

# **PUBLIC ACCOUNTS COMMITTEE (1967-68)**

## **TWENTY-EIGHTH REPORT**

**(FOURTH LOK SABHA)**

[Action taken by Government on the Recommendations of Public Accounts Committee contained in their First Report (Fourth Lok Sabha) on Para 78 of Audit Report (Civil), 1967 re : Purchase of Road Rollers.]



सत्यमेव जयते

**LOK SABHA SECRETARIAT  
NEW DELHI**

*APRIL 1968/VAISAKHA 1890 (Saka)*

*Price : Rs. 1.30*

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CORRIGENDA TO THE TWENTY-EIGHTH REPORT OF P.A.C.  
(1967-68) PRESENTED TO THE LOK SABHA ON 30.4.1968.

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## PUBLIC ACCOUNTS COMMITTEE

(1967-68)

### CHAIRMAN

Shri M. R. Masani.

### MEMBERS

2. Shri Syed Ahmed Aga
3. Shri C. K. Bhattacharyya
4. Sardar Buta Singh
5. Shri Shivajirao S. Deshmukh
6. Shri R. Muthu Gounder
7. Shri D. K. Kunte
8. Shri N. R. Laskar
9. Shri V. Viswanatha Menon
10. Shri K. K. Nayar
11. Shri Narendra Kumar Salve
12. Shri Yogendra Sharma
13. Shri Sheo Narain
14. Shrimati Tarkeshwari Sinha
15. Shri P. Viswambharan
- \*16. Shrimati Devaki Gopidas
- \*17. Shri P. K. Kumaran
18. Shri Om Mehta
- \*19. Shri Gaure Murahari
- \*20. Shri M. C. Shah
- \*21. Dr. M. M. Siddhu
22. Shri B. K. P. Sinha

### SECRETARIAT

Shri N. N. Mallya—*Joint Secretary*

Shri Avtar Singh Rikhy—*Deputy Secretary*

Shri R. M. Bhargava—*Under Secretary*

\*Declared elected on the 30th November, 1967 *vice* Shri Mohammed Yunus Saleem ceased to be a Member of the Committee on his appointment as Deputy Minister.

\*Ceased to be Member of the Committee with effect from 1-4-1968.

## INTRODUCTION

1. The Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Twenty-Eighth Report on Action taken by Government on the Recommendations of Public Accounts contained in their First Report (Fourth Lok Sabha) on Para 78 of Audit Report (Civil), 1967 regarding the Purchase of Road Rollers.

2. On 27th June, 1967, an "Action Taken" Sub-Committee was appointed to scrutinise the replies received from Government in pursuance of the recommendations made by the Committee in their earlier Reports.

The composition of the Sub-Committee is as follows :—

### *Convener*

1. Shri D. K. Kunte

### *Members*

2. Shri C. K. Bhattacharyya
3. Shrimati Tarkeshwari Sinha
4. Shri M. C. Shah\*
5. Shri B. K. P. Sinha

3. At their sittings held on the 6th April, 1968 (Forenoon and Afternoon), the Sub-Committee suggested that the representatives of Government including the Ministries of Supply, Home Affairs, Law, Company Law, Finance, etc. might be invited to tender evidence before the Committee so that the full implications of the communications dated 1st April, 1968 received from Government could be thoroughly gone into.

4. The Committee examined the representatives of the Ministries of Works, Housing & Supply (Department of Supply); Finance (Depts. of Expenditure and Economic Affairs), Industrial Development & Company Affairs (Department of Company Affairs), Law and Home Affairs (Central Bureau of Investigation) at their sittings held on the 17th and 18th April, 1968. The Minutes of these sittings form Part II of the Report.

5. Chapter II of the Report was considered and adopted by the Sub-Committee at their sitting held on the 8th April, 1968 and finally adopted by the main Committee on the 19th April, 1968. Chapter I of the Report was considered and adopted by the Committee at their sitting held on the 26th April, 1968.

6. For facility of reference the main recommendations/conclusions of the Committee have been printed in *thick type* in the body of the Report. A statement showing the summary of the main recommendations/observations of the Committee is appended to the Report (Appendix V).

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

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\*Ceased to be a Member of the Committee w.e.f. 1st April, 1968.

\*Not printed. One cyclostyled copy laid on the Table of the House and five copies placed in Parliament Library.

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8. They would also like to express their thanks to the officers of the Ministries of Works, Housing & Supply (Department of Supply), Finance (Dep'ts. of Expenditure and Economic Affairs), Industrial Development & Company Affairs (Department of Company Affairs), Law and Home Affairs (Central Bureau of Investigation), for the co-operation extended by them in giving information to the Committee.

*New Delhi,*

*April 27, 1968*

*Volume 7, 1890(S)*

**M. R. MASANI,**

*Chairman.*

**Public Accounts Committee**

## CHAPTER I

### GENERAL

The first Report of the Public Accounts Committee on para 78 of Audit Report (Civil), 1967 re. Purchase of Road Rollers was presented to Lok Sabha on 4th August, 1967.

1.2. The Committee had desired Government to furnish information regarding action taken by them on the recommendations contained in the Report by November, 1967. The Committee regret that so far replies have been furnished by Government in respect of only 40 recommendations out of 67 and that the latest communications in respect of some of the vital recommendations were received as late as the beginning of this month.

1.3. These replies have been categorised under the following heads :—

- (i) Recommendations/observations that have been accepted by Government.
- (ii) Recommendations/observations which the Committee do not desire to pursue in view of Government's reply.
- (iii) Recommendations/observations in respect of which replies of Government have not been accepted by the Committee or which require reiteration.
- (iv) Recommendations/observations to which Government have furnished interim replies.

1.4. Replies of Government are still awaited in respect of 27 recommendations. The position in regard to these recommendations has been stated by the Department of Supply as follows :—

(i) Recommendations involving vigilance aspect	.. 25
(ii) Recommendations on which comments are to be offered by the Ministry of Law. These recommendations are understood to be under examination of that Ministry in consultation with the Department concerned (Paras 3.44 and 3.45).	.. 2
Total	.. 27

1.5. As regards 25 recommendations which involve vigilance aspects, the Department of Supply have stated that the matter is being pursued with the Central Bureau of Investigation. An extract from the report of the Central Bureau of Investigation dated 12-2-1968 is reproduced below :—

“The reasons for the delay are that the present case, from the investigation point of view, is a case of colossal proportions. The fraud is spread over a period of three years. It involved about 100 contracts and the Road

Rollers supplied by the firm are spread in the interior all over the country. The witnesses to whom the Road Rollers have actually been supplied have to be located and questioned. Leaving aside the Registers, Books of Accounts seized from the accused firm, the files which required to be scrutinised total 1,44,707 pages. In respect of each contract corresponding records of the DGS&D and the indentors/Consignees are also required to be obtained and scrutinised. There are over 900 Road Rollers figuring in the case and in respect of each one of them, it is required to be determined by collecting evidence whether the Road Rollers in question had or had not been manufactured by M/s. Agrind Fabrications Ltd. at the time when these were claimed to have been inspected. The number of public servants whose conduct required to be looked into, is also unusually large. The investigation was also handicapped at the initial stage because all the official record was required for being made available to the P.A.C.\* and was, therefore not available for the purpose of investigation. Due to all these reasons the investigation is likely to take quite some time to be completed."

1.6. The Department of Supply have also informed the Committee that "the Central Bureau of Investigation have further stated on 19-3-68 that investigation is being pursued vigorously and that, in respect of some of the Road Rollers, the investigation is likely to be finalised shortly".

1.7. During evidence the Committee enquired of the representative of the Central Bureau of Investigation about the reasons for the delay. The Committee pointed out that there must be cases where the road rollers were not delivered at all and in which cases the A/T should have been pursued immediately. The representative of the C.B.I. stated that : "The only reason for the delay is that we do not go piece-meal before the Court for cheating and we wanted to go collectively. If we go to the Court piece-meal for each and every individual item, the cases become complicated." He added : "In one case in Hyderabad we had to take up investigation against the same set of persons. It is not clear as to why the investigations are taking so

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\*The Public Accounts Committee examined the representatives of Government on the subject on 26th & 27th May, 1967 and presented their Report to Lok Sabha on 4th August, 1967.

1.9. The Committee would like to emphasise that as each A/T constitutes an agreement by itself, it should have been possible for the Central Bureau of Investigation to complete investigations in respect of at least some A/Ts and initiate prosecutions so that action could be taken without delay.

1.10. It would also be appreciated that delays may lead to tampering with records, change of officers and directors and the dissipation of assets. If it is a question of coping with the volume of records in a case, the Central Bureau of Investigation should deploy the necessary staff for the purpose but in no case should important investigation, be delayed. The Committee are not impressed with the reasons given by the Central Bureau of Investigation for the delay in completing the investigation.

1.11. The Committee also desire that Government should examine how far the Central Bureau of Investigation is handicapped in the investigation of such important cases due to lack of sufficient staff or authority. The Government may examine whether the Central Bureau of Investigation requires further strengthening to complete such investigations expeditiously.

#### Department of Supply

1.12. Reporting on further progress in this case the Department of Supply informed the Committee on 1st April, 1968 as under :

"Meanwhile Government have continued their efforts to obtain delivery of the Road Rollers in respect of which advance payments were drawn by M/s. UPCC (P) Ltd., Calcutta. In the last week of March 1968, the firm have offered to deliver the outstanding Road Rollers - 10 nos. in April 1968, 10 in May 1968, 15 in June 1968 and thereafter 20 nos. per month till the entire outstanding quantity is liquidated. As a token of their *bona fide* intention to effect these deliveries the firm have also agreed to transfer to the Government shares of the face value of Rs. 20 lakhs held by them in their allied concerns and also to give an undertaking to the effect that the Government of India would have the first lien on Rs. 20 lakhs out of the amount advanced by the Company to Messrs Assam Sillimanite Ltd. and that as and when shares of this amount are allotted, the same would be pledged with the Government of India as security."

"In pursuance of these discussions, M/s. UPCC (P) Ltd. have since delivered to the Government on 19th and 27th of March, 1968 shares of the aggregate value of Rs. 20 lakhs pertaining to their allied concerns, held either in the name of the partnership concern M/s. UPCC or in the name of individual Directors. These shares along with the related documents of transfer to Government are under scrutiny in consultation with the Ministry of Law and the Department of Company Affairs. The firm, however, has not yet commenced supply of Road Rollers."

1.13. During evidence the Committee enquired whether the Department of Supply have examined the implications of the proposal made by the firm

in consultation with the other Ministries. The Secretary, Department of Supply stated: "Yes Sir. Whatever steps we have taken have been taken in consultation with the Ministries of Law, Finance and the Company Affairs. We have not actually moved an inch without constantly consulting these Ministries and after getting their advice and agreement that we have proceeded with negotiations with the firm." The Committee enquired about the present stage of negotiations. The Secretary, Department of Supply stated: "The firm have actually produced the shares of the face value of Rs. 20 lakhs. . . . The firm have also sent us a copy of the resolution passed by the Board of Directors permitting them to transfer these shares to the Government. They have also given us some blank transfer deeds as required. . . . So far as Rs. 20 lakhs shares the Assam Sillimanite Ltd. are concerned, we have not received any information so far. But, what they have said is that this time as soon as the shares are issued to U.P.C.C. (P) Ltd., who have advanced the money to Assam Sillimanite Ltd. they will transfer the shares to the Government. Meanwhile they will let us have the first lien on this amount. We have asked as to when they will transfer the shares to the U.P.C.C. (P) Ltd. This is the present position." The Committee enquired about the intrinsic value of these shares. The witness stated that they have asked the Company Affairs Department to look into this thing and to let them know as to what is exactly the intrinsic value of these shares.

L.14. As regards the firm's undertaking to the effect that the Government of India would have the first lien on Rs. 20 lakhs out of the amount advanced by the Company to M/s. Assam Sillimanite Ltd. and that as and when shares of this amount are allotted, the same should be pledged to the Government of India as surety, the Department of Company Affairs have observed as under :—

"It is doubtful whether any lien can be exercised on the amounts advanced by the company for the allotment of shares till these shares are allotted by Assam Sillimanite Ltd. and the company has also not given any tentative date as to when these shares are likely to be allotted by Assam Sillimanite Ltd. against the advance of Rs. 20 lakhs made by U.P.C.C. Private Ltd. This matter may please be got examined by the Department of Supply."

L.15. The Committee asked whether the Department of Supply saw any danger in the acceptance of the proposal as it might in some way compromise the position of Government *vis-a-vis* any criminal or civil action that might be necessary in the light of investigation that is being conducted by the C.B.I. The Secretary, Department of Supply stated: "Actually, this position has been fully and thoroughly examined. In fact, we considered it only the other day at a meeting which was held under the Chairmanship of the Minister (of Works, Housing and Supply) when all the Ministries were represented including the C.B.I. and we have gone into each and every item carefully, one by one and the conclusion reached was that this will not in any way inter-

ferre with the inquiries that are being held by the Central Bureau of Investigation or any action under criminal law or will not come in the way of civil suits that we have filed. As a matter of fact, the advice that was given to us was that if we refused to take delivery, it might come in the way of the specific performance of the contract for which we have gone to the court. We have filed 23 suits in the Delhi High Court for specific performance. We were told that if the party offered delivery, we cannot refuse. Otherwise, even the prohibitory orders which have been issued and the attachment orders issued might be vacated by the Court. They may say, 'you are not accepting the delivery while the other party is giving delivery'. Sir, this position has been very carefully examined and we were advised that it will not compromise in any way the Government's position."

1.16. The Committee enquired whether the indentors would in fact need these road rollers now as the supply had been delayed by several years. The witness stated that "the A/Ts were still valid and they had not received any instructions of the consignees of cancelling the orders. As soon as they (Road Rollers) were received, they would be despatched to the respective consignees." The Committee pointed out that in case some of the consignees refused to receive the road rollers due to the delayed supplies, it might be wiser to insist that the firm refunded the entire amount of Rs. 1.85 crores in cash. The Secretary, Department of Supply, stated: "Sir, this is against definite A Ts for the supply of road rollers. We have not heard from any single consignee that he does not require road rollers. Therefore, we are obliged under the rules to supply the road rollers."

1.17. The Committee enquired whether it was not necessary for Government to look into the criminal conduct of the party as apart from the recovery of money, Government were also concerned with the maintenance of law and order and with curbing the growth of anti-social activities. The Secretary, Department of Supply, stated: "The matter is being fully investigated by the C.B.I. We have asked them to expedite it as much as possible. We have told them that if there is any direct evidence of malpractice fraud etc. immediately criminal cases must be proceeded with. The party must not be shown any consideration. There is no question of leniency towards the party who has got Government money as advance to the tune of Rs. 2 crores. We have taken the advice of the Law Ministry also for taking civil action."

1.18. He added: "The filing of civil suits does not at all effect the criminal liability and the C.B.I. investigation is going on. If criminal liability is proved, then going to the civil court for recovery of money will be no argument for not taking criminal action."

1.19. While the Committee note the Ministry's anxiety to recover the amount of about Rs. 2 crores unauthorisedly kept by the party, they cannot too strongly stress that, as Government are responsible for maintaining the highest traditions of integrity and public conduct, it is their foremost duty

**to ascertain whether any fraudulent practices liable to criminal proceedings have been committed and to spare no efforts to bring the guilty to book as a deterrent to others.**

1.20. The Committee asked the Secretary whether the Department of Supply had taken steps to find out how the firm had utilised the amount of Rs. 1.85 crores drawn by it as advance payment. The Secretary, Department of Supply stated : "We have no idea."

1.21. The Committee, however, find from the answer to Starred Question No. 501 dated 24th November, 1966 in the Lok Sabha that Messrs. U.P.C.C. Private Ltd., Calcutta applied to the Calcutta Office of the Reserve Bank of India for permission to purchase 5,79,400 shares of the face value of Rs. 10 each of Messrs. Indo-Burma Petroleum Co. Ltd., Calcutta representing 57.94% of the equity capital of the company at Rs. 21.50 per share from Messrs. Steel Brothers & Co. Ltd., U.K. The proposal envisaged a purchase price of Rs. 1,24,57,100 and further a sum of £ 50,000 on account of sale proceeds to be transferred to U.K. The proposal was stated to be under examination of the Reserve Bank of India and the Ministry of Petroleum & Chemicals.

1.22. The Committee asked about the present position of the application of the firm for the purchase of shares. The Additional Secretary, Department of Economic Affairs, stated : "The application was rejected by the Reserve Bank of India in April, 1967." He also added : "He has filed a suit in Calcutta High Court impleading the Reserve Bank of India also for allowing the purchase of shares."

1.23. It is also noticed from the documents furnished to the Committee that the firm in a representation dated 1st March, 1968, have again requested Government *inter alia* as under regarding the purchase of shares of Indo-Burma Petroleum Company Limited.

"In this connection we should like to submit that as per recent arrangements with the Ministry of Works, Housing & Supply, securities as required by them, have been provided for the performance of the outstanding contracts....."

"The approval of the purchase of Indo-Burma Petroleum shares, which is pending since several months, and is involving both the Government and the firm in heavy litigation costs etc., besides frittering of resources, could, if approved, help in quicker performance of the outstanding contracts. U.P.C.C. Private Ltd., could also further undertake that on the shares so acquired, the Government would have the second lien or *pari passu* charge subject to the State Bank of India's agreement, (which itself is Government owned), till the outstanding supplies of Road Rollers are completed. The value of these shares would only provide additional cover to the Government for any outstanding against supplies due from U.P.C.C."

"Thus, it would be seen that the approval to this purchase would be found altogether in Government interest. The delay in the approval is resulting in the foreign exchange loss to the country since the same is being remitted abroad. During the last several months already over Rs. 15 lakhs has been lost on account of this delay which could well have been avoided."

"We do hope that this matter would be reviewed and the approval not withheld any further as any delay is only to the detriment of the Government. This submission, however, as would be appreciated is without prejudice."

1.24. The Committee have been informed by the Ministry of Finance that Government have not taken any action on this letter of the firm, nor has any reply been sent to them.

The Secretary, Department of Supply also informed the Committee : "I think on more than one occasion, we had made the position quite clear to the Reserve Bank and to the Ministry of Finance that so long as our money is due including interest, no permission should be given to this party for the remittance of foreign exchange."

1.25. The Committee would like to recall the conclusion appended to their First Report on Road Rollers wherein they had observed :

"A perusal of the preceding chapters tells the story of a veritable chain or series of lapses on the part of various governmental authorities. It would be stretching credulity too far to believe that each individual lapse can be explained by its special circumstances and that the fact they all took place in regard to the same deal can be considered coincidental. It is this pattern that persists throughout the case that was a matter of concern to the Committee and should be a matter of concern to Government." (Para 8.1)

"The Committee cannot but take a very serious view of the manner in which the firm persisted in dubious activities over a period of more than three years." (Para 8.7)

1.26. The Committee had also pointed out that the firm had drawn 90% advance payment on proof of inspection of 403 road rollers involving an advance payment of Rs. 1.85 crores approximately and that an interest of Rs. 29 lakhs was also due thereon upto 31-12-66.

**1.27. The Committee had expected Government to redouble their efforts to ascertain how the amount of Rs. 1.85 crores taken as an advance by the firm had been disposed of. The Committee are disappointed to find that even now Government have no clear idea about the manner in which this amount has been disposed of by the firm.**

1.28. The Committee find that in the last available balance sheet of U.P.C.C. Private Ltd. for 1965, an amount of Rs. 1,08,86,172.56 has been

shown in Schedule G of the Report as having been given as loans and advance, without any security other than the debtors' personal security. The Committee note that investigations carried out by the Department of Company Affairs show that "over a crore of rupees had been transferred (by U.P.C.C. Pvt. Ltd.) to the earlier partnership firm."

1.29. A further clue to this is available in the U.P.C.C.'s original application and their subsequent letter of 1st March, 1968 pressing their request to be allowed to purchase shares of the Indo-Burma Petroleum Company Limited which would involve a purchase price of Rs. 1,24,57,100 and a further sum of £50,000 on account of sale proceeds to be transferred to the U.K.

1.30. The Committee also find that in a letter dated 4th November, 1967, to the Minister of Supplies, M/s. U.P.C.C. Pvt. Ltd. state *inter alia* as under :

"Additionally, from Rs. 50.00 lakhs advanced by U.P.C.C. Pvt. Ltd. to Assam Sillimanite Ltd.,\* for the Ramgarh Refractory Project U.P.C.C. (Pvt.) Ltd. expects to get shares at least to the extent of Rs. 20.00 lakhs."

1.31. The Committee consider that Government have not carried out a thorough investigation into the manner in which U.P.C.C. (Pvt.) Ltd. have disposed of an amount of Rs. 1.85 crores received by them as advance. It is all the more disturbing that when the firm approached Government on more than one occasion with offers of shares of their allied or subsidiary companies as security or with the request to permit them to purchase shares of Indo-Burma Petroleum Co. Ltd., Government did not question them closely about the source of their funds.

1.32. In view of these facts the Committee are not able to appreciate the plea that the U.P.C.C. Pvt. Ltd. do not have enough liquid assets to pay back the advance of Rs. 1.85 crores (together with interest thereon) which has been retained by them in an unauthorised manner without duly delivering road rollers.

1.33. The Committee would like Government to take urgent steps to recover the amount.

1.34. The Committee enquired whether at the meeting held on 27th June, 1967, the representative of the firm was specifically asked to file an affidavit about their assets, and desired to know the action taken in pursuance thereof by the firm. The Secretary, Department of Supply stated : "He did not produce the affidavit of the assets also." Asked why this was not followed up, the Secretary, Department of Supply, stated : "It must have been lost sight of. There was another agreement later, another offer etc. etc." In reply to a question, the witness stated : "So far as the question of securing

\*M/S UPCC (P) Ltd. Managing Agent of Assam Sillimanite Ltd. since 1-7-1966.

interest of Government were concerned, we took all civil steps which were humanly possible. We have gone to the court. We have got attachment of all his assets."

**1.35. The Committee consider that Government should have pressed the firm to file an affidavit of their assets so that they had a clear picture of their assets in order to compel the firm to return the advance of Rs. 1.85 crores unauthorisedly retained by it.**

**1.36. The Committee note that the firm have offered to supply road rollers in instalments and that, as a token of their bona-fides, they have submitted to Government shares of the aggregate face value of Rs. 20 lakhs pertaining to allied concerns held either in the name of the partnership concern (M/s. U.P.C.C.) or in the name of individual directors. The Committee note that the arrangement with the firm would cease to exist "as and when the interim injunctions in respect of blacklisting orders etc. were vacated by the High Court". The Committee would not like to go into the detailed implications of this proposal as they have no doubt that Govt. will take proper care to safeguard public interests. They would, however, like to should a note of caution and to stress that, while taking a decision on the offer of the firm, the Government should keep in view the following aspects of this case :—**

- (i) The legal implications of the proposal made by the firm.
- (ii) The effect that such an arrangement would have on the suits filed by Government and on the launching of criminal proceedings against the firm or relevant individuals in a court of law, particularly when it is understood that investigation in seven cases have almost been finalised.
- (iii) Whether the requirement of road rollers by the indentors still holds good and how far these road rollers to be supplied by the firm will meet requirements, particularly in view of the past-experience of defective rollers supplied by the firm and the reported poor after sale-service. (cf Paras 4.7, 4.10, and 4.25 of First Report—4th L.S.)
- (iv) The implications of the acceptance of road rollers offered by the firm on the extension of the date of delivery of contracts, the recovery of interest charges (which worked out to Rs. 29 lakhs on 31-12-1966) for the advance retained by the firm and the recovery of damages on account of losses (actual or potential) suffered by the indentors on account of delay non-supply of road rollers.
- (v) Whether acceptance of the proposal may enable the firm to misrepresent the position either to the other Ministries of Government of India or to State Governments or Statutory autonomous authorities.

- (vi) The present Intrinsic value and the genuineness of the shares offered by the firm as a security.
- (vii) An examination of the lien on the amount of Rs. 20 lakhs for the purchase of shares out of Rs. 50 lakhs advanced by the company in advance of the allotment of the same by Assam Sillimanite Limited.
- (viii) Whether the firm will be in a position to fulfil their promise to supply road rollers in the light of their past performance.
- (ix) Its impact on the request made by the firm for permission to purchase shares of the Indo-Burma Petroleum Co. Ltd. at a time when the firm have not paid back the advance of Rs. 1.85 crores unauthorisedly drawn by them and interest thereon either in cash or by the supply of road rollers.

1.37. The Committee cannot too strongly stress that, in examining this proposal of Messrs. U.P.C.C. in all its ramifications, Government will make sure that not only will the firm are in a position and would in fact delivers the road rollers in accordance with their offer, but also that the right of the Government to take criminal action as a result of the current investigations by the Central Bureau of Investigation or any other Governmental agency is not fettered or prejudiced in any manner.

## CHAPTER II

### RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH HAVE BEEN REITERATED

#### **Failure to Consult Chief Pay & Accounts Officer**

*S. No. 6, Para 3.30 of Appendix X to the First Report of the Public Accounts Committee (Fourth Lok Sabha).*

In Paras 3.30, the Committee had noted with regret that the Chief Pay & Accounts Officer was not consulted before the relaxed terms of payment were adopted. This is all the more serious in view of the fact that Chief Pay and Accounts Office had desired in the past that he should be associated whenever the terms of payments were relaxed.

2.2. Government in their reply have stated as follows :—

“Para 265 of the Manual of Office Procedure for Supplies, Inspection and Disposals already provides that if a departure from the standard system of payment is to be made in any case the orders of the D.G.S.&D. should be obtained through the Co-ordination Supplies Section which will consult the Chief Pay & Accounts Officer and obtain orders of the Government where necessary. This provision has also been brought to the notice of all concerned through Para 1 of the D.G.S.&D. Office Order No. 141 dated the 26th November, 1966 (copy enclosed).”

2.3. The Committee find that the D.G.S.&D. Office Order No. 141, dated 26-11-1966 refers not only to para 261 of the Manual of Office Procedure for Supplies, Inspection and Disposals but also to earlier Office Order No. 69, dated 24-5-63 and Office Order No. 152, dated 22-11-63 which enjoin that adequate security such as hypothecation deed and insurance cover/Bank Guarantee should be obtained before authorising on account/progress payments which are in the nature of payments in advance of despatch of stores covered by the contract.

2.4. The Committee are of the view that, if the Chief Pay & Accounts Officer had been consulted as enjoined by para 265 of Manual of Office Procedure for Supplies, Inspection & Disposals on the principles outlined in Office Orders of 24-5-63 and 22-11-63 had been applied in this case, it should have been possible to safeguard Government's interests. The Committee desire that the failure in the above respects should be investigated and action taken against the parties found at fault and reported to the Committee.

L1LSS(CP)—68—2

### **Pricing of Road Rollers**

*Sl. No. 27, para 3.93 of Appendix X of the First Report of the Public Accounts Committee (4th L.S.)*

2.5. In para 3.93 of their 1st Report (4th Lok Sabha), the Committee observed :

“The Committee feel that the request of the firm of September, 1963, regarding withdrawal of discount of Rs. 250 per Road Roller should have been examined by the Department of Supply and the Ministry of Finance in the light of the relaxation in the terms of payment already agreed to by them in July, 1963. Since the terms of payment had already been relaxed in July, 1963, which in itself gave a concession to the firm of about Rs. 1,900 per Road Roller (a 4% discount earlier offered by the firm in their 5th request, the withdrawal of discount of Rs. 250 per Road Roller was an additional benefit to the firm.”

2.6. In their reply, the Department of Supply have stated : “Discount of Rs. 250 was specifically offered by the firm in their 1961 offer for 37 Road Rollers. The same discount continued to apply to subsequent A/Ts placed on them upto 17-12-1963. In September, 1963, however, the firm advised D.G.S.&D. by a letter that this discount should not be made applicable to further A/Ts. This had to be agreed to on account of the following factors :

- (a) There was no legal basis for DGS&D insisting on the firm to continue the same discount.
- (b) The other Road Roller manufacturers were also coming up for increase in prices.
- (c) U.P.C.C. prices still remained competitive even after withdrawal of discount of Rs. 250”.

2.7. In a note the Ministry of Finance have stated “It would be seen from the relevant noting that the case was subjected to a thorough scrutiny in the Ministry of Finance. When the Directorate’s proposal was received by Finance with a bare note information required for considering it, was asked for from the Directorate. The tender of 1961 was looked into and also the overall picture of the prices and terms and conditions of the 3 manufacturers. The case was fully gone into with reference to (i) the contractual right of the Government to claim the continuance of discount; (ii) the price structure of the three manufacturers; and (iii) the relative terms and conditions.”

2.8. The Ministry of Finance have further stated that “the officers who dealt with the case at that time were not personally aware that the relaxation in the terms of payment had been allowed only recently. This had not been brought out in the notes that were submitted to them by the DGS&D. There

was therefore, no reason to correlate the proposal for withdrawal of the discount with the decision to allow the relaxation in payment terms. It was believed that the existing price and the terms had been fixed taking into account all the relevant factors, and the proposal regarding withdrawal of the discount was considered on merits in the light of the existing circumstances."

2.9. The Ministry of Finance have concluded "It is doubtful if it could be said even in retrospect that the withdrawal of the discount had conferred an undue benefit on the firm, but for the fraud committed by it which came to light later. After protracted negotiations with Messrs. Jessops and Messrs. Britannia; they were allowed increases in price of Rs. 1672 and Rs. 2190 with effect from 1-5-64 and 1-6-64 respectively; the increase could work out to 3.4% and 4.6% over their previous prices."

2.10. "It would thus be seen that the case was fully examined in the light of the facts then available and known to the dealing officers. Even though the Government was not contractually entitled to insist upon the discount, the point was not hurriedly conceded without a thorough examination. It took us about two months and two back references to the D.G.S.&D. to finally agree to the DG's proposal"

2.11. While the Committee would not like to pursue this aspect further, they are not satisfied with the above explanation. The fact remains that the request of the firm regarding the withdrawal of discount of Rs. 250 per road roller was not examined by the Department of Supply and/or the Ministry of Finance in the light of the relaxation in the terms of payment which had been agreed to by them in July, 1963, thus involving an unintended concession to the firm of above Rs. 1,900 per road roller at 4% discount earlier offered by the firm in their fifth request of April, 1961.

2.12. The Committee desire that remedial action should be taken in the light of these facts to ensure that complete papers are placed before the Department of Supply/Ministry of Finance at the time of the consideration of a request from a firm for grant of any concession in terms of payment or withdrawal of discount.

#### **Verification of Financial Standing of Firms**

2.14. In paras 3.102 and 3.103, the Committee recommended :

"The Committee are surprised to learn that the DGS&D's Manual of Procedure for Supplies, Inspection and Disposals does not clearly lay down that the representative of the Ministry of Finance should be invariably consulted at the stage of the verification of the financial standing and soundness of a firm before its registration or for placing initial orders on an unregistered firm."

"The Committee would like Government to examine the matter and lay down clear instructions so that Government's interests are fully safeguarded."

2.15. In their reply, the Department of Supply have stated :

"The Public Accounts Committee have recommended that in order to safeguard Government's interests fully the representative of the Ministry of Finance should be invariably consulted at the stage of verification of the financial standing and soundness of a firm,

(a) before the registration; and

(b) before placing initial orders on an unregistered firm."

2.16. "The question of prescribing in the Rules that the Ministry of Finance shall be consulted at the stage of verification of the financial standing and soundness of a firm before its registration as also for placing initial orders on an registered firm, has been carefully examined in consultation with that Ministry. It is felt that the existing machinery in the D.G.S.&D. for verification of financial standing of firms for purposes of registration/renewing registration is quite adequate for the purpose. Besides, as the number of cases relating to registration/renewal of registration of firms is quite large, prior consultation with Ministry of Finance is bound to cause considerable delay in the disposal of these cases unless the existing staff in the Ministry of Finance is reinforced. As the objective behind the recommendation of the Public Accounts Committee is that the financial soundness of firms seeking registration should be scrutinised very carefully by an agency which is fully qualified and possesses the necessary technical competence, the purpose could be better achieved by obtaining the services of an experienced officer from the Department of Company Law Administration and appointing him as Deputy Director (Registration) against a post already sanctioned in the D.G.S.&D. This officer would be qualified to examine, in a comprehensive manner, the capital structure of the companies, their balance sheets and profit and loss accounts and thus would be in a position to make a correct assessment of the financial soundness of the firms for registration purposes. With such an officer in position, it would become unnecessary to consult the Ministry of Finance. However, in doubtful and complicated cases it is proposed to provide that the Ministry of Finance should be consulted, in such matters."

2.17. "As regards consultation with the Ministry of Finance at the stage of verification of the financial standing and soundness of the unregistered firms before placing initial orders on them, the existing procedure is that orders on unregistered firms are placed after obtaining bankers' report, Income Tax Clearance Certificate and competency/capacity report from the Inspectorates concerned of the D.G.S.&D. Moreover, orders are placed on the unregistered firms generally after obtaining security deposits from them. It would not be practicable to consult the Ministry of Finance for verification of the financial standing and soundness of the unregistered firms before placing initial orders on unregistered firms, as the number of these cases would be very large and prior consultation with that Ministry would result in consi-

derable delay in the coverage of the indents. It is accordingly felt that the existing practice of placing *ad hoc* orders on unregistered firm should continue, as it already provides adequate safeguards."

2.18. The Committee note that Government propose to appoint a Deputy Director, Registration, in the office of the D.G.S. & D. who "would be fully qualified to examine, in a comprehensive manner, the capital structure of the companies, their balance sheets and profit and loss accounts and thus would be in a position to make a correct assessment of the financial soundness of the firms for registration purposes". The Committee also note that "in doubtful and complicated cases it is proposed to provide that the Ministry of Finance should be consulted in such matters".

2.19. The Committee would like Government to review the position in the light of experience gained after one year. The Committee also desire that, in the light of such a review, general principles should be laid down for determining the types of complicated and doubtful cases, which would require prior consultation with the Ministry of Finance before registration of the firms.

2.20. As regards the placing of orders on unregistered firms, the Committee suggest that where it is proposed not to consult the Ministry of Finance, Government should obtain adequate security deposits to safeguard their interests. The Committee feel that where large orders of, say, Rs. 5 lakhs and above are placed on an unregistered firm, it would be in Government's own interest to have the standing of the firm thoroughly checked in consultation with the Ministry of Finance.

#### Departure from Standard Terms of Payment

*Sl. No. 31, para 3.104 of Appendix X to the First Report of the Public Accounts Committee (4th L.S.)*

2.21. In para 3.104, the Committee recommended :

"The Committee would also like the Department of Supply to ensure that all cases which involve any departure from standard terms of payment, with substantial financial repercussions, should be examined by the Financial Adviser concerned before final orders are passed."

2.22. In their reply, the Department of Supply have stated :

"Para 265 of the DGS&D Manual of Office procedure for supplies, Inspection and disposals relating to 'Departure from the prescribed system of payment' is being amended to provide that in all cases of departure from standard terms of payment involving substantial financial repercussions, the cases will also be submitted to the Financial Adviser concerned before final orders are passed."

2.23. The Committee regret to note that, even though their report in this case was presented to the Lok Sabha on 4th August, 1967, the Depart-

ment have not so far been able to issue an amendment to the Manual of Office Procedure for Supplies, Inspection and Disposals of the Director General, Supplies & Disposals. The Committee desire that such action should be taken forthwith to ensure that all cases which involve any departure from the standard terms of payment with substantial financial implications should be examined by the Financial Adviser concerned before final orders are passed.

#### **Mal-practices in Despatch of Stores**

*Sl. No. 41, para 4.53 of Appendix X to the First Report of the Public Accounts Committee (4th L.S.)*

2.24. Referring to the instances where the firm in this case had received payment on the proof of inspection and despatch of road-rollers by indicating fictitious or wrong Railway Receipts Nos. the Committee observed :

"The Committee would like the Department of Supply/DGS&D to go fully into the matter in consultation with the Ministry of Railways and major indenting departments with a view to devise a foolproof procedure for ensuring that a supplier cannot get away with advance payment without actually despatching complete goods after inspection."

2.25. In their reply, the Department of Supply have stated :

"The matter has been carefully reviewed by the Department of Supply in consultation with the DGS&D, Chief Pay and Accounts Officer and the Ministry of Railways. In view of the inability of the Railways to issue a duplicate copy of the Railway Receipt which would be the only foolproof method of establishing despatch of the inspected stores for which payment was claimed, several other alternatives were considered. It was tentatively decided that bills for advance payments should be supported by a photostat copy of the Railway Receipt (where these facilities were available) or by certified attested copies from the prescribed authorities. It was also decided that in cases where the suppliers were unable to furnish the photostat copies or the attested copies, no advance payments should be made to them. Simultaneously, standing instructions would be issued to the consignees requiring them to promptly bring to the notice of the Pay and Accounts Officer concerned for appropriate action any cases of short supplies. The DGS&D has been advised to discuss the revised procedure with the representatives of the trade before issue of final orders."

2.26. The Committee note that Government are contemplating a revision of the procedure to ensure that a supplier cannot get away with advance payment without actually despatching the complete goods after inspection. If the revision of the procedure is likely to take some more time, the Committee suggest that instructions should in the meantime be issued forthwith to all consignees to bring promptly all cases of short supplies to the notice of the Pay & Accounts Officer concerned for appropriate action.

**The Committee would like to be informed of the revised procedure when finalised and given effect to.**

#### **Failure to mark A/Ts to Progress Wing**

*S. No. 45, Para 5.9 of Appendix X to the First Report of the Public Accounts Committee (L. 14th Lok Sabha).*

2.27. In Para 5.9 of the Report, the Committee observed that they "cannot help concluding that one of the contributory reasons for the failure to detect the inordinate delay by the firm in the despatch of road rollers after inspection was the fact that the A/Ts placed by the office of D.G.S.&D. on the firm were not specially marked for progressing by the Progress Wing. The Committee consider that, when special terms of payment in relaxation of standard terms were sanctioned to the firm, the office of the D.G.S.&D. should have taken care specifically to ask the Progress Wing to keep a special watch on the progress of the despatch of road rollers after inspection."

2.28. The Government have stated in their reply as follows :—

"The following Office Orders have been issued by the D.G.S.&D. :—

- (1) Office Order No. 43-A, dated the 25th May, 1967 regarding progressing of supplies against contracts where progress/advance payments are authorised.
- (2) Office Order No. 86, dated the 4th August, 1967 regarding progressing of supplies against contracts where progress/advance payments are authorised.
- (3) Office Order No. 97, dated the 31st August, 1967 regarding progressing of supplies against contracts where standard terms of payment are relaxed.

2.29. In Office Order No. 97, dated the 31st August, 1967, it has been laid down that such contracts are to be subject to special progressing and that such contracts should be marked by Purchase Officer with the words "special progressing required" at top left hand corner of the copy of A/T meant for Progress Officer who has to keep a special watch."

2.30. The Committee would like to draw attention in this connection to paras 243 to 248 of the Manual of Office Procedure for Supplies, Inspection & Disposals, which describes in detail the duties and functions of the Progress Wing. The Manual *inter alia* provides :

"The Progress Wing has been set up to implement the slogan of the Department 'D.G.S.&D. delivers the goods' by the scheduled date. Essentially, therefore, it watches coverage of indents and follows up contracts so that supplies are arranged by the specified delivery dates."

"The Progress Wing will watch the deliveries against the contracts upto the stage of final inspection of stores except in the case of contracts placed on unregistered firms where they are specially required to chase the contracts till the store is actually despatched."

2.31. It is obvious that not only was it incumbent on the office of the D.G.S.&D. to mark a copy of the A/T to the Progress Wing, but also on the Progress Wing to ensure that the stores were actually despatched, as the order was admittedly on an unregistered firm. The Committee would like Government to investigate the matter further in the light of this and fix responsibility for failure to mark the A. Ts to the Progress Wing.

#### Inspection of Road Rollers

*Sl. No. 49, Para 5.19 of Appendix X to the first Report of the Public Accounts Committee (4th L.S.)*

2.32. The Public Accounts Committee were informed that the total number of road rollers inspected from 1st December, 1963 to September, 1966, was 962. Referring to a statement showing the average rate of inspection of road rollers per month, the Committee observed :

"The Committee find from this statement that in the months of May, 1964 to August, 1964, October, 1964 and November, 1964, and further from September, 1965 to December, 1965, the firm on an average made available for inspection road rollers greatly beyond their production capacity. The Committee are not able to understand as to why this aspect did not attract the attention of the inspecting officers. The Committee were given to understand by the Secretary, Department of Supply that, they were going into the matter as to whether the inspection done by the inspecting officers was faulty and the supervision of the Director of Inspection was adequate and whether there was any collusion. The Committee desire that this aspect should be investigated expeditiously with a view to find out how far the Inspection Wing and the officers of the DGS&D failed to carry out their responsibilities properly and how far there was collusion, if any, with the firm."

2.33. In their reply, the Department of Supply have stated that this recommendation involves three aspects viz., whether

- (a) Inspection was faulty in as much as production during the specified months failed to attract the notice of the inspector concerned;
- (b) The supervision of the Director of Inspection was adequate or not; and
- (c) There had been any collusion.

(a) *Failure to attract the attention of the Inspector*

2.34. "There appears to be some misapprehension in regard to the rated monthly production capacity of M/s. Agrind Fabrications vis-a-vis

their actual monthly output. It may be stated that in respect of all manufacturers of heavy engineering items the average capacity per month is, for the sake of convenience, deduced from the assessment of their yearly production capacity. In this case when it was stated that the firm's production capacity was 30 road rollers per month it was to be understood that the figure had been arrived at on the basis of a yearly production capacity of 360 Nos. Actual monthly output may vary from time to time due to unforeseen difficulties in the procurement of raw-materials and bought out items, incidence of labour trouble, prolonged holidays etc. For correct appraisal one should therefore, take into account the firm's recorded annual production figures during the years 1964 and 1965 of 359 Nos. and 357 Nos. respectively against their assessed yearly capacity of 360 Nos. Bearing this in mind the inspector had no reason to suspect any *mala fides*. In this connection, it will be interesting to examine the monthly production figures of M/s. Jessops and M/s. Britannia Engineering—the other two parallel suppliers of the road rollers. The statement at Annexures I & II reveals an almost identical pattern of fluctuations in their monthly production as well. In the circumstances, the fluctuations in the monthly output of M/s. Agrind Fabrications are not of such significance and therefore did not attract the attention of visiting inspectors because they are used to such fluctuations."

(b) *Supervision by Senior Technical Officers*

2.35. "The Supervision by the senior staff including the Director of Inspection, aims at achieving the following objects :—

- (i) That, the calls for inspection are attended to promptly;
- (ii) That, the standard of inspection by the Junior Officers is satisfactory; and
- (iii) That, any problems arising out of manufacturing defects, discrepancies in drawings and specifications governing the A/T etc. do not remain unattended.

2.36. For this purpose surprise visits by the Senior officers were periodically paid to the firm according to normal practice and there have been no complaints against the performance of the inspectors. There is, however, no foolproof mechanism in the Inspection Organisation to detect and prevent the types of fraud committed by the firm in this case. It must be appreciated that in the case of the other two suppliers of road rollers also the extent of inspection and supervision was of the same type and order."

(c) *Inspectors' collusion*

2.37. "With regard to the likely collusion of the inspectors the subject matter is under the investigation of C.B.I. While no evidence of collusion has come to light in the departmental inquiries made so far, a finding on

this subject will have to await the completion of the C.B.I.'s inquiries. The Public Accounts Committee will be informed of the result in due course."

2.38. The Committee are not convinced by the Ministry's explanation that "the fluctuations in the monthly output of M. S. Agrind Fabrications are not of much significance and therefore did not attract the attention of the visiting Inspectors because they are used to such fluctuations." The real point is that the firm were expected to increase their production from 20 to 30 road rollers per month in view of the relaxed terms of payment, but verification of this increase which was imperative in the circumstances was not carried out by the inspectorate. The Ministry appear now to take into account the firm's recorded annual production figures which showed an average of 30 per month for 1964 and 1965 though, in the evidence before the Public Accounts Committee, the Secretary to the Department of Supply had admitted that "It (production capacity) was not checked up; capacity certainly was not even 30 per month" (of para 3.62 of the First Report of the Public Accounts Committee—Fourth Lok Sabha).

2.39. The Committee note that the question of likely collusion of the inspectors is under investigation by the C.B.I. The Committee would like to await the outcome of the investigation.

#### Procedure for Inspection

*Sl. Nos. 50 & 66, Paras 5.20 & 8.11 of Appendix X to the First Report of the Public Accounts Committee (Fourth Lok Sabha)*

2.40. The Committee were informed that in this case the inspection mark affixed by the inspector was "A slight hammer blow. A mark is left on the body of the road roller." In para 5.20 of their Report, the Committee observed :

"The Committee would also like Government thoroughly to investigate the procedure for impressing inspection marks on road rollers and stores so as to make sure that these cannot be erased or otherwise tempered with. In fact, it would be advantageous if inspection of goods fabricated or manufactured in the country is carried out in stages to make sure that they strictly conform to the prescribed standards."

2.41. In their reply, the Ministry have stated that this recommendation involves two features *viz.* :

- (a) affixing an indelible inspection stamp on the inspected road rollers; and
- (b) inspection during various stages of the manufacture of the road rollers.

2.42. With regard to (a) above, it has been stated "The Inspector's stamp or seal is affixed to the stores as a token of his approval of the goods

tendered by a contractor against a particular A T. The stamp or seal thus affixed by the Inspector serve the two-fold purpose of identifying the stores at the receiving end and also of identifying the inspector who approved the stores."

2.43. "The Inspector's seal or stamp is neither so designed nor meant as to prevent an unscrupulous contractor from committing a fraud by removing, erasing or obliterating the seal or stamp and re-offering the same stores against the balance supplies as appears to have been done in this case."

2.44. "In order to prevent such fraud the remedy does not only lie in tightening the method of inspection, sealing etc., but also in prescribing such heavy penalties as would serve as an effective deterrent. The matter has been carefully considered. It is felt that there is no known method of making inspection marks fully fraud-proof. An attempt has been made in this case to make the marks relatively more indelible, but even those can be erased or obliterated if the manufacturer so wishes. Further, indelible marks cannot possibly be affixed to a large variety of stores, even if it were possible to ensure that they could not be erased. Even if the inspection marks are as indelible as the circumstances permit, this could be no assurance against fraud. It is, therefore, felt that the best deterrent could be to punish fraud severely whenever it is detected. This is done both by the Administrative action and or judicial processes. So far administrative action is concerned, the Department can resort to black-listing etc. Where the laws of the land are attracted, prosecution or filing of suits can be resorted to. In this case, the firm and its associate concerns were black-listed. C.B.I. are investigating the whole case and further action as necessary will be taken on receipt of C.B.I. investigation report."

2.45. Regarding (b) above, it is stated that "by and large the procedure as laid down in para 381 of the D.G.S.&D. Manual is being followed in the case of structural fabrication items and such stores where the materials are despatched in components fully ready for assembly and erection at site. By the very nature of such stores no chances can be taken during inspection since the site conditions would not permit any subsequent rectification work. Likewise, stage inspection is also carried out in respect of safety items like coaches etc. It has, however, not been possible to introduce stage by stage inspection for every indigenously manufactured store particularly when major components are bought out items owing to the extreme paucity of the inspection staff. It may be added, however, that only recently a full-time inspector has been posted at Messrs. Agrind Fabrications as a very special case under the orders of the Director General, Supplies & Disposals, though such an arrangement has not been prescribed for the other two manufacturers of the road-rollers."

2.46. In para 8.11, the Committee recommended that they would like the Government to exercise greater vigilance in respect of all existing con-

tracts, where progress payments or payments in relaxation of standard terms have been authorised. In their Note the Department of Supply have stated :

"(1) Under the existing instructions, four types of progress payments/relaxed payments are admissible against contracts placed by the D.G.S.&D. Briefly, these are as under :—

- (a) 'On account' progress payments for raw materials against fabrication contracts;
- (b) Payments to vehicles manufacturers on proof of handing over of vehicles to their transporting agents for despatch by road;
- (c) Payments in the case of fabrication contracts where stores are entrusted to the contractor for fabrication like body-building contracts; and
- (d) Payment for stores on proof of inspection.

(2) The procedure for authorising such payments is as under :—

- (a) Payments of this nature can be allowed up to 90% of the value of the raw materials, subject to 50% of the total value of the contracts on the firm's furnishing a hypothecation Deed hypothecating the raw materials to the President of India and taking out an insurance at his cost insuring the materials and assigning the Policy in favour of the President of India. The limit of 50% of the contract value mentioned above may be raised to 75% of the value of the contract (of a minimum value of 6 lakhs) where the stores require the use of large quantities of iron and steel or where it is clear that the normal system of payment after completion of supplies will put the contractor in difficulties by blocking his capital owing to the large value of the components etc. Where necessary, in addition to the normal safeguards of hypothecation and insurance, bank guarantee may also be insisted upon.
- (b) In such cases, the firms claim payment from the Pay & Accounts Officer by showing proof of handing over the vehicle to their transportation agents, duly certified by their internal auditors.
- (c) In such cases, the contractors have to be responsible for safe custody of the Government materials in their custody. To achieve this objective, the contractors have to furnish adequate security deposit unless a contractor has other dealing with the Government and it is considered that it would be possible to make recoveries from other bills due to them.
- (d) In so far as cases of this type are concerned, all the purchase Directors were requested to furnish details of contracts concluded where payments have been authorised before despatch

of the stores. With the exception of the U.P.C.C. cases, and the rate contracts/*ad hoc* A/Ts for vehicles failing under category (b) above, no other case has been reported where such payments have been authorised. According to para 265 of the Manual of Office Procedure for Supplies, Inspection and Disposals, for allowing any relaxed system of payment (other than standard terms) approval of the Government will be necessary. Chief Pay & Accounts Officer will also have to be consulted.

With a view to exercise greater vigilance and tighten up the matter further in Government interest, Office Order No. 141, dated 26-11-1966 has been issued stipulating that bank guarantee should be insisted upon from the contractors whenever standard terms of payment are relaxed and advance payment before despatch is allowed.

(3) The further safeguards to be adopted in the four categories of cases of progress payments mentioned above have been formulated and the present position is as under :

*Category (a)*—A Performance Guarantee to be obtained in such cases in lieu of the hypothecation deed has been finalised in consultation with the Ministry of Law. In addition, a comprehensive Insurance cover will also be necessary.

The matter was included as an item on the Agenda for the 14th meeting of the Central Purchase Advisory Council held on 16-12-67. No objections were raised by the Trade to the introduction of the revised procedure for making 'on account' payments against Performance Guarantee and comprehensive insurance cover. After the matter has been fully considered necessary instructions on the subject will be issued to all concerned.

*Category (c)*—The draft of the Performance Bond to be obtained in such cases has been vetted by the Ministry of Law and has been forwarded to the Ministry of Finance for approval.

*Category (b) & (d)*—A note has been forwarded to the Ministry of Law for consideration of a suggestion about release of initial 95% payment in such cases on the basis of a comprehensive insurance policy duly hypothecated to the President of India. The comprehensive insurance policy will also include cover against the risk of walking away with the chassis by transport agents of Automobiles Manufacturers, *i.e.*

- (i) wrongly withholding delivery;
- (ii) delaying the delivery without any justifiable cause; and
- (iii) converting the property entrusted."

2.47. The Committee note from the reply given to para 8.11 that Government are thinking of prescribing a comprehensive insurance policy to be taken out by a firm which is allowed relaxation in terms of payment so as to cover the following eventualities :—

- (i) wrongly withholding delivery;
- (ii) delaying delivery without any justifiable cause; and
- (iii) converting the property entrusted.

2.48. The Committee would like Government to finalise these proposals at an early date and implement them to avoid a recurrence of such cases.

#### Performance of Firm in respect of other Stores

*Sl. No. 56, paras 7.8-7.10 of Appendix X to the First Report of the Public Accounts Committee (Fourth Lok Sabha).*

2.49. In paras 7.8-7.10, referring to the performance of Messrs U.P.C.C. regarding orders placed for other stores, the Committee observed :

"The Committee are perturbed to note that there have been delays in almost all the orders placed on the firm for supply of stores other than road-rollers. They desire that the question of levying liquidated damages against the firm should be carefully examined by the DGS&D."

"What is more serious is that, the review of two cases regarding the supply of Dozers and Soil Stabilisers have revealed that the firm had fraudulently drawn 80 per cent advance payment on proof of despatch without despatching the complete stores."

"It appears to the Committee that the firm has a persistent tendency to claim payment from Government fraudulently without delivering the goods. The Committee consider that Government should examine thoroughly, without delay, the performance of the firm and its associated companies regarding the supply of stores. The Committee need hardly stress that, where malpractices have been indulged in by the firm or its associated companies, stringent action should be taken against them to safeguard the Public interest. The firm and associated companies should also be proceeded against, under the law, if fraudulent practices are established on investigation by the Central Bureau of Investigation."

2.50. In their reply, the Department of Supply have stated :

#### (1) *Para 7.8*

"On 25-8-67, a Memo was circulated to all Purchase Directorates at Headquarters and Regions to review immediately contracts for stores other than Road Rollers placed on M/s. U.P.C.C. and implement the recommendation of the P.A.C. properly *i.e.* to examine carefully the question of levying liquidated damages against the firm. Out of 17 Directorates both at Headquarters and Regions, only 2 Directorates *i.e.* M.E.S. and Project

have reported placement of certain contracts on M/s. U.P.C.C. The remaining 15 Directorates have categorically stated that they have no contracts pending with U.P.C.C. (P) Ltd. MES Directorate reported position about four cases. With regard to the contract Sl. No. 46, dated 15-2-65 (S. No. 22 of Appendix IX to P.A.C.'s report) for supply of bitumen hot mix plants, position is that A/T was cancelled with financial repercussion on 4-1-67 and for recovery of general damages, the matter is under consideration in consultation with Ministry of Law. In respect of two contracts (Sl. Nos. 24 and 25 of Appendix IX *ibid*) supplies have more or less been completed. In respect of the remaining one case (Sl. No. 23 of App. IX *ibid*) nothing untoward has been noticed so far. A strict watch is, however, being kept. This one case is for 5 Nos. Bitumen Tankers, two of which have been supplied and 3 are still to be supplied. Question of granting extension is under consideration at a high level."

"The Project Directorate has examined in detail 23 A Ts placed on M s. U.P.C.C. by that Directorate, keeping in view the recommendation of the Public Accounts Committee regarding levying of liquidated damages."

(2) *Paras 7.9 and 7.10*

"Recommendations against these paras were circulated demi-officially to all the 17 Directorates both at Headquarters and Regional Offices on 25-8-67 requiring the Directorates to examine immediately the performance of M s. U.P.C.C. (P) Ltd. and its associated companies regarding supply of stores other than road rollers and that any case of malpractice which may come to light as a result of this review, should be immediately reported to C.B.I. for investigation after showing to the competent authority. Only Project Directorate have reported that out of 23 cases where orders have been placed by that Directorate on M's. U.P.C.C. Ltd., there are 4 cases which smack of fraudulent dealings of the firm. The position of the 4 cases is as under :—

(a) A/T Sl. No. 631, dated 12-9-63 (Sl. No. 4 of Appendix IX *ibid*) for 4 Nos. Dragline bucket with attachments—value Rs. 38,045.

Executive Engineer, Karnal, the ultimate consignee, having not confirmed receipt of stores, the case was reported to C.B.I. on 26-6-67 for investigation. It may, however, be noted that A.G. Punjab has accepted the debit in this case.

(b) A/T No. 642, dated 25-9-63 (Sl. No. 16 of Appendix IX *ibid*) for supply of 4 Nos. Michigan Tractor Dozer with attachments and with four sets of tyres—value Rs. 6,36,388."

"The indenter confirmed the receipt of 4 Nos. dozers with all attachments and receipt of 4 tyres instead of 16 tyres. He made local purchase of tyres (3 sets) for Rs. 55,695.48. The firm obtained payment for 3 sets (12 tyres) fraudulently and the matter was reported to the C.B.I., New

Delhi on 15-6-67 for necessary investigation. The question of recovery of general damages from the firm for non-supply of 3 sets of tyres is also under consideration of the Project Directorate."

"(c) A/T Sl. No. 373, dated 21-8-62 (Sl. No. 9 of App. IX *ibid*) for supply of Tractor Dozers—37 Nos., value Rs. 54,03,469. The consignee has confirmed receipt of 36 Nos. out of total 37 Nos. Balance 1 No. was initially supplied by the firm. After working for 200 hours, the machine developed trouble. The same was taken back by the firm for repair and they promised to return the same to the consignee by December, 1966. On 26-3-67, the consignee reported that the firm had not yet returned the dozer. A registered notice was served to the firm on 13-7-67 but nothing has yet been heard from them. The case has been referred to C.B.I. for investigation on 21-9-67. Ministry of Law advised regarding departmental action. Necessary departmental action has already been taken and the firm stands blacklisted. Further action is under consideration of the Directorate."

"(d) A/T Sl. No. 385, dated 4-9-62 (Sl. No. 12 of App. IX *ibid*) for supply of soil stabilizing units—25 Nos., value Rs. 25,03,375 payable in foreign exchange to the firm's principals and Rs. 10,72,189 payable to the firm."

"Out of 25 units of soil stabilisers complete with compactors, 6 Nos. soil stabilisers and 10 compactors have not yet been cleared from Docks at Calcutta. The case has been reported to C.B.I. for investigation on 28-6-67 as the firm fraudulently claimed payment from Pay & Accounts Officer, Calcutta on the false Railway Receipt. The Ministry's note further stated that the case is being further processed by the Director General, Supplies & Disposals and the Department of Supply. The question of clearance is also under consideration at the highest level.

2.51. The Committee would like to know the extent of liquidated damages levied in respect of delays in contracts mentioned in Appendix IX of their First Report (Fourth Lok Sabha) and steps taken by the Government to recover the same.

2.52. The Committee note that the project Directorate have reported that out of 23 cases where orders had been placed on M/s. U.P.C.C. Ltd., there are 4 cases as mentioned above which smack of fraudulent dealings of the firm and which were referred to the Central Bureau of Investigation for investigation in June and September, 1967. The Committee desire that the Central Bureau of Investigation should complete their investigation of these cases expeditiously.

2.53. The Committee would like the Department of Supply to ensure that, in the case of orders placed by other Directorates where either the goods have not been supplied or other malpractices have been indulged in by M/s. U.P.C.C. and/or its other associate companies, the cases are referred to the C.B.I. for investigation.

### **Processing of Complaints by ~~Committee~~**

*Sl. No. 65 para 8.10 of Appendix X to the First Report of the Public Accounts Committee (4th L.S.)*

2.54. In para 8.10, the Public Accounts Committee recommended :

“This sad case has revealed a large number of shortcomings in the Organisation of the DGS&D particularly in regard to processing and placing of A/Ts, dealing with the complaints of consignees, the procedure of inspection and the progress of movement of stores and supplies. In the Committee’s view, the procedure relating to these aspects in the organisation of the DGS&D needs to be critically reviewed without delay.”

2.55. In their reply the Department of Supply have stated :

“This recommendation is a recapitulation of recommendations at S. Nos. 16, 40, 45 and 49 of Appendix X which have been dealt with separately.”

2.56. In Serial Number 40 (para 4.49) dealing with the complaints from the Pay and Accounts Officer and the Chief Pay and Accounts Officer the Committee *inter alia* recommended : “They also feel that procedure should be devised by which such complaints from senior accounts officials of the Department received the personal attention of senior officers of the department so that remedial measures are initiated without loss of time.” In their reply the Department of Supply have stated : “As regards the concluding portion of this recommendation relating to procedural aspect, D.G.S.&D. Memo No. 3(8)/67, dated 4-9-1967 (Annexure . . . . .) has been issued, regarding processing of complaints from Senior Officers of the Accounts Department and other sources. It has been impressed in this Memo. that complaints received by the D.G.S.&D. from the various sources particularly from the Officers of the P. & A.O. etc. should be watched by recipient officers and clear directions should be given to the Junior Officers *i.e.* Deputy Director/Assistant Directors/Section Officers, for their prompt disposals. Officers have also been asked to ensure that remedial measures where necessary are taken without loss of time. Complaints of really serious nature involving fraud and the like should be brought immediately to the notice of the higher officers. It has also been stated in this Memo. that non-compliance of the instructions will be viewed seriously and disciplinary action taken against defaulters.”

2.57. The Committee find that the DGS&D’s instructions issued in their O.M. No. 3(8)/67-O&M, dated the 4th September, 1967 (referred to in Department of Supply’s reply on S. No. 40 *ibid*) do not specifically cover shortcomings in the Organisation in regard to dealing with the complaints of consignees. The Committee suggest that the D.G.S.&D. may devise a procedure by which all serious complaints received from consignees are

immediately brought to the notice of and also periodically reviewed by the senior officers of the Commission so as to ensure and prompt proper action.

2.58. The Commission may be furnished with a copy of the comprehensive instructions which may be issued by Government in the matter.

#### Cases involving Vigilance/Disciplinary Aspects

2.59. The Committee also find from the replies of the Department of Supply in respect of the recommendations contained in Paras 3.94, 3.72, 4.49, 4.75 to 4.78, 5.10—5.12 that the vigilance aspect/fixing of responsibility in these cases is under examination. The Committee desire that examination of these cases should be finalised without delay so that the persons found at fault do not escape disciplinary action.

M. R. MASANI

Chairman,

Public Accounts Committee

NEW DELHI

Dated April 27, 1968  
Vaisakha 7, 1890(S)

## APPENDIX I

### RECOMMENDATION ACCEPTED BY GOVERNMENT

#### *Recommendation of the Committee.*

"The Committee would also suggest that Government should review the entire procedure of preparing the A/Ts in D.G.S.&D.'s office so as to ensure that such serious omissions and lapses do not recur."

[Para 3.50 (S. No. 16 of Appendix X)  
of 1st Report (Fourth Lok Sabha)]

#### *Action taken by Government*

D.G.S.&D. Office Order No. 98 dated the 4th September, 1967 (Annexure) regarding check-points for indent planning, preparation of tender enquiry, consideration of tenders and drafting of contracts has been issued. Clause 24 of the check-points for preparing/checking draft contracts covers the recommendation.

#### Annexure

GOVERNMENT OF INDIA

DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS  
CO-ORDINATION SUPPLIES SECTION IB  
NEW DELHI

OFFICE ORDER NO. 98

DATED : 4-9-1967.

SUBJECT :—*Check points for indent planning, preparation of tender enquiry, consideration of tenders and drafting of contract.*

In Supersession of check points circulated under Routine Note No. 32 dated 26-7-66 and O.O. No. 22 dated 28-2-66, a set of revised check points drawn up for the guidance of the purchase officers/sections at the following stages of procurement action is enclosed :—

- (i) Indent Planning stage.
- (ii) Preparation of tender enquiry.
- (iii) Consideration of tenders  
and
- (iv) Drafting of contract.

2. It should be noted that the check points listed are only intended to be a guide for the purchase officers/sections. They are by no means complete or exhaustive and the purchase officers have to take into account the

detailed instructions contained in the Manual of Office Procedure for Supplies, Inspection and Disposals and other instructions issued from time to time.

**DY. DIRECTOR (CDN. SUPPLIES I)**

**STANDARD DISTRIBUTION,**

(On File No. CSIB/11(22)/1/67).

**I. CHECK POINTS FOR THE INDENT PLANNING**

1. Whether I/O is a pre/post deposit party?  
If pre-deposit party have funds been deposited by them?
2. What is the L.P.P.? Check adequacy of funds provided by indenter as also the financial certificate.
3. Check if consignee and inspection instructions are clear.
4. Have the technical particulars been checked and are the required number of drawings and specifications available?
5. Has the indent been checked by AHSP, in case of Defence indents.
6. Has the proprietary article certificate in the prescribed form been given if the store indented for is proprietary in nature?  
(Para 84-A of DGS&D Manual).
7. In the case of imported stores, has the foreign exchange been provided and its source indicated? If coverage against foreign exchange is out of special loans and funds, follow special procedure—obtain sole agency/waiver for purchase under A.I.D.
8. Whether the delivery period is realistic? If not, the indenter should be informed giving probable time required for delivery.
9. If any of the points at 1-8 above are not clear address a consolidated letter to I/O with target date to make good points 1-8 above.
10. Can the store be covered by Rate/Running Contract. If Rate/Running Contract exist for similar store and if Purchase Officer feels that item on Rate/Running Contract may serve the end use which the I/O has in view, advise I/O to accept the same with target date.
11. Can the stores be covered by placing a repeat order or exercising the option to cover quantity upto 25% reserved against any existing contract?  
(Para 17 of DGS&D Manual & O.O. No. 58 of 1967).
12. Can the indent be bulked with some other indent? If it is decided not to advertise the tender, record clear reasons thereof. L.T.I. should normally be issued to firms registered for stores in question.

If proposed to address likely sources of suppliers who are the un-registered, record clear reasons for doing so.  
(Para 109 of DGS&D Manual).

13. Check correctness of T.E. in all respects and ensure issue of same to correct parties following the correct procedure.
14. If stores are to be imported ensure DGTD clearance is available by the date of tender opening.
15. For machine tools, the Development Officer of D.G.T.D. should be consulted.
16. For operational indents, cover by direct negotiation on the basis of L.P.P. after obtaining competent approval if time does not permit issue of L.T.I.
17. When the indent is Operational, firms to be asked to adhere to the tender opening date and not to ask for any extension.
18. Check if tender samples are really necessary and if not tell I/O to withdraw such a condition. Tender sample stipulation should be made with great care and caution.  
(See Office Order No. 47 of 1966.)

## II. CHECK POINTS FOR PREPARATION OF TENDER ENQUIRY

1. Ensure that standard forms are used for issue of tender enquiry and all amendments authorised to these forms from time to time are carried out before issue.
2. Has time and date for receipt of tenders been indicated?
3. Has the time and date for opening of tenders been indicated?
4. Has reasonable time been allowed to the tenderers to submit their quotations?  
(Para 103 of DGS&D Manual).
5. Has the period for which the tenders are to be kept open for acceptance been indicated realistically keeping in view the nature of the store and the time lag likely to be involved where consultation with the indenter on the suitability of offers received would become necessary.  
(Para 120 of the DGS&D Manual).
6. Ensure that description of stores including specification/drawing is correctly indicated in the schedule.
7. Ensure that the tender enquiry is signed for and on behalf of the purchaser.

8. **Tender samples should not normally be called where there is clear specification/drawing. Where tender sample is called and is required to be furnished to an authority specified for testing, a copy of the enquiry should be furnished to the authority concerned. The time within which the sample should be submitted should also be indicated in the enquiry.**  
(O.O. No. 47 of 1966).
9. **Ensure that the Conditions of Contract applicable has been correctly indicated in the enquiry.**
10. **Ensure that the clauses contained in the standard forms used for issue of tender enquiry and the Central and Special Conditions of Contract should not be reproduced in the tender enquiry.**
11. **Check in case of stores where small scale units will be interested sufficient number of copies of the tender enquiry as required under the rules are sent to the NSIC.**
12. **Have the following clauses been correctly incorporated ?**
  - (a) Sales Tax.
  - (b) Customs Duty.
  - (c) Excise Duty.
  - (d) Transit insurance.
13. **Have you clearly indicated in the Invitation to Tender that if replies to the questionnaire in form No. DGS&D—100B are evasive and not clear, the tenders are liable to be ignored.**
14. **Have you incorporated in the enquiry a warranty clause in respect of stores where warranty clause is necessary ?**  
(Para 132-C of DGS&D Manual).
15. **Have you included the appropriate price variation clause in the enquiry where such a provision is necessary ?**  
(O.O. No. 78 of 1966).
16. **In case of purchase of imported stores ensure that the appropriate Shipping clauses are incorporated in the tender enquiry. Other special conditions viz. payment terms for FOB/FAS contracts etc. should also be indicated in the enquiry.**  
(O.O. No. 49 of 1967).
17. **Have you incorporated in the enquiry the special clause relating to coverage of additional quantity upto 25% ?**  
(O.O. No. 58 of 1967).
18. **Ensure also that all other Special conditions as per existing orders are incorporated in the tender enquiry.**

19. Ensure insertion of pre-estimated liquidated damages clause in the tender enquiry in respect of critical items and other important stores.
20. Lay down principles for evaluation of tenders with the approval of the competent authority and get C/S and ranking statement prepared accordingly.
21. *Special points in regard to risk purchase tender enquiry*
  - (i) Risk purchase tender enquiry should be on the same terms and conditions of the original enquiry.
  - (ii) As far as possible risk purchase should be made by advertised tender.
  - (iii) In special cases where limited tender enquiry is issued the defaulting firm should be given an opportunity to quote unless the breach of the original contract was caused on account of his inability to supply goods of the contract description.  
( Para 239 of the DGS&D Manual )

### III. CHECK POINTS FOR CONSIDERATION OF TENDERS.

#### (A) General Stores

- (i) Check comparative statements submitted with regard to its completeness and particularly in respect of price.  
(Para 142 of DGS&D Manual).
- (ii) Examination of the tenders in depth covering all aspects including existing load on the past suppliers, Delivery offered, performance, technical competence, etc.
- (iii) After going through the tenders, prepare a ranking statement in order of the price indicating quantity offered, delivery, specifications etc. Prepare the ranking statement after compiling prices on equitable basis taking the incidence of all elements of costs such as railway freight, transit insurance, sales tax etc. upto destination. This should be signed by the officer initiating purchase proposals.

**N.B.—**Ranking statement must cover at least three offers next higher than the lowest one proposed to be accepted.

(O.O. No. 54 dated 12-6-67).

#### (B) Plant & Machinery

- (i) Check the comparative statement for its completeness.
- (ii) Check the prices of all the tenderers with the tenders for its correctness.

- (iii) Scrutinise tenders for technical specifications and corresponding price.
- (iv) Prepare ranking statement in order of the price, taking into account specifications, price, delivery and capacity of the firm. Prepare the ranking statement after compiling prices on equitable basis taking the incidence of all elements of costs such as railway freight, transit insurance, sales tax etc. upto destination.

*N.B.*—The ranking statement must include at least three offers *next higher* than the one proposed to be accepted.

(C) *General.*

- (i) Check up if any un-registered firm comes into zone of consideration. If such a firm is an S.S.I. Unit and the item involved is a simple store, ask for a competency certificate from the N.S.I.C. But if the item required involves a safety angle, obtain a capacity report from the Inspecting authority concerned. Only if the report is favourable and the firm is registered with NSIC consider waiver of security deposit. In respect of other un-registered firms coming within the zone of consideration, ask for capacity report from the Inspecting authority, banker's report from the bankers and I.T.C.C. only if the offers of such parties are acceptable technically or otherwise. This action should be taken with the approval of the competent authority immediately after the preparation of the ranking statements.

(Para 149 of DGS&D Manual).

- (ii) Ensure that capacity reports are not called for haphazardly and in piece-meal and earlier capacity reports should be made full use of which are valid for a period of one year. Again capacity reports are to be called for only on firms who come within the zone of consideration. Further, no capacity report need be called or in respect of firms either recommended by the D.G.T.D. or borne on the list of D.G.T.D. as scheduled industries. Part coverage can be made on such firms.

(O.O. No. 28 of 1967).

- (iii) Where stores are required to I.S.I. specifications and firms quote for I.S.I. marked goods and submit proof that they are authorised to mark their products as I.S.I. marking, no capacity report need be called for.
- (iv) Check if foreign exchange is required. If so, take up with the indenter immediately, giving him target date.
- (v) Check up if clearance for import is necessary if so, obtain the same from the DGTD straightway.

- (vi) Check up if additional funds would be necessary. If required, take up with the indenter straightway and give him a target date.
- (vii) Check up terms and conditions offered by firms within consideration zone and high-light those terms and conditions, which are at variance with our general conditions of the contract. High-light the existing load and past performance of the firms recommended for placement of orders. Bring out very clearly deviations, if any, proposed to be allowed from our standard terms relating to inspection, despatch, payment, price variation, arbitration clause etc. for any special reasons and obtain sanction of the competent authority.
- (viii) Check up if essentiality certificate is required for ferrous metal. If necessary, make an immediate reference to MES Section for ferrous metals.
- (ix) Ensure that the late offers are not recommended as routine, but where it is inevitable, obtain the approval of the competent authority from the very beginning.
- (x) Check up, if for technical assessment, a reference to the indenter is necessary. If so, it must be made immediately after the ranking statement is ready after obtaining competent approval. Such a reference should be precise and should contain our own analysis/ recommendations giving a realistic target date to reply.
- (xi) Ensure that the delivery available from the tender(s) recommended for acceptance will meet the indentors requirements.
- (xii) Check if a pre-estimated liquidated damages clause is to be enforced on the successful tenderer and whether he has accepted the same.
- (xiii) Bring out clearly pre-contract deviations, if any, proposed to be allowed clearly in the purchase proposals.
- (xiv) Ensure that in case of Rate/Running Contracts, contracts are normally placed on registered and established firms which are capable of supply of stores required. Check the nature of the indent and ensure coverage of 80% of total requirements in case of urgent/ express indents on registered or known supplies and only 20% on other unregistered and untried firms, subject to favourable capacity reports. In case of ordinary indents, 30% should be covered on registered and known suppliers straightway and balance 50% after receipt of satisfactory capacity reports on unregistered and untried firms.

(O.O. No. 19 of 1967).

**(D) Special points in regard to risk purchase contracts.**

- (a) It should be ensured that risk purchase agreement is concluded within 6 months of the date of breach of the original contract. Law

Ministry should be consulted in case of doubt about the date of breach.

(b) Risk purchase contract should be on the same terms and conditions as the original contract (apart from delivery time) *i.e.* the goods should be of the same specification, liable to inspection by the same Inspection authority etc.

(c) If the defaulting firm's quotation happens to be the lowest it should be accepted normally. In order to safeguard against a second default, the defaulting firm should in such cases be asked to furnish 10% Security Deposit before contract is actually awarded to them.

(Para 239 of the DGS&D Manual).

#### IV. CHECK POINTS FOR PREPARING/CHECKING DRAFT CONTRACT

1. Have the name and address of the contractor been correctly incorporated in the A/T ?
2. Have you satisfied yourself that the delivery period stipulated in the contract is in accordance with the delivery offered by the tenderer and is not vague ?
3. If the firm has asked sales taxes extra, have you made provision for that in the contract indicating specific rate of taxes.
4. If the firm has asked for excise duty as extra, have you made provision for that in the contract ?
5. Have you ensured that the terms and conditions stipulated in the contract are accepted by the firm in its offer ?
6. Have you given the consignee instructions correctly ?
7. Have you given despatch instructions correctly ?
8. Have you shown the inspection authority and Inspecting Officer correctly ?
9. If the inspection responsibility is that of sub-office of an Inspection Circle, have you also endorsed a copy of the contract to the concerned sub-office ?
10. Have you given the head of account and Accounts Officer of the Indentor correctly ?
11. Has the arbitration clause been properly incorporated in the contract in keeping with answer to Q. No. 14 from DGS&D 100-B in firm's tender ?

12. Have you ensured that the specifications given in the contract are in accordance with those accepted by the firm and are complete in all respects?
13. Have you satisfied yourself that all relevant communications from the contractor have been referred to in the contract?
14. Have you ensured that the name of the paying authority is correctly mentioned in the contract?
15. Has the firm, if unregistered, agreed to deposit security against the contract? If so, has the necessary provision been made in the contract?
16. In case of approval of advance sample/drawing by the indenter/consignee, has a definite time limit been laid down for the return of the approved sample/drawing?
17. Has the transit insurance clause been correctly stipulated?
18. Have copies of the contract been correctly endorsed particularly to the Inspector and the Pay & Accounts Officer?
19. Is the 'Steel Clause' stipulated in the contract strictly in accordance with the tender condition and Essentiality Certificate obtained from MES Section and attached to the A/T?
20. In case of imported stores where Import Recommendation Certificate is required to be issued, is the IRC being issued with the A/T?
21. In case of imported stores, has the Customs Duty Clause been correctly incorporated?
22. If the firm has agreed to placement of additional 25% quantity, has the Govt.'s right been reserved up to the agreed date?  
(O.O. No. 58 of 1967).
23. Has a Warranty Clause as agreed to by the firm been incorporated? Where necessary stipulate condition for furnishing Warranty/Bank Guarantee/Performance Bond/Hypothecation deed/Indemnity Bond etc. after getting the forms of the same vetted by the Contract Officer.
24. Have you ensured that all the clauses/conditions/stipulation proposed to be included in the contract according to the purchase proposal or based on the advice of the Min. of Law, if any, have been duly incorporated in the draft contract?

*Recommendation of the Committee.*

"It would be recalled that out of orders for 1229 road rollers placed on the firm as many as 419 have not been supplied which is some indication of the fact that the demands could not be very pressing."

[Para 3.68 (S. No. 19 of Appendix X)  
of 1st Report (Fourth Lok Sabha)]

*Action taken by Government.*

The observation of the Public Accounts Committee has been brought to the notice of all indentors advising them that only the minimum quantity of stores required should be indented on the DGS&D and that the demands should not be unduly exaggerated.

*Recommendation of the Committee.*

"The Committee suggest that in such cases where the distribution of a product in short supply is frozen in the public interest, a careful assessment should from time to time be made of the actual requirements, in order to make sure that in the name of the national emergency, uneconomic units or those whose performance is not up to the mark are not given undue protection."

[Para 3.69 (S. No. 20 of Appendix X)  
of 1st Report (Fourth Lok Sabha).]

*Action taken by Government.*

D.G.S.&D. Office Order No. 96, dated the 31st August, 1967 (Annexure—) has been issued stating that in cases where distribution of a product in short supply is frozen in public interest, a careful assessment should from time to time be made of the actual requirements in order to make sure that in the name of National Emergency uneconomic units or those whose performance is not up to the mark are not given undue protection.

**Annexure**

DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS (CDN-1  
SECTION) NEW DELHI

OFFICE ORDER NO. 96

DATED 31-8-67

SUB :—*Short supply items—Instructions regarding.*

It has been decided that in cases where the distribution of a product in short supply is frozen in the public interest, a careful assessment should from time to time be made of the actual requirements, in order to make sure that in the name of national emergency, uneconomic units or those whose performance is not up to the mark are not given undue protection.

All Purchase Officers may please note for compliance.

(S. K. Joshi)  
Dy. Director (Cdn. Supplies)

Standard Distribution

(On file CSIA/53(22)/1)

Copy to : Audit Cell with reference to their memo No. CSAC/AP/4(45)/67 dated 21-8-67.

*Recommendation of the Committee.*

"The procedure for considering cases of division of the purchase price should provide that the performance of the firm and of the stores supplied by it should be specifically examined so that while revising the price the performance aspect is not overlooked."

[Para 3.105 (S. No. 32 of Appendix X)  
of 1st Report (Fourth Lok Sabha).]

*Action taken by Government.*

The Comments of the Public Accounts Committee have been specifically brought to the notice of all Purchase Officers *vide* DGS&D Memo. No. CSIB/45(8)/1/67, dated the 8th September, 1967 (Annexure—).

**Annexure****GOVERNMENT OF INDIA****DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS****(CO-ORDINATION SUPPLIES SECTION 1B)****NEW DELHI**

Memo. No. CSIB/45(8)/1/67

Dated: 8-9-1967

*SUB :—Revision of payment terms after placement of contracts.*

A case has come to notice where the contracting firm came up for revision of payment terms after the placement of contract. The contract provided the usual payment terms *i.e.* 90% on proof of inspection and despatch and the balance 10% on receipt of stores by the consignee. The firm came forward with the plea that they could increase their production if payment was made on proof of inspection without waiting for proof of despatch. A decision was taken in that case that 90% payment should be made on proof of inspection, another 5% on proof of despatch and the balance 5% on receipt of stores by the consignee. It was also decided that the revised terms of payment should be valid for a period of 6 months in the first instance. But later the revised terms of payment as stated above were allowed to continue even after the initial period of 6 months. While extending the period for allowing the liberalised terms of payment the question whether the promise given the firm (*i.e.* they would increase the production) was matched by performance

was not taken into account. The Public Accounts Committee in their first report (4th Lok Sabha) have made the following recommendation in regard to the above transaction :—

“The procedure for considering cases of revision of purchase price should provide that the performance of the firm and of the stores supplied by it should be specifically examined so that while revising the price the performance aspect is not overlooked.”

All Purchase Officer/Sections are requested to note the above instructions.

Deputy Director (CS-I)

All Purchase Officers/Sections.

*Recommendation of the Committee.*

“Government should examine whether it would not be desirable to prescribe that where the Pay & Accounts Officer/Chief Pay & Accounts Officer attached to a Department like the Department of Supply, notices any serious irregularity, he should bring the matter to the notice of the Head of the Department and endorse a copy to the Financial Adviser of the Department so that administrative action required can be taken in consultation with the Ministry of Finance without loss of time. This would have the added advantage of keeping the Financial Adviser posted with the performance of the firm as far as delivery of goods and payments are concerned.”

[Para 3.106 (S. No. 33 of Appendix X)  
of 1st Report (Fourth Lok Sabha).]

*Action taken by Government.*

Suitable instructions have been issued in consultation with the Ministry of Finance to the Chief Pay and Accounts Officer (Supply), New Delhi vide Department's O.M. No. 13(16)/67-PI, dated the 29th September, 1967 (Annexure—).

#### **Annexure**

### **DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS**

**(CO-ORDINATION SUPPLIES SECTION IB)**

**NEW DELHI-1**

*Routine Note No. 58.*

*Dated : 18-10-1967.*

**SBU :—Public Accounts Committee—1st Report (III Lok Sabha)—  
Recommendation No. 33.**

A copy of Department of Supply Office Memorandum No. 13(16)/67-PI, dated 29-9-67 on the above subject is forwarded herewith for information and guidance.

Sd/- M. M. Pal  
Deputy Director (CS-I)

Standard Distribution.

(On file No. CSIB/45(9)/1/67.)

Paper forwarded.

Copy of Office Memorandum No. 13 (16)/67-PI, dated 29-9-67 from Min. of WH&S., Deptt. of Supply, New Delhi, addressed to Chief P&AO (Supply), New Delhi.

SBU :—*Public Accounts Committee—1st Report (III Lok Sabha)—Recommendation No. 33.*

The Public Accounts Committee in their 1st Report (4th Lok Sabha) relating to the purchase of Road Rollers have made the following recommendations :—

“Govt. should examine whether it would not be desirable to prescribe that where the Pay & Accounts Officer attached to a Department like Deptt. of Supply, notices any serious irregularity, he should bring the matter to the notice of the Head of the Department and endorse a copy to the Financial Adviser of the Deptt. so that the administrative action required can be taken in consultation with the Min. of Finance without loss of time. This would have the added advantage of keeping the Financial Adviser posted with the performance of the firm as far as delivery of goods and payment are concerned.”

2. This Min. have accepted the above recommendations of the Public Accounts Committee. It is, therefore, requested that action may be taken in accordance with the above recommendation as and when any serious irregularity comes to notice.

3. This issues with the concurrence of the Min. of Finance (S.W.).

Sd/-

Under Secy. to the Govt. of India.

*Recommendation of the Committee.*

“The Committee note that the DGS&D have issued comprehensive instructions on 25th May, 1967, on progressing of supplies against contracts where progress/advance payments are authorised. The Committee would like Govt. to ensure that all contracts where progress payments have been authorised are reviewed to make sure that the goods for which advance payments have been made are actually received by the consignees in time. They would like Govt. to ensure that the procedure envisaged for making

“local enquiries” and “on the spot investigations” for making sure of the receipt of goods by consignees is given effect to by the field organisation in letter and in spirit.”

[Para 5.13 (S. No. 48 of Appendix X)  
of 1st Report (Fourth Lok Sabha.)]

*Action taken by Government.*

D.G.S.&D. Office Order No. 86 dated the 14th August, 1967 has been issued to meet the requirements of this recommendation.

*Recommendation of the Committee.*

“The Committee desire that the loss of files from the office of the DGS&D may be investigated and suitable action taken against the persons at fault.”

[Para 6.37 (S. No. 54 of Appendix V)  
of the 1st Report (4th Lok Sabha)]

“The Committee note that the Central Bureau of Investigation have already been asked to investigate the possibility of collusion between the firm and the members of the staff of DGS&D either on the purchase side or on the inspection side. The C.B.I. may also be informed of the loss of these files in case the efforts to trace them in the office of the DGS&D fail.”

[Para 6.38 (S. No. 55 of Appendix X)  
of the 1st Report (4th Lok Sabha)]

“Since any delay in finalisation of the investigation might make it difficult to pinpoint responsibility in this case, the Committee desire that the C.B.I. should finalise their investigation expeditiously.”

[Para 6.39 (S. No. 55 of Appendix X)  
of the 1st Report (4th Lok Sabha)]

*Action taken by Government.*

At the end of December, 1965 the following 9 files were missing :—

<i>S. No.</i>	<i>A/T No. and date</i>
1.	SE7/5689-K/5690-K/175-L/II/2712, dt. 19-3-60 for 9 Nos.
2.	SE7/17117-M/II/3007 for 1 No.
3.	SE7/17118-M/II/3007 for 1 No.
4.	SE7/13415-M/3007, dt. 12-7-61 for 1 No.
5.	SE7/5754-K/II/3053, dt. 18-8-61 for 19 Nos.
6.	SE7/15109-M/II/3060, dt. 22-9-61 for 2 Nos.
7.	SE7/972-M/II/3061, dt. 22-8-61 for 1 No.
8.	SE7/20227-I/II/3027, dt. 31-8-61.
9.	SE7/2842-N/II/276, dt. 6-8-63 for 2 Nos.

Eight files at S. Nos. 1 to 8 have already been traced out from the Finalisation Wing and the Record Room of the DGS&D in the later part of June, 1967. Files at S. Nos. 1 and 7 have been handed over to Special police Establishment on 7-7-1967 and files at S. Nos. 2 to 6 and 8 have been handed over to S.P.E. on 4-7-1967.

The remaining file viz. at S. No. 9 is not traceable. It, however, pertains to A/T No. 276, dated 6-8-63. As per P&AO, Calcutta's statements, this A/T stands cancelled on 4-11-63. No road roller was put up for inspection against this A/T nor any payment made against this A/T.

A copy of letter No. OSD/PAC-Report/67/54 & 55, dt. 18/19th September, 1967 to Shri R. K. Raisinghani, Deputy Inspector General, CBI, R. K. Puram, New Delhi explaining the position in respect of the missing files, is attached as Annexure.

#### Annexure

Copy of letter No. OSD/PAC/Report/67/54 & 55, dated the 18/19th September, 1967 from Shri A. R. Khosla, Director (Special Duty), DGS & D, New Delhi, addressed to Shri R. K. Raisinghani, Dy. Inspector General, C.B.I., R. K. Puram, New Delhi.

**SUBJECT :—***Action taken on the recommendations contained in the First Report of the Public Accounts Committee (1967-68) on Para 78 of Audit Report (Civil) 1967 regarding purchase of road rollers from UPCC Pvt. Ltd.*

**REFERENCE :** Your D.O. letter No. 6351/3/22/66-GWI-CIA(I), dt. 21-8-67 to Shri S. S. Puri, Director (Vigilance), Department of Supply.

I am directed to state that with regard to PAC recommendations S. Nos. 54 and 55 (Paras 6.37 and 6.38), the position relating to the loss of files from DGS & D office is as under :—

At the end of December, 1966, the following 9 files were missing :—

1. SE-7/5689-K/5690-K/175-L/II/2712, dt. 19-3-60 for 9 Nos.
2. SE-7/17117-M/II/3007 for 1 No.
3. SE-7/17118-M/II/3007 for 1 No.
4. SE-7/13415-M/II/3007 dt. 12-7-61 for 1 No.
5. SE-7/5754-K/II/3053 dt. 18-8-61 for 19 Nos.
6. SE-7/15109-M/II/3060 dt. 22-9-61 for 2 Nos.
7. SE-7/972-M/II/3061 dt. 22-8-61 for 1 No.
8. SE-7/20227-L/II/3072 dt. 31-8-61.
9. SE-7/2842-N/II/276 dt. 6-8-63 for 2 Nos.

8 files at S. Nos. 1 to 8 above, have already been traced out from Finalisation Wing and Central Report Room of this office in the later part of June,

1967. Files at S. Nos. 1 to 7 were handed over to SPE on 7-7-67 and files at S. No. 2 to 6 and 8 were handed over to SPE on 4-7-67.

The remaining file at S. No. 9 is not traceable. The file, however, pertains to A/T S. No. 276 dt. 6-8-63. As per P&AO, Calcutta's statement, this A/T has been cancelled on 4-11-63. No road roller was put up for inspection against this A/T nor any payment made whatsoever against this A/T. Hence it is considered that the loss of this file, which could not be traced, is not very material.

In view of the position stated above, no further action is now considered necessary on these recommendations so far as DGS&D are concerned.

*Recommendation of the Committee :*

"The Committee while dealing with this case, have been conscious of a feeling of oppression caused by the numerous points at which the absence of adequate supervision has made itself felt and the handling of the taxpayers' money has been characterised by a kind of casualness and light-heartedness that was not to be expected from those entrusted with the handling of public funds and the safeguarding of the public interest. In the result, the fullest advantage was taken of these lapses on the part of certain officers of Government by the firm in question."

[Para 8.12 (S. No. 67 of Appendix X)  
of the 1st Report (4th Lok Sabha)]

*Action taken by Government :*

This is a general recommendation. It is hoped that in view of the existing Office Orders and Circulars on the subject and those issued recently, there will be greater realisation on the part of the Government officials to exercise proper care in safeguarding Government interests.

## APPENDIX II

### RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLY

#### *Recommendation of the Committee :*

"The Committee are unable to understand, how orders for 69 Road Rollers were cancelled, after making 90% of the advance payment totalling Rs. 31.09 lakhs to M/s. U.P.C.C. (P) Ltd. They find it even more difficult to appreciate how Government should not adjust the amount advanced thus to the firm against other orders or alternatively diverting the road rollers, for which 90% advance had been paid, to other consignees. It is also a moot point whether Government could not have used its pivotal position to recover the advances made to the firm by refusing to issue release orders in favour of quasi-governmental indentors until the advances were returned. The Committee would like Government fully to investigate the matter and take deterrent action against the parties at fault. Remedial measures should also be devised to ensure that such lapses do not recur."

[Para 3.82 (S. No. 26 of Appendix X)  
of 1st Report (Fourth Lok Sabha)]

#### *Action taken by Government :*

All the Orders for 69 Road Rollers against various A/Ts were cancelled in October and December 1966 by which time all payments to the firm from D.G.S. & D. were stopped and the matter had been reported to the C.B.I. for investigation. It will, therefore, be appreciated that the question of diversion of these road rollers against other A/Ts or adjustment of the advance did not arise.

69 road rollers mentioned above, are not in existence. There were 38 road rollers at one time which were re-inspected and inspection notes issued. Out of these 38 road rollers, the firm despatched 5 Nos. directly to the respective consignees on 23-1-1967 and 4 Nos. have been delivered on 6-5-1967 to D.G.S.&D., Remount Dept., Calcutta. Thus a total of 9 road rollers have been received. From the time when the alleged fraud came to light in September, 1966, no release order has been issued to M/s. UPCC by the D.G.S.&D.

### APPENDIX III

#### RECOMMENDATION IN RESPECT OF WHICH REPLIES OF GOVERNMENT ARE NOT ACCEPTABLE TO THE COMMITTEE AND WHICH HAVE BEEN RESTRICTED

##### *Recommendation of the Committee :*

"The Committee regret to note that Chief Pay & Accounts Officer was not consulted before the relaxed terms of payment were adopted. This is all the more serious in view of the fact that Chief Pay & Accounts Officer had desired in the past that he should be associated wherever the terms of payment were relaxed."

[Para 3.30 (S. No. 6 of Appendix X)  
of 1st Report (Fourth Lok Sabha)]

"The Committee would like the Department of Supply to consider in consultation with the Ministry of Finance, whether it would not be better in the interest of financial prudence to prescribe that, in all cases of substantial relaxation or modification of terms of payments, the advice of Chief Pay & Accounts Officer is invariably obtained before taking a final decision in the matter."

[Para 3.31 (S. No. 7 of Appendix X)  
of 1st Report (Fourth Lok Sabha)]

##### *Action taken by Government :*

Para 265 of the Manual of Office Procedure for Supplies, Inspection and Disposals already provides that if a departure from the standard system of payment is to be made in any case the orders of the D.G.S.&D. should be obtained through the Co-ordination Supplies Section which will consult the Chief Pay and Accounts Officer and obtain orders of the Government where necessary. This provision has also been brought to the notice of all concerned through Para 1 of the D.G.S.&D. Office Order No. 141, dated the 26th November, 1966.

#### Annexure

#### GOVERNMENT OF INDIA

#### DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS

N. I. BUILDING, PARLIAMENT STREET, NEW DELHI-1.

OFFICE ORDER NO. 141

Dated 26-11-1966.

SUBJECT :—Departure from the standard terms of payment provision for obtaining adequate security where payment before despatch of stores is allowed with the approval of competent authorities.

As Purchase Sections are aware, the standard terms of payment prescribed in the General & Special Conditions of Contract governing contracts

entered into by the DGS&D Form No. DGS&D 68-Revised, Form DGS&D-69/70 and Form DGS&D-71 provide for an initial payment of 95%, 98% and 80% respectively on proof of despatch after inspection and production of inspection notes. Initial payment after inspection but before despatch is a departure from the above standard terms. Para. 265 of the Manual of Office Procedure for Supplies, Inspection and Disposals lays down that if a departure from the standard system of payment is to be made in any case, orders of the DGS&D should be obtained through Co-ordination Supplies Section which will consult the Chief Pay & Accounts Officer and obtain the orders of the Government.

2. In a recent case, it was observed that advance payment after inspection but before despatch was allowed with the approval of competent authorities, but as the contractors failed to supply stores for which payments were received by them before despatch, certain difficulties arose. These difficulties could have been avoided if adequate security was obtained from the contractors to ensure that they supplied stores according to the terms of the contracts against which such advance payments were made. Attention in this connection is invited to O.O. No. 69 dated 24-5-63 and Office Order No. 152 dated 22-11-63 with which Ministry of Supply & Tech. Dev.'s orders regarding on account payment/progress payments were circulated to Supply Sections. Under the above Office Orders, adequate security such as hypothecation deed and insurance cover/Bank Guarantee have to be obtained before authorising 'on account'/progress payments, which are in the nature of payments in advance of despatch of stores covered by the contract. It has been decided that a similar security such as Bank Guarantee should be insisted upon from the contractors whenever standard terms of payment are relaxed and advance payment before despatch of stores is allowed.

3. Supply Sections are requested to note the above instructions carefully for strict compliance.

Sd/-  
DIRECTOR (CS&O&M)

Standard Distribution

[On File No. CSID/1(15)/II/64].

*Recommendation of the Committee :*

"The Committee would like Government to look into this serious omission and fix responsibility for it. They would also like Government to take suitable remedial measures to ensure that, where a decision is taken on Government file, the attached offices concerned not only keep complete copies of the notes and orders of Government on the subject but also take suitable measures to comply with them."

[Para 3.72 (S. No. 22 of Appendix X)  
of 1st Report (Fourth Lok Sabha)]

*Action taken by Government :*

The question of fixing responsibility for this lapse is being examined and the Public Accounts Committee will be informed in due course.

As regards remedial measures to ensure that where a decision is taken on a Government file, the attached offices concerned not only take complete copies of notes and orders on the subject but also take suitable measures to comply with them, DGS&D have issued Memo. No. 3(8)/67-O&M, dated 4-9-1967 (Annexure). In this Memo. attention has been drawn to Memo. No. 3(8)/67-O&M. dated 17-5-1967 (Annexure II) which envisages that dealing officer *i.e.* Deputy Director/Assistant Director/Section Officer should himself examine the cases referred to the D.G.S.&D. by other Departments and ensure that all relevant extracts have been taken therefrom. As non-compliance of Government's decision intimated to attached/subordinate offices is tantamount to a serious lapse on the part of officials concerned, the Branch Officer and the Officer-in-charge of the Section should personally ensure in future that where a decision is taken on a Government file not only complete copies of the notes and orders of the Government on the subject are retained but also strict watch is kept for urgent compliance of these decisions.

ANNEXURE—I

No. 3(8) 67-O&M

GOVT. OF INDIA

DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS

(O&M DIVISION)

New Delhi, the 4th September, 1967

MEMO.

- SUB.—(i) Unofficial references files referred to by the Ministry of WH&S Other Deptts. etc.—retention of relevant extracts by Attached/Subordinate offices of the decisions taken on Govt. files and ensuring strict compliance thereof.
- (ii) Processing of complaints from senior officers of the Accounts Deptt. & other sources.

In their first report (Fourth Lok Sabha) Public Accounts Committee, while examining a case relating to the purchase of Road Rollers, have made the following observations :

“They would also like Government to take suitable remedial measures to ensure that, where a decision is taken on a Government file, the attached offices concerned not only keep complete copies of the notes and orders of Government on the subject but also take suitable measures to comply with them.”

2. Instructions were recently issued in O & M Division Memo No. 3(8)/67-O & M dated the 17th May, 1967 which envisages that the dealing officer i.e. Dy. Director/Asstt. Dir./Section Officer should himself examine the cases referred to this office by other Deptts. and ensure that all relevant extracts have been taken therefrom. As non-compliance of the Govt.'s decision intimated to the Attached/Subordinate offices tantamounts to a serious lapse on the part of the officials concerned, the Branch Officer and the officer incharge of the Section should personally ensure in future that where a decision is taken on a Govt.'s file, not only complete and the relevant extracts of the notes and orders of the Govt. on the subject are retained, but also strict watch is kept for urgent compliance of these decisions.

3. There have also been some cases in the past where complaints from senior officers of the Accounts Deptt. as well from various other sources, addressed to the offices of this office, have not been attended to promptly, nor were they brought to the notice of the senior officers. It has accordingly been decided that complaints received by this office from the various sources, particularly from the officers of the Pay & Accounts Office etc. should be watched by the recipient officers or clear directions should be given to the junior officers (Dy. Director/Asstt. Dir./Section Officer) for their prompt disposal. They will also no doubt ensure that remedial measures where necessary are taken without loss of time. Complaints of really serious nature involving fraud and the like, should be brought immediately to the notice of the higher officers.

4. Non-compliance of the above instructions will be viewed seriously and disciplinary action taken against the defaulters.

Sd -

Director (O & M & CDN)

1. Standard Distribution.
2. Heads of all Regional offices.

Copy forwarded to :

Director (SD)— Shri J. Maneksha With ref. to his UO Note No OSD/PAC/I Report Genl./I dated the 29th August, 1967. DO letter No. 3(87) '67-O & M, dated 25-5-67 from DDG(A) regarding processing of complaints of serious nature also refers

ANNEXURE--II

No. 3(8)/67-O&M

GOVT. OF INDIA

DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS

(O&M DIVISION)

New Delhi, the 17th May, 1967

MEMO

**SUB :—**Unofficial references files referred to by other Departments etc.—  
Responsibility for retention of relevant extracts therefrom.

Attention is invited to sub-para (ii) of para 91 of Central Secretariat Manual of Office Procedure, 1963 which stipulates *inter alia* that "Unofficial references which are to be returned in original will be noted upon in the manner described in Para. 34 of the Manual without their being brought on to a file. A copy or a summary of the unofficial reference, together with a copy of the note recorded on the file of the originating Ministry in reply, should be retained, when necessary, and placed in the Notes' part of the file."

2. It has been observed that the instructions referred to above are not observed fully inasmuch as whenever an extract from files/cases received from other Departments etc. is required to be kept, this job is left to dealing Assistant UDC who exercise their own discretion in the matter and sometimes leave out important notes etc. It has, therefore, been decided that in the cases referred to above the dealing officer *i.e.* Dy. Director/Assistant Director/Section Officer should himself examine the case and give clear instructions to the dealing Assistants/Clerks indicating the portions of which extract should be kept for record. The officer incharge of the Section should satisfy himself that all relevant extracts have been taken and ensure correctness of the same before returning the case to the Deptt. etc. from where it is received.

Sd/-

Director (O&M & CDN)

1. All Sections at Headquarters.
2. Heads of all Regional offices.
3. DDG(A) DD(Vig.)

*Recommendation of the Committee :*

"The Committee feel that the request of the firm of September, 1963, regarding withdrawal of discount of Rs. 250 per road roller should have been examined by the Department of Supply and the Ministry of Finance in the light of the relaxation in the terms of payment already agreed to by them in July, 1963. Since the terms of payment had already been relaxed in July, 1963, which in itself gave a concession to the firm of about Rs. 1,900 per road roller @ 4% discount earlier offered by the firm in their 5th request, the withdrawal of discount of Rs. 250 per road roller was an additional benefit to the firm."

[Para 3.93 (S. No. 27 of Appendix X)  
of 1st Report (Fourth Lok Sabha)]

*Action taken by Government :*

Discount of Rs. 250 was specifically offered by the firm in their 1961 offer for 37 road rollers. The same discount continued to apply to subsequent A/Ts placed on them upto 17-12-1963. In September, 1963, however, the firm advised D.G.S. & D. by a letter that this discount should not be made applicable to further A/Ts. This had to be agreed to on account of the following factors :—

- (a) There was no legal basis for DGS&D insisting on the firm to continue the same discount.
- (b) The other road roller manufacturers were also coming up for increase in prices.
- (c) U.P.C.C. prices still remained competitive even after withdrawal of discount of Rs. 250.

In this connection, the Ministry of Finance have furnished a note, a copy of which is enclosed as Annexure.

*Audit Observation :*

The Ministry of Finance have stated (*vide* Appendix I to Ministry's note) that the fact of relaxation in the terms of payment having been allowed to the firm "only recently" had *not* been brought out in the notes that were submitted to the Ministry of Finance by the Director General, Supplies and Disposals in October-November, 1963. The fact, therefore, remains that the request of the firm of September, 1963, regarding withdrawal of discount of Rs. 250 per road roller, was not examined by the Department of Supply and/or the Ministry of Finance in the light of that relaxation which had been agreed to by them in July, 1963, involving a concession to the firm of about Rs. 1,900 per road roller @ 4 per cent discount earlier offered by the firm.

ANNEXURE  
MINISTRY OF FINANCE (SW)

It would be seen from the relevant noting that the case was subjected to a thorough scrutiny in the Ministry of Finance. When the Directorate's proposal was received by Finance with a bare note information required for considering it was asked for from the Directorate. The tender of 1961 was looked into and also the overall picture of the prices and terms and conditions of the 3 manufacturers. The case was fully gone into with reference to (i) the contractual right of the Government to claim the continuance of discount; (ii) the price structure of the three manufacturers, and (iii) the relative terms and conditions.

In regard to (i), it was noticed that there was no contractual right on our side to claim or an obligation on the part of the firm to continue to give this discount. Legally, the discount could not have been insisted upon.

Regarding (ii) the existing price of the road rollers supplied by UPCC had been fixed in June, 1961. Since then there had been a substantial increase in price of the various articles purchased by the DGS&D because of the Chinese aggression and other reasons. M/s. Jessops, another producer of road rollers whose price had also been fixed in February, 1961 at Rs. 48,927 inclusive of excise duty of Rs. 304, had been allowed an increase of Rs. 401 in September, 1962 and in 1963 they had put in a demand for a further increase in price by Rs. 1,874 *i.e.* about 4.6% over 1961 prices and 3.8% over 1962 prices, which was currently under consideration. At the same time M/s. Britannia, the third producer had also put in a demand for an increase in the price for their road rollers by Rs. 3,800 *i.e.* about 6% over their price of Rs. 47,310. Negotiations had been held in early 1963 with both M/s. Jessops and M/s. Britannia on the price question but no agreement had been reached. The proposal of the D.G. to agree to the request of UPCC for withdrawal of the discount was considered in this context. Viewed in the light of the demand made by the other producers and the discussions held with them, the proposal did not appear to be unreasonable. The fact that the firm had been allowed a concession in payment terms did not enter into consideration for the following reasons :

There was no uniformity in the terms and conditions of the contracts with the three firms. In the case of M/s. Jessops, the contracts provided for variations in price on account of variations in the price of engine, steel, wages, customs duty, rate of exchange as well as excise duty on engine. In the case of M/s. UPCC the price was subject to variation on account of customs duty on imported components, excise duty on engine and variation in

the rate of exchange. They also had concessional payment terms. In the case of M/s. Britannia, however, the price was subject to variation on account of excise duty on engine only. It was difficult to evaluate these variations in the terms and conditions of the three firms. *Prima facie* however, considering that M/s. Jessops had been allowed variations on more items of cost, it did not appear that the terms allowed to UPCC including the concessional payment terms were very liberal. The officers who dealt with the case at that time were not personally aware that the relaxation in the terms of payment had been allowed only recently. This fact had not been brought out in the notes that were submitted to them by the DGS&D. There was therefore, no reason to correlate the proposal for withdrawal of the discount with the decision to allow the relaxation in payment terms. It was believed that the existing price and the terms had been fixed taking into account all the relevant factors, and the proposal regarding withdrawal of the discount was considered on merits in the light of the existing circumstances.

It is doubtful if it could be said even in retrospect that the withdrawal of the discount had conferred an undue benefit on the firm, but for the fraud committed by it which came to light later. After protracted negotiations with M/s. Jessops and M/s. Britannia, they were allowed increases in price of Rs. 1,672 and Rs. 2,190 with effect from 1-5-64 and 1-6-64 respectively; the increase would work out to 3.4 and 4.6% over their previous prices.

It would thus be seen that the case was fully examined in the light of the facts then available and known to the dealing officers. Even though the Government was not contractually entitled to insist upon the discount, the point was not hurriedly conceded without thorough examination. It took us about two months and two back references to the DGS&D to finally agree to the DG's proposal.

*Recommendations of the Committee :*

"The Committee are surprised to note, that when the Negotiating Committee finalised their negotiations about the increase in price of the road rollers supplied by the firm in September, 1965, the office of the D.G.S. & D. did not specifically bring to the notice of the Committee the poor performance of the firm against the various A/Ts placed on them in the past. The Committee feel that the past performance of the various firms along with the quality of their road rollers should have been brought to the notice of the Negotiating Committee, so that the demand for an increase in price could have been examined in proper perspective. It is also strange to note that the Ministry of Finance did not enquire about the performance of the firm against previous contracts or about the working of the road rollers supplied by them, while agreeing to the increase in price of road rollers."

[Para 3.94 (S. No. 28 of Appendix X)  
of 1st Report (Fourth Lok Sabha)]

*Action taken by Government :*

The first part of this recommendation is being examined by Vigilance and the last portion by the Ministry of Finance. The Public Accounts Committee will be informed of the result in due course.

*Recommendation of the Committee :*

"The Committee are surprised to learn that the DGS&D's Manual of Procedure for Supplies, Inspection and Disposals does not clearly lay down that the representative of the Ministry of Finance should be invariably consulted at the stage of the verification of the financial standing and soundness of a firm before its registration or for placing initial orders on an unregistered firm."

[Para 3.102 (S. No. 29 of Appendix X)  
of 1st Report (Fourth Lok Sabha)]

"The Committee would like Government to examine the matter and lay down clear instructions so that Government's interests are fully safeguarded."

[Para 3.103 (S. No. 30 of Appendix X)  
of 1st Report (Fourth Lok Sabha)]

*Action taken by Government :*

The Public Accounts Committee have recommended that in order to safeguard Government's interests fully the representative of the Ministry of Finance should be invariably consulted at the stage of verification of the financial standing and soundness of a firm—

- (a) before the registration; and
- (b) before placing initial orders on an unregistered firm.

The question of prescribing in the Rules that the Ministry of Finance shall be consulted at the stage of verification of the financial standing and soundness of a firm before its registration as also for placing initial orders on an unregistered firm, has been carefully examined in consultation with that Ministry. It is felt that the existing machinery in the D.G.S. & D. for verification of financial standing of firms for purposes of registration/renewing registration is quite adequate for the purpose. Besides, as the number of cases relating to registration/renewal of registration of firms is quite large, prior consultation with Ministry of Finance is bound to cause considerable delay in the disposal of these cases unless the existing staff in the Ministry of Finance is reinforced. As the objective behind the recommendation of the Public Accounts Committee is that the financial soundness of firms seeking registration should be scrutinised very carefully by an agency which is fully qualified and possesses the necessary technical competence, the purpose could be better achieved by obtaining the services of an experienced officer from the Department of Company Law Administration and appointing him

as Deputy Director (Registration) against a post already sanctioned in the D.G.S. & D. This officer would be qualified to examine, in a comprehensive manner, the capital structure of the companies, their balance sheets and profit and loss accounts and thus would be in a position to make a correct assessment of the financial soundness of the firms for registration purposes. With such an officer in position, it would become unnecessary to consult the Ministry of Finance. However, in doubtful and complicated cases it is proposed to provide that the Ministry of Finance should be consulted, in such matters.

As regards consultation with the Ministry of Finance at the stage of verification of the financial standing and soundness of the unregistered firms before placing initial orders on them, the existing procedure is that orders on unregistered firms are placed after obtaining bankers' report, Income Tax Clearance Certificate and competency/capacity report from the Inspectors concerned of the D.G.S. & D. Moreover, orders are placed on the unregistered firms generally after obtaining security deposits from them. It would not be practicable to consult the Ministry of Finance for verification of the financial standing and soundness of the unregistered firms before placing initial orders on unregistered firms, as the number of these cases would be very large and prior consultation with that Ministry would result in considerable delay in the coverage of the indents. It is accordingly felt that the existing practice of placing *ad hoc* orders on unregistered firm should continue, as it already provides adequate safeguards.

*Recommendation of the Committee :*

"The Committee would also like the Department of Supply to ensure that all cases which involve any departure from standard items of payment with substantial financial repercussion should be examined by the Financial Adviser concerned before final orders are passed."

[Para 3.104 (S. No. 31 of Appendix X)  
of the 1st Report (Fourth Lok Sabha)]

*Action taken by Government :*

Para 265 of the DGS&D Manual of Office Procedure for Supplies, Inspection and Disposals relating to 'Departure from the prescribed system of payment' is being amended to provide that in all cases of departure from standard terms of payment involving substantial financial repercussions, the cases will also be submitted to the Financial Adviser concerned before final orders are passed.

*Recommendation of the Committee :*

"The Committee have already commented on the inadequacy of Government action in issuing on 1st November, 1965 to the firm a mere letter of warning to desist from irregular practices. The Committee feel

that had the DGS&D given careful consideration to the concrete suggestions made by the P & A.O. Department of Supply, Calcutta, to recover the advance payments taken by the firm without despatching the road roller from the outstanding bills of the firm, Government would have been saved considerable financial loss. They also feel that had the three points for action posed by the C.P. & A.O. in his letter of March, 1966, namely : investigation into the abnormal delays in despatch of road rollers by the firm, physical verification at the firm's premises of the road rollers already inspected and paid for but not despatched, and verification of receipt of road rollers from consignees been proceeded with, the malpractices indulged in by the firm would have come to light earlier. The Committee would like Government to investigate why adequate action was not taken on these communications of the P. & A.O. Department of Supply, Calcutta and C.P. & A.O., New Delhi. They also feel that procedure should be devised by which such complaints from senior accounts officials of the Department received the personal attention of senior officers of the Department so that remedial measures are initiated without loss of time."

[Para 4.49 (S. No. 40 of Appendix X)  
of 1st Report (Fourth Lok Sabha)]

*Action taken by Government :*

This aspect is being investigated and the Public Accounts Committee will be informed in due course.

As regards the concluding portion of this recommendation relating to procedural aspect, D.G.S. & D. Memo. No. 3(8)/67, dated 4-9-1967 (*See Annexure I to Reply to Para 3.72*) (annexure) has been issued, regarding processing of complaints from Senior Officers of the Accounts Department and other sources. It has been impressed in this Memo. that complaints received by the D.G.S. & D. from the various sources particularly from the Officers of the P. & A.O. etc. should be watched by recipient officers and clear directions should be given to the Junior Officers *i.e.* Deputy Director/ Assistant Directors/Section Officers, for their prompt disposals. Officers have also been asked to ensure that remedial measures where necessary are taken without loss of time. Complaints of really serious nature involving fraud and the like should be brought immediately to the notice of the higher officers. It has also been stated in this Memo. that non-compliance of the instructions will be viewed seriously and disciplinary action taken against defaulters.

*Recommendation of the Committee :*

"The Committee would like the Department of Supply/DGS&D to go fully into the matter in consultation with the Ministry of Railways and major indenting departments with a view to devise a foolproof procedure

for ensuring that a supplier cannot get away with advance payment without actually despatching complete goods after inspection."

[Para 4.53 (S. No. 41 of Appendix X)  
of the 1st Report (Fourth Lok Sabha)]

*Action taken by Government :*

The matter has been carefully reviewed by the Department of Supply in consultation with the DGS&D, Chief Pay and Accounts Officer and the Ministry of Railways. In view of the inability of the Railways to issue a duplicate copy of the Railway Receipt, which would be the only fool-proof method of establishing despatch of the inspected stores for which payment was claimed, several other alternatives were considered. It was tentatively decided that bills for advance payments should be supported by a photostat copy of the Railway Receipt (where these facilities were available) or by certified attested copies from the prescribed authorities. It was also decided that in cases where the suppliers were unable to furnish the photostat copies or the attested copies, no advance payments should be made to them. Simultaneously, standing instructions would be issued to the consignees requiring them to promptly bring to the notice of the Pay & Accounts Officer concerned for appropriate action any cases of short supplies. The DGS&D has been advised to discuss the revised procedure with the representatives of the trade before issue of final orders.

*Recommendation of the Committee :*

"The Committee have dealt in the preceding paragraphs with some of the complaints received from different sources against the supply of road rollers by this firm. They are left with an unfortunate impression that the organisation of the D.G.S. & D. did not respond to the needs of the case and failed to take prompt and adequate action on receipt of these complaints. As early as 2-11-1963, i.e. within 4 months of relaxation in terms of payment, the Assistant Pay & Accounts Officer, Calcutta had brought to the notice of the DGS&D the delays in the despatch of road rollers after 90% payments had been drawn by the firm on proof of inspection. In January, February, and March, 1964, the D.G.B.R. complained about the delays in despatch of road rollers by the firm despite availability of rail wagons, after drawal of 90% payment on inspection. He specifically pointed out that DGS&D might consider the revision of terms of payment so that the firm got payment after proof of despatch and not on completion of inspection. The Committee regret to note that it did not receive the serious attention it deserved. Even when the P. & A.O. brought to the notice of D.G.S. & D. from March, 1965 onward cases of inordinate delay and drawal of advance payment on the basis of wrong Railway Receipts effective action was not taken either to investigate the matter fully or to revise the terms of payment but a mere warning was issued to the firm which could hardly in any material way safeguard the Government's financial interests. It was only when Audit pointed out the various lapses in

this case on 6th September, 1966 that a thorough re-examination of the entire case of supply of road rollers by M/s. UPCC(P) Ltd. was carried out, and the special terms of payment withdrawn."

[Para 4.75 (S. No. 45 of Appendix X)  
of 1st Report (Fourth Lok Sabha)]

"Another disquieting feature of this case is that the firm in some other cases had sent accessories instead of actual road rollers and yet claimed 90% payment on proof of despatch. In still other cases the firm seem to have substituted 3 cylinder engines instead of 4 cylinder engines after the road rollers had been inspected."

[Para 4.76 (S. No. 45 of Appendix X)  
of 1st Report (Fourth Lok Sabha)]

"The net result of the failure to act on the part of the office of the D.G.S & D. had been that the firm got 90% advance payment on proof of inspection, amounting to about Rs. 1.92 Crores in respect of 419 road rollers, which they did not despatch at all. What is still worse, "391 road rollers for which payment had been obtained did not exist at all" according to the Ministry's own note."

[Para 4.77 (S. No. 45 of Appendix X)  
of 1st Report (Fourth Lok Sabha)]

"The Committee feel that the veritable series of lapses indicated above on the part of the firm as well as on the part of the office of D.G.S. & D. require thorough examination with a view to taking suitable deterrent action against the parties at fault and to devising remedial measures to avoid a recurrence of such instances in future."

[Para 4.78 (S. No. 45 of Appendix X)  
of 1st Report (Fourth Lok Sabha)]

*Action taken by Government :*

Vigilance aspect is under examination and the P.A.C. will be informed in due course.

As regards the last sentence of para 4.78 above regarding devising of remedial measures, instructions have already been issued by the D.G.S. & D. vide their following communications :—

1. Memo No. 3(8)/67-O&M, dated 4-9-1967 (See Annexure I to Reply to Para 3.72).
2. Office Order No. 43-A, dated 25-5-1967 (Annexure I).
3. Office Order No. 97, dated 31-8-1967 (Annexure II).

**ANNEXURE I**  
**DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS**  
(CDN-1 Section) New Delhi.

Office Order No. 43(A)

Dated : 25-5-67

*SUB :—Progressing of Supplies against contracts where progress/advance payments are authorised.*

Advance payments in the shape of 90% on proof of inspection, 5% on proof of despatch and the balance 5% on receipt of stores in good condition, were provided for under certain contracts placed in the past. It is observed that complaints regarding the performance of the firms received in these cases were not adequately investigated neither by the Purchase Dte. concerned or the Progress Wing.

As progress payments represent Government assistance to contractors it is clearly a progress function to chase such cases in order to ensure that supplies are made in good time and the advances taken are not misused by the firm in any way. Complaints regarding delay in supplies or non-supply of stores received in the Purchase Dte. should also be referred immediately to the progress wing for a thorough investigation of the case.

D.G. has ordered that Purchase Dtes. should make out lists of all cases in which progress payments have been made. This should be done by the end of May 1967. These lists should be sent to the Progress Wing which will ensure that the progress functions enumerated above are carried out in an effective manner. In doing so Progress Wing should make local inquiries and spot investigations. The practice of getting information from the suppliers themselves, usually over the telephone, is no guarantee of the accuracy of the information supplied by the firms. The progress field staff should visit suppliers works and make such other local visits/inspections as may be necessary. The aim throughout should be to see that the stores of proper quality are supplied within the stipulated delivery periods and that the firms do not misuse the advances given to them. In particular, inquiries will have to be made to check whether the stores purporting to have been despatched are actually despatched. For this purpose test checks of R/Rs and transport documents will be necessary.

All concerned should note these instructions for strict compliance.

Sd/- S. K. JOSHI,  
Dy. Director (Cdn. Supplies).

Standard Distribution  
(on file CSIA/4(203)/1)

## ANNEXURE II

### DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS

(CDN-1 Section) New Delhi.

Office Order No. 97.

Dated 31-8-1967

**SUB. :—***Progressing of supplies against contracts where standard payment terms are relaxed.*

Instructions have been issued *vide* office order No. 43(A) Progress Payment dated 25-5-67 and office order No. 86 dated 14-8-1967 in connection with progressing of supplies in cases where progress/advance payments are authorised.

It has been further decided that contracts where standard payment terms are relaxed should also be subjected to special progressing on the lines of office orders quoted above and that such contracts should be marked by purchase officers with the words "*Special Progressing required*" at the top left hand corner of the copy meant for progress officer. A special watch should be kept by the progress officer in such cases.

All concerned may please note for compliance.

Sd./- S. K. JOSHI,  
Dy. Director (Cdn. Supplies).

#### Standard Distribution

[On file CSIA/53(22)/1]

Copy to :

Audit Cell w.r. to their memo No. CSAC/AP/4(45)/67 dated 21-8-67.

#### *Recommendation of the Committee :*

"The Committee cannot help concluding that one of the contributory reasons for the failure to detect the inordinate delay by the firm in the despatch of road rollers after inspection was the fact that the A/Ts placed by the office of the D.G.S. & D. on the firm were not specially marked for progressing by the progress wing. The Committee consider that when special terms of payment in relaxation of standard terms were sanctioned to the firm, the office of the D.G.S.&D. should have taken care specifically to ask the Progress Wing to keep a special watch on the progress of the despatch of road rollers after inspection."

[Para 5.9 (S. No. 46 of Appendix X)  
of 1st Report (Fourth Lok Sabha).]

*Action taken by Government :*

The following Office Orders have been issued by the D.G.S.& D. :—

1. Office Order No. 43-A dated the 25th May, 1967 (See Annexure I to Reply to Paras 4.75 to 4.78) regarding progressing of supplies against contracts where progress/advance payments are authorised.
2. Office Order No. 86, dated the 4th August, 1967 (Annexure) regarding progressing of supplies against contracts where progress/advance payments are authorised.
3. Office Order No. 97, dated the 31st August, 1967 (See Annexure II to Reply to Paras 4.75 to 4.78) regarding progressing of supplies against contracts where standard terms of payment are relaxed.

In Office Order No. 97 dated the 31st August, 1967, it has been laid down that such contracts are to be subject to special progressing and that such contracts should be marked by Purchase Officer with the words "special progressing required" at top left hand corner of the copy of A/T meant for Progress Officer who has to keep a special watch.

**DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS**  
(CDN-1 Section) New Delhi.

Office Order No. 86.

*Dated : 14-8-67*

SUB :—*Progressing of supplies against contracts where progress/advance Payments are authorised.*

Instructions have been issued on the subject *vide* office order No. 43A (Progress Payments) dt. 25-5-67 (originally numbered as O.O. 45).

D.G. has ordered that in addition to the test checks of R/Rs and transport documents by the Progress Field Staff as laid down in part 3 of the office order they will also test check the actual receipt of stores by the consignees. This will be done by checking the consignee receipts, sending letters to consignees to verify receipt and even, in important cases, by visits to the consignees.

The officer order 43A may be amended accordingly and necessary action taken on these institutions by all concerned.

Sd./- S. K. JOSHI,  
*Dy. Director (Cdn. Supplies)*

Standard Distribution

(On file CSIA/4(203)/1)

*Recommendation of the Committee :*

"The Committee are also constrained to find that when complaints were specifically marked to the Progress Wing, Calcutta for investigation and report, the officer concerned did not investigate the matter fully by inspecting the firm's factory or Godown but instead sent for the firm's representative and obtained information which he reported to Head-quarters. The

Committee desire that the above lapses on the part of the office of the DGS&D and of the Progress Wing should be fully investigated with a view to fix responsibility and take suitable disciplinary action against the officers concerned."

[Para 5.10 (S. No. 47 of Appendix X)  
of 1st Report (Fourth Lok Sabha)]

"The Committee need hardly add that now that Government have the considered recommendations of Vidyalkar Committee and have taken decision thereon, it should be possible to take suitable measures without loss of time to ensure that the Progress Wing is put in a position fully to discharge the functions devolving on it."

[Para 5.11 (S. No. 47 of Appendix X)  
of 1st Report (Fourth Lok Sabha)]

"The Committee cannot too strongly stress that the Progress Wing and other agencies concerned in the DGS&D should keep a special watch regarding the despatch and delivery of goods against progress payment contracts or contracts where standard terms of payments have been relaxed by the checking and spot verification of proof of inspection, despatch and receipt by the consignee."

[Para 5.12 (S. No. 47 of Appendix X)  
of 1st Report (Fourth Lok Sabha)]

*Action taken by Government :*

Vigilance aspect is under consideration and the P.A.C. will be informed in due course.

DGS&D Office Order No. 43A, dated the 25th May, 1967, cited in the Department's reply to S. No. 46 above, covers the observation made by the Public Accounts Committee in paras 5.11 and 5.12 above.

*Recommendation of the Committee :*

"The Committee find from this statement that in the months of May, 1964 to August, 1964, October, 1964 and November, 1964 and further from September, 1965 to December, 1965, the firm on an average made available for inspection road rollers greatly beyond their production capacity. The Committee are not able to understand as to why this aspect did not attract the attention of the inspecting officers. The Committee were given to understand by the Secretary, Department of Supply that they were going into the matter as to whether the inspection done by the inspecting officers was faulty and the supervision of the Director of Inspection was adequate and whether there was any collusion. The Committee desire that this aspect should be investigated expeditiously with a view to find out how far the Inspection Wing and the officers of the D.S.G.&D. failed to carry out their responsibilities properly and how far there was collusion, if any, with the firm."

[Para 5.19 (S. No. 49 of Appendix X)  
of 1st Report (Fourth Lok Sabha)]

*Action taken by Government :*

This recommendation involves three aspects, *viz.*; whether

- (A) Inspection was faulty in as much as production during the specified months failed to attract the notice of the inspector concerned;
- (B) The supervision of the Director of Inspection was adequate or not; and
- (C) There had been any collusion.

*A. Failure to attract the attention of the Inspector :*

There appears to be some misapprehension in regard to the rated monthly production capacity of M/s. Agrind Fabrications *vis-a-vis* their actual monthly output. It may be stated that in respect of all manufacturers of heavy engineering items the average capacity per month is, for the sake of convenience, deduced from the assessment of their yearly production capacity. In this case when it was stated that the firm's production capacity was 30 road rollers per month it was to be understood that the figure had been arrived at on the basis of a yearly production capacity of 360 Nos. Actual monthly output may vary from time to time due to unforeseen difficulties in the procurement of raw-materials and bought out items, incidence of labour troubles, prolonged holidays etc. For correct appraisal one should, therefore, take into account the firm's recorded annual production figures during the years 1964 and 1965 of 359 Nos. and 357 Nos. respectively, against their assessed yearly capacity of 360 Nos. Bearing this in mind the Inspector had no reason to suspect any *mala fides*. In this connection, it will be interesting to examine the monthly production figures of M/s. Jessops and M/s. Britannia Engineering—the other two parallel suppliers of the road rollers. The statement at Annexures I & II reveals an almost identical pattern of fluctuations in their monthly production as well. In the circumstances, the fluctuations in the monthly output of M/s. Agrind Fabrications are not of such significance and therefore did not attract the attention of visiting Inspectors because they are used to such fluctuations.

*B. Supervision by Senior Technical Officers :*

The supervision by the senior staff, including the Director of Inspection, aims at achieving the following objects :—

- (a) That, the calls for inspection are attended to promptly;
- (b) That, the standard of inspection by the junior officers is satisfactory; and
- (c) That, any problems arising out of manufacturing defects, discrepancies in drawings and specifications governing the A/T etc. do not remain unattended.

For this purpose surprise visits by the senior officers were periodically paid to the firm according to normal practice and there have been no complaints against the performance of the inspectors. There is, however, no fool proof mechanism in the Inspection Organisation to detect and prevent the types of fraud committed by the firm in this case. It must be appreciated that in the case of the other two suppliers of road rollers also the extent of inspection and supervision was of the same type and order.

*C. Inspectors' collusion :*

With regard to the likely collusion of the Inspectors the subject matter is under the investigation of C.B.I. While no evidence of collusion has come to light in the departmental inquiries made so far, a finding on this subject will have to await the completion of the C.B.I's inquiries. The Public Accounts Committee will be informed of the result in due course.

*Audit Observation*

"It has been stated in sub-para 'A' of the Ministry's reply that "..... the fluctuations in the monthly output of M/s. Agrind Fabrications are not of much significance and, therefore, did not attract the attention of the visiting Inspectors because they are used to such fluctuations". The real point, however, is that the firm were expected to increase their production from 20 to 30 road rollers per month in view of the relaxed terms of payment, but verification of this increase which was imperative in the circumstances was not carried out by the Inspectorate. The Ministry appear, now, to wish to take into account the firm's recorded annual production figures which showed an average of 30 per month for 1964 and 1965, though, in the evidence before the Public Accounts Committee, the Secretary to the Department of Supply had admitted that "it (production capacity) was not checked up capacity certainly was not even 30 per month", vide para. 3.62 of the First Report of the Public Accounts Committee (Fourth Lok Sabha).

ANNEXURE I

Monthwise statement of Road Rollers offered for inspection by M/s. Jessop & Co., and accepted.

1964		1965		1966	
Month	Nos.	Month	Nos.	Month	Nos.
		January	26	January	34
		February	28	February	37
		March	16	March	30
		April	17	April	29
		May	38	May	30
June	35	June	10	June	40
July	35	July	29	July	42
August	45	August	42	August	35
September	20	September	40	September	29
October	..	October	31	October	17
November	35	November	38	November	20
December	24	December	40	December	36

## ANNEXURE II

Monthwise statement of Road Rollers offered for inspection by M. S. Britannia Engineering Co. and accepted.

1964		1965		1966	
Month	Nos.	Month	Nos.	Month	Nos.
January	7	January	3	January	35
February	31	February	19	February	18
March	22	March	14	March	23
April	14	April	8	April	29
May	15	May	29	May	30
June	12	June	21	June	14
July	10	July	25	July	10
August	31	August	10		
September	22	September	23		
October	18	October	25		
November	11	November	14		
December	27	December	30		

*Recommendation of the Committee :*

"The Committee would also like Government thoroughly to investigate the procedure for impressing inspection marks on road rollers and stores so as to make sure that these cannot be erased or otherwise tampered with. In fact, it would be advantageous if inspection of goods fabricated or manufactured in the country is carried out in stages to make sure that they strictly conform to the prescribed standards."

[Para 5.20 (S. No. 50 of Appendix X) of 1st Report (Fourth Lok Sabha.)]

*Action taken by Government :*

This recommendation involves two features viz.

- (a) affixing an indelible inspection stamp on the inspected road rollers; and
- (b) inspection during various stages of the manufacture of the road rollers.

With regard to (a) above, the position is as under :—

The Inspector's stamp or seal is affixed to the stores, as a token of his approval of the goods tendered by a contractor against a particular A/T. The stamp or seal thus affixed by the Inspector serves the two-fold purpose of identifying the stores at the receiving end and also of identifying the Inspector who approved the stores.

The Inspector's seal or stamp is neither so designed nor meant as to prevent an unscrupulous contractor from committing a fraud by removing, erasing or obliterating the seal or stamp and reoffering the same stores against the balance supplies as appears to have been done in this case.

In order to prevent such fraud the remedy does not only lie in tightening the method of inspection, sealing etc., but also in prescribing such heavy penalties as would serve as an effective deterrent. The matter has been carefully considered. It is felt that there is no known method of making inspection marks fully fraud-proof. An attempt has been made in this case to make the marks relatively more indelible, but even those can be erased or obliterated if the manufacturer so wishes. Further, indelible marks cannot possibly be affixed to a large variety of stores, even if it were possible to ensure that they could not be erased. Even if the inspection marks are as indelible as the circumstances permit, this could be no assurance against fraud. It is, therefore felt that the best deterrent would be to punish fraud severely whenever it is detected. This is done both by the Administrative action and/or Judicial processes. So far administrative action is concerned, the Department can resort to blacklisting etc. Where the laws of the land are attracted, prosecution or filing of suits can be resorted to. In this case, the firm and its associate concerns were blacklisted, C.B.I. are investigating the whole case and further action as necessary will be taken on receipt of C.B.I. Investigation Report.

Regarding (b) above, it is stated that by and large the procedure as laid down in para 381 of the D.G.S.&D. Manual is being followed in the case of structural fabrication items and such stores where the materials are despatched in components fully ready for assembly and erection at site. By the very nature of such stores no chances can be taken during inspection since the site conditions would not permit any subsequent rectification work. Likewise, stage inspection is also carried out in respect of safety items like coaches etc. It has, however, not been possible to introduce stage by stage inspection for every indigenously manufactured store particularly when major components are bought out items owing to the extreme paucity of the inspection staff. It may be added, however, that only recently a full time inspector has been posted at M/s. Agrind Fabrications as a very special case under the orders of the Director General, Supplies and Disposals, though such an arrangement has not been prescribed for the other two manufacturers of the road rollers.

*Recommendation of the Committee :*

"The Committee are perturbed to note that there have been delays in almost all the orders placed on M/s. UPCC for supply of stores other than road rollers. They desire that the question of levying liquidated damages against the firm should be carefully examined by the D.G.S.& D."

[Para 7, 8 (S. No. 56 of Appendix X) of 1st Report (Fourth Lok Sabha.)]

"What is more serious is that, the review of two cases regarding the supply of Dozers and Soil Stabilisers have revealed that the firm had fraudu-

lently drawn 80 per cent advance payment on proof of despatch without despatching the complete stores.”

[Para 7.9 (S. No. 56 of Appendix X) of 1st Report (Fourth Lok Sabha).]

“It appears to the Committee that the firm has a persistent tendency to claim payment from Government fraudulently without delivering the goods. The Committee consider that Government should examine thoroughly, without delay, the performance of M/s. U.P.C.C. (P) Ltd. and its associated companies regarding the supply of stores. The Committee need hardly stress that, where malpractices have been indulged in by the firm or its associated companies, stringent action should be taken against them to safe-guard the public interest. The firm and associated companies should also be proceeded against, under the law, if fraudulent practices are established on investigation by the Central Bureau of Investigation.”

[Para 7.10 (S. No. 56 of Appendix X) of 1st Report (Fourth Lok Sabha).]

*Action taken by Government :*

*Para 7.8.*—On 25-8-67, a Memo was circulated to all Purchase Directorates at Headquarters and Regions to review immediately contracts for stores other than Road Rollers placed on M/s. U.P.C.C. and implement the recommendation of the P.A.C. properly *i.e.* to examine carefully the question of levying liquidated damages against the firm. Out of 17 Directorates both at Headquarters and Regions, only 2 Directorates *i.e.* MES and Project have reported placement of certain contracts on M/s. U.P.C.C. The remaining 15 Directorates have categorically stated that they have no contracts pending with U.P.C.C. (P) Ltd. MES Directorate reported position about four cases. With regard to the contract Sl. No. 46 dated 15-2-65 (S. No. 22 of Appendix IX to P.A.C.’s report) for supply of bitumen hot mix plants, position is that A/T was cancelled with financial repercussion on 4-1-67 and for recovery of general damages, the matter is under consideration in consultation with Ministry of Law. In respect of two contracts (S. Nos. 24 and 25 of Appendix IX *ibid*) supplies have more or less been completed. In respect of the remaining one case Sl. No. 23 of Appendix IX *ibid*) nothing untoward has been noticed so far. A strict watch is, however, being kept. This one case is for 5 Nos. Bitumen Tankers, two of which have been supplied and 3 are still to be supplied. Question of granting extension is under consideration at a high level.

The Project Directorate has examined in detail 23 A/Ts place on M/s. U.P.C.C. by that Directorate, keeping in view the recommendation of the Public Accounts Committee regarding levying of liquidated damages.

*Para 7.9 and 7.10.*—Recommendations against these paras were circulated demi-officially to all the 17 Directorates both at Headquarters and

Regional Offices on 25-8-68 requiring the Directorates to examine immediately the performance of M/s. U.P.C.C. (P) Ltd. and its associated companies regarding supply of stores other than road rollers and that any case of malpractice which may come to light as a result of this review, should be immediately reported to C.B.I. for investigation after showing to the competent authority. Only Project Directorate have reported that out of 23 cases where orders have been placed by that Directorate on M/s. U.P.C.C. Ltd., there are 4 cases which smack of fraudulent dealings of the firm. The position of the 4 cases is as under :—

(a) A/T Sl. No. 631, dated 12-9-63 (Sl. No. 4 of Appendix IX *ibid*) for 4 Nos. Dragline bucket with attachments—value Rs. 38,045.

Executive Engineer, Karnal, the ultimate consignee, having not confirmed receipt of stores, the case was reported to C.B.I. on 26-6-67 for investigation. It may, however, be noted that A.G. Punjab has accepted the debit in this case.

(b) A/T No. 642, dated 25-9-63 (Sl. No. 16 of Appendix IX *ibid*) for supply of 4 Nos. Michigan Tractor Dozor with attachments and with four sets of tyres—Value Rs. 6,36,388.

The indentor confirmed the receipt of 4 Nos. dozers with all attachments and receipt of 4 tyres instead of 16 tyres. He made local purchase of tyres (3 sets) for Rs. 55,695.48. The firm obtained payment for 3 sets (12 tyres) fraudulently and the matter was reported to the C.B.I., New Delhi on 15-6-67 for necessary investigation. The question of recovery of general damages from the firm for non-supply of 3 sets of tyres is also under consideration of the Project Directorate.

(c) A/T Sl. No. 373, dated 21-8-62 (Sl. No. 9 of Appendix IV *ibid*) for supply of Tractor Dozers—37 Nos. Value Rs. 54,03,469. The consignee has confirmed receipt of 36 Nos. out of total 37 Nos. Balance 1 No. was initially supplied by the firm. After working for 200 hours, the machine developed trouble. The same was taken back by the firm for repair and they promised to return the same to the consignee by December, 1966. On 26-3-67, the consignee reported that the firm had not yet returned the dozer. A registered notice was served to the firm on 13-7-67 but nothing has yet been heard from them. The case has been referred to C.B.I. for investigation on 21-9-67. Ministry of Law advised regarding departmental action. Necessary departmental action has already been taken and the firm stands blacklisted. Further action is under consideration of the Directorate.

(d) A/T Sl. No. 385, dated 4-9-62 (Sl. No. 12 of Appendix IX *ibid*) for supply of soil stabilizing units—25 Nos. value Rs. 25,03,375 payable in foreign exchange to the firm's principals and Rs. 10,72,189 payable to the firm.

Out of 25 units of soil stabilisers complete with compactors, 6 Nos. soil stabilisers and 10 compactors have not yet been cleared from Docks at Calcutta. The case has been reported to C.B.I. for investigation on 28-6-67 as the firm fraudulently claimed payment from Pay & Accounts Officer, Calcutta on the false Railway Receipt. The case is also being processed by Director (SD) in association with O.S.D. (Litigation) in the D.G.S.&D. and this Department. Director (S&D) is keeping a strict watch on this case. The question of clearance is under consideration at the highest level.

*Recommendation of the Committee :*

"This case has revealed a large number of shortcomings in the Organisation of the D.G.S.&D. particularly in regard to processing and placing of A/Ts, dealing with the complaints of consignees, the procedure of inspection and the progress of movement of stores and supplies. In the Committee's view, the procedure relating to these aspects in the organisation of the D.G.S.&D. needs to be critically reviewed without delay."

[Para 8.10 (S. No. 65 of Appendix X) of the 1st Report (4th Lok Sabha).]

*Action taken by Government :*

This recommendation is a recapitulation of recommendations at S. Nos. 16, 40, 45 and 49 of Appendix X which have been dealt with separately.

*Recommendation of the Committee :*

"The Committee would like the Government to exercise greater vigilance in respect of all existing contracts, where progress payments or payments in relaxation of standard terms have been authorised."

[Para 8.11 (S. No. 66 of Appendix X) of 1st Report (Fourth Lok Sabha)]

*Action taken by Government :*

(1) Under the existing instructions, four types of progress payments/relaxed payments are admissible against contracts placed by the D.G.S.&D. Briefly, these are as under :—

- (a) 'On account' progress payments for raw materials against fabrication contracts;
- (b) Payments to vehicles manufacturers on proof of handing over of vehicles to their transporting agents for despatch by road;
- (c) Payments in the case of fabrication contracts where stores are entrusted to the contractor for fabrication, like body-building contracts; and
- (d) Payment for stores on proof of inspection.

(2) The procedure for authorising such payments is as under :—

- (a) Payments of this nature can be allowed upto 90% of the value of the raw materials, subjects to 50% of the total value of the

contracts on the firm's furnishing a hypothecation Deed hypothecating the raw materials to the President of India and taking out an insurance at his cost insuring the materials and assigning the Policy in favour of the President of India. The limit of 50% of the contract value mentioned above may be raised to 75% of the value of the contract (of a minimum value of 6 lakhs) where the stores require the use of large quantities of iron and steel or where it is clear that the normal system of payment after completion of supplies will put the contractor in difficulties by blocking his capital owing to the large value of the components etc. Where necessary, in addition to the normal safeguards of hypothecation and insurance, bank guarantee may also be insisted upon.

- (b) In such cases, the firms claim payment from the Pay & Accounts Officer by showing proof of handing over the vehicles to their transportation agents, duly certified by their internal auditors.
- (c) In such cases, the contractors have to be responsible for safe custody of the Government materials in their custody. To achieve this objective, the contractors have to furnish adequate security deposit unless a contractor has other dealings with the Government and it is considered that it would be possible to make recoveries from other bills due to them.
- (d) In so far as cases of this type are concerned, all the Purchase Directors were requested to furnish details of contracts concluded where payments have been authorised before despatch of the stores. With the exception of the U.P.C.C. cases, and the rate contracts/*ad hoc* A/Ts for vehicles falling under category (b) above, no other case has been reported where such payments have been authorised. According to para 265 of the Manual of Office-Procedure for Supplies, Inspection and Disposals, for allowing any relaxed system of payment (other than standard terms) approval of the Government will be necessary. Chief Pay & Accounts Officer will also have to be consulted.

With a view to exercise greater vigilance and tighten up the matter further in Government interest, Office Order No. 141 dated 26-11-1966 (copy enclosed) has been issued stipulating that bank guarantee should be insisted upon from the contractors whenever standard terms of payment are relaxed and advance payment before despatch is allowed.

(3) The further safeguards to be adopted in the four categories of cases of progress payments mentioned above have been formulated and the present position is as under :—

Category (a)—A Performance Guarantee to be obtained in such cases in lieu of the hypothecation deed has been finalised in consultation with the

**Ministry of Law.** In addition, a comprehensive Insurance cover will also be necessary.

The matter was included as an item on the Agenda for the 14th meeting of the Central Purchase Advisory Council held on 16-12-67. No objections were raised by the Trade to the introduction of the revised procedure for making 'on account' payments against Performance Guarantee and comprehensive insurance cover. After the matter has been fully considered necessary instructions on the subject will be issued to all concerned.

**Category (c)**—The draft of the Performance Bond to be obtained in such cases has been vetted by the Ministry of Law and has been forwarded to the Ministry of Finance for approval.

**Category (B) & (d)**—A note has been forwarded to the Ministry of Law for consideration of a suggestion about release of initial 95% payment in such cases on the basis of a comprehensive insurance policy duly hypothecated to the President of India. The comprehensive insurance policy will also include cover against the risk of walking away with the chassis by transport agents of Automobiles Manufactures, *i.e.*

- (i) wrongly withholding delivery.
- (ii) delaying the delivery without any justifiable cause, and
- (iii) converting the property entrusted.

## APPENDIX IV

### Recommendation to which Government have Furnished Interim Replies *Recommendation of the Committee :*

"The Committee are unable to understand how orders for 1229 road rollers involving a cost of Rs. 6.01 crores were placed on the firm from 1959 to September, 1966. The Committee feel that if the conditions prescribed for registration had been strictly enforced, the serious shortcomings of the firm in the matter of its capacity to undertake execution of orders as well as in its standing and respectability would have come to notice right from the beginning. The Committee find it difficult to believe that the failure of the office of the D.G.S.& D. to ensure compliance with the prescribed conditions was merely a lapse and feel that a full investigation into the circumstances under which orders were placed on this firm from 1960 to September, 1966 is called for.

The Committee would also like Government to review all cases where large orders involving substantial amounts have been placed on unregistered firms without complying with the prescribed formalities for verification of reliability and capacity to execute orders."

[Para 2.6 (S. No. 1 of Appendix X) of the 1st Report (4th Lok Sabha).]

### *Action taken by Government :*

The relevant record is with the Central Bureau of Investigation who are investigating this case. On receipt of the investigation report and the relevant record, further action will be taken and the P.A.C. informed suitably.

As per the recommendation contained in the second sub-para above, a review has been undertaken by the various Purchase Directorates at Headquarters of the D.G.S.&D. and its Regional Offices in respect of cases where large orders involving substantial amounts have been placed on unregistered firms without complying with the prescribed formalities for verification of reliability and capacity to execute orders. It has been found that with the exception of the cases listed in Annexure I, (the orders placed by Vehicles Directorate are of small value) no orders have been placed on unregistered firms without verification of their capacity etc.

It may also be stated that orders are placed on unregistered firms only after verification of their capacity, financial standing and past performance, if any. The unregistered firms are also required to furnish the income tax clearance certificate. The recent instructions issued by Government in regard to placement of contracts on unregistered and untried firms are contained in the Department of Supply O.M. No. 1(17)/62-PUI, dated the 4th March, 1967 (copy enclosed Annexure II). These instruction have been circulated by the D.G.S.& D. to the Purchase Officers for their guidance under Office Order No. 19, dated the 13th March, 1967.

**ANNEXURE I**

**Details Regarding Orders Placed on Unregistered Firms**

**Civil Armaments Directorate**

The C.A. Directorate have stated that their case is singularly different as for as placement of the orders with registered firms are concerned. The items dealt with the C. A. Dte. are all development ones and as such almost all the firms to begin with are unregistered for such stores. The *modus operandi* for placing orders for items pertaining to C. A. Dte. is stated to be as under :—

The names of the likely suppliers are obtained from D.G.T.D., Director of Inspection Armaments in addition to the names indicated by the indentor. Also, the C. A. Dte. takes into account the firms about whom they have technical data and who are considered capable to manufacture the stores. C. A. Dte. normally forward 5 sets of enquiry to the C.L.O., N.S.I.C. also for distribution to the units capable of undertaking the particular job. In cases where the C. A. Dte. place orders with S.S.I. units, security deposit is taken in the absence of competency certificate from CLO, NSIC. Regarding the other unregistered firms, where orders have been placed on the basis of capacity report and conditions, C. A. Dte. invariably take security deposit but in the case of reputed firms who have satisfactorily executed previous orders, this condition is waived under orders of the proper authorities.

**Vehicles Directorate**

The Vehicles Directorate have reported 2 orders as under :-

A/T No. and Date (1)	Name of firm (2)	Stores (3)	Quantity (4)	Value (5)	Remarks (6)
1. SV3/101/26/1366/30, dt. 15-6-1967.	M/s. Ashotosh Muker- jee & Co., (P) Ltd., Calcutta.	Buoys Ancher	1400 Nos.	Rs. 80,136	Order placed subject to S. D. @ 5%. Capacity report received but Bank report regarding finan- cial standing could not be obtained.
2. SB8/SV1/101/71/241 -255/1/RP/168, dt. 14-6-67.	M/s. Swastik Industrial Corporation, nagar, Gujarat.	Fire Ex- tinguishers	5440 Nos.	Rs. 3,19,600	Risk purchase A/T on defaulting firm subject to 10% S. D. Capacity Report received but Bank report regarding financial standing could not be obtained.

ANNEXURE II

No. 1(17)/62-PI

GOVERNMENT OF INDIA

MINISTRY OF SUPPLY, TECHNICAL DEVELOPMENT & MATERIALS PLANNING,  
DEPARTMENT OF SUPPLY & TECHNICAL DEVELOPMENT

(CENTRAL SECRETARIAT, NORTH BLOCK)

New Delhi, the March, 1967

OFFICE MEMORANDUM

SUBJECT :—*Placement of contracts on unregistered and untried firms.*

The undersigned is directed to refer to the late Ministry of Works, Housing & Supply O.M. No. 1(17)/62-PI, dated the 5th June, 1962 as amended from time to time on the subject mentioned above and to say that in supersession of the instructions contained therein the following procedure is laid down in regard to placement of contracts on unregistered and untried firms :—

- (i) Rate or Running contracts should normally be placed only on registered and established firms who are capable of supplying the stores required. Such contracts should not ordinarily be awarded even to those unregistered firms who might have executed *ad-hoc* trial orders satisfactorily. However, with a view to establishing additional/alternative sources of supply competitive and acceptable offers received from unregistered and untried firms in response to enquiries against Running and Rate Contracts should be utilised in the manner indicated below :—
  - (a) In respect of Competitive offers received against enquiries for Running Contracts, an *ad-hoc* Acceptance of Tender for a definite quantity may be placed on tried but unregistered firm and a trial order placed on an untried and unregistered firm provided their capacity is reported upon as satisfactory. The usual security deposit may be taken in both the cases.
  - (b) Competitive and acceptable offers received from unregistered and/or untried firms against Rate Contract Enquiries should be kept in view only for placement of *ad-hoc* orders. With a view to achieving this object, such firms should be approached for an agreement provided their capacity is

reported upon as satisfactory, to the effect that they would accept *ad-hoc* orders/trial orders up to a specified monetary limit within a particular time limit, say 6 months from the date of reaching the said agreement at the rates quoted by them against the Rate Contract enquiry on the terms and conditions applicable to *ad-hoc* Acceptance of Tender. *Ad-hoc* orders should be placed on such firms on the basis of the above agreement against indents which may be received subsequently. The unregistered but tried firms may even be told that in cases they get themselves registered with DGS&D within one month of their agreement to the Placement of *ad-hoc* orders referred to above, Government would consider awarding parallel Rate Contract to them subject to over-all monetary limit.

- (ii) In case of enquiries against Operational indents offers received from untried and unregistered firms should not be considered ordinarily. However, in respect of items in short supply or difficult supply items, offers received from such firms should be considered on merits for placement of educational orders for small quantities.
- (iii) In case of enquiries against Urgent and Express indents 80% of the quantity may be covered straightway on registered and/or known suppliers reserving the balance 20% for untried and unregistered firms. Orders to the extent of 20% will be placed on untried and unregistered firms provided favourable capacity reports in respect of these firms are received within 15 days. If capacity reports are not received within this time limit, the balance 20% quantity may also be covered on tried suppliers.
- (iv) In the case of ordinary indents, DGS&D will cover 50% of the quantity straightway on registered and/or known suppliers, reserving the balance 50% for coverage, after receipt of capacity reports, on unregistered/untried firms. If favourable capacity reports on unregistered/untried firms are received within three weeks, orders may be placed on the for the quantity they are capable of supplying according to such reports and the balance covered on registered and known suppliers.

2. Whenever, a contract is placed on unregistered firms, DGS&D should invariably ask the firm to get themselves registered with the DGS&D.

3. In view of the procedure outlined in sub-paras (iif) and (iv) above, Inspection authorities should ensure that capacity reports are furnished within the prescribed time limits. Cases where there has been delay in furnishing the reports should be investigated. The Purchase Officers on their part

should ensure that capacity reports in respect of such firms whose offers fall within the acceptable range are called for immediately after the tenders are opened. The date before which the capacity report should be furnished should also be indicated.

4. If in any case, the lower offers from unregistered and untried firms have to be ignored in accordance with the provisions of this O.M., sanction of the appropriate authority for passing-over the lower offers should be obtained, as laid down in para 1(8) of this Department's letter No. 5/1/63-PI, dated the 22nd June, 1963 as amended from time to time.

Sd/-

I. D. KHANNA

*Deputy Secretary to the Government of India*

To

The Director General,  
Supplies & Disposals,  
New Delhi (150 copies).

Copy to :—

1. The Ministry of Finance (Supply Wing), New Delhi. Ref. their U.O. No. C-5566, dated 21-9-66.
2. Chief Pay & Accounts Officer, New Delhi. Pay & Accounts Officer, Department of Supply & Technical Development, New Delhi/ Bombay/Madras/Calcutta.
3. Accountant General, Commerce, Works & Misc., New Delhi/Dy. Accountant General, Commerce, Works & Misc., Bombay/Calcutta.
4. Guard File.

Sd/-

I. D. KHANNA

*Deputy Secretary to the Government of India*

*Recommendation of the Committee :*

“The Committee are distressed to note that in 21 road rollers the firm seem to have substituted 3 cylinder engines in place of 4 cylinder engines after inspection of the road rollers. The Committee feel that substitution of 3 cylinder engines in place of 4 cylinder engines, after inspection, is a serious matter and requires further investigation. The Committee need hardly add that after investigation necessary action should be taken against the parties at fault.”

[Para 4.70 (S. No. 44 of Appendix X) of  
1st Report (Fourth Lok Sabha)]

"It has also been observed that in one case, the Executive Engineer Bijni, in his telegram, dated 3rd September, 1965 informed the Pay & Accounts Officer that the firm had supplied 2 road rollers fitted with 3 cylinder engines instead of 4 cylinder engines and that they bore no inspection markings. The Committee are unable to understand how the engines which bore no inspection markings of the D.G.S. & D. were fitted in the road rollers and supplied by the firm. They desire that this case may be investigated with a view to find out the *modus operandi* of the firm and the loopholes in the procedure.

The Committee desire that the Government should investigate as to how the firm supplied to the Chief Engineer, Rajasthan the Fordson Dextra 3 cylinder engines with only 32 BHP, as against the Fordson Major 4 Cylinder engines with 51.8 BHP, as provided in the A/T."

[Para 4.71 (S. No. 44 of Appendix X) of 1st Report (Fourth Lok Sabha)]

"The Committee desire that the remaining cases involving 16 road rollers should also be thoroughly investigated and responsibility for the lapses fixed on the parties at fault."

[Para 4.72 (S. No. 44 of Appendix X) of 1st Report (Fourth Lok Sabha)]

*Action taken by Government :*

Substitution of 3 cylinder engines in place of 4 cylinder engines after inspection is a very serious matter. As substitution was done after inspection it amounts to fraud and such cases of fraud are appropriately to be investigated by C.B.I. They are already looking into this aspect while investigating the case of UPCC. A letter has been issued on 7-10-1967 (Annexure) to D.I.G., C.B.I. drawing him special attention to this observation of the Public Accounts Committee. The Public Accounts Committee will be informed of the result and the final action taken in the matter by Government.

ANNEXURE

Copy of letter No. OSD/PAC-Report/67/44, dated the 7th October, 1967, from the Directorate General of Supplies and Disposals, New Delhi, to Shri R. K. Raisinghani, Dy. Inspector General, C.B.I., R. K. Puram, New Delhi.

SUBJECT :—*Action taken on the recommendation contained in the first report of the Public Accounts Committee (1967-68) on para 78 of Audit Report (Civil) 1967 regarding purchase of road rollers from M/s. UPCC Ltd.*

I am directed to invite your attention to the summary of recommendations/observations as contained in Appendix X of the PAC Report (1967-68) 1st Report (Fourth Lok Sabha) and to say that against Sl. No. 44

Paras 4.70, 4.71 and 4.72 relating to substitution of 3 cylinder engines in place of 4 cylinder engines after inspection by the firm, investigation is necessary. DDG(1) has made the following observation of this recommendation :

"The very fact the engines received by the consignee bore no stamp mark would suggest that these engines were not originally fitted in the Road Rollers which were accepted by the inspector. It is, therefore, not possible for the inspectorate to furnish comments as to how the original engines were substituted by new engines bearing no inspection stamp mark. Obviously, this was done by the firm subsequent to the Acceptance of Road Rollers by the Inspector with some ulterior motive. These are, therefore, to be entrusted to the authorities who are competent to investigate such matters."

CBI are already carrying on investigation in the whole case of fraud committed by M/s. UPCC Ltd. in respect of supply of road rollers against contracts placed by DGS&D. CBI are also looking into the question as to how the substitution of engines took place after the road rollers had been inspected. I have been directed to draw your kind attention to this recommendation of the PAC as it is appropriately for CBI to investigate this case of fraud about substitution of engines.

*Recommendation of the Committee :*

"The Committee hope that the Government will ensure that prompt and thorough investigation is made by the Department of Company Affairs, the Central Bureau of Investigation and the Department of Supply, in close co-ordination with one another, to ascertain the assets of the firm in question and to suggest concerned measures to safeguard the Government's financial interests. Government should also consider urgently the question of taking possession of the assets of the firm to ensure that these are not in any way dissipated. The Committee would in particular like the Government to go into the question of accounts of the firm after December, 1965. The Committee need hardly suggest that money, if any, passed to UPCC (P) Ltd. and to other associated firms should be particularly checked, to make sure that assets of UPCC(P) Ltd. which owe Government Rs. 1.92 crores, are not in any way dissipated."

[Para 6.26 (S. No. 52 of Appendix X) of  
1st Report (Fourth Lok Sabha)]

*Action taken by Government :*

D.G.S.&D. have had numerous meetings to consider what measures can be taken to attach or otherwise appropriate the assets of M/s. UPCC(P) Ltd. and its sister concerns. They have also received three reports from the Department of Company Affairs on the assets of the firm. These reports cover the period upto 31-12-1965 only. The Department of Company Affairs could not compile the financial position of the two companies for

1966 and 1967, as the Accounts Books of both M/s. UPCC(P) Ltd. and M/s. Agrind Fabrications have not been completely written after December, 1965 and the published Balance Sheets are only upto October, 1965 in the case of M/s. Agrind Fabrications and upto 31-12-1965 in the case of M/s. UPCC(P) Ltd.

Regarding prevention of dissipation of assets by the firm, the following steps were taken :—

- (a) Application for arbitration.
- (b) Suggestion to the Reserve Bank to withhold permission from the firm to expatriate its monies.
- (c) Suggestion to the State Governments to withhold payments to the firms, other than those due under the contracts.

As Arbitration proceedings were then pending and all out efforts were being made, though without success, to obtain some definite information through the agency of C.B.I./Department of Company Affairs about the present financial position/present assets of the firm, no immediate action to apply for an attachment order from the Court could be taken. Recently certain developments have taken place. M/s. U.P.C.C. had filed 7 applications in the Calcutta High Court for various reliefs, including one for supersession of the arbitration agreement in the contracts which are subject matters of the arbitration proceedings and obtained stay order. In order to see that the assets of the firm are not dissipated, it was decided to agree to the supersession of the arbitration agreements and simultaneously institute suits in the Delhi High Court. Accordingly, D.G.S. & D. have filed 23 suits against 23 different A/Ts for a total claim of approximately Rs. 1.72 crores including 6% simple interest on 1-9-1967.

The suits filed are of three types and three sets of plaints were filed for three different categories as under :—

- (i) 10 cases where no road rollers were supplied.
- (ii) 6 cases where A/Ts were cancelled partly/completely, and
- (iii) 7 cases where part supplies were made and the remaining quantities remained to be supplied.

In all these cases 90% payment against inspection was drawn by firm. Wherever contracts have not been cancelled, D.G.S. & D. have asked for specific performance. D.G.S. & D. are aware that the firms are not in a position to perform the contract but on technical consideration it was felt by the Ministry of Law that this would be proper way of framing the suit. D.G.S. & D. have asked for refund of money in the alternative in all cases.

D.G.S. & D. had in all the above suits framed asked for an interim injunction and/or attachment of all the known assets (upto 31-12-65) viz. (a) the loans and advances of M/s. UPCC(P) Ltd. to its associate concerns, (b) shares in the name of M/s. UPCC (P) Ltd. in associate concerns and (c) shares owned by all the share-holders of UPCC (P) Ltd. in the said and associate companies. The learned Judge was pleased to grant the request and has passed interim attachment order in the following terms :

“Grant an injunction restraining the defendants from wasting, damaging, alienating, selling, removing or disposing of their property until the disposal of the suit.”

D.G.S. & D. have in their suits impleaded the 9 share-holders of M/s. UPCC (P) Ltd., in all their 23 suits, seeking their personal liability by piercing the corporate veil on the ground of fraud and *mala-fide* intention. Interim injunction regarding their holdings in these companies also has been obtained.

*Recommendation of the Committee :*

“The Committee need hardly stress that expeditious action should be taken to set the arbitration proceedings going. They would also like Government expeditiously to examine the question of obtaining an attachment order against the firm and taking further action to safeguard the financial interests of the Government.”

[Para 6.32 (S. No. 53 of Appendix X) of  
1st Report (Fourth Lok Sabha)]

*Action taken by Government :*

DGS&D did refer in April, 1967, 26 cases covering 379 road rollers for arbitration. The firm has obtained interim stay order of the Calcutta High Court on 18-7-67. Arbitration proceedings are thus stalled. Later on, as decided in consultation with the Ministry of Law, DGS&D have conceded before the Calcutta High Court, that arbitration will not apply to these contracts. Simultaneously, DGS&D have filed 23 suits covering 339 road rollers in the Delhi High Court, seeking the attachment of property of the company and/or its share holders and for an injunction restraining them from disposing of the property until the disposal of the suit. The Court has granted an interim injunction to this effect. Suits were not filed in the remaining cases because of certain technical hitches.

*Recommendation of the Committee :*

“A perusal of the preceding chapters tells the story of a veritable chain or series of lapses on the part of various governmental authorities. It

would be stretching credulity too far to believe that individual lapse can be explained by its special circumstances and that the fact that they all took place in regard to the same deal can be considered coincidental. It is this pattern that persists throughout the case that was a matter of concern to the Committee and should be a matter of concern to Government."

[Para 8.1 (S. No. 57 of Appendix X) of  
1st Report (Fourth Lok Sabha)]

*Action taken by Government :*

The C.B.I. are investigating the matter. On receipt of their report, departmental action will be taken against the officers concerned where necessary. Based on C.B.I. Investigation Report if any case of collusion of officials with the firm is brought to light, suitable action will be taken and P.A.C. will be informed.

*Recommendation of the Committee :*

"In order to set the matter in proper perspective, it may be worthwhile listing briefly the serious lapses that have been taken note of in the earlier chapters :

- (1) The placing of orders for 1229 road rollers at a cost of Rs. 6.01 crores on an unregistered firm from 1959 to September, 1966, without any attempt at verification of its financial standing and production capacity and without insisting on a deposit by way of security;
- (2) The granting in July, 1963 of a relaxation in the standard terms of payment which enabled the firm to draw 90 per cent of the cost of a road roller on inspection without any proof of despatch;
  - (a) in spite of the receipt of no less than 23 complaints against the unsatisfactory performance of the firm;
  - (b) in spite of the turning down of six similar requests made earlier by the firm; and
  - (c) without consulting the Chief Pay and Accounts Officer.
- (3) Failure to connect six requests of the firm dating back to March, 1960 while examining their seventh request. Another disquieting feature is that the offer of 4% discount made by the firm in the fifth request, which would have reduced the price of a road roller by about Rs. 1,900 was not taken up with the firm while examining the seventh request. This gave the firm an unintended concession of about Rs. 20 lakhs on 1,053 road rollers, for which relaxed terms were made applicable from July, 1963.

- (4) The failure to scrutinise the proposal regarding relaxation in terms of payment in all its aspects, the failure to make provision for an indemnity bond or effective scrutiny from the firm, and the insertion in the contract instead of clause which did not adequately safeguard the financial interests of Governments.
- (5) The failure to include even this clause in A/T issued after December, 1963.
- (6) The failure to carry out a review of the relaxation in the terms of payment at the end of a period of six months as was contemplated in June, 1963, despite :
  - (a) the delay in the despatch of road rollers after drawal of 90% advance payment by the firm having been brought to the notice of the DGS&D in November, 1963 by the P&AO, Calcutta; and
  - (b) the complaint received in January, 1964, from the Director General, Border Roads, about inordinate delay in the despatch of road rollers after drawal of 90% advance by the firm.
- (7) The failure to verify whether the relaxed terms actually resulted in increased production as they were meant to.
- (8) The failure to mark the A/Ts placed on the firm to the Progress Wing, resulting in failure to detect in-ordinate delay by the firm in the despatch of road rollers.
- (9) The failure to investigate effectively and to report on complaints specifically marked to the Progress Wing, Calcutta.
- (10) The failure to exercise effective inspection so as to ensure that inspection marks on road rollers were not erased or tempered with and that the same rollers were not produced more than once for inspection.
- (11) The failure to take timely action either to revert to the standard terms of payment or to institute a comprehensive inquiry despite;
  - (a) several complaints received about gross delay of two years and more in the supply of road rollers by the firm;
  - (b) complaints by the P&AO of the Department of Supply hinting at the questionable designs of the firm; and
  - (c) evidence that was available that it was not the non-availability of railway wagons that was the cause of delay in the despatch of road rollers.

- (12) The failure to take timely action to adjust the price of 69 road rollers, for which orders were cancelled after payment of 90% as advanced against other payments due to the firm.
- (13) The failure of Government to use its pivotal position to recover the advances made to the firm by refusing to issue release orders in favour of quasi-governmental indentors until the advances were returned.
- (14) The failure to raise the question of the unsatisfactory performance of the firm and of the road rollers supplied by it even in October, 1965, when the Negotiating Committee considered the question of enhancement of the price of road rollers."

[Para 8.2 (S. No. 58 of Appendix X) of 1st Report (Fourth Lok Sabha)]

*Action taken by Government :*

This recommendation is recapitulation of several earlier recommendations which have been dealt with separately.

*Recommendation of the Committee :*

"The cumulative result of these series of lapses by various governmental authorities has been that the firm drew 90% advance payment on proof of inspection and delayed the despatch of road rollers. At the end of December, 1966 the firm had yet to deliver 419 road rollers against which they had drawn advance payments amounting to about Rs. 1.92 crores. The amount of interest on this advance up to 31st December, 1966, works out to as much as about Rs. 29 lakhs.

[Para 8.3 (S. No. 59 of Appendix X) of 1st Report (Fourth Lok Sabha).]

*Action taken by Government :*

The series of lapses by various governmental authorities are under investigation and the P.A.C. will be informed of the result in due course.

The present position is that the firm has yet to deliver 403 road rollers against which 90% advance payment on proof of inspection was drawn, totalling Rs. 1.85 crores approximately excluding interest.

*Recommendation of the Committee :*

"The Committee would be failing in their duty if they did not draw attention to the gravity of these lapses which in their cumulative effect indicate either collusion or gross negligence of a culpable kind on the part

of certain officers. The Committee expect that these lapses will be investigated and severe disciplinary action taken against all who are guilty of failure to safeguard the financial interests of the country."

[Para 8.4 (S. No. 60 of Appendix X) of 1st Report (Fourth Lok Sabha).]

*Action taken by Government :*

C.B.I. investigations are proceeding. Based on CBI's report, when received, suitable action will be taken. The CBI have been requested to expedite their report. The P.A.C. will be informed in due course.

*Recommendation of the Committee :*

"On the basis of the material before them, the Committee find it difficult to take a complacent view of the behaviour of M/s. UPCC Private Ltd. Having approached Govt. and secured a relaxation in the terms of payment very much to their advantage on the plea that this would enable them to increase production, they did not utilise the advances for the purpose intended and indulged in even greater delays in delivery than before the concession was made. They failed to deliver 419 road rollers against which they had drawn 90% advance payment. The delay in despatch greatly increased after July, 1963 when the terms of payment were relaxed, such delay being 12 to 25 months in 80 cases; 6 to 11 months in 232 cases; 3 to 5 months in 148 cases and 1 to 2 months in 94 cases. This was during a period when other suppliers of road rollers did not generally take more than a month to despatch road rollers after inspection."

[Para 8.5 (S. No. 61 of Appendix X) of 1st Report (Fourth Lok Sabha).]

"The firm went further and obtained payments on the basis of false Railway receipts. In another case, the road rollers were actually delivered by road after two years of the declared date of despatch by rail in the advance payment bill. In one case they sent only accessories instead of road rollers as mentioned in the railway receipt. There are 19 reported cases where 4 cylinder engines in the road rollers were replaced by 3 cylinder engines after inspection. Between July 1963 and September, 1966, the firm drew 90% advance payments to the tune of about Rs. 1.92 crores against 419 road rollers which they did not deliver."

[Para 8.6 (S. No. 62 of Appendix X) of 1st Report (Fourth Lok Sabha).]

*Action taken by Government :*

These observations relate to the behaviour of M/s. UPCC Ltd. The firm was blacklisted along with their Associated concerns, but these orders

are held in abeyance under orders of the Calcutta High Court. CBI investigations are proceeding. Based on CBI Report, when received, suitable action will be taken. The CBI have been asked to expedite their report.

The P.A.C. will be informed of the result of these enquiries in due course.

*Recommendation of the Committee :*

"The Committee note that some departmental instructions have been issued not to do any business with this firm or its associate firms and the fact that such instructions have been issued has also been intimated to others concerned. This, however, can hardly be considered adequate. In the Committee's view, the most expeditious action needs to be taken in consultation with the Ministry of Law, the Department of Company Affairs, the Reserve Bank of India and the C.B.I. to ensure that the firm do not dissipate their assets or pass funds on to their associate companies and in particular to U.P.C.C., the partnership firm. The Committee expects Government expeditiously to complete the current investigation and to take strict action against the firm so that it may act as a deterrent."

[Para 8.8 (S. No. 63 of Appendix X) of 1st Report (Fourth Lok Sabha).]

*Action taken by Government :*

The comments offered against para 6.26 (S. No. 52 of Appendix X) cover this recommendation also.

*Recommendation of the Committee :*

"The Committee also suggest that Government should expeditiously examine the performance of the firm and its associate companies regarding the supply of stores other than road rollers so as to ascertain if any mal-practices have been indulged in and to take suitable action to safeguard the public interest."

[Para 8.9 (S. No. 64 of Appendix X) of the 1st Report (4th Lok Sabha).]

*Action taken by Government :*

The Comments offered against paras 7.8, 7.9 and 7.10 (S. No. 55 of Appendix X) cover this recommendation also.

*Recommendations involving Vigilance Aspects*

Paras 2.10, 2.16, 2.17, 3.23 & 3.24, 3.35, 3.36, 3.37, 3.38, 3.39, 3.48, 3.63 & 3.64, 3.71, 3.76, 3.77, 3.78, 4.10, 4.21, 4.22, 4.29, to 4.31,

4.40, to 4.44. 4.45, 4.56, 4.63 and 6.08 (S. Nos. 2, 3, 4, 5, 8, 9, 10, 11, 12, 15, 17, 18, 21, 23, 24, 25, 34, 35, 36, 37, 38, 39, 42, 43 and 51 of Appendix X) of the 1st Report (4th Lok Sabha).

*Action taken by Govt. :*

These 25 recommendations involve vigilance aspects which are being enquired into by the Central Bureau of Investigation. The matter is being pursued with the C.B.I. for expediting these investigations. An extract from the report of the C.B.I. dated 12-2-1968 is reproduced below :—

“The reasons for the delay are that the present case, from the investigation point of view, is a case of colossal proportions. The fraud is spread over a period of three years. It involved about 100 contracts and the Road Rollers supplied by the firm are spread in the interior all over the country. The witnesses to whom the Road Rollers have actually been supplied have to be located and questioned. Leaving aside the Registers, Books of Account seized from the accused firm, the files which required to be scrutinised total 1,44,707 pages. In respect of each contract, corresponding records of the DGS&D and the Indentors/Consignors are also required to be obtained and scrutinised. There are over 900 Road Rollers figuring in the case and in respect of each one of them, it is required to be determined by collecting evidence whether the Road Roller in question had or had not been manufactured by M/s. Agrind Fabrications Ltd. at the time when these were claimed to have been inspected. The number of public servants, whose conduct required to be looked into, is also unusually large. The investigation was also handicapped at the initial stage because all the official record was required for being made available to the P.A.C. and was, therefore, not available for the purpose of investigation. Due to all these reasons, the investigation is likely to take quite sometime to be completed.”

The Central Bureau of Investigation have further stated on 19-3-68 that investigation is being pursued vigorously and that in respect of some of the road rollers, the investigation is likely to be finalised shortly.

Action in respect of these 25 recommendations will be processed by Government when complete records and/or the investigation report of the Central Bureau of Investigation become available. The Public Accounts Committee will be informed of the final action taken in the matter by Government.

Meanwhile Government have continued their efforts to obtain delivery of the road rollers in respect of which advance payments were drawn by

M/s. UPCC (P) Ltd., Calcutta. In the last week of March 1968, the firm have offered to deliver the outstanding road rollers @ 10 nos. in April 1968, 10 in May 68, 15 in June 1968 and thereafter 20 nos. per month till the entire outstanding quantity is liquidated. As a token of their bona fide intention to effect these deliveries, the firm have also agreed to transfer to the Government shares of the face value of Rs. 20 lakhs held by them in their allied concerns and also to give an undertaking to the effect that the Government of India would have the first lien on Rs. 20 lakhs out of the amount advanced by the Company to Messrs. Assam Sillimanite Ltd. and that as and when shares of this amount are allotted, the same would be pledged with the Government of India as security.

2. In pursuance of these discussions, M/s. UPCC (P) Ltd. have since delivered to the Government on 19th and 27th of March, 1968 shares of the aggregate value of Rs. 20 lakhs pertaining to their allied concerns, held either in the name of the partnership concern M/s. UPCC or in the name of individual Directors. These shares along with the related documents of transfer to Government are under scrutiny in consultation with the Ministry of Law and the Department of Company Affairs. The firm, however, has not yet commenced supply of road rollers.

## APPENDIX V

### SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

S. No.	Para No. of Report	Ministry/Deptt. Concerned	Conclusion/Recommendation
1	2	3	4
1.	1.2	<i>Supply</i>	The Committee regret that so far replies have been furnished by Government in respect of only 40 recommendations out of 67 and that the latest communications in respect of some of the vital recommendations were received as late as the beginning of this month.
2.	1.8	<i>Home Aijāns</i> (Central Bureau of Investigation)	The Committee are not happy with the progress made in the case by the Central Bureau of Investigation. Considering that the firm had drawn advances amounting to Rs. 1.85 crores, the case should have been investigated with the utmost expedition and finalised without delay.
3.	1.9	-do-	The Committee would like to emphasise that as each A/T constitutes an agreement by itself, it should have been possible for the Central Bureau of Investigation to complete investigations in respect of at least some A/Ts and initiate prosecutions so that action could be taken without delay.

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4.	1.10	<i>Home Affairs</i> (Central Bureau of Investigation)	It would also be appreciated that delays may lead to tampering with records, change of officers and directors and the dissipation of assets. If it is a question of coping with the volume of records in a case, the Central Bureau of Investigation should deploy the necessary staff for the purpose but in no case should important investigations be delayed. The Committee are not impressed with the reasons given by the Central Bureau of Investigation for the delay in completing the investigation.
5.	1.11	-do-	The Committee also desire that Government should examine how far the Central Bureau of Investigation is handicapped in the investigation of such important cases due to lack of sufficient staff or authority. The Government may examine whether the Central Bureau of Investigation requires further strengthening to complete such investigations expeditiously.
6.	1.19	<i>Supply</i> C.B.I.	While the Committee note the Ministry's anxiety to recover the amount of about Rs. 2 crores unauthorisedly kept by the party, they cannot too strongly stress that, as Government are responsible for maintaining the highest traditions of integrity and public conduct, it is their foremost duty to ascertain whether any fraudulent practices liable to criminal proceedings have been committed and to spare no efforts to bring the guilty to book as a deterrent to others.
7.	1.27	<i>Supply</i> <i>Company Affairs</i> Finance	The Committee had expected Government to redouble their efforts to ascertain how the amount of Rs. 1.85 crores taken as an advance by the firm had been disposed of. The Committee are disappointed to find that even now Government have no clear idea about the manner in which this amount has been disposed of by the firm.

8. 1.28 *Supply  
Company Affairs  
Finance*

The Committee find that in the last available balance sheet of U.P.C.C. Private Ltd. for 1965, an amount of Rs. 1,08,86,172.56 has been shown in Schedule 'G' of the Report as having been given as loans and advances without any security other than the debtors' personal security. The Committee note that investigations carried out by the Department of Company Affairs show that "over a crore of rupees had been transferred (by U.P.C.C. Pvt. Ltd.) to the earlier partnership firm."

9. 1.29 -do-

A further clue to this is available in the U.P.C.C.'s original application and their subsequent letter of 1st March, 1968 pressing their request to be allowed to purchase shares of the Indo-Burma Petroleum Company Limited which would involve a purchase price of Rs. 1,24,57,100/- and a further sum of £50,000 on account of sale proceeds to be transferred to the U.K.

10. 1.30 -do-

The Committee also find that in a letter dated 4th November, 1967 to the Minister of Supplies, M/s. U.P.C.C. Pvt. Ltd. stated *inter alia* as under :—

"Additionally, from Rs. 50.00 lakhs advanced by U.P.C.C. Pvt. Ltd. to Assam Sillimanine Ltd., for the Ramgarh Refractory Project, U.P.C.C. Pvt. Ltd. expects to get shares at least to the extent of Rs. 20.00 lakhs."

1.31

The Committee consider that Government have not carried out a thorough investigation into the manner in which U.P.C.C. (Pvt.) Ltd. have disposed of an amount of Rs. 1.85 crores received by them as advance. It is all the more disturbing that when the firm approached Government on more than one occasion with offers of shares of their allied or subsidiary

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			companies as security or with the request to permit to purchase shares of Indo-Burma Petroleum Co. Ltd., Government did not question them closely about the source of their funds.
11.	1.32	-do-	In view of these facts the Committee are not able to appreciate the plea that the U.P.C.C. Pvt. Ltd. do not have enough liquid assets to pay back the advance of Rs. 1.85 crores (together with interest thereon) which have been retained by them in an unauthorised manner without duly delivering road rollers.
12.	1.33	-do-	The Committee would like Government to take urgent steps to recover the amount.
13.	1.35	Supply	The Committee consider that Government should have pressed the firm to file an affidavit of their assets so that they had a clear picture of their assets in order to compel the firm to return the advance of Rs. 1.85 crores unauthorisedly retained by it.
14.	1.36	Supply Finance Company Affairs Law CBI	The Committee note that the firm have offered to supply road rollers in instalments and that, as a token of their <i>bona-fides</i> , they have submitted to Government shares of the aggregate face value of Rs. 20 lakhs pertaining to allied concerns held either in the name of the partnership concern (M/s. U.P.C.C.) or in the name of individual directors. The Committee note that the arrangement with the firm would cease to exist "as and when the interim injunctions in respect of blacklisting orders etc. were vacated by the High Court." The Committee would not like to go into the detailed implications of this proposal as they have no doubt that Government will take proper care to safeguard public interest. They would, however, like

to sound a note of caution and to stress that, while taking a decision on the offer of the firm, the Government should keep in view the following aspects of this case :—

- (i) The legal implications of the proposal made by the firm;
  - (ii) The effect that such an arrangement would have on the suits filed by Government and on the launching of criminal proceedings against the firm or relevant individuals in a court of law, particularly when it is understood that investigations in seven cases have almost been finalised.
  - (iii) Whether the requirement of road rollers by the indentors still holds good and how far these road rollers to be supplied by the firm will meet requirements, particularly in view of the part experience of defective rollers supplied by the firm and reported from after sale service (of Paras 4.7, 4.10 and 4.25 of First Report—4th L.S.).
  - (iv) The implications of the acceptance of road rollers offered by the firm on the extension of the date of delivery of contracts, the recovery of interest charges (which worked out to Rs. 29 lakhs on 31-12-1966) for the advance retained by the firm and the recovery damages on account of losses (actual or potential) suffered by the indentors on account of delay/non-supply of road rollers.
  - (v) Whether acceptance of the proposal may enable the firm to misrepresent the position either to the other Ministries of Government of India or State Governments or Statutory autonomous authorities.
  - (vi) The present Intrinsic value and the genuineness of the shares offered by the firm as a security.
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- (vii) An examination of the lien on the amount of Rs. 20 lakhs for the purchase of shares out of Rs. 50 lakhs advanced by the company in advance of the allotment of the same by Assam Sillimanite Limited.
- (viii) Whether the firm will be in a position to fulfil their promise to supply road rollers in the light of their past performance.
- (ix) Its impact on the request made by the firm for permission to purchase shares of the Indo-Burma Petroleum Co. Ltd. at a time when the firm have not paid back the advance of Rs. 1.85 crores unauthorisedly drawn by them and interest thereon either in cash or by the supply of road rollers.

15. 1.37 *Supply*

The Committee cannot too strongly stress that, in examining this proposal of Messrs. U.P.C.C. in all its ramifications, Government will make sure that not only will the firm in fact deliver the road rollers in accordance with their offer, but also that the right of the Government to take criminal action as a result of the current investigations by the Central Bureau of Investigation or any other Governmental agency is not fettered or prejudiced in any manner.

16. 2.3 *Supply*

The Committee find that the D.G.S.&D.'s Office Order No. 141 dated 26-11-1966 refers not only to para 261 of the Manual of Office Procedure for Supplies, Inspection and Disposals but also to earlier Office Order No. 69 dated 24-5-63 and Office Order No. 152 dated 22-11-63 which enjoin that adequate security such as hypothecation deed and insurance cover/ Bank Guarantee should be obtained before authorising 'on account/progress

payments, which are in the nature of payments in advance of despatch of stores covered by the contract.

17. 2.4. *Supply*

The Committee are of the view that, if the Chief Pay & Accounts Officer had been consulted as enjoined by para 265 of Manual of Office Procedure for Supplies, Inspection & Disposals on the principles outlined in office orders of 24-5-63 and 22-11-63 had been applied in this case, it should have been possible to safeguard Government's interests. The Committee desire that the failure in the above respects should be investigated and action taken against the parties found at fault and report to the Committee.

18. 2.11. *Supply  
Finance*

While the Committee would not like to pursue this aspect further, they are not satisfied with the above explanation. The fact remains that the request of the firm regarding the withdrawal of discount of Rs. 250 per road roller was not examined by the Department of Supply and/or the Ministry of Finance in the light of the relaxation in the terms of payment which had been agreed to by them in July, 1963, thus involving an unintended concession to the firm of above Rs. 1900 per road roller at 4% discount earlier offered by the firm in their fifth request of April, 1961.

19. 2.12. -do-

The Committee desire that remedial action should be taken in the light of these facts to ensure that complete papers are placed before the Department of Supply/Ministry of Finance at the time of the consideration of a request from a firm for grant of any concession in terms of payment or withdrawal of discount.

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20.	2.18.	<i>Supply Finance</i>	<p>The Committee note that Government propose to appoint a Deputy Director, Registration, in the office of the D.G.S. &amp; D. who "would be fully qualified to examine, in a comprehensive manner, the capital structure of the companies, their balance sheets and profit and loss accounts and thus would be in a position to make a correct assessment of the financial soundness of the firms for registration purposes". The Committee also note that "in doubtful and complicated cases it is proposed to provide that the Ministry of Finance should be consulted in such matters".</p>
21.	2.19.	-do-	<p>The Committee would like Government to review the position in the light of experience gained after one year. The Committee also desire that in the light of such a review, general principles should be laid down for determining the types of complicated and doubtful cases, which would require prior consultation with the Ministry of Finance before registration of the firms.</p>
22.	2.20	-do-	<p>As regards the placing of orders on unregistered firms, the Committee suggest that where it is proposed not to consult the Ministry of Finance, Government should obtain adequate security deposits to safeguard their interests. The Committee feel that where large orders of say Rs. 5 lakhs and above are placed on an unregistered firm it would be in Government's own interest to have the standing of the firm thoroughly checked in consultation with the Ministry of Finance.</p>
23.	2.23.	<i>Supply</i>	<p>The Committee regret to note that, even though their Report in this case was presented to the Lok Sabha on 4th August, 1967, the Department have not so far been able to issue an amendment to the Manual of Office Procedure for Supplies, Inspection and Disposals of the Director General.</p>

Supplies & Disposals. The Committee desire that such action should be taken forthwith to ensure that all cases which involve any departure from the standard terms of payment with substantial financial implications should be examined by the Financial Adviser concerned before final orders are passed.

24. 2.26. Supply

The Committee note that Government are contemplating revision of the procedure to ensure that a supplier cannot get away with advance payment without actually despatching the complete goods after inspection. If the revision of the procedure is likely to take some more time, the Committee suggest that instructions should in the meantime be issued forthwith to all consignees to bring promptly all cases of short supplies to the notice of the Pay & Accounts Officer concerned for appropriate action.

The Committee would like to be informed of the revised procedure when finalised and given effect to.

25. 2.31. -do-

It is obvious that not only was it incumbent on the office of the D.G.S.&D. to mark a copy of the A/T to the Progress Wing, but also on the Progress Wing to ensure that the stores were actually despatched, as the order was admittedly on an unregistered firm. The Committee would like Government to investigate the matter further in the light of this and fix responsibility for failure to mark the A/Ts to the Progress Wing.

26. 2.38. Supply

The Committee are not convinced by the Ministry's explanation that "the fluctuations in the monthly output of M/s. Agrind Fabrications are not of much significance and therefore did not attract the attention of the visiting Inspectors because they are used to such fluctuations." The real

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point is that the firm were expected to increase their production from 20 to 30 road rollers per month in view of the relaxed terms of payment, but verification of this increase which was imperative in the circumstances was not carried out by the inspectorate. The Ministry appear now to take into account the firm's recorded annual production figures which showed an average of 30 per month for 1964 and 1965 though, in the evidence before the Public Accounts Committee, the Secretary to the Department of Supply had admitted that "It (production capacity) was not checked up; capacity certainly was not even 30 per month." (of para 3.62 of the First Report of the Public Accounts Committee—Fourth Lok Sabha).

27. 2.39. *Supply  
CBI*

The Committee note that the question of likely collusion of the inspectors is under investigation by the C.B.I. The Committee would like to await the outcome of the investigation.

28. 2.47. *Supply*

The Committee note from the reply given to para 8.11 that Government are thinking of prescribing a comprehensive insurance policy to be taken out by a firm which is allowed relaxation in terms of payment so as to cover the following eventualities :—

- (i) wrongly withholding delivery;
- (ii) delaying delivery without any justifiable cause; and
- (iii) converting the property entrusted.

29. 2.48. *-do-*

The Committee would like Government to finalise these proposals at an early date and implement them to avoid a recurrence of such cases.

30. 2.51. *Supply* ..  
The Committee would like to know the extent of liquidated damages levied in respect of delays in contracts mentioned in Appendix IX of their First Report (Fourth Lok Sabha) and steps taken by the Government to recover the same.
31. 2.52. -do-  
The Committee note that the project Directorate have reported that out of 23 cases where orders had been placed on M/s. U.P.C.C. Ltd., there are 4 cases as mentioned above which smack of fraudulent dealings of the firm and which were referred to the Central Bureau of Investigation for investigation in June and September, 1967. The Committee desire that the Central Bureau of Investigation should complete their investigation of these cases expeditiously.
32. 2.53. -do-  
The Committee would like the Department of Supply to ensure that, in the case of orders placed by other Directorates where either the goods have not been supplied or other malpractices have been indulged in by M/s. U.P.C.C. and/or its other associate companies, the cases are referred to the C.B.I. for investigation.
33. 2.57 *Supply*  
*DGS&D*  
The Committee find that the D.G.S.&D's instructions issued in their O.M. No. 3(8)/67-O.&M. dated the 4th September, 1967 (referred to in Department of Supply's reply on S. No. 40 *ibid*) do not specifically cover shortcomings in the organisation in regard to dealing with the complaints of consignees. The Committee suggest that the D.G.S.&D. may devise a procedure by which all serious complaints received from consignees are immediately brought to the notice of and also periodically reviewed by the senior officers of the organisation so as to ensure and prompt proper action.
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34. 2.58. -do-

The Committee may be furnished with a copy of the comprehensive instructions which may be issued by Government in the matter.

35. 2.59. *Supply*

The Committee also find from the replies of the Department of Supply in respect of the recommendations contained in Paras 3.94, 3.72, 4.49, 4.75 to 4.78, 5.10—5.12 that the vigilance aspect/fixing of responsibility in these cases is under examination. The Committee desire that examination of these cases should be finalised without delay so that the persons found at fault do not escape disciplinary action.

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