

PUBLIC ACCOUNTS COMMITTEE
(1969-70)

(FOURTH LOK SABHA)

HUNDRED AND THIRD REPORT

[Paragraph 114 of Audit Report (Civil), 1969 relating to Medical Stores Depots (Ministry of Health, Family Planning, Works, Housing and Urban Development—Department of Health)]



LOK SABHA SECRETARIAT
NEW DELHI

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CORRECTIONS TO THE HUNDRED AND THIRTY REPORT
OF THE PUBLIC ACCOUNTS COMMITTEE (1969-70)
PRESENTED TO LOK SABHA ON 24TH MARCH, 1970

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PART II*

Minutes of the sitting held on 27-6-1969 (F.N.)

Minutes of the sitting held on 24-1-1970 (F.N.)

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

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(1969-70)

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INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Hundred and Third Report (Fourth Lok Sabha) on paragraph 114 of Audit Report (Civil), 1969 relating to Medical Stores Depots (Ministry of Health, Family Planning, Works, Housing and Urban Development—Department of Health).

2. The Audit Report (Civil), 1969 was laid on the Table of the House on the 18th April, 1969. The Committee examined paragraph 114 relating to the Medical Stores Depots at their sitting held on the 27th June, 1969 (F.N.). The Committee considered and finalised this Report at their sitting held on the 24th January, 1970 (F.N.) Minutes of these sittings from part II* of the Report.

3. A statement showing the summary of the main conclusions| recommendations of the Committee is appended to the Report (Appendix). For facility of reference these have been printed in thick type in the body of the Report.

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

5. The Committee would also like to express their thanks to the officers of the Ministry of Health, Family Planning, Works, Housing & Urban Development (Department of Health) for the co-operation extended by them in giving information to the Committee.

NEW DELHI;
February 18, 1970
Magha 29, 1891 (S)

ATAL BIHARI VAJPAYEE,
Chairman,
Public Accounts Committee.

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

MINISTRY OF HEALTH, FAMILY PLANNING, WORKS, HOUSING & URBAN DEVELOPMENT (DEPARTMENT OF HEALTH)

AUDIT REPORT (CIVIL), 1969

Medical Stores Depots

(i) FINANCIAL RESULTS OF THE WORKING OF THE MEDICAL STORES DEPOTS

Audit Paragraph

Introduction

1.1. The Medical Stores Organisation at present comprises six depots—one each in Bombay, Madras, Calcutta, Karnal, Hyderabad and Gauhati. These depots supply medical stores and hospital equipment to Government and non-government hospitals/institutions which are authorised to draw upon them. Attached to the depots in Bombay and Madras are pharmaceutical factories, where about 250 items like tinctures, tablets, ointments and bandages are manufactured.

Financial results

1.2. The depots are expected to run on a "no-profit no loss basis". Their financial results for the three years ending March, 1967 are summarised below:

	1964-65	1965-66	1966-67
	(Rupees in Lakhs)		
Government capital	247.64	271.76	299.60
Sale			
(a) Government institutions (including sales of obsolete and surplus stores)	458.02	525.51	564.61
(b) Non-Government institutions	57.66	51.78	52.35
(c) Inter-depot sales	21.85	34.78	46.63
	537.53	612.07	663.59
Net Profit/Loss	23.43	13.11	(—)4.78
Percent age of net profit to sales	4.36	2.14	—
Percent age of net profit to capital	9.46	4.82	—

1.3. The loss of Rs. 4.78 lakhs in 1966-67 was attributed mainly to the following:

- (a) Recovery of departmental charges (which is made at prescribed percentage of 10 per cent) was less than the actual expenditure.
- (b) Lower rate of annual growth of turnover which was 8.37 per cent in 1966-67 as against 13.87 per cent in 1965-66.
- (c) Significant increase in salaries, wages and general overhead expenses (excluding depreciation, interest on capital, and rent, rates and taxes) from Rs. 36.95 lakhs in 1964-65 to Rs. 48.10 lakhs in 1966-67.
- (d) Non-revision of issue rates when due, *vide* paragraph 6 (i)

1.4. The Public Accounts Committee had suggested in paragraph 2.130 of its 42nd Report (1965-66) that the departmental charges should be fixed on a realistic basis so that the Organisation may function on a "no profit no loss basis". It will, however, be seen from the data given below for the year 1966-67 that there were wide variations between the actual expenditure and the recoveries made there against on percentage basis:—

(Rupees in lakhs)

Departmental charges	Madras	Calcutta	Gauhati	Bombay	Hyderabad	Karnal
Actual expenditure	16.38	16.36	2.13	12.94	4.9	8.13
Recovery at the rate of 10%	10.90	8.19	3.03	N.A.	8.55	13.86

Factories

1.5. *Idle labour*: The Organisation has two pharmaceutical factories. The extent of labour utilisation in the factory and workshop at Madras is given below:

	1964-65		1965-66		1966-67	
	Factory	Workshop	Factory	Workshop	Factory	Workshop
Labour hours available	1,03,282	23,400	82,276	23,400	82,691	23,400
Labour hours utilised	66,857	14,264	55,362	15,628	48,304	13,609
Unproductive Labour hours	36,425	9,136	26,914	7,772	34,387	9,791
Percentage of labour utilisation	64.73	60.96	77.29	66.79	58.42	58.16

1.6. According to the Management, normally labour utilisation in the Indian pharmaceutical industry is 70 per cent. Even so, labour utilisation in the above factory and workshop was below that normal percentage.

[Sub-paras No. 1, 2 and 4(a) of Paragraph 114 of Audit Report (Civil), 1969].

1.7. The Committee drew the attention of the representatives of Ministry of Health to the fact that Medical Stores Depots were expected to work on a "no profit no loss basis" and enquired why there had been a progressive deterioration in the working results of the depots. According to the data given in the Audit Report, the depots earned a profit of Rs. 23.43 lakhs in 1964-65, which went down to Rs. 13.11 lakhs in 1965-66. In the subsequent year, there was a loss of Rs. ₹78 lakhs. The Additional Secretary, Ministry of Health, explaining the position, stated that this had been brought about by the following factors:

- (i) Prices of medicines issued from the depots were revised once in a quarter. In a steadily rising market, this had resulted in issue prices being less than cost.
- (ii) The depots were originally recovering 5 per cent by way of "inland charges". This was done upto the best part of 1965-66, for about eight months, of that year, but discontinued thereafter making "a difference to the tune of Rs. 6.66 lakhs" between the results of 1965-66 and 1966-67.
- (iii) There had been "a large increase in the salaries and allowances, particularly in the big cities". Coupled with the "increases in the rents, interest, audit fee etc." this accounted for a difference of Rs. 7.02 lakhs between the working results of 1965-66 and 1966-67.
- (iv) There was a decline in the volume of purchases in 1966-67, compared to the previous year, when due to Indo-Pakistan hostilities, there were more purchases.

1.8. Taking up the question of loss due to belated revision of issue prices, the Committee asked for particulars of issues made at less than purchase prices during the three years ending 1968-69. They were informed that "the information is not available" and that this "will need scrutiny of all items". However, a Study Group of the Public Accounts Committee which visited the Medical Stores Depot, Madras in September, 1969, was apprised of the following position

in this regard, as far as the Medical Stores Depot, Madras was concerned:

"Under the existing system of quarterly fixation of rates, the increase in rates if any arrived at with reference to the receipts of three months are given effect to after a time lag of two to five months, i.e., the revisions in rates in respect of receipts during May, June and July are given effect to from October, 1969 after taking two months for working out the rates and check by Audit. Further, the increase in rates is given effect to only when the difference between the old rate and the new rate exceeds 4 per cent.

During this interval the stores received are issued away and get valued at the existing lower rates. The incidences of increase in rates are greater and this affects the financial results of the organisation. During the year 1967-68, the cumulative effect of such differences was about Rs. 4.05 lakhs."

1.9. As regards the rise in expenditure on establishment, the Committee pointed out that the Depots were levying a surcharge of 10 per cent on issues and that this had been fixed so as to enable the Depots to work on a "no profit no loss" basis. The Committee enquired how the recoveries made on this account compared with the expenditure. The following particulars were furnished in this connection:

Year	Recovery at 10 %	Expenditure
1966-67	Rs. 56.43 Lakhs	Rs. 60.13 lakhs
1967-68	Rs. 60.99 lakhs	Rs. 64.11 lakhs

1.10. The Committee enquired during evidence as to why the Madras and Calcutta Depots had difficulty in balancing their expenditure against the recoveries on account of departmental charges. In this connection they pointed out that in the case of the Madras Depot, in 1966-67 the recovery @10 per cent amounted to Rs. 10.90 lakhs as against their expenditure of Rs. 16.38 lakhs, while in the case of the Calcutta Depot, the difference was even more marked, in that the expenditure was Rs. 16.36 lakhs against the recovery of Rs. 8.19 lakhs. The witness stated that this was due to the fact that "in the case of Madras and Calcutta, the rates of dearness allowance, salaries etc. would be more than in the case of Karnal and other places." The Committee pointed out that if this was the case, the working of

the Bombay Depot should have also been affected, whereas the actual position was that the Bombay Depot was in a much better financial position than the Calcutta and Madras Depots. The witness promised to have the matter examined. In a note subsequently submitted to the Committee, the comparative working results of the three depots have been explained as under:

Calcutta and Bombay: The actual expenditure of the Calcutta Depot exceeded that of the Bombay Depot by Rs. 3.43 lakhs in 1966-67. "The sales in Calcutta bear a ratio of 3:5 to the Bombay sales. Even so, the salaries and wages in Calcutta amount to Rs. 7.07 lakhs against the amount of Re. 6.95 lakhs in Bombay. There may be room for reviewing this expenditure at Calcutta." Apart from this and other factors like rent, rates, taxes, depreciation and interest on capital, the higher expenditure in 1966-67 was also due to payment of arrears of West Bengal Sales Tax amounting to Rs. 1.48 lakhs.

Madras and Bombay: The actual expenditure in Madras Depot during 1966-67 was Rs. 3.57 lakhs more than in Bombay due to mainly to salaries and wages, the difference on this account being Rs. 2.63 lakhs. This was due to expenditure by Bombay Depot under medical reimbursement being negligible because of the Central Government Health Scheme at Bombay. At Madras, however, the expenditure on this account had to be borne by the Depot. However, "it has not been possible to account for the higher salary bill in Madras."

1.11. The Committee pointed out that the Madras Depot had a pharmaceutical factory and workshop attached, where, according to the data given in the Audit Report, the labour had not been adequately utilised. In this connection they drew attention to the fact that the percentage of labour utilisation had gone down in 1966-67 as compared with the figures in 1964-65 and 1965-66. The Committee were informed that the labour utilisation in 1967-68 in respect of factory was 72 per cent, but that it had gone down in 1968-69 to 47 per cent. The witness explaining the position further stated: "The machinery is old, the buildings are not suitable—they were constructed some 50 or 60 years ago, we have not got proper staff; there is uncertainty of raw materials. Thus there are various causes why the labour utilisation is not high." A Study Group of the Public Accounts Committee which visited the Depot in September, 1969 were informed that in addition to these factors, there was also "inadequacy of analytical chemists relative to the samples requiring tests under the Drug Rules". In reply to a further question by the Committee why this situation had not been rectified, the witness stated: "We are considering the whole question of the future of the Depot and the form in which it should continue if at all it has to continue

1.12. The Committee are concerned about the progressive deterioration in the working results of the Medical Stores Organisation. The Organisation made a profit of Rs. 23.43 lakhs in 1964-65 which was reduced in 1965-66 to Rs. 13.11 lakhs. In the subsequent year it ran up a deficit of Rs. 4.78 lakhs. The deterioration in performance occurred despite an increase in the turnover of the Organisation during this period by over a fifth, i.e., from Rs. 538 lakhs in 1964-65 to Rs. 664 lakhs in 1966-67.

1.13. An analysis of the working of the depots managed by the Organisation suggests that the depots at Madras and Calcutta were primarily responsible for the set-back. The following factors in particular contributed to the deteriorating finances of the Organisation:

- (i) The mounting cost of establishment, particularly at Calcutta and Madras—Government have themselves admitted that “there may be room for reviewing this expenditure at Calcutta”, considering the turn-over of the depot. As regards the depot at Madras, Government have not found it “possible to account for the higher salary bill”; the fact that labour in the factory attached to the Depot was utilised to the extent of only 72 per cent in 1967-68 and 47 per cent in 1968-69 indicates that the establishment in the depot is substantially under-employed.**
- (ii) The issue of medicines and other items at less than cost price—This would appear to be due to the present system of quarterly revision of issue prices which interposes a “time-lag of two to five months” in giving effect to increase in rates caused by rise in prices of items procured by the Depots. How substantially this affects the working results of the Depots would be evident from the fact that the Madras Depot sustained a loss of Rs. 4.05 lakhs on this accounts during 1967-68.**
- (iii) Uneconomic manufacture:—The two pharmaceutical factories attached to the Depots at Bombay and Madras are manufacturing 250 items like tinctures, tablets, ointments and bandages which are ordinarily available in market. Their cost compares unfavourably with market prices in certain cases. The depots have shortage of technical staff but excess of factory labour.**

1.14. The Committee note that Government are at present considering the future of the Medical Stores Organisation as a whole and “the form in which it has to continue if it has to continue”. Pending

a decision on this major issue, the Committee would like Government to consider if the establishment employed in the Depots could be rationalised. A more rational system of pricing of issues from the Depots will have also to be evolved, so that there may not be delays in giving effect to increase in prices procured by the Depots and losses on this account may be minimised.

(ii) Local Purchases by Depots

Audit Paragraph

Purchases

1.15. In section XXXIII(3) of the Audit Report (Commercial), 1965 it was mentioned, on the basis of the data for the three years ending with 31st March, 1964, that the value of local purchases in three depots far exceeded the value of stores procured through the Director General, Supplies and Disposals.

1.16. Pursuant to recommendation of the Public Accounts Committee (*vide* paragraph 2.136 of their 42nd Report—1965-66) to reduce local purchases to the minimum, the Ministry adopted (August, 1966) the following measures to reduce local purchase:

- (i) 55 new items were "included under special drugs of Vocabulary of Medical Stores" in order to purchase these through rate or running contracts.
- (ii) 150 new rate contracts had been placed.
- (iii) More than 200 items had been brought into the lists of central procurement items to be purchased through D.G.S. & D.

1.17. It will, however, be seen from the table given below that, even after adoption of the above measures, local purchases by the depots continued to be heavy:—

(Rupees in lakhs)

Name of the depot and year	Purchases through the D.G. S. & D.	Local purchases
1	2	3
BOMBAY		
1964-65	66.87	24.30
1965-66	93.67	20.72
1966-67	99.18	22.51 (4 66 to 8 66) 29.77 (9 66 to 3 67)

1	2	3
MADRAS		
1964-65	76.76	28.61
1965-66	78.01	34.43
1966-67	68.43	16.98 (4/66 to 8/66) 21.99 (9/66 to 3/67)
CALCUTTA		
1964-65	52.62	18.91
1965-66	48.32	22.91
1966-67	61.45	10.94 (4/66 to 8/66) 14.49 (9/66 to 3/67)
KARNAL		
1964-65	74.11	42.54
1965-66	92.92	37.22
1966-67	104.41	20.74 (4/66 to 8/66) 20.14 (9/66 to 3/67)
GAUHATI		
1966-67	11.44	1.66 (4/66 to 8/66) 12.34(9/66 to 3/67)
HYDERABAD		
1964-65	40.32	24.38
1965-66	53.31	30.10
1966-67	58.99	8.41 (4/66 to 8/66) 19.78(9/66 to 3/67)

1.18. The Ministry stated (October, 1968) that "local purchases in the Depots had to be restored to due to non-procurement of stores by the D.G.S. & D. during the same year. However, efforts are still being made to minimise the local purchases by the Depots."

[Sub-para 3 of Paragraph 114, Audit Report (Civil), 1969.]

1.19. The Committee drew attention to the increasing quantum of local purchases by the Depots and enquired about the reasons therefor. The witness gave the following reasons:

- (i) The powers of the Depot managers to make local purchases had been enhanced in October, 1966 by the Department of Supply from Rs. 10,000 to Rs. 25,000. In respect

of purchases upto this enhanced limited indents could not be raised on the Director General, Supplies and Disposals.

- (ii) There had been "delay in procurement through D.G.S. &D." in some cases which made local purchases necessary.
- (iii) The Depots had been advised to maintain six months' stock at a time. Replenishment of the stock had on occasions necessitated more local purchases.

1.20. The Committee enquired whether procurement through D.G.S.&D. would not be cheaper. The witness replied: "Generally speaking, supply through D.G.S.&D. would be cheaper. But there are instances where direct purchases are cheaper than procurement through D.G.S.&D." Explaining the position further, the witness informed the Committee: "I agree that local purchases should be few as far as possible. But direct purchases have to be made because powers are delegated to officers to make direct purchases. Indents are not accepted by D.G.S.&D. below that limit. It is quite true that local purchases should be reduced; constant efforts are being made in that direction. But sometimes D.G.S.&D. takes a long time to procure things and we require them urgently. Then local purchases have to be resorted to". When the Committee pointed out that advance indenting could avoid this kind of situation, the witness replied: "We are trying to plan our requirements as much in advance as possible".

1.21. The Committee pointed out that if hospitals are asked to place indents direct on approved firms with whom rate contracts have been executed, instead of the depots procuring them from the firm and then supplying them to hospitals, delay in supply as well as transit losses could be avoided. The witness stated: "That exactly is the policy behind entering into running contracts. We have advised them (hospitals, dispensaries etc.) to place indents direct on certain stockists." It was, however, added: "The firms are not interested in supplying to small indentors, small dispensaries and small hospitals. So what we are doing is to consolidate their requirements and placing orders with the stockists." The Committee enquired whether the State Governments had not made arrangements for supply of medicines to small dispensaries and hospitals. The witness stated that there were such arrangements and stated that this was another point relevant to a consideration of the future of the Depots. He stated: "We are considering the whole matter. We have to consult the State Governments and all that. It involves so many considerations."

1.22. In a note submitted to the Committee, the Ministry of Health have enumerated the following difficulties in arranging for supplies of medicines etc. required by hospitals:

“The difficulties in sending the supplies arranged by DGS&D direct to the indentors relate to:—

- (1) Multiplicity of transactions
- (2) Inspection
- (3) Payment
- (4) Despatches in smalls
- (5) Overall control.

(1) *Multiplicity of transactions.*—The number of indentors with the Depots is over 16,000. The number of items regularly stocked in the Depots is about 900. In the absence of a depot, a small indenter (and nearly 96 per cent are such) would have to write to a number of firms and not to one depot for their requirements. Remembering that each indenter makes about three demands in a year, the paper work that would ensue can be imagined.

(2) *Inspection.*—It would not be possible for small indentors to arrange for inspection of goods before purchase. Inspections include chemical tests.

(3) *Payment.*—There will be difficulties of payment under DGS&D contracts, unless the procedure is changed radically which would give rise to more difficulties.

(4) *Despatches in Smalls.*—In the nature of things, the consignments to individual indentors will be small and numerous and this would multiply the difficulties in railway bookings by the firms, and the difficulties by the consignees in receiving the goods at the destinations on numerous occasions. The small indentors enjoy now an advantage in drawing their requisites in assembled consignments from a single source, viz., Medical Store Depot. Big firms prefer to send wagon-loads of the contract material to a few consignees designated in the contracts instead of taking on themselves the responsibility of sending the supplies to numerous consignees. The terms and conditions in the DGS&D contracts are generally either f.o.r. the Depot or f.o.r. station of despatch. Should any dispute arise between the consignee indenter and the supplying firm as regards the quality or the transit loss etc., it would be difficult to settle the dispute. The Depot's correspondence on this score would increase without its claiming any service charges.

(5) *Overall control.*—In the contracts concluded by the DGS&D for the Medical Stores Depots, the rates are generally advantageous because of the ease with which the suppliers can supply to the Depots and obtain payment. In the alternative procedure of sending direct to the various indentors, it is more or less certain that the firms would give higher quotations to compensate them for the troubles involved.

In case of disputes arising between the firms and the consignees, the resulting litigation would be manifold and cause considerable confusion both to the DGS&D and the Medical Store Depots.

It would also be difficult to collect the off-take figures from the numerous consignees and to assess the overall utility and the working of a contract for any particular item.

When requested in July, 1968, for declaring major hospitals in Andhra Pradesh as direct demanding officers, at the instance of the Government of Andhra Pradesh, the DGS&D declined to comply with the request.....”

1.23. The Committee asked for detailed information about specific instances of delay in supply during the last three years. The information has been furnished by Ministry of Health in respect of Karnal Depot. From the data furnished, the Committee observe that during the years 1966-67, 1967-68 and 1968-69, local purchases had to be resorted to by Medical Stores Depot, Karnal due to failure of supplies against 14 different contracts placed by DGS&D.

1.24. A Study Group of the Public Accounts Committee which visited the Medical Stores Depot, Madras in September, 1969 were given particulars of local purchases made by the Depot due to failure of supplies against DGS&D contracts as also of instances of delay in supplies against DGS&D contracts. The Committee observe therefrom:

- (i) Against 23 indents raised during the period September, 1966 to August, 1968, local purchases had to be resorted to due to delay in procurement, which resulted in extra expenditure of Rs. 25,045. The value of such purchases was Rs. 1,76,105. It is noticed that non-supply of 629 sets of dispensing scales by the DGS&D resulted in their local purchase at an excess cost of Rs. 5279, while failure to procure knife Bard Parker blades in time led to local procurement of one third of the quantity at an additional cost of Rs. 9278.

- (ii) There had been "abnormal delay in supplies" against 19 indents raised by the Depot between June, 1966 and January, 1969, supplies being still due for periods ranging from about three years to one year after the stipulated dates of delivery mentioned in the relevant contracts.

1.25. The Committee observe that, notwithstanding steps taken by Government to bring down the quantum of local purchases by the depots, the value of such purchases has gone up from Rs. 139 lakhs in 1964-65 to Rs. 200 lakhs in 1966-67. The experience of the Madras Depot, which incurred an extra expenditure of Rs. 25,000 in making local purchases to the tune of Rs. 1.76 lakhs during the period September, 1966—August, 1968 suggests that purchases by a centralised agency like the Director General, Supplies and Disposals would be cheaper. The representatives of Government also admitted that, notwithstanding some instances to the contrary, "generally speaking, supply through the D.G.S. & D. would be cheaper." The Committee appreciate the fact that the enhanced powers given to the depots, coupled with the delay that sometimes occurs in supplies against contracts arranged by the Director General, Supplies and Disposals, would tend to push up local purchases by the Depots. It may not also be possible to meet the requirements of small indentors individually through rate or running contracts, due to problems that will arise in the inspection and despatch of small consignments. Nevertheless the effort should be to scale down local purchases to the minimum, by advance indenting on the Director General, Supplies and Disposals and bulking of indents. Local purchases, being generally costlier, would unnecessarily push up the cost of health services.

1.26. The Committee are also unhappy over the delay in procurement of some of the stores by the Director General of Supplies and Disposals. In the case of the Madras Depot it is noticed that non-supply of 629 sets of dispensing scales by the D.G.S. & D. resulted in their local purchase at an excess cost of Rs. 5279, while failure to procure knife Bard Parker blades in time led to local procurement of one third of the quantity at an additional cost of Rs. 9278. The Committee would like the D.G.S. & D. to look into these cases so as to plug the loop-holes in procurement procedure.

(iii) UNECONOMIC MANUFACTURE

Audit Paragraph

1.27. In pursuance of the recommendation of the Public Accounts Committee contained in paragraph 2.141 of the 42nd Report (1965-66), the Director General of Health Services issued in February, 1966 certain instructions to the Depots to compare periodically the

cost of production of various items by the factories with that of other firms (both in the public and private sectors) so as to keep a watch on the efficient working of the factories.

1.28. A review in April, 1966 by the Madras depot indicated that the cost of production of 7 items of bandages at its factory was higher than the market rates. Production of all those seven items of bandages, however, continued during May, 1966 to March, 1967 while from April, 1967 to February, 1968 production of 4 of those items was continued entailing total extra expenditure of Rs. 1.77 lakhs (i.e., the difference between the cost of production and the market rate).

1.29. The Ministry stated (October, 1968) that "in order to meet the demands these items were continued to be manufactured by Medical Stores Depot, Madras till the existing raw materials are exhausted".

1.30. It was, however, noticed by Audit that manufacture of two items was not restricted to the stock of raw materials held on 1st May, 1966.

[Sub-para 4(b) of paragraph 114, Audit Report (Civil), 1969].

1.31. The Ministry of Health have in a note to the Committee explained the circumstances under which the Madras Depot continued the manufacture of the items referred to in the Audit paragraph. The note reads as under:—

"The Madras Depot sought the instructions whether to continue manufacture of uneconomic surgical dressings in May, 1966.

In June, 1966 the Depot was informed as follows:

'You may personally look into this aspect with reference to the work order on the basis on which the prices have been worked out and examine the labour index and other various factors as to what extent the cost of production for surgical dressings can be reduced or brought on par with market rate. You will also take into consideration quality'.

D.D.G. visited the Madras Depot in September, 1967 and instructed them that 'all items for which there are raw materials available' are to be continued to be manufactured 'until the existing raw materials are exhausted'.

On the 3rd August, 1968 the Depot was instructed to bring down the labour indices and the monetary value so as to make the issue rates of factory products comparable to the market rates and that production should be continued unabated. However, it was added

that where there was strong justification for discontinuance of uneconomic items these should be brought to the notice of the Directorate General of Health Services.

On the 31st August, 1968 the Depot informed that the raw material available to the Depot was costlier than what was available to the trade and that any attempt to bring down the labour indices| monetary values would not help in this regard.

After detailed examination of various factors like labour indices, monetary values, etc. pertaining to the problem of uneconomic manufacture of surgical dressings the Madras Depot was informed in February, 1969 to discontinue the manufacture of uneconomic surgical dressings."

1.32. The Committee enquired why the production of these items was not restricted to what could have been manufactured out of the existing stock of raw materials and whether the existing stock of raw materials could not have been put to alternative and more gainful use. It has been stated in a note on this point that "the raw material, viz., the cloth for surgical dressings could not be gainfully utilised for manufacture of other products" and that "the manufacture was not restricted (to available raw material) as it was then thought that demands from indentors should be met." The Committee enquired about the quantum of manufacture that took place after the existing stock of raw material was exhausted and the extra expenditure incurred thereby. They were informed that during the period 1966-67 to 1968-69. the Depot manufactured 7 items of gauzes and bandages. The value of surgical dressings manufactured each year and the extra expenditure incurred were:

Year	Value of surgical dressings manufactured	Extra expenditure
1966-67	Rs. 5,63,451	Rs. 1,87,729
1967-68	Rs. 3,90,763	Rs. 1,06,627
1968-69	Rs. 53,089	Rs. 5,392

1.33. The Committee asked whether, pursuant to the recommendations made by them in para 2.141 of their 42nd Report, rate enquiries were being periodically made to ascertain what the market rates of items were and how they compared with the cost of items produced in the Depots. They were informed that "at the time of

annual provisioning of the factory manufactured items, rate enquiries are issued to the trade for the rates of finished products as also of raw materials". To a further question whether these enquiries had disclosed that there were items, other than those referred to in the Audit paragraph, in respect of which cost of production was higher than market price, it was stated in reply: "So far we have not come across any items other than those referred to in the Audit paragraph in respect of which the cost of production has been higher than market rate".

1.34. The Committee notice that it took Government over three years to come to a final decision about the discontinuance of manufacture of certain items which were being produced by the Medical Stores Depot, Madras at rates higher than the market prices. Continuance of production of these items might have been justified to the extent the Depot had stocks of raw materials which could not be put to more gainful alternative uses, but there was no justification to have continued their manufacture by procuring fresh stocks of raw materials. In fact, items worth Rs. 10.07 lakhs were produced in this manner during the period 1966-67 to 1968-69, which resulted in extra expenditure of 3.00 lakhs. It was stated that the manufacture of these items was not restricted as "it was then thought that demands from indentors should be met." These demands could equally well have been met from the market, where these items were available at cheaper rates.

1.35. In para 2.141 of their 42nd Report (1965-66), the Public Accounts Committee had desired that periodic reviews should be undertaken to ensure that Depots do not continue to produce items which can be more economically procured from the market. The Committee note that, pursuant to this recommendation, Government initiate rate enquiries once every year while provisioning for items manufactured in the Depot. The experience in the present case, however, suggests that follow-up action on such enquiries is not prompt and effective enough. It might be considered whether the periodicity of such enquiries could be increased, so that the period for which Depots continue uneconomic manufacture of items is restricted to the minimum.

(iv) DUES AWAITING REALISATION

Audit Paragraph

Debtors

1.36. The amount due from sundry debtors which was Rs. 140.35 lakhs at the end of March, 1965 went up to Rs. 232.61 lakhs at the end of March, 1967, out of that Rs. 200.67 lakhs were due from Government institutions.

1.37. The Ministry stated (October, 1968) that efforts were being made to reduce the outstanding debts.

[Sub-para 5 of paragraph 114, Audit Report (Civil), 1969].

1.38. The Committee enquired about the position regarding realisation of pending dues. The witness informed the Committee that there had been some progress. In a note subsequently furnished to the Committee, the following position has been indicated:

(i) *Total amount due as on 31-3-1967 :*

(a) From Government Institutions	Rs 200.67 lakhs
(b) From non-Government Institutions	Rs. 10.71 Lakhs
(c) Others	Rs. 21.23 lakhs
Total	<u>Rs. 232.61 lakhs</u>

(ii) *Total amount due as on 31-3-1968 :*

(a) From Government Institutions	Rs. 168.87 lakhs
(b) From non-Government Institutions	Rs. 12.81 lakhs
(c) From others	Rs. 22.70 lakhs
Total	<u>Rs. 204.38 lakhs</u>

(iii) *Year-wise break-up of amounts due as on 31-3-1968 :*

Year	Government Institutions	Non-Government Institutions	Others
	Rs.	Rs.	Rs.
Pre-Partition	22,208	—	—
1962-63	—	19,102	3
1963-64	2,326	1,34,782	9,520
1964-65	3,16,935	32,450	22,285
1965-66	5,70,811	2,76,818	22,287
1966-67	11,54,945	1,68,571	24,767
1967-68	1,48,19,938	6,49,361	21,91,214

1.39. It has also been stated in the note—

- (i) that out of Rs. 12.81 lakhs due from non-Government Institutions (Panchayats, Zilla Parishads, Municipalities etc.) as on 31st March, 1968, the present position is that only Rs. 3.48 lakhs is due for recovery and that the Institutions "are repeatedly being reminded to expedite settlement";
- (ii) that out of Rs. 22.70 lakhs due from others as on 31st March, 1968, the present position is that only Rs. 18.16 lakhs is outstanding. The bulk of the outstandings, i.e., Rs. 15.15 lakhs, represent "proforma adjustments in accounts and no recovery is due from any party."

1.40. While the Committee note that the dues awaiting realisation by Medical Store Depots have come down from Rs. 233 lakhs as on 31st March, 1967 to Rs. 204 lakhs as on 31st March, 1968, they cannot help feeling that the pending dues are still large. The bulk of the dues as on 31st March, 1968, i.e., as much as Rs. 169 lakhs, was on account of supplies to Government Institutions, a sum of Rs. 9.12 lakhs out of these pertaining to supplies made in 1965-66 and even earlier years. The Committee would like expeditious action to be taken to realise these dues, as also dues amounting to Rs. 3.48 lakhs pertaining to non-Government Institutions.

(v) MISCELLANEOUS

Audit Paragraph

(i) *Issue of a drug at less than purchase price.*

1.41. There was no stock of Decavitamin tablets on 1st April, 1966 in the Calcutta Depot. From May, 1966 onwards purchases thereof were made at Rs. 36 per 1,000 tablets.

1.42. Notwithstanding the fact that on the basis of the above purchases the issue rate worked out to Rs. 42 per 1,000 tablets, the Depot issued 60.58 lakh tablets from May, 1966 to September, 1966 at the old issue rate of Rs. 12.20 per 1,000 tablets, thereby incurring loss of Rs. 1.81 lakhs.

1.43. The Ministry stated (October, 1968) that "the loss as pointed out by Audit was mainly due to the existing procedure of fixing of quarterly Vocabulary of Medical Stores rates. However, as suggested by Audit, the action will be taken by the Directorate to revise the existing practice of quarterly fixation of issue rates, if considered necessary."

(ii) *Extra expenditure due to delay in acceptance of tender*

1.44. According to the instructions issued by the Director General, Health Services, the Bombay Depot issued a rate enquiry for encapsulation of chloramphenical powder. 16 quotations were received in June/July, 1966 and sent to the Director General, Health Services, in July, 1966 for necessary action. After some further correspondence the depot recommended acceptance of an offer at Rs. 6.85 per 1,000 capsules, which was approved by the Director General, Health Services in January, 1967.

1.45. An order was placed on the firm in February, 1967 but it refused the order on the ground that its offer of July, 1966, which was valid for 90 days, had already lapsed.

1.46. After obtaining limited tenders a fresh order was placed in July, 1967 on another firm at Rs. 35.30 per 1,000 capsules.

1.47. Encapsulation of 860 Kgs. of powder (33.54 lakh capsules) during July, 1967 to March, 1968 resulted in extra expenditure of Rs. 0.95 lakh.

1.48. The Ministry stated (October, 1968) as follows:

“..... This quotation was only Rs. 6.85 per 1,000 caps., while the lowest quotation received at Bombay on the second occasion in June, 1967 was Rs. 35.30 per 1,000 caps. The lowest quotation received at Madras also in June, 1967 was Rs. 32.99 per 1,000 caps. The glaring disparity between the quotation questioned and the other lowest quotations cited above can only be due to some misunderstanding on the part of the firm.....”

It may be stated in this connection that the supply orders placed by the Depots are not binding contracts enforceable in court of law, but are only agreements, and if any firm fails, they are not open to levy of a penalty. Even if the order was placed the firm could equally well have defaulted without attracting any penalty”.

1.49. Since the Depots make large local purchases and place fabricating orders there should, it is felt, be penalty clauses in these orders.

[Sub-para 6 of Paragraph 114, Audit Report (Civil), 1969].

1.50. The Committee wanted to know the circumstances under which the Calcutta Depot issued drugs at less than the purchase price. The witness stated: “Frankly that was a mistake. We should have revised the rates. We should have done that”.

1.51. The Committee drew the attention of the witness to the observations in the Audit paragraph about the extra expenditure of Rs. 0.95 lakhs due to delay in acceptance of tender for encapsulation of powder at Bombay Depot. The Committee enquired why the lowest tender of Rs. 6.85 was not accepted in time and whether there was any justification for the delay of over 8 months that took place. The witness replied: "There is no justification because there is delay and we admit it." He added:

".....There are certain reasons. Out of the 90 days, there was a delay in getting the powder to the extent of 60 or so days. It was rather an anticipatory action on our part to be ready for the capsules, but when the powder came, the laboratory testing and other things took sometime. The central organisation also took sometime. The delay was there. I admit it. We did contribute to it in some way..... Looking to the other quotations that were received at that time, the smaller quotation of Rs. 6.85 or thereabouts could be understood only on the condition that the manufacturer intended to make it a condition that the capsules should be supplied by the depot. That is the only condition on which it could be justified. That does not mean that there was a comparable rate. But the next higher rate was about Rs. 26 or 27. Rs. 6 could be explained only on the basis that the capsules must have been meant to be supplied by Government."

1.52. To a question whether there had been any enquiry into the matter, it was stated: "No enquiry has been made. We are looking into it."

1.53. The Committee enquired of the witness whether it was true, as stated in the Audit paragraph, that supply orders placed by the Depots are not binding contractors. The witness stated that the question was being looked into. It was added:

"The question is being considered during the finalisation of Draft Store Accounting instructions in consultation with the Audit."

1.54. The Committee note that due to a "mistake" on the part of the Medical Stores Depot, Calcutta, in fixing issue rate of a certain medicine, there was a loss of Rs. 1.81 lakhs. The Committee hope that Government will take action to guard against the recurrence of such a default.

1.55. There was also a case where it took over 8 months for Government to come to a decision on the acceptance of a tender for encapsulation of powder. Consequently Government could not avail itself of the offer which was open for 90 days and had to entrust the work to another tenderer, who had quoted a higher rate, at an extra cost of Rs. 0.95 lakh. As it has been indicated that the lower rate received in this case might not have been workable, the Committee do not wish to pursue the case further. The Committee, however, trust that Government would ensure that delays of this kind in acceptance of tenders do not recur.

1.56. The Committee note that there is a doubt whether supply orders placed by the Depot constitute binding contracts and that the matter is under examination. The Committee would like Government to take appropriate legal advice in the matter and suitably revise the procedure so that the supply orders become enforceable contracts in law.

(vi) FUTURE OF MEDICAL STORES DEPOTS

1.57. The Committee asked what the objectives of the Medical Stores Depot organisation were and whether they had been fulfilled. The witness stated that this was an old organisation; it was set up as a supplying agency to military organisations. He added:

“Later on it was passed on to the civil side and the idea was to supply primarily the Government hospitals—the district hospitals, smaller dispensaries and bigger organisations—in an assured and steady manner certain drugs essential to the hospitals. At that time the pharmaceutical industry in the country had not developed to a very great extent and the tinctures, ointments and various similar preparations were also manufactured in the medical stores depots. As that machinery was there, in spite of the fact that now the pharmaceutical industry is very well developed, it continues to do that even now. But now we are having a second thought over it to see in what form it should continue, to what limited extent it should continue, what should be the objectives and how we can best achieve them. We shall also take into consideration the other governmental organisations like the IDPL etc. We shall also take into consideration the fact that the States have become a little more autonomous now and many of them want to make their own purchases. We are considering the matter. We are considering the whole question of the future of the depot and the form in which it should continue if at all it has to be continued.”

1.58. The Committee wanted to know to what extent the Depots have been meeting the requirements of various Institutions. The witness stated that it would be difficult to compile this information in respect of all the Institutions, but that the figures would be collected in respect of hospitals at Delhi. In a note subsequently furnished to the Committee, data has been furnished in this regard as under:

Name of Hospital	Year	Total value of purchases made by the hospital	Value of supplies by the Medical Store Depot, Karnal against indents	Percentage of supplies made by Medical Store Depot, Karnal to total purchases
1	2	3	4	5
		Rs.	Rs.	
1. Safdarjang Hospital, New Delhi.	1964-65	30,00,000	6,40,211	21%
	1965-66	27,00,000	4,99,782	18%
	1966-67	30,00,136	4,49,028	15%
	1967-68	27,98,918	7,69,989	28%
	1968-69	38,75,417	4,20,200	11%
2. Lady Hardinge Medical College & Hospital, New Delhi.	1964-65	}	Not available	
	1965-66			
	1966-67	5,86,000	2,29,500	39%
	1967-68	5,85,700	1,97,800	34%
	1968-69	5,88,600	1,08,100	18%
3. Willingdon Hospital, New Delhi.	1964-65	8,55,100	2,48,800	29%
	1965-66	8,19,200	60,500	7%
	1966-67	10,68,800	1,00,000	9%
	1967-68	11,93,600	1,15,000	10%
	1968-69	14,92,200	1,48,000	10%

1	2	3	4	5
4. Kalavati Saran Children Hospital, New Delhi.		Rs.	Rs.	
	1964-65	99,500	Nil	*
	1965-66	2,67,289	Nil	—
	1966-67	1,54,936	38,192	25
	1967-68	1,53,657	39,705	26
	1968-69	1,90,755	38,348	20
5. Maulana Azad Medical College and Associate & Irwin, G.B. Pant Hospital, New Delhi.				
	1964-65	18,57,743	8,57,620	47
	1965-66	27,42,315	6,63,842	24
	1966-67	29,88,765	3,86,529	13
	1967-68	30,00,000	4,93,524	16
	1968-69	28,76,000	4,41,036	15
6. E. S. I. Corporation, Kotla Road, New Delhi.				
	1964-65	} Not available		
	1965-66			
	1966-67	13,00,104	2,84,644	22
	1967-68	6,47,654	2,82,705	44
	1968-69	14,88,002	5,90,550	40
7. Northern Railway Central Hospital, New Delhi.				
	1964-65	5,62,122	93,248	17
	1965-66	5,77,833	95,822	17
	1966-67	} Not received.		
	1967-68			
	1968-69			

*Regular practice for obtaining the medical supplies from M. S. D., Karnal adopted in 1965-67.

1.59. A Study Group of the Public Accounts Committee which visited the Medical Stores Depot, Madras in September, 1969 was given the following information about the percentage of supply on demands received from Government and non-Government hospitals and dispensaries during each of the five years ending 1968-69.

1964-65	. . .	65%
1965-66	. . .	59.8%
1966-67	. . .	57%
1967-68	. . .	59.6%
1968-69	. . .	54%

1.60. The Medical Stores Organisation was set up as a centralised supply agency to hospitals, dispensaries etc. at a time when other sources of supply had not developed adequately. The pharmaceutical industry in the country has since developed to a great extent, with Governmental undertakings like Indian Drugs and Pharmaceuticals Ltd. also entering the field. Over the years, the tendency has also been to entrust the work of procurement to bulk procuring agencies like Director General, Supplies and Disposals, as experience has indicated that such bulk purchase is generally more economical. The data furnished to the Committee which is reproduced at pages 21—23 of this report would also show that hospitals are becoming less and less dependent on Medical Stores Depots as a supplying agency and that the Depots themselves have at best been able to meet 50 per cent—60 per cent of the demands raised on them by the indentors. There are no doubt a number of small indentors in the States in whose case it might not be possible to resort to bulk procurement against rate and running contracts concluded by the Director General, Supplies and Disposals, but this has to be weighed against the fact that “the States have become a little more autonomous and many of them want to make their own purchases”.

1.61. The Committee note that Government themselves are cognisant of all these factors which have a bearing on the future of the Central Medical Stores Depots and are considering “the whole question of the future of the Depot and the form in which it should continue, if at all it has to be continued.” The Committee would like Government to complete examination of this question speedily and come to a quick decision.

ATAL BIHARI VAJPAYEE,

NEW DELHI;
February 18, 1970.

Ma. jha 29, 1891 (S)

Chairman,

Public Accounts Committee.

APPENDIX

Summary of main Conclusions/Recommendations
(Referred to in Para 3 of Introduction)

S. No.	Para No of Report	Ministry/Department concerned	Conclusions/Recommendations
1	2	3	4
1	1-12	Ministry of Health, Family Planning, Works, Housing & Urban Development (Department of Health)	The Committee are concerned about the progressive deterioration in the working results of the Medical Stores Organisation. The Organisation made a profit of Rs. 23.43 lakhs in 1964-65 which was reduced in 1965-66 to Rs. 13.11 lakhs. In the subsequent year it ran up a deficit of Rs. 4.78 lakhs. The deterioration in performance occurred despite an increase in the turnover of the Organisation during this period by over a fifth, i.e., from Rs. 538 lakhs in 1964-65 to Rs. 664 lakhs in 1966-67.
2	1-13	Do.	An analysis of the working of the depots managed by the Organisation suggests that the depots at Madras and Calcutta were primarily responsible for the set-back. The following factors in particular contributed to the deteriorating finances of the Organisation:

- (i) The mounting cost of establishment, particularly at Calcutta and Madras—Government have themselves admitted that “there may be room for reviewing this expenditure at Calcutta”, considering the turn-over of the depot. As regards the depot at Madras, Government have not found it “possible to account for the higher salary bill”; the fact that labour in the factory attached to the Depot was utilised to the extent of only 72 per cent in 1967-68 and 47 per cent in 1968-69 indicates that the establishment in the depot is substantially under-employed.
- (ii) The issue of medicines and other items at less than cost price—This would appear to be due to the present system of quarterly revision of issue prices which interposes a “time-lag of two to five months” in giving effect to increase in rates caused by rise in prices of items procured by the Depots. How substantially this affects the working results of the Depots would be evident from the fact that the Madras Depot sustained a loss of Rs. 4.05 lakhs on this account during 1967-68.
- (iii) Uneconomic manufacture—The two pharmaceutical factories attached to the Depots at Bombay and Madras are manufacturing 250 items like tinctures, tablets, ointments and bandages which are ordinarily available in market. Their cost compares unfavourably with market prices in certain cases. The depots have shortage of technical staff but excess of factory labour.

1	2	3
3	1.14	Ministry of Health, Family Planning, Works, Housing & Urban Development (Department of Health).

The Committee note that Government are at present considering the future of the Medical Stores Organisation as a whole and "the form in which it has to continue if it has to continue". Pending a decision on this major issue, the Committee would like Government to consider if the establishment employed in the Depots could be rationalised. A more rational system of pricing of issues from the Depots will have also to be evolved, so that there may not be delays in giving effect to increase in prices procured by the Depots and losses on this account may be minimised.

4	1.25	Do.
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The Committee observe that, notwithstanding steps taken by Government to bring down the quantum of local purchases by the depots, the value of such purchases has gone up from Rs. 139 lakhs in 1964-65 to Rs. 200 lakhs in 1966-67. The experience of the Madras Depot, which incurred an extra expenditure of Rs. 25,000 in making local purchases to the tune of Rs. 1.76 lakhs during the period September, 1966—August, 1968 suggests that purchases by a centralised agency like the Director General, Supplies and Disposals would be cheaper. The representatives of Government also admitted that, notwithstanding some instances to the contrary, "generally speaking, supply through the D.G.S. & D. would be cheaper." The Committee appreciate the fact that the enhanced powers given to the depots, coupled with the delay that sometimes occurs in supplies against contracts arranged by the Director General, Supplies and Disposals,

would tend to push up local purchases by the Depots. It may not also be possible to meet the requirements of small indentors individually through rate or running contracts, due to problems that will arise in the inspection and despatch of small consignments. Nevertheless the effort should be to scale down local purchases to the minimum, by advance indenting on the Director General, Supplies and Disposals and bulking of indents. Local purchases, being generally costlier, would unnecessarily push up the cost of health services.

5 1.26

Do.

The Committee are also unhappy over the delay in procurement of some of the stores by the Director General of Supplies and Disposals. In the case of the Madras Depot it is noticed that non-supply of 629 sets of dispensing scales by the D.G.S. & D. resulted in their local purchase at an excess cost of Rs. 5279, while failure to procure knife Bard Parker blades in time led to local procurement of one-third of the quantity at an additional cost of Rs. 9278. The Committee would like the D.G.S. & D. to look into these cases so as to plug the loop-holes in procurement procedure.

27

6 1.34

Do.

The Committee notice that it took Government over three years to come to a final decision about the discontinuance of manufacture of certain items which were being produced by the Medical Stores Depot, Madras at rates higher than the market prices. Continuance of production of these items might have been justified to the extent the Depot had stocks of raw materials which could not be put to more gainful alternative uses, but there was no justification to have continued their manufacture by procuring fresh stocks of raw materials. In fact, items worth Rs. 10.07 lakhs were produced in this

1	2	3	4
			<p>manner during the period 1966-67 to 1968-69, which resulted in extra expenditure of Rs. 3.00 lakhs. It was stated that the manufacture of these items was not restricted as "it was then thought that demands from indentors should be met." These demands could equally well have been met from the market, where these items were available at cheaper rates.</p>
7	1.35	<p>Ministry of Health, Family Planning, Works, Housing and Urban Development</p>	<p>In para 2.141 of their 42nd Report (1965-66), the Public Accounts Committee had desired that periodic reviews should be undertaken to ensure that depots do not continue to produce items which can be more economically procured from the market. The Committee note that, pursuant to this recommendation, Government initiate rate enquiries once every year while provisioning for items manufactured in the Depot. The experience in the present case, however, suggests that follow-up action on such enquiries is not prompt and effective enough. It might be considered whether the periodicity of such enquiries could be increased, so that the period for which Depots continue uneconomic manufacture of items is restricted to the minimum.</p>
8	1.40	Do.	<p>While the Committee note that the dues awaiting realisation by Medical Stores Depots have come down from Rs. 233 lakhs as on 31st March, 1967 to Rs. 204 lakhs as on 31st March, 1968, they cannot help feeling that the pending dues are still large. The bulk of the</p>

dues as on 31st March, 1968, i.e., as much as Rs. 169 lakhs, was on account of supplies to Government Institutions, a sum of Rs. 9.12 lakhs out of these pertaining to supplies made in 1965-66 and even earlier years. The Committee would like expeditious action to be taken to realise these dues, as also dues amounting to Rs. 3.48 lakhs pertaining to non-Government Institutions.

9 1.54 Do.

The Committee note that due to a "mistake" on the part of the Medical Stores Depot, Calcutta, in fixing issue rate of a certain medicine, there was a loss of Rs. 1.81 lakhs. The Committee hope that Government will take action to guard against the recurrence of such a default.

10 1.55 Do.

There was also a case where it took over 8 months for Government to come to a decision on the acceptance of a tender for encapsulation of powder. Consequently Government could not avail itself of the offer which was open for 90 days and had to entrust the work to another tenderer, who had quoted a higher rate, at an extra cost of Rs. 0.95 lakh. As it has been indicated that the lower rate received in this case might not have been workable, the Committee do not wish to pursue the case further. The Committee, however, trust that Government would ensure that delays of this kind in acceptance of tenders do not recur.

11 1.56 Do.

The Committee note that there is a doubt whether supply orders placed by the Depot constitute binding contracts and that the matter is under examination. The Committee would like Government to take appropriate legal advice in the matter and suitably

revise the procedure so that the supply orders become enforceable contracts in law.

12 1.64

Ministry of Health, Family Planning, Works, Housing and Urban Development

The Medical Stores Organisation was set up as a centralised supply agency to hospitals, dispensaries etc. at a time when other sources of supply had not developed adequately. The pharmaceutical industry in the country has since developed to a great extent, with Governmental undertakings like Indian Drugs and Pharmaceuticals Ltd. also entering the field. Over the years, the tendency has also been to entrust the work of procurement to bulk procuring agencies like Director General, Supplies and Disposals, as experience has indicated that such bulk purchase is generally more economical. The data furnished to the Committee which is reproduced at pages 21—23 of this report would also show that hospitals are becoming less and less dependent on Medical Stores Depots as a supplying agency and that the Depots themselves have at best been able to meet 50 per cent—60 per cent of the demands raised on them by the indentors. There are no doubt a number of small indentors in the States in whose case it might not be possible to resort to bulk procurement against rate and running contracts concluded by the Director General, Supplies and Disposals, but this has to be weighed against the fact that “the States have become a little more autonomous and many of them want to make their own purchases”.

13 1.61 Do,

The Committee note that Government themselves are cognizant of all these factors which have a bearing on the future of the Central Medical Stores Depots and are considering "the whole question of the future of the Depot and the form in which it should continue, if at all it has to be continued." The Committee would like Government to complete examination of this question speedily and come to a quick decision.
