub-assembly was developed for the first time for the Indian Army, it would have been prudent to obtain not only the know how about the equipment but also about the design know how so that even if we had run into difficulty after receipt inspection we could have carried out the necessary repairs in the equipment so that the equipment could function satisfactorily and users could get a useable equipment.

(f) In all cases where the import of equipment is resorted to, it will be in our interest to obtain the design know why in addition to obtaining know how so that the equipment could be improved and future generation could be developed within the country. In addition, it will also help in trouble shooting, maintenance, defective investigation, etc. Although this cannot be done as a rule of thumb, yet in adopting negotiating strategies, this aspect could be kept in mind."

1.14. **In their earlier Report, the Committee had found that 6 units purchased from abroad in 1978 to meet the urgent requirements of the Defence Forces for mobile communication equipment by spending scarce foreign exchange had not been put to use all these years. The equipment could not be used because on its receipt when it was inspected by a Board of Officers, it was found to be defective and these defects could not be rectified. The Committee**

had pointed out a number of acts of omission/commission in respect of the deal and had recommended a thorough investigation by a high-powered team of officials drawn from the Ministry/Army Headquarters.

1.15. A perusal of the Report of the Inquiry Committee reveals that there were lapses on the part of the Technical Evaluation Committee, Negotiating Committee, the second team of Government officials, the Resident Inspector who cleared the item before pre-shipment and of officers who did not initiate legal action against the firm as early as in July/August 1979. The Inquiry Committee Report has unfortunately not pinpointed responsibility for the various irregularities. The Committee is therefore, compelled to reiterate their earlier recommendation that responsibility should be fixed for lapses at various stages.

1.16. The Committee are also concerned to note that the files in which the decision to withdraw the Resident Inspectors were taken and the circumstances under which two mobile equipments were accepted on satisfactory demonstration given by the firm, were not supplied to the Inquiry Committee. The reasons for not supplying the files to the Inquiry Committee need to be explained.

1.17. The Committee note that the Inquiry Committee which investigated the whole deal have suggested that precautionary steps be taken to obviate such recurrences in future and that legal advice be taken in order to initiate suitable legal proceedings promptly against the supplier firm, for their acts of omission and commission in supply and malfunctioning of equipments sold to the Army. The Ministry of Defence have informed the Committee that the Government have accepted the findings of the Report and have taken the following decisions :

(a) To constitute a broad based committee of experts to advise on the whole procedure for import of equipments including their evaluation and inspection ; and

(b) to obtain legal advice on further action against the supplier firm.

The Committee would like to know if action on both the counts mentioned above has been initiated, and what is the latest position in thisr egard.

1.18 The Committee had also stated in their earlier Report that this was not a solitary instance and there were 9 other cases of imports of defective equipments involving large amounts of foreign exchange during the period June 1976 to June 1981. The Committee would like to know whether the cases pointed out by them have been examined and if so, the outcome thereof.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

Though prior to 1974, reports regarding defects in the transmission assemblies were received from the user only occasionally, after 1974 reports were received from the users that a large number of transfer cases and gear boxes manufactured at these factories and fitted to the vehicles were noisy and suffered from other defects such as hard shifting, gear slipping etc. Simultaneously, these defects were also notice in inspection in 1974 during road test of these vehicles after assembly at Factory 'B' and the assemblies were rejected for rectification. According to Audit the rejection of assemblies during road test at Factory 'B' varied from 24 to 57% for Shaktiman ; 39 to 47% for Nissan 1-ton and 35 to 51% for Nissan Patrol vehicles during 1974 to 1979. The member, Ordnance Factory Board stated before the Committee that the total amount that had been spent for rectification of these rejected assemblies in both these factories was Rs. 17.27 lakhs upto the year 1981-82 and it was only 0.39% of the total value of sub-assemblies which had been manufactured. The fact however remains that the failure of the factories to manufacture these component to the requisite standard and quality has resulted not only in an infructuous expenditure of Rs. 17.27 lakh but has also resulted in the delay in the vehicles being put to use and considerable time had to be spent on rectification of these defects.

[S. No. 4, Appendix II—Para 1.64 of 151at Report of PAC (7th Lok Sabha).]

Action Taken

As has already been intimated to the Lok Sabha Secretariat out of a total pupulation of about 50,000 vehicles in operation with the users, only 276 gear boxes and 371 transfer cases were reported as having failed prematurely since 74. The data furnished by the Audit regarding rejection of the Assemblies was based on the Stage Inspection Reports, where the incidence of the defects of this nature could be high. The defects/deficiencies are corrected in cent percent cases by carrying out necessary re-adjust-

ments/recycling before issue of the vehicles to the user and the cost of re-work is comparatively smaller than the cost of the components. Such re-adjustment/re-cycling work is enescapable in the process of vehicle assembly and final issue to the Users. The defects were investigated and remedial measures were taken in the area of heat treatment. A tighter control on the manufacturing processes has also been introduced to improve the quality of production and also to reduce the incidence of re-work to cut down the time in putting the vehicle to use.

[Deptt. of Defence Production O.M. No. 13(4)/81/D(Projects) dated 13-1-1984]

Recommendation

The Ministry of Defence (Department of Defence Production) has stated that the defects reported by the users after 1974 were analysed thoroughly and a team of officers from Military College of Electronics and Me chanical Engineering Secunderabad was asked to investigate and submit their report. The gear boxes and the transfer cases produced at factory 'B' were also sent to the collaborators in West Germany and Japan for their expert opinion and suggestions to improve the quality. The Department had also studied the quality control and systems adopted in the automobile manufacturing concerns in the country such as Telco, Jamshedpur, M/s. Ashok Leyland, Madras and also obtained expert opinion of acknowledged Indian metallurgical experts. The Committee would like to know the details of reports received and measures taken for improvement in quality of production of the transfer cases and gear boxes and the effectiveness thereof.

[S. No. 8, Appendix II of Para 1.68 of 151st Report of PAC (7th Lok Sabha)]

Action Taken

The details of report/recommendations made by various teams are broadly enumerated below :—

1. *Study Report of team of officers from Military College of EME, Secenderabad.*

The study team from the College of Military Engineering (Electronics & Mechanical Engg.) has gone into the system of quality control prevailing at Factory (B) in 1974 and made a number of recommendations with a view to bringing about total/improved quality control system at Factory 'B',

Some of the major relevant recommendations are :

A. *Defect Analysis & Investigation.*

Defeats pertaining to design, materials or process will be investigated by Factory 'B' and others will be investigated by I Of V (CZ).

B. *Re-organisation of Inspection Department.*

The inspection department of Factory 'B' will be re-organised to perform all functions of toal quality control, Scientific methods like suitable sampling, Plan, Control charts, Vendor rating, SQC technique should be adopted in different areas of inspection of bought out/in process components.

C. *Training of Personnel*

Both in plant and specialised training on total quality control should be given to all levels of management and viewers/operators both belonging to Factory 'B' and I of V (CZ). The recommendations have been inplemented.

2. *Deputation of VFJ teams of Officers and staff to various gear manufacture in India namely Bharat Gears, Ramon & Demn. Hindustan Motors, Mahindra & Mahindra, Teleo & Premier Automobiles.*

The teams had broadly opined that the performance of the furnance and non-availability of certain machines without which components could not be manufactured as per the drawing tolerance were the main causes for noisy gear boxes. The types of Furnance used by various gear manufactures, as reported by the teams are given below :—

"*M/s. Mahindra & Mahindra—Sealed quench Gas carburising Furnance.*

M/s. Raman & Demn—Sealed quench Gas carburising Furnace.

M/s. Premier—Sealed quench Gas carburising furnace Automobiles.

M/s. Bharat Gears-Sealed quench Gas carburising furnance.
Action to procure the suggested machines/furnance is in hand.

III. *Sending (Factory 'B') GB/TC to collaborators* :—

This was done for collaborators' study to find out the causes of noise, the result of which was further discussed in details by the technical team during its visit to their works. Broadly following were the results of inspection of the assemblies.

MC GB/TC

Sample I Satisfactory.

Sample II—Unsatisfactory due to hitting noise on reverse gear.

DETAILS OF DEFECTS

(i) Gear tooch characteristics, roundness and finish or inner diameters of gear not found satisfactory.

(ii) Accuracy of synchro parts-not satisfactory.

(iii) Flatness and squereness of fixing surfaces of the cases not satisfactory.

(iv) Backlash found too low.

(v) Tightening torque of some components found too low.

(vi) Shifting powers for shifting 'in and 'Out' found too low.

Shaktiman TC

All the transfer cases (3 nos.) were found within acceptable limits, though they were near the border line.

Shaktiman GD

Gear Boxes were found to be noisy and causes for the some were mainly due to bad profile and helix.

The defects based on the inspection results of these samples were thoroughly studied by the technical team who finally recommended provisioning of certain machines and furnaces. Action is in hand to procure the same. The team had recommended additional control on half wroughts specially in regard to Techenical composition, micro structure, grain flow, inclusion rating, grain size, hardenability, tensile strength, impact strength etc. These have been implemented to the extent possible and will be fully implemented after completion of the project on Total quality control facilities, which is under execution.

[Deptt. of Defence Production O. M. No. 13 (4)/81/D Projects) dated 13-1-1984]

Recommendations

The Committee note that after the technical appreciation, factory 'B' proposed in January and February, 1975 augmentation of the heat treatment capacity and other facilities in the factory at a cost of Rs. 202.49 lakhs. However, before taking the final decision the Government sent a deputation of a technical team in June 1976 for a detailed study of the production process and inspection methods of the assemblies at the works of the collaborator at an estimated cost of Rs. 0.80 lakh. After protracted correspondence the Government sanctioned the procurement of additional machinery and equipment to replace the existing furnaces only in February 1980 at a cost of Rs. 292.85 lakhs including Rs. 125.81 lakhs in foreign exchange. Factory 'N' had also initiated action to provide additional plant and machinery at an estimated cost of Rs. 74.66 lakhs for the same purpose.

The Committee are surprised to find that it took more than 3 years for the proposal to be finally sanctioned as it continued to be shuttled from one Department of another. The result is that the work is now expected to be completed in 1984 only. The Committee cannot but conclude that a project to remove defects from such a vital equipment like heat treatment plant was not pursued by the authorities with the requisite promptness. The Committee would like such delays to be avoided in future.

[S. Nos. 9 and 10, Appendix II Para 1.69 and 1.70 of 151st Report of PAC (7th Lok Sabha]

Action Taken

The recommendations of the Committee have been noted. Itmay be mentioned that the project could not be sanctioned earlier as sufficient funds were not available in the plan 1974-79 and the project was sanctioned after adequate funds had been provided for this project in plan 1979-84.

2. It may be mentioned that all project proposals of the Ordnance Factories are now discussed in the High Level Committee Meeting and delays in sanctioning the projects are avoided.

[Deptt. of Defence Production O.M. No. 13 (4)/81/D (Projects) dated 13-1-1984]

Recommendation

In order to meet urgent requirements for mobile communication equipment, the Army and Air Force initiated a proposal in 1971 for the purchase of 34 units of such equipment. It was decided to import 14 units and for

the balance, orders were to be given to Bharat Electronics Ltd , to undertake indigenous manufacture. Of the equipment to be imported, 6 were for Army and 8 for the Air Force. Subsequently however, the Air Force did not go in for import but placed orders with Bharat Electronics Ltd. For procuring 6 units required for Army, a contract was concluded with a foreign firm in September, 1976. Although the equipment was scheduled for delivery within 10-12 months from the date of signing the contract, the equipment (6 units) was actually delivered by the firm during March-May 1978 i.e. after a delay of about 6-8 months. The equipment on receipt was inspected by a Board of Officers and was found to be defective and has not been repaired so far. The result is that the equipment which was purchased in 1978 by spending scaree foreign exchange to meet the urgent need of Defence Services has not been put to use all these years.

[*S. N. 13* : (*Para No. 2.33*) *of the Appendix to the 151st Report 7th Lok Sabha*)]

Action Taken

Please see action taken against recommendation No. 17

Para 2.37 (i) to (vi), since this is a background note to the issues which were referred to an Inquiry Committee as per recommendations of the PAC.

[Ministry of Defence O.M.NO.6 (10) 76/Ds(Systems) dated 20-9-1985]

Recommendation

The Committee regret to note that the entire deal has been handled by the concerned authorities in a very sordid manner. The initial requirement of the Defence forces was for 36 units (which was subsequently reduced to 34) out of which it was decided to import 6 units for the Army and for the balancce an order was placed with the public sector undertaking, Bharat Electronics Ltd., The Ministry have failed to advance any reason as to why the order for the equipment for the Army also could not be placed with the public sector undertaking except that the equipment was required on an urgent basis. However, subsequent events have proved that this urgent requirement of the Army has not been met so far as the equipment is still not in a working condition. The contention that the Army has not in any way suffered in the absence of this equipment, raises doubt in the mind of the Committee if the requirement of the Army for this equipment was really

so urgent as to necessitate its immediate import rather than wait for its development by indigenous sources, as in fact decided by the Air Force.

[*Serial No. 14* : (*Para No. 2.34*) *of Appendix to the 151st Report 7th Lok Sabha*]

Action Taken

Please see action taken against recommendation No. 17

Para 2.37 (i) to (vi) since this is a background note to the issue which were referred to an Inquiry Committee as per recommendations of the PAC.

As a result of lessons learnt during 1965 and 1971 operations, it was felt that our strike Corps headquarters were seriously handicapped due to our lack of capability to provide reliable and adequate communication linkages to higher headquarters. The requirements were, therefore, projected to procure troposcatter terminals to provide capability to link strike Corps headquarters to national communications network. As a result the necessity for import of 6 terminals was approved and orders for import were placed accordingly. The terminals were received late and were found defective. Since there were no active operation during the intervening period, there were no apparent adverse effects on our operational communication systems due to non-availability of these tropo terminals Nevertheless, the urgency, for early procurement was an operational necessity to ensure our operational readiness.

[Ministry of Defence O.M. No. 6 (10)/76/DS (Systems) dated 20-9-1985)]

Recommendations

As per the terms of the contract entered into with the foreign firm, the delay in delivery attracted liquidated damage of $ 1,05,076 but the firm was willing to accept damages only to the extent of $ 40,000 since according to them the delay was largely due to delay on the part of Indian authorities in carrying out inspection of the equipment. It was subsequently decided to reduce the amount of damages to $ 60,000 as an acceptable compromise. The Committee find that the inspectors deputed by the Army Headquarters stayed in USA for more than 10 months during which period only 4 units out of six were offered to them for inspection. In view of this, it is beyond comprehension how the contention of the firm that the delay in delivery was due to delay in carrying out inspection by the purchaser was accepted

and the amount of damages reduced. The Committee are also not at all convinced with the argument that the remaining two units could not be inspected as the period of deputation of the inspectors could not be extended.

[*Serial No. 15 (Para No. 2.35) of Appendix to the 151st Report 7th Lok Sabha*]

Action Taken

Please see action taken against recommendation No. 17 Para 2.37 (i) to (vi) since this is a background note to the issues which were referred to an Inquiry Committee as per recommendations of the PAC.

Out of six tropo terminals, two have already been repaired by M/s BEL, Ghaziabad They are now undertaking the repairs of the remaining four.

[Ministry of Defence O.M. No. 6 (10)/76/DS (Systems) dated 20.9.1985)]

Recommendation

The equipment was received during November 17, 1978—February 1979. On inspection by a Board of Officers, all the 6 units were found to be having deficiencies which the firm undertook to rectify. However, the equipment was damaged by the representative of the firm in such a manner that it has not been usable thereafter. Since then a number of representatives of the firm have visited the country and some of the sub-assemblies have been sent to the USA for repairs, but the equipment is still not in a working condition. In the mean time, the balance payment of $ 1,29,099 due to the firm has been withheld. The firm has refused to associate itself with any repairs unless the balance payment is made to them. Thus a stalemate has developed. In the meantime, repair of the equipment has been entrusted to M/s Bharat Electronics Ltd., Who are stated to be confident of doing the job.

[*Serial No. 16 (Para No. 2.36) of Appendix to the 151st Report 7th Lok Sabha.*]

Action Taken

Please see action taken against recommendation No. 17 Para 2.37 (i) to (vi) since this is a background note to the issues which were referred to an Inquiry Committee as per recommendations of the PAC.

[Ministry of Defence O.M. No. 6 (10)/76/DS (Systems) daied 20.9.1985]

Recommendation

From the above facts, it is quite clear that entire deal has resulted in not financial loss to the Government involving heavy amount of foreign exchange but also proved infructuous as the armed forces have been denied a much needed facility for improved communication system. The Committee consider that the following acts of omission/commission in respect of the deal need to be thoroughly investigated by a high-powered team of officials drawn from the Ministry/Army Headquarters :

[*Serial No. 17 (Para No. 2.37) of the Appendix to the 151st Report 7th—Lok Sabha.*]

Para 2.37 (i) Whether it was really necessary to go in for import of the equipment and what efforts were made between 1971 and 19 6 to get the equipment developed indigenously by M/s BEL.

Action Taken

"The Government agree with the report of the Inquiry Committee that the decision to go in for limited import of the troposcatter equipment simultaneously with its indigenous development through Bharat Electronics Ltd. was a sound decision in the circumstances in which it was taken."

Para 2.37 (ii) Was the selection of firm made judiciously and after taking into account its capability, past performance, technical expertise etc. ? How did the terms of the contract compare with the offers made by other firms in the field ?

Action Taken

Government is of the view, that adequate precaution was taken to assess and ascertain the financial viability of the Aydin Energy Systems, before the orders for the import of the troposcatter equipment were placed on it.

We, however, feel that little more detailed enquiry by the Technical Evaluation Committee and the Negotiating Committee regarding the veracity of the claim of Aydin Energy Systems to be in possession of tried and tested system even at the stage of theoretical examination of the documents as

produced by the various firms would have revealed that the claim was not sustainable.

As regards the terms of contract as offered by the various firms, it needs to be mentioned that neither the Technical Evaluation Committee nor the Negotiating Committee examined the 'Contracts as offered by the firms. What were examined, in fact, were the quotations as given by each firm. As a detailed contract was already prepared and vetted in 1972, before it was concluded (with REL Reeves), it was perhaps decided that whichever firm finally received the approval would be made to agree to the terms of the contract. The Technical Evaluation Committee and Negotiating Committee, therefore, examined mostly the technical parameters of the equipment offered and negotiated the price.

As the contract negotiations were conducted only with Aydin Energy Systems and the other firms did not offer draft contracts, it has not been possible to compare the offers made by the other firms.

It needs to be mentioned here that since all other firms except Aydin Energy Systems were found not to possess the required equipment, the choice was confined only to one firm i.e. Aydin Energy Systems. Following negotiations with Aydin Energy Systems, the value of the equipment was finally settled at US $ 2,947,655.28.

Para 2.37 (iii) : Considering that a number of defects were observed in the four equipments offered by the firm for pre-shipment inspection why the remaining two equipment were not inspected and why the firm's inspection certificate was considered sufficient ?

Action Taken

Two equipments were accepted on firm's certificate because the stay of Resident inspector deputed for inspection could not be extended. The two equipments accepted on the firm's certificate were no worse or no better than those inspected and cleared by the Resident Inspectors. In actual fact the first shelter, which was one of those cleared for acceptance by the Resident Inspectors, had much higher percentage of defects than the rest including the two accepted on the Firms' certification.

Para 2.37 (iv) : How the equipment developed further defects when the defects noticed during inspection were stated to have been rectified and modified by the firm ? Was the pre-shipment inspection adequate and whether there was any failure/connivance on the part of our inspectors with the foreign firm ?

Action Taken : The Government agree with the views of the Enquiry Committee which are as follows :

"As is seen from the history of the import of this equipment, even in the course of transit, it developed several defects. Such a thing could happen only to an equipment which had not been manufactured according to the highest reliability standards. This fact also proved the correctness of the view of the Resident Inspectors, Col. Katkar and Mr. Rao who had raised serious doubts about the reliability of the equipment at the factory itself.

It is also our view that the Board of Officers who assembled to perform acceptance inspection on the equipment would not have been within their right to recommend for transfer to the field, equipment whose performance was derated although the contract was for a far higher level of performance.

We are, therefore, not prepared to go with the view that mere transfer of the equipment to the field would have ensured its serviceability. This view suffers from the defect of extreme optimism which is not sustained either by the history of the case or by the later events.

The Public Accounts Committee have asked us to examine how the equipment developed further defects when they were tried during specification trials in USA by the Government of India officers and the Government of India Inspectors.

Different views have been expressed on this issue. The AES (Aydin Energy Systems) has been taking the stand that they had delivered the equipment in fully functional state at USA to the Government of India inspectors and that the defects developed during the transhipment of the terminals. They have also said that some defects were not actually defects as the parameters applicable to them were to tally subjective. They have even been blamed the mishandling by users for defects in the equipment. They have also pointed out the non-availability of the test equipment to perform any satisfactory repair works even for minor defects. The Board of Officers assembled at COD Agra to examine the equipment found one equipment in unserriceable state and five others having minor defects but serviceable.

As is clear by now the further defects in the equipment developed when Mr. Callins, the AES Engineer mishandled them".

Para. 2.37 (v) Since the delay in delivery/was not due to delay on the part of the inspectors in carrying out pre-shipment

inspection, why did the Ministry agree to reduce the amount of liquidated damages from the firm by US $ 45,076.

Action Taken : The Government agrees with the views of the Inquiry Committee which are as follows :—

"It is obvious that the reduction in the amount of liquidated damages was agreed to as a compromise. By this time, the equipment had arrived at COD Agra and several defects were noticed in them. The Government of India were keep that the ASD must continue to depute their engineers to repair the equipment which were to meet operationally pressing requirements of Army. A compromise on the amount of liquidated damages was, therefore, considered a preferable alternative to long drawn out and expensive legal proceedings to establish the respective contractual obligations and claims".

Para 2.37 (vi) What precautionary steps should be taken in order to ensure that such situation are obviated ?

Action Taken : The Government endorsed the views of the Inquiry Committee which are as follows :

"(a) The technical and user evaluation report of the US Defence Force along with the data should have been examined by us before placement of contract.

(b) Since a large portion of the equipment was *ab initio* development, the Technical Evaluation of the equipment through an inspection agency on behalf of the Services should have been carried out after the equipment was successfully developed by the firm, A user trial should also have been done as it is done in case of indigenously developed equipment. The technical evaluation report and the user trial report then should have been examined by technical people in order to ensure that the equipment not only meets the user's requirements as laid down in the QR/ASR but also to ensure that the equipment is reliable and worthy of introduction into the Indian Army which operates in extremely veried environments.

(c) It would have been prudent to obtain a second opinion on the reliability aspect of the equipment. If this was done, probably the situation could have been mended in time.

(d) The continuity of the members who had gone as part of the Government of India High Powered Team for the first time should have been maintanied and the same team should have been sent the second time as well in order to ensure that the experience gained by the com-

plete team during the first visit was fruitfully applied during their second visit. If it was done, the situation would have been different.

(e) Since this equipment was being purcha sed as a one time buy and a major sub-assembly was developed for the first time for the Indian Army, it would have been prudent to obtain not only the knowhow about the equipment but also about the design know how so that even if we had run into difficulty after receipt inspection, when could have carried out the necessary repairs in the equipment so that the equipment could function satisfactorily and users could get a useable equipment.

(f) In all cases where the import of equipment is resorted to, it will be in our interest to obtain the design know why in addition to obtaining know how so that the equipment could be improved and future generation could be developed within the country. In addition, it will also help in trouble shooting, maintenance, defect investigation, etc. Although this cannot be done as a rule of thumb, yet in adopting negotiating strategies, this aspect could be kept in mind."

[Ministry of Defence O.N. No. 6 (10) 76/Ds (systems) dated 20.9. 1985].

CHAPTER III

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

Recommendations

The Collaboration Agreement with M/s. MAN, West Germany and M/s. Nissan Motors, Japan were for the transfer of technical know-how and supply of components etc. The Committee note that the Factory 'N' established the manufacture of transmission assemblies (consisting of gear boxes and transfer cases) for Shaktiman and Nissan-1-ton vehicles during 1959-63 and 1970-73 respectively and Factory 'B' established their manufacture of Shaktiman in 1969 ; for Nissan 1-ton in 1973 and Nissan Patrol in 1975. Had the Government established only one factory for manufacturing the transmission assemblies, necessary experties would have been developed and the factory could have enjoy the benefit of economics of scal. The Committee would like to know the reasons for setting up facilities in two factories for production of transmission assemblies.

[S. No. 3, Appendix II-Para 1.63 of 151st Report of PAC (7th Lok Sabha)]

Action Taken

As already explained to the PAC in the oral evidence, before the establishment of an integrated Factory 'B' for production of vehicles, the production of various components was undertaken in a number of Factories. The Transmission Assembly was being produced at Factory 'N'. Thus the manufacture of Transmission Assemblies at Factory 'N' started much earlier than the establishment of Factory 'B'. According to the original planning, it was envisaged that the facilities created at Factory 'N' would be transferred to Factory 'B'. However, since manufacture of these assemblies for vehicles at Factory 'N' would form a steady base of work and transfer to Factory 'B' would have created attendant problems it was decided subsequently to continue the manufacture of the transmission assemblies at Factory 'N' and balance facilities were created at Factory 'B'.

[Deptt. of Defence Production O. M. No. 13 (4)/81/D (Projects) dated 13-1-1984]

Recommendation

The Committee note form the Audit Paragraph that the Director of Inspection (vehicles) stated in November, 1974 that the main reasons for heavy rejections of the transmission assemblies were inadequate heat treatment of the components and bad manufacturing techniques of factory 'B'. He also stated that the lapping of gears envisaged in the drawings was not being done, However, the Department of Defence Production have stated that 'lapping is not provided by the collaborators and this process is not being adopted in their production lines'. As both of the above statements are inconsistent, the Committee desire to know the factual position in this regard.

[S. No. 6, Appendix II, Para 1.66 of 151st Report of PAC (7th Lok Sabha).]

Action Taken

In order to resolve the problem of noise in Gear Boxes as reported by the users, the DIV suggested that introduction of lappnig operation for finishing of Gears might improve the quality. Initially Factory 'B' also shared this view. However, this was neither specified in the Drawing, nor was the conclusion based on any technical analysis of the main problem of noise in Gear Boxes.

2. The problem was subsequently studied in depth and following points were revealed :

(i) Lead and profile of Gears were getting distorted during heat treatment due to inconsistent performance of the furnaces.

(ii) Gear lapping process is the operation where hardened gears are meshed with lapper gear and then run by adding lapping paste or powder (220-280 grit of Carborandum lapping compound). This operation polishes and removes high sports and thus improves the surface finish of the gear teeth. This essentially a process to polish the gears and cannot remove any materials to correct the distortion, if any, in lead and profile occurring due to defect in heat treatment. This aspect was subjected to laboratory tests and it was found that Gears suffered distortion in heat treatment, before lapping operation and after lapping operation respectively. This result confirmed that the distortions cannot be overcome by lapping operation.

(iii) It was reported by an officer who was deputed to the works of the Collaborator for Nissan Vehicles that no gear lapping is carried out by them.

(iv) In regard to Shaktiman Vehicles, a team of officers which visited the works of MAN, stated as under :—

"Even in ZF where a high degree of accuracy in shaving and consistent heat treatment process is adopted, about 10 to 20% of gears are found noisy due to distortion or other reasons, such are corrected by grinding the gears in 'Reishauer' gear grinding machine and 'Churchil' gear grinding machines for shafts"

3. In view of the above, it was finally concluded that improvement had to be done in the process/facilities for heat treatment for which sealed quench furnace is being procured.

[Deptt. of Defence Production, O. M. No. 13 (4)/81/D (Projects) dated 13-1-1984]

Recommendation

The Committee note that factory 'K' supplied about 6,704 sets and 5,578 sets of road springs for Nissan 1-ton and Nissan patrol vehicles respectively to factory 'A' during 1961 to 1971 and about 227 sets of the former and 893 of the latter to factory 'B' during 1970 and 1974. No complaints were received till December 1973 from the users regarding quality of road springs supplied by factory 'K' although the factory was manufacturing these sets through general engineering method. The Committee are surprised to know that whereas factory 'A' had used all the road springs except 596 sets for Nissan patrol vehicles, factory 'B' informed factory 'K' in January 1974 of rejection of the road springs in inspection at the stage of final passing of vehicles due to high camber and shorter span. Later in June 1975 factory 'B' apprised that DGOF that their rectification was not possible. Apprehending that further supplies would be rejected by factory 'B' no further supplies were made by factory 'K' after 1974 and therefore factory 'B' suggested short closure of the pending orders on factory K'. The Ministry has explained that these road springs were not of the requisite standard as factory 'K' did not have the requisite facility. Now the requirements of road springs are being fully met ex-trade. The Committee would like to know as to why proper facilities were not provided in factory 'K' for producing the road springs before earmarking the production. The Committee also desire to know whether switchover from factory 'K' to private trade was examined in depth from the point of comparative cost.

[S. No. 11, Appendix II, Para 1.71 of 151st Report of PAC (7th Lok Sabha)]

Action Taken

Initially Factory 'A' undertook vehicle assembly with the support of various Ordnance Factories for supplying different components to be manufactured by utilising their spare capacity only. Accordingly, Factory 'K' commenced manufacture of road spring by utilising spare capacity as available with them at that time without going in for any additional capacity for provisioning of requisite facilities exclusively for manufacture of road springs expect one testing M/C. Later on, it was felt that manufacture of road spring at Factory 'K' would no longer be necessary due to the following reasons :—

(a) The factory manufacture was on general engineering method.

(b) Trade cost was cheaper than the Factory cost.

(c) Adequate trade sources had come up.

2. The switch over from Factory 'K' to private trade was resorted to since the trade cost was cheaper, as would be found from the following particulars :—

Item	Factory cost in 1973-74	Trade cost in 1973	Trade cost in 1975
1. N C. Spring (Vehicle set)	2372.74	498.00	968.00
2. N.P. Spring (Vehicle set)	2291.16	368.00	601.00

3. It will be seen that the switchover from Factory 'K' to civil trade was made on the basis of comparative costs. Setting up new facilities for the springs in Factory 'B' or any other Factory would have entailed heavy capital investment, which was not called for, because indigineous sources in the trade had come up and were in a position to supply the item at comparatively cheaper rates.

[Deptt of Defence Production, O.M. No. 13 (4)/81/D (Projects) dated 13-1-1984]

CHAPTER IV

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

Recommendation

The Committee note that the production of Shaktiman vehicles in the country started in 1959 after collaboration agreement was concluded with M/s. MAN in September 1958. Manufacture of Nissan vehicles started in 1961-62 after a separate collaboration was concluded for these vehicles with M/s. Nissan Motors, Japan. The production of various components of these vehicles was undertaken in a number of factories with individually or jointly contributed to the manufacture of component which were finally assembled at factory 'A'. After 1962 conflict, the requirements of Army in armaments stores increased manifold necessitating a review of production of armaments stores and vehicles for meeting increased requirements of army in the then existing factories. A decision was taken to set up a separate integrated factory for manufacture of vehicles. The Government accordingly sanctioned a project in November, 1965 at a cost of Rs. 46.84 crores for manufacture of Shaktiman, Nissan-1 ton and Nissan Patrol vehicles. The installed capacity of the factory 'B' as per Detailed Project Report, was 13200 in a mix of 6000 Shaktiman and 7200 Nissan vehicles. However, the total production of the vehicles during 1970-71 to 1981-82 (12 years) has been 70534 numbers and the production in 1981-82 was only 7,970 vehicles (consisting of 3,670 Shaktiman vehicles, 3100 Nissan carrier and 1200 Nissan Patrol). A projects to augment the capacities of the factory to 10,000 vehicles per annum has been sanctioned in January, 1982 by provisioning of balancing plant and equipment and civil works at an estimated cost of Rs. 8.48 crores.

[S. No. 1 of Appendix II, Para 1.61 of 151st Report of PAC (7th Lok Sabha)].

Action Taken

It is true that according to the detailed Project Report, the installed capacity of Factory 'B' was for production of 13,200 vehicles per annum in a mix of 6,000 Shaktiman and 7,200 Nissan Vehicles. The actual achievable

capacity at Factory 'B' was, however, not more than 8,000 vehicles per annum, mainly due to the following reasons :—

(i) Lower productivity of indigenous machines actually procured in lieu of imported machines provided in the detailed Project Report.

(ii) Extra machining time required as compared to the time provided in the Project Report, due to inferior quality of indigenous forgings/ castings etc., which restricted the maching capacity at Factory 'B'.

(iii) Changes made in the Production-mix, as certain items which were planned to be "bought out" items, according to the Project Report are being manufactured at Factory 'B' and *vice-versa*..

2. Some of the other constraints in the capacity of Factory 'B' are as under :—

(a) *Shortage of Power* :

The shortage of power is one of the constraints in increasing the vehicle production at Factory 'B'. Further, frequent load shedding and power interruptions have adversely affected the Factory 'B'. It may be mentioned that during the period September, 82 to February 83, there were 44 cases of power interruptions resulting in about 10 hours loss of production and 15 cases of load seddling/voltage fluctuations resulting in loss of about 155 man hours.

(b) *Inadequate supply of components by Indigenous Suppliers etc* :

The supply of components/forgings from the indigenous suppliers have not been adequate due to adverse labour situation in Trade firms. For example, in 1982-83, there were strikes and lock outs at the Suppliers Works viz. ISR Thana (approximately 3 weeks in April, 82), M/s. Sankey Wheels, Durgapur (From 10.2.82 to 19.7.82) and M/s. Corula Rubber Co., Aurangabad for about 3 months, as a result of which supply of critical components were adversely affected.

3. The question regarding actual achievable capacity at Factory 'B' was investigated by an independent Technical Committee appointed by Govt. of India, which corroborated that the achievable capacity was not more than 8,000 vehicles per annum at Foctory 'B'.

4. On a technical assessment of the plant & equipment it was found that if certain balancing plant and equipment in certain sectors were provided, the production level at Factory 'B' could be increased to 9,000-10,000 vehicles pea annum. Government have sanctioned in January 1982, balancing Plant and Equipment and connected civil works at a cost of Rs. 8.48

crores. This project, after completion will enable the Factory 'B' to give an out put of 9,000-10,000 vehicles per annum from 86-87 onwards.

[Deptt. of Defence Production O.M. No. 13(4)/81/D (Projects) dated 13.1.1984]

Recommendation

The Committee are shocked that although original installed capacity of the vehicle Factory was 13,200 the actual production in the Factory has been much less. The maximum production achieved in any year was 8,576 vehicles in 1976-77. The Factory has a huge outstanding demand of 45,985 from the army consisting of 22,022 Shaktiman, 10677 Nissan 1-ton and 13,286 Nissan Jonga vehicles. Clearly all is not well with the setting up of this factory and its operation. The Committee recommend that Government should look into the deficiencies in this regard and take necessary corrective measures so that at least after the provisioning of balancing plant and equipment at an estimated cost of Rs. 8.48 crores, the factory is able to achieve the production target envisaged.

[Sl. No. 2, Annexure II-Para 1/62 of 151st Report of PAC (7th Lok Sabha)]

Action Taken

The reasons for actual production at Factory 'B' being lower than the installed capacity have been explained in the Action Taken Note against Sl. No. 1. Government have also sanctioned in January 1982 a Project to augment the capacities of Factory 'B' from the present achievable level of 8,000 per annum to 9,000-10,000 vehicles per annum.

2. On the basis of the recommendations made by the Rajvadhyaksha Committee, the powers of the General Manager of Factory 'B' have been enhanced and also the powers have been delegated down the line up to the level of Deputy Manager in order to enable the Factory to ensure regular flow of components/materials etc. to optimise the production in the Factory. A "vendor-rating" system has been introduced in the Factory 'B' to improve the procurement system.

3. With the above steps and with the augmentation project having been sanctioned, it would be possible for the Factory 'B' to achieve to production targets envisaged. The augmentation project is proceeding according to schedule and will be completed by 86-87.

[Deptt. of Defence Production O.M. No. 13(4)/81/D (Projects) dated 13.1.1984]

Recommendation

The Committee note that while there were rejections of the assemblies produced in the Ordinance Factories, import of 420 sets of the assemblies for Nissan 1-ton vehicles in September 1974 and 3,110 sets for Nissan Patrol vehicles (1660 during August 1974-December, 1975 and 1450 during February 1979-February 1980) at a total cost of Rs. 11266 lakhs (free on board) were arranged. Thus the factories could not supply the assemblies fully although the requirement was much less, considering the fact that the actual production of the vehicles during 1974-75 to 1979-80 ranged from 1550 to 4,170 for Nissan 1-ton and from 550 to 914 numbers for Nissan patrol per annum, as against the installed capacity of 4200 numbers of Nissan 1-ton and 3,000 numbers for Nissan patrol vehicles per annum. The Committee would await an explanation for the failure to meet even the grossly reduced demand for the assemblies.

[Sl. No. 5, Appendix II-Para 1.65 of 151st Report of PAC (7th Lok Sabha).]

Action Taken

The requirement of Shaktiman Transmission Assemblies has been fully met indigenously by Factory 'N' and Factory 'B'. In the case of Nissan 1 Ton Vehicle, except for a one-time assistance ex-import in the year 1974-75, the requirement of Transmission Assemblies has been met fully from indigenous production by Factories 'N' and 'B'. Limited import os Transmission Assemblies for Nissan 1 Ton Vehicle was done to create a buffer stock and to provide production cushion to cover any contingency of failure by the supplying firms of input materials, like forgings, castings etc. The development/manufacture of Transmission Assemblies for Nissan Patrol Vehicles was undertaken by Eactory 'B' for the first time, after the establishment of production of Transmission Assemblies for Nissan 1 Ton Vehicles because the production line of Nissan 1 Ton and Nissan Petrol Vehicles is common. In order to supplement the indigenous production and to meet increased requirements, a certain quantity of Transmission Assemblies for Nissan Patrol had to be imported. The import of Transmission Assemblies of Nissan Patrol Vehicles was reduced gradually over the period and finally stopped in the year, 1980.

[Deptt. of Defence Production O.M. No. 13(4)/81/D (Projects) dated 13-1-1984]

CHAPTER V

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

Recommendation

After a technical appreciation of the problems, factory 'B' also intimated the Director General, Ordinance Factories in January 1975 that the defects were due to defective equipments in the heat treatment plant, non-availability of lapping machines and inadequate inspection facilities in the factory. The Committee are concerned to note that indigenous furnaces were installed in 1971 without fully ensuring their suitability. The Committee would like to know what remedial action was taken to improve the performance of the heat treatment plant The Committee are in favour of use of indigenous machinery. They however feel that quality of production particularly in a field like Defence should have been ensured. The Committee would therefore like to know how the defective furnaces were accepted, what action was taken against the firm for supplying defective furnaces and whether liquidated damages were recovered from the firm. The Committee would also like to know whether the reasons for the failure of DGTD in this case have been fully gone into and if so, what the findings are.

[S. No. 7, Appendix II of Para 1.67 of 151st Report of PAC (7th Lok Sabha).]

Action Taken

In the Detailed Project Report for setting up Factory 'B', it was envisaged that the furnaces would be imported. However, the DGTD did not clear the import proposal and advised that the offer of M/s. Therelek Furnaces should be considered. The furnaces available with this company were evaluated but were found to be not meeting the requirements. Subsequently in Dec. 67, DGTD advised that M/s. AEI (GEC) and couple of other firms should be approached as these firms were the leading manufacturers of furnaces and had experience of supplying Gas Carburising furnaces to the specifications required. On the basis of technical evaluation of the various offers, it was decided to purchase the furnaces from M/s. AEI (GEC) which was considered the best of the lot.

2. All possible steps were taken to ensure that furnaces to the required specifications were supplied by the indigenous suppliers. Most of the furnaces in the country are made under collaboration with foreign suppliers but still the quality of the furnaces indigenously manufactured is not consistent. DGTD advised procurement of the furnaces from indigenous sources and as such there was no failure on the part of DGTD However, DGTD has been advised to furnish a complete report on this aspect, which will be sent to PAC, as soon as received. After these indigenous furnaces were put into operation for heat treatment of critical components, Factory 'B' held a number of meetings with the Supplier and certain decisions were taken to carry out rectification to the extent possible. Meanwhile, Factory 'B' had to continue production with the existing furnaces. There was no question of charging liquidated damages from the supplier, as the machines supplied by them were not defective but did not give consistency in heat treatment, due to basic design parameters. A Technical Team was appointed to investigate and make recommendations. Based on the recommendations of the Technical Team, it has been decided to introduce Sealed Quench Furnace which are expected to resolve the problem of heat treatment. Necessary procurement action is in hand by Factory 'B'.

[Deptt. of Defence Production O.M. No. 13(4)/81/D (Projects) dated 13 1.1984]

Recommendation

Out of the supplies of factory 'K' (1489 sets for Nissan Patrol and 227 sets for Nissan 1-Ton vehicles) including the 596 sets transferred from factory 'A', 1180 numbers of front springs and 1286 numbers of rear springs the total cost of which was 5.91 lakhs were lying rejected at Factory 'B' Out of these road springs 786 numbers of the former and 1083 numbers of the latter cost of which is Rs. 4.37 lakhs were returned to factory 'K' in November, 1976 and February, 1977 a part of which (628 numbers of front springs and 638 numbers of rear springs) was melted in March, 1978 as scrap. The total loss due to rejection and short closure of pending orders at Factory 'K' was Rs. 8.51 lakhs. The Departmnt of Defence Production has stated that the final amount of loss to be regularised by the competent financial authority would be arrived at after the value of scrap recovered was known. The Committee cannot but express their unhappiness at this heavy loss due to defective planning of the department. They would like to be apprised of the total amount of loss incurred on this account.

[Serial No. 12, Appendix II, para 1.72 of 151st Report of PAC (7th Lok Sabha[

Action Taken

A reply will follow.

[Deptt. of Defence Production O.M. No. 13(4)/81/D (Projects) dated 13.1.1984]

Recommendation

The Committee desire that the enquiry should be completed expeditiously and responsibility fixed for lapses at various stages. The results of enquiry as well as details of the action taken on the same should be intimated to the Committee within six months. The Committee would also like to be apprised of the outcome of the claim for Rs. 3.37 lakhs preferred against the shipping agent for short landing/damages found in certain packages.

[Serial No. 18 (Para No. 2. 38) of Appendix to the Public Accounts Committee 151st Report 1982-83 (7th Lok Sabha]

Action Taken

As suggested by the Inquiry Committee, action has been initiated to take legal advise to see whether there is scope for suitable legal proceedings against the supplier firm for their acts of omissions and commissions in supplying mal-functioning equipment to the Army. Further action would be taken on the advice of the Legal Adviser.

The names and designations of the members of the Technical Evaluation Committee, Negotiating Committee and the second Government of India team are given in the Annexure.

The Inquiry Committee appointed for the purpose was of the view that it was difficult to fix responsibility on any one individual or a group of individual as according to it, the very process of importing the equipment had built-in defects because it did not have adequate safeguards for the customer's interest. It also observed that there was conspicuous haste in clearing the requirements for imports. It also opined that the subjective judgement of the people taking decision on an earlier point of time could not be adequately assessed at a later date. It has, therefore, recommended that procedures for import of equipment should be gone into and sufficient safeguards built to obviate import of mal-functioning or non-functional equipments. The Government have taken action and a Committee is being appointed to suggest necessary ways and means in this regard.

As regards the point of not sending Wg. Cdr S.C. Basu who gave a note of dissent in the first Govt. of India team, with the second COI team, it may be mentioned that a proposal of sending a three-member GOI team comprising of DG, Telecommunication, DPIL and representative of DRDO was processed but the Screening Committee while approving the deputation abroad had approved a team of only first two members *i.e.* Brig. B.S. Paintal (later Maj Gen) who retired on 8 10.83 and Brig. B. Bhasin, DPIL who retired from service on 31.5.80.

The Committee also desired to be apprised of outcome of the claims for Rs. 3.37 lakhs preferred against the shipping agent for short landing and damages found in certain packages. The Embarkation HQrs. have preferred a claim for Rs. 3.369 lakhs against Bombay Port Trust. The Bombay Port Trust has agreed to accept 60% liability of the total amount. The case is, however, under negotiation for increased compensation.

[Ministry of Defence O.M. No. 6 (10)/76/DS (Systems) dated 20.9.1985]

ANNEXURE

LIST OF THE MEMBERS OF THE NEGOTIATING COMMITTEE

D (Tels)	—	Brig. B.S. Paintal
CCR&D (E)	—	Maj. Gen. K.K. Mehta
Dir (Tech) DOE	—	Dr. N.W. Nerurkar
JS (A)	—	Shri K.R. Baliga
Addl. FA (J)	—	Shri Amar Nath Joshi
DDRCPO	—	AVM C.L. Mehta
ADAS (SYSTEMS)	—	AVM Sabarwal
GM, BEL (GAD)	—	

LIST OF THE MEMBERS OF THE TECHNICAL COMMITTEE

CSE, RCPO	—	Air Cdre. S. Chandramowle
Project Director	—	Brig. A. Basu
Plan AREN		
Rep Air HQrs.	—	Wg. Cdr. K. Ramakumaran
DD (ADGES)		
Rep Army HQrs.	—	Maj. B.K. Kataria
Rep DRDO DD(R)	—	Wg Cdr. V.J. Carve

JD, DOE	—	Shri R.K. Srivastava
Rep BEL (GAD)	—	Shri S. Krishna Rao

Second Goi Team

Rep. of D (Tels)	—	Brig. B.S. Paintal
Rep. of DPIL	—	Brig. B. Bhasin

Recommendation

The Committee note with concern that this is not a solitary instance-9 other cases of imports of defective equipment involving large amounts of foreign exchange during the period June 19/6 to June 1981 have been reported to the Committee. The Committee would like the Ministry of Defence to examine in depth the reasons for defective supply in each case and take appropriate measures to streamline the procedure for procurement and inspection of equipment and stores from abroad.

[Serial No. 19 (Para No. 2.39) of the Appendix to the Public Accounts Committee 151st Report 1982-83 (7th Lok Sabha)]

Action Taken

To effect improvement in procedures for procurements to avoid any lapses in future, a Committee of experts to advise on the whole procedure for imports of equip- ments including their evaluation and inspection is being formulated.

[Ministry of Defence O.M. No. 6(10)/76/DS(Systems) dated 20.9.1985]

E. AYYAPU REDDY,

NEW DELHI :
March 4, 1906
Phalguna 13, 1907 (Saka)

Chairman,
Public Accounts Committee.

PART II

MINUTES OF THE 47TH SITTING OF THE COMMITTEE ON PUBLIC ACCOUNTS HELD ON 27 FEBRUARY, 1986 (AN)

The Committee sat from 15.30 hours to 16.45 hours.

PRESENT

Shri E. Ayyapu Reddy—*Chairman*

MEMBERS

Lok Sabha

2. Shri J. Chokka Rao
3. Shri Amal Datta
4. Shri Ranjit Singh Gaekwad
5. Shri Vilas Muttemwar
6. Shri G. Devaraya Naik
7. Shri Rajmangal Pande
8. Shri H.M. Patel
9. Shrimati Jayanti Patnaik
10. Shri Simon Tigga
11. Shri Girdhari Lal Vyas

Rajya Sabha

12. Shri K.L.N. Prasad

SECRETARIAT

1. Shri K.H. Chhaya—*Chief Financial Committee Officer*
2. Shri Krishnapal Singh—*Senior Financial Committee Officer*
3. Shri Brahmanand—*Senior Financial Committee Officer*
4. Shri O.P. Babal—*Senior Financial Committee Officer*

REPRESENTATIVES OF THE OFFICE OF C & AG

1. Shri T.M. George—*Addl. Dy. C & AG of India*
2. Shri D.K. Chakrabarty—*Director of Audit (Central Revenue)*
3. Shri M. Parthasarathy—*Director of Audit (Defence Services)*
4. Shri V. Sundaresan—*Director of Receipt Audit-I*
5. Shri Gopal Singh—*Joint Director of Audit*
6. Shri B.S. Gill—*Joint Director of Audit (Defence Services)*
7. Shri P.N. Misra—*Joint Director (Railways)*

2. The Committee considered the following draft Action Taken Reports and adopted them with certain modifications as shown in Annexure...VI respectively.

*** *** ***

(6) Draft Report on Action Taken on the recommendations contained in 151st Report (Seventh Lok Sabha) regarding manufacture of defective components for vehicles and procurement of defective equipment from abroad.

The Committee authorised the Chairman to finalise the draft Reports in the light of the above modifications and other verbal and consequential changes arising out of factual verification by Audit and present them to the Parliament.

The Committee then adjourned.

ANNEXURE VI

Modifications/Amendments made by the Public Accounts Committee in the draft Report on Action Taken on the recommendations contained in 151st Report of PAC (Seventh Lok Sabha) regarding manufacture of defective Components for vehicles and Procurement of defective equipment from Abroad.

Page	*Para*	*Line(s)*	*Modifications/Amendments*
1	2	3	4
6	1.7	8	*Delete* 'in any year'
6	1.7	8-10	*For* 'in this connection, the Ministry of Defence have informed that'

1	2	3	4
			Read 'According to Ministry of Defence'
6	1.7	13	*For* 'which corroborated' *Read* 'and its finding was'
6	1.7	16	*Delete* 'however'
6	1.7	19	*For* 'provisioning' *Read* 'providing'
6	1.7	21-26	*For* 'From the reply, ...in this regard' *Read* 'From the reply of the Ministry of Defence now furnished, the Committee find to their surprise that the capacity is expected to be augmented from the present level of 8000 to between 9000 and 10000 vehicles per annum only. The Committee consider that this is a serious discrepancy and calls for a detailed explanation : it cannot be treated as a minor matter that after incurring an expenditure of over Rs. eight crores expressly for the purpose of increasing the production by two thousand vehicles, one should accept without question that the increase will be some figure between a thousand and two thousand'.
6-7	1.12		*Delete* Paras 1.8 and 1.9 and renumber the remaining paras and pages.
10	1.12	6	*For* 'As the actual' *Read* 'The actual'
10	1.12	11	*For* 'respectively,' *Read* 'respectively.'

1	2	3	4
10	1.12	11-16	*For* 'the Committee feel . 550 to 914' *Read* 'In the opinion of the Committee a rate of production which falls so far short of installed capacity should be a matter of serious concern. In any event there cannot be clearly any justification for importing transmission assemblies in a situation in which there was already idle capacity in the plant for their production '
10	1.12	21	*For* 'or by other indigenous manufacturers' *Read* 'themselves.'
10	1.12	21-24	*Delete* 'The Committee hope that..... unnecessary imports.'
18	1.17	2	*Delete* 'on import of these units'
18	1.17	8-9	*For* 'lacks focus and fails to pinpoint any centres or individuals responsible' *Read* 'has unfortunately not pinpointed responsibility'
18	1.17	10-11	*For* 'The Committee, therefore, reiterate' *Read* 'The Committee is, therefore compelled to reiterate'
19	1.19	18-21	*For* 'The Committee hope.....in this regard.' *Read* 'the Committee would like to know if action on both the counts mentioned above has been initiated, and what is the latest position in this regard.'
19	1.20	1	*For* 'expressed their concern' *Read* 'stated'
19	1.20	4	*For* 'huge' *Read* 'large'
19	1.20	8	*Delete* 'be intimated.'

APPENDIX

Statement of Conclusions & Recommendations

S. No.	Para No.	Ministry/Deptt. concerned	Conclusion/Recommendation
1	2	3	4
1.	1.4	M/o Defence and Deptt. of Defence Production	The Committee expect that final replies to those recommendations and observations in respect of which only interim replies have so far been furnished will be made available expeditiously after getting them vetted by Audit.
2.	1.7	Deptt. of Defence Production	The Committee note that the installed capacity of the factory 'B' as per detailed project Report was 13200 in a mix of 6000 Shaktiman and 7200 Nissan vehicles and the total production of the vehicles during 1970-71 to 1981-82 (12 years) had been 70534

vehicles. Against this installed capacity of 13200 vehicles per annum the maximum production achieved was 8576 vehicles in 1976-77. According to Ministry of Defence the question regarding actual achievable capacity at factory 'B' was investigated by an independent technical Committee appointed by Government of India, and its finding was that the achievable capacity was not more than 8000 vehicles per annum at Factary 'B'. The Committee were informed that a project to augment the achievable capacities of the factory to 10000 vehicles per annum was sanctioned in January 1982 by providing balancing plant and equipment and civil works at an estimated cost of Rs. 8.48 crores. From the reply of the Ministry of Defence now furnished, the Committee find to their surprise that the capacity is expected to be augmented from the present level of 8000 to between 9000 and 10000 vehicles per annum only. The Committee consider that this is a

1	2	3	4
			serious discrepancy and calls for a detailed explanation : it cannot be treated as a minor matter that after incurring an expenditure of over Rs. eight crores expressly for the purpose of increasing the production by two thousand vehicles, one should accept without question that the increase will be some figure between a thousand and two thousand.
3.	1.10	Deptt. of Defence Production	The Committee are not satisfied with the reply of the Ministry that 'limited import of transmission assemblies for Nissan 1-ton vehicle was done to create a buffer stock and to provide production cushion to cover any contingency of failure by the suppliers of inputs like forgings, castings etc.'. The actual production of the vehicles during 1974-75 to 1979-80 ranged from 1550 to 4170 for Nissan 1-ton and from 550 to 914 for

			Nissan Patrol per annum against the installed capacity of 4200 and 3000 vehicles per annum respectively. In the opinion of the Committee a rate of production which falls so far short of installed capacity should be a matter of serious concern. In any event there cannot be clearly any justification for importing transmission assemblies in a situation in which there was already idle capacity in the plant for their production. The Committee are not averse to bridging imports to meet the urgent needs of the Defence, but they cannot view with equanimity the imports of items, the demands for which could be met by Defence Production Units themselves.
4.	1.14	Ministry of Defence	In their earlier Report, the Committee had found that 6 units purchased from abroad in 1978 to meet the urgent requirements of the Defence Forces for mobile communication equipment by sending scarce foreign exchange had not been put

1	2	3	4
			to use all these years. The equipment could not be used because on its receipt when it was inspected by a Board of Officers, it was found to be defective and these defects could not be rectified. The Committee had pointed out a number of acts of omission/commission in respect of the deal and had recommended a thorough investigation by a high-powered team of officials drawn from the Ministry/Army Headquarters:
5.	1.15	Ministry of Defence	A perusal of the Report of the Inquiry Committee reveals that there were lapses on the part of the Tachnical Evalution Committee. Negotiating Committee, the second team of Government officials, the Resident Inspector who cleared the item before pre-shipment and of officers who did not initiate legal action against the firm as early as in July/August 1979.

			The Inquiry Committee Report has unfortunately not pinpointed responsibility for the various irregularities. The comittee is therefore, compelled to reiterate their earlier recommendation that responsibility should be fixed for lapses at various stages.
6.	1.16	Ministry of Defence	The Committee are also concerned to note that the files in which the decision to withdraw the Resident Inspectors were taken and the circumstances under which two mobile equipments were accepted on satisfactory demonstration given by the firm, were not supplied to the Inquiry Committee. The reasons for not suppling the files to the Inquiry Committee need to be explained.
7.	1.17	Ministry of Defence	The Committee not that the Inquiry Committee which investigated the whole deal I have suggested that precautionery steps be taken to obviate such recurrences in future and that legal advise be taken in order to

1	2	3	4
			initiate suitable legal proceedings promptly against the supplier firm, for their acts of omission and commission in supply and malfunctioning of equipments sold to the Army. The Ministry of Defence have informed the Committee that the Government have accepted the findings of the Report and have taken the following decisions : (a) To constitute a broad based committee of experts to advise on the whole procedure for import of equipments including their evalution and inspection ; and (b) to obtain legal advice on further action against the suqplier firm. The Committee would like to know if action on both 'the counts mentioned above has been initiated, and what is the latest position in this regard.

8.	1.18	Ministry of Defence	The Committee had also stated in their earlier Report that this was not a solitary instance and there were 9 other cases of imports of defective equipments involving large amounts of foreign exchange during the period June 1976 to June 1981. The Committee would like to know whether the cases pointed out by them have been examined and if so, the outcome thereof.