

**PUBLIC ACCOUNTS COMMITTEE
(1971-72)**

(FIFTH LOK SABHA)

SEVENTEENTH REPORT

**[Action taken by Government on the recommendations
contained in their 105th Report (Fourth Lok Sabha)
on Audit Report (Civil), 1970, relating to the
Ministry of Supply]**



**LOK SABHA SECRETARIAT
NEW DELHI**

July, 1971/Sravana, 1893 (Saka)

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PUBLIC ACCOUNTS COMMITTEE

(1971-72)

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Shri B. B. Tewari—Deputy Secretary

Shri T. R. Krishnamachari—Under Secretary

INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Seventeenth Report on the Action Taken by Government on the recommendations of the Public Accounts Committee contained in their 105th Report (Fourth Lok Sabha) relating to the Ministry of Supply.

2. On the 8th July, 1971, an "Action Taken" Sub-Committee was appointed to scrutinise the replies received from Government in pursuance of the recommendations made by the Committee in their earlier Reports. The Sub-Committee was constituted with the following Members:—

- | | |
|--------------------------|------------------|
| 1. Shri B. S. Murthy— | <i>Convener</i> |
| 2. Shri Bhagwat Jha Azad | } <i>Members</i> |
| 3. Shri Ram Sahai Pandey | |
| 4. Shri C. C. Desai | |
| 5. Shri Thillai Villalan | |
| 6. Shri Shyam Lal Yadav | |

3. The Action Taken Notes furnished by the Government were considered by the Action Taken Sub-Committee of the Public Accounts Committee (1970-71) at their sitting held on 9th December, 1970. Consequent on the dissolution of the Lok Sabha on the 27th December, 1970, the Public Accounts Committee ceased to exist from that date. The Action Taken Sub-Committee of the Public Accounts Committee (1971-72) considered and adopted this Report at their sitting held on the 3rd August, 1971 based on the suggestions of the Sub-Committee of PAC (1970-71) and further information received from the Ministry of Supply. The Report was finally adopted by the Public Accounts Committee on the 31st August, 1971.

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

5. The Committee place on record their appreciation of the commendable work done by the Convener and the Members of the Action Taken Sub-Committee (1970-71) in considering the Action Taken notes and offering suggestions for this Report which could not be finalised by them because of the sudden dissolution of the Fourth Lok Sabha.

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

NEW DELHI:
August 31, 1971.
Bhadra 9, 1893(S).

ERA SEZHIYAN,
Chairman,
Public Accounts Committee.

CHAPTER I

REPORT

1.1. This Report of the Committee deals with action taken by Government on the recommendations contained in their 105th Report (Fourth Lok Sabha) on the Audit Report (Civil), 1970 relating to the Ministry of Supply. Action Taken Notes have been received in respect of all the 35 recommendations contained in the said Report.

1.2. Action Taken Notes/Statements on the recommendations of the Committee contained in this Report have been categorised under the following heads:—

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

S. Nos. 2, 4, 7, 8, 9, 10, 11, 14, 15, 16, 17, 19, 20, 21, 22, 23, 24, 25, 27, 30, 31, 34 and 35.

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

S. No. 28

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

S. Nos. 6, 26 and 32.

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

S. Nos. 1, 3, 5, 12, 13, 18, 29 and 33.

1.3. The Committee hope that final replies in regard to those recommendations to which only interim replies have so far been furnished will be submitted to them expeditiously after getting them vetted by audit.

1.4. The Committee will now deal with action taken notes received on some of the recommendations.

Purchase of "Joint bonds"—Paragraph 1.22 (vi) (S.No. 6)

1.5. In paragraph 1.22 (vi) of their Hundred and fifth Report (Fourth Lok Sabha) the Committee had made the following observations in regard to the utilisation of stock of metal imported with Government assistance by a firm and still lying with them:—

"The Committee would also like action to be taken for utilisation/recovery of 12.308 tonnes of copper lying unutilised with the firm."

1.6. In their reply dated 6th August, 1970, the Ministry of Supply have stated:—

“The Minerals and Metals Trading Corporation were requested on 9/15-4-1970 to adjust the excess quantity of 12.308 tonnes of copper bars wire released to the firm against any other release, as and when possible. The MMTC have intimated that one release in favour of the firm valued at Rs. 26,017 has been issued by Joint Chief Controller of Imports and Exports. The MMTC have already taken up the matter with the Joint Chief Controller of Imports and Exports, for necessary adjustment. Supplies have however, been withheld.”

1.7. The Committee find that as against 12.308 tonnes of unutilised electrolytic copper, MMTC have withheld for adjustment supplies valued at only Rs. 26,017 in respect of a subsequent release to the firm by the Joint Chief Controller of Imports and Exports. The Committee desire that recovery/adjustment of the remaining quantity of the material should be made expeditiously.

Purchase of non-metal helmets—Paragraphs 8.38 and 8.39 (S. Nos. 7 and 8)

1.8. In paragraphs 1.23 to 1.40 of 105th Report (Fourth Lok Sabha) the Public Accounts Committee had examined a case of supply of non-metal helmets to State Governments and certain public/private sector undertakings for use in their Civil Defence establishments. Many of the helmets were found to have a number of defects. Primarily, there were vital mistakes in the formulation of standards for the manufacture of these helmets. Besides, the essential “users’ test” was not carried out even at the stage of production of the prototype, resulting in the helmets being over-sized. Also the fact, that the helmets as per the ISI specifications, were to be provided with adjustable head bands, was not intimated to the supplier. No serious notice of the first complaint about the defects made in January, 1965 was taken by Government with the result that, defective helmets continued to be supplied for a considerable period. The Public Accounts Committee, in this connection, made the following observations in paragraphs 1.38 and 1.39:

“The Committee feel that a series of omissions resulted in Government being saddled with a supply of about 75,000 helmets, the bulk of which, costing Rs. 4.88 lakhs, have been found “absolutely useless.”

In the first place, the specifications evolved for the helmets by the Indian Standards Institution were faulty. There was a “vital mistake” which arose due to a “confusion . . . mainly with regard to the major axis and minor axis” of the helmets.

The helmets produced according to the specifications therefore turned out to be over-sized that “the larger helmets could not fit anybody except perhaps the astronaut”. Besides, the specification permitted the use of thermoplastic material which caused other defects in the helmets like sagging etc. It has been stated that the specifications were drawn up in a “great hurry” within 15 days, as against 52 months which is required on an average for

formulation of standards, but the Committee fail to understand even then how a vital and elementary detail like the size of the helmet was not adequately investigated before formulating the specifications. It is even more regrettable that such faulty specifications should have been drawn up, when the requirement was in connection with the Emergency, which arose in 1962, and that it was left to a foreign party to point out, after a lapse of three years, that the sizes evolved were not correct.

In the second place, the fact that the helmets were over-size escaped notice even at the stage a prototype produced by the firm was tested. A host of tests like "performance test", "penetration test" and "inflammability test" were carried out, but nobody investigated whether the helmets would suit various head-sizes. It is astonishing that this simple user's test was not carried out even at a subsequent test when the helmets were tendered for inspection against the contract. The explanation that "the person who had tried it thought that it (the helmet) was supposed to be worn on the turbans or something else" is ingenious but unconvincing.

Thirdly, the specifications drawn up for the purpose of the contract themselves departed in some respects from the ISI specifications from which they were derived. The ISI specifications had provided for the helmets being fitted with adjustable head-bands, the provision of which might have rendered part of the helmets supplied usable it but due to an omission on the part of the indenting authority as well as the authority which processed the indents, this was "unfortunately lost sight of".

Fourthly, the supply itself would appear to have deviated from the specifications in certain respects like wearing height etc.

Lastly, "serious notice" was not taken of the complaints which were received from the users initially about the size of the helmets. The first complaint was received in January, 1965 when only 1,884 helmets had been supplied and it would appear that this complaint was received not only by the indenter but also in the Directorate General of Supplies and Disposals. It was only after complaints from other users started coming in that the matter was investigated and steps taken to stop further supplies, but by that time nearly 75,000 helmets had been either supplied or were ready.

The Committee note that the officials who were connected with the formulation of the standards are now "dead and gone". But in regard to the other omissions that occurred, the Committee would like an investigation to be made and responsibility fixed.

1.9. In their reply dated 26th October, 1971, the Ministry of Home Affairs have stated :—

"Preliminary enquiries have been completed to fix responsibility for omission to reiterate in reply to an inquiry from the DGS&D that the head-band was to be adjustable as provided in the ISI specifications. Action against the officers concerned is under consideration.

With regard to the omission to take serious notice of the complaints which were received from the users initially about the size of the helmets, enquiries have been completed and responsibility fixed. It is proposed to take departmental action against the officials concerned."

1.10. The Committee note that departmental action is yet to be taken against the officers concerned in regard to the omissions to ensure that the helmets were fitted with adjustable head-bands as provided in the ISI specifications and to take serious notice of the complaints which were received from the users initially about the oversize of the helmets. They would like Government to finalise the disciplinary proceedings expeditiously.

1.11. As regards other lapses, the Committee desire that the details of action taken or proposed to be taken against defaulting officials be intimated to them.

Non-accountal of import licence assistance given for purchase of non-ferrous alloys—paragraph 1.48 (S. No. 10)

1.12. Dealing with a case of one out of five contracts entered into by Government with a firm which had utilised its own raw materials for supply of contracted goods, pending receipt of import assistance, the Committee had made the following observations in paragraph 1.48 of their 105th Report (Fourth Lok Sabha) :--

"The Committee note that under the terms of the contract, foreign exchange to the tune of Rs. 2.43 lakhs was to be provided by Government to the supplier for import of raw-materials required for supply of the contracted goods. Pending issue of licence, the supplier was asked to use raw materials from his own stocks. The firm has now sued Government for the difference between the landed cost of raw materials today and the cost as on the date of submission of tender or in the alternative pay compensation/ damages to the tune of Rs. 5.85 lakhs. As the matter is *sub-judice*, the Committee would like to reserve their comments on the various issues arising out of this case pending the outcome of the suit, which may be intimated to them."

1.13. In their reply dated 5th October, 1970, the Ministry of Supply have stated:—

"The observations of the Public Accounts Committee have been noted."

1.14. The Committee would like to be informed of the outcome of the suit which may be intimated to them in due course.

Non-accountal of import licence assistance given for purchase of non-ferrous alloys—paragraph 1.58 & 1.59 (S. Nos. 12 & 13)

1.15. Referring to another case entered into by Government with the firm, which had retained some of the non-ferrous metals imported by it on the basis of import licences issued by Government, the Committee had made

the following observations in paragraphs 1.58 and 1.59 of their 105th Report (Fourth Lok Sabha) :-

"The Committee note that in respect of two contracts placed with the firm, where import assistance to the tune of Rs. 12.78 lakhs was provided by Government for import of scarce non-ferrous metals, Government "suspects" malpractices in the utilisation of the imported material. During evidence it was also stated that "similar malpractices" by the firm had occurred in "another case". In the light of this position the Committee would like Government to investigate thoroughly how the firm utilised non-ferrous metals worth about Rs. 25 lakhs which were imported by it on the basis of import licences issued by Government in connection with the five contracts mentioned in the audit paragraph. The Committee would like to be apprised of the results of the investigation and action taken on its findings.

On the basis of experience of this case, the Committee would like Government to consider what safeguards should be built into contracts which involve import assistance so that the contracting firms do not derive unintended benefit by retaining unutilised raw materials imported for the purpose with Government assistance."

1.16. In their reply dated 28th October, 1970, the Ministry of Supply have stated :

"The matter is under examination and the Committee will be apprised of the results of the investigation.

The question as to what further safeguards could be built into the General Conditions of Contract governing contracts of the D.G.S. & D., is being examined in consultation with the Ministry of Law. Public Accounts Committee will be informed about further developments."

1.17. The Committee are not satisfied with the slow progress made in the investigation of the case. They would like the matter to be investigated without further delay and the results intimated to them.

1.18. The Committee see no reason why the question of building safeguards into the general conditions governing contracts of the DGS&D could not be finalised so far. They desire that Government should come to an early decision in this regard and inform them of it.

Drawal of advances on stores not supplied—paragraphs 1.90 and 1.91 (S.No.16)

1.19. While dealing with a case in which a firm fraudulently obtained advance payments for supplies which were not affected by it, the Committee in paragraphs 1.90 and 1.91 of their 105th Report (Fourth Lok Sabha) made the following observations:-

"The Committee consider it unfortunate that a firm "fraudulently" obtained advance payments amounting to Rs. 2.84 lakhs for supplies which were not affected by it. The payments were made on the basis of claims which bore reference to Railway Receipts

under which the stores were purported to have been despatched, but, on investigation it turned out that the Railway Receipts had not been sent by the firm to the consignees to enable them to take delivery of the stores. The matter came to notice, when 1 out of the 66 consignees defrauded complained. This is not the only case which has come to notice of the Committee. In their first Report (Forth Lok Sabha), the Committee had commented on a case where a firm had fraudulently obtained advance payments amounting to about Rs. 1.85 crores against supplies of road-rollers which were not made by them."

"The Committee appreciate that, while the magnitude of the fraud involved in these cases may be large it does not warrant the stoppage of advance payment facilities which are being extended to firms. The representative of the Department of Supply pointed out to the Committee that, during the last 22 years, there have been "only 36 cases" of this type, involving a total sum of Rs. 2.23 crores, which works out to 0.04 per cent of the total purchases made. But the Committee do feel that the procedures evolved on the basis of these cases need to be implemented promptly. How tardy the implementation of the procedures has been would be evident from the facts of the present case. The procedure evolved provides for the Pay and Accounts Officer sending a debit intimation memo. after making payments to a firm.

There were as many as 66 consignees, who received these intimations in this case, but only one complained and it was this complaint which, on investigation, brought to light this fraud. In the Committee's opinion, this suggests that neither the Directorate General Supplies and Disposals nor the consignee progressed the contract in this case with vigilance or alertness. Had they done that, the fraud might well have come to light earlier. The Committee hope that instructions would be issued to ensure that the revised procedures evolved to stop cases of fraudulent payments of this type would be strictly enforced. The Committee would also like Government to investigate the circumstances under which the consignees in this case failed to progress the contracts and to take suitable action thereafter."

1.20. In their reply dated 12th October, 1970, the Ministry of Supply have stated :-

"The instructions regarding progressing of indents and supply have been re-iterated in Office Order No. 5 dated 1.1.1970. As a further measure of safeguard, the Pay & Accounts Officer is required to obtain a confirmation from the consignee regarding receipt of stores in full or the extent of supply within 45 days, of receipt of debit intimation memo by the latter. The Chief Pay & Accounts Officer has been requested in this office letter No. CDN-3/1/(21) /11/67 dated 30.5.70 to ensure that the procedure now evolved, to stop cases of fraudulent payments, is strictly enforced.

1.21. As regards the suggestion of the Committee that the Government should investigate the circumstances under which the consignees, in

this case, failed to progress the contract and to take suitable action thereafter, the matter is being taken up with the Indenting Departments/Ministries as to why the consignees failed to progress the contract and report the matter to the D.G.S. & D."

1.22. The Committee hope that the investigation into the circumstances that led to the consignee's failure to report would be expedited and suitable action taken if the investigation brings to light any malaffides on their part.

Purchase of winches—paragraph 1.66 (S.No. 26)

1.23. In paragraphs 1.154 to 1.167, the Public Accounts Committee had dealt with a case of purchase of winches which had been rendered surplus due to an earlier decision of the Government to slow down the tempo and execution of the Lateral Road Project between Amingaon and Bareilly. The Public Accounts Committee, in this connection, made the following observations in paragraph 1.166 of their 105th Report (Fourth Lok Sabha) :-

"The Committee feel that, with a little care, Government could have avoided procurement of 7 of the 25 winches costing Rs. 2.75 lakhs, procured against the contract placed in July, 1965, which subsequently became surplus. The contract for the winches which were required for the Lateral Road Project between Amingaon and Bareilly stipulated delivery by 31st August, 1965. Due to delay in approval of the prototype, the delivery period was later refixed as 15th April, 1966. In August, 1966, Government had decided to slow down the tempo and execution of the project, as a result of which a substantial part of the machinery originally indented for became surplus. It is not, therefore, clear why, in September, 1966 and December, 1966, further extensions of delivery dates were agreed upon. The Ministry of Transport which was the indenter, could well have reduced their requirements at this stage, even if they had to agree to the extension. The Committee would like to be informed as to why this was not done."

1.24. The Ministry of Transport, who made the indent for the winches, in their reply dated 5th December, 1970, submitted the following reply :-

"Though the tempo of the project was slowed in August, 1966, due to the economy drive launched by Government, it was apparently considered that the additional winches were necessary to bring the work in progress to a convenient stage."

1.25. The Committee do not appreciate the vague contention of the Ministry of Transport that "it was apparently considered that the additional winches were necessary to bring the work in progress to a convenient stage." They wish to reiterate that a proper review about the specific requirement of winches should have been carried out before agreeing to the extension of delivery period for the supply of remaining winches in December, 1966.

Non-recovery of extra cost in repurchase—paragraph 1.194 (S.No. 32)

1.26. Referring to a case where an order for the purchase of stores was given to a firm which was not covered by tender, the Public Accounts Committee in paragraph 1.194 of their 105th Report (Fourth Lok Sabha) had made the following observations :-

“The Committee note that in this case “risk purchase” could not be effected within a period of six months, as the item in question was an imported store which was not readily available. The Committee cannot, however, help feeling that the Department erred in the first instance while placing the contract. The offer of the firm ex-stock was unsolicited besides being belated. According to tender procedure, it could not, therefore, have been entertained. Moreover, the recognised firms which were covered by the tender enquiry had all stipulated import assistance. It was therefore inadvisable to have concluded a contract with a party who offered the material ex-stock, particularly when the offer, besides being unsolicited, was belated.”

1.27. In their reply dated 31st August, 1970, the Ministry of Supply have stated :-

“The indent was an urgent one and the indenter had stated that drilling operations were at a standstill. The indenter had earlier invited direct tenders and forwarded a copy of tender received from S/s. S.....S..... Calcutta who were offering the stores, ex-stock. The firm was not known to the DGS&D and a limited tender inquiry was issued to three firms suggested by Directorate General of Technical Development and also to S/s. S.....S..... The latter did not respond and the other three firms quoted for imported stores. The lowest two offers were referred to the indenter for confirmation of acceptability and for provision of foreign exchange. In the meantime, a tender dated 1.2.65 was received by post on 6.2.65, from S/s..... Corporation, Calcutta. This firm had not been invited to tender. Apparently, the tender document had been passed on to them by S/s. S.....S..... In response to letter dated 16.1.65 to this firm by the indenter, the firm quoted only for two items. The rates quoted by the firm to the indenter and the DGS&D were the same. The indenter, in his letter dated 11.2.65 forwarded a copy of the Firm's offer stating that imported offers were not acceptable, as he could not arrange any foreign exchange. He also confirmed that the stores as offered by S/s..... Corporation ex-stock were acceptable and suggested for procurement of the stores offered by the firm. In view of the extreme urgency of the indenter's requirement and his inability to provide foreign exchange, the tender of S/s..... Corporation was admitted and their offer for these two items accepted. As the acceptance of an unsolicited offer amounted to negotiations, the approval of the competent authority viz. Addl. Director General and Finance was taken.”

1.28. The Committee note that the offer of the firm for supply ex-stock had to be accepted due to urgency and indentor's inability to arrange foreign exchange and that the approval of the competent authority was taken. The Committee, would, however, like to point out that before concluding the contract with the party who made a belated and unsolicited offer of the material ex-stock, Government should have satisfied itself about the quality of the goods by inspecting a sample of the material.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

"The provisions of the contracts executed with suppliers generally provide for the stores being purchased at the risk and expense of the supplier, in the event of his defaulting on delivery. The Committee observe that in this case, on both the occasions on which "risk purchase" tenders were invited, after the firm defaulted, the defaulting firm quoted and ultimately the "risk purchase" order was placed on them. It seems anomalous that when a firm has defaulted in making supplies and purchases are being made at its "risk and expense", the defaulting firm should get the risk purchase order. The Committee appreciate that, under the provisions of the standard terms of tender and contract as they now stand, Government, may be obliged to give the defaulting firm this opportunity, but they would like it to be examined whether, by appropriately amending the terms of tender and/or contract, it would be possible to ensure that a defaulting firm is debarred from getting the "risk purchase" order. From copies of legal opinion on the subject, which were furnished to the Committee, they observe that there may be "no legal impediment to implementation" of this suggestion, if a firm "agrees to this condition".

[Sl. No. 2 (Para 1.22) of Appendix II to the 105th Report (Fourth Lok Sabha)]

Action Taken

Necessary instruction have already been reiterated vide Directorate General of Supplies and Disposals (Section CDN-2) Office Order No. 21 (C) dated 3.3.70 (Copy enclosed).

[Ministry of Supply, O.M. No. 12(5)/68-P III dated 23.9.1970].

DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS
(Section CDN-2), NEW DELHI-1

OFFICE ORDER NO. 21 (C)

Dated: 3.3.70

SUBJECT: *Risk purchase-ignoring of the offer against risk purchase tenders from the supplier who has defaulted twice.*

REFERENCE:-O.O. No. 21 Dated 1.1.1970.

1. It has been *inter alia* laid down in para 4(d) of Office Order No. 21 dated 1.1.1970 that in case of risk purchase enquiries, if the quotation of the defaulting firm happens to be the lowest acceptable, they should be asked to furnish a security deposit equal to 10% of the proposed contract value within a target date with a clear warning that their offer will be ignored if

the security amount is not furnished by the specified date. In the event of failure of the firm to furnish the security deposit by the specified date, their offer may be ignored and placement of the contract on the next best offer considered, etc.

2. A question arose as to what procedure should be followed in those cases wherein the defaulting firm had again defaulted against the risk purchase A/T and their quotation against the second risk purchase enquiry happened to be the lowest acceptable offer.

3. It has been decided that:-

- a. The existing instructions contained in para 4(d) of Office Order No. 21 dated 1.1.1970 will be followed with regard to first risk purchase tender enquiry;
- b. Against the second risk purchase tender enquiry, the lowest tender from a firm who had defaulted against the original contract as also against the first risk purchase contract, should be ignored, and the placement of the contract on the next acceptable offer considered;
- c. For the purpose of determining the competent authority to take a decision on such cases as at sub-para (b) above, the powers delegated as per para 1(8)(ii) of the Department of Supply letter No. 6(4) 66-PI dated 22.11.67 circulated under office order No. 132 dated 8.12.1967 as amended by that Department letter No. PI-5 (4)/66 dated 1.2.68 circulated under office order No. 88 dated 5.7.68, will apply.

4. With a view to vesting such a right as contemplated in para 3(b) above the following addition to the existing clause 14(7) (iii) of the DGS&D 68 (Revised) has also been authorised: -

"If the contractor had defaulted in the performance of the original contract, the purchaser shall have the right to ignore his tender for risk purchase even though the lowest."

Specific attention of the tenderers should be drawn to the above amendment by incorporating this clause in all the tender enquiries to be issued hereafter. Action is being taken to get the amendment incorporated in the General Conditions of contract by means of a correction slip No. 7. The amendment should be incorporated in the tender enquiries till the correction slip is printed.

Sd - M.M. PAL,
Deputy Director (CS-I).

Standard Distribution.
(on file No. CDN-29(4)168)-

Copy to:-

The Department of Supply, Ministry of Foreign Trade and Supply, New Delhi with reference to item 3 of the minutes of the meeting received with their number 11/15/69, dated 4.8.1969 and U.O. No. 307 P-111/70 dated 3.2.70.

Recommendation

"The legal opinions that were given in this case about the date of breach for the purpose of 'risk purchase' were contradictory. In May, 1967, when legal opinion was sought on the question of cancellation of the contract, at the risk and expense of the contractor, the opinion given was that the date of delivery stood extended upto 15th September, 1967 and that, therefore, the "cancellation of acceptance of tender prior to the expiry of the extended delivery period would not be legally in order." However, subsequently, in November, 1967, after the firm had finally defaulted, the legal opinion was that "the date of breach can be only the last extended delivery date, viz., 15th September, 1965 (which was mutually agreed upon). Since date of breach is over six months back, there can be no question of risk purchase." The Committee hope that due care would be exercised before legal opinions are given, so that the Department of Supply is properly guided in any action that they may take in terms of a contract."

[Sl. No.4 (Para 1.22) of Appendix II to the 105th Report (Fourth Lok Sabha)]

Action Taken

This recommendation has been brought to the notice of the Ministry of Law.

[Ministry of Supply. O.M. No.12 5 68-P III dated 23.9.1970]

Recommendation

1.22 (vi) The legal opinions that were given in this case about the date of breach for the purpose of "risk purchase" were contradictory. In May, 1967, when legal opinion was sought on the question of cancellation of the contract, at the risk and expense of the contractor, the opinion given was that the date of delivery stood extended upto 15th September, 1967, and that therefore, the "cancellation of acceptance of tender prior to the expiry of the extended delivery period would not be legally in order." However, subsequently, in November 1967, after the firm had finally defaulted, the legal opinion was that "the date of breach can be only the last extended delivery date, viz. 15th September, 1965 (which was mutually agreed upon). Since date of breach is over six months back, there can be no question of "risk purchase". The Committee here that due care would be exercised before legal opinions are given, so that the Department of Supply is properly guided in any action that they may take in terms of a contract.

[Serial No. 4-Appendix II to the PAC's Hundred and Fifth Report (Fourth Lok Sabha)].

Action Taken

The observations of the Public Accounts Committee have been noted for future guidance.

[The Note has been seen by Audit]

[Ministry of Law O.M. No. F.5(2):14 70-B & A dated 3.11.1970]

Recommendation

The Committee feel that a series of omissions resulted in Government being saddled with a supply of about 75,000 helmets, the bulk of which, costing Rs.4.88 lakhs, have been found "absolutely useless."

In the first place, the specifications evolved for the helmets by the Indian Standards Institution were faulty. There was a "vital mistake" which arose due to a "confusion...mainly with regard to the major axis and minor axis" of the helmets.

The helmets produced according to the specifications therefore turned out to be over-sized that "the larger helmets could not fit anybody except perhaps the astronaut". Besides, the specification permitted the use of thermoplastic material which caused other defects in the helmets like sagging etc. It has been stated that the specifications were drawn up in a "great hurry" within 15 days, as against 52 months which is required on an average for formulation of standards, but the Committee fail to understand even then how a vital and elementary detail like the size of the helmet was not adequately investigated before formulating the specifications. It is even more regrettable that such faulty specifications should have been drawn up, when the requirement was in connection with the Emergency, which arose in 1962, and that it was left to a foreign party to point out, after a lapse of three years, that the sizes evolved were not correct.

In the second place, the fact that the helmets were over-size escaped notice even at the stage a prototype produced by the firm was tested. A host of tests like "performance test", "penetration test" and "inflammability test" were carried out, but nobody investigated whether the helmets would suit various head-sizes. It is astonishing that this simple user's test was not carried out even at a subsequent test when the helmets were tendered for inspection against the contract. The explanation that "the person who had tried it thought that it (the helmet) was supposed to be worn on the turbans or something else" is ingenious but unconvincing.

Thirdly, the specifications drawn up for the purpose of the contract themselves departed in some respects from the ISI specifications from which they were derived. The ISI specifications had provided for the helmets being fitted with adjustable head-bands, the provision of which might have rendered part of the helmets supplied usable but due to an omission on the part of the indenting authority as well as the authority which processed the indents, this was "unfortunately lost sight of".

Fourthly, the supply itself would appear to have deviated from the specifications in certain respects like wearing height etc.

Lastly, "serious notice" was not taken of the complaints which were received from the users initially about the size of the helmets. The first complaint was received in January, 1965 when only 1,884 helmets had been supplied and it would appear that this complaint was received not only by the indenter but also in the Directorate General of Supplies and Disposals.

It was only after complaints from other users started coming in that the matter was investigated and steps taken to stop further supplies, but by that time nearly 75,000 helmets had been either supplied or were ready.

[S. No. 7 of Appendix II—Para 1.38 of the P.A.C's 105th Report (Fourth Lok Sabha)]

Action Taken

With regard to the omission to take serious notice of the complaints which were received from the users initially about the size of the helmets, enquiries have been completed and responsibility fixed. It is proposed to take departmental action against the officials concerned.

[Ministry of Home Affairs O.M. No. 15(2) 70-E.R.(Vol.1) dated 26.10.1970]

Recommendation

The Committee note that the officials who were connected with the formulation of the standards are now "dead and gone". But in regard to the other omissions that occurred, the Committee would like an investigation to be made and responsibility fixed.

[S. No. 8 of Appendix II—Para 1.39 of the P.A.C's 105th Report (Fourth Lok Sabha)]

Action Taken

(Ministry of Home Affairs)

Preliminary enquiries have been completed to fix responsibility for omission to reiterate in reply to an inquiry from the DGS&D that the head-band was to be adjustable as provided in the ISI specifications. Action against the officers concerned is under consideration.

[Ministry of Home-Affairs O.M. No.15(2)70-E.R. (Vol.1) dated 26.10.1970]

Action Taken

(Ministry of Supply)

The various omissions pointed out by the Committee are being investigated with a view to fixing responsibility.

[Ministry of Supply O.M. No. P. III - 12(28) 68 dated 30.9.1970]

Recommendation

The Committee also observe that efforts are under way, in consultation with the indenter and the supplier, to render the helmets usable. The Committee would like to be informed of the outcome of these efforts.

[S.No. 9 Appendix II Para 1.40 of the P.A.C's 105th Report (Fourth Lok Sabha)]

Action Taken**(Ministry of Home Affairs)**

The matter is being pursued by DGS&D in consultation with Ministry of Home Affairs. D.G.S.&D. have floated a tender enquiry and samples received are under their examination.

[Ministry of Home Affairs O.M. No. 15(2)70-E.R.(Vol. I) dated 26.10.1970]

Action Taken**(Ministry of Supply)**

The matter is being pursued.

[Ministry of Supply O.M. No. 12(28)/68-P III dated 30.9.1970]

Recommendation

The Committee note that under the terms of the contract, foreign exchange to the tune of Rs. 2.43 lakhs was to be provided by Government to the supplier for import of raw materials required for supply of the contracted goods. Pending issue of licence, the supplier was asked to use raw materials from his own stocks. The firm has now sued Government for the difference between the landed cost of raw materials today and the cost as on the date of submission of tender or in the alternative pay compensation/damages to the tune of Rs. 5.85 lakhs. As the matter is *sub judice*, the Committee would like to reserve their comments on the various issues arising out of this case pending the outcome of the suit, which may be intimated to them.

[Sl. No. 10(para 1.48) of Appendix II to the 105th Report (Fourth Lok Sabha)]

Action Taken

The observations of the Public Accounts Committee have been noted.

[Ministry of Supply O.M. No.12(39) 67-P III dated 5.10.1970]

Recommendation

"The Committee observe that licence was issued to the firm in this case for Rs. 7.06 lakhs to import various quantities of non-ferrous metals required for Supply of 152 tonnes of lead bronze ingots. Due to rise in the international prices of non-ferrous metals, the firm could not import the full quantities of metals even after availing of the licence in full and the quantity of ingots on order with the firm had to be reduced from 152 tonnes to 101.83 tonnes. The foreign exchange was released in this case in October, 1963 and April, 1964, the contract placed in July, 1964 and the import recommendation certificate issued in August, 1964. The time-lag that occurred at the various stages apparently operated to the detriment of Government. The international metal market is a highly sensitive one, where prices are prone to severe fluctuations day by day.

It is, therefore, essential that decisions regarding release of foreign exchange and issue of import licences are taken with the utmost expedition, in respect of contracts which involve import of metals, so that Government's interests are not adversely affected. The Committee trust that, based on their experience in this and other cases, Government would take steps to streamline procedures for release of foreign exchange and issue of import licence in respect of contracts which involve dependence on foreign metal markets."

[Sl. No. 11 (Para 1.51) of Appendix II to the 105th Report (Fourth Lok Sabha)]

Action Taken

In a case, where the contract is placed subject to import assistance, an import recommendation certificate is issued by the DGS&D to enable the supplier to apply for the import licence. On the basis of the application made by the supplier along with the import recommendation certificate, the import licence is issued by the Chief Controller of Imports and Exports.

As a result of recommendations of the Vidaylankar Study Team, detailed instructions have been issued *vide* Directorate General of Supplies and Disposals (C.D.N. Section) Office Order No. 88 dated 2-8-1966, (Copy enclosed) prescribing a drill, by which delays and bottlenecks in the issue of import recommendation certificates are eliminated. These instructions, *inter alia* provide that the import recommendation certificate should be issued along with the contract, and if this is not possible, within forty-eight hours. As soon as the application for the import licence is made by the supplier, the Assistant Director (Import & Shipping) should pursue the matter either over the phone or demiofficially with the Chief Controller of Import & Export, to ensure that the import licence is issued promptly.

Instructions regarding the issue of the import recommendation certificate have been reiterated in Directorate General of Supplies and Disposal (Coordination Section) Routine Note No. 26 dated 2-7-70 (Copy enclosed). The purchase officers have been requested to ensure that the instructions [contained in the above cited Office Order No.88 dated 2-8-1966 are strictly followed and were necessary, prompt action should be taken to get the foreign exchange released by taking up the matter with the indentor/authorities concerned.

[Ministry of Supply O.M. No. 12(39)/67-P III dated 5-10-1970]

**DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS
(CO-ORDINATION SUPPLIES SECTION IA)
NEW DELHI**

OFFICE ORDER NO. 88

Dated: 2.8.66.

**SUB:—Import Trade Control Policy—Import Recommendation Certificates/
Import licences—measures for avoidance of delay in the issue of**

.....

I. Instructions already exist that Import Recommendation Certificates should be issued with the contracts.

II. The question of avoidance of delay in the issue of Import Recommendation Certificates and Import Licences has been examined by the Study Team and the Empowered Committee appointed by the late Ministry of Industry & Supply. They have made certain recommendations in this connection. Consequently it has been decided that:—

- (a) Import Recommendation Certificates should accompany the contracts. Where they cannot be sent along with the contracts, they should be issued within 48 hours.
- (b) This time limit should be strictly enforced and adherence to it secured through the monthly control chart circulated *vide* O.O. 21 of 22nd Feb. 66 and further modified *vide* Memo. No. 13 (7)/62-O & M dated 25.5.66.
- (c) Applications for the issue of Import Licences against Import Recommendation Certificates, where no list of goods are attached, should be submitted by the Firms direct to the licensing authorities.
- (d) Where list of goods are attached and required attestation, the applications should be submitted to the Liaison Officer in the DGS&D (A.D. IS-3) instead of the Purchase Section. Contractors should be advised accordingly by Purchase Section. In such cases the Liaison Officer, on receipt of the application should immediately collect the relevant purchase file from the purchase officer concerned and forward the application within 24 hours of the receipt of file from the Purchase Officer to the Chief Controller of Imports and Exports. The Purchase Officer concerned should ensure that the purchase file along with the list of goods duly attested is made available to A.D. (IS-3) immediately.
- (e) All Import Licences requiring revalidation, amendments, corrections etc. should also be sent to the Liaison Officer (A.D.) (IS-3) who should then take expeditious action for getting the comments of the Purchase Section concerned. He should also be responsible for watching the expeditious disposal of such applications.

Purchase Sections, however, should also ensure that such documents I/L., I.R.C. etc. referred to them by A.D. (IS-3) are returned to him within 3 days of their receipt.

- (f) To enable the Liaison Officer (A.D. IS-3) to take action where the issue of Import Licences has been delayed the contractor should be asked to give particulars of his application submitted to the Chief Controller of Imports and Exports in a slip in the form attached. This slip should be attached to the covering letter with which the Import Recommendation Certificate is sent. The firms should return these slips, duly filled in, within 15 days failing which a reminder should be sent to them which should be on standard printed reminder card, specimen enclosed.

- (g) Cases where Import Licences are immediately required *i.e.* against indents marked "Operational"/"Expressed"/"Immediate" should be specifically marked as such and brought to the notice of A.D. (IS-3) who will while forwarding the I.R.C. to the contractor advise him to apply for the Import Licence immediately and as soon as the application is made AD(IS-3) will immediately pursue with the CCI& E's office and apprise the supplies Officers of the position. He will contact the officer concerned in the CCI&E's office on telephone or demi-officially if necessary. All correspondence (including reply) in this connection will be marked immediate.

All concerned are requested to follow the above instructions strictly.

Sd/- A. R. IYER.
Dy. Director (Cdn. Supplies).

Standard distribution.

(On File No. CSIA/19(15)/II).

Slip to be attached to the letter with which the Import Recommendation Certificate is to be sent.

.....
(Please return this slip duly filled in within 15 days)

<i>I.R.C. No.</i>	<i>Dated</i>	<i>Received on</i>
No. and date of application to the Chief Controller of Imports and Exports Iron & Steel Controller for Import Licence.		

NOTE:—If application for import licence is not made within 15 days of the receipt of Import Recommendation Certificate the reason for delay should be stated.

Firm's name & address

To

The Director General of Supplies & Disposals,
IS-3 Section, Parliament Street,
New Delhi.

REMINDER FORM

DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS

To

M/s. _____

SUBJECT:—This Office A.T. No. _____ dated _____ for the supply of _____ Application for Import Licence _____ Return of Slip (DGS&D No. _____) by Contractors.

Dear Sirs,

Please refer to the above quoted A.T and arrange to return Slip (DG-S&D No. _____) sent along with the A.T. duly filled in, *immediately* so as to enable this Office to pursue the matter with the C.C.I.&E. for expeditious disposal of your application for the grant of Import Licence.

This is however, without prejudice to all the rights of the Government under the contract.

Yours faithfully,

()
Assistant Director of Supplies.
for Director General of Supplies and Disposals.

C.C.

1. Indenting Officer.
2. Consignee.
3. Progress Wing.

DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS
(CO-ORDINATION SECTION-1)
PARLIAMENT STREET, NEW DELHI-1

ROUTINE NOTE NO. 26

Date 2-7-1970

SUBJECT:—*Import Trade Control Policy—Import Recommendation Certificate/Import Licences Measures for avoidance of delay in the issue of.*

REF:—*Office Order No. 88, dated 2-8 1966.*

Detailed instructions have been issued *vide* office order No. 88 dated 2-8-1966 for the expeditious issue of Import Recommendation Certificate in cases involving issue of Import Licences.

Despite the detailed instructions referred to above instances have come to notice where there had been delay in the issue of import licence as well as release of foreign exchange resulting in extra expenditure.

All the purchase officers are requested to ensure that the instructions contained in O. O. No. 88, dated 2-8-1966 are strictly followed and in cases where necessary, prompt action should be taken to get the foreign exchange released by taking up the matter with the Indentor Authorities concerned.

Sd -

(S. K. Joshi).
Deputy Director (Co-ordination)

STANDARD DISTRIBUTION
[On file No. CDN.I 29(31) 1169]

Copy to:—

1. Co-ordination Section—5
2. File No. CDN.I 19(15) 11 67.

Recommendation

The Committee observe that licence was issued to the firm in this case for Rs.7.06 lakhs to import various quantities of non-ferrous metals required for supply of 152 tonnes of lead bronze ingots. Due to rise in the inter-

national prices of non-ferrous metals, the firm could not import the full quantities of metals, even after availing of the licence in full and the quantity of ingots on order with the firm had to be reduced from 152 tonnes to 101.83 tonnes. The foreign exchange was released in this case in October, 1963 and April, 1964, the contract placed in July, 1964 and the import recommendation certificate issued in August, 1964. The timelag that occurred at the various stages apparently operated to the detriment of Government. The international metal market is a highly sensitive one, where prices are prone to severe fluctuations day by day.

It is, therefore, essential that decisions regarding release of foreign exchange and issue of import licences are taken with the utmost expedition, in respect of contracts which involve import of metals, so that Government's interests are not adversely affected. The Committee trust that, based on their experience in this and other cases, Government would take steps to streamline procedures for release of foreign exchange and issue of import licence in respect of contracts which involve dependence on foreign metal markets.

[S. No. 11 (Para 1.51) of Appendix II to 105th Report (Fourth Lok Sabha)]

Action Taken

The procedure for release of foreign exchange is kept under continuous review. The procedure was clarified in January, 1969, *vide* Office Memorandum from the Department of Economic Affairs, No.1(40)-FEB-1 68, dated the 30th January, 1969. In accordance with these orders, the indenter is required to arrange for obtaining the sanction of the appropriate authority for the release of foreign exchange involved in the import before the indent is placed on the Director General, Supplies and Disposals. In cases in which the indenter is not initially clear as to whether the stores would be available indigenously or would have to be imported, the procedure is that the D.G.S. & D. will be free to refer the indent back to the indenter for obtaining a sanction of the appropriate authority for release of foreign exchange involved, unless he is able to find the foreign exchange from the ceiling placed at his disposal periodically for small indents. The type of situation that arose in connection with the case referred to in para 1.51 will not arise, in view of the revised procedure mentioned above.

[Ministry of Finance (Department of Economic Affairs) O.M. No. F. 8 (21)-B 70, dated 28-10-1970]

No. 1(40)-FEB-1 68

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(Department of Economic Affairs)

New Delhi, the 30th January, 1969

OFFICE MEMORANDUM

SUBJECT:—*Procedure for the import of Government stores through the agency of DGS&D.*

All the Government Organisations are normally required to obtain their requirements of stores, equipment etc. through the DGS&D, excepting those of small value or those belonging to the specified categories for which

direct purchases or purchases through other agencies have been authorised. In respect of cases where an indent is placed on the DGS & D for articles to be imported from abroad, a question arose in a recent case as to the stage at which clearance of the Deptt. of Economic Affairs or the concerned authority, to which powers have been delegated for release of the foreign exchange involved, should be obtained. Instructions in this regard are contained in para 4 of this Deptt.'s O.M.No.1(1)-EF(B)/57-B, dated the 8th January, 1957. However, the position is clarified below in relation to current circumstances.

2. If the articles are available in India, DGTD clearance will not be given for placing orders abroad wholly or partly. However, where DGTD clearance has been obtained for the import the indenting parties *ip so facto* know that the purchases would involve foreign exchange. In those cases, they should arrange for obtaining the sanction of the appropriate authority for release of the foreign exchange involved *before* they place the indent with the DGS&D. It is on the basis of such a foreign exchange sanction that the CCI&E will issue import licence.

3. In respect of the indents placed with the DGS&D, where the latter finds it necessary to arrange for imports from abroad or to provide suitable foreign exchange for the traders in India for supply of the equipment stores, he would be free to refer the indent back to the indenter for obtaining the sanction of the appropriate authority for release of foreign exchange involved, unless he is in a position to accommodate the foreign exchange needed from within the foreign exchange allocations placed at his disposal periodically for meeting Civil Indents of small value upto Rs.10,000 in each case and essential Defence Indents upto Rs. 50,000 in each case. In respect of such imports arranged by the DGS&D for which the foreign exchange is located by the DGS&D from the allocations placed at his disposal, he furnishes to the CCI&E an "Import Recommendation Certificate" for each accepted contract on the basis of which the actual import licences are issued to the parties.

Sd/-

(S. N. MATHUR)

Under Secretary to the Govt. of India.

To

All Ministries Deptts. of the Govt. of India (with 10 spare copies each).

1. Copy for information to the D.G.S. & D., New Delhi. (with 20 spare copies).

2. Copy also for information to:—

(a) All Officers of the External Finance Division.

(b) AID, AEI, AEII, B.P., CIEI, CIEII, COM., EI, EII, E.C., E.P., FBI, II, III, IV, FEP, Investment, PL-480 Branches & Defence Cell.

Sd/-

(S. N. MATHUR)

Under Secretary to the Government of India.

Recommendation

The Committee are unable to understand how a price preference clause was included in the contract in this case. A clause of this nature is incorporated in a contract when a higher tender is preferred to a lower acceptable tender, in consideration of more attractive delivery terms offered by the higher tenderer. The clause then serves to protect Government's interest in the event of delay/default in delivery by the contractor. In the present case, the period of delivery offered by the higher tenderer, with whom the contract was placed, was longer compared to the lower tenderer. The representative of the Department of Supply admitted during evidence that, in these circumstances, the incorporation of the clause in the contract was not very appropriate.

[Sl. No. 14 (Para 1.68) of Appendix II to the 105th Report (Fourth Lok Sabha)]

Action Taken

Noted.

[Ministry of Supply O.M. No. 12(17)/68-P III, dated 6-11-1970]

Recommendation

The Committee, however, observe that the legal opinion given to Government is that, though the clause was not "attracted" in this case, it was still part of the contract, as the clause was part of the tender conditions which the firm accepted while submitting their tender. However, when the acceptance of tender was conveyed, the firm objected to the clause and returned the acceptance of tender, stating that there was no concluded contract. As a result, Government had to purchase the stores from alternative sources at an extra cost of Rs. 60,200; the liability for this amount has been contested by the firm in a court. The Committee would like to be apprised of the outcome of this case.

[S.No. 14 (Para 1.69) of Appendix II to the 105th Report (Fourth Lok Sabha)]

Action Taken

Reference, in this connection, is invited to para 2 of this Ministry's Supplementary Note forwarded to the Lok Sabha Secretariat *vide* this Ministry's O.M. No. 12(17) 68 PIII, dated the 2nd April, 1970 which reads as follows:—

"The matter has been examined further in consultation with the Ministry of Law and in accordance with their advice the claim of Rs. 60,200 on account of risk purchase against the firm has been dropped."

[Ministry of Supply O.M. No. 12(17) 68-P III, dated 6-11-1970]

Recommendation

In the Committee's opinion this case indicates that the official(s) who was/were responsible for finalising the contract was ignorant of the implications of the provisions included in the contract. The Committee trust that instances of this kind will not recur.

[S. No. 15(Para 1.70) of Appendix II to the 105th Report (Fourth Lok Sabha)]

Action taken

Necessary instructions have been issued for the guidance of the Purchase Officers in the Directorate General, Supplies and Disposals, *vide* Office Order No. 20(B), dated the 1st June, 1970 (Annexure).

[Ministry of Supply O.M. No.12(17)/68-P III, dated 6-11-1970]

Annexure

DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS

(CDN-2 Section), NEW DELHI-1

OFFICE ORDER NO. 20 (B)

Dated 1-6-1970.

SUBJECT:— *Price Preference for earlier delivery clause—Incorporation of in contracts.*

REFERENCE:—Para 7 of *Office Order No. 20 dated 1-1-1970.*

The price preference penalty clause is usually to be incorporated in the contracts where the lower offers are ignored on the grounds of unsuitable delivery. The circumstances in which price preference clause is not to be incorporated in contracts even if lower offers are ignored are detailed in para 7.3 of the above cited office order.

2. The Public Accounts Committee came across a case where the period delivery offered by the higher tenderer, with whom the contract was placed, was longer as compared to the lower tenderer. Their observations are as under :—

“The Committee are unable to understand how a price preference clause was included in the contract in this case. A clause of this nature is incorporated in a contract when a higher tender is preferred to a lower acceptable tender, in consideration of more attractive delivery terms offered by the higher tenderer. The clause then serves to protect Govt.'s interest in the event of delay default in delivery by the contractor. In the present case, the period of delivery offered by the higher tenderer, with whom the contract was placed, was longer compared to the lower tenderer. In the Committee's opinion this case indicates that the official(s) who was/were responsible for finalising the contract was ignorant of the implications of the provisions included in the contract. The Committee trust that instances of this kind will not recur.”

3. Needless to emphasise that such stipulations in the contract create a lot of legal complications when the suppliers fail to make the supplies by the agreed delivery date and the question of enforcing the price clause arises.

All purchase officers/sections are requested kindly to keep the detailed instructions contained in above cited office order, in view before incorporating the price preference clause in the contracts.

Sd/-

D. S. DUGGAL,
Dy. DIRECTOR (CSI)

STANDARD DISTRIBUTION

(On File No. CDN-2/8(11)/I/70)

Copy to:—CDN-5 Section with reference to their Memo. No. CDN-5/4 (16)/70, dated 13-5-70 Item 15 (1.70 refers).

Recommendation

"The Committee consider it unfortunate that a firm "fraudulently" obtained advance payments amounting to Rs. 2.84 lakhs for supplies which were not effected by it. The payments were made on the basis of claims which bore reference to Railway Receipts under which the stores were purported to have been despatched, but, on investigation, it turned out that the Railway Receipts had not been sent by the firm to the consignees to enable them to take delivery of the stores. The matter came to notice, when 1 out of the 66 consignees defrauded complained. This is not the only case which has come to the notice of the Committee. In their first Report (Fourth Lok Sabha), the Committee had commented on a case where a firm had fraudulently obtained advance payments amounting to about Rs. 1.85 crores against supplies of road-rollers which were not made by them."

"The Committee appreciate that, while the magnitude of the fraud involved in these cases may be large it does not warrant the stoppage of advance payment facilities which are being extended to firms. The representative of the Department of Supply pointed out to the Committee that, during the last 22 years, there have been "only 36 cases" of this type, involving a total sum of Rs. 2.23 crores, which works out to 0.04 per cent of the total purchases made. But the Committee do feel that the procedures evolved on the basis of these cases need to be implemented promptly. How tardy the implementation of the procedures has been, would be evident from the facts of the present case. The procedure evolved provides for the Pay and Accounts Officer sending a debit intimation memorandum after making payments to a firm. There were as many as 66 consignees, who received these intimations in this case, but only one complained and it was his complaint which, on investigation, brought to light this fraud. In the Committee's opinion, this suggests that neither the Directorate General of Supplies and Disposals nor the consignee progressed the contract in this case with vigilance or alertness. Had they done that, the fraud might well have come to light earlier. The committee hope that instructions would be issued to ensure that the revised procedures evolved to stop cases of fraudulent payments of this type would be strictly enforced. The Committee would also like

Government to investigate the circumstances under which the consignees in this case failed to progress the contracts and to take suitable action thereafter."

[Sl. No. 16 (Para 1.90 and 1.91) of Appendix II to the 105th Report (Fourth Lok Sabha)]

Action Taken

The instructions regarding progressing of indents and supply have been reiterated in Office Order No. 5, dated 1-1-1970 (copy enclosed).

As a further measure of safeguard, the Pay & Accounts Officer is required to obtain a confirmation from the consignee within 45 days, of receipt of stores in full or short supply. The Chief Pay & Accounts Officer has been requested in this office letter No. CDN-3/1/(21)/II/67, dated 30-5-70 to ensure that the procedure now evolved, to stop cases of fraudulent payments, is strictly enforced.

As regards the suggestion of the Committee that the Government should investigate the circumstances under which the consignees, in this case, failed to progress the contract and to take suitable action thereafter, the matter is being taken up with the Indenting Departments/Ministries as to why the consignees failed to progress the contract and report the matter to the D.G.S. & D.

[Ministry of Supply O.M. No. P.III-12(12) 68, dated 21-1-1971]

DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS (CDN-I SECTION) PARLIAMENT STREET, NEW DELHI

Office Order No. 5

Dated. 1-1-1970

SUBJECT :- *Progressing of indents and supply instructions regarding—*

The instructions on the subject as current on 31-12-1969 are reproduced below for the guidance of all concerned.

Progressing of indents right from the stage of receipt in DGS&D till supplies are completed is very important and necessary function of DGS & D. The work is divided into two parts *i. e.* (1) Pre A/T progressing and (2) Post A/T progressing.

(1) *Pre A/T Progressing*

Pre A/T progressing work was taken away from Progress Wing in December, 1965. Since then it is the responsibility of the respective Purchase Dtes. to ensure expeditious coverage of the indents received by them. Various controls measures which are necessary to enable the purchase officers exercise control and to ensure that no indent is lost sight of and that proper planning and action is taken without delay, would be as under :

- (a) The assistant Director (T. E. Cell) would prepare an abstract of all the indents pending with him every day as per Appendix

22 of the Study Team's Report. The abstract will have to be checked by the Director who would sign it in token of having checked it.

- (b) Every Purchase Officer has to maintain a daily control chart as recommended by the Study Team. This control sheet will have to be filled in daily by every Asstt. Director in respect of items with which he is concerned and put up the same day to the Director for information and instructions.
- (c) All Purchase Officers would be required to keep a record of all the pending indents falling within their purchase powers, in the pro-forma prescribed and should be responsible to maintain the information therein up-to-date to ensure expeditious coverage of indents.

However, progress wing will also continue to do selective Pre A/T progressing in respect of all cases of delay reported upon by indentors and items discussed in the Defence Coordination Committee meetings, monthly indents review meetings etc.

(O. O. No. 129, dt. 20-12-1965, O. O. No. 110, dt. 24-9-1966 and Para 275 of DGS&D. Manual of Office Procedure for Supplies, Inspection and Disposals 1969 edition).

(2) *Post A/T Progressing :*

Progress Wing after re-organisation has been mainly responsible for ascertaining the causes of delay in supplies and render assistance wherever necessary to ensure timely supply of stores in respect of the following selective categories of contracts.

- (1) Rate/Running Contracts.
- (2) Operational Urgent Contracts.
- (3) Contracts where assistance of raw materials is required.
- (4) Contracts against Works Programme indents.
- (5) Contracts for critical items of requirements of Defence, Railways and of the Posts & Telegraph Department.
- (6) Contracts for developmental items.
- (7) To assist firms in the early procurement of raw materials particularly where the delivery is dependent on the receipt of these raw materials.
- (8) Where progress advance payments are authorised.
- (9) Where standard payment terms are relaxed.
- (10) Where value of individual order exceeds Rs. 30 lakhs.

Supply orders, placed against the Rate Contracts involving relaxation of payment terms, are however not to be progressed like other orders in view of the following reasons :

- (i) The mode of payment of 100 % against proof of despatch with copy Nos. 1 & 2 of the Inspection Note is a standard term of

payment which is in vogue for all such contracts for a very long time. As such the mode of payment as authorised is not to be construed as relaxation in standard terms of payment.

- (ii) Against the P. O. L. contracts, no supply orders are normally placed either by headquarters or by regions. All the supply orders are placed by the various consignees who are declared as Direct Demanding Officers.
- (iii) No progressing can effectively be made by headquarters or by Regional Offices according to office order Nos. 43(A), dt. 25-5-67 and 86, dt. 14-8-67, in view of the fact that no copy of any supply order placed by any of the D. D. O's is endorsed to the Progress Wing for necessary chasing.
- (iv) The Rate Contracts involving relaxed payment terms are about 46 P. O. L. and Gases contracts. The number of supply orders against these Rate Contracts is colossal. The magnitude of the Progress Work can be guessed by innumerable despatch advices sent by progress Calcutta against the Rate Contracts for Gases with M/s. Indian Oxygen, Calcutta. These despatch advices relate to small consignments of one or two Gas cylinders supplied by the firm to numerous consignees. The job of progressing such orders is not feasible.

While the usual task of the submission of monthly reports by the Rate Contract holding firms may continue in respect of all types of Rate Contracts, it will only be in case of any hold-up which is brought to the notice of Progress Wing either by Purchase Directorates or Indentors, the J. F. O. would be required to chase the contract and submit a report by a stipulated date. The individual complaints from the D. D. O.'s will however, be looked into as at present by the concerned field staff.

(O. O. No. 110, dt. 24-9-1966, O.O.No. 97, dt. 31-8-67, O. O. No. 43-A, dt. 25-3-67, O. O. No. 100 dt. 5-9-67, and O. O. No. 5C dt. 5-12-1969).

The scope of field progressing has been extended to all contracts issued by DGS&D and field progressing of Indigenously manufactured stores is done by Inspecting Wing and Progress Field Staff deal only with stores for which DDG(I) is not the Inspection Authority, imported stores etc.

In order to ensure proper coordination between the two field agencies the following drill has been prescribed.

- (i) Contracts for indigenously manufactured goods, where DDG(I) is the inspecting authority, would be entrusted for field progressing to the Inspectors of the Inspection Wing.
- (ii) A progress report on form DGS&D—201 as per Annexure 'A' is to be submitted by the Inspector J. F. O.
- (iii) The existing field staff of the Progress Wing would be responsible for 100 % field progressing in respect of the following category of cases :

- (a) Contracts against which DDG(I) is not the inspecting authority such as contracts for which inspection is by Defence Inspectors;
 - (b) Contracts against which initial inspection has been abandoned and stores are being accepted under manufacturer's warranty ;
 - (c) Contracts against which inspection has been entrusted to the consignee ;
 - (d) Contracts relating to imported goods ;
 - (e) Contracts where supplies have been offered from stocks.
- (iv) The following procedure should be followed in the field progressing.
- (a) Frequency of progress reports required from the Inspectors/ J. F. O's should be clearly laid down by the Directors of Progress at Headquarters either category of indent-wise or indenter-wise. For example in respect of Operational/ Urgent indent it may perhaps be necessary to have a fortnightly, progress review, while it may not be so in respect of other category of contracts. Similarly, the periodicity of the extracts from the progress reports to be passed on the purchase Officer has clearly to be indicated.
 - (b) Purchase Sections would endorse three copies of each contract to the Asstt. Director (Progress) at Hqrs./Regions duly categorised. It would be the responsibility of the Purchase Officers to ensure that the category of the contract *i. e.* 'A' or 'B' or 'C' etc., on the copies sent to the Progress Wing/Cell is invariably stamped on the right hand corner by a rubber stamp. For this purpose the following would be the standard code of categorisation.
 - (A) Operational/Urgent contracts ;
 - (B) Contracts for critical items of requirement of Defence, Railways and P & T;
 - (C) Contracts for developmental stores;
 - (D) Contracts against Works Programme Indents;
 - (E) Contracts where supply is dependent on receipt of raw materials/imported components/approval of advance sample ;
 - (F) Contracts against which standard terms of payments are relaxed ;
 - (G) Contracts exceeding Rs. 30 Lakhs in value ;
 - (H) Rate/Running Contracts ;
 - (I) All other unclassified contracts.

The Asstt. Director (Progress) at Hqs./Regions would on receipt of three copies of each contract from the Purchase sections segregate the same region-wise and would ensure that the contracts received by him are duly categorised and if there are any commissions in this regard, the same are brought to the personal notice of the Director of supplies concerned and needful got done on the spot.

Under this system each contract item will have two sets of progress cards—one incorporating the odd frequencies of reporting and the other incorporating the even frequencies of reporting as per form No. 201 (Annexure 'A').

These cards would be in different colours as under.

For Defence contracts—Pink

For Railway contracts—Green

All other contracts—White

The Junior Progress Officers would prepare two sets of progress reports, each in duplicate as per form No. 201 for each contract item. Based on the category of the contract, the Progress Branch will indicate the frequencies of progress report by a rubber stamp on each progress card. Two sets of each contract duly tagged with two sets of progress reports for each item should then be passed on to the Regional Progress Cell, in whose area the suppliers fall, with a covering D. O. letter to DD (Progress)/A. D. (Progress) concerned.

However, in case of contracts involving erection, the following procedure is to be followed:—

- (i) Where A/Ts stipulate erection to be carried out by the Contractors and the inspection for both ; initial and final stages ; to be carried out by our office, one set of card will suffice—which will be sent to the final inspection authorities for necessary action after it is received from the initial inspection authorities.
- (ii) Where the A/Ts stipulate for the supply of plants *only* by the contractors and the erection to be carried out by the consignees themselves, one set of card only is required to be prepared and sent to the initial inspection authorities. As at this stage our responsibility ceases so far as progress of supplies are concerned, we may treat such cases as closed.

(c) The Deputy Director (Progress), Asstt. Director (Progress) in the Regional Office should pursue all contracts received at the dak stage and get the same segregated in two parts—one where progressing is to be arranged through the Inspectors and the other where field progressing is to be entrusted to his own J. F. O's. He would then ensure transmission of copies of contracts along with progress reports meant for the Regional Inspectors to them, without the least delay, and make allocations to his own field staff in respect of contracts to be progressed by his own offices. The Inspectors will ensure that field progress reports are submitted by them in accordance with the frequency laid down for each category of stores, copies duly

endorsed to the Director Progress (Defence)/General, DGS&D Hqrs., New Delhi, in respect of contracts emanating from that office in addition to the Regional Asstt. Director (Progress)/Dy. Director (Prog). concerned. In respect of contracts emanating from Regional Offices such progress reports need be sent to the Regional Progress Officers only.

These progress cards will be shuttled between the Regional Office in which the firm is located, and the office from which the A/T emanates at regular intervals. To eliminate any break-down in the shuttling system in account of personal factors and postal delays, each contract will have two sets of progress report—one incorporating the odd frequencies of reporting/and the other incorporating even frequencies of Reporting so that at any given time one set of report is always available with the concerned Progress Officer/Field Inspector/J. F. O. Working details in regard to shuttling of these progress reports will be formulated by the concerned Director of Progress and all concerned advised about the same.

(d) The J. F. O. must visit all the firm assigned to him in rotation at least once a month so that no contract on any firm requiring progressing was left out. He should so plan his visits that he is able to cover at least 5 to 6 firms every day. He should prepare his weekly programme in advance on the last working day of the week for following week, and have it approved and signed by the Asstt. Director (Progress)/Dy. director (Progress). He should also maintain a daily diary which should be seen by the Dy. Director (Progress)-Asstt. Director (Progress) every week.

(e) Progress of supplies against all contracts exceeding Rs. 30 lakhs in value and contracts where standard terms of payment have been relaxed, should be personally watched by the Director of Progress concerned in respect of A Ts from Hqrs. and the Regional Director in respect of A Ts emanating from their office.

(f) Dy. Director (Progress) Asstt. Director (Progress) would be personally responsible for watching supplies in respect of vital and critical items and contracts placed against Operational Urgent indents.

(g) The progress reports submitted by the JFOs Inspectors, should be computed and analysed by the JPOs and it will be their responsibility to ensure that timely information is passed on to the Purchase Officers about the supply position through A. D. (Progress)/DD (Progress) concerned. It would also be their responsibility to prepare by the 3rd of every month firm-wise lists, listing each contract placed on a particular firm in which the delivery period was due to expire during that particular month and to ensure that progress reports in respect of all such contracts were received from the Inspectors JFOs in good time.

(h) Cases where it is reported that supply is being delayed due to actions pending with the purchase officer should be highlighted to the concerned Director of Supplies by a D. O. reference to him from the Director of Progress/Dy. Director (Progress) concerned.

(i) *Ad-hoc* enquiries/complaints about delay in supplies or non-supply should be roughly investigated by the Progress Officers through the concerned field staff. The Progress officers will be primarily responsible for the work.

(j) Information contained in the progress cards will be posted in the progress registers which will continue to be maintained in a simplified and modified form, so that at any time, a complete picture is readily available. Intention is to gradually abolish these progress register and change over to a cardex system in consultation with the system expert.

(k) With the mechanisation of the Statistical Branch at the Hqrs., it would be possible for them to furnish firm-wise lists of contracts against which supplies may be due in a particular month. They would also be in a position to indicate the position of supply quality-wise at any particular time against any contract.

(O. O. No. 15, dt. 1-2-1968, O. O. No. 33, dt. 6-3-68, Paras 276 to 278 of Manual of Office Procedure for Supplies, Inspection & Disposals 1969 edition, O. O. No. 5A, dt. 1-2-1969 and O. O. No. 5B, dt. 19-11-69).

(v) Main Progress Wing at Delhi will have three district branches as under, each under the charge of a Deputy Director (Progress).

- (1) Progress (Defence)
- (2) Progress (Railway)
- (3) Progress (General)

Cases of bad delay in respect of critical items and other important items shall be discussed in regular meetings with the indentors to be arranged by Director of Progress/Deputy Director of Progress in order to obtain spot decisions in respect of matters relating to difficulties about inspection, specifications, amendments etc.

(O. O. No. 110, dt. 24-9-1966 and O. O. NO. 15, dt. 1-2-1968 and Para 279 of Manual of Office Procedure for Supplies, Inspection and Disposals 1969 edition).

(vi) Regional Directors of Supplies shall exercise a complete administrative control on the progress units working under them with a view to ensure that there were no organisational bottlenecks or delays in the functioning of the progress staff working under them. In respect of contracts placed by the Headquarters or other Regional Offices on firms in their region, it will however, be for the Director of Progress (Hqr.) other Regional Directors to lay down the drill to be followed by the Progress Officers in the concerned Regional Office. However, if a special request is made by the Hqrs. for the personal intervention of the Regional Director of Supplies in ascertaining the correct supply position of any contract and with regard to all contracts exceeding Rs. 30 lakhs. in value, they would tackle progress matters at their personal level.

(O. O. No. 15, dt. 1-2-68 and para 280 of Manual of Office Procedure for Supplies, Inspection and Disposals 1969 edition).

(S. K. JOSHI),
Dy. Director (CDN, Supplies)

Standrad Distribution

[On file CDN-14(271) 1]

PROGRESS REPORT

GOVERNMENT OF INDIA

Ministry of Works, Housing & supply.

Office of _____

1. Acceptance of Tender/Running Contracts No. _____ dated _____

2. Contractor's Name and address _____

3. Indentor _____

The supply position against the item as on the date of this report is indicated below :—

Pre-Production Stage

(a) Not yet planned for production on account of :

- (i) The firm have a heavy back-log (state quantity and date upto which they are likely to be booked);
- (ii) The firm not taking the contract seriously;
- (iii) Raw materials not in stock/arranged;
- (iv) Imported components not ordered/received;
- (v) any other handicaps (mention briefly in General remarks);

(b) Manufacturing difficulties;

(c) Technical particulars not clear;

(d) Machinery break-down

(e) Labour trouble (indicate period in weeks);

(f) Approval of bulk manufacturing sample awaited since;

(g) Awaiting clearance from the Inspector of the raw materials/components tendered for stage inspection since.

After Commencement of Production

(a) Stage of manufacture (percentage);

(b) When expected to be put up for inspection (dates);

(c) Likely rate of production (Numbers per month);

(d) Likely date of supply (date)

Other Bottlenecks & Remarks

(1) Actions pending with the Purchase Officers (mention brief details);

- (b) Stores inspected and passed out awaiting despatch (reasons);
 (c) General remarks.

Signature of Inspector/J. F.O.

Station _____

Dated _____

Copy forwarded to :—

- (1) Director Progress (Defence/General), DGS&D Hqrs. New Delhi.
- (2) Dy. Director (Progress)/Asstt. Director (Progress) in the Office of DS&D, Bombay/Calcutta/Madras/Kanpur.
- (3) Inspection/Progress file.

DGS&D No. 201

Item No. _____

I Report	III Report	V Report	VII Report	IX Report	XI Report
II Report	IV Report	VI Report	VIII Report	X Report	XII Report

Recommendation

“The Committee note that in the present case, court proceedings have initiated, on the basis of investigations conducted by the Central Bureau of Investigation. The Committee would like to be apprised of the outcome of the proceedings, as also the progress made in the recovery of payments from the firm”.

[Sl. No. 17 (Para 1.92) of Appendix II to the 105th Report (4th Lok Sabha).]

Action Taken

The proceedings in the court are still pending. The Central Bureau of Investigation have however reported that the firm has deposited all the money involved in this case with the court.

[Ministry of Supply O. M. No. P III -12 (12) 68 dated 21-1-1971].

Further Information

Central Bureau of Investigation has been able to secure conviction of.....partner of.....in respect of one of the cases relating to Running Contract No. BOM/PBI/RGC/556/PAOB dated 9-6-1967 filed against the firm. Judgement was pronounced on 29-1-1971 and the accused was found guilty on all the three counts and was sentenced as follows :—

- (1) On the first charge under Section 420 I. P. C. to R.I. for 2 months and fine of Rs. 10,000/- or in default 4 months R.I.
- (2) On the second charge to 3 months R.I. and a fine of Rs. 15,000/- or in default 6 months R.I.
- (3) On the third charge to one month's R.I. and a fine of Rs. 5,000/- or in default 2 months R.I.
- (4) The amount of Rs. 67,572 - deposited by the accused in court and which was involved in the case was ordered to be paid to the Pay and Accounts Officer, Bombay.

The accused has, however, filed an appeal against the conviction on 29-1-1971.

The other cases have been stayed and the next date of hearing would be fixed after the appeal referred to above has been decided.

The Public Accounts Committee will be informed of the outcome of the court proceedings in due course.

[Ministry of Supply O. M. No. P III-12(12) 68 dated 12-7-1971]

Recommendation

The Committee observe that a series of delays occurred in this case. The indent, with prior foreign exchange sanction, was received in the Directorate General of Supplies and Disposals in July, 1964. The Directorate took over a year to conclude the contract for the component items in the indent and by the time this was done, the foreign exchange sanctioned valid for a year, had lapsed. As a result, the firm could not be provided with the requisite import licence immediately after conclusion of the contract in October, 1965. The indenting authority was apparently not aware of the provisions of the latest orders relating to validity of foreign exchange sanctions and as a result further time was lost in correspondence till in April, 1966 it was settled that revalidation of the old sanction for foreign exchange was necessary. The revalidation took a further period of six months and by the time the firm could be provided with import licence (February, 1967), the price of the store had 'escalated' in terms of the contract by Rs. 1.03 lakhs. What is more regrettable is that delays of this order occurred in proceeding a case relating to a requirement of the Defence Services.

The Committee have elsewhere in this report stressed the need to ensure that import assistance in terms of contracts is expeditiously made available to contracting parties. In regard to Defence requirements, the Committee have, in para 5.86 of their Sixty-Ninth Report (Fourth Lok Sabha),

emphasised the need for suitable procedures to eliminate delay in release of foreign exchange. The Committee hope that the matter will be kept continuously under review, so that bottleneck at the stage of release of foreign exchange and issue of import licence do not adversely affect Government's interest *vis-a-vis* contracting parties.

[S. No. 19 (Para 1.102 and 1.103) of Appendix II to the 105th Report
(IV Lok Sabha).]

Action Taken

The reasons for the various delays that took place were explained to the Public Accounts Committee *vide* paras 1.97 to 1.101 of the Report. The observations made by the Committee have been noted.

In a case where a contract is placed subject to import assistance, an import recommendation certificate is issued by the DGS&D, to enable the supplier to apply for the import licence. On the basis of the application made by the supplier along with the import recommendation certificate, the requisite import licence is issued by the Chief Controller of Imports and Exports.

As a result of the recommendations made by the Vidyalankar Study Team, detailed instructions were issued *vide* DGS&D O. O. No. 88, dated the 2nd August, 1966, prescribing the drill for eliminating delays and bottlenecks in the issue of import recommendation certificates. These instructions *inter-alia* provide that the import recommendation certificate should be issued along with the contract and if this was not possible within forty-eight hours. As soon as an application for import licence is made by the supplier, Assistant Director (Import & Shipping) should pursue the matter, either over the phone or demi-officially, with the Chief Controller of Imports and Exports to ensure that the import licence is issued promptly.

As regards foreign exchange, it is provided for by the indenter and only short-falls, etc., are made good from the limited foreign exchange allocation of the DGS&D. It is for the indenter to get the foreign exchange released.

Instructions regarding the issue of import recommendation certificates have been reiterated in the DGS&D's Note No. 26 dated the 2nd July, 1970 (copy enclosed). The Purchase Officers have also been told that, prompt action should be taken to get the foreign exchange released by taking up the matter with the indenter authorities concerned.

[Ministry of Supply O. M. No. P III 12(12) 68 dated 16-1-1971]

DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS (CO-ORDINATION SECTION—1) PARLIAMENT STREET, NEW DELHI

Routine Note No. : 26

Dated 2-7-1970.

SUBJECT : *Import Trade Control Policy—Import Recommendation Certificate Import Licences—Measures for avoidance of delay in the issue of.*

Ref : Office Order No. 88 dated 2-8-1966.

Detailed instructions have been issued *vide* Office Order No. 88 dated 2-8-1966 for the expeditious issue of Import Recommendation Certificate in cases involving issue of Import Licences.

Despite the detailed instructions referred to above instances have come to notice where there had been delay in the issue of import licence as well as release of foreign exchange resulting in extra-expenditure.

All the purchase officers are requested to [ensure that the] instructions contained in O. O. No. 88 dated 2-8-1966 are strictly followed and in cases where necessary, prompt action should be taken to get the foreign exchange released by taking up the matter with the indentor/Authorities concerned.

(S. K. JOSHI)
Deputy Director (Coordination)

Standard Distribution.

On File No. CDN. 1/29(31)/11/69

Copy to :—

1. Coordination Section-5
2. File No. CDN. 1/19(15)/11/67

Recommendation

The Committee observed that a series of delays occurred in this case. The indent, with prior foreign exchange sanction, was received in the Directorate General of Supplies and Disposals in July, 1964. The Directorate took over a year to conclude the contract for the component items in the indent and by the time this was done, the foreign exchange sanctioned valid for a year, had lapsed. As a result, the firm could not be provided with the requisite import licence immediately after conclusion of the contract in October, 1965. The indenting authority was apparently not aware of the provisions of the latest orders relating to validity of foreign exchange sanctions and as a result further time was lost in correspondence till April, 1966. It was settled that revalidation of the old sanction for foreign exchange was necessary. The revalidation took a further period of six months and by the time the firm could be provided with import licence (February, 1967), the price of the store had "escalated" in terms of the contract by Rs. 1.03 lakhs. What is more regrettable is that delays of this order occurred in processing a case relating to a requirement of the Defence services.

[Serial No. 19-Para 1.102—of Appendix II to the 105th Report, (Fourth Lok Sabha)].

The Committee have elsewhere in this report stressed the need to ensure that import assistance in terms of contracts is expeditiously made available to contracting parties. In regard to Defence requirements, the Committee have, in para 5.86 of their Sixty-Ninth Report (Fourth Lok Sabha), emphasised the need for suitable procedures to eliminate delay in release of foreign exchange. The Committee hope that the matter will be kept continuously under review, so that bottlenecks at the stage of release of foreign exchange and issue of import licences do not adversely affect Government's interest *vis-a-vis* contracting parties.

[Serial No. 19-Para 1.103—of Appendix II to the 105th Report, (Fourth Lok Sabha)].

Action Taken

The procedure for the release of foreign exchange for Defence indents has since been streamlined. Powers have been delegated to Ministry of Defence (including the Department of Defence Production) to release foreign exchange upto Rs. 8 lakhs in each case within the annual foreign exchange allocation without a reference to the Department of Economic Affairs. Ministry of Defence have further delegated the powers to Joint Secretaries in that Ministry, DGOF, Air Headquarters and Naval Headquarters to release foreign exchange upto certain specified limits with the approval of the Associated Finance. In the case of contractual payments arising out of contracts concluded with East European countries, powers have been delegated to Ministry of Defence to authorise payments/release foreign exchange without reference to this Department provided approval of the Department of Economic Affairs had been obtained for the conclusion of the contract. Under the procedure in vogue revalidation of cases can be decided by the Ministry of Defence themselves without a reference to Department of Economic Affairs. The snags in the procedure obtaining prior to 1965-66 have since been rectified. The question of eliminating delays in the release of foreign exchange is kept continuously under review and as and when occasion demands remedial measures taken.

[Ministry of Finance (Department of Economic Affairs) O. M. No. F. 8 (21)-B 70 dated 28-10-70]

Recommendation

"The Committee are surprised to find that negotiations were conducted by the Directorate General Supplies and Disposals with the firm in connection with this contract, even though business dealings with the firm had been earlier suspended by his office for its involvement in a case of forgery. It was stated that the officials who dealt with the case were not aware that business dealings with the firm had been suspended but, as was conceded during evidence, this is an "indefensible" position. The Committee note that action has been taken against the officials for this and other failures mentioned in the preceding Section of the Report. To obviate recurrence of cases of this type, the Committee would like Government to consider whether all officers concluding contracts on behalf of Government should be asked to maintain an upto-date list of firms with whom dealings have been banned/suspended etc., if instructions to this effect do not already exist."

[Sl. No. 20 (Para 1.113) of Appendix II to the 105th Report (4th Lok Sabha)]

Action Taken

According to Office Order No. 105 dated 12-9-1967 (copy enclosed) the purchase officers are to maintain an up-to-date list of firms which are black-listed/banned/suspended for business on the basis of data circulated by the Registration Branch, from time to time. These instructions specifically stipulate that the purchase officers should ensure that no Limited Tender Enquiries are issued to, and also no contracts are placed on such firms. These instructions have again been brought to the notice of the purchase officers *vide* Routine Note No. 34 dated 4-8-70 (copy enclosed).

[Ministry of Supply O. M. No. PIII-12(3):68 dated 11-9-1970]

GOVERNMENT OF INDIA

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

Office Order No. 105

Dated 12-9-67.

SUBJECT :—*Steps to be taken to ensure that no contracts are placed on firms who have been blacklisted/banned/suspended.*

List of firms blacklisted/banned/suspended is circulated by the Registration Branch from time to time. The Purchase Sections are required to maintain this list up-to-date so as to ensure that no contracts are placed on such firms. It has been decided that the following steps should be taken in order to ensure that no omission is committed in this respect :—

- (i) The Officer-in-charge of the tender enquiry cell should ensure that no limited tender enquiry is issued to any firm who have been blacklisted/banned/suspended. In case of advertised tenders he should ensure that no tender notice is sent to such firms.
- (ii) The officers checking the comparative statement should ensure that the column 'whether registered or not' in the comparative statement form is duly checked and in case any blacklisted/banned/suspended firm has quoted against an advertised tender enquiry the fact should be noted in the statement in Capital Letters in Red ink.
- (iii) Some time elapses between the checking of the comparative statement and the approval of the purchase proposal. The possibility of some firms who have quoted against the tender being blacklisted/banned/suspended during this interval cannot be ruled out altogether. The base officer (i. e. Asstt. Director or Deputy Director as the case may be) should ensure that no such firms are recommended while formulating the purchase proposals. He should also ensure that no contract is placed on such firms taking into account the orders, if any, notified by the Registration branch after the formulation of initial purchase proposals but before the placement of the contract.

(M. M. PAL),

Dy. Director (CDN. Supplies I)

Standard Distribution

(On File No. CSIB.29(41) III 65.)

Copy to :—

Shri B. S. Rao, Vigilance Officer,

with reference to D. O. No. Vig. 805/67 dt. 19-8-67.

**DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS
(CO-ORDINATION SECTION-I) PARLIAMENT STREET,
NEW DELHI—1.**

Routine Note No. 34

Dated 4-8-1970

SUBJECT : *Steps to be taken to ensure that no contracts are placed on firms who have been blacklisted/banned/suspended.*

Ref. :—O.O. No. 105 dated 12-9-1967.

Instruction have been issued *vide* O. O. No. 105 dated 12-9-1967 prescribing steps to be taken to ensure that no contracts are placed on firms who have been blacklisted/banned/suspended, and the purchase officers should maintain the lists of blacklisted/banned/suspended firms circulated by Registration Branch from time to time up-to-date.

Despite the above instructions instances have come to notice where negotiations were conducted with a firm even though business dealings with the firm had earlier been suspended.

Attention of the purchase officers is drawn to the instructions referred to above and they should ensure that lists of blacklisted/banned/suspended firms are maintained up-to-date and that such firms are not considered for the placement of the order.

Sd/- S. K. JOHSHI

Deputy Director (Co-ordination).

Standard Distribution.

(On File No. CDN 129(41) II 65).

Copy to :—

CDN-5 Section, with reference to their U. O. No. CDN-5 AP 2 (139) 68 dated 30-7-1970.

Recommendation

“The Committee observe that the Special Police Establishment investigating the case of forgery in which the firm is suspected to be involved and that final action against the firm will be taken after the results of investigation become known. The Committee would like to be apprised of the further developments, in this regard.”

[Sl. No. 21(Para 1.114) of Appendix II—to the 105th Report (Fourth Lok Sabha)].

Action Taken

A complaint was made by the Director of Supplies (Textiles), Bombay, initially, to the Superintendent of Police, SPE, Bombay on 3-5-67 and later on to the Superintendent of Police, SPE, Lucknow on 16-5-67 pertaining to a fraudulent payment of Rs. 10,633 obtained by M/s. General Stores

Suppliers, Kanpur, which was due to M/s. Kanpur Tent Factory. SPE Lucknow intimated on 12-7-67 that the case had already been registered with the local Police Station Anwar Ganj, Kanpur and the investigation of the case was being conducted by them. The Senior Superintendent of Police, Kanpur, in his letter dated 7th January 1969 intimated that during the course of investigation, it was revealed that one Shri Shyama Kanodia had filed a suit against Shri V. S. Baghela in the Court, and consequently the investigation of case crime No. 910 under sections 406 and 430 IPC, had been stopped, as the matter had become subjudice. He has further intimated in his letter dated 2-2-70 that Shri Shyama Kanodia, Manager of Kanpur Tent Factory since 1967, filed a civil suit for recovery of money on behalf of Kanpur Tent Factory in the court of 1st Civil Judge, Kanpur against Shri Baghela, Government of India and State Bank of India. The Senior Superintendent of Police, Kanpur was requested on 6-4-70 and again on 20-5-70 to intimate the present position of the case.

[Ministry of Supply O. M. No. PIII-12(3) 68 dated 27-1-1971]

Recommendation

The Committee also feel that there was delay in this case in coming to a decision on the tenders and in taking other preliminary action connected therewith such as calling for reports on the capacity of the tenders. The Committee note the assurance of the Department that "a series of steps has been taken based on this case and there will be no delay". The Committee trust that those procedures will be strictly adhered to in the interest of expeditious conclusion of contracts and their smooth execution.

[S. No. 22(Para 1.115) of Appendix II to the 105th Report (Fourth Lok Sabha)]

Action Taken

Noted.

[Ministry of Supply O. M. No. PIII-12(3) 68 dated 11-9-1970]

Recommendation

The Committee observe that the firm in this case had initially undertaken to supply 2,00,000 Nos. of a particular store at Rs. 5.05 per unit. Ultimately what they supplied after a protracted period of delay was 90,000 Nos. of the store for which the unit price paid was Rs. 6.50. As the store was a developmental item required for Defence purposes, and as adequate sources of alternative supply had yet to be developed, the Committee appreciated the difficulties that Government faced in the case. The Committee would, however, like to point out that Government's position vis-a-vis this firm was rendered vulnerable due to the terms of the contract placed with them being at variance with the terms of the firm's offer, in the matter of delivery of stores. This created a situation in which there was no concluded contract, with the result that Government could not pin the supplier to his original terms in the matter of price or other conditions of supply. The Committee have elsewhere in this report drawn attention to other instances of contracts not being placed with firms in terms of their

offer as settled by tender or negotiation. The Committee hope that adequate precautions would be taken by Government to guard against recurrence of such cases."

[SI. No. 23 (Para 1.130) of Appendix II to the 105th Report (Fourth Lok Sabha)].

Action Taken

The existing instructions on the subject have been reiterated in Directorate General of Supplies and Disposals, CDN-2. Office Order No. 56 dated 1-6-70 (copy enclosed) asking the Purchase Officers to ensure compliance thereof.

[Ministry of Supply O.M. No. 12(37)/67-PIII dated 21-9-1970.]

DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS (CDN-2 SECTION), NEW DELHI-1

Office Order No. 56

Dated 1-6-1970

SUBJECT : *Contracts—Incorporation of the terms and conditions of the accepted tenders in contracts.*

REFERENCE : Para 159 of the Manual of Office Procedure for Supplies Inspection and Disposals and Office Order No. 87, dated 1-8-1966.

In the above cited reference it is laid down that all the conditions stipulated by the tenderers in tenders should be carefully scrutinised by the Purchase officers. Where the terms and conditions quoted by the firms are inconsistent with our general and special conditions of contract or otherwise unacceptable, they should be first persuaded to withdraw these terms and conditions. In the event of failure of the firms to agree to our suggestions, the quotations should either be ignored or accepted with the sanction of the competent authority on the merits of the case. In any event, the position should not be left obscure or confused. Where special terms and conditions are accepted they should be incorporated in the contract issued which should ultimately contain no more or no less than what is contained in the accepted tender or mutually agreed to in post tender correspondence or negotiation with the tenderer. Incorporation of the terms and conditions which are not in the tender or which have not been specifically agreed to by the tenderer will not create a legally binding agreement.

2. Public Accounts Committee have come across a few cases where some of the conditions in the contracts were at variance with the tender on the basis of which the contract was placed. In the result there was no validity concluded contract and when the firm defaulted the recovery on account of the extra cost incurred on purchase of the stores from the alternative source could not be made from them.

Needless to emphasise that the acceptance of tender is a very important document and utmost care should be taken in its correct preparation.

It is also necessary that the check points for preparing/checking draft contracts detailed in O. O. No. 23/1-1-1970 should be borne in mind before finalising the contract.

All Purchase officers are requested to ensure compliance of these instructions.

D. S. DUGGAL,
Deputy Director (CS-1)

Standard Distribution.

(On file No. CDN-2/6(16)/1/70)

Copy:—to

CDN-5 Section. With reference to their Memo. No. CDN- 5/4(16)/70 dt. 13-5-1970 (Item No. 23(1-130) and Item No. 25 (1.153) refers.

Recommendation

"From the information furnished by Government, the Committee observed that huge amounts are being paid every year at demurrage at Calcutta Port, due to delay in clearing consignments received at the Port which are being cleared by the Department of Supply. The total amount paid as demurrage between 1962 and 1967 was Rs. 139.40 lakhs. Since 1967, the demurrage paid has amounted to Rs. 23 lakhs annually. To what extent the clearance of consignments was delayed would be evident from the fact that between 1962 and 1965, 40% of the consignments cleared at the Port incurred demurrage. In 1966, demurrage was paid approximately on 30 per cent of the consignments and in 1967, on 22 per cent."

"An examination of the four sample cases mentioned in the Audit paragraph suggests that the following factors have generally been contributing to delay in clearance of consignments :

- (i) Delay in obtaining delivery orders from steamer agents on account of delay in settlement of their bills.
- (ii) Delay in payment of port charges by consignees particularly semi-Government parties who do not maintain sufficient balance in their deposit account with the Port.
- (iii) Time taken by Port Trust authorities in giving permission for movement of packages.
- (iv) Time taken by Customs for examination of packages."

"The Committee note that instructions have been issued by Government from time to time with a view to avoiding delay in clearance of consignments. The Committee trust that, through better co-ordination with the steamer agents, Port and Customs authorities and consignees, Government will be able to minimise such delay in clearances, if not avoid them altogether."

[Sl. No. 24 (Para 1.144), (Para 1.145) and (Para 1.146) of Appendix II to the 105th Report (Fourth Lok Sabha)].

Action Taken

The observations of the Public Accounts Committee have been noted and the Port Shipping Officers have also been asked to note the same for their guidance. They have also been brought to the notice of the Port and Customs authorities.

[Ministry of Supply O. M. 12(24)/PIII dated 29-9-1970].

Recommendation

"The Committee observe that due to a lapse, a contract was placed on a firm, some of the conditions of which were at variance with the tender on the basis of which the contract was placed. In the result, there was no validly concluded contract and when the firm defaulted, the Department could not take action for recovery of the extra cost of Rs. 4.10 lakhs incurred on the purchase of the stores from alternative sources. As departmental action has been taken and the defaulting firm has also been de-registered, the Committee do not wish to pursue the case further. The Committee, however, trust that Government would, in the light of their experience in this and other cases, reinforce their purchase procedures to ensure that contracts are placed strictly in terms of offer of parties as tendered or negotiated, so that Government's rights are fully protected in any eventuality".

[Sl. No. 25 (Para 1.153) of Appendix II to the 105th Report (4th Lok Sabha)].

Action Taken

Instructions have been issued for the guidance of the Purchase Officers in the Directorate General of Supplies and Disposals *vide* Directorate General's Office Order No. 56 dated 1-6-1970 (copy enclosed).

[Ministry of Supply O.M. No. 12(8)/68-P III dated 30-10-1970].

DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS (CDN-2 Section), New Delhi-1.

OFFICE ORDER NO. 56

1-6-1970

SUBJECT:- *Contracts--Incorporation of the terms and conditions of the accepted tenders in contracts.*

REFERENCE : Para 159 of the Manual of Office Procedure for Supplies, Inspection and Disposals and Office Order No. 87, dated 1-8-1966.

In the above cited reference it is laid down that all the conditions stipulated by the tenderers in tender should be carefully scrutinised by the purchase officers. Where the terms and conditions quoted by the firms are inconsistent with our general and special conditions of contract or otherwise unacceptable, they should be first persuaded to withdraw these terms and conditions. In the event of failure of the firms to agree to our suggestion, the quotations should either be ignored or accepted with the sanction of the competent authority on the merits of the case. In any event, the

8 LLS/71---5.

position should not be left obscure or confused. Where special terms and conditions are accepted they should be incorporated in the contracts issued which should ultimately contain no more or no less than what is contained in the accepted tender or mutually agreed to in post tender correspondence or negotiation with the tenderer. Incorporation of the terms of and conditions which are not in the tender or which have not been specifically agreed to by the tenderer will not create a legally binding agreement.

2. Public Accounts Committee have come across a few cases where some of the conditions in the contracts were at variance with the tender on the basis of which the contract was placed. In the result there was no validly concluded contract and when the firm defaulted the recovery on account of the extra cost incurred on purchase of the stores from the alternative source could not be made from them.

Needless to emphasise that the acceptance of tender is a very important document and utmost care should be taken in its correct preparation.

It is also necessary that the check points for preparing/checking draft contracts detailed in OO No. 23/ 1-1-70 should be borne in mind before finalising the contract.

All Purchase Officers are requested to ensure compliance of these instructions.

Sd- D.S. DUGGAL,
Dy. Director (CS.I)

Standard distribution

on file No.CDN-26(17)/1:70

Copy to:- CDN-5 Section, with reference to their Memo. No. CDN-5 4(16) 70 dt. 13-5-70 (item No. 23 (1.130) and item No. 25 (1.153) refers.

Recommendation

"In regard to the second contract placed in March, 1966, for 12 winches, the Committee find that, though the supply against the contract was cancelled, the firm had to be accommodated through a rate contract which was concluded with it in November, 1967. As a result of the cancellation of the supply against the contract dated March, 1966, Government had lost a discount of Rs. 0.77 lakh which had been originally agreed to by the firm. The delivery date stipulated in the contract was 15th June, 1966, but, in January, 1967, it was extended to 15th March, 1967. It would appear, however, that, in the meanwhile, the indenter had, in October, 1966, intimated that supplies would not be required. The Committee would like Government to find out why, after this communication had been received, the period of supply was extended. Since the supply had not been made at that stage, it is possible that Government could have cancelled the contract, without forfeiting the rebate, for failure on the part of the supplier to effect supplies".

[Sl. No. 27(Para 1.167) of Appendix II to the 105th Report (Fourth Lok Sabha)].

Action Taken

In the above recommendation, two points have been brought out:-

- (1) Why the contract was not cancelled when the DGS&D was informed by the indenter in Nov. '66 (not Oct. '66 as mentioned in the recommendation) that the stores were not required.
- (2) If the contract had been cancelled at that stage, Government would not have forfeited the rebate because the contract would have been cancelled for failure on the part of the supplier to effect supplies.

2. In so far as the first point is concerned, the original delivery date expired on the 15th June '66. The contract was, however, kept alive due to the following actions:-

- (i) The firm agreed to allow a 5% discount if an order for 39 winches or more was placed on them *vide* their telegram dated the 4th June '66. An amendment letter increasing the quantity to 25 Nos. winches against A/T placed on the 20th July '65 was issued on the 20th June '66. An amendment providing for 5% discount against the order placed in March '66 for 12 winches was issued on the 18th June '66.
- (ii) The indenter, in his letter dated the 7th July '66, revised the consignee instructions and an amendment letter incorporating the revised consignee instructions was issued on the 2nd Nov. '66.

In view of the above communications, the contract was kept alive, and, therefore, legally, it could not be cancelled by the D.G.S. & D. unilaterally without first serving the required notice on the firm. Further upto this stage DGS&D had not received any indication from the indenter that the indenter had no need for these stores.

3. The firm requested for extension in the delivery period, in their letter dated the 4th Sept. '66 and telegram dated the 27th Sept. '66 and 5th Oct. '66. On the 19th Oct. '66, DGS&D wrote to the indenter asking whether an extension in the delivery period for a period of 1½ months could be given to the firm. In reply, the indenter informed the DGS&D in his letter dated the 8th Nov. '66 that the stores were no longer required. On receipt of this letter, the matter was examined and a meeting was held with the indenter on the 7th Jan. '67. According to the records of the DGS&D, the indenter agreed to the necessary extension in the delivery period being given in this case as the grabs had already been supplied and the winches had also been manufactured. A copy of the minutes of the meeting was sent to the indenter on the 10th Jan. '67 and an amendment letter granting necessary extension in the delivery period was issued to the firm on the 30th Jan. '67. The indenter, however, informed the DGS&D only in his letter of the 31st Jan. '67 that no further extension in the delivery period should be given without his prior approval.

4. The Ministry of Transport have now indicated that their representative had made it quite clear at the meeting that the DGS&D should not extend the delivery period without their prior approval. According to the

DGS&D's records, however, the representative of the Ministry of Transport had agreed to an extension in delivery period being allowed in this case. Further, if the position stated in the minutes of the meeting was not acceptable to the representative of the indenter, he should have immediately, after the receipt of the copy of the minutes, informed the DGS&D that the position had not been correctly stated in those minutes. He did not do so and informed the DGS&D only on the 31st Jan. '67 that no further extension in the delivery period should be allowed to the firm without the prior approval of the indenter. It has to be observed that the DGS&D had issued an amendment to the contract granting the necessary extension in the delivery period to the firm.

5. From the above narration, it will be quite clear that the DGS&D could not have cancelled the contract in Nov. '66.

6. As regards the second point, a rebate of 5% on an order of 39 winches, was agreed to by the firm only in their telegram of the 4th June '66. Thereafter, it was necessary for the DGS&D to place orders for that number of winches. The quantity against the order placed on the 20th July '65 was increased to 25 Nos. with the issue of an amendment on the 20th June '66 which was after the expiry of the original delivery period in respect of the contract placed in March '66. Further, the amendment providing for 5% discount in respect of the order for 12 Nos. winches placed in Mar. '66 was also issued only on the 18th June '66, i.e. after the expiry of the original delivery period. In the circumstances, this rebate could be availed of only if the necessary extension in the delivery period was given to the firm.

7. It will not be out of place to mention that although, legally, the DGS&D could not have cancelled this contract and the firm could insist on supplying the winches covered by these contracts, still the DGS&D were able to persuade the firm to convert the outstanding supplies into a rate contract, which involved no commitment, thereby saving Government from unnecessary financial burden.

8. It will also not be out of place to mention that on the 4th March '67, the consignee wrote to the firm a letter which was marked 'Most Urgent' and in which it was stated that the strategic road works of that Division were going on in full swing and great inconvenience was being experienced without the winches and the grabs already supplied were lying idle without the winches.

[Ministry of Supply O.M. No. P III-12(1) 68 dated 8-2-1971]

Further Information

(Ministry of Shipping & Transport)

- (a) The DGS&D should have taken action to cancel the contract in question in view of this Ministry's letter No. WV-20(1)/66-SRII, dated the 8th November, 1966 (copy enclosed).
- (b) In any case DGS&D should have waited for this Ministry's formal instructions regarding renewal of the contract when there were instructions from it for not granting extension of time *vide* letter dated 8th November, 1966 instead of presuming this Ministry's

consent to such extension of time and issuing orders for extension on 30th January, 1967, merely, on the basis of amendment of consignee's address and minutes of meeting dated 7th January, 1967 which had not been confirmed by this Ministry. Suitable instructions in fact was available to the D.G.S &D in this Ministry's letter No. SR11-33(4)/66 dated the 31st January, 1967 (copy enclosed).

- (c) The statement made by the Ministry of Supply that the Executive Engineer S.R. Division, Ahmedabad had written to the firm M/S Construction Machinery Corporation, Calcutta on 4th March, 1967 for the early supply of 3 winches which had been allotted to him is of no consequence because:-
- (i) much earlier to this letter the Government had already intimated on 8th November, 1966 that the item should be deleted from the indent and
 - (ii) the Directorate General of Supplies and Disposals were not competent to act on the consignee's letter in restoring supply against Indentor's clear instructions to them without consulting this Ministry.

[Ministry of Supply & Transport O.M. No. R.M.-19(1) 70 dated 23.7.1971]

MOST IMMEDIATE
STRATEGIC ROAD PROJECT

Ministry of Shipping & Transport,
(Roads Wing)
Parliament Street,
New Delhi.
Dated 8th Nov '66.
Kartika 1888

No.WV-20(1).66-SR11

To

The Director General of Supplies & Disposals,
Parliament Street,
New Delhi.

(Attention: Shri A.V. Cheyanulu-A.D.S.)

SUBJECT : --Procurement of Diesel Winches required for the construction work on the strategic Roads in the Gujarat State

Sir,

I am to refer to your endorsement No.SR-6.220 26.443.H dated the 19th October, 1966, and to say that the machinery in question was required by us by 30th June, 1966 as was stipulated in this Ministry's indent No.WV-20 (2).65, dated the 4th October, 1965. The extension of delivery period, as indicated in your endorsement dated the 19th October, 1966, referred to above, will thus not be acceptable to this Ministry as the stores received after the stipulated date will remain idle. This item may, therefore be deleted from the indent mentioned above.

Yours faithfully,

Sd/-
(G.V. CHALLAM)
Executive Engineer (Mech.)
for Director General (Road Development.)

Encl: Nil.

Copy forwarded for information to the:-

- (1) Secretary to the Govt. of Gujarat,
Public Works Department (Building and Roads),
Sachivalaya, Ahmedabad-15.
- (2) Chief Engineer, Public Works Department,
(Building & Roads) Gujarat. Sachivalaya,
Ahmedabad-15.

Sd/-
(G. V. CHALLAM)
Executive Engineer (Mech.)
for Director General (Road Development)

Encl: Nil.

BY SPECIAL MESSENGER

MOST IMMEDIATE

STRATEGIC ROAD PROJECT

No. SR11-33(4)/66

G.V.CHALLAM

EXECUTIVE ENGINEER.

Ministry of Shipping & Transport,
(Roads Wing)

Dated 31st January, 1967.

Dear Shri Bhalla,

Please refer to the correspondence resting with your d.o. letter No. MEIP SVI 220 71 440 449 III, dated the 9 10th January, 1967, with which the minutes of the meeting held in the D.G.S. & D. on 7th January, 1967 reviewing the progress of cancellation of the A Ts against our indents No. WV-20(2)/65, dated 4th October, 1965 and No.WV-20(6) 65, dated 4th October, 1965, have been sent to us.

2. The points raised in the minutes of the meeting referred to above are under examination at this end, and a further communication in this regard will follow soon. In the meanwhile I would request you to take necessary steps to ensure that the delivery dates in the case of Tar boilers, winches and any other item of machinery are not extended under any circumstances without obtaining our prior approval.

Please acknowledge receipt.

Yours sincerely,
Sd/-
(G.V. CHALLAM)

Shri K.L. Bhalla,
Director of Supplies (ME)
D.G.S. & D., Parliament Street,
New Delhi.

Recommendation

The Committee are unable to understand how, after having extended the periods of delivery stipulated in the contracts, Government could cancel the contracts before expiry of the extended delivery periods. This action resulted in Government forfeiting their claim against the firm for extra cost of Rs. 1.51 lakhs which they incurred on purchases of the unsupplied materials from alternative sources, as according to legal opinion, the contracts had been cancelled in anticipation of their breach. It has been stated that the contracts had to be cancelled and the unsupplied quantity off-loaded to other firms, as "the firm were not able to produce satisfactory material due to complete breakdown of their dyeing plant." Besides, "it was clear in the minds of the purchase officers that the firm would not be able to meet their contractual obligations and other established sources of production had to be kept going". If this was so, a proper assessment of the position should have been made before the extension of the delivery dates was agreed to by Government. The Committee note that the case after investigation at "the highest level" has been closed after accepting discounts amounting to Rs. 45,240 offered by the firm. The Committee hope that Government would ensure, in the light of their experience in this case, that contracts are cancelled and risk purchase orders placed only after fully complying with the due legal requirements.

[Sl.No. 30 (Para 1.183) of Appendix II to the 105th Report (Fourth Lok Sabha)].

Action Taken

The instructions on the subject have been re-iterated for the guidance of the purchase officers *vide* DGS&D CDN-2 Section Officer Order No. 21 (D) dated 30-5-70, a copy of which is enclosed.

[Ministry of Supply O.M. No. P III-12(25) 68 dated 16-9-1970]

DIRECTORATE GENERAL OF SUPPLIES AND DISPOSALS (CDN-2 Section)

New Delhi-1.

OFFICE ORDER NO. 21(D).

Dated 30-5-1970

SUBJECT:- *Risk purchase-Cancellation of contracts*

REFERENCE:- Office Order No. 21, dated 1-1-1970.

The procedure to be followed by the Purchase Officers in regard to the cancellation of the contracts is detailed in para 3 of the above cited office order.

2. The Public Accounts Committee came across a case where the purchaser after having extended the periods of delivery stipulated in the contract, cancelled the contract before expiry of the extended delivery period. This action resulted in government forfeiting their claim against the firm for extra cost which was incurred on purchase of the unsupplied materials from the alternative source, as according to legal opinion, the contract had been cancelled in anticipation of their breach.

With a view to avoiding recurrence of such type of cases in future, the purchase officer/should ensure that the detailed procedure outlined in the above mentioned office order is followed and the contracts are cancelled and risk purchase orders placed only after fully complying with the legal requirements.

Sd/-
D.S. DUGGAL
Dy. Director (CSI)

Standard Distribution

(On file No. CDN-2/9(12)/1/70)

Copy to:-

CDN-5 Section with reference to their Memo. No. CDN-5/4 (16)/70 dated 13-5-1970 [Item No. 31(1.183) refers].

Recommendation

The Committee find that, in this case, the "risk purchase" rights of Government were prejudiced, due to a failure to comply with the legal requirements in this regard. The date of delivery mutually agreed upon between the supplier and Government was 15th July, 1966, but a *suo-moto* extension was granted by Government till 5th September, 1966, for which concurrence was not obtained. In the result, when the firm failed to effect supply, Government could not make "risk purchase" at the expense of the firm, as by that time six months from 15th July, 1966, *i.e.*, the mutually agreed date had elapsed.

The Committee have dealt with similar cases of this type elsewhere in this Report. The Committee trust that steps would be taken to instruct purchase officers adequately about the legal requirements to be complied with in the matter of risk purchases.

[Sl. No. 31 (Para 1.189 and 1.190) of Appendix II to the 105th Report (4th Lok Sabha)].

Action Taken

Necessary instructions regarding extension of delivery dates and risk purchase-cancellation of contracts, have been re-iterated for guidance of the purchase officers *vide* Directorate General of Supplies and Disposals, CDN-2 Section, Office Order Nos. 18(C) and 21(D), both dated 30-5-70 (copies enclosed).

[Ministry of Supply O.M. No. 12(19)/68-P---III dated 5-10-1970]

DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS

(Section CDN-2), New Delhi.

OFFICE ORDER NO. 18(C)

Dated 30-5-1970

SUBJECT:- *Extension of delivery date*

REFERENCE:- Para 4 of Office Order No. 18 dated 1-1-1970.

According to the instructions contained in the above cited office order extension of delivery date amounts to changing the terms of the original

contract and such an extension can be only with the consent of the parties *i.e.* the purchaser and the seller. Extension of granted without any application on the part of the contractor has no effect in law and does not bind the contractor. While granting extension of time on an application from the contractor, the letter and the spirit of the application should be kept in view in fixing the time for delivery.

The Public Accounts Committee came across a few cases where *suo moto* extension of delivery was granted by the purchase officer for which the concurrence of the supplier was not obtained. When the firm failed to effect supplies by the extended delivery date, the government could not make 'risk purchase' at the expense of the supplier as by that time six months from the last mutually agreed delivery date had elapsed.

If in certain cases *suo moto* extensions cannot be avoided in a *bona fide* effort to procure the stores but where such an extension becomes inescapable, the Purchase Officers should obtain expeditiously the supplier's concurrence to the extension so that the purchaser's risk purchase rights are not jeopardised. They should bear in mind the date of breach and the necessity of placing the risk purchase A/T within 6 months from that date. Needless to emphasise that any inactivity the part of the purchase officer in such cases would jeopardise the interests of the government.

All purchase officers/sections are requested to note the above instructions for strict compliance.

Sd/-29-5-70
(D. S. DUGGAL)
Deputy Director (CSI)

Standard Distribution

On file No. CDN-2,7(18),1/70

Copy to:-

CDN-5 Section with reference to their Memo No. CDN-5,4 (16),70 dated 13-5-70 [Items 3(1.22) and Items 31(1.90) refers].

DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS

(CDN.2 Section)

OFFICE ORDER NO. 21(D)

Dated 30-5-1970

SUBJECT:- *Risk Purchase-Cancellation of contracts*

REFERENCE:- Office Order No. 21, dated 1-1-1970.

The procedure to be followed by the Purchase Officers in regard to the cancellation of the contracts is detailed in para 3 of the above cited office order.

2. The Public Accounts Committee came across a case where the purchaser after having extended the periods of delivery stipulated in the contract cancelled the contract before expiry of the extended delivery period. This action resulted in government forfeiting their claim against the firm for extra cost which has incurred on purchase of the unsupplied materials from the alternative source, as according to legal opinion, the contract had been cancelled in anticipation of their breach.

With a view to avoiding recurrence of such type of cases in future, the purchase officers should ensure that the detailed procedure outlined in the

above mentioned office order is followed and the contracts are cancelled and risk purchase orders placed only after fully complying with the legal requirements.

Sd/-
(D. S. DUGGAL)
Deputy Director (CSI)

Standard Distribution.
(On file No. CDN-2/9(12)/1/70)

Copy to:—
CDN-5 Section with reference to their Memo. No. CDN-5/4
(16)/70 dated 13-5-1970.

(Item No. 31 (I.83) refers).

Recommendation

"This is yet another case where due to failure of the Department to obtain the supplier's concurrence to extension of delivery date of the contract granted by Government *suo moto*, Government lost their "risk purchase" rights. The Committee have already made certain suggestions in this regard elsewhere in this Report and hope that they would be strictly implemented. Another point about this case is that the Department failed to take notice of an adverse capacity report about the firm. The Committee regret to note the failure of Government in this regard."

[S. No. 34 (Para 1.99) of Appendix II to the 105th Report (4th Lok Sabha)]

Action Taken

As regards the first part of the recommendation, it may be stated that necessary instructions have been reiterated for guidance of the Purchase Officers *vide* Directorate General of Supplies and Disposals (CDN-2 Section) Office Order No. 18(c) dated 30-5-70 (Copy enclosed with action taken notes at S. No. 31).

As regards the second part, *viz.*, failure to take notice of the adverse capacity report, it may be stated that the case was examined from the vigilance angle, and as a result thereof, warnings were issued on 4-4-70, to the Assistant Director of Supplies and the Upper Division Clerk concerned, to be more careful, in future, in the discharge of their duties. Copies of the warnings have been kept in their character rolls.

[Ministry of Supply O.M. No. P III-12(19) 68 dated 21-9-1970]

Recommendation

"The Committee note that one of two cold chambers procured by the Defence Department in October, 1965, at a cost of Rs. 82,500 - has not yet been commissioned, due to defects in the equipment. As the defects come to notice during the warranty period, the Committee would like Government to consider whether a replacement should be asked for, if repairs now stated to be underway are not soon completed satisfactorily."

[S. No. 35 (Para 1.204) of Appendix to the 105th Report (Fourth Lok Sabha)]

Action Taken

Both the chambers have since been repaired and copies No. 2 and 5 of the Inspection Notes have been released by the consignees.

[Ministry of Supply O.M. No. P III-12(37) 68 dated 17-12-1970.]

CHAPTER III

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

Recommendation

"The Committee regret that there was an inordinate delay of nearly three years in processing for arbitration Government's claim against the firm amounting to over Rs. 1 lakh. The claim was preferred in October, 1966, which the firm promptly disputed. Due to the file getting misplaced, about 10 months were lost before the case could be referred for legal opinion in August, 1967. The legal opinion could not be obtained till November, 1968, due to requisite details having to be collected. There was a further delay of 8 months before an arbitrator was appointed in June, 1969 and his award is still awaited."

"The Committee trust that Government will issue suitable instructions impressing on all officials concerned with handling of contracts the need to be prompt and businesslike in dealing with cases. The Committee would also like to know the action taken against person responsible or misplacement of the file for ten months."

[Sl. No. 28 (Paras 1.171 and 1.172) of Appendix II to the 105th Report
(Fourth Lok Sabha)]

Action Taken

Necessary instruction, as desired by the Committee, have been issued to all Purchase Officers *vide* Directorate General of Supplies and Disposals (O & M Division) communication No. 3(1)/70-O & M dated 16th June, 1970 (copy enclosed).

Vigilance Section have been asked to initiate action to fix responsibility for misplacement of the file for ten months. The result will be communicated to the Public Accounts Committee, in due course.

[Ministry of Supply OM No. P III-12(20) 69 dated 21-9-1970]

No. 3(1)/70-O & M

DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS (O & M DIVISION)

New Delhi, dated 16th June, 1970.

The Public Accounts Committee have made the following observation in their 105th Report (Fourth Lok Sabha) on an Audit Para pertaining to the Ministry of Supply/DGS&D :—

"The Committee trust that Government will issue suitable instructions impressing on all officials concerned with handling of contracts, the need to be prompt and businesslike in dealing with cases."

2. The above observation has arisen out of a contract placed by the DGS & D, for supply of certain stores, wherein, the firm having defaulted in supply, the outstanding quantity was cancelled and repurchased (at the firm's risk and cost), at an extra cost amounting to over Rs. 1 lakh. Notice was served on the defaulting firm on 7-10-1966 to pay the extra cost. The firm disputed this claim in their letter dated 20-10-1966. The file having been misplaced, about ten months' time was lost, before the case could be located and referred to the Ministry of Law for advice, in August, 1967. The Ministry of Law wanted certain clarifications, before they could give their advice. These could be furnished only in November, 1968 and the advice of the Ministry of Law then obtained. There was a further delay of eight months, before an arbitrator was appointed in June, 1969 and his award is still awaited.

3. All Officers concerned with the handling of contracts are requested to ensure avoidance of delay, at any stage, while dealing with the cases, particularly, where Government's claims for recovery from firms, are involved.

Sd/-

(V. SUBRAMANIAN),
Director,
(O & M and CDN)

All Officers at Headquarters;
 Head of all Regional Offices.
 Copy to :-S.O. (CDN-5).

Further Information

The matter regarding the misplacement of the file has since been examined by the Directorate General of Supplies & Disposals. The explanation of the dealing hand concerned was called for and after consideration of his reply he was warned to be more careful, in future, so as to avoid recurrence of such lapses.

[Ministry of Supply OM No. 12(8).69-P III dated 20-3-1971]

CHAPTER IV

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

Recommendation

“The Committee would also like action to be taken for utilisation/ recovery of 12.308 tonnes of Copper lying unutilised with the firm.”

[Sl. No. 6 (Para 1.22) of Appendix II to the 105th Report (Fourth Lok Sabha)]

Action Taken

The Minerals and Metals Trading Corporation were requested on 9-4-1970 to adjust the excess quantity of 12.308 tonnes of copper bars wire released to the firm against any other release, as and when possible. The MMTC have intimated that one release in favour of the firm valued at Rs. 26,017/- has been issued by Joint Chief Controller of Imports and Exports. The MMTC have already taken up the matter with the Joint Chief Controller of Imports and Exports, for necessary adjustment. Supplies have however, been withheld.

[Ministry of Supply OM No. P III-12(5)/68 dated 22-1-1971]

Recommendation

“The Committee feel that, with a little care, Government could have avoided procurement of 7 of the 25 winches costing Rs. 2.75 lakhs, procured against the contract placed in July, 1965, which subsequently became surplus. The contract for the winches which were required for the Lateral Road Project between Amingaon and Bareilly stipulated delivery by 31st August, 1965. Due to delay in the approval of the prototype, the delivery period was later refixed on 15th April, 1966. In August, 1966, Government had decided to slow down the tempo and execution of the project, as a result of which a substantial part of the machinery originally indented for became surplus. It is not, therefore, clear why, in September, 1966 and December, 1966, further extensions of delivery dates were agreed upon. The Ministry of Transport which was the indentor, could well have reduced their requirements at this stage, even if they had to agree to the extension. The Committee would like to be informed as to why this was not done”.

[Sl. No. 26 (Para 1.166) of Appendix II to the 105th Report (Fourth Lok Sabha)]

Action Taken

This information has to be furnished by the Ministry of Transport and Shipping. The Ministry of Transport and Shipping have been requested in Ministry of Supply O.M. No. P-III-12(1)/68 dated 25th May, 1970, to furnish this information. It may be added that the extension in December, 1966 was given with the approval of the indentor.

[Ministry of Supply O.M. No. P-III-12(1)/68 dated 8-2-1971.]

Recommendation

The Committee note that in this case "risk purchase" could not be effected within a period of six months, as the item in question was an imported store which was not readily available. The Committee cannot, however, help feeling that the Department erred in the first instance while placing the contract. The offer of the firm ex-stock was unsolicited besides being belated. According to tender procedure, it could not, therefore, have been entertained. Moreover, the recognised firms which were covered by the tender enquiry had all stipulated impost assistance. It was therefore inadvisable to have concluded a contract with a party who offered the material ex-stock, particularly when the offer, besides being unsolicited, was belated.

[S. No. 32 (Para 1.194) of Appendix II to the 105th Report (Fourth Lok Sabha).]

Action Taken

The indent was an urgent one and the indentor had stated that drilling operations were at a standstill. The indentor had earlier invited direct tenders and forwarded a copy of tender received from S/s. S. S., Calcutta who were offering the stores, ex-stock. The firm was not known to the DGS & D and a limited tender inquiry was issued to three firms suggested by Directorate General of Technical Development and also to S/s. S. S. The latter did not respond and the other three firms quoted for imported stores. The lowest two offers were referred to the indentor for confirmation of acceptability and for provision of foreign exchange. In the meantime, a tender dated 1-2-1965 was received by post on 6-2-1965, from S/s. Corporation, Calcutta. This firm had not been invited to tender. Apparently, the tender document had been passed on to them by S/s. S. S. In response to a letter dated 16-1-1965 to this firm by the indentor, the firm quoted only for two items. The rates quoted by the firm to the indentor and the DGS&D were the same. The indentor, in his letter dated 11-2-1965 forwarded a copy of the Firm's offer stating that imported offers were not acceptable, as he could not arrange any foreign exchange. He also confirmed that the stores as offered by S/s. Corporation ex-stock were acceptable and suggested for procurement of the stores offered by the firm. In view of the extreme urgency of the indentor's requirement and his inability to provide foreign exchange, the tender of S/s. Corporation was admitted and their offer for these two items accepted. As the acceptance of an unsolicited offer amounted to negotiations, the approval of the competent authority viz. Addl. Director General and Finance was taken.

[Ministry of Supply O.M. No. 12(19) 68-P-III dated 4-8-1970].

CHAPTER V

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

Recommendation

"In the opinion of the Committee, this case raises a number of important issues :

- (i) The firm with whom a contract for 46,000 Nos. of the store was placed at a unit price of Rs. 15.31 in January, 1964, did not supply more than 19,500 Nos. They, however, supplied identical stores against two other contracts placed with them subsequently in October, 1966 and April, 1967 at unit prices of Rs. 36.65 and Rs. 34.65 respectively. To help the firm to complete the supplies against the first contract the release of 34.78 tonnes of copper, a scarce metal, was arranged by Government even though the contract contained no provision for it. However, after availing of this facility, the firm did not make any further supply against the first contract. Government have stated that the copper supplied to the firm against the first contract was not "apparently" utilised for making supplies against the two subsequent contracts, which provided for much higher unit prices, but the firm had admitted that unutilised stocks of the metal are "still lying with them". The Committee also observe that the firm have had "various other orders" from the Railways for similar stores against which release of copper had been obtained by them on the basis of import licences. The Committee would like it to be comprehensively investigated how the firm have utilised the material supplied to them against all the orders placed with them since 1964 and to be apprised of the results of the investigation.

[Sl. No. 1(Para 1.22) of Appendix II to the 105th Report (Fourth Lok Sabha)

Action Taken

DGS & D have requested Controllers of Stores of various Railways on 2-7-1970 to furnish a list of the contracts placed by them on the firm wherein assistance for raw materials was also given to them. On receipt of the replies from the various Railways, the matter will be investigated further and the results intimated to the Public Accounts Committee, as desired.

[Ministry of Supply O.M. No. 12(5)68-P—III dated 23-9-1970].

Recommendation

"(iii) Legal opinion is fairly well settled that an order placed at the 'risk and expense of the firm', as a result of its breaching the terms of delivery

stipulated in a contract, should be placed within six months of the date of breach. It is also well settled that the date of breach is to be reckoned with reference to the date of delivery which is mutually agreed upon between the supplier and Government. In the present case, Government extended the date of delivery stipulated in the contract *suo moto* upto a period of two years with the result that their "risk purchase" rights were prejudiced. While the Committee appreciate that Government will have to take a practical view of situations that arise in the course of dealing with 12,000 to 15,000 contracts in a year and that in certain cases *suo moto* extensions cannot be avoided in a "*bona fide* effort to procure the stores", they would like to stress that Government should in such cases obtain expeditiously the suppliers concurrence to extensions given *suo moto*, so that their risk purchase rights are not jeopardised."

[Sl. No. 3 (Para 1.22) of Appendix II to the 105th Report (Fourth Lok Sabha)].

Action Taken

Necessary instructions have been reiterated for guidance of the Purchase Officers *vide* Directorate General of Supplies and Disposals (Section CDN-2) Office Order No. 18(c) dated 30-5-1970 (copy enclosed).

[Ministry of Supply O.M. No. 12(5)/68-P—III dated 23-9-1970].

DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS (Section CDN-2), NEW DELHI

OFFICE ORDER NO. 18(C).

Dated 30-5-1970.

SUBJECT : *Extension of Delivery date*

Reference : Para 4 of Office Order No. 18 dated 1-1-1970.

According to the instructions contained in the above cited office order, extension of delivery date amounts to changing the terms of the original contract and such an extension can be only with the consent of the parties *i.e.*, the purchaser and the seller. Extension granted without any application on the part of the contractor, has no effect in law and does not bind the contractor. While granting extension of time on an application from the contractor, the letter and the spirit of the application should be kept in view in fixing the time for delivery.

The Public Accounts Committee came across a few cases where *suo moto* extension of delivery was granted by the purchase officer for which the concurrence of the supplier was not obtained. When the firm failed to effect supplies by the extended delivery date, the government could not make 'risk purchase' at the expense of the supplier as by that time six months from the last mutually agreed delivery date had elapsed.

If in certain cases *suo moto* extensions cannot be avoided in a *bona fide* effort to procure the stores but where such an extension becomes inescapable, the Purchase Officers should obtain expeditiously the supplier's concurrence to the extension so that the purchaser's risk purchase rights

are not jeopardised. They should bear in mind the date of breach and the necessity of placing the risk purchase A/T within 6 months from that date. Needless to emphasise that any inactivity on the part of the purchase officer in such cases would jeopardise the interests of the government.

All purchase officers/sections are requested to note the above instructions for strict compliance.

Dated 29-5-1970.

Sd/- (D.S. DUGGAL),
Deputy Director (CS-I).

Standard Distribution.

On file No. CDN - 2/7(18)/1/70.

Copy to:—

CDN-5 Section with reference to their Memo. No. CDN-5/4(16)/70 dated 13-5-1970. [Items 3(1.22) and Items 31(1.90) referes.]

Recommendation

“Though Government would appear to have lost their “risk purchase” rights in this case, it would appear that in terms of the legal opinion given, general damages can be claimed, the measure of which will be the difference between the contract rate and market rate on the date of breach”. The Committee would like action to be speedily initiated for recovering such damages from the firm”.

[Sl. No. 5(Para 1.22) of Appendix II to the 105th Report (Fourth Lok Sabha)]

Action Taken

A registered notice dated 23-11-1968 was served on the firm for the recovery of Rs. 1,94,510 towards general damages based on the difference in the A/T price and the market rate prevailing on the date of breach. The firm, however, *vide* their letter dated 1-1-1969 refuted the Govt.'s claim and instead put forward their own claim on account of interest on the capital blocked up in purchase of copper from MMTC and godown rent. The case was referred to arbitration by the DGS & D on 15-3-1969.

According to the latest position, 25-7-1970 has been fixed for filing the statement of claim.

The final outcome of the arbitration proceedings will be intimated to the Public Accounts Committee, in due course.

[Ministry of Supply O.M. No. P III-12(5)/68 dated 22-1-1971.]

Recommendation

“The Committee note that in respect of two contracts placed with the firm, where import assistance to the tune of Rs. 12.78 lakhs was provided by Government for import of the scarce non-ferrous metals, Government

"suspects" malpractices in the utilisation of the imported material. During evidence it was also stated that "similar malpractices" by the firm had occurred in "another case". In the light of this position the Committee would like Government to investigate thoroughly how the firm utilised non-ferrous metals worth about Rs. 25 lakhs which were imported by it on the basis of import licences issued by Government in connection with the five contracts mentioned in the audit paragraph. The Committee would like to be apprised of the results of the investigation and action taken on its findings."

[Sl. No. 12(Para 1.58) of Appendix II to the 105th Report (Fourth Lok Sabha)]

Action Taken

The matter is under examination and the Committee will be apprised of the results of the investigation.

Ministry of Supply OM No. 12(39)/67-P-III dated 5-10-1970].

Recommendation

"On the basis of experience of this case, the Committee would like Government to consider what safeguards should be built into contracts which involve import assistance so that the contracting firms do not derive unintended benefit by retaining unutilised raw materials imported for the purpose with Government assistance."

[Sl. No. 13(Para 1.59) of Appendix II to the 105th Report (Fourth Lok Sabha)].

Action Taken

The question as to what further safeguards could be built into the General Conditions of Contract governing contracts of the DGS & D, is being examined in consultation with the Ministry of law. Public Accounts Committee will be informed about further development.

[Ministry of Supply OM No. 12(39)/67-P-III dated 5-10-1970].

Recommendation

"According to Rule 16 of the General Financial Rules of the Central Government, losses, fraud, etc. noticed by Government officers have to be 'immediately reported' to Audit. In this case, fraud amounting to Rs. 2.84 lakhs was not brought to the notice of Audit. The Committee would like to be apprised of the reasons for not doing so and the action taken against the delinquent officers."

[Sl. No. 18(Para 1.193) of Appendix II to the 105th Report (Fourth Lok Sabha)].

Action Taken

This recommendation will be examined, in detail when the relevant files, which have been seized by the CBI, are released and made available.

Instructions have been issued *vide* Office Order No. 54, dated 28-5-1970 (copy enclosed) that the purchase officers should ensure that all cases of fraud or suspected fraud are reported to the concerned P & AO and the Audit Officer, immediately as they come to notice.

[Ministry of Supply OM No. P III-12(12)/68 dated 21-1-1971].

GOVERNMENT OF INDIA
DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS
CO-ORDINATION SUPPLIES SECTION-2
NEW DELHI

OFFICE ORDER NO. 54.

Dated : 28-5-1970.

SUBJECT:—*Reporting of losses/damages of fraud to the higher authorities.*

In accordance with the recommendations of the Public Accounts Committee, instructions were issued *vide* U.O. No. CDN-3/1(21)/II/68, dated 24-12-1968 that all complaints and reports of malpractices, fraud etc. received from the consignees generally under the following categories, should be immediately brought to the notice of Director of Supplies for instructions regarding the corrective action to be taken and for report to the higher authorities, DG/Ministry of Supply:—

- (i) delay in supply of non-receipt of stores for which advance payments were made to the firm;
- (ii) non-despatch of complete/correct stores as approved by the Inspector and for which advance payments were drawn by the firm; and
- (iii) claiming advance payments by quoting wrong despatch particulars.

It was also prescribed therein that all such complaints should be entered in a register as per proforma indicated in the Annexure, and the register should be examined every fortnight to ensure prompt and effective follow-up action regularly.

2. Reference is also invited to para 335 of the DGS&D Manual of Office Procedure (1960 Edition) which prescribes the method of reporting the instances of loss of public money. As per Rule 16 "Report of losses" under (Chapter II) Section V "Defalcations and Losses", of the General Financial Rules (Revised and Enlarged) 1963, loss or shortage of Public moneys, departmental revenue or receipts, stamps, opium, stores or other property held by, or on behalf of, Government, caused by defalcation or otherwise including losses and shortages noticed as a result of physical verification, which is discovered in a treasury or other office or department, shall be immediately reported by the subordinate authority concerned to the next higher authority as well as to the Audit Officer and the Accounts Officer, even when such loss has been made good by the party responsible for it.

3. Relevant provision in the Pay & Accounts Officer Manual issued by the Comptroller and Auditor General with the approval of the Min. of Finance are reproduced below:—

“Para 466—The Department concerned should report the defalcation and losses to the Pay & Accounts Officer and the statutory audit officer simultaneously on receipt of a report of defalcation or loss of public money or property the Pay & Accounts Officer should call for such further information as he may require on the subject and carefully examine the case and ascertain whether the defalcation or loss was rendered possible by any defect in the rules, or whether it was due to neglect of rules or want of supervision on part of the authorities. He should then report the result of such examination to the authority competent to sanction the write off of the loss; unless he considers, for any special reason that the Govt. should also be informed.

Para 467. The statutory audit officer will keep himself in touch with the progress of the investigation made by the Pay & Accounts Officer and any information required by the former has to be furnished by the latter. Where necessary the Pay & Accounts Officer's report to Government will be supplemented by the comments of the statutory Audit Officer.

Whenever any case of loss in which there is a possibility of the Reserve Bank of India being made liable to Government either in respect of operation on Government A/Gs conducted by itself or by its agents or otherwise comes to his notice, the Pay & Accounts Officer should call for such further information as he may require on the subject. On receipt of this information which must be obtained without delay he should at once made a report of the case to the Finance Ministry for such action as he may deem fit.”

4. In accordance with the aforesaid provision it is necessary that as and when cases of fraud or suspected fraud come to the notice of the Purchase Officers they should furnish all available facts of the case to the Pay & Accounts Officer as well as to the statutory Audit Officer. It will then be the responsibility of the Pay & Accounts Officer to examine and ascertain as to whether the fraud has been made possible due to some defects of Rules or Procedure or whether it was due to negligence of some authority.

Purchase Officers are requested to ensure that all such cases are reported to the concerned Pay & Accounts Officer and the Audit Officer immediately they come to notice.

This issues with the approval of Internal Finance/C.P. & A.O. and Ministry of Supply.

Sd/- (D. S. DUGGAL),
Dy. Director (CDN SUPPLIES I)

Standard Distribution

(File No. CDN-2/133/11/69).

Copy to : CDN-5. This refers to their U.O. No. CDN-5/AP/2(150)/68, dated 20-11-1969.

Recommendation

"The Committee would also like to be apprised of the outcome of the arbitration proceedings and the progress of recovery of the amount due."

[Sl. No. 29(Para 1.173) of Appendix II to the 105th Report (Fourth Lok Sabha)].

Action Taken

The case is still under arbitration. The final result will be intimated to the Public Accounts Committee in due course.

[Ministry of Supply OM No. 12(20)/68-P III dated 21-9-1970].

Recommendation

The Committee note that the question of recovery of general damages from the firm amounting to Rs. 11,265 is under correspondence. They would like to be apprised of the progress of recovery.

[Sl. No. 33(Para 1.195) of Appendix II to the 105th Report (Fourth Lok Sabha)]

Action Taken

Since the Acceptance of Tender is governed by the arbitration clause, the case has to be referred to arbitration; but before doing so, the financial standing of the firm has to be ascertained. It is understood from the Home Department, Government of West Bengal, and the Income Tax Commissioner, Calcutta, that the firm is a proprietary concern. As such, the financial standing of and the value of property available with the proprietor is being ascertained from the Income Tax Commissioner, Calcutta, as also, from the District Magistrate, Jhunjhunu, Rajasthan. The Committee will be apprised of the progress of recovery.

[Ministry of Supply OM No. 12(19)/68-PIII, dated 4-8-1970]

NEW DELHI;
August 31, 1971

ERA SEZHIYAN,
Chairman,
Public Accounts Committee.

Bhadra 9, 1893(S).

APPENDIX

Summary of main Conclusions/Recommendations

S. No.	Para No.	Ministry/ Department Concerned	Conclusion/Recommendation
(1)	(2)	(3)	(4)
1.	1.3	Supply	The Committee hope that final replies in regard to those recommendations to which only interim replies have so far been furnished will be submitted to them expeditiously after getting them vetted by audit.
2.	1.7	Do.	The Committee find that as against 12.308 tonnes of unutilised electrolytic copper, MMTC have with held for adjustment supplies valued at only Rs. 26,017/- in respect of a subsequent release to the firm by the Joint Chief Controller of Imports and Exports. The Committee desire that recovery/adjustment of the remaining quantity of the material should be made expeditiously.
3.	1.10	Home Affairs	The Committee note that departmental action is yet to be taken against the officers concerned in regard to the omissions to ensure that the helmets were fitted with adjustable head-bands as provided in the ISI specifications and to take serious notice of the complaints which were received from the users initially about the oversize of the helmets. They would like Government to finalise the disciplinary proceedings expeditiously.
	1.11	Do.	As regards other lapses, the Committee desire that the details of action taken or proposed to be taken against defaulting officials be intimated to them.

- | | | | |
|----|------|-------------------------|---|
| 4. | 1.14 | Supply | The Committee would like to be informed of the outcome of the suit which may be intimated to them in due course. |
| 5. | 1.17 | Supply | The Committee are not satisfied with the slow progress made in the investigation of the case. They would like the matter to be investigated without further delay and the results intimated to them. |
| 6. | 1.18 | Do. | The Committee see no reason why the question of building safeguards into the general conditions governing contracts of the DGS & D could not be finalised so far. They desire that Government should come to an early decision in this regard and inform them of it. |
| 7. | 1.22 | Do. | The Committee hope that the investigation into the circumstances that led to the consignee's failure to report would be expedited and suitable action taken if the investigation brings to light any malafides on their part. |
| 8. | 1.25 | Shipping &
Transport | The Committee do not appreciate the vague contention of the Ministry of Transport that "it was apparently considered that the additional winches were necessary to bring the work in progress to a convenient stage". They wish to reiterate that a proper review about the specific requirement of winches should have been carried out before agreeing to the extension of delivery period for the supply of remaining winches in December, 1966. |
| 9. | 1.28 | Supply | The Committee note that the offer of the firm for supply ex-stock had to be accepted due to urgency and indentor's inability to arrange foreign exchange and that the approval of the competent authority was taken. The Committee would, however, like to point out that before concluding the contract with the party who made a belated and unsolicited offer of the material ex-stock, Government should have satisfied itself about the quality of the goods by inspecting a sample of the material. |

25

