

**PUBLIC ACCOUNTS COMMITTEE
(1977-78)**

(SIXTH LOK SABHA)

SIXTY-SECOND REPORT

PROCUREMENT OF OIL

MINISTRY OF DEFENCE

[Action taken by Government on the recommendations of the Public Accounts Committee contained in their 231st Report (Fifth Lok Sabha) on paragraph 11 of the Report of the Comptroller and Auditor General of India for the year 1972-73, Union Government (Defence Services)].



Presented in Lok Sabha on 21-3-1978

Laid in Rajya Sabha on 21-3-1978

**LOK SABHA SECRETARIAT
NEW DELHI**

*February, 1978/Phalguna, 1899 (S)
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CORRIGENDA TO 62ND REPORT OF PUBLIC ACCOUNTS
 COMMITTEE PRESENTED TO LOK SABHA ON 21 MARCH,
 1978.

<u>Page</u>	<u>Para</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
3	1.0	1	add 'orders' before 'had been placed...'	
3	1.9	4	question	quotation
13	-	2	D puty Secretary	Deputy Secretary
13	-	4	Under S cretary	Under Secretary
18	-	30	laid own	laid down

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**LIST OF MEMBERS OF PUBLIC ACCOUNTS COMMITTEE
(1977-78)**

Shri C. M. Stephen—*Chairman*

MEMBERS

Lok Sabha

2. Shri Halimuddin Ahmed
3. Shri Balak Ram
4. Shri Brij Raj Singh
5. Shri Tulsidas Dasappa
6. Shri Asoke Krishna Dutt
7. Shri Kanwar Lal Gupta
8. Shri P. K. Kodiyan
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16. Smt. Sushila Shanker Adivarekar
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19. Shri Piare Lall Kureel *urf* Piare Lall Tabil
20. Shri S. A. Khaja Mohideen
21. Shri Bezawada Papireddi
22. Shri Zawar Hussain

SECRETARIAT

1. Shri B. K. Mukherjee—*Joint Secretary.*
2. Shri H. G. Paranjpe—*Chief Financial Committee officer.*
3. Shri Bipin Behari—*Senior Financial Committee Officer.*

INTRODUCTION

I, the Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this Sixty Second Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their 231st Report (Fifth Lok Sabha) on Procurement of Oil.

2. On 10th August, 1977, an Action Taken Sub-Committee, consisting of the following members, was appointed to scrutinise the replies received from Government in pursuance of the recommendations made by the Committee in their earlier Reports:

Chairman

1. Shri C. M. Stephen

Convener

2. Shri Asoke Krishna Dutt

Members

3. Shri Gauri Shankar Rai
4. Shri Tulsidas Dasappa
5. Shri Kanwar Lal Gupta
6. Shri Zawar Hussain
7. Shri Vasant Sathe

3. The Action Taken Sub-Committee of the Public Accounts Committee (1977-78) considered and adopted this Report at their sitting held on 27th February, 1978. The Report was finally adopted by the Public Accounts Committee (1977-78) on 15 March, 1978.

4. For facility of reference the conclusions/recommendations of the Committee have been printed in thick type in the body of the Report. For the sake of convenience, the conclusions/recommendations of the Committee have also been appended to the Report in a consolidated form.

(vi)

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

NEW DELHI;

March 15, 1978

Phalgunā 24, 1899 (S)

C. M. STEPHEN,

Chairman,

Public Accounts Committee.

REPORT

CHAPTER I

1.1. This Report of the Committee deals with the action taken by Government on the recommendations/observations of the Committee contained in their 231st Report (Fifth Lok Sabha) presented to the Lok Sabha on 3rd November, 1976 on Procurement of Oil for use by the Ministry of Defence by the Department of Supply which had been reported in paragraph 11 of the Report of the Comptroller and Auditor General of India for the year 1972-73, Union Government (Defence Services).

1.2. Action Taken Notes in respect of all the 22 recommendations/observations contained in the Report have been received from Government* and these have been categorised as follows:—

(i) *Recommendations/observations that have been accepted by from Government.*

S. Nos. 1, 3, 5, 12, 16, 18 and 22.

(ii) *Recommendations/observations which the Committee do not desire to pursue in the light of the replies received from Government.*

S. Nos. 6, 7, 10, 13, 14 and 20.

(iii) *Recommendations/observations replies to which have not been accepted by the Committee and which require reiteration.*

S. Nos. 2, 8 and 9.

(iv) *Recommendations/observations in respect of which Government have furnished interim replies.*

S. Nos. 4, 13 (Partly), 15, 17, 19 and 21.

1.3. The Committee expect that final replies to these recommendations/observations in respect of which only interim replies have so far been furnished will be submitted to them duly vetted by Audit without delay.

1.4. After presentation of the 231st Report (5th Lok Sabha) on 3rd November, 1976 Government were requested to furnish Action

*Action Taken Note on Sl. Nos. 1 to 7, 11 and 13 to 18 of Deptt. of Supply have not been vetted in Audit.

Taken replies on all the recommendations contained in the above-mentioned Report by 2 May, 1977 Advance (unvetted) Replies were received from the Department of Supply on 1 June, 1977 and from the Ministry of Defence (Department of Production) on 26 November, 1977. The latter furnished the vetted replies on 23 January, 1978. In respect of certain* paragraphs.

1.5. The Committee will now deal with the action taken by Government on some of their recommendations.

Execution of contract

(Para 1. 60, S. No. 2)

1.6. Commenting on execution of contract with M|s. Valvoline (India) Pvt. Ltd.—the second lowest tenderer in this case, the Committee in para 1.60 had observed:—

“In response to the tender enquiry issued by the Director General, Supplies & Disposals, against the first indent, placed in April 1968, by the Army Headquarters, for the supply of 1.62 lakh litres of the oil (cost: Rs. 4.86 lakhs) the lowest quotation of Rs. 2.720 per kilo litre had been received from Sikri and Grover and the second lowest quotation of Rs. 2.998 per kilo litre from Valvoline (India) Private Ltd. It had, however, been decided in consultation with indenter, to place orders on the latter firm, in spite of the fact that its quotation was not the lowest, for the following reasons:—

- (a) while both the firms required import licence, the foreign exchange component of the quotation received from Valvoline (India) Private Ltd. was Rs. 2.45 lakhs as against Rs. 2.66 lakhs in the case of the quotation of Sikri and Grover.
- (b) The lowest tenderer (Sikri and Grover) had also demanded reimbursement of what were described as non-recoverable duties in addition to the duties recoverable under law, and the legal validity of this claim was already under examination at the relevant time, in consultation with the Law Ministry, with reference to a similar demand made by the firm in an earlier case. However, in view of the fact that the resolution of this dispute ‘might take a little time’ and the indenter’s requirement was also ‘very urgent’

*Serial Nos. 3 to 8, 10 to 15, 17 and 19 to 22.

had been placed, in January, 1969, on Valvoline (India) Ltd., after an unsuccessful bid to obtain a price reduction."

1.7. In their reply* sent *vide* U.O. No. 19/19/76/D (Prod.) dated 17 November, 1977 the Ministry of Defence have stated:

"Procurement of the store rested with DGS&D. However, when DGS&D informed Army Hqrs. that there were legal difficulties in accepting the claim of M/s. Sikri and Grover for reimbursement of the non-recoverable duties and enquired from Army Hqrs., if they were prepared to wait till the issue was resolved. Army Hqrs. replied that their requirements of the store were urgent and they could not wait."

1.8. The Enquiry Committee appointed by the Ministry of Defence (Department of Defence Production) in pursuance of this Committee's recommendation had in its Report dated 30 August 1977, observed:

"...before awarding contract to M/s. Valvoline whose quotation was higher on 13 January, 1969 it would have been prudent on DGS&D's part to have informed in writing M/s. Sikri & Grover that non-recoverable duties could not be reimbursed and sought a confirmation, if they were willing to waive off the condition. There appears to be no documentary evidence of this having been done. It may be mentioned that M/s. Sikri & Grover had supplied the store earlier against two orders dated 24 June, 1968 and 30 July, 1968 and the stores were found satisfactory by the users."

1.9. The Committee are inclined to agree with the views of the Expert Committee appointed by the Ministry of Defence (Department of Defence Production) and feel that the Department of Supply should have confronted the lowest tenderer with the question of M/s. Valvoline (India) Pvt. Ltd. and made an attempt to negotiate the terms of the contract with them in the light of the terms offered by M/s. Valvoline (India) Pvt. Ltd.

*Not vetted by Audit.

Laxity in carrying out the Prescribed Tests

(Paras 1.66 and 1.67, S. Nos. 8 & 9)

1.10. Expressing their disapproval of the laxity on the part of Defence Inspection Organisation in carrying out the prescribed tests of the bulk supplies of the oil, the Committee in para 1.66 and 1.67 had observed:—

1.66. "Apart from these shortcomings in the initial processing and acceptance of tenders for the supplies, the Committee are gravely concerned to find considerable laxity on the part of the Defence Inspection Organisation in carrying out the prescribed tests in respect of the bulk supplies of the oil, resulting in relaxations in the specifications of a vital item in a manner which can only be termed indiscriminate. For instance the specification for Mineral Oil Hydraulic Buffer, prescribed by the Defence Research Laboratory (Materials), included two tests to detect the presence of aromatic compounds in the oil which attack the rubber components in buffer systems, *viz.* aniline point test and change in aniline point test after extraction with sulphuric acid of 98 per cent strength. The advance sample received from firm against the first contract had been subjected to both these tests when it had been found that the change in aniline point of the sample, after extraction with sulphuric acid, was 7.0°C as against 5.5°C (maximum) specified. Though this variation was by no means small, the defect had been considered to be 'minor' and, it had been decided to accept the sample with this 'minor' deviation, and to bring this deviation from the specification requirement to the notice of the supplies for rectification before commencement of bulk supplies. On this being taken up with the suppliers, they maintained that the oil had been checked again in their blending plant when the change in aniline point had been found to be only 5.4°C and pointed out that the anomaly could have arisen if sulphuric acid of 98 per cent strength had not been used in the test. However, before the suppliers could be informed that the test in regard to change in aniline point had, in fact, been conducted with acid of prescribed strength, the bulk supplies of the oil had already been made."

1.67. "Surprisingly, even when it was known to the Inspection Organisation that the advance sample had failed in the change in aniline point test, and the findings in this regard had also been disputed by the suppliers, this test, though admittedly necessary, was dispensed with in respect of the bulk supplies made against the first contract on the ground that the results of the aniline point test were satisfactory and because acid of the requisite strength was not available in stock. In spite of the fact that concentrated sulphuric acid is a commodity that is available freely enough, it had not been considered necessary to procure acid on an emergent basis for carrying out the test, since the Inspectorate had apparently taken the view that the aniline point test was the 'crucial' test for checking the aromatic content of the oil and therefore, the absence of the second test would not be serious. The Committee are unable to appreciate the strange logic of this argument and are of the view that since the advance sample had failed in the change in aniline point test, the test ought to have been necessarily conducted on samples drawn from the bulk supplies, in order to make sure that the supplies conformed, in all respects, to the specifications. That this was not done is to be deprecated. What is perhaps even worse is that the omission of this particular test had not even been looked into by the Chief Inspector of Materials when he chose to sign the test report."

1.68. The Ministry of Defence vide their U.O. No. F. 19(19)1763 D Prod dated 12 January, 1978 (forwarded on 23rd January, 1978) have replied to recommendation in Paragraph 1.66 as under:

"The Enquiry Committee appointed by the Government in its findings had observed that relaxations in acceptance of supplies of OMHB from M/s. Valvoline (India) Pvt. Ltd. were given by CIM in respect of change in aniline point, as content and crackle test. Following of the relaxed plan for selection of the samples at the time of bulk inspection was also a deviation from the laid down procedure, when M/s. Valvoline were supplying this critical store for the first time and therefore rigid plan for sampling should have been observed.

The Enquiry Committee went into the past practice followed in according relaxations in the inspection of OMHB and

the similar stores. In their findings the Committee has observed as follows with regard to according of relaxation in respect of change in aniline point:

'With regard to change in aniline point, the Committee has found that in almost all earlier supplies of OMHB, as well as OM-13 (which is an uninhibited OMHB), this relaxation has invariably been given in all cases. This would be evident by reference to Appendix Sl. No. 26 which shows that relaxations were given in supply of OMHB from M/s. Sikri and Grover and M/s. Castrol varying from 5°C to 7.4°C against 5.5°C (Maximum) specified. No complaints of any nature were received during the use of these stores, which had higher change in aniline point than specified.'

1.12. In reply* dated 17 November, 1977 to recommendation contained in paragraph 1.67, the Ministry, had stated as follow:

"While it is incumbent on the part of an inspection agency to carry out all tests laid down in the specification/schedule of inspection, it is true that no test for change in aniline point had been carried out at the time of inspection of samples from bulk supplies, in the absence of sulphuric Acid of correct concentration then not being available. In all probability this consignment if tested too would have revealed higher change in aniline point as was found in the advance sample and store cleared with the relaxation, as in all previous supplies of OMHB from different sources this relaxation in respect of change in aniline point had been accorded. The OMHB accepted in the past with this relaxation had not given any complaint of adverse effect in service. With this background the Chief Inspector of Materials while signing the report did not consider omission of this test as very consequential to the quality of the product.

No doubt the test of change in aniline point which gives an indication of aromatic content of the oil has been stipulated to guard against the effect of OMHB on rubber seals of the recoil system of guns. oils with higher change of aniline point have not shown any adverse effect on rubber seal of the recoil system. The Enquiry Committee in its

*Not vetted by Audit.

conclusion has remarked that the test of change in aniline point meant for safety of rubber components is not very reliable and should be replaced by a modern seal swell test based on seal rubbers used in India."

1.13. The Committee are not convinced with the explanation advanced by the Department of Defence Production that the relaxation granted to M/s. Valvoline (India) Pvt. Ltd. was in accordance with the prevailing practice. They consider that if the terms of the contract and the specifications contracted for were rigidly enforced through appropriate tests, the defect in the supplies might well have come to notice and the loss could have been prevented.

Delivery Schedule of Stores

(Para 1.69 S. No. 11)

1.14. Apprehending that delivery period would not have been adhered to, the Committee, in para 1.69 of their 231st Report had observed as follows:

"Again though the supplies in respect of the second contract had been made in drums with screw caps, as provided for in the agreement, oil in 100 drums alone out of the consignment of 15,521 drums had been subjected to the crackling test, on the ground that the shipment already having been delayed, conducting cent per cent crackling test on all the 15,521 drums would have involved considerable time and further delayed urgently required supplies to the user. It would, therefore, appear that the stipulated delivery period had not been adhered to by the firm in respect of this contract. The Committee would very much like to know the reasons for extending the delivery period and the steps, if any, taken by the Department of Supply at all stages to see that deliveries were expedited particularly in context of the earlier experience with the firm."

1.15. In their Action Taken Note dated 1 June, 1977, the Department of Supply stated as under:

"The Delivery period stipulated in the second contract No. 13A dated 9 February, 1970 was as under:

"The stores will be offered for inspection within 18/19 weeks after receipt of import licence and stores will be despatched within 7 days after receipt of I/Notes'.

Import recommendation certificate was issued to the firm on 24 February, 1970 and they obtained Import Licence on 30

April 1970. The A/T placed was subject to submission of advance sample by the firm to CIM, Kanpur before commencing bulk supplies. The sample was submitted by the firm on 23 May, 1970.

Advance sample report, pointing out certain defects was sent by CIM, Kanpur on 24 June, 1970 to the Inspector ICS, Calcutta, a copy of which was also endorsed to the firm, indentor and the DGS&D. CIM stated in the said letter that the deviation from the specification requirement might be brought to the notice of the supplier for rectification of their product, when supplied. The firm's request for extension of delivery period was referred to the indentor and the latter had agreed to the extension of delivery period upto 31st December 1970. Taking into consideration the terms of the contract, the delivery period was refixed upto 28 February, 1971.

It was learnt from firm's letter dated 18 March, 1971 that supplies which arrived at Calcutta were offered for inspection on 17 February, 1971 and were inspected on 19 February, 1971. The firm, therefore, requested for extension of delivery period upto 30 April, 1971. The position was reviewed and the delivery period was accordingly extended upto 15 May, 1971, *vide* DGS&D letter dated 16th April, 1971. The supplies were completed, despatches having been made in lots from 12 April 1971 to 22 April, 1971."

1.16. In this connection the Committee would like to refer to the findings contained in paragraph 1.60 of their original Report and the reply of the Government thereto. They observe that the supplies were required by the Department of Defence Production urgently and for that reason the Department was not willing to wait till the legal validity of the claim made by the lowest tenderer (M/s Sikri & Grover) in an earlier case about the reimbursement of certain 'non-recoverable duties' could be decided which, according to Department of Supply, would have taken a 'little time'. The Committee are, however, perturbed to find that the Department was quite generous in granting extension of delivery period from time to time. The extension of delivery period enabled the firm to supply stores from 12 April 1971 to 22 April 1971, though the contract was executed on 9 February 1970. The Committee are inclined to conclude that neither the Department of Defence Production was serious about the urgency of the stores nor the Department of Supply took any positive measure to see that deliveries were expedited particularly in the context of earlier experience with the firm.

CHAPTER II
RECOMMENDATIONS/ OBSERVATIONS WHICH HAVE BEEN
ACCEPTED BY GOVERNMENT

Recommendation

The facts brought out in the audit paragraph and the evidence tendered before the Committee add up to a situation which causes much concern. Serious lapses have been found in the procurement and acceptance of supplies of Mineral Oil Hydraulic Buffer (which is used as a hydraulic medium in the recoil system of gun mountings), as a result of which the specifications of a vital Defence item seem to have been compromised. Some intriguing issues referred to below, emerge out of the Committee examination of this case.

[S. No. 1 Para 1.59 of 231st Report of PAC (5th Lok Sabha)]

Action Taken

In the context of PAC's observation that in the procurement and acceptance of supplies of Oil Mineral Hydraulic Buffer, the specification of a vital Defence item seems to have been compromised, the Ministry of Defence appointed an Enquiry Committee with Addl. Secretary (Defence Supplies) as Chairman, Addl. FA (DP) and an expert in Petroleum discipline nominated by Ministry of Petroleum and Chemicals as Members to enquire whether in the inspection of the supplies received from the firm any relaxations from the specification were given and while doing so, if any *mala fides* were involved. This Committee has since submitted its report to the Government, a copy of which has also been sent to Secretary General, Lok Sabha Sectt.

[Min. of Def. U.O. No. 19/19/76/D (Prod), dated 17-11-1977]

Recommendation

In this context, the Committee consider it significant that the foreign exchange allocated for the purpose by the Director of Ordnance Services, Army Headquarters, and intimated by him, in December 1968, to the Director General, Supplies & Disposals, also amounted to Rs. 2.45 lakhs, so as to correspond strangely enough, to the requirements indicated by Valvoline (India) Private Ltd. In the light of

the subsequent course of events, the Committee would very much like to know the basis on which the indenter had worked out the foreign exchange requirements for this purchase. Since the question of reimbursement of the non recoverable duties had been, admittedly raised by the lowest tenderer on an earlier occasion itself, the Committee would also like to be apprised in some detail, of the facts of that case and the reasons for delay in arriving at a decision in this regard.

[S. No. 3 (Para 1.61) of Appendix to 231st Report on PAC
(5th Lok Sabha)]

Action Taken

At the time of projection of indent on DGS&D in April 1968 for procurement of Oil Mineral Hydraulic Buffer, the Army Hqrs. had not indicated any foreign exchange value in their indent. The quotations received in response to the tenders were passed on by DGS&D to Army Hqrs. in September 1968, which apart from indicating the rate per Kilo Litre of the store also specified the foreign exchange element required by respective tenderers.

Subsequently, DGS&D in October, 1968 intimated to the indenter that legal difficulties had cropped up in the acceptance of the lowest quotation of Messrs Sikri & Grover, since this firm had claimed reimbursement of non-recoverable duties and resolution of this issue would take some time. DGS&D further asked Army Hqrs. for providing the requisite foreign exchange immediately, keeping in mind the above circumstances.

As the supplies were required urgently and the indenter was not prepared to wait, the foreign exchange to the extent indicated in the offer of Messrs. Volvoline whose quotation was the next higher, was provided by Army Hqrs. to DGS&D for arranging procurement.

With regard to PAC's observation on the issue of reimbursement of non-recoverable duties, the Department of Supply has separately furnished their action taken note on the para to Lok Sabha Sectt.

[Min. of D.U.O. No. F. 19(19)/76/D(Prod), dated 12-1-1978]

Recommendation

" In this context, the Committee consider it significant that the foreign exchange allocated for the purchase by the Director of Ordnance Services, Army Headquarters, and intimated by him, in December 1968, to the Director General, Supplies and Disposals, also

amounted to Rs. 2.45 lakhs, so as to correspond, strangely enough, to the requirements indicated by Valvoline (India) Private Ltd. In the light of the subsequent course of events, the Committee would very much like to know the basis on which the indenter had worked out the foreign exchange requirements for this purchase. Since the question of reimbursement of the non recoverable duties had been, admittedly raised by the lowest tenderer on an earlier occasion itself, the Committee would also like to be apprised in some detail, of the facts of that case and the reasons for delay in arriving at a decision in this regard."

[S. No. 3 (Para 1.61) of Appendix to 231st Report of the
PAC (Fifth Lok Sabha)]

Action Taken

DGS&D had intimated to Director of Ordnance Services the rates of both M/s. Sikri & Grover and M/s. Valvoline along with the foreign exchange required by both the firms. Hence, it is for Director of Ordnance Services to explain and indicate the basis on which they worked out the foreign exchange requirement for this purpose.

Regarding reimbursement of non-recoverable duties raised by M/s. Sikri & Grover, the position may be explained as under:--

The non recoverable duties have been imposed under the Mineral Oil (Additional Duties of Excise and Customs) Act, 1958 as amended by Amendment Act, 1964. This Act provides for the levy of additional duties on certain petroleum products including lubricating oils and greases and also stipulates as follows:—

"5. Notwithstanding anything contained in Section 64A of the Indian Sale of Goods Act, 1930, or in any other law for the time being in force, or in any contract or agreement, no purchaser purchasing any of the goods referred to in sub-section (1) of Section 3, shall be liable to pay or be sued for, or in respect of—

- (a) the whole or any part of the additional duties of excise leviable under this Act, or
- (b) the whole or any part of the additional duties of customs leviable under section 4 or under the Indian Tariff Act, 1934 to the extent to which such duties have be-

come leviable by reasons of this Act as an addition to the contract price payable by him in respect of the goods so purchased."

Based on the representations from M/s. Sikri & Grover for reimbursement of these duties, this issue was examined in the Department of Supply in consultation with the Ministry of Law, Ministry of Finance, Department of Revenue and Ministry of Petroleum and Chemicals in a meeting held on December, 1968 and a decision was taken that there could be no question of the non-recoverable duty being reimbursed to M/s. Sikri & Grover. A copy of these Minutes is enclosed. (Annexure A). It will, therefore, be seen that while taking the purchase decision on 2nd January, 1969 to place order on Valvoline, the fact that Sikri & Grovers offer with the condition that non-recoverable duties should be paid to them was not found acceptable.

As regards the past cases where M/s. Sikri & Grover had been refused reimbursement of non-recoverable excise and custom duties, the firm have gone into adjudication in those cases. These are now *subjudice* in the High Court of Bombay.

[Department of Supply No. PIII-22 (23) /76, dated 1st June, 1977]

ANNEXURE (A)

DEPARTMENT OF SUPPLY

Minutes of the meeting held at 3.30 P.M. on the 7th December, 1968 in the room of Secretary (Supply) to discuss the implications of non-recoverable duties leviable under the Mineral Oils (Addl. Duties of Excise and Customs) Act in the case of small importers.

The following were present:—

Department of Supply :

1. Shri K. Ram Secretary
2. Shri S. S. Puri Director (Vig.)

Ministry of Finance :

3. Shri S. K. Mazumdar Financial Adviser
4. Shri C. B. Gulati Dy. Financial Adviser

Ministry of Law :

5. Shri A.S. Choudhri Joint Secretary

Department of Revenue :

6. Shri L. S. Marthandam Deputy Secretary

Ministry of Petroleum and Chemicals :

7. Shri B. S. Rao Under Secretary

D.G.S. & D.

8. Shri P.S. Gupta A.D.G.
 9. Shri P.K. Chatterji Director of Supplies
 10. Shri Ardman Singh Deputy Director

2. After some discussion, it was held that the provisions of the Mineral Oils (Addl. Duties of Excise & Customs) Act, 1958 were very clear and did not leave any room for ambiguity. Under the Act, the non-recoverable duties cannot be passed on by the seller to the purchaser. In the letter dated the 6th February 1967, sent by the Ministry of Petroleum and Chemicals to M/s. Sikri & Grover, it had been clearly indicated that "the inclusion of this levy in the selling prices amounts to violation of Section 5 of the Act." In view of these clear legal provisions, it was decided that there could be no question of the non-recoverable duty being reimbursed to M/s. Sikri and Grover.

Sd/-S. S. Puri
 DIRECTOR (VIGILANCE)

Forwarded to:

1. Shri S. K. Mazumdar
 Joint Secretary, Ministry of Finance.
2. Shri A. S. Choudhri,
 Joint Secretary, Ministry of Law.
3. Shri P. S. Gupta,
 Addl. D.G. (S&D)
4. Shri L. S. Marthandam,
 Deputy Secretary, Department of Revenue
5. Shri B. S. Rao,
 Under Secretary of Petroleum & Chemicals.

No. PI-18 (4)/68

12th December, 1968.

Recommendation

The Committee have been informed, in this connection that 'oil companies are very secretive' and that their Indian agents do not normally disclose details of their principals. This, in the Committee's view, is an entirely impermissible situation which needs to be remedied without loss of time. They would, therefore, urge Government to shed all complacency in this regard and insist upon the disclosure by the Indian agents of the details of their principals in all cases and especially in the case of defence supplies for the country must ensure that vital supplies such as buffer oil for guns are procured only from suppliers of known reliability. Besides, as has been earlier recommended by the Committee, in paragraphs 1.60 and 1.61 of their 160 Report (Fifth Lok Sabha), Government should, as far as possible, deal directly with the foreign suppliers and eliminate their superfluous middlemen in the form of Indian agents, particularly in respect of purchases where no after-sales services are involved.

[S. No. 5 (Para 1.63) of Appendix to 231st Report of the
PAC (Fifth Lok Sabha)]

Action Taken

The observations made in this para concern Department of Supply who are sending separate note to the Lok Sabha Sectt.

[M. of D. u.o. No. F.19(19) 76-D (PROD), dated 12-1-1978]

Recommendation

"The Committee have been informed in this connection, that 'oil companies are very secretive' and that their Indian agents do not formally disclose details of their principals. This in the Committee's view, is an entirely impermissible situation which needs to be remedied without loss of time. They would, therefore, urge Government to shed all complacency in this regard and insist upon the disclosure by the Indian agents of the details of their principals in all cases and especially in the case of defence supplies, for the country must ensure that vital supplies such as buffer oil for guns are procured only from suppliers of known reliability. Besides, as has been earlier recommended by the Committee in paragraphs 1.60 and 1.61 of their 160th Report (Fifth Lok Sabha), Government should, as far as possible, deal directly with the foreign suppliers and eliminate their superfluous middlemen in the form of Indian agents, particularly in respect of purchases where no after-sales services are involved.

[S. No. 5 (Para 1.63) of Appendix to 231st Report of the
PAC (Fifth Lok Sabha)]

Action Taken

The Committee's observation regarding the need to ascertain full particulars of foreign principals of Indian agents is noted and suitable instructions have since been issued to all Purchase Officers (copy of Office Order No. 71, dated 22nd April, 1977 is enclosed). As already intimated to the Committee in an Action Taken Note on their recommendations at paragraphs 1.60 and 1.61 of their 160th Report (Fifth Lok Sabha), sent with the Department of Supply O.M. No. PIII-22 (4) |75, dated 18th November, 1975, procurement of fertilisers, where no after sales service is involved, has been made over to the Minerals and Metals Trading Corporation with effect from 1st December, 1975. This has been accepted by the Committee in their 185th Report (Fifth Lok Sabha).

[Department of Supply No. PIII-22 (23) |76, dated 1st June, 1977]

ANNEXURE

(Vide para 1.63)

DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS

(CO-ORDINATION SECTION-2)

PARLIAMENT STREET, NEW DELHI.

OFFICE ORDER NO. 71

Dated 22nd April, 1977

SUBJECT: *Placement of contracts on Un-registered Indian Firms for imported stores.*

Ref : P.A.C.'s Recommendations contained at S. No. 5 (Para 1.63) of their 231st Report (Fifth Lok Sabha).

Attention of Purchase Officers invited to the instruction contained in Office Order No. 33 dt. 24th April, 1967, which *inter-alia* stipulate that:—

“In case of offers for imported store from unregistered firms both the Indian Agents|Stockists and the foreign manufacturer being unregistered, a reference may be made to (Now Supply Wing Indian Embassy) I.S.M., London| Washington (in respect of firms located in Europe U.S. North America) or to the Indian Embassy concerned regarding the standing of the foreign firms and the order should be placed only on receipt of a satisfactory reply. The Indian Agent|Stockist may also be asked,

where considered necessary to produce documents to prove that he is regular Agent|Stockist of the foreign supplier. In case of imported stores offered ex-stock, the stockist may also be asked to indicate the date of import and the condition of the equipment|machine. The Inspector should also be asked to verify in such cases, before the placement of the contract:—

- (a) Availability of stock.
- (b) Condition of the equipment|machine.
- (c) Specification to which it conforms.
- (d) Availability of spares.
- (e) After-sales-service arrangements and.
- (f) Whether the firm is the agent of the foreign manufacturer and is importing such equipments regularly.”

2. In their 231st Report, the Public Accounts Committee have brought to our notice a case where the Purchase Officer placed a contract on the Indian Agents of Foreign Manufacturers without making any attempt whatsoever to ascertain the identity and other details of the Foreign Manufacturers of the Indian Agents in order to determine their reliability, standing etc. This resulted in the supply of sub-standard stores against vital defence requirements. This lapse on the part of the Purchase Officer attracted criticism from the P.A.C. who took a very serious view of it.

3. To avoid recurrence, all Purchase Officers should please carefully note for strict compliance the instructions reproduced under para 1 above.

4. Regarding placement of contracts for imported stores on Registered Indian Agents of Foreign Principals, similar instructions exist under O.O.No. 143 dt. 16-10-75.

Sd/-P. R. AHIR

DY. DIRECTOR (CS-I)

STANDARD DISTRIBUTION.

(ON file No. CDN-2|11(21)|66)

Recommendation

Yet another major defect noticed much later (June 1971) in the Oil supplied by Valvoline (India) Private Ltd. was the formation of jelly-like sediments in the oil, resulting in the malfunctioning of

the recoil systems of guns filled with the oil in one of the units to which it had been supplied. Similar gel formation was also noticed later at other places where the Oil had been supplied. On samples of the oil being tested by the Defence Research Laboratory (Materials) the presence of an aluminium compound instead of Calcium petroleum sulphonate as corrosion inhibitor, had come to light. As such the oil was declared unsuitable for use as buffer oil for guns and the existing stocks of oil supplied by the firm had to be frozen. Unfortunately, no test for the detection of the presence of jelly-forming substances had been included in the specifications since such gel formation had not been encountered earlier. Since this oil is, admittedly, 'very vital' for the guns and any foreign substance or impurity in the lubricant could work havoc in an emergency and incapacitate the guns, the Committee feel earnestly that adequate test ought to have been prescribed ab-initio, to safeguard against possible sabotage by unscrupulous elements resorting to the use of unauthorised or below-specification compounds as corrosion inhibitor. The Committee note that certain remedial measures aimed at detecting such defects in future supplies have now been taken and expect that these will be scrupulously observed.

[Sr. No. 12 (Para 1.70.) of Appendix to 231st Report of PAC (5th Lok Sabha)]

Action Taken

The Enquiry Committee appointed by the Government went into all possible causes of the defect of gel formation in the oil, which developed in the case of first consignment when stored over a length of period and in the second consignment, even when the stores had not been issued to the units from the depots. During investigation, the Committee held detailed discussions with Scientists, working in this field both in the designers and inspection organisations. The various hypothesis advanced were examined at depth and considerable experimental data compiled on the subject by the testing laboratory analysed.

The Enquiry Committee also examined at depth the relationship, if any, of the relaxations accorded on the ultimate defect of gel formation in CMHB. They came to a conclusion that relaxations accorded could not have given rise to phenomena of gel formation. In the opinion of the Enquiry Committee recorded in their findings, nothing conclusive can be said about the cause of gel formation. Gel which developed over a long period of time making the stores unserviceable could only be due to some impurities present in either

of the two ingredient *viz.*, Stearic Acid and Calcium Petroleum Sulphonate actually used in the formulation of CMHB in question. The Committee has further observed that the specification as designed at the time of procurement did not include any tests which could directly or indirectly detect the possibility of gel formation at later date. This could be ensured by defining the quality of Stearic Acid and Calcium Petroleum Sulphonate more strictly and/or by prescribing normal or accelerated tests such as 'no separation of additives', 'keeping priorities' and 'gel tendency test', which have now been included in the specification.

[M. of D. u.o. No. F. 19 (19) |76|D (Prod), dated 12-1-1978],

Recommendation

This case also emphasises the need for tightening the procedures for the inspection and acceptance of operational stores and the Committee desire that a review for the purpose should be undertaken immediately. It should also be impressed upon the inspection staff that the specification and tests prescribed for vital defence supplies should be strictly enforced and the standards scrupulously adhered to.

[Sr. No. 16. Para 1.74 of 231st Report of PAC (5th Lok Sabha)]

Action Taken

There could be no two opinions that the procedures for inspection and acceptance of the operational stores should be tightened and rigorously enforced. Even now there is a general feeling on the part of trade firms supplying defence stores that the inspection procedure stipulations of Defence stores are very tight.

As explained in the action taken notes against the earlier paragraphs, in the present case, there was no greater laxity in following the laid own inspection procedures/stipulations than was allowed in the past and was found to be not effecting the end-use. The defect of gelling which occurred in the oil at a later date could not have been detected in the tests prescribed in the specification as existing at that time. The Enquiry Committee which also examined inadequacy or otherwise of the specification of OMHP has in its findings stated that specifications are nothing but yard sticks stipulated for the purpose of quality assurance. They are not absolute in the sense that no deviations whatsoever can ever be given.

Development of a specification is an evolutionary process depending upon the experience gained over a period of time regarding manufacture and use of a given product.

[File No. 19|19|76|D(Prod) dated 17-1-1977]

Recommendation

This case also emphasises the need for tightening the procedure for the inspection and acceptance of operational stores and the Committee desire that a review for the purpose should be undertaken immediately. It should also be impressed upon the inspection staff that the specification and tests prescribed for vital defence supplies should be strictly enforced and the standards scrupulously adhered to.

[S. No. 16 (Para 1.74) of Appendix to 231st Report of the PAC
(Fifth Lok Sabha)]

Action Taken

The recommendation of the Committee has been noted. As regards buffer oil, since the inspection responsibility is that of Defence Inspectorate, suitable instructions will no doubt be issued by the Ministry of Defence. As regards action required on the part of Department of Supply, suitable instructions have since been issued *vide* letter No. 10(37)|77|IG-I dated 23-4-77 (copy enclosed).

[Department of Supply No. PIII-22(23)|76 dated 1-6-1977]

ANNEXURE

(Vide Para 1.47)

No. 10(37)|77|IC-1.

GOVERNMENT OF INDIA

Department of Supply

Directorate General of Supplies & Disposals

(INSPECTION WING)

Parliament Street, New Delhi-110001.

Dated 23rd April, 1977

To

The Director of Inspection,
1, Ganesh Chandra Avenue, Calcutta-700013.

The Director of Inspection,
Shastri Bhavan, IV Floor, 35-Haddows Road, Madras-600006.

The Director of Inspection,
N.I. Circle, Block No. 13, Jamnagar House Hutments.
New Dehi-110001.

The Director of Inspection (Met),
P.O. Burma Mines, Jamshedpur-7.

The Director of Inspection (Met),
P.O. Burnpur, Distt. Burdwan, West Bengal.

The Director of Inspection, Embassy of India in Japan, No. 2-2
Chome Kundan, Minami, Chiyoda-ku-Tokyo, JAPAN.

The Director of Inspection,
Aayakar Bhavan Annexe, New Marine Lines,
BOMBAY-400020.

SUBJECT:—231st Report of PAC (5th Lok Sabha) relating to procure-
ment of oil (not inspected by Inspection Wing of
DGS&D).

An extract of PAC recommendation on the above subject is reproduced for guidance and compliance during inspection of such stores:—

“This case also emphasises the need for tightening for pro-
cedures for the inspection and acceptance of operational
stores and the Committee desire that a review for the
purpose shou'd be undertaken immediately. It should
also be impressed upon the inspection staff that the speci-
fication and tests prescribed for vital defence supplies
should be strictly enforced and the standards scrupulously
adhered to.”

Sd/- K. L. GARG

DY. DIRECTOR OF INSPECTION,
for DY. DIRECTOR GENERAL (INSPECTION)

Copy to:—1. CDN Dte. (Section CDN-5) with reference to their
U.O. No. RDN-5:2(131)75 dated 4-4-76 (2 copies).

2. Circulation among officers at Headquarters.

Recommendation

Yet another glaring omission in this case is the non-provision of a warranty clause in the contracts entered into with Valvoline (India) Private Ltd., as a result of which Government has been

placed in the embarrassing position of having to enter into protracted litigation in a court of law. It is surprising that the Defence authorities and the Directorate General of Supplies and Disposals did not take this normal precaution, especially because no detailed tests had been specified to detect tendencies towards gel formation and it would not have, therefore been possible to determine by the then existing inspection procedures whether the oil would deteriorate or develop defects. Now that a warranty clause has been included in the specifications, as a result of the experience gained in this case, the Committee trust that it would be enforced strictly in cases of default.

[S. No. 18 (Para 1.76) of 231st Report of PAC (5th Lok Sabha)]

Action Taken

The revised specification of OMEB now contains a warranty clause in the form of 'keeping Properties'. Further while vetting the indents for procurement of defence stores through DGS&D the Authorities Holding Sealed particulars are incorporating in the indent a warranty clause depending upon the merit of each case keeping in view to nature and type of store to be procured. However, DGS&D had expressed in a letter to Director of Inspection (General Stores) that instead of including the warranty clause in the indents, the specifications of the stores should be revised to incorporate this requirement. Accordingly, Director General of Inspection, Deptt. of Defence Production has apprised the establishments under his control of the contents of this DGS&D letter for their guidance and necessary action.

[No. F. 19(19)76 (PROD), dated 17-11-1977].

Recommendation

"Yet another glaring omission in this case is the non-provision of a warranty clause in the contracts entered into with Valvoline (India) Private Ltd., as a result of which Government has been placed in the embarrassing position of having to enter into protracted litigation in a court of Law. It is surprising that the Defence authorities and the Directorate General of Supplies and Disposals did not take this normal precaution, especially because no detailed tests had been specified to detect tendencies towards gel formation and it would not have, therefore, been possible to determine by the then existing inspection procedures whether the oil would deteriorate or develop defects. Now that a warranty clause has been

included in the specification, as a result of the experience gained in this case the Committee trust that it would be enforced strictly in case of default."

[S. No. 18 (Para 1.76) of Appendix to 231st Report of the PAC
(Fifth Lok Sabha)]

Action taken

The recommendation made by the Committee has been noted. DGS&D had not purchased hydraulic buffer oil for Defence after the last contract on M/s. Valvoline in February 1970. Warranty clause in the specification has been included by Defence on 18-2-75. Trade's reaction for acceptance of warranty clause will be known against future tenders. Every effort for the procurement of this store with the warranty clause will be made in respect of future contracts.

[Department of Supply No. FIII-22(23)/76, dated 1 June 1977].

Recommendation

The Committee note that as stringent requirements have been prescribed in respect of the buffer oil used in guns, it has not been possible so far to manufacture this oil indigenously to the exacting specifications and that the country is, therefore, still dependent on foreign sources of supplies. The Committee have also been informed that action is already on hand to develop this oil indigenously to slightly relaxed specifications, which can be used in the plains, and that the major requirements of the Armed Forces would then be met by the indigenously produced oil. They wish success to these endeavours and trust they are pursued earnestly and efficiently.

[S. No. 22 (Para 1.80) Appendix to 231st Report
of P.A.C. (5th Lok Sabha)]

Action Taken

The indigenous source of supply of OMHB has since been developed in M/s. Savita Chemicals Bombay, who are supplying this store to service specification against supply orders placed by Deptt. of Defence Supplies. The base oil for treatment/Manufacture of OMHB is obtained by M/s. Savita Chemicals from Indian Oil Corporation.

The present position of 2 Supply Orders placed on this firm is as under:—

(i) Supply Order No. F. 1/4/76/D(S.II)/CPO(VG)-863 dated 30-3-1976.

Qty. on order	20,000 litres
Qty. supplies	19,975 litres (order short closed at the quantity supplied)

(ii) Supply Order No. F.1/16/76/DS/CPO(VG)-818 dated 16-7-1977.

Qty. on order	50,000 litres
Qty. tendered to inspection	25,080 litres on 9-9-77 23,350 litres on 12-9-77 The above qty. is still testing/inspection.

[Ministry of Defence No. F. 19(19) |76|D (PROD), dated 12-1-1978]

CHAPTER III

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

Recommendation

The manner in which the second contract for the supply of 3.57 lakh litres of the oil (cost : Rs. 11.07 lakhs) was concluded in Feb. 1970, with the same firm (Valvoline (India) Private Ltd.) is more intriguing. The Committee find that in response to the tender enquiry issued in this case, two firms—Valvoline (India) Private Ltd., and Castrol had quoted the same rate of Rs. 3,100 per kilo litre. On the offers being referred to the indentor and the Chief Inspector of Materials, the latter, while confirming the suitability of Valvoline's offer, had, however, remarked that the ash contents in Castrol's offer were 'slightly higher' and that the additives also had a tendency to settle towards the bottom of the drums. The Chief Inspector had also added that in view of this tendency only $\frac{1}{2}$ per cent of the consignment being bottom sampled for crackle test could not be agreed upon and that the firm might be persuaded to agree to at least 5 per cent of the drums being sampled for this examination. Taking these factors as well as the freight element into consideration and in view of the fact that Valvoline (India) Private Ltd., was also already holding an order, a decision appears to have been taken by the Director General, Supplies and Disposals to place the second contract also with the same firm.

[S. No. 6 (Para 1.64) of Appendix to 321st Report of PAC
(Fifth Lok Sabha)]

Action Taken

The Enquiry Committee appointed by the Government to go into acceptance of supplies of Oil Mineral Hydraulic Buffer from M/s. Valvoline (India) Pvt. Ltd. in their findings have recorded that the choice for placement of order against the second contract fell between M/s. Valvoline and M/s. Castrol, as both had quoted the same rate, whereas the offer of the third party M/s. Jamnadas Boolchand was exceedingly high. The offers of these two firms, therefore, were referred by DGS&D to Chief Inspectorate of Materials (CIM), Kanpur for obtaining technical comments on their suitability.

M/s. Valvoline had offered to supply the product meeting the relevant specification in all respects, whereas M/s. Castrol had stated

that the product will meet the specification, except that they cannot guarantee the ash content and acidity in line with earlier supplies made by them. Further M/s. Castrol did not agree to the crackle test on more than half per cent of the total consignment.

CIM while giving their technical comments on the offers received, recommended acceptance of M/s. Valvolines offer and asked for submission of advance sample for test and approval before commencing bulk supplies, if A/T was placed on the firm.

In the case of M/s. Castrol's offer, C.I.M remarked that in view of the additives' tendency to settle at the bottom they could not agree to only half per cent of the consignment being bottom-sampled for this examination.

As stated by Department of Supply in their action taken note submitted to Lok Sabha Sectt. a reference was made by the M/s. Castrol to agree to at least 5 per cent of the drums being sampled for crackle test, which the firm did not accept.

The Enquiry Committee has further recorded that although M/s. Valvoline had still then not made any supplies of OMHB against the first contract awarded to them and only advance samples (against the first contract) had by then been tested which did not show any deviation other than change in aniline point, the award of a second contract on consideration of lower freight on this firm may not be considered as being due to any procedural relaxations or a favour to the firm in deciding the contract.

[M of D. U. O. No. F. 19(19)|78|D (Prod), dated 12-1-1978].

Recommendation

"The manner in which the second contract for the supply of 3.57 lakh litres of the oil (cost Rs. 11.07 lakhs) was concluded, in February, 1970, with the same firm [Valvoline (India) Private Ltd.] is more intriguing. The Committee find that in response to the tender enquiry issued in this case, two firms—Valvoline (India) Private Ltd. and Castrol—had coted the same rate of Rs. 3,100 per kilo litre. On the offers being referred to the indentor and the Chief Inspector of Materials, the later, while confirming the suitability of Valvoline's offer however had remarked that the ash contents in Castrols offer were slightly higher and that the additives also had a tendency to settle towards the bottom of the drums. The Chief Inspector had also added that in view of this tendency, only 1/2 per cent of the consignment being bottom sampled for crackle test could not be agreed upon and that the firm might be persuaded to

agree to at least 5 per cent of the drums being sampled for this examination. Taking these factors as well as the freight element into consideration and in view of the fact that Valvoline (India) Private Ltd., was also already holding an order, a decision appears to have been taken by the Director General, Supplies and Disposals, to place the second contract also with the same firm."

[S. No. 6 (Para 1.64) of Appendix to 231st Report of PAC
(Fifth Lok Sabha)]

"The Committee find that while the Chief Inspector of Materials had held that the ash content was 'slightly higher' in the case of Castrol, similar variations in ash content in the supplies made by Valvoline (India) Private Ltd., had been considered by him to be of no material importance and treated them as a 'minor' deviation from the specifications. What is even more significant is that the specifications relating to ash content had, in fact, been relaxed in respect of the previous supplies of inhibited oil made by Castrol and Sikri and Grover during 1968—70, and this had been cited as one of the reasons for accepting, with deviations from the stipulated specifications, the supplies made later by Valvoline (India) Private Ltd. It is also not clear whether on the basis of the communication received from the Chief Inspector of Materials Castrol had been approached to agree to the sampling of 5 per cent of the drums and had refused to accept the condition. In these circumstances the Committee have grave doubts in regard to bona fides of accepting Valvoline's offer in preference to that Castrol who had also, admittedly, made similar supplies earlier. The conclusion that undue favours have been shown to Valvoline (India) Private Ltd. is, therefore, fairly inescapable.

[S. No. 7, Para 1.65 of 231st Report of PAC (Fifth Lok Sabha)]

Action Taken

The rates of both M/s. Valvoline and Castrol were Rs. 3,100/- per Kl. Valvoline offer was FOR, Calcutta and Castrol offer was FOR, Bombay. The consignee was COD Chheoki. Both these offers were referred to CIM, Kanpur for technical acceptance as he is the authority holding sealed particular. The offer of Valvoline was acceptable to CIM, Kanpur, with advance sample stipulation.

With regard to the offer of Castrol CIM, Kanpur, mentioned that they would like to get an advance sample of 2.5 litres for test before commencement of bulk supply, and also advised DGS&D that Castrol be persuaded to agree to 5 per cent for crackle test as against 1/2 per cent as stipulated by the firm in their offer.

As desired by CIM, Kanpur a reference was made by DGS&D to M/s. Castrol, wherein they were requested to agree to at least 5 per cent of drums being sampled for crackle test instead of 0.5 per cent stated in their tender. The firm in their letter dated 1-12-69 stated that it was not possible for them to accept 5 per cent crackle test, but as a very special case agreed to 1 per cent crackle test. DGS&D in their letter dated 4-12-69 informed the CIM, Kanpur, under intimation to indentor of the position as intimated by Castrol, and he was requested to confirm whether the firm's offer was acceptable. CIM, Kanpur, in his telegram received in DGS&D on 15-12-69, informed that 1 per cent bottom sampling for crackle test was not agreeable.

From the above it will be observed that Castrol's offer was not found technically acceptable by CIM, Kanpur, who is the authority holding sealed particulars and hence the order was placed by DGS&D on Valvoline whose offer was technically cleared by CIM, Kanpur.

[Department of Supply No. P III-22(23)/76 dated 1 June, 1977]

Recommendation

The Committee find that while the Chief Inspector of Materials had held that the ash content was 'slightly higher' in the case of Castrol, similar variations in ash content in the supplies made by Valvoline (India) Private Ltd., had been considered by him to be of no material importance and treated them as a 'minor deviation' from the specifications. What is even more significant is that the specifications relating to ash content had, in fact, been relaxed in respect of the previous supplies of inhibited oil made by Castrol and Sikri and Grover during 1968—70 and this had been cited as one of the reasons for accepting with deviations from the stipulated specifications, the supplies made later by Valvoline (India) Private Ltd. It is also not clear whether on the basis of the communication received from the Chief Inspector of Materials, Castrol had been approached to agree to the sampling of 5 per cent of the drums and had refused to accept the condition. In these circumstances, the Committee have grave doubts in regard to the bona fides of accepting Valvoline's offer in preference to that of Castrol who had also, admittedly, made similar supplies earlier. The conclusion that undue favours have been shown to Valvoline (India) Private Ltd. is, therefore, fairly inescapable.

[Sr. No. 7 (Para 1.65) of Appendix to 231st Report of PAC
(5th Lok Sabha)]

Action Taken

As indicated in the action taken note at Serial No. 6 (Para 1.64) the Chief Inspectorate of Materials while furnishing technical comments on the offers against the second contract had not discriminated against Castrol's offer for its ash content being slightly higher or the tendency of the additives to settle down towards the bottom. They had merely asked for the firm to be persuaded to agree to at least 5 per cent of the drums to be sampled for crackle test.

The Enquiry Committee which looked into the matter had its conclusions observed as follows:—

“As regards awarding of the second contract to M/s. Valvoline (India) Pvt. Ltd. on 19-2-1970, the supplies against the first contract had till then not been received and only advance samples against the first contract had been tested, which conformed to the specification, except the change in aniline point. The inspection authority had given their comments on technical aspect of the quotations and left the decision to DGS&D for placement of order on any of the two firms, whose quotations were same and presumably the decision was taken by DGS&D to award contract on M/s. Valvoline on consideration of lower freight, even though the other firm M/s. Castrol had supplied this store earlier on an order placed by DGS&D on 22-12-1967 to the satisfaction of the users.”

As regards making of reference to M/s. Castrol for accepting 5 per cent sampling for crackle test, it is for Department of Supply to indicate the position who are sending separate note to the Lok Sabha Secretariat.

[M. of D. U.O. No. F. 19(19)/76/D (Prod), dated 21-1-1978].

Recommendation

The oil was also to be subjected to a crackling test to determine the presence of moisture and other impurities. The test was, however, not conducted in respect of the supplies made against the first contract, on account of difficulties experienced in drawing samples from the drums, fitted with press caps. Though the contract provided for the supply of the oil in 25 litre drums with screw-caps to retain their liquid tightness after the drawal of the samples and resealing, the actual supplies did not conform to this

specification. In spite of the fact that this was major deviation and impurities if undetected, could hamper the efficient performance of the guns, the Committee find that as the requirement of the indenter was stated to be 'extremely urgent', it had been decided to accept the supplies in drums with press caps in lieu of screw caps, after the firm had agreed to a priced reduction of a meagre 1 per cent (Rs. 4,856) and to replace the oil if it subsequently failed in the crackling test. This stipulation for the replacement of the oil, however, proved to be entirely superfluous and ineffective in view of the fact that the crackling test was never conducted by the department on the ground of urgency of requirement.

[S. No. 10 (Para 1.68) of Appendix to 231st Report of PAC
(Fifth Lok Sabha)]

Action Taken

As stated in the action taken note at serial No. 8 (Para 1.66), the Enquiry Committee appointed by the Government in its findings has observed that the relaxation in respect of crackle test had been given in the acceptance of supplies of OMHB. As far as this relaxation related to the first contract, the Enquiry Committee in its findings has observed as follows:—

"In the case of first consignment, crackle test could be done only in the case as well as bulk supply samples. It was negative in both cases. In view of oil having been supplied in drums fitted with press caps where crackle test was not practicable, a safeguard has been ensured by obtaining warranty from the firm to replace the oil if it subsequently failed in crackle test and issue of instructions to the units to carry out crackle test in the field before use. It was reported by CIM that no complaints of failure were reported to them."

The Committee further examined the effect of this relaxation on the ultimate defect of gelling which occurred in the supplies of OMHB received from this firm. The Committee has stated that presence of water/moisture would normally give rise to corrosion of iron parts, which has been taken care of in the relevant specification IND/SL/4510(b) by stipulating a mild steel corrosion test. In the case of first contract, where supplies were made press cap drums and no cent per cent crackle test was possible, the gelling became

an all prevading phenomenon over a period of about 19 months and in the case of second contract, where supplies were made in drums with screw cap and 100 drums selected at randum were subjected to crackle test and found crackle free, the stores gelled up even before they were issued to the units from the depots. In the opinion of the Committee it is reasonable to believe that relaxation in non-enforcement of the cent per cent crackle test was not connected with phenomenon of gel formation, for which the stores were subsequently declared defective.

[M. of D U.O. F. 19 (19) 76 D (Prod), dated 12-1-1976]

Recommendation

Again though the supplies in respect of the second contract had been made in drums with screw caps, as provided for in the agreement, oil in 100 drums alone out of the consignment of 15,521 drums had been subjected to the crackling test, on the ground that the shipment already having been delayed, conducting cent per cent crackling test on all the 15,521 drums would have involved considerable time and further delayed urgently required supplies to the user. It would, therefore, appear that the stipulated delivery period had not been adhered to by the firm in respect of this contract. The Committee would very much like to know the reasons for extending the delivery period and the steps, if any taken by the Department of Supply at all stages to see that deliveries were expedited, particularly in context of the earlier experience with the firm.

[S. No. 11 (Para 1.69) of Appendix to 231st Report of PAC
(5th Lok Sabha)]

Action Taken

As regards relaxation in respect of crackle test accorded in supplies against the second contract Enquiry Committee in its findings has observed as follows:--

“With regard to second contract, 100 drums from bulk supply were subjected to crackle test, which was found to be negative. In the opinion of the Committee, this quantity selected at random from the consignment, whose batch of manufacture was the same, could be considered as adequate for the purpose of this test. In fact subjecting each and every drum to this test is quite cumbersome.

When a consignment runs into thousands of drums. Realizing that 100 per cent inspection was not only uneconomical but cumbersome and time-consuming, CIM has already amended the procedure for sampling plan and inspection of OMHB by reducing the number of packages/containers to be selected for crackle test to 125 number for a consignment of 3001 and above. Therefore, in the opinion of the Committee relaxation is not strictly complying to the laid down procedure then prevailing in respect of crackle test, could not be considered of much significance."

As regards reasons for extending the delivery period, the Department of Supply in their action taken notes. have explained the position.

[M of D. U.O. No. F. 19(19)/76/D (Prod), dated 12-1-1978]

Deptt. of Supply

The Delivery Period stipulated in the second contract No. 13A dt. 9-2-1970 was as under:—

"The stores will be offered for inspection within 18|19 weeks after receipt of import licence and stores will be despatched within 7 days after receipt of I|Notes."

2. Import recommendation certificate was issued to the firm on 24-2-70 and they obtained Import Licence on 30th April 1970. The A/T placed was subject to submission of advance sample by the firm to CIM, Kanpur before commencing bulk supplies. The sample was submitted by the firm on 23-5-1970.

3. Advance sample report, pointing out certain defects was sent by CIM, Kanpur on 24-6-70 to the Inspector ICSs, Calcutta, a copy of which was also endorsed to the firm, indentor and the DGS&D. CIM stated in the said letter that the deviation from the specification requirement might be brought to the notice of the supplier for rectification of their product, when supplied. The firm's request for extension of delivery period was referred to the indentor and the latter had agreed to the extension of delivery period upto 31st

December, 1970. Taking into consideration the terms of the contract, the delivery period was re-fixed up to 23-2-1971.

4. It was learnt from firm's letter dt. 18-3-71 that supplies which arrived at Calcutta were offered for inspection on 17-2-71 and were inspected on 19-12-71. The firm, therefore, requested for extension of delivery period upto 30-4-71. The position was reviewed and the delivery period was accordingly extended up to 15-5-71, *vide* DGS & D letter dated 16th April, 1971. The supplies were completed, despatches having been made in lots from 12-4-71 to 22-4-71.

[Department of Supply No. PIII-22 (23) /76, dated 1 June, 1977]

Recommendation

It is fortunate that the defect had been noticed before the bulk of the oil was actually utilised and a major quantity could thus be withdrawn from the units before any serious damage was done. It does not require much imagination to see that a perilous situation these defective supplies could have landed the country's armed forces in, particularly when the country was faced by a grave threat also on its eastern frontiers. Viewing the matter in retrospect, the Committee are positive that it was extremely unwise to have relaxed the specifications and inspection procedures in regard to a vital defence item and that *mala fides*, though not proven, cannot be ruled out. The possibility of corrupt practices having crept in, even where detriment to the fighting efficiency of our troops was involved, is a matter of grave import. The approach of the Inspection Organisation has been inefficient and even thoughtless. Since serious suspicion of malpractices and even sabotage has arisen in this case, the Committee would urge Government to conduct a thorough probe into the deal with Valvoline (India) Private Ltd. and ascertain that no *mala fides* were in fact involved. In case of a finding adverse to any officials, stringent action should be taken against the delinquents.

[S. No. 13 (Para No. 1.71) Appendix to 231st Report of PAC
(Fifth Lok Sabha)]

Action Taken

Pursuant to PAC's directive that probe into the matter was called for, Ministry of Defence appointed an Enquiry Committee under Chairmanship of Addl. Secy. (PS), with which representatives of

Finance and an expert in petroleum discipline nominated by Ministry of Petroleum & Chemicals, were associated as members. This Committee as per its terms of reference was required to ascertain whether relaxations were given in transaction with M/s. Valvoline and to investigate the matter and determine whether any malafides were involved in giving the relaxations.

The Committee found that in the inspection of supplies apart from giving relaxations in respect of change in aniline point and crackle test discussed in 'Action Taken Notes' under the earlier paragraphs, the relaxation from specification in respect of Ash Content was accorded and also in the selection of the samples from bulk consignment, the relaxed instead of rigid plan was adopted. With regard to relaxation in respect of the Ash Content, the Committee in its findings has observed as follows:—

“While framing the specification of OMHB based on that of U.K. Oil OM-13, the designers did not alter the ash content stipulation of 0.01 per cent although calcium petroleum sulphonate, which would additionally contribute to the ash content, was incorporated in the specification as corrosion inhibitor additive. In the earlier supplies of OMHB from M/s. Castrol and M/s. Sikri and Grover this relaxation had been accorded without any ill effect in service. In fact later the specification of OMHB was amended to increase the ash content from 0.01 per cent to 0.03 per cent maximum.”

“The relaxation in ash content given by the Inspection authority was therefore in line with the previous practice.”

The Committee in its findings have further stated that all these relaxations given at the time of inspection of advance and bulk samples could be considered as of minor nature, as given normally on the basis of previous experience in the interest of procurement of supplies of defence stores without undue impediment and delay. It is not uncommon that such deviations are accorded from time to time after examining their effect on and use application of the store in question.

In its conclusion the Enquiry Committee has recorded that from the evidence it would appear neither of the three relaxations in question can be considered to have contributed directly to the main defect of gel formation, which developed over a considerable period

of time and rendered the stores unserviceable. Also the fact of having not followed the rigid plan of sampling procedure, which was called for in inspection of the consignment could not have made any difference, since the cause which led to the oil becoming defective at a later date, could not have been detected, even if larger number of samples had been tested.

The Enquiry Committee has further recorded in the conclusion that relaxations in specifications being of a nature with no direct relationship with gel formation, the Committee has no reason to suspect that any mala fides were involved in giving these relaxations.

[Ministry of Defence No. 19/19/76/D (Prod), dated 12-1-1978].

Action Taken

DEPARTMENT OF SUPPLY

The matter is being examined from vigilance angle. The results of action taken would be conveyed to the Committee.

[Department of Supply No. PIII-22 (23) /76 dated 1 June, 1977].

Recommendation

The Committee have also been informed that the Oil supplied by Valvoline (India) Private Ltd. against four other orders, placed on the firm between January 1970 and January 1971, for a total quantity of 1,16,145 litres, had been rejected following the detection of similar gel formation and that the firm had been de-registered by the Director-General, supplies and Disposals. In view of the firm's most unsatisfactory performance in a key sector affecting the country's security, the Committee desire that Government should consider the banning of business dealings with the firm and its associates. In future, purchases of all petroleum products, including lubricants and buffer oil, should be made through the public sector only.

[S. No. 14 (Para 1.72) of Appendix to 231st Report of PAC (Fifth Lok Sabha)].

Action Taken

Action on this para concerns Department of Supply who are sending separate note to the Lok Sabha Sectt.

[M of D. U.O. No. F. 19(19)/76 (Prod), dated 12-1-1978].

Recommendation

The Committee have also been informed that the oil supplied by Valvoline (India) Private Ltd. against four other orders placed on the firm between January 1970 and 1971, for a total quantity of 1,16,145 litres, had been rejected following the detection of similar gel formation and that the firm has been de-registered by the Directorate General, Supplies and Disposals. In view of the firm's most unsatisfactory performance in a key sector affecting the country's security, the Committee desire that Government should consider the banning of business dealings with the firm and its associates. In future, purchases of all petroleum products, including lubricants and buffer oils, should be made through the public sector only.

[S. No. 14 (Para 1.72) of Appendix to 231st Report of PAC (Fifth Lok Sabha)].

Action Taken

M/s. Valvoline (India) Pvt. Ltd., were previously removed on 4-8-71 from the list of Registered Suppliers. The question of banning business dealings with the firm and its associates is under examination of the Government and a decision, when arrived at, will be communicated to the Committee.

On the question of confining all purchases of petroleum products, including lubricants and buffer oils, to the Public Sector, it may be mentioned petroleum products can be classified into two broad categories, as under:—

- (a) Primary oils like kerosene, motor spirit, HSD, Furnace oil etc.
- (b) Lubricating oils, greases and specialities.

As regards category (a) practically all requirements are purchased from public sector undertakings, and only a small portion is purchased from M/s. Assam Oil Company, Digboi (Assam), who are in the private sector, for supply of such stores to some remote areas situated around the working zone of the said firm. As regards category (b) also, a substantial share goes to public sector undertakings, but there are some small scale units in the field. For imported oils, like buffer oil no public sector undertaking is registered as the Indian Agent or a foreign supplier.

[Department of Supply No. PIII-22 (23)/76 dated 1 June, 1977].

Recommendation

It is also a matter for concern that the specification in respect of 'inhibited' buffer oil appears, on the evidence, to have been formulated without an adequate examination of all the relevant aspects, as a result of which no tests had been prescribed for detecting the presence of impurities in the additives to the oil as well as tendencies towards gel formation. This, the Committee feel, was a vital omission, the reasons for which have not been satisfactorily explained. Prima facie, however, it appears that the British specification for 'uninhibited' buffer oil had been somewhat mechanically applied, in 1965, to the 'inhibited' oil. While the Committee would like a more detailed clarification in this regard, they must also emphasise that the greatest care should be taken in finalising the specifications of vital and important defence items, so that omissions as have been noticed in the present case are guarded against. The comprehensive review of specifications of other defence stores suggested in the preceding paragraph should also ensure that the specifications are suitably revised, wherever necessary, to provide for all such contingencies and for corresponding tests.

[S. No. 20 (Para 1.78) Appendix to 231st Report of PAC
(Fifth Lok Sabha)].

Action Taken

The Enquiry Committee which went into this matter found that the specification as it then existed could not detect at the time of inspection the ultimate defect of gel formation. From the evidence brought before the Committee, it emerged that the occurrence of gel in the supply was a phenomena experienced for the first time, which could not be foreseen/comprehended by the designers of the specification. The Enquiry Committee in its conclusions has recorded as follows in this respect.

"Specifications, however, carefully written are seldom perfect. In obtaining supplies of vital products, even against composition based specifications, they must be reinforced by suitable performance tests and field trials. Hence, unless there is an approval procedure based on field trials of a sufficiently long duration, it is unwise to accept a critical product offered for the first time even by a reliable party. On new suppliers, in case of such critical products, only trial order should be placed, meanwhile obtaining bulk supplies from known tried out reliable sources."

The Committee considers that while procuring such critical stores it is essential to have: —

- rigid specification, as foolproof as possible
- a proper vendor rating which would recognise past history of satisfactory supplies
- Performance test (s)/field trials for new comers in respect of whom only a trial order may be placed first.

Development of specifications and particularly of products like lubricants is a evolutionary process depending upon the experience of the R&D authorities who make the specification, the Chief Inspector of Materials who is responsible for testing the store, the manufacturers who manufacture the lubricants and users.

The Enquiry Committee further stated that Specification No. IND/SL/4510(b) is a composition based specification. It is not uncommon in such specifications to insist on approved and even proprietary additives which according to designers/users of specification have proved to be satisfactory. DRL (M) should consider this aspect for a further revision of the specification.

As OMHB is nothing but an inhibited oil OM-13, the Committee recommended that DRL (M) may review their specification of OMHB to bring it in line with U.K. Spec. Def 2091A of 1973 reprint with amendment 'A' that forbids the use of pour point depressants and viscosity Index Improves.

DADS has seen.

[M. of D. U.O. No. 19(19)/76/D (PROD), dated 12-1-1978].

CHAPTER IV

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

Recommendation

In response to the tender enquiry issued by the Director General, Supplies & Disposals, against the first indent placed in April 1968, by the Army Headquarters, for the supply of 1.62 lakh litres of the oil (cost: Rs. 4.86 lakhs the lowest quotation of Rs. 2,720 per kilo litre had been received from Sikri and Grover and the second lowest quotation of Rs. 2,998 per kilo litre from Valvoline (India) Private Ltd. It had, however, been decided in consultation with indenter, to place orders on the latter firm, in spite of the fact that its quotation was not the lowest, for the following reasons:—

- (a) while both the firms required import licence, the foreign exchange component of the quotation received from Valvoline (India) Private Ltd. was Rs. 2.45 lakhs as against Rs. 2.66 lakhs in the case of the quotation of Sikri and Grover.
- (b) The lowest tenderer (Sikri and Grover) had also demanded reimbursement of what were described as non-recoverable duties in addition to the duties recoverable under law, and the legal validity of this claim was already under examination at the relevant time, in consultation with the Law Ministry, with reference to a similar demand made by the firm in an earlier case. However, in view of the fact that the resolution of this dispute 'might take a little time' and the indenter's requirement was also 'very urgent' orders had been placed, in January, 1969, on Valvoline (India) Ltd., after an unsuccessful bid to obtain a price reduction.

[S. No. 2 Para 1.60 of 231st Report of PAC (5th Lok Sabha)].

Action taken

Procurement of the store rested with DGS&D. However, when DGS&D informed Army Headquarters, that there were legal difficul-

ties in accepting the claim of M/s. Sikri and Grover for re-imbusement of the non-recoverable duties and enquired from Army HQrs., if they were prepared to wait till the issue was resolved, Army HQrs. replied that their requirements of the store were urgent and they could not wait.

[M. of D.U.O. No. 19/1976/D(Prod), dated 17-11-1977.]

Recommendation

Apart from these shortcomings in the initial processing and acceptance of tenders for the supplies, the Committee are gravely concerned to find considerable laxity on the part of the Defence Inspection Organisation in carrying out the prescribed tests in respect of the bulk supplies of the oil, resulting in relaxations in the specifications of a vital item in a manner which can only be termed indiscriminate. For instance the specification for Mineral Oil Hydraulic Buffer, prescribed by the Defence Research Laboratory (Materials), included two tests to detect the presence of aromatic compounds in the oil which attack the rubber components in buffer systems, viz., aniline point test and change in aniline point test after extraction with sulphuric acid of 98 per cent strength. The advance sample received from firm against the first contract had been subjected to both these tests when it had been found that the change in aniline point of the sample, after extraction with sulphuric acid, 7°C as against 5.5°C (maximum) specified. Though this variation was by no means small, the defect had been considered to be 'minor' and, it had been decided to accept the sample with this 'minor' deviation, and to bring this deviation from the specification requirement to the notice of the suppliers for rectification before commencement of bulk supplies. On this being taken up with the suppliers, they maintained that oil had been checked again in their blending plant when the change in aniline point had been found to be only 5.4°C, and pointed out that the anomaly could have arisen if sulphuric acid of 98 per cent strength had not been used in the test. However, before the suppliers could be informed that the test in regard to change in aniline point had, in fact, been conducted with acid of prescribed strength, the bulk supplies of the oil had already been made.

[Sr. No. 8 (Para 1.66) of Appendix to 321st Report of PAC (5th Lok Sabha)]

Action taken

The Enquiry Committee appointed by the Government in its findings has observed that relaxations in acceptance of supplies of OMHB

from M/s. Valvoline (India) Pvt. Ltd. were given by CIM in respect of change in aniline point, ash content and crackle test. Following of the relaxed plan for selection of the samples at the time of bulk inspection was also a deviation from the laid down procedure when M/s. Valvoline were supplying this critical store for the first time and therefore rigid plan for sampling should have been observed.

The Enquiry Committee went into the past practice followed in according relaxations in the inspection of OMHB and the similar stores. In their findings the Committee has observed as follows with regard to according of relaxation in respect of change in aniline point:

With regard to change in aniline point, the Committee has found that in almost all earlier supplies of OMHB, as well as OM-13 (which is an uninhibited OMHB), this relaxation has invariably been given in all cases. This would be evident by reference to Appendix Sl. No. 26 which shows that relaxations were given in supply of OMHB from M/s. Sikri and Grover and M/s. Castrol varying from 6°C to 7.4°C against 5.5°C (Maximum) specified. No complaints of any nature were received during the use of these stores, which had higher change in aniline point than specified.

[M of D. U.O. No. F.P. 19(19)/76/D (Prod.), dated 12-1-1978.]

APPENDIX (Sl. 26)

List of Past Supplies of OMHB Inhibited by Proprietary Corrosion Inhibitors & found Satisfactory

Supplier	Indentor	A/T No.	Qty on order	Date	Remarks
1. Castrol Bombay	DOS, Army	10154/50/125-11-67 PAO/2797 dt. 1475 dated 22-12-67.	10000	19618	Order was placed on Inhibited Oil but initially the firm supplied uninhibited oil which was rejected. At the behest of CIM/DIGS, the firm later doped the oil at their premises with Paranox-24 and supplied the inhibited oil which was found satisfactory, in use.
2. Sikri & Grover, Bombay	Do.	10154/50/125-11-67 PAO/2797 dt. 30-7-68.	84000	81321	Initially the Oil was tested to IND/SL 4510(b) and it was rejected. DIGS wanted the firm to fortify the oil lying rejected by adding additives. DOS agreed to release additives Paranox-24 to the supplier on payment. Firm fortified the oil at BRD Bombay and re-tendered the stores. It was accepted (change in aniline point 6.00C).
3. Sikri & Grover, Bombay	GM. FUA & Shell Fy. Cossipore West Bengal	10751/50/17-2-68/ PAO/2797 dt. 24-6-68.	15452	13020	Do. but the additive LZ-53 was supplied by the firm itself.
4. Castro, Bombay	DOS, Army, HQrs. New Delhi.	A/T No. 6977 dated 8-2-67 (uninhibited oil)	8355		Uninhibited oil was supplied by the firm to Specn IND/SL/4505(b). The stock of this oil lying at GOD Chheoki was later on inhibited by DRL(M) with Paranox-24 and gave satisfactory service. (Change in A.P. of the produce was 7.4° C and ash was 0.035%).

Recommendation

Surprisingly, even when it was known to the Inspection organisation that the advance sample had failed in the change in aniline point test, and the findings in this regard had also been disputed by the suppliers, this test, though admittedly necessary, was dispensed with in respect of the bulk supplies made against the first contract on the ground that the results of the aniline point test were satisfactory and because acid of the requisite strength was not available in stock. In spite of the fact that concentrated sulphuric acid is a commodity that is available freely enough, it has not been considered necessary to procure acid on an emergent basis for carrying out the test, since the Inspectorate had apparently taken the view that the aniline point test was the crucial test for checking the aromatic content of the oil and therefore, the absence of the second test would not be serious. The Committee are unable to appreciate the strange logic of this argument and are of the view that since the advance sample had failed in the change in aniline point test, the test ought to have been necessarily conducted on samples drawn from the bulk supplies, in order to make sure that the supplies conformed, in all respects, to the specifications. That this was not done is to be deprecated. What is perhaps even worse is that the omission of this particular test had not even been looked into by the Chief Inspector of Materials when he chose to sign the test report.

[Sr. No. 9 Para 1.67 of 231st Report PAC (5th Lok Sabha)]

Action Taken

While it is incumbent on the part of an inspection agency to carry out all tests laid down in the specification/schedule of inspection, it is true that no test for change in aniline point had been carried out at the time of inspection of sample from bulk supplies in the absence of Sulphuric Acid of correct concentration then not being available. In all probability this consignment if tested too would have revealed higher change in aniline point as was found in the advance sample and store still cleared with the relaxation, as in all previous supplies of OMHB from different sources this relaxation in respect of change in aniline point had been accorded. The OMHB accepted in the past with this relaxation had not given any complaint of adverse effect in service. With this background the Chief Inspector of Materials while signing the report did not consider omission of this test as very consequential to the quality of the product.

No doubt the test of change in aniline point which gives an indication of aromatic content of the oil has been stipulated to guard

against, the effect of OMHB on rubber seals of the recoil system of guns, oils with higher change of aniline point have not shown any adverse effect on rubber seal of the recoil system. The Enquiry Committee in its conclusion has remarked that the test of change in aniline point meant for safety of rubber components is not very reliable and should be replaced by a modern seal swell test based on seal rubbers used in India.

[File No. 19/19/76|D (Prod) dated 17-11-1977]

CHAPTER V

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

Recommendation

This apart, the Committee were amazed to be told that while placing orders on Valvoline (India) Private Limited for a vital defence requirements, no attempts were made by the Director General, Supplies & Disposals, to ascertain details of the principals of the firm, so as to determine their reliability, standing etc. The firm had merely indicated the source of supply of the oil as US/UK and the Committee are concerned to find that it was only after the defects in the oil supplied had been highlighted in the Audit Report that efforts were made by the Department of Supply to obtain some information in this regard. Again, it required a further probe at the Committee's instance before more details about the principals could be forthcoming. Since the firm had not, admittedly, supplied this oil earlier, it was incumbent on the Director-General, Supplies & Disposals, to have verified in details the credentials of the firm as well as those of the principals. It is deplorable that this elementary precaution had not been taken even in respect of procurement of vital defence item. The Committee take a serious view of this omission and desire fixation of responsibility therefor.

[S. No. 4 (Para 1.62) of Appendix to 231st Report of PAC
(5th Lok Sabha)].

Action Taken

As the placement of order rested with DGS&D, it was for the Department of Supply to have ascertained credentials of the U.K. principals of M/s. Valvoline (India) Pvt. Ltd.

[M of D.U.O. No. F. 19(19)/76/D (Prod), dated 12-1-1978]

Recommendation

This apart, the Committee were amazed to be told that while placing orders on Valvoline (India) Private Ltd., for a vital defence requirement, no attempts were made by the Directorate General, Supplies and Disposals, to ascertain details of the principals of the firm, so as to determine their reliability, standing etc. The firm

had merely indicated the source of supply of the oil as USA/UK and the Committee are concerned to find that it was only after the defects in the oil supplied had been highlighted in the Audit Report that efforts were made by the Department of Supply to obtain some information in this regard. Again, it required a further probe, at the Committee's instance, before more details about the principals could be forthcoming. Since the firm had not, admittedly, supplied this oil earlier, it was incumbent on the Director-General, Supplies and Disposals to have verified in detail the credentials of the firm as well as those of its principals. It is deplorable that this elementary precaution had not been taken even in respect of procurement of a vital defence item. The Committee take a serious view of this omission and desire fixation of responsibility therefor.

[S. No. 4 (para 1.62) of Appendix to 231st Report of PAC
(5th Lok Sabha)].

Action Taken

The observation made by the Committee is being examined from vigilance angle. The outcome of the vigilance examination would be conveyed to the Committee when it is completed.

[Department of Supply No. P.III-22(23)/76, dated 1st June, 1977]

Recommendation

It is fortunate that the defect had been noticed before the bulk of the oil was actually utilised and a major quantity could thus be withdrawn from the units before any serious damage was done. It does not require much imagination to see that a perilous situation these defective supplies could have landed the country's armed forces in, particularly when the country was faced by a grave threat also on its eastern frontiers. Viewing the matter in retrospect, the Committee are positive that it was extremely unwise to have relaxed the specifications and inspection procedures in regard to a vital defence item and that *mala-fides*, though not proven, cannot be ruled out. The possibility of corrupt practices having crept in, even where detriment to the fighting efficiency of our troops was involved, is a matter of grave import. The approach of the Inspection Organisation has been inefficient and even-thoughtless. Since serious suspicion of malpractices and even sabotage has arisen in this case, the Committee would urge Government to conduct a thorough probe into the deals with Valvoline (India) Private Ltd. and ascertain that no *mala-fides*

stringent action should be taken against the delinquents.

[S. No. (Para 1.71) Appendix to 231st Report of PAC
(5th Lok Sabha)]

Action Taken

Pursuant to PAC's directive that probe into the matter was called for, Ministry of Defence appointed an Enquiry Committee under Chairmanship of Addl. Secy. (PS), with which representatives of Finance and an expert in petroleum discipline nominated by Ministry of Petroleum & Chemicals, were associated as members. This Committee as per its terms of reference was required to ascertain whether relaxations were given in transaction with M/s. Valvoline and to investigate the matter and determine whether any *mala-fides* were involved in giving the relaxations.

The Committee found that in the inspection of supplies apart from giving relaxation in respect of change in aniline point and crackle test discussed in 'Action Taken Notes' under the earlier paragraphs, the relaxation from specification in respect of Ash Content was accorded and also in the selection of the samples from bulk consignment, the relaxed instead of rigid plan was adopted. With regard to relaxation in respect of the Ash Content, the Committee in its findings has observed as follows:

"While framing the specification of OMHB based on that of U.K. Oil OM-13, the designers did not alter the ash content stipulation of 0.01 per cent although calcium petroleum sulphonate, which would additionally contribute to the ash content, was incorporated in the specification as corrosion inhibitor additive. In the earlier supplies of OMHB from M/s. Castrol and M/s. Sikri and Grover this relaxation had been accorded without any ill effect in service. In fact later the specification of OMHB was amended to increase the ash content from 0.01 per cent to 0.03 per cent maximum."

"The relaxation in ash content given by the Inspection authority was therefore in line with the previous practice."

The Committee in its findings have further stated that all these relaxations given at the time of inspection of advance and bulk samples could be considered as of minor nature, as given normally on the basis of previous experience in the interest of procurement of supplies of defence stores without undue impediment and delay. It

is not uncommon that such deviations are accorded from time to time after examining their effect on and use application of the store in question.

In its conclusion the Enquiry Committee has recorded that from the evidence it would appear neither of the three relaxations in question can be considered to have contributed directly to the main defect of gel formation which developed over a considerable period of time and rendered the stores unserviceable. Also the fact of having not followed the rigid plan of sampling procedure, which was called for in inspection of the consignment could not have made any difference, since the cause which led to the oil becoming defective at a later date, could not have been detected, even if larger number of samples had been tested.

The Enquiry Committee has further recorded in the conclusion that relaxations in specifications being of a nature with no direct relationship with gel formation, the Committee has no reason to suspect that any malafides were involved in giving these relaxations.

File No. 19/19/76/D(Prod), dated 12-1-1978.

Recommendation

The Committee find that the principals of Valvoline (India) Private Ltd.—Petroleum Wholesale Ltd., London had also dealt with the India Supply Mission, London, and had supplied Steel drums against their contract to a Central Ordnance Depot, who also happened to be the consignee in respect of buffer oil. While the Committee would very much like to know whether these supplies were found satisfactory, they feel that it would be worthwhile to review all other purchases made through Petroleum Wholesale Ltd., London with a view to ascertaining whether there were similar or other serious defects and lapses in supply. In case it is found that the principals had defaulted in other cases also, appropriate action should be taken against them. The Committee would like to be informed of the action taken on this recommendation as well on those contained in the preceding paragraph within three months of presentation of the Report.

[Sr. No. 15 (Para 1.73) of Appendix to 231st Report of PAC
(5th Lok Sabha)]

Action taken

The Supply Wing of the High Commission of India in London has made a review of all contracts entered into with M/s. Petroleum

Limited during the last 7 years. The Supply Wing has reported that there were three such contracts, two of which were against indents directly placed by Army Headquarters with the Supply Wing (Formerly ISM, London), and the third a similar direct indent from Air Headquarters. The first contract was for supply of 36,900 litres of oil OM-13 in 205 litre drums, and the total value of the contract was £ 5236. The second contract was for the supply of 1,68,400 litres of oil OM-13, total value being £ 29,975. The third contract was for the supply of 30 gallons of oil OM-33, the total value being £ 24.

2. The Supply Wing, London has reported that no complaint was received regarding defective supplies in any of these contracts. However, the consignees under the Defence Ministry have also been requested to confirm that there was no complaint, and that all the supplies were satisfactory. A further report on this point will be sent to the Committee.

[Department of Supply No. PIII-22(23)/76, dated 1 June, 1977].

Recommendation

The Committee note that out of the quantity of 5.15 lakh litres of oil supplied by the firm against the two contracts (cost; Rs. 15.93 lakhs) a quantity of 4.37 lakh litres has been rectified by the Defence Research Laboratory (Materials) and a demand notice issued to Valvoline (India) Private Ltd. for payment of Rs. 3.63 lakhs, representing the cost of rectification, cost of unserviceable oil and transit; losses (for 4.51 lakh litres). Apart from these readily ascertainable losses arising out of this transaction, the invisible loss in terms of time and effort would work out to much more, in view of the fact that the rectified oil has been certified suitable for use, with certain restrictions only as uninhibited oil. The guns in which this oil has been used will also have to be stripped annually, instead of once in four years, and inspected for faults, defects, etc. The Committee have, however, been informed that the supplies having been accepted after due inspection, the firm had disowned any responsibility for the defects noticed subsequently, and that a suit was being filed in the court for the recovery of Government dues. Considerable time has elapsed since then and the Committee would like to know the progress, if any, in this regard so far.

[S. No. 17 (Para 1.75) of Appendix to 231st Report of P.A.C. (5th Lok Sabha)]

Action taken

A suit has been filed in the Delhi High Court for recovery of Government dues. The matter is still *sub judice*. The decision when arrived at, would be conveyed to the Committee.

[Department of Supply No. PIII-22(23)/76 dated 1st June, 1977]

Recommendation

In paragraph 1.26 of their 125th Report (Fifth Lok Sabha), the Committee had commented on another instance of non-provision of warranty clause in the contracts for the procurement of assault boats, as a result of which no action could be taken against the firm when defects came to light subsequently. Since this sort of omission appears to be fairly widespread, the Committee would urge Government to review comprehensively the specifications of other vital defence stores and equipment and include suitable warranty clause in all these cases and also enforce them strictly whenever defaults occur.

[S. No. 19 (Para 1.77) of 231st Report of P.A.C.
(5th Lok Sabha)]

Action taken

The progress made in revision of specifications to include warranty clause is being ascertained from the concerned organisation. A further note will be submitted to the P.A.C. in due course.

[No. F. 19(19)/76/D(PROD), dated 12-1-1978]

Recommendation

The Committee feel that the sorry state of affairs reflected in these two transactions could have been avoided had adequate advance action been taken for the procurement of the oil. Since the plea of urgency, which paradoxically is a cover for many relaxations and deviations, has been put forth by the Ministry of Defence on more than one occasion to justify virtually distress purchases, the Committee desire that the existing procedures for the ordering and procurement of stores and the issue of sanctions therefore should be thoroughly reviewed and streamlined so as to obviate the need for such unhappy 'emergency' and 'distress' purchases. Since time is the essence of the matter in relation to Defence requirements, Government should evolve a suitable machinery to ensure the rapid procurement of high priority operational items.

The Committee would like to be kept informed of the steps taken in this regard.

[S. No. 21 (Para 1.79) of 231st Report of PAC
(5th Lok Sabha)]

Action taken

The position with regard to indenting procedure for ensuring adequate advance action in procurement of defence stores is being ascertained from Directorate of Ordnance Stores. A further note will be submitted to the Public Accounts Committee in due course.

D.A.D.S. has seen.

[No. F. 19(19)/76/D(PROD), dated 12-1-1978].

C. M. STEPHEN,

Chairman,

Public Accounts Committee.

NEW DELHI;

March 15, 1978.

Phalguna 24, 1899 (S).

APPENDIX

Main Conclusions/Recommendations

S. No.	Para No.	Ministry/Department concerned	Recommendation
1	2	3	4
1	I.9	Ministry of Defence	The Committee are inclined to agree with the views of the Expert Committee appointed by the Ministry of Defence (Department of Defence Production) and feel that the Department of Supply should have confronted the lowest tenderer with the quotation of M/s. Valvoline (India) Pvt. Ltd. and made an attempt to negotiate the terms of the contract with them in the light of the terms offered by M/s. Valvoline (India) Pvt. Ltd.
2	I.13	-Do-	The Committee are not convinced with the explanation advanced by the Department of Defence Production that the relaxation granted to M/s. Valvoline (India) Pvt. Ltd. was in accordance with the prevailing practice. They consider that if the terms of the contract and the specifications contracted for were rigidly enforced through appropriate tests, the defect in the supplies might well have come to notice and the loss could have been prevented.

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3 1.16 Ministry of Defence

In this connection the Committee would like to refer to the findings contained in paragraph 1.60 of their original Report and the reply of the Government thereto. They observe that the supplies were required by the Department of Defence Production urgently and for that reason the Department was not willing to wait till the legal validity of the claim made by the lowest tenderer (M/s. Sikri & Grover) in an earlier case about the reimbursement of certain 'non-recoverable duties' could be decided which, according to Department of Supply, would have taken a 'little time'. The Committee are, however, perturbed to find that the Department was quite generous in granting extension of delivery period from time to time. The extension of delivery period enabled the firm to supply stores from 12 April 1971 to 22 April 1971, though the contract was executed on 9 February 1970. The Committee are inclined to conclude that neither the Department of Defence Production was serious about the urgency of the stores nor the Department of Supply took any positive measure to see that deliveries were expedited particularly in the context of earlier experience with the firm.

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