

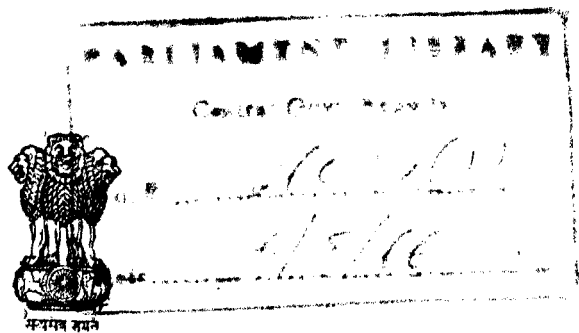
# **PUBLIC ACCOUNTS COMMITTEE (1965-66)**

## **FIFTY-SECOND REPORT**

(THIRD LOK SABHA)

[Action taken by Government on the outstanding recommendations of the Public Accounts Committee contained in their 27th, 28th, 29th, 31st, 33rd, 34th, 35th, 36th, 38th, 39th and 40th Reports (Third Lok Sabha) relating to Civil, Defence, Finance Accounts and Revenue Receipts as well as a Review of Action taken by Government on the recommendations made by the Committee from time to time.]

VOL. IV—APPENDICES



**LOK SABHA SECRETARIAT  
NEW DELHI**

*April, 1966/Vaisakha, 1888 (S)*

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**PUBLIC ACCOUNTS COMMITTEE**  
(1965-66)

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21. Shri Niranjana Singh
22. Shri Atal Bihari Vajpayee.

**SECRETARIAT**

Shri H. N. Trivedi—*Deputy Secretary.*

Shri R. M. Bhargava—*Under Secretary.*

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\*Ceased to be the Members of the Committee consequent on their retirement from Rajya Sabha on 2-4-66 under Article 83(i) of the Constitution.

## **APPENDIX XXII**

### **MINISTRY OF FINANCE**

**(FINANCE ACCOUNTS)**

**(Department of Revenue and Insurance)**

#### **Recommendation**

*From the facts placed before them, the Committee have not been able to satisfy themselves that expenditure on revenue earning and other activities of the Customs Department was kept fully under control. They hope that when the accounts for 1961-62 are taken up for examination the Department will be in a position to present a complete appraisal of the expenditure against the results achieved.*

[S. No. 9 (Para 11) of Appendix V to 9th Report—1962-63].

#### **ACTION TAKEN**

The Committee's observation had been noted. Since then Accounts for 1961-62 as well as Accounts for subsequent years 1962-63 and 1963-64 have already been examined by the P.A.C. The cost of collection has in fact been reduced from 2.1 per cent in 1960-61 to 1.2 per cent in 1963-64. No further action is therefore pending on this observation of the P.A.C. and the item may be treated as closed.

[Vetted by the Comptroller and Auditor General *vide* their U.O. No. 157-69/Rev.-64/Vol. II, dated 18-1-1966].

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### **MINISTRY OF FINANCE**

**(Department of Expenditure)**

#### **Recommendation**

*The Committee would like to mention here that they have a feeling that there is a scope for economy in expenditure that is usually incurred by the various departments of Government under the nomenclature "contingent expenditure". Contingent Expenditure has been defined as "all incidental and other expenditure including expenditure on stores, which is incurred for the management of an office, for the working of technical establishment such as a laboratory, workshop, industrial installation, store depot, and the like but does not include any expenditure which has been specifically classified as falling under some other head of expenditure, such as 'Works', 'Stock', 'Tools and Plant'."*

*The Committee would like the Ministry of Finance to examine carefully the various items of expenditure that are included by different Ministries and Departments under this nomenclature with a view*

*to ascertaining whether any amendment in the definition of this nomenclature is necessary to clarify the nature of expenditure included thereunder. The powers delegated to different authorities to incur expenditure under the nomenclature "contingent expenditure" should also be reviewed with the object of achieving economy. In this connection the Committee also recommend that the provision on certain items such as inaugural ceremonies, laying of foundation stones, etc., should be exhibited separately in the budget with a view to apprising Parliament of the quantum of such expenditure. The Committee also feel that during the period of emergency, expenditure on such items should be substantially curtailed if not eliminated altogether.*

[Sl. No. 4 (Para 4) of Appendix II to 22nd Report (3rd Lok Sabha).]

#### ACTION TAKEN

The provision for contingent expenditure is made in the Demands for Grants under the primary unit 'Other Charges'. The various items of expenditure which fall under the nomenclature 'contingent expenditure' have been under constant review and instructions were issued in this Ministry's O.M. No. 3(58)-B/62, dated the 29th August, 1964 (Annexure I) that items of expenditure which fall under the following categories should be exhibited under separate units of appropriation in the Budget, distinct from 'Other Charges':—

- (i) Grants-in-aid, Contributions, etc;
- (ii) Stores and Equipment, other than normal office equipments;
- (iii) Plant and Machinery;
- (iv) Works, including Repairs;
- (v) Doles, relief measures, cost of ration, etc.;
- (vi) Arms and Ammunitions;
- (vii) Exhibitions and Publicity; and
- (viii) Survey operations, Explorations, Experiments and Research, etc.

With the segregation of the above items of expenditure, the provisions under the unit 'Other Charges' are limited and restricted to items which are incidental to the management of an office. Instructions have also been issued in paragraph 2 of the aforesaid Office Memorandum that broad details of various items of expenditure which

are included in the unit of appropriation 'Other Charges' should be exhibited in part III (Details) of the Demands for Grants, whenever the amount involved is substantial, say, Rs. 5 lakhs or more. If, besides the above items, any other items of expenditure not pertaining to the management of an office come to notice, action will be taken to segregate them. In the circumstances, the Committee will perhaps appreciate that an amendment of the existing definition of 'contingent expenditure' is not necessary.

1.2. The Administrative Ministries/Departments of the Central Government have full powers to incur contingent expenditure. The exercise of these powers is, however, subject to the restrictions and scales laid down in the Delegation of Financial Powers Rules, 1958 and the General Financial Rules, 1963. Further, the Administrative Ministries are required to forward to the Finance Ministry copies of orders sanctioning contingent and miscellaneous expenditure above Rs. 2,500 recurring per annum, in each case, and above Rs. 10,000 non-recurring, in each case, so as to provide the Ministry of Finance an opportunity to review the nature of expenditure and suggest economy where it is needed. Moreover, as the policy is to devolve more and more powers to Ministries etc., subject to watch through reports/returns, it is not considered desirable to withdraw and restrict powers already delegated.

1.3. As regards the feasibility of exhibiting the provision on certain items such as inaugural ceremonies, laying of foundation-stones, etc., separately in the Budget, as recommended by the Committee, there are inherent difficulties in anticipating sixteen to eighteen months in advance when the original estimates are framed, inaugural ceremonies likely to take place and to estimate the expenditure therefor. Besides, under this Ministry's Office Memorandum No. F.1 (1)-E.II(A)/63, dated the 11th January, 1963 (Annexure II), the expenditure on such inaugural and social functions has been limited to Rs. 500 per occasion including expenditure of a contingent nature like printing of invitation cards, provision made for *shamianas*, refreshments, garlands, photographs, etc. In this connection, reference is also invited to paragraph 17 of the 26th Report of the P.A.C. (Third Lok Sabha) in which the Committee welcomed the step taken by the Ministry of Finance to fix the above limit and indicated that the results of this measure would be watched through subsequent Audit Reports. It will also be observed that the total expenditure on this account amounted to a little above Rs. 5 lakhs in 1960-61, including an amount of Rs. 2,55,084 for light refreshments. This expenditure was incurred before the limit of Rs. 500 was fixed. As this limit has now been reduced, the total expenditure is likely to be

even smaller. If these amounts are to be exhibited separately in the Budget it will necessitate the opening of a sub-head or a number of sub-heads under individual demands, and the amounts under each sub-head would be insignificant. The objective of apprising the Parliament of the quantum of such expenditure is thus not likely to be achieved as it would be spread in small amounts over individual estimates under each grant and sub-heads thereunder and a consolidated figure of such items would not be available in the budget documents. Any significant violation of the orders of Ministry of Finance that may come to the notice of Audit, during any year will no doubt be reported through the audit report as already desired by the Committee in paragraph 17 of their 26th Report (Third Lok Sabha). In the circumstances it is hoped that the Committee would on reconsideration agree that the expenditure in question need not be exhibited separately in the Budget.

1.4. In regard to expenditure on inaugural ceremonies, laying of foundation stone etc., the Administrative Ministries were given powers in 1954 to incur expenditure upto a maximum of Rs. 5,000 on each occasion. As already mentioned in paragraph 1.3 above, such expenditure has been restricted to Rs. 500 in 1963. No further curtailment of the limit of Rs. 500 is at present considered necessary.

G. C. KATOCH,

*Joint Secretary to the Government of India.*

[Min. of Fin. U.O. No. F.1(6)-E.II(A)/64, dated 16-2-1966].

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## ANNEXURE I

COPY OF MINISTRY OF FINANCE (DEPARTMENT OF ECONOMIC AFFAIRS) O.M. NO. F. 3(58)/62 DATED THE 29TH AUGUST, 1964, ADDRESSED TO ALL MINISTRIES/DEPARTMENTS ETC.

**SUBJECT:—***Budget provision included under "Other Charges".*

The undersigned is directed to state that budget provision included under the unit of appropriation "Other Charges" is normally intended to cover ordinary Contingencies and other miscellaneous items of expenditure the exhibition of which under separate units of appropriation in the Demands for Grants is not, judged from their nature and amounts considered worthwhile or necessary. Instances, however, have come to notice where the provision made under this unit of appropriation includes items of expenditure which do not either represent incidental and other expenses which are incurred for the management of an office as such, and do not consequently

come within the scope of "Contingencies", or which, according to the prescribed rules of classification, fall under other well-recognised categories, e.g. works, grants-in-aid, etc. All the Ministries and Departments are, therefore, requested to take steps henceforth to segregate the estimates of expenditure on the following, and other similar items and include provision in respect thereof under separate units of appropriation, distinct from "Other Charges":—

- (i) Grants-in-aid, Contributions, etc;
- (ii) Stores and Equipment, other than normal office equipments;
- (iii) Plant and Machinery;
- (iv) Works, including Repairs;
- (v) Doles, Relief measures, cost of ration etc.;
- (vi) Arms and Ammunition;
- (vii) Exhibitions and Publicity; and
- (viii) Survey operations, Exploration, Experiments and Research, etc.

2. It has also been noticed that the estimates under "Other Charges" are not always supported by broad details of the component items. It is essential that Part III (Details) of the Demands for Grants should, wherever possible, show the broad details of the various items of expenditure for which provision is included under each unit of appropriation, including "Other Charges", particularly when the amount involved is substantial, say Rs. 5 lakhs or more. The undersigned is, therefore, also directed to impress upon all Ministries/Departments the importance of furnishing on the body of the Estimates of Standing Charges and also the New Item Statements, involving provision under "Other Charges", the broad details of the items comprising the provision proposed under the unit of appropriation.

Sd/- S. K. DAS GUPTA,

*Under Secretary to the Government of India.*

## ANNEXURE II

COPY OF MINISTRY OF FINANCE (DEPARTMENT OF EXPENDITURE),  
E. II(A) 'BRANCHES O.M. NO. F. 1(1)-E.II(A)/63 DT: 11TH  
JANUARY, 1963 ADDRESSED TO ALL MINISTRIES OF THE GOV-  
ERNMENT OF INDIA ETC ETC..

**SUBJECT:—***Economy in expenditure on ceremonies connected with laying of foundation stones, opening of public buildings and such other functions.*

The undersigned is directed to invite a reference to paragraph 1(i) of this Ministry's Office Memorandum No. F. 6(17)E.G.I./54, dated the 22nd November, 1954 in which the Ministries of the Government of India were delegated power to sanction expenditure in connection with the laying of foundation stones and the opening ceremonies of Government undertakings and other Government institutions, subject to a maximum of Rs. 5,000 on each occasion. The President is now pleased to decide that on such inaugural and social functions, the expenditure should not exceed Rs. 500 in all, including expenditure of a contingent nature like printing of invitations, provision of shamianas, refreshments, garlands, photographs etc.

Sd/- HOT CHAND.

*Under Secretary to the Government of India.*

MINISTRY OF FINANCE

(Department of Co-ordination)

**Recommendation**

*The Committee trust that an early decision will be taken on the question of the Central Government themselves undertaking construction of the major projects in the States instead of advancing them loans for the purpose, considering all the difficulties that are being experienced in repayment.*

[S. No. 10, Para 10 (ii) of Appendix to 22nd Report (Third Lok Sabha) ]

**ACTION TAKEN**

The question has been carefully considered, with particular reference to the Irrigation and Power projects, the large projects in the States being mainly in that sector. The question of financing of large irrigation projects in the States came up also before the Committee on Agriculture and Irrigation set up by the National Development Council and the Committee recommend in September, 1965 that for large irrigation projects, adequate provision should be made as ear-marked Central assistance.

2. For the present, it has been decided that generally the construction of major projects in the State sector may continue to be the responsibility of State Governments, the projects forming part of the State Plans. It may be added that the burden of repayment of the loans advanced to the State Governments is duly taken into account while estimating the resources of the State Governments for their development Plans and in the determination of the size of the State Plans. A reasonable balance is thus secured between the resources of the State Government and various commitments, including the repayment obligations to the Centre.

This has been vetted by Audit.

### **(Department of Revenue)**

#### **Recommendation**

*The Committee have already discussed at some length the reasons for variations in the budget estimates and actuals of revenue receipts under Customs, Union Excise Duties and Income Tax and Corporation Tax which mainly account for the increase in actuals. (of. paras 2 to 6, 10, 11, and 36 of 27th Report and para 2 of 28th Report—(Third Lok Sabha). They would only like to reiterate here the imperative need for framing realistic estimates of receipts from the various taxes and arresting the increasing trend of underestimating revenue. The Committee hope that Government would keep under constant review the two main factors which tend to widen the gap between the estimates and actuals viz. deficiency in collection of reliable statistics of economic growth and conservatism in estimating and apply necessary correctives.*

[Serial No. 1 (Para 1) of Appendix XVII to 36th Report]

#### **ACTION TAKEN**

The observation of the Committee have been noted.

[This has been vetted by audit *vide* Shri Gauri Shanker's D. O. No 2459-Rev./PAC/69-64, dated 17-8-1965].

[F. No. 83/45/65-I.T.(B)].

**(Department of Revenue)****Recommendation**

*The Committee have already discussed at some length the reasons for variation in the budget estimates and actuals of revenue receipts under Customs, Union Excise Duties and Income Tax and Corporation Tax which mainly account for the increase in actuals (cf. paras 2 to 6, 10, 11 and 36 of 27th Report and para 2 of 28th Report—Third Lok Sabha). They would only like to reiterate here the imperative need for framing realistic estimates of receipts from the various taxes and arresting the increasing trend of underestimating revenue. The Committee hope that Government would keep under constant review the two main factors which tend to widen the gap between estimates and actuals viz., deficiency in collection of reliable statistics of economic growth and conservatism in estimating and apply necessary correctives.*

[S. No. 1 (Para 1) of Appendix XVII to 36th Report (1964-65).]

**ACTION TAKEN**

Committee's observations have been noted. Certain ways and means of making the estimates of Customs more realistic have been indicated to the Collectors. It has also been emphasised to the various Ministries/Departments concerned to give us more accurate data about imports to be effected by them or by organisations under them. Attention in this connection is invited to replies on paras 10 & 11 of the 27th Report (1964-65), copies enclosed. (Annexures I & II).

**(Department of Revenue)****Recommendation**

*The industrial production and the industrial needs in respect of important items like machinery and fuel oils are well known to the Government and yet for two years in succession the same reason has been advanced for the variations, viz., larger imports of machinery and fuel oils required to meet industrial needs vide Explanatory Memorandum on the Budget of the Central Government, 1963-64, page 10 and ibid 1964-65, page 15). The percentage of variations has increased from 11.9 in 1961-62 to 18.35 in 1962-63. The Committee view this trend of rise in percentage variations from year to year with concern. They feels that this persistent under-estimating of revenues is primarily due to defective budgeting which requires special remedial measures. The Committee desire that the Finance*

*Ministry who are the guardians of the Centre's finances and on whom lies the overall responsibility for framing the Central Government's budget accurately, should supplement the statistical information received from Administrative Ministries with their own independent investigations and researches in order to be able to better assess the industrial and economic trend, movement of foreign exchange etc. and thereby to arrive at more precise estimates. The Committee hope that efforts will be made to improve the budget estimates of customs Revenues. The Committee would like to be informed of the steps, if any, taken already or proposed to be taken hereafter in this direction.*

[S. No. 7 (Para 10) of Appendix XVII to 27th Report (1964-65.)]

#### **ACTION TAKEN**

So far as Customs Revenue is concerned, this Department has issued instructions to the Collectors to make a closer scrutiny of the estimates furnished by the lower formations, before submitting them to this Department. Ways and means have also been suggested to the Collectors for making the estimates more realistic. In the Combined Conference of Collectors of Customs and Collectors of Central Excise held at Madras from 10th to 12th November, 1964, the need for framing the budget estimates on a more realistic basis was again impressed on the Collectors. This Department has also emphasised to the various concerned Ministries/Departments of the Government of India the need to give as accurate data about the respective imports to be effected by them or by organisations under them as possible, so that the budget estimates may be framed with similar accuracy. Inter-Ministerial and Inter-Departmental discussions, before finalising the Customs Revenue Estimates, are also envisaged.

#### **(Department of Revenue)**

#### **Recommendation**

*From the detailed examination of the variations in respect of some minor heads the Committee find that while the overall variation under the head 'Customs' is 18.35 per cent which itself is very high, the variations under some of the individual items are disproportionately large (e.g. High Speed Diesel Oil and Vaporising Oil 119 per cent Machinery, 38 per cent Kerosene and Motor Spirit, 28 per cent Railway Plant and Rolling Stock, 256 per cent Heavy Chemicals (Protective Duty), 123 per cent; Motor Cars, Cycle etc., 89 per cent and Pneumatic Rubber Tubes and Tyres, 68 per cent. The Committee also notice that the Government budgeted for a lower figure than the actuals of the previous year in some cases, (Kerosene oil and*

motor spirit, High Speed Diesel Oil and Vaporising Oil) and ultimately the actuals exceeded both the budget estimates and the revised estimates. From the foregoing, it is obvious that there is scope for considerable improvement in the preparation of estimate of customs revenue. The Committee trust that the cases involving heavy variations will be examined thoroughly by the Ministry of Finance and that suitable remedial measures would be taken so that the estimates are framed more realistically.

(ii) The Committee regret that in one case (Railways), there was no consultation between the Ministry of Finance and the administrative Ministry. The Committee hope that this is an isolated instance. They consider it to be of the utmost importance that timely consultations and discussions are held between the Finance Ministry and other administrative Ministries concerned, at the time of framing original as well as revised estimate.

[S. No. 8 (Para 11) of Appendix XVII 27th Report (1964-65).]

#### ACTION TAKEN

The Committee's observations have been noted. Certain ways and means of making the estimates suggested by the Collectors of Customs more realistic have been indicated to the Collectors. It has also been emphasised to the various Ministries/Departments concerned to give as accurate data about their respective imports to be effected by them or by organisations under them as possible so that the budget estimates to be framed may take them into account. Inter-Ministrial and inter-Departmental discussions to infuse greater accuracy in the estimates are also envisaged.

#### Recommendation

The Committee have already discussed at some length the reasons for variation in the budget estimates and actuals of revenue receipts under Customs, Union Excise Duties and Income Tax and Corporation Tax which mainly account for the increase in actuals (of paras 2 to 6, 10, 11 and 36 of 27th Report and para 2 of 28th Report-Third Lok Sabha). They would only like to reiterate here the imperative need for framing realistic estimates of receipts from the various taxes and arresting the increasing trend of underestimating revenue. The Committee hope that Government would keep under constant review the two main factors which tend to widen the gap between estimates and actual viz., deficiency in collection of reliable statistic of economic growth and conservatism in estimating and apply necessary correctives.

[S. No. 1, (Para 1) of Appendix XVII to 36th Report (1964-65).]

**ACTION TAKEN**

The observations of the Public Accounts Committee have been noted. Adequate statistical information is available in respect of commodities already chargeable to excise, but this is not so in respect of new excises where on account of need for secrecy the enquiry has to be limited in its scope. In order to frame realistic estimates of receipts from the Central Excise, steps have also been taken to consult to Directorate of Sugar and Vanaspati (Ministry of Food and Agriculture), Textile Commissioner, Ministry of Commerce, Ministry of Petroleum and Chemicals, and Directorate General of Technical Development (Ministry of Industry and Supply) with a view to fix budget estimates as accurately as possible based on the estimates of productions and consumptions of excisable goods with which the respective Ministries or Departments are concerned.

F. No. 36/51/65-CX-I.]

(Department of Economic Affairs)

**Recommendation**

*The Committee can well appreciate the hesitancy and reluctance on the part of the Finance Ministry in regard to fixing a limit by Parliament on public borrowing by Government, but the Committee would like to emphasize the healthy principle enunciated in Article 292 of the Constitution. The Committee feel that atleast a practical trial should be given to this principle. This is a very important right of Parliament and is being so exercised in other democratic countries like U.K., U.S.A., Canada and Ceylon. The present procedure under which Parliamentary approval is taken for borrowing programmes as indicated in the Five Year Plans and the Annual Budgets and for the expenditure from the Consolidated Fund to which the loans are credited, does not satisfy the constitutional requirements. The Committee are reassured to know the opinion of the Secretary, Department of Economic Affairs that a proper system of fixing a limit on Government borrowing could be evolved but it would have to take into account certain variations. The Committee feel that the law fixing such limits may have some scope for certain built in flexibilities subject to ex-post facto approval of Parliament. Further these limits might be fixed for each Plan period so that they can be reviewed once in five years. The Committee desire that this matter should be carefully examined.*

**ACTION TAKEN**

The position has been explained in this Ministry's Memorandum No. F. 4(41)W&M/65, dated 5th January, 1966 (copy enclosed).

### Recommendation

*The Committee are glad to learn that all the instalments of principal and interest which fell due during end upto 1962-63 were paid on due dates.*

[S. No. 7 of Appendix XVII to 36th Report—3rd Lok Sabha.]

### ACTION TAKEN

The Committee's observations have been noted.

### Recommendation

*The Committee would like to be informed of the latest position in regard to the enquiry by the Reserve Bank into the affairs of the Banks in Goa and whether the terms of repayment had since been settled.*

[S. No. 17 of Appendix XVIII to 36th Report—3rd Lok Sabha.]

### ACTION TAKEN

The matter is under consideration.

### Recommendation

*The Committee feel concerned over the slow progress of recoveries of the loans advanced by the Rehabilitation Finance Administration. Out of the total amount of Rs. 730 lakhs (Rs. 434 lakhs in the Eastern Region and Rs. 296 lakhs in the Western Region) as on 1st January, 1961, the amount outstanding as on 30th November, 1964 was Rs. 480 lakhs Rs. 382 lakhs in the Eastern Region and Rs. 98 lakhs in the Western Region). The Committee desire that vigorous efforts should be made to expedite the recoveries.*

*The Committee observe that in respect of 2364 accounts in the Eastern and Western Regions loans totalling Rs. 71 lakhs were written off upto 30th November, 1964. The Committee would like to know in how many of these cases the loans had to be written off due to the irregularities committed in the grant of loans at the initial stage viz.,*

- (a) *disregard of the advice given by the local authorities/field staff, etc.*

- (b) *failure on the part of the officials to obtain proper security, and.*
- (c) *bad financial position of the borrowers.*

#### ACTION TAKEN

A separate communication will be sent by the Corporation Branch of this Ministry.

### MINISTRY OF FINANCE

#### (Department of Economic Affairs)

#### Recommendation

*The Committee can well appreciate the hesitancy and reluctance on the part of the Finance Ministry in regard to fixing a limit by Parliament on public borrowing by Government, but the Committee would like to emphasize the healthy principle enunciated in Article 292 of the Constitution. The Committee feel that at least a practical trial should be given to this principle. This is a very important right of Parliament and is being so exercised in other democratic countries like U.K., U.S.A., Canada and Ceylon. The present procedure under which Parliamentary approval is taken for borrowing programmes as indicated in the Five Year Plans and the annual Budgets and for the expenditure from the Consolidated Fund to which the loans are credited, does not satisfy the constitutional requirements. The Committee are reassured to know the opinion of the Secretary, Department of Economic Affairs that a proper system of fixing a limit on Government borrowing could be evolved but it would have to take into account certain variations. The Committee feel that the law fixing such limits may have some scope for certain builtin flexibilities subject to ex-post facto approval of Parliament. Further these limits might be fixed for each Plan period so that they can be reviewed once in five years. The Committee desire that this matter should be carefully examined.*

[Para 11,363 Report (3rd L.S.)]

#### ACTION TAKEN

The Committee's intention seems to be that borrowing limits should be prescribed for each Plan period, presumably separately for each year. As reported earlier to the Committee, broad limits of the net borrowings over the Plan period, through market loans and from the Reserve Bank, as also anticipated budgetary receipts corresponding to external assistance, are indicated in the Plan documents. These limits are in the nature of expectations having regard

to the likely market conditions, savings in the economy and climate for external assistance and there will be practical difficulties in breaking up the limits year-wise. The annual Budget presents the Plan for the year in the light of the requirements of the programmes accepted. By and large, Government's borrowings in a year are regulated within the limits provided in the Budget for the execution of the Plan.

The limits, if any, to be imposed by law would attract both borrowings within the country as also from foreign countries. Parliament exercises current check over the raising of loans through its control over the Budget. It has ample opportunity to discuss these estimates during the General Discussion on the Budget and before the Appropriation Bill is passed.

In the case of market borrowings the amount sought to be raised is specifically provided in the Budget documents and is thus approved by Parliament. No doubt, the timing and the terms and conditions on which the borrowings may be made are not set forth but that is because these details are settled in the light of the advice of the Reserve Bank of India and after taking into account the market conditions prevailing at the time the borrowing is restored to.

The borrowings from the Reserve Bank imply deficit financing. In other words, if at a given point of time Government's requirements could not be met in full from any or all of its resources, including market and external borrowings, it borrows from the Reserve Bank. The extent of borrowing from the Reserve Bank, therefore, necessarily varies from time to time, even during the year itself—according to circumstances, needs and other relevant considerations, the borrowing being high at certain times and low at others. It is only the net figure over the year which is of significance; but any enactment in this regard would obviously have to be with reference to the *maximum* amount of borrowing at any time and not for the *net* amount over the year. As such a presentation would not only be misleading but would hardly serve any purpose, borrowings from Reserve Bank would need to be totally kept out of the purview of any legislation on the subject.

The position in regard to external borrowings is no different. These too depend on all the circumstances being propitious and involve a lot of patent negotiation. It would only lead to complications if the negotiations with foreign.

countries, after they have reached some finality, are held in suspense for want of legislative approval. On the other hand, it would also not be practicable to take approval before proceeding to negotiate as the result of such negotiation cannot be known before hand. Any legislation for prescribing statutory limits on Government's borrowings would, therefore, have to exclude external borrowings from its purview.

If borrowings from Reserve Bank and foreign loans are left out, any legislative approval for the residuary borrowing i.e. by way of market loans, will have little significance. Indeed the fixation of a limit by law will not secure greater control but may hamper the flexibility now available. In view of the above and having regard to the fact that the provisions embodied in Article 292 of the Constitution are permissive and not mandatory, Government are still of the view that no real advantage would be secured by prescribing statutory limits on Government's borrowings.

**(Department of Co-ordination)****Recommendation**

*The Committee hope that such occasions of giving fresh loans for the repayment of earlier loans will be fewer in future. They would also like to be informed of the decision taken in regard to the payment of overdue interest.*

[Para 11 of the 36th Report (III Lok Sabha) ]

**ACTION TAKEN**

The observations of the Committee have been noted. It may be mentioned in this connection that fresh loans for the repayment of earlier loans are given in very exceptional circumstances and not as a matter of course.

2. The question of payment of overdue interest by the Government of Jammu and Kashmir is proposed to be discussed with the Officers of the State Government shortly. The Committee will be apprised of the decision in the matter, as soon as the discussions are completed.

**MINISTRY OF HOME AFFAIRS****Recommendation**

*The Committee hope that such occasions of giving fresh loans for the repayment of earlier loans will be fewer in future. They would also like to be informed of the decision taken in regard to the payment of overdue interest.*

[S. No. 10 of Appendix XVII to 36th Report (1964-65).]

It is appreciated that fresh loans should not ordinarily be granted for repayment of earlier loans and Government would keep in view the observations of the P.A.C. In the present case, however, fresh loans were not granted as a matter of course, and without careful consideration; it was done only in view of the exceptional difficulties in which the Government of Jammu & Kashmir were placed.

As regards payment of overdue interest, the Ministry of Finance (Department of Co-ordination) is proposing to hold comprehensive discussions with the Government of Jammu & Kashmir about their financial problems. A reply about this point will, therefore, be sent to the Committee after the completion of these discussions.

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## MINISTRY OF HEALTH

## Recommendation

*The Committee desires that the Ministry of Health should pursue the recovery of the outstanding loan and interest vigorously.*

[Sl. No. 11 of Appendix XVII to 36th Report (3rd Lok Sabha—1964-65).]

## ACTION TAKEN

The details of the loans as furnished by the A.G.C.R., New Delhi are as under:—

No. & date of letter sanctioning the loan	sanc-	Amount of loan (Rs.)	Amount outstanding	
			Principal	Interest.
F. 3(4)-K/52 dt. 19-3-52	.	1,80,000	..	9,717.53P
F. 3-30 (Ws)/56-P. dt. 31-1-58	.	5,00,000	19,987.08P	41,404.46P
F. 2-69/58-P dt. 10-3-1959	.	9,00,000	34,427.47P	76,077.31P
F. 2-45/59-P dt. 14-3-60	.	5,00,000	18,302.70P	43,088.84P
F. 4-10/62-P dt. 17-3-62	.	13,78,000	46,191.52P	1,29,771.36P
F. 3-24/42-P dt. 28-3-63	.	20,00,000	32,783.08P	90,000.00P
F. 2 (JK)-32/60-P dt. 17/20-3-61	.	14,94,000	52,333.57P	1,31,104.35P
			2,04,025.42P	5,21,163.85P

The arrears of principal of Rs. 2.04 lakhs and the interest of Rs. 5.21 lakhs shown outstanding in Appendix IV of the Audit Report (Civil), 1965, pertaining to the Ministry of Health were cleared by the State Government during 1964-65. The arrears of principal (Rs. 2.04 lakhs) were cleared out of a fresh loan of Rs. 17.46 crores sanctioned by the Ministry of Home Affairs in December, 1964.

## MINISTRY OF FOOD & AGRICULTURE

(Department of Agriculture)

### Recommendation

*The Committee note that there has been delay in recovery of loan from the Govt. of Madhya Pradesh which partly related to the land reclamation charges by the Central Tractor Organisation. If the repayment is dependent on the recoveries from the cultivators, the Committee doubt whether the State Govt. would be able to collect the charges at such a distant date.*

[S. No. 12 (Para 13) of Appendix XVII to 36th Report.]

### ACTION TAKEN

The Government of Madhya Pradesh (*vide* Finance Department letter No. 3236/IV-B/W&M/65, dated 24th April, 1965 to the Accountant General, Madhya Pradesh) ordered the repayment in the accounts for April, 1965, of the amount of the outstanding loans together with interest. The Accountant General, Madhya Pradesh has since intimated that the amount due together with interest has been paid into the account of the Government of India *vide* his letter No. Rep/Central/269 dated the 25th May, 1965.

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## MINISTRY OF FINANCE

(Department of Economic Affairs)

### Recommendation

*The Committee would like to be informed of the latest position in regard to the enquiry by the Reserve Bank into the affairs of the Banks in Goa and whether the terms of repayment had since been settled.*

[S. No. 17 of Appendix XVII to the 36th Report—3rd Lok Sabha.]

### ACTION TAKEN

A note explaining the position is enclosed.

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## MINISTRY OF FINANCE

### (Department of Economic Affairs)

#### THIRTY-SIXTH REPORT OF THE PUBLIC ACCOUNTS COMMITTEE (THIRD LOK SABHA)

The Public Accounts Committee of the Third Lok Sabha desired, *vide* paragraph 18 of the Thirty-sixth Report that the Committee should be informed about the latest position regarding the enquiry by the Reserve Bank into the affairs of the Caixa Economica de Goa and the Banco Nacional Ultramarino. The reports on inspection of these two banks by the Reserve Bank of India under Section 22 of the Goa, Daman and Diu (Banks Reconstruction) Regulation 1962 have since been received. It appears from the Reserve Bank's report and from other information which is available from these banks that the position in regard to the assets of the banks, which are lost or frozen, is broadly as follows:—

Loans advanced by the Central Government (and outstanding at the end of Jan., 1966).	Amount due on account of loans advanced to the former Goa administration for the purchase of aeroplanes, for Radio Goa, for development of the Marmagao harbour and other schemes for utilization by the Junta Comercio Externo (trade control organisation) as on 30-9-65.	Assets lost by the banks as a result of removal of securities and investments to Lisbon or the blocking of payments by the Portuguese authorities.
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(Rs. crores)			
(i) Caixa	2.95	2.28	0.34 (A) 1.18 (B) 0.12 (C) <hr style="width: 50%; margin-left: 0;"/> 1.64
(ii) Banco Nacional.	1.50	Nil	1.18 (D)

(A) Investments in Portuguese Government securities.

(B) Accounts belonging to the Caixa, but locked up in the form of deposits in the Banco Nacional (Rs. 1.15 crores) and balances in Lisbon (Rs. 0.03 crores).

(C) Shares in Estaleiros Navais de Goa (Goa Naval Dockyard).

(D) Includes mainly investments in Portuguese Govt. securities, but also includes shares of Estaleiros Navais de Goa (Goa naval dockyard) as they are not realisable at present.

2. The position as regards the repayment of the loans or the payment of interest thereon has been reviewed from time to time. It appears according to the latest assessment that—

- (i) if the amounts due from the Central Government to the Caixa on account of loans previously granted by the Caixa to the former local administration or to the Junta Comercio or to Radio Goa are set off against the loans due from the Caixa to the Central Government, the balance which is due to the Central Government can be recovered ultimately either fully or to a very substantial extent (this is because the reserve fund, the sale proceeds of immovable properties belonging to the Bank and other miscellaneous assets and interest income in respect of the outstanding advances will be available for the repayment of the advances to the Central Government); and
- (ii) if the advances and other assets of the Banco Nacional are realised to the extent now envisaged, the loan of Rs. 1.50 crores due from the Banco Nacional can also be repaid fully or to a very substantial extent (this is because the Banco Nacional, according to the scheme of reconstruction, has been relieved of the responsibility for the payment of the deposits amounting to about Rs. 6 crores due to the former Portuguese administration and to other Government agencies and the Central Government's loan is in effect entitled to priority).

3. While it is possible that the loans due to the Central Government will ultimately be repaid fully or to a very substantial extent, after the process of winding up of these banks has been completed, it is still not clear at this stage to what extent the interest due on these loans can be paid. This will depend to a very large extent,

- (i) in the case of the Caixa, on the progress in the recovery of the amounts due to the Caixa in about 160 suits, which

are pending with the fiscal courts administered by the Revenue Department of the local administration and also on the Caixa's ability to increase the rates of interest, which are now very low, as and when the time-limit for repayment of the loans is extended, and

- (ii) in the case of the Banco Nacional, on the bank's ability to collect interest for the period of about 12 months for which the bank remained closed after liberation.

4. It is not possible at this stage to ascertain the extent to which the Caixa or the Banco Nacional may be able to realise the amounts due to them under these heads, but as a decision regarding the rate of interest cannot be delayed any further, it is now proposed to take action on the lines indicated below:

- (i) the loans drawn by the Caixa from the Central Government will be adjusted against loans granted by the Caixa to (a) the former Portuguese administration, (b) the Junta Commercio Externo (export and import control organisation) and (c) the Emissora de Goa (Radio Goa), in that order;
- (ii) interest on the balance of the loan after such adjustment will be paid to the Central Government at 5 per cent i.e., the rate appropriate to loans granted by the Central Government to financial institutions for a period of more than four years;
- (iii) interest on the loans granted by the Central Government to the Banco Nacional will also be charged at 5 per cent; and
- (iv) to the extent that the actual ascertained profits of the banks concerned, after the reconstruction of their affairs and the consequent changes in their balance-sheets, are not adequate for the payment of interest at 5 per cent as indicated above, subsidies will be paid by the Central Government after obtaining a vote in the usual course for enabling interest to be paid; and
- (v) as no persons or authority other than the Government of India has now any interest as a shareholder in these banks, the net income or profit available to these institutions will be appropriated wholly by the Central Government.

These decisions will be consistent with the general framework of the Goa, Daman & Diu (Banks Reconstruction) Regulation, 1962.

5. A local firm of auditors, with experience of local laws and regulations, is being appointed to audit the reconstructed accounts of both the Caixa and the Banco Nacional. As soon as the audit report is available, the necessary orders will be issued on the lines indicated in paragraph 4.

6. The position indicated in the foregoing paragraphs, it may be added, was explained to the Public Accounts Committee at its meeting held on the 4th February, 1966.

7. This Note was shown to and has been seen by Audit.

[F. No. 22(7)BC/65, 29-3-1966.]

## MINISTRY OF REHABILITATION

### Recommendation

*The Committee regret to observe that the Ministry of Rehabilitation followed an unusual procedure in selling the Mill to the individual by negotiations and also agreeing to receive the payment in instalments. According to the Ministry's note there are no other evacuee concerns which were sold by negotiation to individuals. Further it was only in the case of one concern that the payment was to be made by instalments and in the other cases the purchasers were required to make payment in lump-sum.*

*The Committee note with surprise the following further concessions given to this individual without much merit—*

- (a) *The individual was originally allowed to pay the amount in 7 instalments instead of lump-sum as usual.*
- (b) *The rate of interest for repayment of the loan is considerably low i.e. 4½ per cent (while the market rate is more than 10 per cent).*
- (c) *The individual has been allowed to repay the loan in 10 instalments instead of 7 fixed originally.*
- (d) *Government has guaranteed a loan of Rs. 5 lacs taken by the individual from the Bombay State Financial Corporation.*

*The Committee feel that when the extension was given, the rate of interest should have been revised and the prevailing market rate*

*of interest should have been charged. The Committee have a feeling that such a low rate of interest 4½ per cent is an inducement to delay the repayment of the loan. The Committee recommend that the Government dues should be recovered forthwith. If, however, any extension of time has to be given, atleast the rate of interest should be raised to bring it in conformity with the present market rate and in the event of default a penal rate of interest should be prescribed. The Committee desire that while considering the application of the individual, the Ministry should also carefully take into consideration the concessions already enjoyed by the individual and the fact that his mill was making profit."*

[S. No. 24 (Para 26) of Appendix XVII to Sixth Report (Third Lok Sabha).]

#### ACTION TAKEN

As for the observations of the Public Accounts Committee that the M.O.R. has followed an unusual procedure in selling the mills to the individual by negotiations and also agreeing to receive the payment by instalments, the circumstances under which the property was sold to the individual were fully explained previously. It may, however, be reiterated that the property was sold to the individual only when all the other alternatives for its disposal have been fully exhausted.

The possibility of departmental management of the mills was considered but it was not found feasible. The Ministry of Commerce & Industry were requested to take over the Mills but they declined. In the past the mills were engaged in manufacture of goods required by the Defence Services and as such the Ministry of Defence were also consulted whether they were interested in taking over the mills, but they also declined. The property was situated near Kalyan where there was large concentration of Displaced Persons and as such it had great employment potential especially for the Displaced Persons. There was constant agitation from the side of the Labour Organisations for early commissioning of the mills, which had remained idle for such a long time. The Ministry of Labour was also putting pressure on this Ministry for early start of the mills.

In whole of the country, there was no other evacuee concern which was so highly priced. There was no question of its sale by public auction as the general public was not interested in it. It could be bought only by big industrialists, who possessed the know-how and had the means for running the mills and number of such

persons is not more than half a dozen in the country. The practical course under the circumstances was to invite tenders, which was done twice but on both the occasions no satisfactory offers were received. The question of disposal of the mills was, therefore, discussed in a meeting held in the year 1956, which was attended by the representatives of (i) Planning Commission (ii) Ministry of Finance (iii) Ministry of Commerce & Industry (iv) Ministry of Works, Housing & Supply and (v) Ministry of Rehabilitation. After considering all the alternatives it was suggested in the meeting that the Textile Commissioner, Bombay may be asked to make efforts to find other interested parties. The Textile Commissioner carried out negotiations with Bagria Group, Century Rayons, Birla Brothers etc., but without any tangible results. The maximum offer made to Textile Commissioner was Rs. 22 lakhs, which was also subject to certain conditions, including a guarantee from the Government for an Import Quota.

When the Textile Commissioner failed to find out suitable parties for purchase of the mills, the matter was placed before the Rehabilitation Committee of the Cabinet, who after due consideration requested Shri \* \* \*, the then Minister of Commerce & Industry to look into the matter and explore some other possibility of disposing of the mill or make some other satisfactory arrangements for their working. After examining the whole matter, he came to the conclusion that the only feasible solution would be to sell the mills to Kanwar Raj Nath, one of the partners of the old lessees who had been agitating for the sale of the mills to him and was offering the highest price.

\* \* \* paid Rs. 20 lakhs in the first instance which was only Rs. 2 lakhs less than the highest offer made by any other party and agreed to pay another Rs. 28 lakhs, in instalments. By the sale of mills to \* \* \*, recovery of Rs. 18 lakhs which were due to be recovered from the old lessees on account of the price of stocks etc., was also ensured. If the mills had not been sold to \* \* \*, there was no possibility of recovery of this amount, which has now been included in the instalments being paid by him.

While disposing of the pool properties, the main consideration before the Government was the resettlement of the Displaced Persons who had suffered heavy monetary losses and borne untold sufferings as a result of the Partition. The rate of interest charged

from the Displaced Persons, to whom the properties in compensation pool were sold on instalment basis was as under:

- (i) If the amount is paid within two years—No interest.
- (ii) If the amount is paid within three years—One per cent per annum.
- (iii) If the amount is paid within four years—Two per cent per annum.
- (iv) If the amount with interest is payable in seven equated annual instalments—4½ per cent per annum.

The rate of interest charged in this case too is 4½ per cent and as such it cannot be said that any special favour was shown to the individual by charging him interest at the rate of 4½ per cent. \* \* \* too was a displaced person, who had suffered tremendously due to partition. He and his four brothers owned considerable urban and industrial properties in West Pakistan. They filed claims against these properties and the total value to which these claims were admitted was Rs. 1 crores and 9 lacs. The total compensation which they received against these claims was only Rs. 10 lacs, which was the maximum payable under the rules \* \* \* had no assets for either purchasing the mills by paying the price in lump-sum, or, thereafter, for meeting the running expenses. It was under these circumstances that the Rehabilitation Committee of Cabinet, after full consideration of the case, agreed to the sale of the mills to \* \* \* on instalment basis and on a subsequent representation from him, allowed the number of instalments to be increased from 7 to 10. To enable him to meet the running expenses of the mills, the Government of India, agreed to stand as a guarantee.

As advised by Public Accounts Committee, a notice was issued to \* \* \* on 30th June, 1965 to deposit the arrears immediately. It was made clear to him that the notice was final and if he failed to deposit the amount within 15 days of the receipt of this notice, the property would be re-entered without further notice. On receipt of the notice \* \* \* requested Chief Settlement Commissioner/Secretary on 10th July, 1965 for an interview. In the interview which took place on 19th August, 1965, \* \* \* stated that as a result of infiltration of the Pakistanis into Kashmir on 5th August, 1965 and subsequent action by our Security Forces, the market had become nervous and they were not receiving any orders for supply of goods and as such his financial condition has become shaky. He, however, promised to pay Rs. 1 lac immediately

and Rs. 2 lacs in the month of September and the balance before the 20th October, 1965.

As the difficulties explained by him appeared to be genuine action to re-enter the property was deferred and the request of the individual to pay the amount as suggested by him was granted. The party however, paid Rs. 50,000 only during the month of August, 1965, instead of Rs. one lac. As he did not keep up his promise, a reminder was issued to him on 9th September, 1965, in reply to which he pointed out his fresh difficulties due to War with Pakistan. In support he has enclosed a copy of the Memorandum submitted by the Indian Wool Association to Shri \* \* \* Textile Commissioner Bombay explaining the special difficulties of woollen industries due to the present state of Emergency created by War with Pakistan, which is appended.

It was stated in the above Memorandum that the goods worth Rs. 18 to Rs. 20 crores are lying with Woollen Industry Unit, which are not being removed by the purchasers and the banks are not prepared to issue credit on the basis of these goods. It has been further impressed that:

- (i) Work of the Woollen Industry is seasonal. Goods are manufactured between the months of January to August. Despatches are made in August and September.
- (ii) Woollen goods are mostly consumed in Northern Provinces, i.e., Jammu & Kashmir, Delhi, Punjab, U.P., Rajasthan and adjoining areas. All these areas are directly effected by War and there is almost complete blockade of trade and commerce in these areas.
- (iii) Money market is very tight. Dealers are reluctant to invest their money and then block it because they are certain that customers are not in buying mood at all.
- (iv) Woollen stocks already in Northern areas are blocked because of general dislocation in transport facilities.
- (v) Banks are reluctant to discount bills against despatches and this has added to the already difficult situation.
- (vi) Due to the over-all situation consumers' resistance has developed for buying goods except for bare necessities of life.

Public Accounts Committee are aware that a representation dated 17th October, 1964 from the individual for further extension of time

for payment of balance instalments was already under consideration of Ministry. The grounds on which he had requested the period to be extended were as follows:—

“Due to Emergency declared after the Chinese attack import licences had been steadily reduced and the licences for the current year were about 1/3rd of those which were issued to this industry in 1961. This drastic cut had resulted in acute shortage of raw materials as a consequence of which not more than 40 per cent of the installed capacity was being employed. To strengthen the foreign exchange reserves of the country, the Government of India were laying stress on maximum of exports of woollens. Export markets required rigid quality control which was difficult to maintain with old machinery. He had obtained licences for the import of machinery of the value of Rs. 30 lacs for the modernisation and rehabilitation. All that required further expenditure which he was unable to meet.”

As the grounds quoted by the individual were of technical nature, the case had been referred to the Ministry of Commerce on 29th May, 1965, for their comments.

Their comments were received on 7th August, 1965 which are appended. They have confirmed that the difficulties explained by \* \* \* were real and they feel that those must have effected the working of the mills. They think that the incumbent was not in a position to pay more than Rs. 4 lacs annually.

The whole case has been reconsidered in the light of the above mentioned circumstances. It is also felt that if the property was re-entered it would involve making alternative arrangements for the running of the mills and until this was done the large number of labour would be rendered un-employed, besides it will create numerous other complications for the Ministry. It is, therefore, proposed that the amount which is still to be recovered from the incumbent may be recovered in 10 instalments by extending the period of instalments by three years. It is however, proposed to revise the rate of interest from  $4\frac{1}{2}$  per cent to  $7\frac{1}{2}$  per cent so as to bring it in conformity with the present market rate of interest and in the event of default a penal rate of interest of  $9\frac{1}{2}$  per cent will be charged. On prompt payment will be entitled to a rebate of 2 per cent. The case has been referred to the Ministry of Finance for their concurrence. The final decision taken will be communicated to the Public Accounts Committee in due course.

## MINISTRY OF COMMERCE

**SUBJECT:—Recoveries towards cost of Ambernath Mills, Bombay, purchased by \* \* \*.**

Will the Ministry of Rehabilitation kindly refer to their U.O. No. F.3(20-B)/Records/CSC/65 dated the 29th May, 1965 on the subject mentioned above. As desired, the views of the Textile Commissioner have been sought and a copy of his U.O. No. Wool/8/6/65-66/4771 dated the 24th July, 1965 received from him is enclosed.

Sd./- B. K. VERMA.

*Under Secretary to the Government of India.*

Ministry of Rehabilitation (Office of the Chief Settlement Commissioner) Jaisalmer House, New Delhi.

Ministry of Commerce U.O. No. 20(56)TEX.(E) 65, dated, 7-8-65.

### TEXTILE COMMISSIONER'S OFFICE, BOMBAY

It is true that the Ahmed Woollen Mills have undertaken a large scale rehabilitation programme of their mill. They had secured licences for value of Rs. 30.23 lakhs during the year, 1963-64. They have secured a further import licence of Rs. 19.11 lakhs towards the end of 1964 for import of machinery for purposes of rehabilitation and modernisation. The total amount of machinery imports against licences issued so far therefore, comes to about Rs. 45.34 lakhs. This excluded the amount of interest, import duty and other levies. The import licences have been issued under various credits made available to us and the repayment for the import of machinery has to be done over a period of about ten years. The cost of this outlay per annum is therefore, likely to be in the neighbourhood of about Rs. 6.5 to Rs. 6.75 lakhs which the mill has to find out of its own resources or by borrowings.

2. As far as raw material imports are concerned, the import licences issued to this mill for the period, 1960-61 (October/September) were of the value of Rs. 24.64 lakhs. As against this, on account

of reduced foreign exchange allocated for import of raw materials under actual users licensing policy, the allocation to this mill for the period 1964-65 (October/September) is Rs. 11.24 lakhs. This no doubt must have affected the working of the mill. The raw materials could be supplemented to a certain extent by utilising indigenously available raw materials or raw materials imported under the export promotion scheme.

3. As far as the indigenous raw materials concerned, this mill being a worsted spinning mill is not in a position to consume any substantial quantities of these raw materials particularly in view of the general consumer resistance towards goods produced out of indigenous raw materials.

4. As far as raw materials imported under export promotion licences are concerned, the mill itself has not been able to develop export market for its own products particularly on account of old machinery. It has, therefore, to rely on purchase of the raw materials from the open market and the premium on the raw materials at present is as high as 200 per cent. The margin of profit therefore, against goods produced out of imported raw materials is rather limited.

5. As far as the question of the party's ability to pay the instalments *vis-a-vis* present income, the party's audited statements of accounts duly certified by the Chartered Accountants have been examined. According to these accounts, net income for each of the years from 1961 to 1964 is as follows:—

	Rs.
Year ending June, 1961 . . . . .	5,20,317.29
Do. 1962 . . . . .	12,03,197.41
Do. 1963 . . . . .	3,52,387.19
Do. 1964 . . . . .	4,65,640.74

6. The above net profits have been arrived at after providing for expenses and depreciation. No, provision, however, has been made for tax liabilities.

7. In the context of the above position and looking into the results upto the year 1964, we may recommend to the Ministry of Rehabilitation that the annual repayment liability may be fixed at approximately Rs. 4 lakhs as requested by the firm. We cannot, however,

say anything about the future. It all depends on the Government's policy in regard to the import of raw materials for the woollen industry. If the present volume of import of raw materials is allowed in future also the mill would be in a reasonable position to pay the dues at the above rates. The question however, could be reviewed at the appropriate time.

Sd./- R. G. ZALANI,

*Deputy Director.*

Ministry of Commerce, New Delhi.

Textile Commissioner's U.O. No. Wool/8 6/65-66, 4771.

Telegram: MERINO

Telephone No. 214046

INDIAN WOOLLEN MILLS' FEDERATION

Registered Office: G-4. Advent Building,

Fereshore Road,

Bombay-1.

Our Ref. F.61(h) 2515

September 14, 1965.

Shri R. Doraiswamy, I.A.S.,  
Textile Commissioner,  
Bombay.

SUB:—*Financial difficulties of Woollen Industry due to Emergency.*

Dear Sir,

This has reference to the discussions our Chairman, Shri B. M. Grover, had with you in your office on Friday, September 10, 1965. Among other subjects, he had raised the specific difficulties of the Woollen Industry in regard to shortage of funds due to the war situation in the North. You had desired that we provide you with facts and figures on this subject.

Firstly, we wish to give you the reasons why the difficulties of the Woollen Industry have become special and specific.

1. Woollen Industry, as you know, is seasonal. Goods are manufactured between the months of January to August. Despatches are made in August and September. In other words, the peak period when stocks are in maximum quantity and despatches are of the maximum degree, is in the months of August and September.

2. Woollen goods mostly are consumed in the Northern provinces, i.e. Jammu and Kashmir, Delhi, Punjab, Uttar Pradesh, Rajasthan and adjoining areas. All these areas are directly affected by the war operations and there is an almost complete stoppage of trade and commerce in these areas.

3. Due to the overall situation, consumer resistance has developed for buying goods except for bare necessities of life. Consumer

**resistance has not only developed in the North but also in areas like Bombay, Bangalore, Calcutta and the Southern Parts. This scare psychosis cannot be explained for all areas but it is there.**

4. Money market is already very tight and this is so far all categories of businessmen. Dealers are very reluctant to invest their money and then block it because they seem certain that customers are not in buying mood at all.

5. Some of the Woollen mills have their stocks already in Northern areas and because of general dislocation in transport facilities rail and truck, these goods are blocked even if there were possibilities to sell them in areas which are not affected yet by the war situation.

6. In August and September the stock position with all woollen mills is at its peak. The financial resources of the mills being completely exhausted already and bank limits having been fully reached, this creates considerable difficulty for the mills.

7. Banks are reluctant to discount bills against despatches and this new development adds its share to the already difficult situation.

The size of the problem will be clear from the figures stated below. Goods worth about Rs. 18 to 20 crores which include yarn and cloth are lying ready with the Woollen Industry units. On the basis of information we have been able to collect from various Banks whose Head Offices are in Bombay and from a number of woollen units, we find that the aggregate of bank limits as it stands today amounts to about Rs. 18 crores. We can take it that there would be an additional limit of Rs. 2 crores available to some smaller units from some smaller banks in different States. The major banks which the Industry deals with are:

1. United Commercial Bank.
2. Bank of Baroda.
3. Central Bank of India.
4. Bank of Tokyo.
5. Punjab National Bank.
6. Hongkong and Shanghai Banking Corp'n.
7. Bank of India.
8. Union Bank of India.

A running mill means running expenses and these expenses can only be met through sale of goods. The Industry waits for nine months to earn during the remaining three months of the year to be able to feed the mills again for the next season. The position has become so desperate that situation might arise very soon that mills will not have money even to pay for the labour wage bill which actually means they would come on the verge of closure.

Government has been kind enough to allocate to the Federation a Special Licence for Rs. two crores for import of raw materials, mainly, for Defence requirements. When the raw materials come and this is all for Emergency requirements, the mills will not have even to pay for this raw material although every mill would be starving for getting the raw material.

The circumstances are special for the Industry as a whole but they are very special for the Woollen Industry due to reasons given above. Even in normal times economy has to be sustained but the Woollen Industry has to play a role for meeting the Emergency requirements of Defence Forces. Therefore, it is very necessary that special steps should be taken to sustain this. We suggest that the Reserve Bank of India should advise the concerned banks to increase the existing limits for units of the Woollen Industry throughout the country. The total additional credit facility should not be less than Rs. 5 crores for the Industry as a whole. Besides, margin requirement for advances may be reduced to 5 per cent. Further, the documentary bills drawn on buying dealers have not been retired by them due to obvious reasons. Banks are calling for payment for these bills from the selling units. Banks have to be liberal in this regard and they should be agreeable to hold these goods in their godowns without insisting on payment of bills from the selling units.

We wish to stress here once again that the matter is very urgent for the Woollen Industry. We request you to kindly use your good offices, with the Reserve Bank of India and secure relief and redress for this special difficulty. You will kindly appreciate that the time factor is very important.

Thanking you,

Yours faithfully,  
Sd./ J. N. CHAUDHRY,  
Secretary General.

Copy forwarded to all Members of the Managing Committee,  
I.W.M.F.

## Recommendation

**ACTION TAKEN**

A copy of the Order that has since been passed by the Collector of Central Excise, Nagpur, admitting the appeal of M/s. R.S.R.C. Mohta Spinning and Weaving Mills, Private Limited, Akola, without prejudice to any action that may be taken against them for wrong maintenance of the statutory accounts, is enclosed.

[F. No. 1/3/62-CXII]

**Grams: CENEXCISE**

**Phone: 2612**

**CENTRAL EXCISE COLLECTORATE, M.P. AND VIDHARBA, POST BOX No. 81,  
NAGPUR**

*Nagpur, the 13th August, 1964.*

*Order in Appeal No. Cotton Fabrics 1 of 1962*

Passed by Shri Tilak Raj.

Collector of Central Excise, Nagpur.

**Name of the Appellant: M/s. R.S.R.G. Mohta Spinning and Weaving  
Mills. Private Limited. Akola.**

**Read:—Appeal dated 27th December, 1961 from M/s. R.S.R.G. Spin-  
ning and Weaving Mills, Private Limited, Akola against  
Superintendent of Central Excise, Akola's order C. No. VI(a)  
3-1/CE/61//10127, dated 29th September, 1961.**

**ORDER**

Having examined the facts of the case and the grounds urged in the petition of appeal I order that, without prejudice to any action being taken by the Assistant Collector of Central Excise, I.D.O. Nagpur against the said mills for wrong maintenance of the statutory accounts prescribed under the Central Excise Rules, 1944, the order C. No. VI(a)3-1/CE/61/10127 dated 29th September, 1961 passed by the erstwhile Superintendent, Central Excise Akola be, hereby, vacated and the appeal be admitted.

Sd./- **TILAK RAJ,**

**13-8-64**

*Collector.*

**C. No. VI(a)-2-1/62/69072—75.**

**Nagpur, d/- 19-8-1964.**

**Copy to:—**

- 1. M/s. R.S.R.G. Mohta Spinning and Weaving Mills, Private Ltd., Akola.**
- 2. The Assistant Collector, Central Excise, Nagpur with reference to his letter No. VI(a)21-2/62/6670 dated 8th June,**

1962. He may examine further if any action is warranted against the mills for wrongful maintenance of statutory accounts and should proceed against them accordingly.

3. The Deputy Superintendent, Central Excise, M.O.R. Akola.

4. The Inspector of Central Excise I/C, R.S.R.G. Mohta Spinning and Weaving Mills, Private Limited, Akola.

Sd./- T. N. HINGORANI,

Superintendent(s) for Collector.  
Phone No. 2071.

*Detailed note dated the 13th August, 1964, recorded by the Collector of Central Excise, Nagpur, leading upto his Order-in-Appeal No. Cotton fabrics 1 of 1962 dated the 13th August, 1964.*

I have examined the appeal with reference to facts revealed by further investigation carried out by the Assistant Collector, Central Excise, Nagpur.

2. I find that the stock taking variations charged to duty by the Superintendent, Central Excise, Akola, were arrived at on the basis of incorrect accounts. The R.G.I. register was incorrectly maintained and the balance in the register, for arriving at shortages involved in the demand, was not correct. This fact has sufficiently been established as would be seen from the closing balance of 20th April, 1958 which was shown as 15,75,209 yards as against the correct balance of 12,75,209 yards. The arithmetical error of three lakhs yards inflated the balance which was carried over. Similarly, the correct balance in R.G.I. on 20th November, 1958 should have been 17,45,511 instead of the balance mentioned as 17,65,511 yards. There are numerous instances of such arithmetical inaccuracies in the statutory record R.G.I. which should not have been relied upon by the Superintendent, Central Excise, Akola.

3. The accounts had to be recast to arrive at the correct figures of production, clearances and stock. The comparison of stock taking reports with the recast accounts has shown that the losses during different periods were very nominal in comparison with the losses charged to duty by the Superintendent. All these losses were noticed in loose cloth only lying in various sections in the mill including

the folding section. These nominal losses also were not real on account of the following reasons:—

- (i) Loose cloth is not actually measured at the time of stock-taking but the yardage is computed on the basis of accepted weight of the fabrics.
- (ii) On account of various processes to which grey cloth coming out of the looms is subjected, there are large variations due to shrinkage and elongation. These variations in different processes are not separately determined but finally appear in the stock-taking done by the mill.
- (iii) Prior to 15th May, 1957, the stock taking was restricted to baled cloth in B.S.R. only. This did not relate to loose cloth in various departments. Therefore, variations in loose cloth prior to 15th May, 1957 were those ascertained by the mills only and not by the Central Excise Staff. The method of ascertaining the stock as above resulted in variations.
- (iv) After 15th May, 1957 stock taking was to be done of the finished fabrics both baled and loose, that is to say, bales deposited in B.S.R. and finished fabrics in folding section. Since the appellant mill is maintaining R.G.1 register at the 'off-loom' stage the production and the balance in R.G.1 is in respect of all cloth lying in store room, folding section and other departments from the weaving section to the final processing section. It was, therefore, not possible to confine the stock-taking of loose cloth only to the folding section. The Officers were therefore, associating with the mill staff in the process of stock-taking of the loose cloth. Since variations in loose cloth were apparently on presumptive basis no action on such variations had been taken.
- (v) The stock of baled cloth was being actually taken by Central Excise Staff and there were no variations whatsoever.
- (vi) There can be no method to ascertain exact stock of loose cloth under various processes. As such the variations if any noticed as computed on the above basis cannot be said to be reliable. It is clear that the stock-taking of

loose cloth can neither be correct nor accurate whatever variations were noticed, these were hypothetical.

- (vii) It was considered in the Board's letter F. No. 35/47 61-CXII dated 27th July, 1961 that in textile mills maintaining R.G.1 at 'off-loom' stage, the position was quite complicated in regard to stock-taking of loose cloth and that the balance of R.G.1 cannot at any point of time correspond to the actual stock existing in the mill. The Board had, therefore, laid down that the purpose of stock-taking could not be to un-earth any shortage due to clandestine removal but only to ascertain the extent of variation for necessary adjustments in the R.G. register.

The above make it clear that the shortages in loose cloth being hypothetical could not be objected to charge of duty unless there is same evidence of removal outside the factory. In the instant case the actual shortage in medium variety during 1st January, 1956 to 30th June, 1956 based on recast counts was about 0.3 per cent only as against the shortage of 13.9 per cent worked out by the Superintendent, Central Excise, Akola. Similarly in coarse variety there was an excess of about 0.4 per cent as against the shortage of 0.6 per cent shown by the Superintendent, Central Excise, Akola. As already explained the variations worked out by the Superintendent were not correct on account of the faulty account taken as basis by him. Accepting therefore the correct position now emerging, the loss of 0.3 per cent in loose cloth during 1st January, 1956 to 30th June, 1958 appears almost negligible. The Superintendent's demand to the extent of Rs. 1,67,408.99 for this period is, therefore, not tenable.

Similarly in case of further stock-taking periods the losses were negligible on the basis of recast account. Even the overall position since 1st January, 1956 to 30th June, 1960 reveals that the losses were almost negligible and within reasonable limits.

4. Superintendent, Central Excise, Akola had worked out the variations for loose as well as packed cloth together. It was, therefore, not proper on his part to again work out the variations for packed cloth separately and charge it to duty. This amounted to double taxation. Even looking into the variations pointed out by him in regard to packed cloth, I find that there are no cogent reasons to substantiate the same. These reasons were admitted by the Superintendent, Central Excise, Akola himself in his report. The very fact that the total number of bales agreed at all times suggests that

the variations arrived at by the Superintendent were the result of the incorrect accounts maintained by the mill. The small variations in yardage were due to inaccurate maintenance of accounts by mills staff as has been proved already.

5. Further categorisation in cotton fabrics namely bleached, grey came into effect from 4th July, 1958. It has been seen that the shortages in bleached variety were almost counterbalanced by excesses in grey and that there is sufficient force in the appellant's contention that such differences were due to wrong accounting on the part of the mill staff, as also the practice adopted in showing the cloth proposed to be bleached as actually bleached for the purpose of account, although such cloth at times was being subsequently packed in grey state only. It happened that necessary adjustments in this regard were not made in the accounts by the mills' staff.

6. The entire position examined as above reveals to me that:

- (i) the actual shortages were negligible, and were well within the reasonable limits. Mostly the wrong maintenance of accounts (R.G.1) had caused the variations to appear abnormal and disproportionate. The demand raised by the Superintendent was not based on correct data;
- (ii) the mill had failed in complying with its obligations to maintain the statutory accounts truly and correctly; and
- (iii) the Central Excise Officers posted at the factory during this period had not properly attended to the checks of the statutory accounts and the basic documents from which such accounts were built up.

7. I accordingly, order that, without prejudice to any action that may be taken by the Assistant Collector, Central Excise, Nagpur for inaccurate maintenance of the accounts prescribed under the Central Excise Rules, the order No. VI(a)3-1/CE/61/10127 dated 27th September, 1961 passed by the Superintendent, Central Excise, Akola is vacated, and the appeal is admitted. The Assistant Collector should be told to take action against the mill for inaccurate maintenance of the accounts and to proceed further in the matter. As regards disciplinary aspects, the matter is already under enquiry and is being looked into separately.

## MINISTRY OF FINANCE

### (Department of Revenue & Company Law)

#### Recommendation

*The Committee note the difficulties involved in the levy of new duties on finished goods lying with factories on the 28th of February. If the present procedure is to be effective, the Committee feel that utmost vigilance on the part of Excise Officers is necessary in determining pre-excite stocks with factories. The present case is one where proper vigilance was not exercised resulting in short-levy of duty amounting to Rs. 9,059. The Committee desire that existing procedure should be streamlined to ensure non-recurrence of such omissions. The Committee trust that the balance amount of duty (Rs. 2,964) will be recovered early.*

[S. No. 23 of Appendix XIII to 21st Report, 1963-64].

#### ACTION TAKEN

With reference to the position already-reported to the Committee, it may be stated that the entire arrears of duty amounting to Rs. 2,964 have since been recovered

[F. No. 10/1/63-CX.VII.]

#### Recommendation

*While the Committee do not question the justification of the Assistant Collector's ruling in classifying badami and unbleached paper in this case as printing and writing paper (which was liable to the lower rate of duty), they feel that before coming to this conclusion the officer should have consulted the Central Board of Revenue since two technical officers viz. Deputy Chief Chemist and the Chief Chemist had opined that it was classifiable as packing and wrapping paper (which was liable to the higher rate). The Committee suggest that the Ministry should examine the possibility of laying down that in all cases where the Excise Officers differ from Technical Officers of the rank of Chief Chemist, the matter should be referred to the Board for a ruling.*

[S. No. 26 Appendix XIII to 21st Report 1963-64].

## ACTION TAKEN

The suggestion has been very carefully considered by the Ministry of Finance (Department of Revenue and Company Law). As the law stands at present the classification and assessment of goods for the purpose of collecting the Central Excise duty is primarily the function of the "Central Excise Officer" i.e. the Assessing officer concerned. In any case the Chemical wing is not the assessing unit; its function is purely advisory on questions of fact. Classification of a particular article for the purpose of assessment involves an interpretation of law as well. Eventually, it is the statutory function and responsibility of the Central Excise officer and not of the Chemical Department. In individual cases of doubtful classification, therefore, while the assessing officers have to pay due regard to the opinion expressed by Technical officers on questions of fact, which provides the necessary guidance, they need not and cannot, be solely guided by such an opinion on classification inasmuch as various other factors like normal commercial practice and parlance, as well as the major use to which such goods are put will also have to be taken into consideration in arriving at a decision.

2. In common with the Customs Wing, general instructions already exist with regard to the procedures to be followed in the interpretation of the Central Excise Tariff and disposal of doubtful cases. These instructions provide *inter alia* for mutual consultations among the Collectors and for reference to the Board for orders where such reference is considered necessary. In matters involving assessments and revenue, these instructions further provide for adequate regard being paid to Government's interests keeping in view that Government have no appeal if the decision goes against them whereas the assessee has a right of redress by way of appeal/revision application procedure prescribed for him under section 35/36 of the Central Excise and Salt Act, 1944. These instructions have stood the test of time.

3. In individual cases of doubtful or disputed assessment, therefore, the Collectors of Central Excise have to take a decision themselves in the first instance. In cases where they themselves are in doubt the Collectors can and do refer the matter to the Board but only in general terms so that their doubts could be resolved and tariff rulings or general directions issued. Individual cases as such, are not expected to be referred to the Board for decision for the reason that in case the Board takes a decision and the assessee is still aggrieved by it, he is in fact deprived of the second remedy by way of appeal to the Board (provided under section 35 of the Central

**Excises and Salt Act, 1944)** when he has a right to be heard by the Board.

The existing instructions as above are therefore, considered adequate to safeguard revenue and, at the same time, not affecting the rights of the assessee provided by law, for getting redress where he is aggrieved by a particular decision.

4. The correct procedure to be followed in all such cases is again being brought to the notice of Collectors, and it is being further provided that in all such cases where there is a difference of opinion between the Chemical Examiner and the assessing Central Excise officer, the matter should be immediately brought to the personal notice of the Collector before any decision is taken. The Collector can then follow the procedure outlined above and if considered necessary, also make a reference to the Board in general terms. It is believed that this will serve the purpose the Committee has in view.

5. The audit to whom the draft reply as in the foregoing paragraphs had been sent for vetting have communicated their comments in the matter as in paragraph 2 of the Director (Revenue Audit)'s letter No. 1231-Rev./138-63 dated the 10th July, 1964 addressed to the Secretary, Central Board of Excise & Customs, a copy of which is annexed hereto.

[F. No. 22/11/64-CXVI.]

## ANNEXURE

**Extract of para. 2 from Director of Revenue Audit's letter No. 1231-Rev./138-63, dated the 10th July, 1964, addressed to Secretary, Central Board of Excise & Customs, New Delhi.**

**SUBJECT:—Twenty-first report of the Public Accounts Committee 63-64—Reply to serial Nos. 33, 26, 35 and 27 of Appendix XIII to the Report—vetting of—**

\* \* \* \* \*

[ (2) S. No. 26—Appendix XIII to the Twenty-first Report, 63-64.]

(i) *Para 11:*—It still seems to audit that the recommendations of the P.A.C. on this para are precise and quite reasonable to follow. The committee, have suggested the desirability of references only in those cases, to the Board, for a ruling, where the opinion given by an officer of the rank of Chief Chemist has been overruled by the Collector. It is evident that the idea behind this was certainly not to vest in the Chemical Wing either the responsibility or the discretion exercisable by the Central Excise Officers under the Central Excise Law. While making their recommendation, the P.A.C. were fully aware of the fact that the functions of the Chemical Wing are purely advisory and legally the Collector could overrule the opinion. In this background, a discussion of the matters like commercial practice and parlance, enduse of the products etc. would seem to be not quite in context. The considerations which could have prompted the P.A.C. to make a recommendation of the nature mentioned above can briefly be summarised as follows:—

The Chief Chemist is a technical officer of the highest rank of the Central Excise department who is supposed to have an expert knowledge not only in regard to the technical examination of the excisable goods but also in regard to the tariff classification applicable to such goods. Incidentally he is also a 'Central Excise Officer' for certain purposes. It is only logical to hold that due weight should be given to the opinions expressed by him on matters referred to him by the Central Excise Officers. Ordinarily, the opinion given by the Chief Chemist should not be brushed aside except when such a course is warranted by circumstances of a special nature. In case the Central Board of Excise and Customs is kept informed by the Collectors of the cases in which they have overruled the opinion of the Chief Chemist, the Board can, at least, ensure that there is no abuse of discretionary powers.

(ii) *Paras 3 & 4:—*The observation that the assessee will be deprived of the legal remedy by way of appeal to the Board, in case the Board takes a decision earlier, will equally hold good where an Assistant Collector has with the prior approval of the Collector, decided the tariff classification of goods. Audit is, therefore, of the view that it would be desirable if the Collectors are required to make a reference to the Board in general terms in all those cases where they are not in agreement with the opinion given by the Chief Chemist.

\* \* \* \* \*

#### Recommendation

*While the Committee appreciate that in the special circumstances of this case referred to in para 29 of the Report, the assessment being provisional, the mistake might have been detected at the time of the final adjustment, they were anxious that the Excise Officers should keep themselves abreast of the various minute definitions of commodities given in the Finance Act and the related rulings so that they might avoid any pitfalls in making assessments.*

[S. No. 28 of Appendix XIII to 21st Report 1963-64.]

#### ACTION TAKEN

*The observations of the Committee have been noted. It may be stated in this connection that according to the existing procedure the field officers are kept informed of such important changes including change in definition.*

[F. No. 15/16/64-CXIV].

#### Recommendation

(i) *The Committee find little justification for condoning large stock deficiencies in the annual stock taking of the tyre and tube manufacturing concern for the years 1957-58. While the Committee note the difficulty experienced in reconciling finished tyres with unfinished ones because of double accounting of certain tyres and faulty book-keeping, they feel that no serious attempt was made by the Excise Officers or the manufacturers to locate the errors. On the other hand there was lack of co-operation on the part of the manufacturers to produce certain accounts. In the opinion of the Committee the situation justified the recovery of duty on shortages in terms of rule 223-A of the Central Excise Rules, 1944 read with para 82 of the Manual of Tyres and Tubes (1953 edition).*

(ii) *The Committee understand from Audit that in the case of another major manufacturer a sum of Rs. 17 lakhs had been recovered on this basis. (The manufacturer has appealed against the recovery). It is not clear to the Committee why a special treatment was accorded to the firm in question.*

(iii) *As regards the question of the unworkability of existing procedure of reconciliation in tyres factories, the Committee feel that with better standards of accounting in factories, it should be possible to achieve reconciliation of finished products with unfinished ones. It is hardly necessary to emphasis the importance of checking actual production with raw materials and unfinished units in big industries. The Committee hope that a suitable formula will be evolved in consultation with the industries concerned to act as a second check on the figures of production.*

[S. No. 29 of Appendix XIII to 21st Report 1963-64.]

#### ACTION TAKEN

A self-contained note is enclosed.

*Self contained note in reply to:—Serial No. 29 of Appendix XIII to the Public Accounts Committee Report 1963-64.*

Ever since the inception of Central Excise duty on tyres and tubes in 1941, the Dunlop Group of factories has been permitted to manufacture tyres and tubes for three different manufacturers, namely:—

- (1) Dunlop Tyre Company,
- (2) Goodyear Tyre Company, and
- (3) India Tyre Company.

The tyres and tubes are manufactured in the same shops on behalf of three manufacturers and they are brought to the Base Stores for the purpose of checking and inspection. It is at this stage that, according to the internal control exercised by the manufacturers, manufacturing shops hand over finished goods to the stores Department and renders an account of the raw material supplied. Such tyres and tubes as are found to be of the desired grade and quality, and marketable, are passed on to the different approved store rooms belonging to the respective manufacturers. The practice followed upto the end of the year 1955 was to account, as the day's production, at this stage, the number of tyres distributed among the different

manufacturers from the Base Store. No tyres are delivered at any stage upto and including the Base Store.

2. This established accounting procedure was changed with effect from the 1st January, 1956 for Central Excise purposes, although the system of internal control by the manufactures remained unchanged. The change was confined to tyres and did not extend to tubes mainly because rejection of tubes after moulding was far greater. Under the new procedure, the number of tyres coming out of the 'moulds' was taken as the quantity produced for entry in R.G. 1 (Daily Stock Account prescribed under Central Excise Rules). This change, was made on the basis of the argument that theoretically what comes out of the moulds is recognisable as a 'tyre'. It was no doubt anticipated that in actual practice such a tyre would be subjected to various processes of trimming, finishing, inspection and wrapping and only after passing through these stages it could really be considered as a fully manufactured tyre in a 'marketable' form. It was, however, hoped that it would be feasible to maintain a proper record in respect of each of those stages. That hope did not, however, prove to be well founded.

3. The revised procedure stipulated that the daily production for purposes of the R.G. 1 account should be based on the figures extracted from the "Pan sheets" maintained by the various moulding sections of the factory. All the tyres taken out from the mould do not represent the actual production because (a) all tyres moulded are not fit for consumption, some of these are either crapped or remoulded (b) wrong accounting by the moulders to boost up production figures at times does occur as has been established by sample surveys (c) some amount of double accounting in "Pan sheets" takes place as tyres received for remoulding, are also entered therein.

5. A she-cause notice was issued under Rule 223-A of the Cent-noticed at the time of 1957 stock-taking by the local Central Excise Officers in one Collectorate has to be considered.

5. A show-cause notice was issued under Rule 223-A of the Central Excise Rules, 1944 in respect of the above shortages. The manufacturers, however, explained that the system of accounting had its inherent defects and certain book-keeping errors were bound to creep in. In this connection they invited a reference to an earlier communication of theirs in which they had dealt with, in detail, the defects in the accounting procedure and on the basis of which the 1956 shortages had also been condoned. They also argued that when com-

pared with the total clearances during the year, the shortages were very small indeed.

6. Having regard to the background explained above, and accepting the explanation offered by the licensees, the local Central Excise authorities condoned the deficiencies.

7. In consultation with the industry the possibility of evolving a procedure to reconcile raw material account with the final production figures will be pursued.

### Recommendation

*The Committee appreciate that the introduction of the compounded levy is meant to help the small producers, who under this system are not required to maintain detailed records of production. The Committee are also aware that the adoption of the compounded levy system would reduce the cost of collection. The Committee, however, have doubts about the validity of the system which has changed the very basis of the levy of duty from the actual value of production of goods as laid down in the Act to the number and type of equipment employed in production. The Committee are glad to be informed that it is proposed to amend the Act to include a provision for the compounded levy system. This will remove the possibility of doubts about the validity of the system. The Committee hope that this action will be expedited. In the meantime, the Committee hope that the matter would be referred to the Attorney General as suggested by the Comptroller and Auditor General to clarify the legal position without doubt.*

[S. No. 31 of Appendix XIII to 21st Report, 1963-64].

### ACTION TAKEN

The need to make a clear statutory provision enabling the compounding of duty liabilities of any manufacturer or class of manufacturers in the Central Excises and Salt Act, 1944, has been noted for action, along with several other amendments which are contemplated in the near future.

A copy of the opinion of the Attorney General of India about the legal validity of the compounded levy system is enclosed.

[F. No. 39/85/62-CXIII.]

**COPY OF THE OPINION OF THE ATTORNEY GENERAL OF INDIA**

**Re: Compounded levy system—Legality of—Sections 3(1) and 37 of the Central Excises and Salt Act, 1944 (1 of 1944)**

**OPINION**

The Central Excise Rules in question were made under section 37 of the Central Excises and Salt Act, 1944. That section gives the Central Government power to make rules to carry into effect the purposes of this Act and in particular and without prejudice to the generality of that power it authorises the Government to make rules for various purposes. Section 37(2) (i) provides for the assessment and collection of duties of excise and the manner in which the duty shall be payable and the recovery of duty not paid. Section 37(2) (xv) provides for authorisation and regulation of the composition of offences against or liabilities incurred under the Act or the rules made thereunder.

2. The question is whether rules 96-I and 96-J are *intra vires* or *ultra vires* the rule-making power given by section 37. Rule 96-I empowers a manufacturer producing cotton fabrics etc. in factories commonly known as powerloom factories to make an application to the Collector in the prescribed form and on such application being granted the special provisions contained in the particular section of the rules would apply to him in substitution of the provisions contained elsewhere than in that section of the rules for the named period. Rule 96-J empowers the Central Government by notification in the Official Gazette to fix from time to time a rate per shift per powerloom and if a manufacturer whose application has been granted under rule 96-I pays in any month a sum calculated according to such rate in the manner and subject to the conditions and limitations therein contained such payment is to be a full discharge of his liability for the duty leviable on his production of cotton fabrics etc. during the month next following. Do these rules constitute a different method of levy and incidence of the duty or do they provide a measure of payment for discharge of the amount of duty otherwise recoverable?

3. The objection taken to this rule is that item 12 of the First Schedule to the Act which deals with the duty on cotton fabrics provides for a levy of the duty per sq. metre whereas rule 96-J provides for a different basis, i.e. on the basis of powerlooms. At first sight it would appear as if by rule there was a variation of the rate and method as indicated in the Schedule. The Schedule is referred to in section 3 which provides that "there shall be levied and collected in such manner as may be prescribed duties of excise as and at the rates set forth in the First Schedule." The section therefore indicates the rate of levy and leaves the manner to be prescribed. Now

Rules 96-I and 96-J which are in question are contained in section E-III which is included in Chapter V of the Central Excise Rules. The validity of any rule can be justified under any one or more of the powers granted under section 37. At one stage it was attempted to justify these rules as being in the nature of exemption from duty. This in my opinion would not be correct. No doubt the duty calculated in the manner contemplated in rules 96-I and 96-J would come to a lesser amount than if the method and rates in the Schedule were applied, but it is not possible, I think, to say that the result is in law an exemption from payment of the difference. It would be more correct and right to justify them on the ground that they are a composition of the liability for the payment of duty already incurred. The Supreme Court has held that an excise duty is one on the fact of production of goods not related to or dependent upon any commercial transaction in them. The taxable event is the actual production regardless of what happens to them thereafter, whether they are sold, consumed, destroyed or given away. Thus the duty at the rate in the Schedule attaches and becomes due the moment the goods are produced. It is true that ordinarily the actual collection is made at a later stage, but that is for convenience of collection. The duty having thus become quantified and due as at the actual stage of production; rules 96-I and 96-J allow the manufacturer to pay a lesser sum than that which has become due in satisfaction of the whole amount. Rule 96-J in terms states that if the manufacturer pays the sum stipulated for in 96-J, then such payment shall be "a full discharge" of his liability for the duty leviable on his production of fabrics in the month following. If Government had simply stated that in certain cases the manufacturer could compound by paying a proportion of levy of the duty due that would clearly have been a composition of his liability instead of so providing a method of calculation as provided and the resultant of that calculation is to be paid in satisfaction and discharge of the liability. The rule itself seems to envisage an existing liability which is to be discharged in a particular manner.

4. It has been objected that the general power in clause (i) of section 37 cannot enable the Government to make rules which are *ultra vires*. That seems to beg the question which is really whether:

- (a) the rules are for putting into effect the purposes of the Act; and
- (b) whether, having regard to 37(xv) they are rules for the discharge of an existing liability.

The purpose of the Act no doubt is to levy duty, but it is incidental to that to exempt certain goods from the duty in proper cases.

Equally, the collection of duty is a purpose of the Act and the collection in a particular manner would fall within the rule-making power. But if, as I think it is, the rule is a rule for the composition of incurred liability then it clearly falls, in any event, within the statutory power under 37 (xv).

I would suggest that the Act should be amended in order to put the matter beyond doubt. A possible objection to the view I have taken may be that rule 37(xv) comprises both composition of offences and liabilities and the liabilities mentioned in the rule should therefore be restricted to those liabilities which are connected with a breach of the provisions of the Act or some offence. There are, for instance, powers of confiscation and the adjudging of penalties which create liabilities connected with offences or breaches of the Act. I do not think that section 37 (xv) can be so narrowly constructed. However, it would be better to amend the Act itself to put the matter beyond all question.

NEW DELHI;  
October 3, 1964.

Sd/- C. K. DAPHTARY,  
Attorney-General of India,

### Recommendation

*The Committee would like to be informed of the result of the Court proceedings and of the action taken against the officers responsible for the under-assessment in this case (Rs. 1,17,658/-)*

[S. No. 32 (Para 33) of Appendix XIII to 21st Report, 1963-64.]

### ACTION TAKEN

With regard to the Court proceedings, the position is that the cases are still pending in the High Court of Judicature of Andhra Pradesh at Hyderabad.

2. As regards the action against the officers responsible for the under-assessment, the Collector of Central Excise, Hyderabad had suggested disciplinary proceedings against 2 Superintendents of Central Excise and 3 Inspectors of Central Excise and had forwarded the draft charge-sheets against them. It was considered that apart from the officials mentioned by the Collector, two senior officers were also responsible for the issue of wrong instructions. Accordingly the Collector was asked to intimate the circumstances under which incorrect instructions were issued. In reply the Collector indicated

the circumstances leading to the issue of incorrect instructions and at the same time expressed the view that there was nothing wrong in the instructions issued. The Central Vigilance Commission who were consulted, advised that there was no need for taking disciplinary action against the Collector and Deputy Collector concerned, since no *mala fides* could be attributed to them for giving an incorrect interpretation of the Board's orders and since the language used in the Board's circular was not sufficiently clear. The Central Vigilance Commission also recommended that disciplinary proceedings may be instituted against the five officials specified by the Collector of Central Excise, Hyderabad. In respect of one of the officials, in whose case the President is the appointing authority, disciplinary proceedings have been initiated by this Ministry and his reply to the charge-sheet is awaited. In respect of the remaining officials, the Collector of Central Excise, Hyderabad was asked to initiate disciplinary action against them since he is the appointing/disciplinary authority in their cases. Necessary action is being taken by the Collector.

### (Department of Economic Affairs)

#### Recommendation

(i) *From the explanations offered by the representative of the Department of Revenue and Expenditure, the Committee note that certain correctives are applied to the revenue estimates received from the subordinate offices. This does not, however, minimise the need for bringing about a reorientation in the approach of the local officers on whom rests the responsibility for furnishing the initial estimates to avoid undue conservatism in preparation of estimates. The Committee trust that necessary steps in this regard, if not already taken, would be taken now.*

(ii) *In regard to the statistical basis of the Budget Estimates, while the Committee note that some coordination does not exist between the Finance Ministry and the administrative Ministries on the one hand and the specialised agencies of Government like the Department of Technical Development, Planning Commission, etc. on the other, they feel that the machinery for collecting statistics in the Ministry of Finance should be strengthened, in order to enable it to assess more accurately the growth of production in the country and its impact on the collection of taxes. Revenue receipts depend upon the overall economic growth in the country and estimates of revenue receipts can be more accurate, if statistical data on the overall production in the country is adequate, reliable and up-to-date. The Committee, therefore, feel that effective steps should be taken to fill up the deficiency in collection of reliable statistics of*

*economic growth, so that estimates of revenue are prepared on a realistic basis.*

[S. No. 1 of Appendix XVII to 27th Report (Third Lok Sabha).]

**ACTION TAKEN**

**A note is enclosed**

No. F. 8(6)-B/65

**MINISTRY OF FINANCE**

**(Department of Economic Affairs)**

*New Delhi, the 2nd February, 1966.*

The estimates in respect of the main Revenue Heads, with which the Revenue Department are concerned viz. Income Tax including Corporation Tax, Union Excise Duties and Customs, are initially proposed by the Commissioners/Collectors, as the case may be. The procedure followed in this regard is that the Revised Estimates in respect of the current year are first prepared, with reference to the statistical data relating to the current year which are available in the Commissioners'/Collectors' offices. For example, the statistical data relevant for purposes of Income Tax including Corporation Tax are: the number of assessees on register, the profits earned by companies and dividends declared by them the demand raised and the collections already made, arrear assessments likely to be completed, collections likely to be made in the rest of the year with reference to the outstanding demand, etc. In the case of Excise Duties, the relevant factors are: production and clearance of excisable commodities and the collections already made, the likely clearances during the rest of the year having regard to the anticipated production, accumulated stocks and expected level of demand. In the case of Customs, the imports already made and the collections effected in respect thereof, and the likely level of imports during the rest of the year as ascertained from local Government Departments who are major importers, are taken into account. The Revised Estimates so prepared are projected while preparing the Budget Estimates for next year in the light of the available information with the Commissioners/Collectors.

2. The Estimates proposed by the Commissioners/Collectors are subjected to a careful scrutiny in the offices of the Central Board of Direct Taxes as well as the Central Board of Excise & Customs. Apart from the statistical data furnished by the subordinate offices, the two Boards also take into account the statistical information available with them and relevant for purposes of estimation. The

arrangements for collecting such information are indicated below:

### *Income Tax*

The Central Board of Direct Taxes compile and tabulate the statistics relating to industrial production and other economic trends from various financial journals and statistics brought out by the Central Statistical Organisation. The balance-sheets of important companies are carefully examined and the profits of such companies are tabulated with reference to the accounting periods followed by them. A liaison is maintained with the Directorate General of Technical Development, Planning Commission etc., to find out the position of production and the likely trend of profits in important trades and industries, for the current year. The Commissioners of Income-tax are also asked to contact the management of big and important companies and to ascertain the trends of profits during the current year as compared to the earlier years.

### *Excise duties*

The Central Board of Excise & Customs have a Statistics and Intelligence Branch who collect statistical data relating to production and clearances as well as production anticipated production and clearances relating to various exciseable commodities from the concerned administrative Ministries, the Directorate General of Technical Development etc. The Central Board of Excise and Customs also obtain from the authorities concerned statistical data relating to the imports made and those likely to be made during the relevant years with due regard to the availability of foreign exchange. After obtaining figures of 9 months actual collections from the Collectors of Customs, the Central Board of Excise & Customs consults various Ministries and Departments of the Government as to their plans for the following year. Thereafter an inter-ministerial meeting is also convened at which the possible trends in the following year are gone into in detail.

The Revised Estimates for the current year as well as the Budget Estimates for next year are framed in the light of the statistical data collected by the two Central Boards and after taking a view in consultation with the Economic Affairs Department as to the rate of growth of economy, in general, and also in individual sectors, foreign exchange availability etc.

3. The Revised Estimates for the current year can, by and large, be prepared with a fair degree of accuracy with reference to the collections already made and those likely to be made in the rest of the year having regard to the trends and the statistical data relevant for purposes of estimation. The Budget Estimates for the fol-

lowing year cannot, however, be prepared merely with reference to statistical data, which by their very nature can only relate to the past. The Budget Estimates for the next year are, therefore, only in the nature of a broad forecast made after taking a view as to the likely developments in the economy during the following 14 or 15 months, which necessarily cannot be very accurately gauged, particularly in a developing economy. While subjective element in the preparation of such estimates cannot be ruled out, every attempt is made to frame the estimates with reference to the statistical data available in the various Ministries of the Government of India as also the Directorate General of Technical Development and obtained from them, both by correspondence and by holding meetings and discussions with them. No organisational changes in the arrangements for the collections of data are considered necessary for the present.

4. The estimation of the effect of changes in taxes and duties, particularly direct taxes, presents a special problem. Very often concessions are given e.g. in the matter of development rebate, tax credits in respect of additional clearances etc. Information in regard to all these matters would have to be collected by reference to individual assessments. The question of making arrangements for collating such information is under consideration and a Study Team is proposed to be appointed to examine the matter. Further, Committee of statistical experts has also been appointed to study the scope and functions of the Statistical and Intelligence Branch of the Central Board of Excise & Customs and to suggest a re-organised set up for it, if necessary.

#### (Department of Revenue)

#### Recommendation

*(i) From the explanations offered by the representative of the Department of Revenue and Expenditure, the Committee note that certain correctives are applied to the revenue estimates received from the subordinate offices. This does not, however minimise the need for bringing about a reorientation in the approach of the local officers on whom rests the responsibility for furnishing the initial estimates, to avoid undue conservatism in preparation of estimates. The Committee trust that necessary steps in this regard, if not already taken, would be taken now.*

*In regard to the statistical basis of the Budget Estimates, while the Committee note that some co-ordination does exist between the Finance Ministry and the administrative Ministries on the one hand and the specialised agencies of Government like the Department of*

Technical Development, Planning Commission etc. on the other, they feel that the machinery for collecting statistics in the Ministry of Finance should be strengthened, in order to enable it to assess more accurately the growth of production in the country and its impact on the collection of taxes. Revenue receipts depend upon the overall economic growth in the country and estimates of revenue receipts can be more accurate, if statistical data on the overall production in the country is adequate, reliable and up-to-date. The Committee, therefore, feel that effective steps should be taken to fill up the deficiency in collection of reliable statistics of economic growth, so that estimates of revenue are prepared on a realistic basis.

(ii) In the opinion of the witness, it was not possible to lay down a percentage of variation which could be considered "normal". He added that there were particularly difficult factors in India as compared to other countries, and these factors adversely affected the process of making a correct estimate of revenues; moreover the margin of variation would depend upon the circumstances of each year. The Committee find it difficult to fully subscribe to this view. Ours is a planned economy, and therefore it should be possible with a certain amount of effort and vigilance, to collect timely data which would make due allowance for the various factors affecting the estimates of Revenue. Hence the Committee would reiterate their view stated in 2 to 4 of their Ninth Report (Third Lok Sabha) that variations exceeding 3 to 4 per cent should be regarded as a matter for concern requiring special remedial measures. The Committee are aware that their first report on the subject of Revenue Receipts was presented in January 1963 and the second one in July 1964, and therefore there had not been sufficient time for the results of the action taken on the Committee's recommendations being reflected in the accounts for the year 1962-63. They hope that the margin of variation indicated above would be constantly kept in view and continuous efforts made to reduce the variation to this limit.

(iii) The Secretary, Revenue, Expenditure and Company Law explained that taxation had to be viewed in the light of the economic conditions and the overall financial position of the country and not merely in relation to the revenue gap. Even so, it cannot be denied that the estimates of revenue, the estimates of expenditure and the fresh taxation proposals are closely inter-linked, and that the former two serve as some indicators for the quantum of fresh taxation effort necessary. The importance of arriving at accurate budget estimates cannot therefore be overstressed so as to avoid the risk of the public being taxed unconsciously more than necessary.

While the Committee are glad to note the spurt in the collection of taxes due to the emergency in 1962-63, they find from detailed examination of Customs, Excise and Income-tax (Vide Chapters II, III of this Report and Chapter I of the Twenty Eight Report) that the emergency alone does not explain this large overall variation and that other factors also have contributed to it.

However the Committee hope that as a result of the steps stated to have been taken to improve the technique of budgeting, there will be a marked reduction in the percentage of variation next year.

[S. Nos. 1, 2, 3, (Paras 2, 3, 4) of Appendix XVII to 27th Report.]

#### ACTION TAKEN

(i) The recommendations of the Committee have been noted. The following steps have since been taken to fill up the deficiency in collection of statistics (a) Provision has been made for the compilation of the figures of trading results extracted from Economic Journals. (b) Arrangements have been made for compilation of the details shown by big companies in their Returns of income.

(ii) & (iii) The recommendations of the Committee are noted.

[This has been vetted by audit vide Shri Gauri Shanker's D.O. No. 1966-Rev. A/69-64 dated 15th July, 1965 and 2279-Rev./69-64 dated 3rd August, 1965.]

[F. No. 83/62/64—I.T.(B).]

#### Recommendation

Even though the overall variation in respect of non-tax revenues was only 5.82 per cent, the Committee find from the statement (Appendix II) supplied by the Ministry of Finance (Department of Economic Affairs) that the variations under certain major heads are much larger, namely, Interest—Rs. 14.28 crores. (-8.4 per cent), Currency and Coinage—Rs. 15.92 crores, (23.2 per cent) and Extraordinary Receipts Rs. 14.88 crores (35 per cent). These variations are very much on the high side. The Committee were given to understand that as compared to tax revenue heads, Government had better information with regard to non-tax revenue heads and that the subjective element in their case was much less. The Committee, therefore, hope that the estimates in regard to non-tax revenues would be framed with greater precision.

[S. No. 4 of Appendix XVII to 27th Report (Third Lok Sabha).]

**ACTION TAKEN**

The observations of the Committee have been noted.

(Department of Revenue)

**Recommendation**

*The expenditure incurred on collection was allocated according to a formula approved in consultation with audit as explained in a note submitted to the Committee by the Central Board of Direct Taxes (Appendix IV). It is observed from this note that the Comptroller & Auditor General desired that a study should be conducted to examine whether the percentages fixed for Corporation Tax and Estate Duty need revision. The Committee hope that this study would be taken in hand soon, and in the light of the findings thereof, the necessary revision would be made in the relevant percentages.*

[S. No. 5 (Para 7) Appendix XVII to 27th Report, 1964-65].

**ACTION TAKEN**

The study of the question of revision of percentages fixed for Corporation Tax and Estate Duty has been taken up. Necessary data is being collected.

[F. No. 3/35/65-Ad. VII].

(Department of Revenue and Insurance)

**Recommendation**

*The Committee would like to point out that though the percentage of expenditure incurred on collections has shown a fall, the actual amount incurred on establishment has increased by about Rs. 62.33 lakhs under Customs, about Rs. 88 lakhs under Union Excise and about Rs. 54.19 lakhs under Income Tax and Corporation Tax as compared to 1961-62. While the Committee are not against the augmentation of the staff to cope with the increasing volume of work, particularly when it is matched by a significant increase in the total collections they would like to reiterate their view, stated in para 3 of their Twenty-first Report (Third Lok Sabha), that with greater drive and initiative on the part of the officers it should be possible for the Ministry to effect larger collections and reduce further the percentage of collection charges.*

[S. No. 6 of Appendix XVII of 27th Report 1964-65.]

## ACTION TAKEN

The recommendation is noted.

2. The figures of 1963-64 show an improvement in this direction. The cost of collections has gone down from 1.7 per cent 1.4 per cent and 1.5 per cent respectively on Customs, Union Excise Duties and Income Tax & Corporation Tax in 1962-63 to 1.2 per cent, 1.2 per cent and 1.3 per cent in 1963-64.

[Duly vetted by the Audit]  
(F. No. 7/70/64-Coord).

(Department of Revenue)

## Recommendation

The industrial production and the industrial needs in respect of important items like machinery and fuel oils are well known to the Government and yet for two years in succession the same reason has been advanced for the variations, viz., larger imports of machinery and fuel oils required to meet industrial needs (vide Explanatory Memorandum on the Budget of the Central Government, 1963-64, page 10 and *ibid* 1964-65, page 15). The percentage of variations has increased from 11.9 in 1961-62 to 18.35 in 1962-63. The Committee view this trend of rise in percentage variations from year to year with concern. They feel that this persistent under-estimating of revenues is primarily due to defective budgeting which requires special remedial measures. The Committee desire that the Finance Ministry who are the guardians of the Centre's finances and on whom lies the overall responsibility for framing the Central Government's budget accurately, should supplement the statistical information received from Administrative Ministries with their own independent investigations and researches in order to be able to better assess the industrial and economic trends, movement of foreign exchange etc., and thereby to arrive at more precise estimates. The Committee hope that efforts will be made to improve the budget estimates of customs Revenues. The Committee would like to be informed of the steps, if any, taken already or proposed to be taken hereafter in this direction.

[S. No. 7, (Para. 10) of Appendix XVII to 27th Report (1964-65)].

## ACTION TAKEN

So far as Customs Revenue is concerned, this Department has issued instructions to the Collectors to make a closer scrutiny of the

estimates furnished by the lower formations, before submitting them to this Department. Ways and means have also been suggested to the Collectors for making the estimates more realistic. In the Combined Conference of Collectors of Customs and Collectors of Central Excise held at Madras from 10th to 12th November, 1964, the need for framing the budget estimates on a more realistic basis was again impressed on the Collectors. This Department has also emphasised to the various concerned Ministries/Departments of the Government of India the need to give as accurate data about the respective imports to be effected by them or by organisations under them as possible, so that the budget estimates may be framed with similar accuracy. Inter-Ministerial and Inter-Departmental discussions, before finalising the Customs Revenue Estimates, are also envisaged.

### Recommendation

(i) *From the detailed examination of the variations in respect of some minor heads the Committee find that while the overall variation under the head 'Customs' is 18.35 per cent which itself is very high, the variations under some of the individual items are disproportionately large [e.g. High Speed Diesel Oil and Vaporising Oil 119 per cent; Machinery, 38 per cent; Kerosene and Motor Spirit, 28 per cent; Railway Plant and Rolling Stock, 256 per cent; Heavy Chemicals (Protective Duty), 123 per cent; Motor Cars, Cycles etc., 89 per cent, and Pneumatic Rubber Tubes and Tyres, 68 per cent]. The Committee also notice that the Government budgeted for a lower figure than the actuals of the previous year in some cases, (Kerosene oil and motor spirit, High Speed Diesel Oil and Vaporising Oil) and ultimately the actuals exceeded both the budget estimates and the revised estimates. From the foregoing, it is obvious that there is scope for considerable improvement in the preparation of estimate of customs revenue. The Committee trust that the cases involving heavy variations will be examined thoroughly by the Ministry of Finance and that suitable remedial measures would be taken so that the estimates are framed more realistically.*

(ii) *The Committee regret that in one case (Railways), there was no consultation between the Ministry of Finance and the administrative Ministry. The Committee hope that this is an isolated instance. They consider it to be of the utmost importance that timely consultations and discussions are held between the Finance Ministry and other administrative Ministries concerned, at the time of framing original as well as revised estimate.*

[S. No. 8, (para 11) of Appendix XVII to 27th Report (1964-65).]

## ACTION TAKEN

The Committee's observations have been noted. Certain ways and means of making the estimates suggested by the Collectors of Customs more realistic have been indicated to the Collectors. It has also been emphasised to the various Ministries/Departments concerned to give as accurate data about their respective imports to be effected by them or by organisations under them as possible so that the budget estimates to be framed may take them into account. Inter-Ministrial and inter-departmental discussions to infuse greater accuracy in the estimates are also envisaged.

## Recommendation

*While noting that every year nearly 5 lakh Bills of entry have to be checked and the work has to be done under pressure, the Committee find it difficult to condone mistakes on the ground that they were 'human errors'. Effective steps should be taken to reduce the chances of such mistakes creeping in. The Committee regret that some mistakes in calculations have even gone undetected by the internal audit. This indicates that the nature of the check exercised by the Internal Audit is perfunctory. The Committee feel that internal audit should be more effective. Towards this end, the Committee suggest that there should be better supervision, and the strength of the appraising staff and the Internal Audit staff should be reviewed and augmented, if necessary. The Committee are glad to be informed that a number of mistakes are detected by the Internal Audit Department. At the same time, a careful note should be taken of the type of mistakes which are pointed out by External Audit and suitable instructions issued to prevent recurrence of the same. Efforts should also be made to resolve disputes in classification quickly by mutual discussion between the appraising department and the Internal Audit Department.*

*The Committee would also like to reiterate their views given in paragraphs 7 and 8 of their Twenty-first Report (Third Lok Sabha) in this connection.*

[Serial No. 9 of Appendix XVII to 27th Report, (1964-65).]

## ACTION TAKEN

Because of the seriousness of the situation pointed out by the P.A.C. both in its 21st and 27th Reports, the Central Board of Excise & Customs have decided that the matter should be thoroughly enquired into and suitable recommendation made by the Directorate of Inspection (Customs and Central Excise). The Director has been asked to complete the enquiry on a top priority basis and it is expected that

in the course of next few months his report will be available to the Board for suitable action.

[U.O.F. No. 5/24/64-Cus. VIII, dated the 1st January, 1965.]

### **Recommendation**

*While the Committee appreciate the difficulties in making assessments of machinery imported and allowed to be cleared long ago under the Note Pass system which applies to Government Departments and public undertakings they feel concerned that there should be as many as 400. Bills of Entry still pending assessment. They hope that energetic steps will be taken to clear the arrears.*

*The Committee would like this matter relating to mistakes in regard to levy of countervailing duty to be examined by Government and an effective system evolved in which there will be no scope for omission to levy countervailing duty.*

[S. No. 10 of Appendix XVII to 27th Report, 1964-65.]

### **ACTION TAKEN**

The Collectors of Customs have been asked to take stock of the position relating to Bills of Entry pending assessments and take steps to finalise them urgently.

Regarding levy of countervailing duty, certain steps have been taken and the matter is being further examined.

[U.O. No. 10/5/63-Cus. VI(Pt.), dated 11-1-1965.]

### **Recommendation**

*The Committee would like this matter relating to mistakes in regard to levy of countervailing duty to be examined by Government and an effective system evolved in which there will be no scope for omission to levy countervailing duty.*

[S. No. 10(ii) of Appendix XVII to 27th Report, 1964-65).]

### **ACTION TAKEN**

Under the Finance (No. 2) Act, 1965, the rate structure of the import duty on various items has been rationalised. This opportunity was also availed of to review and delete, wherever necessary, a number of exemptions and modifications of the rate which were granted from time to time to meet particular situations and to remove anoma-

lies. In that connection, a number of notifications regarding exemptions relating to countervailing duty have also been deleted.

2. When Section 2A of the Tariff Act came into force, instructions were issued to the Collectors that it was not the intention of the new provision regarding the countervailing duty that it should lead to any change in the *de facto* position prevailing before 2nd February, 1963. These instructions have also since been cancelled. Consequently, the position regarding countervailing duty has become simpler as countervailing duty becomes chargeable on items which are liable to central excise duty unless there is specific exemption. It is hoped that with this simplification the number of mistakes made in assessing countervailing duty would be reduced to an appreciable extent.

[F. No. 20/52/65-Cus. I.]

#### **Recommendation**

*The Committee would await the outcome of the Revision Petition.*  
[Serial No. II (para 14) of Appendix XVII to 27th Report, 1964-65.]

#### **ACTION TAKEN**

The Revision Petition of the party has since been rejected.  
(Duly vetted by Audit).

[F. No. 14/9/64-LC.II.]

#### **Recommendation**

*The Committee hope that such mistakes will be avoided in future. They also regret to find that this mistake was not detected in Internal Audit.*

[S. No. 12 of Appendix XVII to 27th Report 1964-65.]

#### **ACTION TAKEN**

The recommendation has been noted for compliance and the Collector has been instructed to take suitable steps to avoid recurrence of such mistakes in future. Instructions have also been issued separately to the Collectors to improve the check exercised by the Internal Audit Department and also to take due notice of lapses in detecting obvious errors in that department.

[U.O. No. 3/30/63-Cus. VI, dated 10-12-1964.]

#### **Recommendation**

*In a certain Custom House, rubber insulated cable was assessed to duty in December, 1962 at 15 per cent ad valorem plus 5 per cent*

countervailing duty under tariff item 72(d), read with 73(21) of the Indian Customs Tariff. As rubber insulated cable is specifically mentioned under 73(6) of the Indian Customs Tariff, the assessment should have been made at 35 per cent ad valorem plus 5 per cent countervailing duty. On this being pointed out, the Custom House realised the short duty of Rs. 35.997 from the importer.

The Member, Central Board of Excise & Customs, explained during evidence that these cables were specifically mentioned under 73(6) but they had to be of a special core. These cables were also generally transmission lines which were assessable under 72(d) and presumably the assessing officer treated them as transmission lines under 72(d), which he should not have done. The witness informed the Committee that the Board had been told by the Collector of Customs recently that action had been initiated against the officer concerned, but they did not have the details.

The Committee would like to be informed how the Customs Officer failed to classify the goods properly where there was no scope for any ambiguity. In the opinion of the Committee, this is a clear case of wrong classification, and they would like to be informed of the action taken against officers responsible for this lapse.

[Para. 16, 27th Report of the Public Accounts Committee 1964-65 Report.]

#### ACTION TAKEN

The goods in question were imported by the Controller of Stores, Railway (Chittaranjan Locomotive Works) and described as electric loco parts in the relevant bill of entry. It was presumably, therefore, that these were assessed as component parts of plant under item 72(d) in preference to item 73(6). Although the Customs Revenue Audit objection was admitted, it cannot be said that the matter was free from doubt. Moreover, the Appraiser concerned with the particular assessment resigned over a year ago. As it was considered to be a case of bona fide error, the Collector of Customs decided to close the case.

[F. No. 24/38/64-Cus.III.]

#### Recommendation

A Platform car imported in one of the Customs ports was assessed to duty at 10 per cent ad valorem under tariff item 72(3) treating it as a component part of machinery. It was pointed out that Platform cars came under tariff item 75 and should be assessed at 35 per cent ad valorem. The short levy of duty on account of this amounted to

**Rs. 17,635.** *The Custom House has since recovered this amount from the importer.*

*During evidence, the Committee were informed that the Customs Officer had owned the mistake and the duty has been recovered.*

*The Committee are given to understand that there was a ruling by the Central Board of Revenue issued in 1954 that items such as Truck platform (under which category platform cars fall) were assessable under Tariff item 75 (conveyances not otherwise specified). If the Assessing Officer had followed this circular the under-assessment would not have occurred. Such failure to follow the C.B.R.'s ruling and circulars was noticed in the previous year also and the Committee had commented adversely on the same (vide para 9 Twenty-First Report, Third Lok Sabha). The Committee view the persistence of such mistakes with concern and hope that suitable measures would be taken to ensure that the Board's rulings and circulars are strictly adhered to.*

[Para. 17 of 27th Report Public Accounts Committee 1964-65 Report.]

#### ACTION TAKEN

The Committee's observations have been noted. These have also been brought to the notice of Collectors of Customs for their information and guidance.

[F. No. 24/38/64-Cus. III]

#### Recommendation

*The Committee are surprised to learn that the customs officer failed to apply the current rate of duty as passed by the Finance Act, 1963, in respect of a bill of entry filed on 7th March, 1963. The Committee note that information regarding the new rates had reached the Custom House by that time. While noting that the mistake had been traced, and rectified, the Committee are surprised to find that the mistake escaped the notice of the Internal Audit who conduct a 100 per cent check. Such lapses betray the perfunctory nature of checks made by Internal Audit Department. The Committee recommend that such lapses in Internal Audit should be viewed seriously in future.*

*The Committee were given to understand that soon after the Budget, when the number of changes introduced was very large, there were mistakes of over-assessment or under-assessment in the first few days, but these were detected in time because the staff*

were stated to be over-careful immediately after the new changes. The Committee trust the utmost vigilance would be exercise at this period to see that the correct rates are applied and there is no evasion.

[Sl. No. 152, of Appendix XVII to 27th Report 1964-65.]

#### **ACTION TAKEN**

The Recommendations made by the Public Accounts Committee have been brought to the notice of the Collector of Customs, Bombay and other Collectors for information and necessary action.

[U.O. Note F. No. 55/97/63-Cus.IV., dated 10-12-64.]

#### **Recommendation**

The Committee find that this was a clear case of negligence on the part of the assessing officer, for which he has been given a warning. What surprises the Committee is that the Internal Audit Department also did not detect this simple mistake. The Committee suggest that similar action should be taken against the Audit Staff responsible for not carrying out the check properly.

[Sl. No. 16 of Appendix XVII to 27th Report (1964-65.)]

#### **ACTION TAKEN**

The Recommendations made by the Public Accounts Committee have been noted. They have also been brought to the notice of the Collector of Customs, Bombay for appropriate action.

[U.O. Note F. No. 55/62/63-Cus. IV., dated 10-12-64.]

#### **Recommendation**

The Committee note that the work of bringing out the reprint of the tariff Book incorporating the latest changes in the rates of duty is centralised in another Ministry for what was described as "traditional reasons", and that according to the Chairman, Central Board of Excise and Customs, this is responsible for the part of the delay in the publication of the reprint. The Committee hope that by better coordination between the Board and the Ministry of Commerce and by streamlining the machinery that deals with this publication, the existing delays will be eliminated and the book will be published within as short a time as possible after the Budget has been presented. The Committee would suggest that the advantages of continuing the present system may also be examined with a view to see if the position is likely to improve substantially

by the Board themselves undertaking this work. The Committee note that a scheme is being worked out by the Board to introduce a loose-leaf system so that only those pages where there are changes, need be reprinted and not the whole book. The Committee hope that the scheme would be finalised at an early date.

[Sl. No. 17 of Appendix XVII to 27th Report 1964-65.]

#### ACTION TAKEN

(1) In an inter-departmental meeting held in the Ministry of Commerce in July, 1964, it was tentatively agreed that the publication of the Indian Customs Tariff (as in operation on the 30th April) by the Directorate-General of Commercial Intelligence and Statistics should be accomplished on the basis of the following schedule:—

- (i) Manuscript of the Indian Customs Tariff  
(Corrected up to 30th April) to be sent to  
the Government of India Press . . . . . 10th May
- (ii) Proof to be supplied in batches . . . . . 20th May
- (iii) Proofs to be returned by Directorate  
General of Commercial Intelligence and  
Statistics to the Government of India  
Press, Calcutta . . . . . 27th May
- (iv) Advance copies of the publication to be  
made available to the Directorate General  
of Commercial Intelligence and Statistics . . . . . 24th June
- (v) Bulk supply of the Indian Customs Tariff  
to be made to agents and book-sellers . . . . . 1st July

(2) The Directorate-General of Commercial Intelligence and Statistics and the Ministry of Commerce are, not in favour of the suggestion for publication of the Tariff in loose-leaf form. The matter, however, is again being taken up with them for reconsideration.

[F. No. 20/104/64-Cus.]

#### Recommendation

*The Committee suggest that a continuous and careful watch should be kept over cases of under-assessments, and lapses suspected to have a vigilance angle should be examined promptly and suitable action taken against the persons concerned.*

[Sl. No. 18 of Appendix XVII to 27th Report 1964-65.]

### ACTION TAKEN

The observations made by the Public Accounts Committee have been brought pointedly to the notice of all Collectors of Customs and Collectors of Central Excise for appropriate action.

[U.O. Note F. No. 55/69/64-Cus IV dated 10th Dec' 64]

### Recommendation

*Mistakes of non-levy of countervailing duty were noticed last year, and the Committee had expressed the hope that they would not arise in future (vide para 12, Twenty-first Report, Third Lok Sabha). The Committee were informed, during evidence, that with a view to avoiding such mistakes in future, Government had introduced a Bill in February, 1963, removing all references to countervailing duties from the Indian Tariff items and adding a new provision to the Indian Tariff Act, 1934, saying that wherever there was a countervailing duty leviable under the Central Excise Tariff, it would automatically be added to the item in the Indian Customs Tariff in respect of the customs duty.*

*The Committee were given to understand that this had led to another complication. The Committee desire that this matter should be re-examined and a proper system should be devised by which there will be no room for countervailing duty escaping levy. The Committee would like to be furnished with a detailed note indicating the steps taken in this regard to overcome the difficulties.*

[S. No. 19 of Appendix XVII to 27th Report 1964-65.]

### ACTION TAKEN

Certain steps have been taken and the matter is being re-examined. Certain other steps are under consideration and a further report will be sent to the Public Accounts Committee in due course.

2. The steps taken by the Government are explained in the 'Note' enclosed.

[F. No. 20/103/64-Cus. I].

### NOTE INDICATING THE STEPS ALREADY TAKEN BY THE GOVERNMENT

(1) Running serial numbers are given to the rulings issued by this Department or the Board regarding levy of countervailing duty and the Custom Houses are informed of the total number of rulings issued in each month to enable them to check that no ruling has escaped notice. A monthly statement in this regard is sent to the Custom Houses/Collectorates. This position has already been inti-

mated to the Public Accounts Committee on their recommendations on paras 11, 12 and 13 of their Twenty-first Report, 1963-64.

(2) It has again been impressed upon the Custom Houses that greater care should be exercised in dealing with documents both in the Appraising Department as well as in the Internal Audit Department so that the scope of such mistakes can be eliminated.

(3) To eliminate mistakes as a result of wrong interpretation and implementation of the budget changes, the Collectors have been directed that at an appropriate time immediately after the presentation of the budget every year, Collectors should hold discussion with Assistant Collectors to discuss the budget instructions with a view to ascertain from them personally that all the relevant instructions have been received by them, that they have properly understood those instructions and to ascertain the problems which might have arisen. The Assistant Collectors in their turn should hold such discussions with the Principal Appraisers and Appraisers concerned.

(4) The question of evolving a better alternative to the present arrangement for levy of countervailing duty is also being examined but because of the different complications and revenue risks involved it may take quite some time to evolve any satisfactory procedure.

(5) The Directorate of Inspection (Customs & Central Excise) have also been asked to conduct a thorough scrutiny of the existing procedures and arrangements for assessment of import duty and to suggest suitable action for effecting improvement.

### **Recommendation**

*Mistakes of non-levy of countervailing duty were noticed last year, and the Committee had expressed the hope that they would not arise in future (vide para 12, Twenty-first Report, Third Lok Sabha). The Committee were informed, during evidence, that with a view to avoiding such mistakes in future, Government had introduced a Bill in February, 1963 removing all references to countervailing duties from the Indian Tariff Act, and adding a new provision to the Indian Tariff Act, 1934, saying that wherever there was a countervailing duty leviable under the Central Excise Tariff, it would automatically be added to the item in the Indian Customs Tariff in respect of the customs duty.*

*The Committee were given to understand that this had led to another complication. The Committee desire that this matter should be*

*reexamined and a proper system should be devised by which there will be no room for countervailing duty escaping levy. The Committee would like to be furnished with a detailed note indicating the steps taken in this regard to overcome the difficulties.*

[S. No. 19 of Appendix XVII to 27th Report, 1964-65]

#### ACTION TAKEN

Under the Finance (No. 2) Act, 1965, the rate structure of the import duty on various items has been rationalised. This opportunity was also availed of to review and delete, wherever necessary, a number of exemptions and modifications of the rates which were granted from time to time to meet particular situations and to remove anomalies in that connection, a number of notifications regarding exemptions relating to countervailing duty have also been deleted.

2. When Section 2A of the Tariff Act came into force, instructions were issued to the Collectors that it was not the intention of the new provision regarding the countervailing duty that it should lead to any change in the *de facto* position prevailing before 2-2-1963. These instructions have also since been cancelled. Consequently, the position regarding countervailing duty has become simpler as countervailing duty becomes chargeable on items which are liable to central excise duty unless there is specific exemption. It is hoped that with this simplification the number of mistakes made in assessing countervailing duty would be reduced to an appreciable extent.

[F. No. 20/103/64-Cus. I]

#### Recommendation

*The Committee hope that after the issue of clarificatory instructions, such mistakes in levies countervailing duty would not be repeated.*

[S. No. 20 of Appendix XVII to 27th Report, 1964-65.]

#### ACTION TAKEN

Certain steps have been taken and the matter is being re-examined. Certain other steps are under consideration and a further report will be sent to the Public Accounts Committee in due course.

2. The steps taken by the Government are explained in the 'Note' enclosed.

[F. No. 20/111/64-Cus. I]

### Recommendation

*The Committee hope that after the issue of clarificatory instructions, such mistakes in levies countervailing duty would not be repeated.*

[S. No. 20 of Appendix XVII to 27th Report, 1964-65]

### ACTION TAKEN

Under the Finance (No. 2) Act, 1965, the rate structure of the import duty on various items has been rationalised. This opportunity was also availed of to review and delete, wherever necessary, a number of exemptions and modifications of the rates which were granted from time to time to meet particular situations and to remove anomalies. In that connection, a number of notifications regarding exemptions relating to countervailing duty have also been deleted.

2. When Section 2A of the Tariff Act came into force instructions were issued to the Collectors that it was not the intention of the new provision regarding the countervailing duty that it should lead to any change in the *de facto* position prevailing before 2-2-1963. These instructions have also since been cancelled. Consequently, the position regarding countervailing duty has become simpler as countervailing duty becomes chargeable on items which are liable to central excise duty unless there is specific exemption. It is hoped that with this simplifications the number of mistakes made in assessing countervailing duty would be reduced to an appreciable extent.

[F. No.20/111/64-Cus.I].

### Recommendation

*The Committee fail to appreciate why, simply because these goods were imported by a Government Department the rules should have been relaxed and a wrong exemption granted in respect of the goods which were otherwise dutiable. They hope that recurrence of such mistakes will be avoided in future. It has been stated that the customs authorities took action to recover the short levy. The committee would like to be informed whether the amount of Rs. 7,748 has actually been recovered since.*

[S. No. 21 (Para 24) of Appendix XVII to 27th Report 1964-65]

### ACTION TAKEN

The amount of Rs. 7,748.10 has been recovered and adjusted as customs duty by the Accountant General, Central Revenues in his books.

(Duly vetted by Audit)

[F. No. 22/47/64-L. C. II.]

### Recommendation

*A note promised to be supplied to the Committee on this subject is awaited.*

*Over-assessment is as much an irregularity as under-assessment, and it causes undue hardship to the public for no fault of their own. Over-assessment also results from the same type of failure and mistakes as are responsible for under-assessments. The Committee have been given to understand that in all the cases of over-assessment noticed in Audit, the reasons have been wrong classification, levy of countervailing duty where none was leviable, non-application of correct rates etc. The committee trust that the department would profit by the mistakes pointed out by audit, and take suitable remedial measures to avoid a recurrence of the same in future.*

*The Committee have been informed that once a decision to give refund is taken, the time-lag in making payment is between a week and a fortnight. They, however, learn that refund cases sometimes do take a long time mainly due to delay in production of documents by importers, before they are finally settled. The committee desire that the procedure should be simplified, all avoidable delays should be eliminated, and the time taken for arriving at a decision should be reduced to the minimum.*

*Wherever over-assessments are detected suo motu by the Department, or are pointed out by audit refund should be granted expeditiously on the initiative of the Department itself without an application by the party. Special Care should be taken to see that such cases do not become time-barred and the public are not deprived of the refund due to departmental delays.*

[S. No. 22 (para 25) of Appendix XVII of 27th Report]

### ACTION TAKEN

A note promised to be supplied to the Committee on the cases of over-assessment has since been supplied to the Committee *vide* copy of the note attached.

2. The observations of the Committee have been noted and are being brought to the notice of all concerned.

3. Various steps taken to expedite disposal of refund claims have been detailed in para 2 of the note supplied to the Committee. Simplification of procedures is continually kept in view. It may be added that certain further measures of simplification are presently under consideration.

4. Wherever excess levy is detected in audit in time *suo motu* refund is granted without any application from the party. Under executive instructions the time-limit prescribed under the Act for the filing of a refund claim is applied in respect of such cases of *suo motu* refund. Care is taken to ensure that departmental delays do not cause such a case to become time-barred even though the objection was raised and communicated to the department in time.

5. This has been vetted by the audit.

[F. No. 16/54/64-L.C.I.]

*List of points on which the Public Accounts Committee desired to be furnished with further information at their Sitting held on the 21st, 22nd and 23rd July, 1964.*

## MINISTRY OF FINANCE

### (Department of Revenue and Company Law)

*Cases of Over-assessment.*—A note may be furnished indicating the steps taken with regard to clearing of arrears of refund claims in the light of the recommendation made in this behalf by the Customs Reorganisation Committee in para 8, Chapter XIX of their Report, and the latest position regarding progress made since the publication of the said Report.

### ACTION TAKEN

An extract from the report of the Customs Reorganisation Committee and the Government of India's decision on those recommendations is attached.

2. The various steps taken by the Government for clearing the arrears of refund claims in the Custom Houses are as follows:—

- (i) the staff strength of the Refund Sections in the Custom Houses has been augmented.
- (ii) a detailed study of the procedure followed in the Refund Sections of the Custom Houses was undertaken by the Directorate of Inspection, Customs & Central Excise, and the recommendations made by them for streamlining the procedure have been put into practice. These recommendations, *inter alia* suggested procedures for obtaining the original bills of entry quickly, cutting down the details involved at various stages, etc. It has also been ensured as a result of these recommendations that acknowledgment of refund claims as also request for additional documents to be produced by parties is done simultaneously. Steps are also taken to see that claims are not delayed merely because the bills of entry are not available. As far as possible, the claims are scrutinised and if they are liable to be rejected, the same are rejected without waiting for the bills of entry.

- (iii) To cut down the stages of movement of papers as also to lighten the burden of work involved on officers at various stages, certain powers of sanctioning or rejecting refunds have been delegated to Principal Appraisers and Appraisers.

3. A statement showing the arrears of refund claims in the four major Custom Houses at Calcutta, Bombay, Madras and Cochin is attached herewith. The statement also shows the total number of receipts financial year-wise as also the split up of pending cases on the concluding day of the financial years from 1958-59 to 1963-64. A separate statement is also enclosed indicating the position with regard to arrears in respect of short-landing cases which stand on a different footing since in such cases unless all the documents (including a certificate from the Port Trust and a confirmation of short landing from the Steamer Agents) are produced to the Customs, they are not in a position to scrutinise and pass the claims submitted. The production of these documents normally takes a few months and the parties request the customs to keep their claims pending. To reject the claims as unsubstantiated without waiting for the documents, may no doubt reduce the pendency of such arrears but it will be reflected in the increase in the number of appeals. Hence it is the general policy to give sufficient time to the parties to produce their documents, and this naturally delays finalization of the cases of short landing refunds.

4. From the statement it will be evident that in the two major Custom Houses, i.e., Bombay and Calcutta, where the receipts of refund claims are the largest, the total pendency was brought down considerably from 8183 and 4934 as on 31-3-1959 to 3187 and 2281, respectively, as on 31-3-1963. In the same period the number of cases pending for more than six months was brought down from 3445 to 397 in Bombay. Similar figures for the other ports for the period 1959-61 are not available, but the position there also had, on the whole, shown a similar improvement. Moreover, the break-up of the pendency will also indicate that the largest arrears were in the group of claims less than 3 months old which meant in effect that successful efforts had been made, as desired by the Public Accounts Committee, to dispose of the major portion of the claims in less than 6 months and it is generally only in complex cases or where documents are not forthcoming from the parties that some cases remain pending beyond 6 months.

5. For the year ending 31st March, 1964, there has been a slight increase in the number of pendency in Bombay, Calcutta and Cochin

as compared with the figures on 31st March, 1963. The reason for this is mainly attributable to the new provisions regarding valuation (Sec. 14) and remission of duty on pilferages (Sec. 13) of the Customs Act, 1962, which came into force with effect from 1st February 1963, as the public were not fully aware of the implication of these new provisions and legal issues had to be clarified and workable procedures evolved to settle such claims.

6. Statements of arrears of refund claims are being regularly called from the Custom Houses and are being scrutinised in the Board's Office to keep the position constantly under watch.

### **Recommendation**

8. *Heavy Arrears in Refund Claims.*—The position regarding settlement of refund claims is a great deal more serious. It is a matter of common knowledge that Custom Houses have been struggling with heavy arrears of refund claims, and we find that special arrangements have been made to clear these arrears. Obviously, however, it would be necessary to take suitable and vigorous steps to ensure that no new refund claims are allowed to add to the accumulation by remaining undecided beyond an outside limit of six months.

### **DECISION OF THE GOVERNMENT OF INDIA**

The Government of India have decided that the aim suggested by the Customs Reorganisation Committee should be kept in view by the Collectors of Customs and suitable steps taken for the purpose. The Government of India have also decided that the Directorate of Inspection (Customs and Central Excise) should make a thorough study of the existing systems and procedure regarding disposal of refund claims in the various Custom Houses and suggest concrete and effective measures to achieve the object the Committee has in view.

*Statement showing the number of arrears of refund cases at the major Custom Houses as on 31-3-1959 to 31-3-64.*

Customs House	Total No. of receipts of refund claims during 12 months ending on date shown in Col. (3)	As on	No. of pending cases	Details of Pending Cases		
				Less than 3 months old	3 months old but less than 6 months old	6 months old or more
1	2	3	4	5	6	7
Bombay . .	12111	31-3-59	8183	2735	1903	3545
	13116	31-3-60	7383	2701	1621	3061
	16014	31-3-61	6851	2867	1530	2454
	18328	31-3-62	3588	2700	578	310
	20717	31-3-63	3187	2279	511	397
	16471	31-3-64	4254	2567	907	780
Calcutta . .	5594	31-3-59	4934	Not available		
	7361	31-3-60	6944	Do.		
	8334	31-3-61	1848	Do.		
	9247	31-3-62	2373	1429	2373	176
	9625	31-3-63	2281	1904	140	237
	7018	31-3-64	3019	2325	453	241
Madras . .	3078	31-3-59	937	445	492	..
	3254	31-3-60	698	343	355	..
	4885	31-3-61	480	386	19	75
	5622	31-3-62	1179	981	130	68
	5994	31-3-63	1037	932	72	33
	3847	31-3-64	838	777	45	16
Cochin . .	2303	31-3-59	Not available			
	2412	31-3-60	Do.			
	3368	31-3-61	Do.			
	1607	31-3-62	67	51	6	..
	2440	31-3-63	165	121	33	11
	1605	31-3-64	268	205	48	15

*Statement showing the number of arrears of shortlanding cases at the  
major Custom Houses as on 31-3-61 and 31-3-62*

	No. of pending	Less than 3 months old.	3 months old or more but less than 6 months	6 months old or more
<b>BOMBAY</b>				
31-3-61 . . . . .	1756	1271	394	91
31-3-62 . . . . .	1435	1053	294	88
31-3-63 . . . . .	1859	1883	276	..
31-3-64 . . . . .	1416	833	357	226
<b>CALCUTTA</b>				
31-3-61 . . . . .	946	506	377	63
31-3-62 . . . . .	894	228	662	4
31-3-63 . . . . .	1245	1211	24	10
31-3-64 . . . . .	1297	1200	72	25
<b>MADRAS</b>				
31-3-61 . . . . .	341	248	71	22
31-3-62 . . . . .	276	192	55	29
31-3-63 . . . . .	242	238	4	..
31-3-64 . . . . .	134	134	..	..
<b>COCHIN</b>				
31-3-61 . . . . .	14	4	3	7
31-3-62 . . . . .	..	..	..	..
31-3-63 . . . . .	14	14	..	..
31-3-64 . . . . .	34	28	2	4

## MINISTRY OF FINANCE

### (Department of Revenue)

#### Recommendation

*The Committee hope that as a result of the uniform procedure proposed to be introduced on all the Indian Government Railways, mistakes of the kind pointed out in this case will not recur. The Committee regret that the internal Audit in the Custom House failed to detect the error in conversion, and it was left for the Custom Revenue Audit to point it out.*

[S. No. 23 of Appendix XVII to 27th Report (1964-65).]

#### ACTION TAKEN

The recommendations made by the Public Accounts Committee have been brought to the notice of all Collectors of Customs and Collectors of Central Excise. It has also been emphasised that the staff concerned in the Appraising, Cash and Accounts and Internal Audit Departments should be asked to effectively ensure that such mistakes do not recur.

[U.O. Note F. No. 55/96/63-Cus.IV dated 10-12-64]

#### Recommendation

*The Committee regret the carelessness on the part of the assessing officer in the matter of the application of the rates. They are also surprised that the Internal Audit did not detect the mistake. Suitable measures should be adopted to avoid recurrence of such cases.*

[S. No. 24 of Appendix XVII to 27th Report (1964-65).]

#### ACTION TAKEN

The recommendations made by the Public Accounts Committee have been brought to the notice of all Collectors of Customs and Collectors of Central Excise for information and necessary action. The Collectors have also been asked to adopt suitable measures to avoid recurrence of such cases and to impress on the assessing officers that cases of over-assessment are to be avoided, just as much as those of under-assessment. It has also been emphasised that Internal Audit should look out for such cases, just as much as for cases of short levies.

[U.O. Note F. No. 55/98/63-Cus.IV dated 10-12-64]

### Recommendation

*The Committee note that the cases referred to in the audit para are those in respect of voyages performed under the old Act, under which, as explained during evidence, a coastal vessel which touched a foreign port on its way to an Indian port, e.g. from Calcutta to Bombay or from Bombay to Calcutta via Colombo could still be treated as a coastal vessel. Therefore, there was no justification for the customs port to adopt a different practice and not charge duty on the full quantity of oil bunkered at the intermediate foreign port. The short assessment in these 80 cases would not have arisen if the Central Board of Revenue had issued proper instructions in this regard prior to Audit pointing out the matter. Out of a total amount of Rs. 61,834 due for recovery, only a sum of Rs. 14,753 is stated to have been collected so far. The Committee may be informed of the position regarding the recovery of the balance of Rs. 47,081.*

*The Committee were given to understand that the present position in this respect was anomalous, inasmuch as under the new Act, if a coastal vessel touched a foreign port it ceased to be a coastal vessel, and that the matter was being reviewed by the Central Board of Excise and Customs, in consultation with the Ministry of Law. The Committee would like to be informed of the result of the review.*

[S. No. 25 (Para 28) of 27th Report (1964-65)].

### ACTION TAKEN

According to the reports so far received no progress towards collection of the balance of duty has been made. The Government have reiterated their instructions to the Customs authorities to expedite enforcement of the outstanding demands, save those which may form the subject matter of court proceedings.

The question of amendment of the relevant section 2(21) of the Customs Act, 1962 is separately under consideration.

[U.D. F. No. 55/6/64—Cus. IV, dated 13th January, 1965].

### Recommendation

*The Committee are surprised to learn that there has been a delay of four to five years, and in some cases even nine years, in the filing of bills of entry by steamer agents in respect of ships' stores, whereas the time allowed for the purpose is three months. No convincing reasons have been advanced to explain such abnormal delay; on the other hand, there is an admission by the representative of the Central Board of Excise and Customs that the delay is indefensible. From a note furnished at the instance of the Committee (Appendix VII) it*

is observed that the Board has asked the Director of Inspection (Customs & Central Excise) to investigate in detail the circumstances in which this delay occurred. The Committee regret that until these cases were brought to the notice of the Board specifically by Audit, the Board was not even aware of them. This is a case in which there seems to have been a failure of machinery of a system of following up cases of dutiable stores for the purpose of levy of duty. The fact that the amounts involved were petty is hardly a justification either for the Department's showing indulgence to the Steamer Agents in spite of their persistent failure to file the bill of entry, or for the Department's acquiescence in the chronic delay in doing so.

The Committee desire that (i) action should be initiated forthwith if it had not already been done, against defaulting steamer agents; (ii) effective steps should be taken to ensure that duty on ships stores is levied in all cases promptly and properly; (iii) the feasibility of raising the demand on the basis of the stores list furnished with the Export manifest should be examined; (iv) the investigation reported to have been ordered by the Board should be conducted expeditiously and responsibility for the delay fixed, so that suitable action may be taken against those at fault; (v) an effective system should be devised whereby the Collectors of Custom and the Central Board of Excise & Customs would automatically come to know of such delayed cases.

[S. No. 26 (Para 29) of 27th Report (1964-65)].

#### ACTION TAKEN

The Committee's observations have been noted for compliance.

[U.O. F. No. 55/6/64-Cus. IV dated 13th January, 1965].

#### Recommendation

The Committee would like to be informed (i) of the progress of collection of demands amounting of Rs. 2,00,291.71\*P raised already in 13 cases and (ii) of the amount of demands raised in the 12 remaining cases on the basis of the declaration made in the ships' stores lists and the progress of collection.

[S. No. 27 (Para 30) of the 27th Report (1964-65)].

#### ACTION TAKEN

It is confirmed that the correct amount of the 13 demands is Rs. 2,01,643:44.

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\*According to Audit, the correct figure Rs. 2,01,643:44 P.

Out of the 12 remaining cases, demands in respect of seven cases amounting to Rs. 2,07,551.71 have been issued. In respect of the remaining five cases, the matter is under correspondence by the Customs authorities with the Steamer Agents.

As per the reports so far received no progress towards collection of duty, in respect of 13 and 12 cases referred to above, has been made. The Government have reiterated their instructions to the Customs authorities to expedite enforcement of the outstanding demands and finalisation of the pending assessments, save those which may form the subject matter of court proceedings.

[U.O. F. No. 55/6,64-Cus. IV, dated the 13th January, 1965]

#### **Recommendation**

*The Committee note that out of total arrears of customs duty of Rs. 103.63 lakhs as on 31-10-63, a sum of Rs. 72.43 is outstanding for more than one year. The Committee also view with concern the rise in arrears of customs duty from Rs. 80.12 lakhs to Rs. 103.63 lakhs. Since the arrears are partly attributed to pending 'Note pass' cases, the Committee would reiterate their recommendation contained in para 20 of their 21st Report (Third Lok Sabha) that the finalisation of the outstanding Note Pass cases should be vigorously pursued. The Committee hope that Note Pass is a dying system and greater use would be made of the alternative of the special procedure for provisional collection of duty and other measures in order to reduce the quantum of arrears in future.*

[S. No. 28 (Para 31) of Appendix XVII to 27th Report (1964-65)].

#### **ACTION TAKEN**

The Committee's observations regarding the Note Pass System have been noted.

#### **Recommendation**

*The Committee Hope that All efforts would be made to realise the Arrears of Customs Revenue before any Amount is written off.*

[S. No. 29 (Para 32) of Appendix XVII to 27th Report (1964-65)].

#### **ACTION TAKEN**

Public Accounts Committee's recommendations have been conveyed to the Customs Authorities concerned for implementation at their end. They have also been instructed to try to realise all arrears of revenue expeditiously before any amount is finally written off.

It may be emphasised that before amounts are written off in such cases, all channels for recovery have to be exhausted. Firstly, action for realisation is taken by Departmental officers themselves; further action as provided in Section 142 of the Customs Act, 1962 is then resorted to, and assistance of State Revenue authorities sought to realise the amounts due as arrears of land revenue. It is only when all these measures prove futile, these amounts are written off.

*(Duly vetted by Audit)*

[F. No. 3/1/64-L.S.II].

### Recommendation

During evidence, the Member, Central Board of Excise and Customs, gave the following latest information regarding prosecution:—

	1962—63 opening balance (all India) 318 Cases	opening balance (Delhi) on 1-10-1962 93 Cases
Cases sent for prosecution . . . . .	296 Cases	28 Cases
Cases decided by courts. . . . .	290       "	49       "
Cases which resulted in conviction . . . . .	213       "	46 (Persons)
Cases which resulted in acquittal . . . . .	77       "	14 (Persons)
Cases which have not yet been decided. . . . .	314       "	72 Cases.

(Figures regarding Delhi, furnished by Government subsequently at the instance of the Committee, relate to the period 1st October, 1962 to 30th September, 1963).

*The Committee are glad to note that the percentage of convictions secured (all-India) is not unsatisfactory viz., 73 per cent (290 cases decided and 213 cases which resulted in the conviction). They hope that efforts will be made to improve the percentage further.*

[Para. 33 of the Public Accounts Committee Report (1964-65)].

**ACTION TAKEN**

The Committees observations have been brought to the notice of all Collectors for their information and guidance.

**Recommendation**

*The Committee note that in terms of the Indian price the approximate quantity of gold smuggled into the country every year is estimated to be of the order of Rs. 35 to 40 crores as accepted by the witness. As against this, the quantity seized during the period October, 1962 to September, 1963 was worth only Rs. 1.5 crores (3½ to 4 per cent).*

*The Committee feel that there is greater scope for tightening anti-smuggling measures as the percentage of seizures is very low at present. They hope that with various steps which Government are reported to have taken, the percentage of seizures would show a marked improvement. They also suggest that Government should adopt scientific and upto-date methods of intelligence and detection to fight against the evil of smuggling.*

[Para. 34 of the Public Accounts Committee Report (1964-65)].

**ACTION TAKEN**

The Committee's observations have been noted and have also been brought to the notice of all Collectors for their information and guidance.

**Recommendation**

*The Committee note that due to large clearances of excise goods between November, 1962 and February, 1963, and the increase in rates of excise duties in the Budget of 1963, resulting in higher collections from them during March, 1963, the overall variation in respect of Union Excise duties has been of the order of 14 per cent. The Committee have been informed that the statistics regarding Union Excise are adequate and yet one of the reasons advanced for the large variation of 84 per cent. under new commodities has also been stated to be the non-availability of dependable data. It had been stated at an earlier stage (vide para 2 supra) that statistics were being collected in advance regarding commodities likely to attract excise in order to help in framing estimates correctly. The Committee trust that as a result of the steps which Government are already taking and the further steps which they would be taking to implement the recommen-*

*dations of the Committee, the variation which has been showing a tendency to increase year after year would show a decline.*

[S. No. 32 of Appendix XVII to 27th Report (1964-65).]

#### **ACTION TAKEN**

The Public Accounts Committee's observations have been noted. Adequate statistical information is available in respect of commodities already under excise but this is not so in respect of new excises where on account of the need for secrecy the enquiry has to be limited in its scope.

[F. No. 36/30/64-CX.I.]

#### **Recommendation**

*The Committee feel that since the duty on sugar had been imposed as far back as 1934, the Excise Department should have enough knowledge and experience about its growth, seasonal variations etc. They hope that the trades would be assessed better after frequent consultations with the Ministry of Food and Agriculture and the estimates framed more realistically.*

[S. No. 33 of Appendix XVII to 27th Report (1964-65).]

*The Committee hope that when framing the Budget Estimate on the basis of previous year's actuals, due allowance will be made for such normal increase of production and consumption which is obvious.*

[S. No. 34 of Appendix XVII to 27th Report (1964-65).]

*The jute industry is a well-organised one, units of production are limited and the figures of export and home consumption are readily available. In the circumstances, the Committee are surprised that the estimate could not be framed more realistically. They trust that the future estimate would be more precise.*

[S. No. 37 of Appendix XVII to 27th Report (1964-65)].

#### **ACTION TAKEN**

The Public Account Committee's observations have been noted.

[F. No. 36/30/64-CX.I.]

### Recommendation

*In regard to variation of 75 per cent the Committee were informed that the cess was administered by the Department of Mines, who maintained the accounts, prepared the estimates and passed on the same directly to the Budget Section, Department of Economic Affairs, and, therefore, the Department of Revenue did not come into the picture. Since this item is a revenue receipt and the Audit Report had dealt with the variation with regard to it the committee would have liked the reasons for the variation to have been furnished to the Committee by the witnesses appearing on behalf of the Department of Revenue, by having necessary Coordination with the concerned Ministry. They hope this would be done in future.*

[S. No. 35 of Appendix XVII to 27th Report (1964-65)]

### ACTION TAKEN

As was explained earlier to the Committee, the duty on coal and coke is levied under the Coal Mines (Conservation and Safety) Act, 1952 (XXII of 1952) and Ministry of Steel & Mines are concerned with the same. That Ministry maintain the accounts, prepare the estimates and transmit the same directly to the Budget Division in the Department of Economic Affairs. This Ministry as such is not in a position to offer any useful comments on the variations in the revenue estimates and actuals relating to this item. If this Ministry is brought into picture, it is feared that it may only add to delays. On the other hand if the issues connected with these cesses are pursued directly with the Ministry of Steel and Mines and their witnesses are also heard by the P.A.C. it would make for greater expedition and more effective remedying of deficiencies pointed out by the Committee in the course of their deliberations. The Comptroller and Auditor General of India who was consulted also agrees with the view expressed above.

[F. No. 36/29/64-CX.I]

### Recommendation

*Committee would like the discrepancy to be reconciled in consultation with the Audit and the correct position intimated as soon as possible.*

[S. No. 36 of Appendix XVII to 27th Report (1964-65).]

**ACTION TAKEN**

The discrepancy of Rs. 50 lakhs between the figures available as per departmental returns (1·07) crores and as per accounts figures (1·57) crores appears to be due to mis-classification of receipts under 'rubber' assessable under the Indian Rubber Act, 1947 to the head of accounts pertaining to "Rubber Products" assessable under the Central Excises and Salt Act, 1944. The discrepancy is, however, being clarified in consultation with the Ministry of Industry and Commerce and the Department of Economic Affairs.

[F. No. 36/14/64-CXI]

**Recommendation**

*The Committee view with concern large variations under some minor heads particularly 30·54 per cent. under sugar, 25·4 per cent. under diesel oil, 341 per cent. under Iron and Steel Products. They feel that determined efforts are necessary to check this trend of under-estimating of revenue of excise duties under different minor heads. They suggest that machinery for collecting statistics of production and consumption of commodities liable to excise duties should be strengthened so that estimates are based on a more realistic data.*

[S. No. 38 of Appendix XVII to 27th Report (1964-65)]

**ACTION TAKEN**

The Public Accounts Committee's observations have been noted. The actual variation in the case of Iron and Steel Products was much less. This was explained during the oral evidence (*vide* comments against heading "Iron and Steel Products" Para 40, Item 7 of the 27th Report).

[F. No. 36/30/64-CXI].

**Recommendation**

*The Committee are alarmed at the extremely inadequate internal audit organisation existing in the Central Excise Department as revealed by the Report of the Central Excise Re-organisation Committee and as admitted by the representative of the Central Board of Excise and Customs during evidence and also as disclosed by the varied nature of mistakes that escaped the scrutiny of the internal audit. The Committee cannot view with equanimity under-assessments to the extent of Rs. 45,47,549 and cases involving loss of revenue to the extent of Rs. 4,76,917 detected as a result of only a "test audit", the total*

under-assessment and losses being necessarily of a much higher order. The Committee appreciate that as compared to Custom Houses, the Central Excise ranges and circles are spread all over the country. At the same time, the present situation where even a basic minimum number of internal audit staff appears to be lacking, calls for expeditious action to strengthen the internal audit organisation as a whole. The Committee trust that Government would lose no time in strengthening the internal audit organization in the Central Excise Department in the light of the recommendations of the Central Excise Re-organisation Committee, 1963, so that adequate safeguard are provided against leakages of public revenues.

[S. No. 39 of Appendix XVII to 27th Report (1964-65)].

#### ACTION TAKEN

The Government have under consideration a scheme for the implementation of the recommendations of the Central Excise Re-organisation Committee in regard to the strengthening of the Internal Audit Organisation in the Central Excise Department. The main features of this scheme are that the Audit and Accounts staff functioning in the Collectorates and Custom Houses, will form a separate cadre under the technical control and guidance of an independent Directorate of Audit. Pending examination of the full implications of such a long term scheme in all its aspects, certain interim measures for the strengthening of the internal audit organization in the Central Excise Department are under examination on an urgent basis. The measures envisaged are:—

- (i) The amalgamation of the Regional Audit which looks after the auditing of accounts of factories producing excisable commodities which are under audit type of control and the Internal Audit Department.
- (ii) The augmentation of the number of audit parties.
- (iii) The upgradation of the status of the Examiner from Superintendent of Central Excise to an Assistant Collector.

[F. No. 3/6/65-Ad.IV.]

#### Recommendation

The Committee were informed that one of the three cases is sub-judice. They would like to know the result thereof. They would also like to be informed of the latest position in the other two cases with particular reference to the recovery of the amounts involved.

[S. No. 40 of Appendix XVII to 27th Report, (1964-65)].

**ACTION TAKEN**

The matter is still sub-judice in one case. The amount involved in another case had already been reported as recovered. In the third case the amount has not so far been recovered. Further progress will be intimated in due course.

[F. No. 15/42/64-CX.IV].

**Recommendation**

*The Committee are of the opinion that the orders of the Board should have been more specific. They take a serious view of Collector not complying with the Board's orders and proceedings on the basis of his own interpretation. The Board's orders should be scrupulously carried out, and not circumvented by the exercise of discretionary powers. The Committee note that there are standing instructions by the Board that in cases of doubt, the demand should be raised first and then the matter should be referred to Government. Serious notice should be taken of cases where these instructions are not observed.*

[S. No. 41 of Appendix XVII to 27th Report, (1964-65).]

**ACTION TAKEN**

The views of the Committee have been noted and in reiteration of existing instructions it has been enjoined upon the Collectors that in doubtful cases, they should first raise the demands and then seek clarification of their doubts.

[F. No.18/8/64-CX.III].

**Recommendation**

*The Committee are far from happy to note the manner in which this case has been dealt with by the Collector. It is very unfortunate that the Collector could not appreciate the revenue implications of the voluntary payment offered by the assessee in this case. While they have been assured by Government that there had been only an excess of jurisdiction by the Collector and no motivation behind it, the Committee take a serious view of the incorrect action on the part of the Collector in granting an unauthorised concession. The Committee desire that strict instructions should be issued in this behalf, and cases where the subordinate officers are found to exceed the jurisdiction should be taken serious notice of. The Committee would like to be informed of the progress of realisation of the demands raised in this case.*

[S. No. 42 of Appendix XVII to 27th Report, (1964-65)].

**ACTION TAKEN**

The recommendation of the Committee that serious notice should be taken of cases where the subordinate officers are found to exceed their jurisdiction, has been noted. The Collector concerned as well as all Collectors have already been suitably instructed against granting such unauthorised concessions in future.

2. As regards the recovery of Government dues, the licensee has not honoured the demands but has instead, filed a Special Civil Application in the High Court of Gujarat against the demands and an *ad interim* stay against enforcement of the demands in question has also been issued by the Court. The Collector has been instructed to oppose the special civil application and to try to get the *ad interim* stay order also vacated.

(Approved by Secy.).

[F. No. 24/17/63-CX.VI].

**Recommendation**

*The Committee would like to be informed of the outcome of the disciplinary proceedings initiated against the officers concerned, and the progress of collection of the demands raised in regard to the three mills.*

[S. No. 51 of Appendix XVII to 27th Report, (1964-65)].

**ACTION TAKEN**

The matter is under examination.

[F. No. 18/7/64-CX.III].

**Recommendation**

*The Committee note that the officers responsible for the failure to detect the deliberate under-valuation have been censured and that the entire amount has since been realised. The Committee suggest that in cases where the manufacturers deliberately under value the samples with a view to avoiding payment of Central Excise duty, Government should proceed against them under Section 9(C) of the Central Excises and Salt Act, 1944, for supplying wrong information.*

[S. No. 43 of Appendix XVII to 27th Report, (1964-65)]

**ACTION TAKEN**

The observations of the Committee have been noted and suitable instructions have been issued to all the Collectors of Central Excise.

[F. No. 36/2/63-CX.I].

### Recommendation

(i) *As the matter is not free from doubt, the Committee suggest that sample of the gas may be analysed by the Chief Chemist attached to the Central Board of Excise and Customs, and an authoritative opinion obtained whether the gas is of refrigerant quality or not.*

(ii) *The Committee also recommend that when new commodities are added to the Tariff List, the technical specifications should be properly defined so as to remove all doubts.*

[S. No. 44 of Appendix XVII to 27th Report (1964-65).]

### ACTION TAKEN

(i) The laboratory attached to the Central Board of Excise and Customs is not equipped with the apparatus for testing Sulphur dioxide gas for its refrigerant quality; attempts are being made to get it tested elsewhere, e.g., in the Alipore Test House.

(ii) Recommendation of the Committee is noted.

[F. No. 7/23/64-CX.VII].

### Recommendation

*A similar lapse was noticed last year (vide para 27, Twenty-first Report, Third Lok Sabha) Prompt action should have been taken in the present case to send the manufactured article for test, the moment the duty on packing paper was raised. The Committee find that since the Collector issued the revised order in September, 1961, the revenue could have been realised from July onwards but they regret that this was not done. The Committee hope that such lapses will be scrupulously avoided in future.*

[S. No. 46 of Appendix XVII to 27th Report, (1964-65).]

### ACTION TAKEN

The observations made by the Public Accounts Committee have been noted.

[F. No. 22/30/64-CX.VI]

### Recommendation

*The Committee noted that there was no question of any ambiguity in the order and that this was a case of a clear failure on the part of the officers for which disciplinary proceedings have already been instituted. The Committee would like to be informed of the outcome of the disciplinary proceedings.*

[S No. 47 of Appendix XVII to 27th Report (1964-65).]

**ACTION TAKEN**

The outcome of the disciplinary proceedings are awaited and a further communication will follow.

[F. No. 1/20/63-CX II]

**Recommendation**

*The Committee feel concerned at the wide discretionary powers which subordinate officers seem to possess and exercise. They take a serious view of the failure to raise demands and realise the surcharge even after the Board's orders. The outcome of the disciplinary proceedings and the progress regarding collection of the demands made may be intimated to the Committee.*

[S. No. 48 of Appendix XVII to 27th Report (1964-65)]

**ACTION TAKEN**

The observations of the Committee have been noted and a further communication will follow. Disciplinary action is in progress.

[F. N. 1/26/63-CXII]

**Recommendation**

*The Committee feel concerned at the wide discretionary powers which subordinate officers seem to possess and exercise. They take a serious view of the failure to raise demands and realise the surcharge even after the Board's orders. The outcome of the disciplinary proceedings and the progress regarding collection of the demands made may be intimated to the Committee.*

[S. No. 48 of Appendix XVII to 27th Report (1964-65)]

**ACTION TAKEN**

Disciplinary action against two Assistant Collectors and one Superintendent of Central Excise concerned though initiated was subsequently dropped on the advice of the Central Vigilance Commission.

The position regarding recovery wherever due is as indicated in the enclosed statement.

*Statement showing the position regarding the Realisation of Demands raised*

Particulars of Demands	Rs.	Remarks
1. Amount of demands raised. . . . .	7,82,856·52	..
2. Amount realised . . . . .	33,070·24	..
3. Amount withdrawn	386·95	Withdrawn as the dhobi bleached cloth was only finished and stentered subsequently.
4. Amount pending realisation . . . . .	7,49,399·33	Amount Involved (Rs.)
		(i) 6 cases are pending at hearing stage. 3,68,077·08
		(ii) In two cases appealable orders issued. 60,457·52
		(iii) In ten cases parties have filed appeal/revision petition. 2,41,452·82
		(iv) In two cases party has gone to the High Court. 79,411·91
Total . . . . .	7,49,399·33	

**Recommendation**

*The Committee find this to be a clear case of under-assessment of duty. They are glad that the demand was raised and the amount also collected. They hope that such errors will be avoided in future.*

[S. No. 49 of Appendix XVII to 27th Report (1964-65)]

**ACTION TAKEN**

The observations of the Committee have been carefully noted.

[F. No. 18/31 64-CXIII]

**Recommendation**

*The Committee regret to note that the irregularity of issuing three separate licences, though there was only one manufacturing company, had been continuing for 19 years (from 1944 to 1963). This resulted in an unintended concession, as pointed out in the Audit para. It is obvious that the concession was intended to benefit comparatively small manufacturers. It is strange that the device adopted in this case to extend this benefit to two companies which in no way could be regarded as actual manufacturers went unnoticed. The Board came to know of this irregularity only when a Collector pointed out in 1962 that another factory was claiming a double concession on the same analogy. The Committee suggest that a system should be introduced whereby all old order of the C.B.R. are reviewed at regular intervals to guard against a repetition of such a contingency. Besides this the need for an amendment of the definition of "Manufacturer" may be examined and suitable action taken in the light thereof.*

[S. No. 50 of Appendix XVII to 27th Report (1964-65)]

**ACTION TAKEN**

The suggestions of the Committee have been noted. In order to review all special orders issued from time to time a control register will be maintained in every section of Board's office. The necessity or otherwise for amending the definition of 'manufacturer' is also under consideration.

[F. No. 15/45/64-CXIV]

**Recommendation**

*As the case is in appeal before the Supreme Court, the Committee would await the outcome thereof. The Committee would like the*

*Central Board of Excise & Customs to examine in detail the exact circumstances in which the classification was changed in February, 1961 shortly before the duty on this very item was raised, with a view to satisfy itself that no mala fides were involved.*

[S. No. 52 of Appendix XVII to 27th Report. (1964-65)]

#### ACTION TAKEN

The Central Board of Excise and Customs has examined in detail the exact circumstances in which the Superintendent of Central Excise concerned had changed the classification of Poster Paper at the particular point of time, and is satisfied that no *mala fides* were involved in this case.

[F. No. 22/31/64-CXVI]

#### Recommendation

*This case points to the need for greater vigilance and solicitude for public revenue on the part of the Central Excise officers. The Committee are unhappy to note that when rectification was sought to be done, the claim had become time-barred. They hope that such mistake would not be repeated. Also, the Committee cannot appreciate the undue delay in initiating and completing the departmental action*

[S. No. 53 of Appendix XVII to 27th Report (1964-65)]

#### ACTION TAKEN

The observations of the Committee have been noted. Steps have also been taken to re-emphasise the need of the supervisory officers playing an increasingly greater and more direct part in the interpretation of the Central Excise Tariff which is getting more complicated.

[F. No. 1/27/63-CXII]

#### Recommendation

*The Committee would like to be informed of the result of the adjudication proceedings and the amount involved and actually realised. The Committee hope that departmental action will be taken to fix responsibility for the failure of machinery and steps taken to avoid a recurrence in future.*

[S. No. 54 of Appendix XVII to 27th Report (1964-65)]

#### ACTION TAKEN

The Revision Applications preferred by the parties have since been rejected by the Government of India. The amount involved and actually realised is being ascertained. Action to fix responsibility for the failure of machinery is under way.

[F. No. 22/8/64-CXVII]

### Recommendation

The Committee are not convinced by the arguments put forward in justification of the fixation of a tariff value in this particular case. There were only 13 types of vehicles in this category and the assessment of each vehicle according to its wholesale price should not have involved any difficulty. Whereas Parliament had approved of an excise duty of Rs. 2,500 per vehicle or 12½ per cent ad valorem, whichever is higher, Government fixed a tariff value which was far less than the wholesale price of many vehicles in this category. Apart from the loss of revenue suffered, this also amounted to circumventing the Parliament's intention by executive fiat, which the Committee cannot view with equanimity. Had the duty been levied on the basis of actual wholesale prices, Government would have gained Rs. 30.45 lakhs over the period 1st July, 1960 to 31st March, 1962 in respect of vehicles manufactured by this concern. The net gain to Government would have been Rs. 11.51 lakhs more in respect of all units over this period. The Committee regret that Government's action has resulted in loss of revenue of this high order. Also, the argument put forward by the Ministry that the loss to the revenue in respect of this concern was compensated (partly) by a gain in respect of other manufacturing concerns makes the position worse. It is inequitable that the burden of tax should thus be shifted by an executive order from one party to another, thus frustrating the declared intention of Parliament.

In this connection, the Committee would also like to draw attention to the following pertinent observations of the Central Excise Re-organisation Committee, 1963 (page 31, para 25 of their Report).

"Under the present scheme, Parliament has delegated to Government the power to fix tariff value for goods assessable ad valorem. It has been represented to us that, by doing so, Parliament has divested itself unwittingly of its financial authority, and has not provided any mechanism for keeping itself informed of the results of the exercise of such delegated powers. The determination of tariff values is fraught with difficulties more particularly where large and small scale producers are involved in the same industry. An average rate would hit the small producers and give a larger margin of profit to the bigger producers. A tariff value economical to small scale producers would only inflate the profit of large producers and give them the opportunity to lower their prices and squeeze out the smaller units. This influences us to suggest that tariff values should be determined with great circumspection. In any case it seems to us that the Act itself requires amendment since Section 4 thereof which prescribes the method of valuation to be adopted in deter-

mining ad valorem duties is unfortunately placed immediately after Section 3(2) which authorises Government to determine tariff values. Following the example provided by the recent Customs Act it should be made clear that the provisions of Section 4 are not to override or affect the exercise of Government's powers under Section 3(2)".

The Committee are also in agreement with another observation of the Central Excise Re-organisation Committee, 1963 made elsewhere (para 8, page 27 of their Report) that it is not wholly correct to dilute parliamentary authority in the field of taxation by executive fiat, however, desirable the purpose.

In view of anomalies brought out in the Audit para under consideration, and in the light of their observations thereon, the Committee strongly desire that Government should give their early attention to this question and take necessary remedial action under advice to the Committee.

[S. No. 55 of Appendix XVII to 27th Report (1964-65)]

#### ACTION TAKEN

The notification fixing the tariff values which are the subject of the comment made by the Public Accounts Committee in the above para has since been rescinded and substituted by another fixing specific rates of duty related to the average assessable values of motor vehicles prevalent during the period 1st June 1964 to 31st May, 1965.

2. The general question of fixing tariff values has also been since reviewed. It is proposed to amend Section 3(2) suitably by writing into it the broad guiding principles which have to be kept in view while fixing tariff values. It is further being provided that every notification prescribing tariff values shall be laid on the Table of both Houses of Parliament and be subject to ratification in the same manner as any measure of subordinate legislation. The procedure for fixing tariff values itself has since been revised, and henceforth, such values will be fixed by the Government on the recommendations of the Economic Adviser in the Ministry of Industry.

[F. No. 15/43/64-CXIV]

#### Recommendation

The Committee had expressed their concern last year (vide para 34, Twenty-first Report, Third Lok Sabha) about the lack of any perceptible improvement in the recovery of arrears in respect of unmanufactured tobacco, and old arrears pending for the last several years. The Committee find that no such progress has since been

*made in this matter. They desire that vigorous steps should be taken to recover the dues wherever possible and to write off the irrecoverable arrears. Similar action should be taken with regard to the arrears under other heads.*

[S. No. 56 of Appendix XVII to 27th Report (1964-65)].

#### ACTION TAKEN

The observations of the Public Accounts Committee have been noted. The Collectors concerned have been again instructed to pursue arrears cases energetically so that the arrears could be effectively reduced.

[F. No. 36/8/64-CX.I].

#### Recommendation

*The Committee are glad that during 1962-63 there were increased collections under Corporation Tax and Income Tax due, inter alia, to (i) large advance collections, (ii) completion of a large number of provisional assessments and (iii) special drive undertaken by the Department for collection of arrears. The Committee find, however, that the difference between the Revised Estimates and the Actuals was Rs. 32.56 crores under Corporation Tax and Rs. 14.9 crores under Income Tax, whereas the variation between the Budget Estimates and the Revised Estimates was Rs. 9.05 crores and Rs. 9.15 crores respectively. The larger variation between the Revised Estimates and Actuals points to the need for more accurate and careful budgeting. The overall variation between the Budget Estimates and the actuals is 23 per cent under Corporation Tax and 34 per cent under Income-tax. Taking the gross collections under both the heads together, the variation comes to 19.1 per cent during 1962-63. These variations are very much on the high side, and the Committee hope that efforts would be made to improve the budgeting technique and arrive at more accurate estimates of the receipts under both these taxes.*

[S. No. 1 (Para 2) of Appendix VII to 28th Report (1964-65)].

#### ACTION TAKEN

The observations of the Committee have been noted.

(This has been vetted by audit vide D.O. No. 516-Rev./265-64 dated 17-2-64).

[F. No. 83/5/65-I.T. (B)].

### Recommendation

*The Committee regret to find from the latest figures placed before them, that the number of cases in which rectification of under-assessments was not possible due to operation of time-bar had increased from 91 to 129 and the amount involved from Rs. 6.96 lakhs to Rs. 8.5 lakhs. The Committee trust that the Income-tax Officers would act with speed so that the number of time-barred cases would be reduced to the minimum.*

[S. No. 3 (Para 4) of Appendix VII to 28th Report (1964-65)].

### ACTION TAKEN

The observations of the Committee has been noted.

(This has been vetted by audit vide Shri Gauri Shankar's D.O. No. 516-Rev./265-64 dated 17-2-64).

[F. No. 83/5/65-I.T. (B)].

### Recommendation

*From the note submitted by Government stating the action taken on the Committee's recommendations in their Sixth and Twenty-first Reports regarding the clearing of arrears, the Committee find that (i) Government have impressed on all Commissioner of Income-tax, the necessity of making an all-out effort for collecting arrears; (ii) in order to avoid accumulation of arrears a new section (Section 140-A) has been introduced in the Finance Act, 1964, under which an assessee whose net income for liability exceeds Rs. 500 has to pay the tax voluntarily within 30 days of the furnishing of the return, failing which he will be liable to penalty upto 50 per cent of the tax. While the remedial measures taken by Government may help in preventing future accumulation of arrears, the Committee are concerned with the past arrears, which are of the order of Rs. 270.43 crores as on 31-3-1963. They are glad to note that as regards old arrears, the percentage of collection in 1962-63 (Rs. 75.26 crores out of the arrears of Rs. 288.84 crores as on 1-4-1962) was higher, viz., 26 per cent as compared to 13.2 per cent during the previous year. However, further arrears have accumulated during 1962-63, and out of the total demand of Rs. 596.93 crores upto 1962-63 the arrears amount to Rs. 270.43 crores (about 45 per cent). The Committee would reiterate that in the context of the present national emergency and economic environment, it is imperative, that the past arrears should be realised by intensifying the collection effort, and current collections should not be allowed to accumulate.*

[S. No. 58 (Para 67) (ii) of Appendix VII to 28th Report (1964-65)].

**ACTION TAKEN**

The observations of the Committee have been noted.

(This has been vetted by audit *vide* Shri Gauri Shankar's D.O. No. 610-Rev./176-63 dated 27-2-65).

**Recommendation**

*While there is some improvement in the total number of cases per annum, in which the assessments were completed, the percentage has been falling. The Committee view with concern the progressive decline in the percentage of assessments completed from 1958-59 (71.2 per cent in 1958-59 69.6 per cent in 1959-60; 66.1 per cent in 1960-61; 64.8 per cent in 1961-62 and 59.4 per cent in 1962-63). The number of cases pending disposal in respect of 1962-63 comes to 40 per cent of the total cases for disposal. There are 9.09 lakhs of cases pending with Income-tax Officers and the net demand locked up is estimated to be of the order of Rs. 8.77 crores. This is not a very satisfactory position. The Committee hope that as a result of the steps taken by Government regarding small income cases (6.21 lakhs out of the total of 9.09 lakhs cases), and a vigorous drive which the Committee desire should be launched to clear arrears of assessment (lest recovery should become time-barred), the declining trend would be reversed and the percentage of assessments completed would record a significant improvement during the coming year.*

[S. No. 59 (Para 68) of Appendix VII to 28th Report (1964-65)]

**ACTION TAKEN**

The observations of the Committee have been noted.

(This has been vetted by Audit *vide* D.O. No. 516-Rev./265 dated 17-2-65).

[F. No. 83/5/65-I.T. (B)]

**Recommendation**

*The Committee are surprised to find out that the test-audit of 82,495 cases (6 per cent of the total number of 13.81 lakhs assesseees) has revealed under assessments to the extent of Rs. 2.29 crores (in 5,195 cases) and over-assessments amounting to Rs. 3.93 lakhs (in 258 cases), besides several lapses in procedure. The large number of cases involving under-assessment to the tune of Rs. 2.29 crores clearly establish the necessity of streamlining administrative machinery and the Committee suggest that effective steps should be*

taken in this direction keeping in view the complexity of law. It appears to the Committee that one reason for the magnitude of the mistakes committed by the Income-tax Officers is the heavy work-load. Considering that there are 13.81 lakhs of assesseees to be assessed by about 1300 officers the work-load on each Income-tax officer on an average comes to about 1000 cases a year has been considered high by the Santhanam Committee in its report on prevention of corruption (item ix page 272). Any streamlining of the administrative machinery must take into account the need to reduce the work-load with a view to obtaining optimum efficiency. The note that the functions of the Internal audit have been enlarged so as to include the checking of mistakes of law or rates, besides verifying the arithmetical calculation of the tax. The Committee trust that with the enlargement in the nature of the duties performed by the Internal audit, there will be significant improvement in prompt detection of cases of over-assessments and under-assessments. They also suggest that in future individual cases, involving and under-assessment beyond a certain amount (say Rs. 10,000) should be investigated in detailed and action taken against officers concerned, if under-assessment is found to be due to their negligence or non-observance of rules or malafides.

In respect of under-assessment of tax and loss of revenue of Rs. 10,000/- and more in individual cases, pointed out by Audit, the Committee would like to be informed as to in how many cases:—

- (i) the same I.T.O. was responsible for mistakes in more than one case commented upon in the present Audit Report; and
- (ii) the same I.T.O. who has committed the mistake this year also committed mistakes in the previous year which have been detected either by the Internal audit or Statutory audit.

[Sl. No. 2, Para 3 of Appendix VII to 28th Report.]

#### ACTION TAKEN

The Committee's recommendations pertaining to streamlining of administrative machinery have been noted and steps taken to augment the strength of the Income Tax Officers. Instructions have been issued to the Commissioners of Income-tax that individual cases involving in under-assessment beyond Rs. 10,000/- should be investigated in detail and action taken against the officers concerned if the under-assessment is found to be due to their negligence or non-observance of rules or mala fides. vide letter No. 83/6/65-I.T. (B)

dated 6th Feb., 1965 enclosed. The information sought at (i) & (ii) above is as under:—

Number of cases in which the same I.T.O. was responsible for mistakes in more than one case commented upon in the Audit Report 1964.

Number of cases in which the same I.T.O. who has committed mistakes pointed out in the audit Report, 1964 also committed mistakes pointed out in the Audit Report, 1963 or pointed out by the Internal audit during 1961-62.

(This has been vetted by audit vide D.O. No. 4091-Rev. Audit/95/63-II, dated 18-12-1965).

[F. No. 83/49/64-I.T.(B).]

F. No. 83/6/65-I.T.(B)

# CENTRAL BOARD OF DIRECT TAXES

*New Delhi, the 6th Feb., 1965.*

From

Shri Wasiq Ali Khan,  
Secretary, Central Board of Direct Taxes.

To

All Commissioners of Income-tax,  
(By Name),

Sir,

**SUBJECT:—Audit of Central Revenues by the C.A.G.—Detection of mistakes—Explanation of officials concerned and action taken thereon.**

I am directed to invite your attention to item (6) of the Minutes of the Commissioners' Conference 1964 (Technical matters) and to say that in partial modification of the instructions contained in their letters F. No. 14/4/63-IT(Pt.) dated 19.2.1964 and F. No. 83/19/64-ITB dated 16.6.1964 the Board have decided that where the revenue involved is less than Rs. 10,000/- Commissioners may in their discretion decide as to whether the explanation of an officer responsible, for mistakes pointed out by Audit should be called for or not. Where the Commissioners decide not to call for the explanation they should record detailed reasons in writing.

2. The Public Accounts Committee, in their 28th Report (3rd Lok Sabha), have stated that in future individual cases involving an under assessment beyond Rs. 10,000/- should be investigated in detail and action taken against officers concerned if the under-assessment is found to be due to their negligence or non-observance of rules or malafides. Therefore, in such cases the explanations of officers concerned should invariably be called for and when deciding the action to be taken, Commissioners should bear in mind the directions of the Public Accounts Committee.

3. A question has been raised as to whether Inspecting Assistant Commissioners who approve draft assessment orders or inspect cases should also be held responsible for any mistakes which are not detected by them and later on found out by Revenue Audit. The Board have decided that except in matters of calculation of tax I.A.Cs. should also be held equally responsible.

4. When awarding punishment to officers the number of cases in which they have committed mistakes not only found out by the Revenue Audit but also those found out by the Internal Audit should be taken into account.

5. In Board's letter F. No. 14/4/63-I.T. (Pt.), dated 19.2.1964, Commissioners were asked to send a quarterly statement regarding the explanation of officials. A revised proforma for the quarterly statement is enclosed herewith. It is seen that some Commissioners send these quarterly statements very late. As only the cases in which a final decision has been taken by the Commissioner during the quarter has to be included in the statement, the Board desire that there should be no undue delay in forwarding the statement to them.

Yours faithfully,

Sd/- WASIQ ALI KHAN,

*Secretary, Central Board of Direct Taxes.*

Copy forwarded for information to:—

1. All D.Is. with 4 spare copies.
2. Shri S. N. Kohli, A.D.I.R.S.P. with 2 spare copies.
3. C.A.G. New Delhi with 20 spare copies.
4. All Officers and Branches of the I.T. Wing.

## STATEMENT 'A'

*Quarterly Statement of Explanations regarding Revenue Audit objections involving Rs. 10,000/- and above.*

## C.I.T. CHARGE.....

S.No.	Name of the official responsible for mistake.	Amount of tax under-assessed.	G.I.R.No. and Name of assessee	Brief Nature of the mistake	Brief nature of the explanation.	C.I.T's orders thereon
1	2	3	4	5	6	7

## STATEMENT 'B'

*Quarterly Statement of Explanations of Officers in connection with internal Audit Objections involving Rs. 10,000/- and above.*

## C.I.T. CHARGE.....

S.No.	Name of the Official responsible for the mistake.	Amount of tax under-assessed.	G.I.R. No. and name of assessee.	Brief nature of the mistake.	Brief nature of the explanation.	C.I.T's orders thereon.
1	2	3	4	5	6	7

## STATEMENT 'C'

*Quarterly Statement of Action taken against the Officials of the internal Audit parties under the Revenue Audit have found mistakes involving over Rs. 10,000/-.*

## C.I.T's CHARGE.....

S.No.	Name of the official responsible for the mistake.	Amount of tax under assessed.	G.I.R. No. and name of assessee.	Brief nature of the mistake.	Brief nature of the explanation.	C.I.T's orders thereon.
1	2	3	4	5	6	7

**Recommendation**

*The Committee are given to understand that under-assessments on account of mistakes in working out the total income or tax have been frequently noticed in audit, and these mistakes could have been avoided if the officers were a little more careful. The Committee hope that the Central Board of Direct Taxes would take effective steps to eliminate such mistakes.*

[S. No. 4, Para 5 of Appendix VII to 28th Report, (1964-65)]

**ACTION TAKEN**

Whenever a mistake of general nature is pointed out by the Audit, instructions are issued to the I.T.Os to avoid such mistakes. Copies of the following circulars issued in this regard are enclosed:—

- (a) F. No. 36/5/64-I.T. (A-I) dated 4-6-1964.
- (b) F. No. 36/5/64-I.T.(A-I) dated 16-5-1964.
- (c) F. No. 36/5/64-I.T.(A-I) dated 16-5-1964.
- (d) F. No. 36/31/63-I.T.(A-I) dated 3-7-1964.

Further instructions as and when found necessary will also be issued.

(This has been vetted by audit *vide* D.O. No. 4173-Rev. A/12-6311 dated 22-12-65).

[F. No. 83/42/65-I.T. (B).]

**F. No. 36/5/64-IT(AI)**

**GOVERNMENT OF INDIA**

**CENTRAL BOARD OF DIRECT TAXES**

*New Delhi, the 4th June, 1964.*

From

Shri G. R. Desai,  
Secretary, Central Board of Direct Taxes.

To

..

All Commissioners of Income-tax

Sir,

**SUBJECT:—Irregularities noticed by the Audit Parties of the Comptroller and Auditor General—Twenty-first Report of the**

**Public Accounts Committee (1963-64)—Instructions regarding—**

I am directed to say that an examination of the objections raised by the Audit Party of the Comptroller and Auditor General has revealed that the under-mentioned types of irregularities and mistakes are commonly committed by Income-tax Officers. The Public Accounts Committee (1963-64) which considered the Audit Report (Civil) on Revenue Receipts, 1963, have also made certain observations in this regard in their Twenty-first Report and have suggested that suitable remedial measures should be taken to avoid the recurrence of such irregularities in future. The types of irregularities referred to in Audit which need remedial measures are set out below:

*(a) Incorrect working of Development rebate:*

According to the provisions of Section 34(3) (a) of the Income-tax Act, 1961, the primary condition for admissibility of development rebate is that an amount equal to 75 per cent of the rebate to be actually allowed is debited to the profit and loss account of the relevant previous year and credited to a reserve account. It was observed that in many cases development rebate had been allowed even though this primary condition of creating a development rebate reserve was not fulfilled. The Public Accounts Committee have observed that such mistakes do not speak well of the efficiency of the Department.

Attention is in this connection invited to the revised Record of Depreciation and Development rebate already prescribed by the Board, as referred to in Board's letter F. No. 13/37/61-IT(AI) dated the 8th April, 1964, as a remedial measure for avoiding such types of errors. Annexure II of the Record prescribes the Form in which details are to be maintained with regard to the allowance of development rebate and column 4 of the Form is meant for specifying the details regarding the reserve created in respect of the asset for which development rebate is claimed. If the Development Rebate Form is invariably made use of, the recurrence of the type of mistake referred to by the Audit herein can be easily avoided. The Income-tax Officers should be asked to have Annexure II properly filled in each case before the completion of the assessment so that the fulfilment of this primary condition regarding creation of necessary reserve does not escape notice.

*(b) Incorrect calculation of depreciation allowances:*

As stated in the Public Accounts Committee Report (1963-64), it was noticed that in as many as 472 cases, mistakes had been com-

mitted in the calculation of depreciation allowances resulting in under-assessment of tax to the extent of Rs. 24 lakhs. The Department's explanation that in a large number of cases the mistakes had arisen because there was difficulty in determining the break-up of the additions made by assessee every year to different types of machinery eligible for different rates of depreciation has not found favour with the Public Accounts Committee. The Public Accounts Committee are perturbed at the large number of cases detected by Audit in which calculation of depreciation allowances had been incorrectly made. The Public Accounts Committee have desired that besides strengthening of the Internal Audit Checks, the staff dealing with the calculation of depreciation allowances should be adequately trained.

Such mistakes have occurred in the past because a full record of depreciation regarding each asset year-wise was not being maintained in each case. As the Commissioners are aware, the Board have since prescribed, as a remedial measure, a revised Record of Depreciation which is quite comprehensive and adequate for the purpose of recording the various types of additions. The revised form is more detailed and if proper use is made thereof, Income-tax Officers would be able to have a complete picture as regards all the details necessary for the purpose of computing the correct depreciation allowance in each case. Income-tax Officers should be instructed to keep this record upto-date in each case and if necessary, in cases of big companies, the companies themselves may be asked to compile the record with the prescribed details and file it with the return of income so that Income-tax Officers can then easily check up the correctness of the depreciation allowance claimed. The Board feel that with a little more vigilance on the part of the officers, such mistakes in calculation of depreciation allowances can be avoided in future. Where a large amount is allowed on account of depreciation the Income-tax Officer should satisfy himself about the correctness of the amount allowed before finalizing the assessment.

The Board also desire that the members of the staff dealing with the calculation of depreciation allowances and especially such of them as deal with the company cases, should be given suitable training in this regard by the Commissioners as suggested by the Public Accounts Committee.

*(c) Irregularities in the grant of depreciation allowance:*

The basic condition in regard to the grant of depreciation allowance as provided in section 34(2) of the Income-tax Act, 1961, is that the total amount of depreciation allowances, whatever be the

nature of allowance (whether initial, normal or additional depreciation) should not exceed the actual cost of the plant, machinery etc. It was observed that this basic condition was overlooked while making an assessment of a big company where depreciation was allowed in excess of the actual cost, resulting in an under-assessment of Rs. 13 lakhs. Similar irregularities had also been committed in some other cases. These irregularities arose probably because the earlier form of depreciation record was not adequate for recording the various details. The revised depreciation record since prescribed by the Board, provides for full details being recorded. There are also separate annexures for recording adequate details regarding initial depreciation and development rebate. Particular attention is invited to Annexure I of the Record of Depreciation. In order to verify that the aggregate of all deductions in respect of depreciation made, including the initial depreciation allowance, does not exceed the actual cost of the asset to the assessee, the break-up of the initial depreciation already allowed for each item of asset should be recorded in form Annexure I. Care must invariably be taken to see that the aggregate of allowances in column 5 does not exceed the cost in column 2 of the Annexure in any year. The Board also desire that whenever the Internal Audit Party or the Inspecting Assistant Commissioner takes up a case for checking or inspection, the point whether the Record of Depreciation has been properly maintained must always be looked into. In cases of big assesseees having total income exceeding a lakh of rupees, they must also invariably check up, for the years under scrutiny, if the aggregate depreciation allowances has exceeded the actual cost of an asset so that if a mistake has been made by the assessing officer, appropriate remedial measures can be taken forthwith.

*(d) Non-levy of special surcharge on unearned income:*

The Finance Acts have from year to year prescribed levy of a special surcharge at a certain percentage of the tax (at 15 per cent upto the assessment year 1963-64 and at rate varying from 12½ per cent to 17½ per cent *vide* the Finance Act, 1964), on account of unearned income included in the total income of the assessee. However, in several cases it was found that the special surcharge was omitted to be levied on the share income of the partners who were not actually engaged in the conduct of the business of the firm. The total number of such cases noticed by the Audit was 605 involving short levy of tax to the extent of Rs. 6½ lakhs.

The Board desire that with a view to avoiding such type of mistakes in future, instructions must be issued by the Commissioners that each Income-tax Officer assessing the firm must always investi-

gate the question whether each partner of the firm is actually actively engaged or not in the conduct of the business of the firm, and intimate his finding in that behalf to the Income-tax Officers assessing the various partners. The Income-tax Officer assessing the firm should also record a note at the foot of the assessment order of the firm that this has been done. The Internal Audit Party must also check at the time of scrutiny of the case whether this requirement has been complied with in the cases of firms.

(e) *Mistakes in computing total income or tax:*

In one case it had been observed that while giving effect to the Appellate Tribunal's order, the Income-tax Officer committed a mistake by arriving at the income allowed in appeal on the basis of the returned income and not the assessed income. The defective manner in which the appeal order was given effect to resulted in under-assessment of tax in this particular case amounting to over Rs. 1 lakh.

It is essential that Income-tax Officers should exercise proper care in carrying out revisions of assessments consequent upon appeal orders. Instructions exist in the Income-tax Office manual, Chapter XII, Vol. II, Section II (P. 227) whereby the calculations are required to be checked by the appropriate authority. The Board desire that these instructions must be strictly observed. The Board also desire that in the course of his inspections, the Inspecting Assistant Commissioner must take up verification of Income-tax Officer's orders giving effect to appellate decisions which involve a reduction in income of an amount exceeding Rs. 50,000.

(f) *Mistakes in allowing credit on account of the advance payment of tax:*

It was noticed in one case that although the assessee had actually paid only a portion of the amount of advance tax estimated by him, credit was given by the Income-tax Officer for the entire amount of the advance tax so estimated, while calculating the tax payable on completion of the regular assessment.

Instructions in regard to the maintenance of a proper record regarding the advance payment of tax are to be found in Chapter XIV (a) of Office Manual, Vol. II, Section II. The Board desire that these instructions should once again be brought to the notice of Income-tax Officers and should be strictly observed. The Board further desire that the verification of the advance tax paid should be done at the time of the completion of the final assessment notably by reference to the original chalans which must be placed on the file

of the assessee as soon as they are received from the Treasury but also by reference to the entries in the appropriate Demand and Collection Register

The various irregularities mentioned above, and the remedial measures already provided and as further indicated above by the Board, should be brought to the notice of all the assessing officers under your control forthwith. They should be instructed to ensure that the various remedial measures are properly followed by them so that these types of irregularities do not recur in future.

Yours faithfully,

Sd/- G. R. DESAI,

Secretary, Central Board of Direct Taxes.

F. No. 36/5/64-IT(AI)

GOVERNMENT OF INDIA

CENTRAL BOARD OF DIRECT TAXES

New Delhi, the 16th May, 1964.

From

Shri G. R. Desai,  
Secretary, Central Board of Direct Taxes.

To

All Commissioners of Income-tax.

Sir,

SUBJECT:—*Irregularities noticed by the Audit Parties of the Comptroller and Auditor General—Twenty-first Report of the Public Accounts Committee (1963-64).*

I am directed to say that in their Report (1963-64) the Public Accounts Committee have made certain observations in regard to the various irregularities noticed by the Audit Parties of the Comptroller and Audited General while conducting the audit of the revenue receipts of the Income-tax Department. These observations of the Committee are indicated below. It is desired that these may be brought to the notice of the various assessing officers under your control. Suitable instructions may also be issued by you to the officers so as to ensure that these irregularities are avoided in future.

2. The observations of the Public Accounts Committee are summarised below:—

(a) *Irregularities in the grant of depreciation allowance:*

"The Committee regret to point out that this is another case where the change made with effect from the year 1954-55

withdrawing the concession of extra shift allowance at 100 per cent was ignored by the Departmental Officers”.

(b) *Mistake in levying tax on the dividend income shown in the return:*

“The Committee are not a little surprised to find that while the assessee itself returned a dividend of Rs. 1,38,885 the Income-tax Officer taxed only Rs. 86,503. It is hardly necessary to emphasise that the Income-tax Officers should be sufficiently alert and careful in going through the returns.”

(c) *Wrong or excessive rebate allowed from super-tax payable by Companies:*

“The Committee feel concerned at a large amount of tax under-assessed (Rs. 6.69 lakhs) as a result of failure to reduce the rebate in cases where dividend distributed was in excess of the prescribed percentage. In paragraph 23 of their Sixth Report (1962-63), the Committee had an occasion to discuss similar types of cases. The Committee hope that such mistakes would be avoided in future”.

(d) *Grant of excessive relief or rebate under section 99(1) (iv) of the Income-tax Act, 1961:*

“The Committee are surprised how the Income-tax Officers allowed exemption for tax not only in respect of dividends entitled to exemption but also in respect of dividends and interests received which do not qualify for exemption. According to Audit, the dividends warrant filed by the assessee and the certificate issued by it clearly showed the amount of dividend which qualified for exemption. They hope that the action taken in this case will have the desired effect and that the Income-tax Officers would be more careful in future”.

(e) *Under-assessment of tax on account of failure to ascertain and adopt in time the correct share income of partners:*

“The Committee feel concerned at the delay in the revision of provisional assessments of the partners’ share incomes after the completion of the firms’ assessments in as many as 379 cases covering assessment years 1956-57 to 1960-61 involving total amount of tax of Rs. 7.41 lakhs out of which tax to the extent of Rs. 2.89 lakhs related to 14 cases. The intimations in these cases had been lying with the Income-tax Officers for 6 months to 3½ years. The

Committee also take serious note of the failure to keep a proper watch over the cases assessed on provisional basis through a register prescribed by the Central Board of Revenue in February, 1959. They hope that these instructions will be strictly followed by the Income-tax Officers in future".

3. The Board desire that it must be brought to the notice of the officers that a serious view will be taken if such irregularities are allowed to recur in future.

Yours faithfully,

Sd/- G. R. DESAI,

Secretary, Central Board of Direct Taxes.

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F. No. 36/5/64-IT(AI)

GOVERNMENT OF INDIA

CENTRAL BOARD OF DIRECT TAXES

New Delhi, the 16th May, 1964.

From

Shri G. R. Desai,  
Secretary, Central Board of Direct Taxes.

To

All Commissioners of Income-tax.

Sir,

**SUBJECT:—Income from property—Determination of bona-fide annual value.**

According to the provisions of the Income-tax Act, the computation of property income for income-tax purposes is made with reference to the *bona-fide* annual value. Where actual rentals received for a property are taken as the basis for working out the annual value, a deduction is allowed for any amount included in the gross rentals on account of amenities provided by the landlord to the tenants such as maintenance of lifts, provision of common lights etc. Where, however, the Municipal valuation of the property is taken as the basis, no such deduction is permissible since the Municipal authorities usually make allowance for these items while fixing the rateable value of the building. During the course of audit by the audit parties of the Comptroller and Auditor General it was observed

that in a large number of cases this aspect was overlooked with the result that even where the *bona-fide* annual value had been taken with reference to the municipal valuation, deductions on account of such common service charges borne by the owner had been allowed.

The Public Accounts Committee has expressed its concern at the large scale under-assessment of tax due to the erroneous method of computation of the annual value of property. The Committee also desired that the Income-tax Officers should conduct a review of assessments already made by them speedily so that the cases of under-assessment, if any, are rectified and recoveries do not become time-barred.

2. Necessary instructions may be issued to the Income-tax Officers under your control asking them to conduct speedily a review of all such cases as desired by the Public Accounts Committee. Result of the review so undertaken should be intimated to the Board by the 31st December, 1964.

Yours faithfully,

Sd/- G. R. DESAI,

Secretary, Central Board of Direct Taxes.

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F. No. 36/31/63-IT(AI) (III)

GOVERNMENT OF INDIA

CENTRAL BOARD OF DIRECT TAXES

New Delhi, the 3rd July, 1964.

From

The Secretary,  
Central Board of Direct Taxes.

To

All Commissioners of Income-tax.

Sir,

**SUBJECT:**—*Failure to ascertain and adopt the correct share income of partners on completion of the firm's assessment—Maintenance of the prescribed register of provisional share income—Instructions regarding.*

In para 35 of the Audit Report (Civil) on Revenue Receipts, 1963, it was mentioned that several cases came to the notice of Audit where partners' assessments which were completed provisionally before the

assessment of the firms was completed were not reopened for taxing the correct share incomes on receipt of information relating to such income from the Income-tax Officer who completed the firm's assessments. Similar lapses have been noticed in test audit conducted during 1963-64 also. In para 66 of the Audit Report (Civil) on Revenue Receipts, 1964, it has been mentioned that the number of cases in which the rectification was not done was 287 involving an under-assessment of tax of Rs. 16.45 lakhs.

2. The Board take a serious view of the continuing lapses on the part of the officers in this regard. The Board have already prescribed a register [vide letter F. No. 53(6)-IT/58, dated the 3rd February, 1959] for noting cases in which such share incomes are provisionally assessed with a view to watching that lapses of the type referred to above do not occur. The Commissioners should ensure that this register is properly kept and all the cases wherein assessments are made on the basis of provisional share income are entered in this register and followed up action are not entered in the prescribed register. Income-tax Officers must be directed to bring the register up-to-date so that recurrence of such mistakes can be avoided in future. The Commissioners should also take Departmental action in all such cases where any loss of revenue, is noticed as a result of negligence or carelessness on the part of the officers concerned.

3. It is also necessary that the Internal Audit Parties and the Inspecting Assistant Commissioners be instructed to make a special check as regards the proper maintenance of the register prescribed in this regard when they take up district/circle/ward.

4. The receipt of this letter may please be acknowledged.

Yours faithfully,

Sd/- G. R. DESAI,

Secretary, Central Board of Direct Taxes.

Copy to D.I. (IT)/D.I.(Inv.)/D.I.(R.S.&P), New Delhi.

#### **Recommendation**

*The case referred to in para 45(a) of the Audit Report discloses a certain amount of negligence on the part of the Income-tax Officer, for which he has been issued a warning. The Committee would like the Board of Direct Taxes to examine, whether the issue of warning was an adequate punishment in this case. The Committee were informed that this case had not been checked by Internal Audit. Even under the old instruction the Internal Audit party had to conduct a*

**cent per cent check of cases in which the assessed tax exceeded Rs. 10,000. The Committee would like to know why this case where the assessed demand exceeded Rs. 1 lakh was not audited by the Internal Audit.**

[S. No. 5 (Para 6) of Appendix VII to 28th Report (1964-65).]

#### **ACTION TAKEN**

In this case the issue of warning to the Income-tax Officer concerned is considered as adequate punishment looking to the nature of the mistake and the short experience of the officer.

In view of the inadequate strength of Internal Audit Parties, a number of cases remained unaudited and this case was one among them. However, the Internal Audit Parties have since been strengthened and the scope of their checking has also been widened. Instructions have also been issued that company assessments and other cases with income exceeding Rs. 1 lakh should be given priority in checking by the Internal Audit Parties.

[Duly Vetted by Audit]

[M.F.(D.R.)U.O.F. No. 36/19/63-IT(AI)(I) dated 16-10-65].

#### **Recommendation**

7. According to the provisions of the Income-tax Act and the double taxation agreement entered into between India and Pakistan, relief is admissible on income which is taxable both in India and Pakistan at lower of the two rates prevailing in the two countries. Pending settlement of such relief, the assessing officer in India may keep the tax payable on that portion of income which is derived from Pakistan, in abeyance. A company declared a world income of Rs. 46,18,544 for the assessment year 1959-60. Of this, Rs. 12,43,526 was income from India and the balance was derived from Pakistan. Pending settlement of tax relief, the Income-tax Officer decided to keep the tax payable on the Pakistan income in abeyance and to raise demand on the Indian income at the effective rate of tax which was 51·5 per cent. But while raising the demand, the tax was erroneously calculated on 51·5 per cent. of the Indian income (i.e. Rs. 6,40,216) instead of at 51·5 per cent. of the Indian income of Rs. 12,43,526. This resulted in a short demand of Rs. 3,10,602. The Ministry accepted this mistake and had stated that appropriate action to raise the demand had since been taken.

During evidence, it was stated that the mistake had been rectified and Rs. 2,18,375 had been collected out of Rs. 3,10,602. The remainder

was proposed to be adjusted against some refund due to the company earlier.

*In a note furnished subsequently to the Committee it was stated that the mistake occurred due to rush at the end of the financial year and that the officer concerned had been warned. The explanation about rush of work etc. is not quite convincing. The Committee take a serious view of such mistakes and hope that necessary steps will be taken to avoid their recurrence.*

[S. No. 6 (Para 7) of Appendix VII to 28th Report (1964-65)].

#### ACTION TAKEN

Additional demand raised as a result of audit objection has since been collected in full.

Necessary steps have also been taken to ensure that such mistakes are avoided in future.

Instructions have been issued that even *bona fide* lapses should be viewed strictly, so as to obviate their repetition. All cases mistakes involving revenue exceeding Rs. 10,000 are required to be investigated in detail and action taken against the erring officers. The Inspecting Assistant Commissioners who approved the draft assessment orders or inspected the cases are also held responsible for their failure to detect the mistakes. The Commissioners of Income-tax have been told that it will be their personal responsibility to ensure that the punishment given is adequate considering the gravity of the mistakes. They have also been told that mistakes attributed to factors such as negligence, carelessness or ignorance of law, even though *bona fide*, cannot be allowed to pass without adequate action against the officials concerned. The nature of the action to be taken would of course depend upon the facts of each case but repeated mistakes by the same officer will call for more severe action. The action taken is required to be reported to the Board at quarterly intervals, and these reports are scrutinised at headquarters to ensure proper compliance with the instructions.

In order to prevent mistakes in future, refresher courses are being arranged regularly for the benefit and guidance of officers. Training programmes for members of the staff have also been made more intensive. The officers have been asked to arrange their work in such a manner that undue rush at the end of the year is avoided. Efforts are also being made to get more posts sanctioned so that every officer is assigned work-load which he can reasonably be expected to handle with efficiency.

(Duly vetted by Audit)

[F. No. 11(66)-63/TPL.]

### Recommendation

The case referred to in sub-para (c) of the Audit para (No. 45) is yet another case of carelessness resulting in under-assessment. The Committee would like to be informed of the progress of recovery of the demand in this case.

[S. No. 7 (Para 8) of Appendix VII to 28th Report (1964-65)].

### ACTION TAKEN

Tax leviable on the firm amounting to Rs. 1,800 has been fully recovered.

Assessments of the partners have also been rectified. A total additional demand of Rs. 5,607 was raised which has also been collected. The Income-tax Officer has explained that the revenue effect on actual rectification is less on account of giving effect to appellate orders and revision of shares from certain other firms.

(Duly vetted by Audit)

[U.O. F. No. 36/19/63-IT(AI) Pt. I dated 26-5-1965].

### Recommendation

*In view of the fact that lapses in computing super-tax payable by companies are on the increase, the Committee would suggest that a general review may be undertaken and suitable instructions issued to the assessing officers.*

[S. No. 10 (Para 11) of Appendix VII to 26th Report (1964-65)].

### ACTION TAKEN

Owing to the paucity of staff and the large volume of additional work involved, it has not been considered feasible to order, a general review in all the Commissioners' charges as suggested by the PAC. However, a review has been ordered in the Bombay and West Bengal charges, where most of the companies' cases are concentrated. The proposed review will cover the assessments made during the period of three years 1961-62, 62-63 and 1963-64 and it will extend to all cases of companies with income exceeding Rs. 25,000.

Suitable instructions have been issued by the Central Board of Direct Taxes—a copy of which is enclosed.

(Duly vetted by Audit)

[F. No. 36/38/63-IT(AI), dated 3rd June, 1965].

F. No. 36/2/65-IT(AI)

GOVERNMENT OF INDIA

## CENTRAL BOARD OF DIRECT TAXES

New Delhi, the 9th March, 1965.

From

Shri G. R. Desai,  
Secretary, Central Board of Direct Taxes.

To

All Commissioners of Income-tax.

Sir,

**SUBJECT:**—*Mistakes in the computation of super-tax payable by the companies.*

I am directed to say that the scrutiny of the various cases made by the Audit parties of the Comptroller and Auditor General has revealed that there are a large number of cases where there have been omissions and lapses in the computation of super-tax payable by companies. In some cases reduction in super-tax rebate had either been incorrectly calculated or been omitted to be calculated and in other cases unabsorbed reducing of rebate was not calculated; carried forward and set off in the later years against the super-tax rebate on the ground that the company had no positive income in the year. It appears that the provisions regarding reduction in rebate are not very clear to some of the officers in spite of instructions issued in this regard.

2. The provisions regarding reduction in rebate on the basis of declaration of dividends in excess of 6 per cent of the paid up capital were in force from the assessment year 1956-57 as envisaged in the Finance Act 1956 to 1959. The provision regarding the carry forward of reduction in rebate has of course been continued even under the Finance Acts of later years. For the purpose of reduction in rebate, the Income-tax Officer has to see whether dividends declared during the previous year relevant to the assessment year was more than 6 per cent of the paid up capital as it stood on the 1st day of the previous year. The reduction in rebate has to be calculated on such excess. It may, however, be clarified that the provision regarding reduction in rebate on excess declaration of dividend is applicable to:

- (i) all companies in which public are not substantially interested (within the meaning of section 23A of the I.T. Act, 1922) irrespective of the income of the company, and

- (ii) all companies in which public are substantially interested where the income of the company is more than Rs. 25,000.

Such reduction in rebate has to be calculated in each year irrespective of the fact whether the company has positive income or negative income. Where the reduction is not absorbed in the super-tax rebate for the year, it has to be carried forward and set off against the super-tax rebate of a later year. It may, however, be reiterated that the question of carry-forward of unabsorbed reduction in rebate would not arise in a case where the position regarding reduction in rebate itself does not apply, e.g. in the case of a company in which public are substantially interested and the income of such company is less than Rs. 25,000.

3. The above position has been clearly explained in paragraph 8(e) of the Board's Circular No. 12-D of 1960 dated the 16th June, 1960, and was reiterated in the Board's endorsement F. No. 2/6/63-IT(AI) dated the 13th November, 1963. In view of the fact that the lapses in this connection continue to occur, the Board desire that the attention of all the assessing officers should once again be drawn to these instructions and they should be directed to ensure that such mistakes do not take place hereafter and wherever mistakes are detected for earlier years, they should be rectified.

Yours faithfully,

Sd/- G. R. DESAI,

*Secretary, Central Board of Direct Taxes.*

#### **Recommendation**

(i) *The Committee would like to be informed of the final position regarding recovery in the above cases.*

(ii) *The observations of the Committee regarding sub-para (a) above apply to the cases mentioned in this sub-para also.*

[S. No. 11 (Para 12) of Appendix VII to 28th Report (1964-65)].

#### **ACTION TAKEN**

(i) The requisite information is given in the statement attached.

(ii) The position has been explained in reply to para 11 of the Report.

[Duly vetted by Audit]

[U.O. F. No. 36/19/63-IT(AI) dated 21-8-65].

**Position regarding recovery in 10 cases in which audit objections  
have been accepted (mentioned in para 12 of the  
PAC's Report, 1964-65)**

S. No.	Name of the assessee.	Addl. demand raised.	Amount recovered.
1	M/s. Howrah Motor Co. (P) Ltd.	Rs. 8,100/-	Fully recovered.
2	M/s. Mewar Sugar Mills Ltd.	3,000/-	Do.
3	M/s. Turner Morrison Co. Ltd.	90,000/-	Do.
4	M/s. Shalimar Paints Ltd.	6,205/-	Do.
5	M/s. Metal Box Co. of India.	9,200/-	Do.
6	Shri Rajendra Mills Ltd.	13,136/-	Do.
7	M/s. M. G. Bhagat & Sons Ltd.	4,390/-	Adjustable against the refund which will be due to the assessee on completion of its assessment for the year 1963-64.
8	M/s. Oberoi Hotels Ltd.	1,729/-	Not yet recovered.
9	M/s. Clevedon Tea Company	22,400/-	Not yet recovered owing to remittance difficulties from Pakistan.
10	M/s. Devan Port & Company	28,166/-	Action time-barred.

**Recommendation**

The Committee would like to be informed of the outcome of the investigation.

[S. No. 13 (Para 14) of Appendix VII to 28th Report (1964-65)]

**ACTION TAKEN**

The facts have been ascertained from the Commissioner of Income-tax, Patiala. It is understood from the Commissioner that there were no special reasons for the mistakes in the eleven cases in his charge.

In three cases the surcharge on earned income was omitted to be charged through oversight at the time of making provisional assessments completed in February, 1962.

In the remaining eight cases the surcharge on earned income was charged by oversight at the rate of 5 per cent instead of 10 per cent as up to the assessment year 1960-61 the rate of surcharge was 5 per cent and it was only in the Finance Act, 1961, that the rate of additional tax was raised to 10 per cent.

[Duly vetted by Audit].

[F. No. 36/31/64-IT(AI) (IV), dated 27-8-65].

**Recommendation**

*The Committee would like to be apprised of the result of the appeal and the action taken thereon. The Committee are given to understand that wrong calculation of value of perquisite is frequently noticed in audit. The Committee therefore suggest that instruction may be issued that calculation of perquisite should be specially checked by the Inspecting Officers.*

[S. No. 16 (Para 17) of Appendix VII to 27th Report 1964].

**ACTION TAKEN**

Assessee has accepted the assessment of perquisite in his hand and has paid in full the tax demanded on re-assessment.

Instructions have been issued to the Inspecting Officers to specially check the omission of perquisites and incorrect valuation thereof at the time of the annual inspection of the I.T.O's. work, vide Board's circular letter F. No. 14/59/63-I.T.(B), dated 25th March 1965 (Copy enclosed).

[This has been vetted by Audit, vide D.O. letter No. 2668-Rev. A/190-63 Vol. II, dated 7th September, 1965].

[F. No. 14/59/63-I.T.(B)]

F. No. 14/59/63-I.T.(B)

## CENTRAL BOARD OF DIRECT TAXES

*New Delhi, the 25th March, 1965.*

From

Shri Wasiq Ali Khan,

Secretary, Central Board of Direct Taxes.

To

All Commissioners of Income-tax.

Sir,

SUBJECT:—*Taxation of perquisites in the hands of Directors and other highly paid employees—Omission and incorrect valuation—Instructions regarding—*

The Revenue Audit and the Public Accounts Committee have pointed out that in a number of cases the value of perquisites allowed to Directors of Companies and highly paid employees in the private sector has been calculated incorrectly resulting in loss of revenue. There are also a number of cases in which perquisites have been completely omitted in the income-tax assessments. Even though in the assessments of companies, travelling expenses or other personal expenses of Directors or their wives are disallowed as not relating to the business, very often steps are not taken by the Income-tax Officers assessing the companies to inform the Income-tax Officers assessing the Directors of such disallowances, with the result that the amounts in question are not taxed as perquisites in the hands of the Directors. You are, therefore, requested to issue instructions to all Income-tax Officers to be particularly vigilant about this kind of under-assessment.

2. The Inspecting Assistant Commissioners of Income-tax should also be asked to specially check the omission of perquisites and incorrect valuation thereof at the time of their annual inspection of the Income-tax Officers' work.

Yours faithfully,

Sd/- WASIQ ALI KHAN,

Secretary, Central Board of Direct Taxes.

Copy forwarded to:—

1. All D.Is with 4 spare copies.
2. Shri S. N. Kohli, A.D.I.R.C.P. with 2 spare copies.
3. The C.A.G., New Delhi, with 20 spare copies.

Sd/-WASIQ ALI KHAN,

Secretary, Central Board of Direct Taxes.

Copy also to I.T. (A-I) Section.

#### Recommendation

*The Committee would like to be informed of the opinion of the Law Ministry and the instructions issued in the light thereof—*

[S. No. 17 (Para 18) of Appendix VII to 28th Report (1964-65)].

#### ACTION TAKEN

The Law Ministry have advised that the view expressed by the Audit is correct. Necessary instructions clarifying the correct position have also been issued to all Commissioners of Income-tax vide Board's letter F. No. 8/2/64-IT(AI), dated 17th February, 1965, a copy of which is attached.

(Duly vetted by Audit).

[F. No. 36/35/63-IT(AI), dated 31st May, 1965.]

F. No. 8/2/64-IT(AI)

GOVERNMENT OF INDIA

CENTRAL BOARD OF DIRECT TAXES

New Delhi, the 17th February, 1965.

From

Shri G. R. Desai,

Secretary, Central Board of Direct Taxes.

To

All Commissioners of Income-tax.

Sir,

**SUBJECT:**—*Computation of income from property—Determination of annual value when property is jointly owned and used by joint owners for their own occupation—*

A question has been raised whether in cases falling under section 9(3) of the Income-tax Act, 1922/Section 26 of the Income-tax Act,

1961, where a property is owned by two or more persons and is also used as residence by the joint owners and their respective shares are definite and ascertainable, the allowance of one-half of the annual value or Rs. 1,800 permissible in respect of self-occupied property should be granted separately in respect of each of the co-owners, or it should be granted once only in respect of the property as a whole, in determining the share of each co-owner. The matter has been carefully considered. The position is that the first proviso to sub-section (2) of section 9 of Income-tax Act, 1922, [corresponding section 23(2) of the Income-tax Act, 1961] lays emphasis on the property, is a unit, and not on co-ownership thereof. Hence the correct position is that the income from the entire property is to be determined by granting the allowance of one-half of the annual value of Rs. 1,800, whichever is less, only once, under the first proviso to sub-section (2) of section 9 of the Income-tax Act, 1922, and such reduction is not to be allowed separately in the case of each co-owner.

2. The above position may please be brought to the notice of all the officers. The Income-tax Officers may also be advised to revise the assessments if made on a different basis, wherever necessary, cases which involve time-bar should be taken up for rectification first so that there may be no loss of revenue in any case.

Yours faithfully,

Sd/-G. R. DESAI,

*Secretary, Central Board of Direct Taxes.*

Copy forwarded to:—

(1) D.I. (IT)/D.I. (R.S.&P.)/D.I.(Inv.).

(2) All Officers and Sections in Central Board of Direct Taxes.

Sd/- G. R. DESAI,

*Secretary, Central Board of Direct Taxes.*

#### **Recommendation**

*The Committee would like to be informed of the action taken after the Supreme Court's Judgment regarding:—*

- (i) the present case and (ii) such cases generally in future. The Committee would also suggest that suitable instructions should be issued to all Income-tax Officers in the light of the judgment of the Supreme Court.

[S. No. 19 (Para 22) of Appendix VII  
to 28th Report (1964-65)].

## ACTION TAKEN

*M/s. Orissa Industries Ltd.*

In the present case of *M/s. Orissa Industries Ltd.*, the assessment has already been revised raising additional demand as under:—

A. Y.	Demand
	Rs.
1958-59 . . . . .	16,377
1959-60 . . . . .	51,540
1960-61 . . . . .	39,109
	<hr/> 1,07,026

Demand for the assessment year 1958-59 and 1960-61 has been fully recovered. Recovery of demand for the assessment year 1959-60 has been stayed for the present.

2. The matter was examined in the light of the Supreme Court's judgment in the case of *Mir Mohd. Ali* (53 ITR 165). In the above mentioned case, the Supreme Court have held that the word 'machinery' has the same meaning in all the provisions and it is nowhere provided that initial depreciation admissible under Section 10(2)(via) of the Income-tax Act, 1922, of extra depreciation has to be allowed only in the case of installation of self-contained units of plant and machinery. In view of this they have held that 'diesel engines' fitted in motor-vehicle is a 'machinery' which is 'installed' and, therefore, extra depreciation is admissible on it. A machinery is said to be installed where it is 'inducted or introduced' or placed in 'position' for service or use.

3. However, the view of the Income-tax Department has been that for allowing the claim of development rebate on plant and machinery under section 10(2)(via) of the Income-tax Act, 1922 or under section 33 of the Income-tax Act, 1961, it is necessary that the plant or machinery should be capable of being installed independently; in other words the plant or machinery should be a self-contained unit. The Bombay High Court in 37 ITR 142 and the Andhra Pradesh High Court in 50 ITR 202 have given decisions against the Department. The last decision in the case of *Raju and Nannar* is now before the Supreme Court.

Since the Supreme Court is already seized of the matter, it has been decided to a their direct decision on the point of allowance of

development rebate on units which are not so contained, instead of drawing an analogy from their decision with regard to the initial depreciation allowance in Mir Mohd Ali's case and conceding the point at this stage.

The above position has also been brought to the notice of the Commissioners of Income-tax vide Board's circular letter F. No. 75/14/60-IT(J), dated 23rd November, 1964 (copy enclosed).

[Duly vetted by Audit].

[F.No. 36/31/63-IT(AI) (Pt. I.), dated 25th November, 1965.]

#### Recommendation

- (i) *The position regarding recovery of the amount in the two cases may be intimated to the Committee.*

[S. No. 21, Para 24 (i) of Appendix VII to 28th Report (1964-65)].

#### ACTION TAKEN

The position regarding recovery in respect of the two cases referred to in the above-mentioned para is given below:—

(a) *Ramakrishna Mills CBE*

The additional demand of Rs. 12,134.43 for the assessment year 1959-60 has since been collected.

(b) *Shri K. Balasubramania Nair*

The additional demand payable by the assessee consequent on the withdrawal of the development rebate was collected as follows:—

- (i) Rs. 5,000.00 paid on 23-1-1965
- (ii) Rs. 1,185.15 paid on 17-2-1965
- (iii) Rs. 16,983.33 paid on 15-3-1965

Total   Rs. 23,168.48

[Duly vetted by Audit]

[F. No. 36/34/63-IT(AI), dt. 21-8-65.]

#### Recommendation

The Committee were given to understand that in another case, where a similar question arose, a reference was made to the Board and the Board have given a ruling that that amount should not be allowed as a deduction. The Committee suggest that when such references are received and the Board gives a ruling, all other Commissioners may also be informed simultaneously that such mistakes may not occur and uniform application of law is ensured.

[Para 31 of 28th Report (1964-65).]

**ACTION TAKEN**

The suggestions of the Committee have been noted. In the instant case, action is being taken to acquaint other Commissioners of the Board's ruling.

(Vetted by Audit vide C.A.G. D.O. No. 2102-Rev/A/22-63, dated 24th July, 1965).

[U.O. No. 52/27/65-IT(Inv), dated 2nd August, 1965.]

**Recommendation**

The Committee would like to point out that the cases mentioned above [para 59(c) of the Audit Report, 1964] do not involve any complicated principle of income determination and the mistakes could have been avoided if the officers had exercised due care. They trust that mistakes due to "oversight" will not recur.

[S. No. 29 (Para 34) of Appendix VII to 28th Report (1964-65)].

**ACTION TAKEN**

The observations made by the Committee have been noted and necessary instructions issued to all Cs. I.T. vide letter F. No. 36/2/65-IT(AI), dated 8th November, 1965 (copy enclosed).

(Duly vetted by Audit vide D.O. No. 871-Rev A/23-63/II, dated 28th February, 1966)

[F. No. 36/19/63-IT(AI), dated 8th March, 1966.]

F. No. 36/2/65-IT(AI)

GOVERNMENT OF INDIA

CENTRAL BOARD OF DIRECT TAXES

New Delhi, the 8th November, 1965.

From

Shri J. C. KALRA,

Secretary, Central Board of Direct Taxes.

To

All Commissioners of Income-tax.

Sir,

SUBJECT.—*Irregularities noticed by the Audit Party of the C. & A.G.—Report of the Public Accounts Committee, 1964-65.*

I am directed to say that in their report for the year 1964-65, the Public Accounts Committee have observed that in many cases the mistakes occurred as the assessing officers did not exercise proper

care and caution and also due to the non-observance of the various instructions issued by the Board from time to time. In this connection, some of the observations made by the Committee are reproduced below which may please be brought to the notice of all the officers:

- (i) *Omission to apply properly the provisions of the Income-tax Act regarding adding of incomes of other persons in taxpayer's assessment.*—"The Committee find it difficult to accept heavy pressure of work as a valid reason for committing such obvious mistakes. The Committee would like the Central Board of Direct Taxes to take suitable steps to ensure that such mistakes are avoided in future" (para 48).
- (ii) *Irregular determination of Income of Companies.*—"This case indicates negligence on the part of the assessing officer in scrutinising the assessee's accounts and in computing the taxable income. The committee regret that the mistake should have been committed for three consecutive years. They hope that in assessments involving such large amounts, the Income-tax Officers would exercise proper care and caution so that there is no under assessment" (para 49).
- (iii) *Income escaping assessment.*—"The Committee trust that the assessing officers would scrutinise the facts available in the assessment records with proper care in future". (Paragraph 53).
- (iv) *Deductions given for inadmissible expenditure.*—"The Committee would like to point out that the cases mentioned above do not involve any complicated principle of income determination and the mistakes could have been avoided if the officers had exercised due care. They trust that mistakes due to "oversight" will not recur." (Paragraph 34).

The Board expect the assessing officers to perform their duties with greater diligence and care so that the Public Accounts Committee may not find it necessary to repeat the above observations in their next report.

Yours faithfully,

Sd/- J. C. KALRA,

*Secretary, Central Board of Direct Taxes.*

### Recommendation

*.. The Committee appreciate that the point involved in the present case in computing the capital gains was not free from doubt. They would like to know the outcome of the case.*

[S. No. 31 (Para 36) of Appendix VII to 28th Report (1964-65).]

### ACTION TAKEN

The re-assessment proceedings for the Assessment Year 1961-62 have not yet been completed by the Income-tax Officer since the assessee has gone in appeal against the Commissioner's order under section 33-B of the I.T. Act, 1922, cancelling the original assessment.

Further information will be furnished on completion of the proceedings.

[F. No. 36/36/63-IT (AI), dated 10th August, 1965.]

### Recommendation

*The Committee feel concerned to note that there is no perceptible improvement in the recovery of the arrears in respect of unmanufactured tobacco. The arrears actually increased from Rs. 202.08 lakhs as on 31st March, 1961 to Rs. 213.02 lakhs as on 31st March, 1962. The Committee are particularly worried about the old arrears which have been pending for the last several years. The Committee note that some remedial measures have been taken by the Department to liquidate these arrears. They desire that vigorous steps should be taken to recover the dues wherever possible and to write-off the irrecoverable arrears. They desire the Ministry to keep the position in this regard under constant watch.*

[Sl. No. 33 of Appendix XIII to 21st Report, (1963-64).]

### ACTION TAKEN

The total arrear is a very small fraction of the total revenue from tobacco and arises chiefly in sparse growing areas where crop is often disposed of before the excise officer is able to get it even for assessment. All possible steps are, however, continuously being taken to liquidate the arrears in respect of unmanufactured tobacco and no slackening of efforts in this behalf is contemplated. The observations of the Public Accounts Committee have also been brought to the notice of the Collectors with the directions that measures for liquidating arrears should be enforced vigorously.

2. The Central Board of Excise and Customs have no reason to doubt the figures of arrears reported to them by the Collectors. The concerned Central Excise Officers would also be having complete details of defaulting assesseees.

[F. No. 15/7/64-CX. IV.]

### **Recommendation**

40. Where an assessee derives income from a business in Pakistan, 40 per cent of the income is subjected to Pakistan income-tax and the balance of 60 per cent representing agricultural income is assessed under the Pakistan Agricultural Income-tax Act. In India, the entire income is subjected to income-tax. However, relief against double taxation is provided in respect of non-agricultural income under the double taxation avoidance agreement entered into by Pakistan with India and in respect of agricultural income under section 49-D(3) of the Income-tax Act, 1922.

It was noticed that in the case of a tea company for the assessment years 1956-57 to 1959-60, 60 per cent of the income from the tea business carried on in Pakistan was excluded from the Indian assessment while calculating the gross tax payable in India. However, relief was allowed from this gross tax on the whole of the income derived from Pakistan thereby allowing relief even in respect of the 60 per cent of the income which was excluded from Indian taxation.

In addition to this mistake, there were several other calculation mistakes in the matter of application of the tax rates and conversion of the Pakistan currency into Indian currency, allowance of depreciation etc. As a result of giving this excess relief there was an under-assessment of tax to the extent of Rs. 2.03 lakhs.

The Committee were informed during evidence that the mistake in regard to double taxation relief was due to carelessness on the part of the Income-tax Officer. Instead of taxing the whole income, he taxed only 40 per cent and instead of giving a rebate on only 40 per cent, he gave it on the whole income. It was explained that two Income-tax Officers had dealt with the case and the mistake continued for four years because the second Income-tax Officer followed what his predecessor had done without giving any thought to it. The other mistakes pointed out in the audit para were stated to have been committed by the first Income-tax Officer.

The Committee were informed that the under-assessment had been rectified.

According to a note furnished at the Committee's instance, the mistakes pointed out by Audit occurred in the same case involving six assessments, dealt with by two officers, one succeeding the other. The officer who was responsible for most of the mistakes, it has been stated, has regretted the lapses on his part, and he has been warned to be careful in future. The other officer was responsible mainly for the incorrect computation of the "Indian rate of tax" while allowing relief in respect of agricultural income arising in Pakistan but taxed both in India and in Pakistan. This, according to the note, was a bona fide mistake of interpretation of the relevant provisions in the Income-tax Act and no action has been considered necessary against the officer. However, it has been stated that instructions regarding correct computation of the 'Indian rate of tax' have been issued by the Board to the officers of the Department. It has been stated that officers have also been asked to review all cases of this type and rectify the assessments wherever "Indian rate of tax" has not been computed in accordance with these instructions.

*The Committee are glad to learn that, with a view to avoiding this type of mistake in the future, instructions have been issued by the Board on the basis of a correct interpretation of the relevant provisions in this regard. The Committee note that officers have been also asked to review all cases of this type and rectify the assessments wherever "Indian rate of tax" has not been computed in accordance with the correct interpretation. The Committee would like to be apprised of the results of the said review.*

[Sl. No. 34, (Para 40) of Appendix VII to  
the 28th Report (1964-65)]

55. In para 87(a) of the Audit Report (Civil) 1962 and in para 30(a) of the Audit Report (Civil) on Revenue Receipts, 1963, it was pointed out that in seven cases where the assessee derived agricultural income from Pakistan, the rebate allowed to the assessee on account of double taxation of agricultural income in Pakistan and in India was not correctly worked out according to law. Six more cases of such excessive relief were noticed during the period under review also. The amount of excessive relief involved was Rs. 8.72 lakhs out of which Rs. 4.12 lakhs became loss of revenue as the rectification of the mistakes became time-barred. The correct legal position was pointed out by Audit to the Department in 1961 itself and was finally accepted by the Central Board of Revenue in October 1962. Had action been taken by the Department on this basis, loss to the extent of at least Rs. 3.64 lakhs could have been avoided.

During evidence, it was admitted that a mistake had been committed. It was explained that the Department had its own point of view and the Law Ministry had to be consulted before finally accepting the audit objection. This was done only in October, 1962 and the cases became time-barred in November, 1962. It was stated in extenuation that all these cases could not be reviewed in one month.

According to a note furnished at the instance of the Committee the mistake was regarding the interpretation of the term "Indian rate of tax" and related to six cases involving twenty assessments dealt with by different officers. It has been stated that this was a bona fide mistake of interpretation of the relevant provisions and no action was considered necessary against the officers. However, instructions are stated to have been issued by the Board to the officers of the Department on the basis of the interpretation of relevant provisions given by audit and accepted by the Department. It is stated that the officers have also been asked to review all cases of this type and rectify the assessments wherever "Indian rate of tax" has not been computed in accordance with this interpretation.

The Committee are given to understand that audit had raised the query in 1961 itself in regard to another case in the same Income-tax Circle and the audit's view had also been accepted by the Commissioner of Income-tax and the Board. In view of this, the Committee regret that the mistake in these cases was not immediately rectified; instead, legal opinion was sought, which resulted in delay and a loss of revenue of Rs. 4.12 lakhs due to rectification becoming time-barred. If appears that a loss of at least Rs. 3.64 lakhs could have been saved if action had been taken by the Department on the basis of the audit's interpretation. The Committee desire that in future, to have the revenue from getting time-barred, at least protective or provisional assessment should be made in time. The Committee note that instructions have since been issued to the officers of the Department to review all cases of this type and rectify the assessments wherever "Indian rate of tax" has not been computed in accordance with this interpretation. The Committee would like to be apprised of the results of the review.

[Sl. No. 47 (Para 55) of Appendix VII to the 28th Report (1964-65)]

#### ACTION TAKEN

All cases involving relief from double taxation under Section 49D of the 1922 Act (section 91 of the 1961 Act) and under agreements for avoidance of double taxation have since been reviewed with a

view to rectifying the assessments where the "Indian rate of tax" for the purpose of determining the amount of relief had not been correctly calculated. The results of this review are given below:—

- (a) No. of assessments reviewed.—242.
- (b) No. of assessments out of (a) which had to be rectified.—34.
- (c) Amount of extra demand raised in respect of assessments referred to in (b).—Rs. 9,34,278/-.
- (d) Amount recovered out of (c).—Rs. 3,92,158/-.

Rectification in 6 cases out of 34 cases mentioned above is still pending. Instructions have been issued to rectify these assessments as early as possible and to collect the outstanding demand expeditiously.

(Duly vetted by Audit)

[F. No. 11(23)-63/TPL.]

#### **Recommendation**

*In view of the fact that the number of cases in which omission to levy penal interest appears to be on the increase, the Committee desire that a general all-India review may be undertaken and necessary instructions issued to the assessing Officers for the prompt levy of interest wherever it is due. The Committee regret to find that this type of lapse has occurred in 632 cases (involving an amount of Rs. 6.64 lakhs). A report may be submitted to the Committee regarding rectification of the assessments in these cases and the progress of recovery of the interest due.*

[Para 44 of Appendix VII to 28th Report. (Third Lok Sabha)]

#### **ACTION TAKEN**

The information is being collected and their report will be submitted to the Committee as early as possible.

#### **Recommendation**

*The Committee find it difficult to accept heavy pressure of work as a valid reason for committing such obvious mistakes. The Committee would like the Central Board of Direct Taxes to take suitable steps to ensure that such mistakes are avoided in future.*

[S. No. 41 (Para 48) of Appendix VII to 28th Report (1964-65)]

**ACTION TAKEN**

The observations made by the Committee have been noted.

Necessary instructions have been issued to all Commissioners of Income-tax in the matter vide letter F. No. 36/2/65-IT-(AI), dated 8th November, 1965 (copies of which have been sent under reply to para 34 of the Report.)

[Duly vetted by Audit vide D.O.F. No. 850-Rev./16-63, dated 27th February, 1966.]

[F. No. 36/27/63-IT(AI) dated 8-3-66].

**Recommendation**

*This case indicates negligence on the part of the assessing officer in scrutinising the assessee's accounts and in computing the taxable income. The Committee regret that the mistake should have been committed for three consecutive years. They hope that in assessments involving such large amounts Income-tax Officers would exercise proper care and caution, so that there is no under-assessment.*

[S. No. 42 and (Para 49) of Appendix VII to 28th Report (1964-65)].

**ACTION TAKEN**

The observations made by the Committee have been noted.

Necessary instructions have been issued to all C.I.T. in the matter vide letter F. No. 36/2/65-IT(AI), dated 8th November, 1965 (copies of which have been sent under reply to para 34 of the Report).

[Duly vetted by Audit vide D.O. No. 871-Rev./23-63/II, dated 28th February, 1966].

[F. No. 36/19/63-IT(AI) (I), dated 8-3-1966].

**Recommendation**

*This is the \*second instance noticed by the Committee this year where certain old orders of the Board which had no application to present-day conditions continued to be applied by field officers until Audit brought the matter to notice and the Board withdrew them. The Committee trust that a suitable machinery would be evolved in the Board to scrutinize and review all old orders and suggest revisions or amendments in the light of the changed conditions of today. The Committee would like to be informed of the results of this review.*

(\*The first instance noticed by the Committee has been dealt within paragraph 56 of their 27th Report—Third Lok Sabha).

[S. No. 43 (Para 50) of Appendix VII to 28th Report (1964-65)].

**ACTION TAKEN**

The Central Board of Direct Taxes have already entrusted the work of reviewing the Board's orders issued under the Income-Tax Act, 1922, to a Committee consisting of the D.I.(IT) and the D.I. (Investigation) on 8th October, 1964. The Committee has been asked to scrutinise and review all old orders and suggest revisions and amendments in the light of the changed conditions. The PAC's observations in this regard have been duly communicated to that Committee with the request that they may keep these observations in view while making their recommendations to the Board.

The PAC will be informed of the result of the review in due course.

[Duly vetted by Audit]

[F. No. 36|20|63-IT (AI) I, dated 3rd June, 1965].

**Recommendation**

*The Committee would like to be apprised of the action taken against the officials responsible for this lapse.*

[S. No. 58 (Para 56) of Appendix VII of 28th Report (1964-65)].

**ACTION TAKEN**

As there was no *mala-fide* intention behind the mistake which was purely of a clerical nature, the official concerned has been given a warning. The explanation of the other official has been obtained. He has regretted the mistake which occurred through oversight. No action is contemplated against him.

2. The Committee have further observed that steps should be taken to ensure that Income-Tax Officers comply properly with the statutory requirements while issuing notices. As far as the Department are aware, the Income-Tax Officers are taking care to comply with the statutory requirements while issuing notices. However, this matter is being restressed.

3. The Committee have also observed that the work-load of Appellate Assistant Commissioners should be reviewed so that there is no occasion for delay in disposing of appeals resulting in loss of revenue by rectification becoming time barred. Such a review has already been taken in hand and instructions have been issued to the Commissioners to bring down the work-load with the Appellate Assistant Commissioners to a level of four months work-load by even distribution and if considered necessary by increasing the number of Appellate Assistant Commissioners.

[Vetted by Audit vide C.A.G D.O. No. 2074-Rev/Audit/24-63-II dated 23rd July, 1965].

[U.O. No. 52/49/64-IT (Inv.) dated the 2nd August, 1965.]

#### Recommendation

*The Committee desire to be apprised of the progress of recovery of the outstanding amount.*

*They also hope that suitable instructions will be issued to the Income-tax Officers so that such mistakes do not recur wherever old assessments relating to the years prior to 1959-60 are completed or reopened hereafter.*

[S. No. 51 (Para 60) of Appendix VII to 28th Report. (1964-65)].

#### ACTION TAKEN

The position regarding recovery in respect of the the seven cases is given below:—

(i) *M/s. Krishnarpan Charity Trust :*

The additional demand of Rs. 13,809.31 was collected on the 23rd June, 1965.

(ii) *Mahadevi Birla Memorial Charity Trust :*

The additional demand of Rs. 7,727.18 was collected on the 10th August, 1965.

(iii) *All India Hindu (Arya) Dharum Seva Sanga Trust :*

The additional demand of Rs. 19,326.04 was collected on the 10th August, 1965.

(iv) *M/s. Benjamin and Rahman Ellios Memorial Trust.*

The additional demand of Rs. 12,716.36 has since been collected.

(v) *G. K. Khemka Charity Trust.*

The additional demand of Rs. 6,303.84 was collected on the 30th April, 1964.

**(vi) Biharat Seva Nidhi.**

The additional demand raised amounting to Rs. 14,919—has been collected on 11th September, 1965.

**(vii) Birla Education Trust.**

The additional demand of Rs. 22,732 has been collected on the 4th September, 1965, by adjustment of the outstanding refund.

Necessary instruction to all the Commissioners of Income-tax, regarding completion or re-opening of old assessments relating to the years prior to 1959-60 have been issued vide letter F. No. 36/32/63-IT (AI), dated the 10th May, 1965. (copy enclosed).

[Duly vetted by Audit vide D.O. No. 760-Rev.A/189/65, dated 19-2-1966].

[U.O. No. 36/32/63-IT (AI), dated 18-3-1966.]

*Confidential*

F. No. 36/32/63-IT (AI)

GOVERNMENT OF INDIA

CENTRAL BOARD OF DIRECT TAXES

*New Delhi, dated the 10th May, 1965.*

**From**

Shri K. C. Srivastava,

Under Secretary, Central Board of Direct Taxes.

**To**

All Commissioner of Income-tax.

**SUBJECT:—***Taxed and untaxed portions of funds used by a company for declaring dividends—Instructions regarding.*

I am directed to invite a reference to the Board's Circular No. 15 (XXI-10) D of 1957, dated 13th March, 1957, and to say that according to the instructions contained therein Income-tax Officers assessing companies should work out the correct proportionate taxed and untaxed profits and the percentage by which net dividend is to be grossed up. It has brought to the notice of the Board by the Revenue Audit that in some cases these instructions were not followed and the percentage of taxes profits as declared by the companies in the dividend warrants was taken as correct without further verification. Consequently there was underassessment of tax in some cases.

as the percentage of taxed profits fell short of those shown in the dividend warrants on the basis of which refunds were allowed to the share-holders. Most of such mistakes were detected in the cases of trusts holding large investments.

2. The Board desire that the existing instructions should once again be brought to the notice of the Income-tax Officers assessing the share-holders so that such mistakes do not recur whenever old assessments relating to the years prior to 1959-60 are completed or re-opened hereafter.

Yours faithfully,

Sd./- K. C. SRIVASTAVA,

*Under Secretary, Central Board of Direct Taxes.*

#### Recommendation

- (a) *The Committee would like to be informed about the recovery of the excess refund of Rs. 1,12,330 granted in this case.*
- (b) *They also suggest that suitable instructions clarifying provision of Section 44F of the Income-tax Act, 1922, should be issued to all Income-tax Officers so that such lapses do not recur.*

[S. No. 52 (Para 61) of Appendix VII to 28th Report, 1964-65].

#### ACTION TAKEN

- (a) *Position regarding recovery of excess refund of Rs. 1,12,330.*

As a result of the audit objection, the rectification resulted in additional demand of Rs. 1,12,330 besides penal interest. The revised total demand amounted to Rs. 8,63,505. Out of this, the assessee had paid Rs. 50,000 and a sum of Rs. 2,50,886.54 was adjusted against the refund due. After this adjustment the Co., had to pay a demand of Rs. 5,62,689. The assessee had preferred some appeals on some other points and after giving effect to the appellate orders, the final position in regard to the additional demand and the refund due to the assessee for the years 1948-49 to 1957-58 was as under:—

Total demand due from the assessee	= Rs. 8,60,304.57
Amount of refund payable to the assessee	= Rs. 8,41,933.79
The balance of the demand	= Rs. 18,470.78
namely would be collected from the assessee very soon.	

(b) Necessary instructions have been issued to all the Commissioners of Income-tax in the matter vide Board's letter F. No. 36/20/63-IT(AI) (Pt. II) dated the 10th February, 1966 (copy enclosed).

[Duly vetted by Audit vide D.O. No. 947-Rev.A/19-63/II, dated 4-3-1966].

[F. No. 36/20/63-IT(AI) (Pt. II) Dt. 16-3-1966.]

F. No. 36/20/63-IT(AI)Pt. II

GOVERNMENT OF INDIA

CENTRAL BOARD OF DIRECT TAXES

(Department of Revenue)

New Delhi, the 10th February, 1966.

From

Shri K. C. Srivastava,

Under Secretary, Central Board of Direct Taxes.

To

All Commissioner of Income-tax.

Sir,

SUBJECT:—*Provisions of Section 44F of the Income-tax Act, 1922 (corresponding to Section 94 of the Income-tax 1961) Instructions regarding.*

In the course of the audit of income-tax assessments, the Audit Party has come across some cases involving mistakes in the application of the provisions of Section 44F of the Income-tax Act, 1922. Interest on securities does not accrue from day to day but on certain fixed days and similarly dividend on shares accrues only when it is declared. The result is that if a person transfers securities or shares *cum-interest* or *cum-dividend*, just before interest becomes payable or dividend is declared it results in avoidance of tax in respect of the interest or dividend. Section 44F of the Income-tax Act, 1922 provided that if a person transferred shares before the declaration of dividend thus shifting the right to receive the dividend to another person and if such a transaction resulted in avoidance of more than 10% of the amount of tax which would have been payable, but for such transaction the income from dividends should be deemed to accrue from day to day and should be deemed to have been received by the transfer—or as and when it is deemed to have accrued and the income should be assessed accordingly. Though the income is assessable in the hands of the

transferor under the provisions of this section, the credit for the tax deducted at source or the benefit of grossing up cannot be granted to the transferor, who is not the registered shareholder on the relevant date of the declaration of the dividend. In the cases pointed out by the Revenue Audit it was found that the Income-tax Officers, while assessing the dividend income in the hands of the transferors wrongly grossed up the dividends and allowed the credit for tax deducted at source.

2. Section 94(2) of the Income-tax act, 1961 replaces the old Section 44F of the 1922 Act. This Section imposes a heavier liability than that under Section 44F of the 1922 Act. Whereas in a case covered by the old Section, 44F, the interest of dividend was deemed to accrue from day to day and only the part thereof apportioned up to the date of the transfer, was deemed to be the income of the transferor, under Section 94(2) the entire income from the shares or securities for the relevant year is deemed to be the income of the transferor. However, the legal position regarding the credit for tax deducted at source remains the same though the amount is assessable in the hands of the transferor the credit for tax deducted at source cannot be allowed in such a case.

3. The above legal position may please be brought to the notice of all officers of the Department so that the lapse pointed out by the Revenue Audit may not recur.

Yours faithfully,

Sd/- K. C. SRIVASTAVA,

*Under Secretary, Central Board of Direct Taxes.*

Copy forwarded to:

- (1) The D.I(IT)/D.I (Investigation)/D.I. (R.S. & P).
- (2) All officers and sections in the I.T. Wing.
- (3) The Comptroller & Auditor General of India (6 copies).

Sd/- K. C. SRIVASTAVA,

*Under Secretary, Central Board of Direct Taxes.*

**Recommendation**

(i) *The Committee trust that mistakes of the nature disclosed in Audit para will not hereafter escape detection by internal Audit.*

(ii) *The Committee trust that such mistakes (of applying an old law) would not be repeated.*

[S. Nos. 53 and 54 (Paras 62 and 63, of Appendix VII to 28th Report (1964-65))]

**ACTION TAKEN**

The recommendations of the Committee in the above two paras have been noted. The observations of the Committee have also been communicated to the Commissioners of Income-tax *vide* Board's letter No. 36/26/63-IT(AI), dated the 7th May, 1965, copy enclosed

[Duly vetted by Audit]

[U.O.F. No. 36/26/63-I.T.(AI) Dated       ].

F. NO. 36/26/63-IT(AI)

GOVERNMENT OF INDIA

Central Board of Direct Taxes

*New Delhi, the 7th May, 1965.*

From

Shri K. C. Srivastava,

Under Secretary, Central Board of Direct Taxes.

To

All Commissioners of Income-tax.

Sir,

**SUBJECT:—***Audit of revenue receipts and refunds—Audit para regarding over-assessments.*

I am directed to say that an examination of the objections raised by the Audit Party of the C. & A.G. has revealed *inter alia* the following mistakes:

(1) Under the provisions of the Finance Acts, and Indian company was required to pay super-tax at the maximum rate of 50% from which a rebate was admissible at 30% for the assessment years 1957-58 to 1959-60. The rebate was, however, allowed only at 20%

resulting in an over-assessment of tax. The calculations for all these years were checked by the Internal Audit Party of the Department and the error was not detected.

The Public Accounts Committee have made the following observations in this regard:

"The Committee trust that such mistakes will not hereafter escape detection by Internal Audit."

(2) Even though the provision regarding reduction in supertax rebate on excess dividends ceased to have effect from assessment year 1960-61 in the case of a company the Income-tax Officer mistakenly applied the old law and overcharged higher supertax for the assessment years 1960-61 and 1961-62 thereby creating excess demand.

The Public Accounts Committee have made the following observations in this regard:

"The Committee trust that such mistakes (of applying an old law) would not be repeated.

(3) The above observations of the P.A.C. may be brought to the notice of all the officers and Internal Audit Parties.

Yours faithfully,

Sd/- K. C. SRIVASTAVA,

Under Secretary, Central Board of Direct Taxes.

### **Recommendation**

*The Committee find from the statement furnished by Ministry of Finance that a tax demand of Rs. 80.72 lakhs involving write off of demand of Rupees one lakh or more and relating to assessments made after the assessee became insolvent, assessee having left India, assessee having become untraceable and in the case of companies after their going into liquidation have been written off. This shows that in all these cases there was considerable delay in completing the assessments, leading to demands becoming irrecoverable. The Committee desire that enquiries should be made to find out why the assessments were delayed and responsibility fixed in cases where the delay was due to the negligence of the officers.*

[Para 64 of Appendix VII to 28th Report, (Third Lok Sabha)].

## ACTION TAKEN

The information is being collected and will be sent to the Committee as early as possible.

## Recommendation

*The Committee are surprised to learn that the delay in completion of the assessment is not attributable to the I.T.Os. It has been admitted on the other hand that the assessment could not be made in time as there had been no proper liaison with the State Government. The Committee would like to know on whom lies the responsibility for failure to have proper liaison with the State Government and the delay of four years, which resulted in loss of revenue amounting to Rs. 27.59 lakhs. The Committee feel that there has been lack of vigilance on the part of the officers and this is a fit case for a further probe to determine responsibility and take suitable action against the defaulting officers. The Committee note that instructions have since been issued that company assessments should as far as possible, be completed in the assessment year itself and that more officers have been put on this work. They also note that in the case of foreign companies or foreign nationals likely to leave India, the Reserve Bank has been requested not to permit remittances abroad until a tax clearance certificate is obtained from the I.T. Department. The Committee also note that steps have been taken to have proper liaison with State Governments and other Ministries where a business concern is being acquired. They trust that these measures would save the State from such huge writes off as had to be done in this case.*

[S. No. 56 (Para 65) of Appendix VII to 28th Report].

## ACTION TAKEN

The matter has been further looked into by this Ministry. The Company had made a petition to the Central Board of Revenue on 9th Jan., 1950 against treating the difference between the sale price and the written down value as 'Capital Gains'. No report was called for from the Commissioner of the I.T.O. in the matter. A representative of the company met a Member of the Board and the legal position was explained to him. No formal reply was sent to the company on the petition. In the meantime another representative of the company met the I.T.O. in March, 1950 and filed a copy of the petition already filed before the Board with the request that the Board's orders may be awaited. The I.T.O. bona fide believed that the Central Board of Revenue was seized of the matter but did not attempt to verify it by an official reference. There is

nothing on record to show that the I.T.O. was aware that final payment to the company will be made by the State Government on 29-3-51. In any case he did not make enquiries from the State Government. Hence the responsibility in regard to the delay in completing the assessment and the responsibility for failure to keep proper liaison with the State Government lies with the I.T.O. Shri K. R. Ramachari who held charge of the case from 20-1-1949 to 30-4-1953. However, no action can be taken against him as he has retired from Government service.

(This has been vetted by audit vide Shri Vasudevan's D.O. No. 1606-Rev./125-63-III dated 29-5-65).

[F. No. 83/13/64-I.T.(B)].

#### MINISTRY OF WORKS AND HOUSING

#### Recommendation

*The Committee note that outstandings of rent of building allotted to private persons and organisations awaiting recovery as on 31st March, 1964 have come down to Rs. 18.24 lakhs from Rs. 26.46 lakhs as on 31st March, 1963. There is, however, not much improvement in the recovery of outstandings from markets, which has come down to only Rs. 8.30 lakhs as on 31st March, 1964 from Rs. 9.02 lakhs as on 31st March, 1963. In the recovery of damages from unauthorised occupants there has been no progress at all (Rs. 2.76 lakhs as on 31st March, 1963 and Rs. 2.77 lakhs as on 31st March, 1964). The Committee desire that energetic steps should be taken to realise these outstandings at an early date.*

[S. No. 61 (Para 70) of Appendix VII to 28th Report

(Third Lok Sabha)]

#### ACTION TAKEN

Steps to effect the recoveries at an early date have been taken. As a result thereof, the arrears have been brought down from Rs. 18.24 lakhs as on the 31st March, 1964 to Rs. 13.06 lakhs as on the 31st July, 1964.

A comparative position of clearance in 4 months is given below:—

		Arrears as on 31-3-64	Arrears as on 31-7-64	Clearance
(Rs. in lakhs)				
1	Private Persons . . . . .	6.73	4.21	2.52
2	Unauthorisd occupants . . . . .	0.08	0.07	0.01
3	Damages . . . . .	2.69	1.88	0.81
4	Markets . . . . .	8.30	6.53	1.77
5	Embassies . . . . .	0.44	0.37	0.07
TOTAL . . . . .		18.24	13.06	5.18

#### Recommendation

*The Committee are of the opinion that in cases where premises are requisitioned for public purposes Government should as soon as those purposes are over take prompt steps to derequisition the premises instead of allotting them to private parties. It is the moral responsibility of the Government to restore such premises to their rightful owners, as soon as they are not required for the public purpose.*

[S. No. 62 (Para 71) of Appendix VII to 28th Report (Third Lok Sabha)].

#### ACTION TAKEN

The observations of the Public Accounts Committee have been noted and a review of all cases of requisitioned accommodation is being undertaken.

#### Recommendation

*The Committee do not find any appreciable improvement in the clearance of arrears of rent outstanding from markets. They are surprised that there are as many as 1226 lease/licence deeds still to be executed in respect of some markets. The Committee suggest that adequate measures should be taken to expedite execution of the pending lease/licence deeds. The Committee would like to know the special steps which are proposed to be taken for the speedy liquidation of the arrears of rent and for ensuring that the current dues are not allowed to fall into arrears.*

[S. No. 65 (Para 74) of Appendix VII to 28th Report (Third Lok Sabha)].

**ACTION TAKEN**

(a) The arrears of rent in respect of the markets for the period upto 1961-62 which stood as Rs. 8.58 lakhs on the 1st April, 1962, have been brought down to Rs. 4.64 lakhs as on the 1st August, 1964,

(b) The question of execution of lease/licence deeds is under consideration in consultation with the Ministry of Law. Steps will be taken to get the same executed as early as possible.

(c) As for the recovery of arrears of rent dues, following special steps are being taken:—

- (i) Wherever dues for more than 2 months fall into arrears, notices are issued for revoking the lease/licence deeds, in cases where the arrears are not paid by a particular date.
- (ii) Cases of shop-keepers who do not respond to the notices are processed under the Public Premises (Eviction of Unauthorised Occupants) Act, 1958 for their eviction and realisation of arrears as arrears of land revenue.

**Audit Comments**

While the arrears of rent in respect of the period up to 1st April, 1962, are stated to have been reduced to Rs. 4.64 lakhs as on 1st August, 1964, further arrears amounting to Rs. 4.87 lakhs relating to the years 1962-63 and 1963-64 accumulated as on that date, although recovery of rent in these cases is required to be effected monthly in advance.

**Recommendation**

*The Committee observe that every year there is a gap between assessments for the year and the actual realisations. This gap has been on the increase (Rs. 2 lakhs in 1959-60, Rs. 4 lakhs in 1960-61, and Rs. 18 lakhs in 1961-62 and 1962-63). This would indicate that apart from the old arrears even the current dues are getting into arrears. The Committee desire that (i) a vigorous drive should be launched to clear the arrears and (ii) steps should be taken to realise the current demands promptly by enlisting the co-operation of all the Ministries.*

[Sl. No. 66 (Para 75) of Appendix VII to 28th Report  
(Third Lok Sabha)].

**ACTION TAKEN**

Chief reason for the growth of the said gap in assessments and realisations of rent has been due to the addition of about 7,000 residential units from 1961-62 without corresponding increase in staff which was further depleted by retirements, resignations etc. Due to ban on recruitment and other administrative difficulties, additional staff required to cope with the increased work could not be provided. Despite this handicap, following energetic steps have been taken to scale down the arrears:—

1. Setting up of an Arrear Clearance Cell to clear old arrears prior to March, 1959.
2. Centralisation of the work of recovery of rent from semi-Government organisations, undertakings and Corporations in one section.
3. Centralised pursuit of recoveries of rent from the Bill & Co-ordination Section with the Ministries/Departments, etc. in case of non-gazetted staff and with treasuries and Pay & Accounts Offices in case of gazetted officers.

As a result of the above measures, the said gap in the year 1963-64 has been narrowed down as shown below, despite the increase in the assessment by Rs. 18 lakhs in that year:—

(i) Total assessment	Rs. 190 lakhs
(ii) Total recovery	Rs. 175 lakhs
(iii) Gap between the two figures	Rs. 15 lakhs

*Audit Comment*

The gap in the year 1963-64 between the total assessment and total recovery of rents is still large as compared to the earlier years as shown below:—

year	Assessment for the year	Recovery effected during the year	Gap
(In lakhs of rupees)			
1959-60 . . . . .	165	163	2
1960-61 . . . . .	180	176	4
1961-62 . . . . .	181	163	18
1962-63 . . . . .	172	154	18
1963-64 . . . . .	190	175	15

### Recommendation

*The Committee are glad to learn (i) that a bill to amend the Delhi Sales Tax Act is proposed to be introduced shortly in Parliament to plug the loop-holes regarding evasion of Sales Tax and (ii) that the question of shifting the burden of sales tax from the last to the first point in respect of more commodities in order to prevent evasion of tax is expected to be finalised soon. They await a further report in regard to both the above matters.*

[Sl. No. 67 (i) of Appendix to 28th Report].

### ACTION TAKEN

The Home Minister's Advisory Committee appointed a Sub-Committee on 25th February, 1965 to consider in detail the draft Delhi Sales Tax Bill. The Sub-Committee submitted its report on 23rd June, 1965. The report has recently been forwarded to the Finance Ministry to consider the incorporation of the changes proposed by the Sub-Committee in the original draft Delhi Sales Tax Bill. The Bill is likely to be introduced in the forthcoming monsoon session of the Parliament.

Since the last meeting of the P.A.C., the incidence of tax on the following items has been shifted from last stage to the first stage:—

- |   |               |
|---|---------------|
| 1. Medicines, drugs and Pharmaceuticals:  | w.e.f. 1-1-65 |
| 2. Cement:  | w.e.f. 1-4-65 |
| 3. All kinds of tyres and tubes including those of motor vehicles, motor cycles, motor scooters, motorettes, cycles and animal-driven vehicles: | w.e.f. 1-7-65 |

### Recommendation

*The Committee do not find any appreciable improvement in the clearance of arrears of Sales Tax (Rs. 90.64 lakhs on 1st April 1964 as compared to Rs. 95.14 lakhs as on 1st April 1963). They suggest that vigorous steps should be taken to liquidate old arrears and to avoid accumulation of current demands.*

[S. No. 67 (ii) of Appendix to 28th Report].

**ACTION TAKEN**

The Committee's suggestions have been noted. Following remedial measures are being taken to prevent accumulation of arrears and current demand:—

- (i) The Assessing Authorities are asked to study their demand and collection registers weekly and discuss with their field staff the action to be taken for recovery of arrears.
- (ii) Old cases are at once referred to the Collector for recovery as land revenue dues. The Collector is afforded all facilities for speedy recovery.
- (iii) The dishonoured cheques sent by the banks are sent to the Ward Officers and recovery in such cases is watched by the Collection Branch at the Headquarters. The accumulation is thus checked to a great extent.
- (iv) The provision of demanding security is invoked in all doubtful cases both at the time of registration as also during the continuance in effect of the registration certificates.
- (v) The provision of cancellation of registration certifies resorted to in case of suspected dealers who are reported to be not paying tax or indulging in nefarious activities.
- (vi) The Assessing Authorities have been instructed to recover 80 per cent of the current demand created to arrest further accumulation of arrears.
- (vii) The Demand and Collection Registers of the Ward Officers are also inspected by the Assistant Commissioner (Recovery) with a view to giving instructions for expeditious recovery.

**MINISTRY OF FINANCE****(Department of Revenue)****Recommendation**

(i) *The Committee find that as on 31-3-1963, the number of appeals pending was 74,120 and the number of revision petitions pending was 1451. They note that some more A.A.Cs. have been appointed to ease the position. They have been told that the arrear with each A.A.C. at present is 7 months' workload. The Committee desire that the workload with each A.A.C. does not exceed 4 months' workload. The Committee find that the oldest pending appeal relates to the year 1948-49. Vigorous steps should be taken to dispose of appeals pending for such a long number of years.*

[Para 67(iii) Page 62.]

**ACTION TAKEN**

The observations of the Public Accounts Committee have been noted for necessary action.

[Duly vetted by Audit]

[U.O. F. No. 50/143/64—IT(J) dated 16-1-1965].

**Recommendation**

*The Committee are glad to learn that, availing of the more stringent provisions of the present law, the Department propose to launch more prosecutions in cases of deliberate concealment of income, and that some officers are being sent to America for being trained in improved techniques of prosecution.*

*The Committee find that the amount of concealed income unearthed in 1962-63 was only Rs. 5.96 crores as compared to Rs. 7.12 crores in 1961-62. The Committee feel that large sums have still not been detected and brought under the tax net, and there is considerable scope for improvement in the Department's operations in this respect.*

[Para 69 of Public Accounts Committee 28th Report (1964-65)].

**ACTION TAKEN**

The observations of the Committee have been noted. As the Committee are aware, several steps, both legislative and administrative, have been taken recently in order to gear up the Departmental machinery to detect and tackle cases of tax evasion.

2. The concealment of Rs. 5.96 crores mentioned in para 69 relates to the number of cases in which the penalty proceedings were completed during 1962-63. This does not represent the concealment detected during that year. It will be seen that though the number of cases in which penalty proceedings for concealment were completed had gone down from 4511 in 1961-62 to 3750 in 1962-63, the penalty levied in these cases has actually gone up from 70.57 lakhs to Rs. 84.86 lakhs. This shows that the Department had levied stiffer penalties in order to put down evasion of tax (Vetted by Audit vide C.A.G. U.O. No. 345-Rev.A/177—63, dated 2-2-65).

**Recommendation**

*The Committee hope that these cases have been disposed of by now. They would like to be apprised of the latest position.*

[Para 81 of 28th Report 1964-65].

**ACTION TAKEN**

Out of the 18 cases originally referred to the Income-tax Investigation Commission, 14 cases have since been disposed of. No progress is possible in the remaining 4 cases as writ petitions against the assessments are pending before the Calcutta High Court. (Vetted by audit *vide* Comptroller and Auditor General's D.O. No. 332-Rev.A/63-65, dated 17-2-1965).

[U.O. No. 29B/51/64—IT (Inv) dated 24-2-1965].

## APPENDIX XXIV

### MINISTRY OF DEFENCE

#### Recommendation

2. *The Committee would suggest that such measures as may be necessary to achieve budgetary targets may be examined by the Ministry of Defence in consultation with the Ministry of Finance.*

3. *The Committee note with regret the deterioration in the percentage of savings, both in respect of Voted Grants and Charged Appropriations.*

4. (i) *The Committee consider it unfortunate that there should have been shortfalls against the items like manufacture of trucks and tractors, manufacture of arms and ammunition and purchase of vehicles.*

(ii) *While the Committee appreciate the Ministry's efforts to save foreign exchange by restricting imports to the minimum, they would suggest that before making budget provision for imported stores, the possibility of their becoming obsolescent as a result of change of policy or the prospects of their indigenous manufacture should be fully considered, so that as far possible, funds are not obtained, which might not be required later. The Committee would like to watch the improvement in reducing the percentage of savings over Defence Grants further.*

[Serial Nos. 2, 3 and 4 of Appendix II to 4th Report (1962-63)]

#### ACTION TAKEN

Serial Nos. 2, 3 and 4:—The recommendations of the Committee have been noted.

2. Constant and continuous efforts are made to improve the standard of budgeting. The various steps which Government have been taking for improving the procedure for estimation and achieving a higher standard of budgetary control, are set out in notes furnished to the Lok Sabha Secretariat vide Ministry of Defence Office Memorandum No. 11(1)/61/D(Budget), dated the 30th May 1962 and No. 11(2)/62/D (Budget), dated the 13th September, 1962.

3. Having regard to the size of the Defence Budget and the need for careful watching of the provisions made for important schemes and projects, the entire Budget is now reviewed every quarter at a series of meetings attended, among others, by representatives of the Ministry of Finance (Defence). The object of these meetings is to review the progress of expenditure and achievement of targets, to pinpoint any procedural and practical difficulties that may have arisen in the implementation of the various programmes and to devise means which will ensure that the budget provision is utilised to the maximum extent and in an effective manner.

4. The short-fall against trucks, was mainly due to non-availability and delay in supply of steel, timber and imported tools. To minimise these difficulties, DGOF is resorting to provisioning of these items still more in advance of the date and requirements.

So far as the tractors are concerned, the short-fall was broadly due to non-placement of orders for jigs and tools, non-payment of T.A. and Royalty fees to collaborators, non-materialisation of freight charges and non-receipt of Army Phase III Indent for about 125 tractors with attachments. The Budget provision for Jigs and Tools was intended to achieve indigenous manufacture of more components, for incorporation in the Army Phase III tractors. As the Army indent did not materialise, the necessary Jigs and Tools were not ordered.

Taking into account the Completely Knocked Down packs of tractors available from the previous imports, budget estimates for 1960-61 were made for a total import of 146 tractors in Completely Knocked Down packs, including the back-log of 21 tractors against the previous Army indents (146—21—125), all for the Army. The finalisation of the Army indent was held up as the question of utilisation of post 1948 surplus stocks of attachments for Crawler tractors was under consideration. Pending finalisation of Army requirements of tractors and attachments, the models of the tractors were changed and improved by the Manufacturers. The effects of this had also to be closely examined by the Army authorities before their requirements could be finalised.

The short-fall in the manufacture of arms and ammunition was due to non-delivery of items within the anticipated/stipulated period and delay in shipment of stores for which payment could not be made within the financial year. Stores obtained by DGOF through the ISM, London/Washington have stipulated delivery dates.

Every attempt is made by the procuring agencies abroad viz. DGISM, London and DGISM, Washington to effect speedy shipments. Wherever possible these are flown by IAF Couriers. In other cases they have to depend on shipping facilities available.

The short-fall in the purchase of vehicles (Nissan Patrol Jeep) was mainly due to delay in the finalisation of the Agreement with the collaborators. The contract was concluded on 12-12-1961. As a result of this, no booking could be made during the year 1960-61.

Every endeavour is being made to ensure that the target rate of indigenous production, involving foreign exchange savings, is maintained. In preparing the Budget Estimates, all aspects including the possibility of items becoming obsolescent as a result of change of policy or the likelihood of their indigenous manufacture, are generally taken into account.

5. As regards the savings in the 'Charged' Appropriation, it will be seen from para 1 of the 4th Report that taking Revenue and Capital expenditure together, the total Sanctioned Appropriations in 1960-61 was 0.96 crore. The actual expenditure being Rs. 0.86 crore, there was a saving of Rs. 0.10 crore. At present provision is made in the budget for 'charged' expenditure, to meet the payments of arbitral awards, court decrees, etc., in anticipation of the awards, decrees, etc. likely to be made against Government in the coming year. Budget provision is made mainly on the basis of past trends of actuals and such other relevant data. The future outcome of cases pending before courts etc. being unpredictable, a certain amount of variation occurs between the estimated and actual expenditure.

In order to reduce the savings to the minimum, the progress of expenditure against allotment of funds to meet payments of decretal amounts etc. is now specially reviewed twice a year and allotments where the payments are not likely to materialise during the financial year, are surrendered.

D.A.D.S. has seen.

### Recommendation

*The Committee desire that the position regarding utilisation of the machines issued to units should be looked into and intimated to them.*

[Sl. No. 17 of Appendix II to 4th Report (Third Lok Sabha)].

**ACTION TAKEN**

In the note dated 2-9-1964 forwarded to the Lok Sabha Secretariat under this Ministry's O.M. No. 11(7)/62/D(Budget) dated 9-9-1964, it was stated that the verification of the utilisation of all the machines issued to at least twelve units/formations had been taken up and that the investigation was nearing completion.

In addition to the 40 machines issued to six different units mentioned in that note, investigation was carried out in respect of the 48 machines issued to 6 more units selected in consultation with audit. It has been verified that all the 48 machines had actually been in use by the consignee units.

Since the machines have been/are being normally issued by the holding depots only against specific demands from the user units and as the test check carried out in 11 units has indicated that the machines have actually been put to use, it is unlikely that the machines issued to the various other units have remained idle.

D.A.D.S. has seen.

**DEPARTMENT OF DEFENCE PRODUCTION****Recommendation**

*The Committee are surprised to learn that such a project for the manufacture of cinema projectors involving considerable financial outlay was taken up without a formal sanction either by the Ministry or the Director General, Ordnance Factories and without proper financial concurrence. They would like to know whether formal sanction has since been accorded and what was the reason for the delay. They would also like to know in due course how many projectors were manufactured and sold and at that price.*

[Serial No. 31 of Appendix II to 4th Report 1962-63.]

**ACTION TAKEN**

1. There was a considerable reduction in the load of work for the Services from 1952 onwards at Ordnance Factory, Dehra Dun. To make the fullest use of the idle capacity of the factory, ways and means were being explored not only to provide long term work for the factory to avoid idle time payments and to keep skills alive but also to create designs potential and new skills. It was, at that time, considered that there was scope for marketing 35 mm Sound Projectors which were in line with the type of production at Ordnance Factory, Dehra Dun. A sufficient demand was anticipated as the

Ministry of Information and Broadcasting had then indicated to the Ministry of Defence that they had a considerable recurring requirement of these projectors. The Army had also a number of old projectors in use, which required replacement. Taking these factors into consideration and also to save foreign exchange which was being spent on the import of these projectors, development work on such projectors was taken up at the Ordnance Factory, Dehra Dun, in the middle of 1955.

2. The manufacture of 2 prototypes of 35 mm sound projectors was agreed to by the Ministry of Defence in July 1955 when the DGOF was directed to obtain financial concurrence for the manufacture of two prototypes of these projectors. The matter was, accordingly, taken up by the DGOF with their Associate Finance in August 1955. As the information furnished by DGOF was not complete, certain queries were raised by Finance. While the case for Government sanction was being pursued with Associate Finance, the first prototype of 35 mm sound projector was completed in June 1956 and the other in July 1961. Thereafter, the question arose as to how the expenditure incurred in the manufacture of these two prototypes should be regularised. The advice of the Ministry of Finance (Defence) was that the expenditure incurred should be treated as infructuous and regularised accordingly. On the other hand, the Ministry of Defence felt that no development activity was in itself a waste of effort or money for it provides very necessary avenues for acquiring newer knowledge and experience more particularly in the design field. Firms spend large amounts of money to develop new lines of manufacture without any hope of return immediate or otherwise. It was, therefore, suggested by this Ministry in September 1962 that the *ex-post-facto* Government sanction to this development work undertaken by Ordnance Factory, Dehra Dun, be issued and the difference between the production cost of the two proto-types including the overheads and the sale proceeds would constitute deferred revenue expenditure to be dealt with in the usual manner. The Ministry of Finance were agreeable to the suggestion to issue an *ex-post-facto* Government sanction provided bulk production of 35 mm sound projector would soon be undertaken and the development expenditure held under objection would be recovered otherwise the amount will require to be regularised as loss. In view of the important issues involved, these discussions naturally took some time. Before any decision to undertake bulk production could be considered, the present Emergency started and the question of spare capacity in the Ordnance Factories did not survive. The Ordnance Factories became fully engaged in the production of more vitally important items. After further consideration, a Government

sanction to regularise the expenditure incurred for the development of two prototypes was accorded on 1st June 1963.

3. It will be seen from the above resume that although the question of financial concurrence was mooted in August 1955, its finalisation took considerable time to materialise as the matter had to be examined from various aspects.

4. The two prototypes were issued to the Commandant, Army Ordnance Corps School, Jabalpur on 19th September, 1964. Issues to Army are made without financial adjustment. The question of regulation of the difference between the total expenditure incurred on their production and the deemed price of issue will be considered after a decision has been taken whether or not the bulk production of the item should be taken up in the Ordnance Factories.

5. Director of Audit, Defence Services has seen.

[F. No. 4/2/63/D(Prod).]

#### Recommendation

(i) It is not clear to the Committee whether in the present case the Director General, Ordnance Factories, did not consult the Master General of Ordnance Branch for his requirements of 4×2 vehicles because of his reluctance to use old vehicles of pre-1948 period or non-availability of adequate repair capacity in the Army Workshops. The Committee understand that these old vehicles were after repair considered to be as good as 80% brand new ones and the cost of over-haul was only about Rs. 2850 per vehicle. In the light of this the Committee find little justification for the contention of the Controller General, Defence Production, that use of old vehicles would be uneconomical.

In order to utilise army surplus stocks of common user items in the Army, it would be desirable that all the non-Army Organisations under the Ministry of Defence should route their demands for such items through the Master General of Ordnance who should endeavour to meet their requirements out of the surpluses as far as possible.

(ii) The Committee note with concern that the repair capacity of the workshops falls short of the requirements. It is obviously desirable that the repairable vehicles are repaired at the earliest date. If they are kept lying for years there is bound to be further deterioration. If, as stated by the Defence Ministry, the private trade cannot handle this work efficiently, the possibility of augmenting the existing capacity of the workshops should be seriously examined. In

*addition, the Committee suggest that in view of the present emergency, a proper survey of the repair facilities in the private sector should be made, and necessary facilities provided to them so that, if and when so needed, their services might also be utilised.*

(S. No. 34 of Appendix II to 4th Report (Third Lok Sabha), 1962-63.)

#### **ACTION TAKEN**

Under the procedure which was adopted in December 1950 and was in vogue at the time the DGOF placed the indents on the DGS&D for procurement of 4 x 2 vehicles, it was not necessary for the Director General, Ordnance Factories to consult the MGO Branch regarding the availability of the vehicles in Army stock. It was, however, known to him that surplus vehicles were available with the Army but due to the fact that adequate repair facilities were not available in the EME Workshops, he did not consider it necessary to consult the MGO Branch for the supply of repaired vehicles.

2. While giving evidence before the Committee, the then Controller General of Defence Production had expressed the opinion that the use of old vehicles would be uneconomical. The opinion expressed was presumably based on the experience of commercial operators who do not retain in their fleet vehicles which are as old as 15 years or more.

3. The question whether all Defence indentors who obtain common user items directly should route their demands through MGO Branch to first check up whether these can be met from Army's undeclared surpluses, has been examined. In accordance with the existing instructions, forecast requirements in respect of all Ordnance stores, which are being centrally provisioned by the Director of Ordnance Services, are being sent to him by the non-Army Users, including DGOF, every year sufficiently in advance before the commencement of the Annual Provisioning Review. Instructions also exist (copy enclosed) that before surplus stores are formally declared for disposal, the requirements of likely users are ascertained and met. These arrangements should provide adequate safeguards.

4. In the case of vehicles, the position has considerably changed since the recommendation was made by the PAC. Under a policy approved by the E.C.C., Army vehicles will be discarded as soon as they complete a specified number of years of service or do a specified mileage, whichever is later. The vehicles that becomes due for discard would generally reach the first major overhaul stage, but such

vehicles will not be overhauled prior to disposal. It has been decided that post-1948 vehicles due for discard should be offered to non-Army indentors under the Ministry of Defence, excepting the Border Roads Organisation, and will be accepted by them if the indentors can make satisfactory arrangements for their repair/overhaul. Similarly, when such indentors propose to procure vehicles, they should enquire from the MGO Branch whether post-1948 vehicles that may become due for discard under the casting off policy could be made available to them, before they place orders on the procuring agency.

5. Since, however, the DGOF does not have adequate arrangements for the repair of such vehicles, no useful purpose will be served by his making enquiries from the MGO Branch regarding the availability of post-1948 vehicles under the casting off policy. Besides, the production effort in the factories is related to the availability of dependable transport. In fact the various foreign expert teams which have visited the Ordnance Factories have criticised the inadequacy of material handling facilities. The Government, therefore, propose to exempt the Ordnance Factories from the requirement that they should accept the vehicles which would be discarded by the Army. Before, however, resorting to purchase of new vehicles the Factory authorities should ascertain from the D.O.S. the position regarding availability of class I vehicles.

6. Border Road Organisation also require vehicles which are as dependable as the Army vehicles, because of the terrain in which they work and they cannot be reasonably expected to use vehicles discarded by Army.

7. The repair capacity of the Central EME Workshops which was originally planned to meet normal requirements of the Army was modified to meet the increasing repair needs arising out of the present emergency and the increased size of the Army. A survey of repair facilities available with the State Road Transport undertakings has also been made so that the repairs of certain types of vehicles may be diverted to these undertakings, should the need arise. It is not, however, considered necessary to utilise the repair facilities available in the private sector. In view of the policy of discard before overhaul referred to earlier, it will not now be necessary for EME Workshops to undertake to overhaul of 'B' vehicles which are covered by the "Casting off" policy; they will carry out only one overhaul for petrol engines of such vehicles.

DADS has seen.

[U.O. No. 29(9)/62/D(O-I), dated the 4th Oct., 1965.]

## D (DISPOSALS)

**SUBJECT:—Disposal of Surplus Defence Stores**

The procedure for obtaining orders for the disposal of surplus defence stores and salvage and scrap is laid down in this Ministry's circular No. F. 4(2)-59/D (Disp.) dated the 2nd September, 1959. In accordance with this procedure, all proposals for disposal of surplus stores have to be approved by the Defence Minister. Instructions, governing the disposal of surplus stores emphasising the need for reutilisation of surplus stores with or without modification, are contained in this Ministry's circulars No. 3(1)/59/1349/D (Disposals) dated the 28th March, 1960, No. 3(1)/59/1726/D (Disposals) dated the 23rd April, 1960 and No. 3(1)/3819/D (Disposals) dated the 31st August, 1960. According to these instructions, no defence store should be discarded unless it is made certain that it is absolutely useless to the Defence Organisation as a whole. Great emphasis has been laid on the need for reutilisation of the surplus stores with or without modification to the maximum extent possible in view of the shortage of foreign exchange resources. In spite of the instructions, referred to, it has been noticed that proposals, for the disposal of surplus stores, are sometimes received in the Ministry of Defence where the reutilisation aspect has not been gone into thoroughly. This Ministry, therefore, wishes to emphasise once again that, before proposals for the disposal of surplus stores are referred to this Ministry, the Service Headquarters are requested to examine all possible methods of reutilisation of the surplus stores in consultation with other Defence users and technical authorities and they should ensure that only such of those stores, which cannot be utilised in any manner, are proposed for disposal. The Defence Minister has also directed that his approval should be obtained before any surplus store is declared for disposal to the DGS&D. If the stores proposed for disposal are of a perishable nature or are likely to deteriorate in storage if kept for long, there should be a clear indication to the effect that the stores are really perishable and, if kept longer in storage, are likely to deteriorate and, thus, result in loss to the State. As hitherto, the Service authorities may continue to dispose of surplus stores whose value does not exceed Rs. 5,000 in a single category; but,

proposals in respect of disposal of vehicles and machinery, and MT spares (hardware elements) whether they are serviceable, repairable or unserviceable, irrespective of value, should be referred to the Ministry of Defence for obtaining the concurrence of the Defence Minister before they are disposed of.

Sd/-S. V. IYER,  
Under Secretary.

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MGO Branch DGOF	QMG's Branch Naval Head- quarters	E-in-C's Branch Air Head- quarters	DGAFMS CGDP/TD-15
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M of D u.o. No. 3(9)-62/D (Disposals), dt. the 31st July 1962.

Copy to:—

D(QS)  
D(Prod)

CG (Projects)  
Min of Fin  
(Def/o-2).

D (Works-II)  
D (Air-I)

D(Med)  
D(N-I)

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#### Recommendation

*The Committee find little justification for not initiating the departmental proceedings against the officers concerned immediately after the irregularities were detected in March, 1959. If the records had been taken away by the Special Police Establishment, Photo-stat copies could have been made out for proceeding with the departmental action. The Committee suggested that the instructions contained in the Ministry of Home Affairs Office Memorandum No. 39/30/54-Estt. dated the 7th June, 1955 requiring completion of departmental proceedings before initiating criminal action should also be adopted on Defence side. The Committee would also like to be informed of the results of the departmental enquiry in due course.*

[S. No. 36 of Appendix II to the 4th Report (Third Lok Sabha)]

#### ACTION TAKEN

As already intimated to the Public Accounts Committee, the irregularities came to the notice of the Naval authorities through Controller of Defence Accounts (Navy) on 21-3-1959, the case was referred to the Special Police Establishment for investigation on 22-4-1959 and the first paper was handed over to Special Police Establishment on 12-5-1959 and the last paper on 1-12-1960. Till the Special Police Establishment submitted its report on 26-6-1961 it would not have been advisable to withdraw the papers from them for taking photo-

stat copies, as it would have delayed the conclusion of investigation by Special Police Establishment and consequently have also possibly made it difficult for them to reach definite conclusions to facilitate launching of criminal prosecution in court.

2. The provisions contained in the Ministry of Home Affairs Office Memorandum No. 39/30/54-Estt., dated the 7th June 1955, could not be applied to Service personnel on account of the difference in regard to the prosecution of Service personnel as compared to civilian Government servants. Where full facts pertaining to the irregularities committed by a civilian Government servant are available, it is easy to initiate departmental proceedings in advance of criminal proceedings. However, in the case of Service personnel, departmental action will have to be in the form of proceedings under the relevant Service Act. Offenders can be tried by Court Martial/Summary disposal and need not necessarily be tried by a civil court. Where such proceeding is inexpedient/Impracticable, administrative action for removal/reduction/award of stoppage under the appropriation Service rule is to be considered. Where it is expedient and desirable to proceed against the offender directly in civil court, such action can also be taken. In cases where competent authorities are in a position to take suitable penal/disciplinary action straightaway against the delinquents (i.e. without the assistance of police), such procedure is to be adopted vide Ministry of Defence O.M. No. F. 68(2)-59/D (Coord), dated 27th September, 1960 which was issued with reference to a recommendation of the P.A.C. contained in their 9th Report.

Further Ministry of Home Affairs have in their O.M. No. 39/8/64-Estt. (A) dated 4-9-1964, issued further instructions according to which the provisions referred to by the Committee stand modified.

3. In June 1963, the Ministry of Law had advised in this particular case that they are not in favour of departmental proceedings being started until after the disposal of the criminal case as such a course of action would be risky. In accordance with this advice, no permission has been granted to the Naval authorities to convene a Board of Enquiry to go into the administrative aspects of the case.

(In March 1965, the Special Police Establishment intimated that the revision Petition filed by the accused in High Court was heard and finally dismissed on 9-12-1963. Proceedings in the trial Court are pending.)

4. The D.A.D.S. has seen.

[U.O. No. F. 5(33)62/D (N-I), dated the 5th June, 1965].

### Recommendation

The Committee regret that this is another case of lack of proper planning and foresight resulting in the equipment costing Rs. 7.54 lakhs remaining unused for 2 years. The representative of the Air Headquarters expressed the view that even if the question of the provision of new building had been considered from the beginning, the saving of time in initiating action in this regard would have been three months i.e. from July to September, 1958. The Committee are unable to accept this view. As the equipment was of a highly technical and specialised nature of which the Air Force had no experience, enquiries should have been made from suppliers before placing the final order regarding the building required for its installation. The Committee are surprised how the Air Headquarters thought that the equipment could be installed in the existing building and rushed to place an operational indent. The indent should have been planned in such a manner that the equipment was received by about the time the buildings were ready for its installation. The Committee are also concerned over the delay in the construction of the building partly due to delay in according administrative approval, which was stated to be under investigation. They would like to be informed about the result of investigation.

[S. No. 40 of Appendix II to 4th Report (Third Lok Sabha)].

### ACTION TAKEN . .

The Test Rig is a specialised equipment but the specifications drawn by Air Headquarters for the Test Rig were broad-based, so that the equipment of more than one manufacturer could be considered. Normally, manufacturers of equipment of this nature, do not provide detailed information on building lay-out, construction etc., until an order has been placed on them.

2. Within a week of the finalisation of the contract in September 1956, information on this point was requested by Air Headquarters and on receipt of this information, all possible action was taken by them to initiate Works Services for installation of this Test Rig. It is unfortunate that this work turned out to be more complicated than originally visualised in good faith.

3. The question of delay in (i) according administrative approval for the construction of the building and (ii) installing Rigs has been examined. It is admitted that delays in this project cannot be considered as reasonable. Investigation into the delays has been initiated

and final results will be communicated to the P.A.C. in due course. Meanwhile, instructions streamlining the procedure for placing operational indents have been issued by Air Headquarters vide their Office Instruction No. 2/64 dated 28-1-1964 (copy enclosed). In order to obviate such delays and also to maintain a proper check on the progress of works, the period within which the work is to be completed has now to be indicated in all Administrative approvals.

4. Director of Audit, Defence Services, has seen.

[U.O. No. F. 4(42)/62/D (Air. 1) dated 16-7-1965].

#### AIR HEADQUARTERS

#### Office Instruction No. 2/64

#### *Need for Proper Planning Before Initiating Procurement of Costly Equipment*

At the instance of the concerned user Directorate an operational indent was raised on the D.G.I.S.D. in 1958 for a costly equipment of highly technical and specialised nature. The equipment was received by the delivery date stipulated in the indent, but it could not be installed and put into use, since appropriate action was not initiated to get the existing building suitably modified to house the equipment. As a result, the machinery remained unused for more than two years causing avoidable locking up of huge capital.

2. This procurement of equipment was reflected in the Audit Report, Defence Services 1962 and was severely criticised by the Public Accounts Committee who felt that the indent should have been planned in such a manner that the equipment was received by about the time the buildings were ready for its installation.

3. To avoid non-utilisation of costly equipment, user Directorates in future, before asking the Directorate of Equipment to procure any costly item from abroad, are to liaise with the other concerned Directorates and ensure that all necessary arrangements/facilities/works services/technical knowledge etc., required for the use of the equipment, are provided within the period of delivery stipulated in the indent so that the equipment is put to use immediately on receipt.

Sd/-J. S. SODHI,

Wg. Cdr.

for Air Officer i/c Administration.

Ref: Air HQ/20704/7/ORG.

Date: 28th Jan. 1964.

Distribution: All Dtes/Sections, Air HQrs.

### **Recommendation**

*The Committee regret that this is another case of lack of proper planning and foresight resulting in the equipment costing Rs. 7.54 lakhs remaining unused for 2 years. The representative of the Air Headquarters expressed the view that even if the question of the provision of new building had been considered from the beginning, the saving of time in initiating action in this regard would have been three months i.e., from July to September, 1958. The Committee are unable to accept this view. As the equipment was of a highly technical and specialised nature of which the Air Force had no experience, enquiries should have been made from suppliers before placing the final order regarding the building required for its installation. The Committee are surprised how the Air Headquarters thought that the equipment could be installed in the existing building and rushed to place on operational indent. The indent should have been planned in such a manner that the equipment was received by about the time the buildings were ready for installation. The Committee are also concerned over the delay in the construction of the building partly due to delay in according administrative approval, which was stated to be under investigation. They would like to be informed about the result of investigation.*

[S. No. 40 of Appendix II to 4th Report (Third Lok Sabha)]

### **ACTION TAKEN**

In construction of the Ministry of Defence Office Memorandum No. 11 (7) 62/D (Budget), dated 21st July, 1965, forwarding 40 copies of a note on the recommendation at Serial No. 40 of Appendix II to Public Accounts Committee—Fourth Report (Third Lok Sabha)—Appropriation Accounts (Defence Services) 1960-61 and Audit Report (Defence Services) 1962, it may be stated that the Court of Inquiry in which was ordered to investigate into the delay in the construction of the building and installing Rigs for testing overhauled fuel pumps of aero-engines, has not held any individual responsible for the delay in question. The Court of Inquiry has arrived at this conclusion after taking into account all the factors which have contributed to the delay. However, the Court observed that the equipment viz., the fuel system test rigs and the water chilling plant is a highly complicated piece of equipment and the delay in its installation and putting into commission under the existing service conditions and procedures was unavoidable and has to be accepted. There were three independent agencies involved for this particular project, viz., Air Headquarters, E-in-C's Branch, Army Headquarters and C.W.E., Kanpur. Every agency which was responsible for the com-

pletion of this project had tried to do its best for its successful completion and no individual can be held to blame for the delay that has occurred in the installation and putting into commission of the Lucas fuel system test rigs. If only one agency was responsible for the completion of the project, the other agencies being subordinate to it, this delay could have been avoided.

2. The Court of Inquiry have made the following recommendations to avoid recurrence of delays in the execution of similar projects in future:—

- (i) Constitution of a project team for all such projects vested with certain specified powers;
- (ii) introduction of a system under which users will be the main agency responsible for a particular project with overall control on all the aspects of the projects including the civil works; and
- (iii) issue of a directive detailing the procedure to be followed from the initiation of a project upto its completion.

3. Action on the above recommendations is being taken by Air Headquarters separately.

4. Director of Audit Defence Services has seen.

[U.O. No. F.4 (42)/62/D(A-I), dated 12th Nov. 1965].

#### Recommendation

*The Committee consider that irregularities in this case appear to be serious. They would like to know the final outcome of the investigations and the action taken against the persons concerned.*

[S. No. 42 of Appendix II to 4th Report (Third Lok Sabha)].

#### ACTION TAKEN

In the last note sent to the Committee under O.M. No. 11 (7)/62/D (Budget) dated the 9th November, 1964, it was mentioned that the reconvened Court of Inquiry had come to the conclusion that Officer Commanding, 2 Salvage Unit, Suranussi was to be blamed for not having kept the stores under dispute segregated till the finalisation of the case and that further action in pursuance of the findings of the Court of Inquiry was in progress.

The proceedings of the Court of Inquiry have been examined by the Government in consultation with Army Headquarters.

The Court of Inquiry clearly established that the SIMLA Indep. Co. NCC had the NCC stores condemned by a properly constituted condemnation Board and that the stores so condemned by the unit were genuine NCC stores and did not bear any earlier condemnation marks, seals or salvage stamps. In so far as the Salvage Unit was concerned, the O. C. Salvage Depot had only a suspicion that some of the stores received from SIMLA Indep. Co. NCC were from Kabadi Market. This suspicion was, subsequently removed on receipt of a reply from the despatching unit that the stores were the ones condemned by a properly constituted condemnation Board. The O. C. Salvage Depot, therefore, ordered the stores in question to be merged with the working stock and the case to be closed. This was a case of difference of opinion between the despatching unit and the Salvage Unit, that was eventually settled on the matter being satisfactorily explained by the despatching unit. There was no malafide intention on anybody's part. The Central Vigilance Commission to whom the case was referred for advice have stated that no disciplinary action is necessary or justified against the Officer Commanding, 2 Salvage Unit, Surannussi. The Government have accepted this advice.

D.A.D.S. has seen.

[U.O. No. 13(37) 64/D(GS.IV) dated the 16th November, 1965].

### Recommendation

(i) While the committee were assured by the Secretaries of the Ministries of Defence, Works, Housing and Rehabilitation that difficulties experienced in the use of Komatsu tractors in the Dandakaranya Project were of the nature of teething troubles, they feel that these could have been largely avoided with better planning and forethought. They also feel that these "teething troubles" have lasted a little too long. The Controller General of Defence Production admitted that the operating conditions in Dandakaranya were not foreseen at the time of placing the order for tractors. The Committee are, therefore, of the view that the tests of tractors conducted at Kirkee in December, 1958 were not quite adequate. As these types of tractors were not used in this country before, it would have been advisable to put them to intensive tests in the various parts of the country having different soil conditions where these were actually required to be operated, before entering into this contract. The Ministry of Defence could have also benefited themselves from the experience of the operations of tractors of various

*makes and types used on land reclamation work by the other organisations like the Central Tractor Organisation, Hirakud Dam Project, etc.*

[S. No. 1(i) of Appendix III to 11th Report 1962-63].

#### **ACTION TAKEN . .**

**Noted for future guidance.**

#### **Recommendation**

(ii) *The Committee are surprised that even the type of lubrication oil recommended for the tractor engine in the conditions in Dandakaranya was unsuitable and that no preventive maintenance system was worked out by the DGOF and the Project Authorities.*

[S. No. 1(ii) of Appendix III to 11th Report, 1962-63].

#### **ACTION TAKEN**

**The following are the three types of oil available in the market:—**

(a) **Ordinary Heavy Duty Oil.**

(b) **Series I oils for use in Diesel engines.**

(c) **Series III oils for use in Diesel engines more particularly in earth-moving equipments.** The oil recommended by Komatsu was of the first type. Series III oil, which is by far the best but more expensive, was recommended by the TCM expert Shri Koken and was adopted later. In this sense, the lubrication oil as initially recommended by M/s Komatsu was unsuitable under the conditions prevailing at Dandakaranya. It is true that initially no preventive maintenance system was worked out by the D.G.O.F. or the Dandakaranya Project authorities. It was at the suggestion of the TCM expert, Mr. Koken, that a proper preventive maintenance scheme on the lines of Neyveli Lignite Project was worked out by the D.G.O.F. and sent to the Project Authorities for introduction. This scheme has since been introduced in the Dandakaranya Project.

#### **Recommendation**

(iii) The Committee are glad that the controversy over the alleged mishandling of Komatsu tractors in the Dandakaranya Project is now a closed chapter. The experts who investigated into this, came to a definite conclusion that there was "no evidence of deliberate abuse or mishandling of these machines." The Committee hope that with the effecting of the modifications in the tractors and preventive

maintenance scheme, as suggested by the experts, initial difficulties which occurred in the Dandakaranya Project would be overcome.

[S. No. 1 (iii) of Appendix III to 11th Report 1962-63].

#### ACTION TAKEN

The preventive maintenance scheme worked out by the Director General Ordnance Factories, has already been introduced in the Dandakaranya Project. Out of the modifications suggested by TCM experts between July, 1960 and February 1961, certain modifications have already been carried out to the tractors supplied to D.D.A. and with the carrying out of these modifications, the performance of tractors has improved appreciably. The remaining modifications which have not yet been carried out are being investigated further.

The D.A.D.S. has seen.

#### Recommendation

*The Committee feel concerned over the failure of the overhauled engines. They desire that early steps should be taken to repair these engines and the reasons for their failure should be investigated into. The Committee note with satisfaction that the DGOF has switched over to the use of Komatsu engines.*

[S. No. 2 of Appendix III to 11th Report 1962-63]

#### ACTION TAKEN

The reasons for the failure of the overhauled engines were investigated in January 1964 by a team of officers consisting of the representatives of Dandakaranya Development Authority, the D.G.O.F. and Corps of Electrical and Mechanical Engineers. The team had submitted its report.

The report called for laboratory test, metallurgical analysis of the sample of used sump oil, piston equipment and a crank shaft. Laboratory tests of the first two items have been completed.

The reasons for the failure of the overhauled Mitsubishi engines were further investigated by the Engineers of D.D.A. (now Rehabilitation Reclamation Organisation) during the working session 1964-65. In view of the test observations and investigations made by the engineers of the FRO and the earlier report of the Board of Technical Officers, the reasons for the premature failure of the overhauled engines and steps to be taken to rectify the defects were again discussed in a meeting between the DGOF and the Secretary, Ministry of

Rehabilitation on 17th August 1965 when it was decided that it was not necessary to carry out further investigations. On the basis of the investigation already carried out, it was decided to replace the crankshaft, piston rings and bearings to overcome the present difficulties.

The D.A.D.S. has seen.

### Recommendation

*The Committee view with concern loss of considerable tractor hours on the first of tractors during the year 1960-61. They, however, note that there was a remarkable decrease in the loss of working hours on these tractors during the year 1961-62. They hope that the position would further improve in the future years.*

[S. No. 3 of Appendix III to 11th Report—1962-63].

### ACTION TAKEN

NOTED.—The number of tractor hours lost in the first and second lots of Komatsu tractors during the years 1962-63 and 1963-64, as furnished by the D.D.A. is as follows:—

FMU Nos.	Tractor hours lost due to breakdown.	
	1962-63	1963-64
Komatsu, 1 & 6 . . . . .	10,127.4	9,244.6
First Lot. 4 & 5 . . . . .	10,127.4	9,244.6
Komatsu.		
Second lot 7, 8 and 9, . . . . .	10,129.5	6,691.4
10 and 11. . . . .	10,129.5	6,691.4

The D.A.D.S. has seen.

### Recommendation

(i) *The Committee are unhappy over the delays in supply of spare parts, for want of which considerable tractor hours were lost in the Dandakaranya Project. The Committee hope that with the setting up of a Bank of Spare Parts, difficulties in the supply position of spares would be overcome. The Dandakaranya Project Authorities should also, on their part, intimate their full requirements of spares reasonably in advance.*

[S. No. 4(i) of Appendix III to 11th Report (1962-63).]

**ACTION TAKEN**

With the setting up of a Bank of Spare Parts of tractors in July, 1961 initial difficulties in the supply position of spares have been overcome to a large extent.

**Recommendation**

(ii) *The Committee understand that indigenous production of 40 per cent (according to Audit the figure is about 34 per cent) of parts had been achieved. In a year's time further increase of 15 per cent of the components is expected to be secured from trade. The Committee desire that priority should be given to the manufacture of fast moving parts in order to obviate difficulties in meeting the requirements of users and to save more foreign exchange.*

[S. No. 4(ii) of Appendix III to 11th Report (1962-63).]

**ACTION TAKEN**

**NOTED.**—Efforts are being made to further increase the indigenous content of tractors by obtaining assistance from the civil trade. Indigenous production of the following important parts has already been established:—

- (a) Radiator Core Assembly for D-120 and D-80 tractors.
- (b) Steel Castings for D-120 and D-80 Track Shoes and D-80 Track Rollers
- (c) D-120 Tracks Link Forgings.

The D.A.D.S. has seen.

**Recommendation**

*The Committee note the sub-normal availability of the first lot of Komatsu tractors during the working seasons 1960-61 and 1961-62 due to frequent breakdowns. During evidence, the Secretary Ministry of W.H.&R. (Department of Rehabilitation) stated that on the present performance Komatsu tractors were somewhat inferior to other makes and types used in the Dandakaranya Project.*

[S. No. 5 of Appendix III to 11th Report (1962-63).]

**ACTION TAKEN**

It is true that there has been some trouble in the tractors supplied to the Dandakaranya Project. Certain modifications/improvements suggested by the TCM experts have already been carried out.

and with the introduction of New Model Tractors, it is hoped that the percentage of availability of Komatsu Tractors will further improve. The percentage of availability of Komatsu tractors with the DDA during 1962-63 and 1963-64 is as follows:—

FMU Nos.	% availability with respect to potential hours.		Remarks
	1962-63	1963-64	
Komatsu First Lot	1 & 5 4 & 5	73.9 70.3	72.7 70.7
			1962-63 Tractors worked in single shift throughout the season. Also tractors remained idle for a considerable period both at Paralkote & Malkan-giri due to want of land.
Komatsu Second Lot	1 & 6 4 & 5	87.0 78.0	84.6 78.5
			1963-64 Tractors worked in single shift throughout the season. Also tractors remained idle for considerable period at Malkan-giri for want of land

The D.A. D.S. has seen.

#### Recommendation

*The Committee would like to know in due course the total extra expenditure incurred by the D.G.O.F. on repairs, modifications, overhaul etc. and whether these were within the margin provided in the cost of tractors.*

[S. No. 6 of Appendix III to 11th Report 1962-63].

#### ACTION TAKEN

A sum of Rs. 3,37,161 was incurred by the D.G.O.F. on repairs, modifications, overhaul etc. of tractors supplied to the Dandakaranya Project. This amount was within the margin provided in the cost of tractors supplied to Dandakaranya Project Authorities.

The D.A.D.S. has seen.

### **Recommendation**

**The Committee feel concerned at the high operational cost of Komatsu tractors as compared with other makes and types in use in the Dandakaranya Project. They desire that the investigation of the various factors affecting the operational cost of the Komatsu tractors should be completed as early as possible and necessary steps taken to reduce it. The Committee hope that the Director General, Ordnance Factories and Dandakaranya Development authorities will address themselves to this problem as the price of tractors should correlate to their operational cost.**

[So. No. 7 of Appendix III, to 11th Report (1962-63)].

### **ACTION TAKEN**

**The question of high operational cost of Komatsu tractors is under examination and all possible steps will be taken to reduce the same.**

**The D.A.D.S. has seen.**

### **Recommendation**

**From the table given in para 9 of the report, it will be seen that the percentage of indigenous content in Komatsu tractors actually achieved has been lagging behind the anticipated targets. The Committee would like the Ministry to make special efforts to improve the position in this regard.**

[S. No. 8 of Appendix III to 11th Report 1962-63]

### **ACTION TAKEN**

**It is felt that there have been shortfalls in the indigenous content against the targets. The shortfall during the first two years was due to the import of tractors with minor deletions to meet the urgent requirements of the indentors and the manufacture of attachments which were not originally planned because it was originally felt that civil assistance may be forthcoming in the supply of attachments. During the third year of manufacture the reasons for the shortfall in indigenous content are that Komatsu intimated to the DGOF change of model and for which new model/drawings had to be obtained and production planned. Government also decided during this period to accept the D-50 tractors in lieu of the D-40 the manufacture of which was discontinued. This naturally had an effect on the indigenous content. Besides when the proposal for manufacture of tractors was submitted to the Government it was anticipated that by 1962 civil industry would establish the indigenous manufacture**

of a suitable Diesel Engine which could be installed in the Japanese tractors. This anticipation has not been realised. Recently, an agreement has been concluded for the manufacture in India of the Commins range of engines by M/s Kirloskar and our advice is that the Commins engines could be satisfactorily installed in the Komatsu tractors. When this happens an additional 25 to 30 per cent of the value of tractors would be indigenous. Investigations are also being made of the possibility of getting certain components made in the civil sector. If this succeeds, there will be a further increase in the indigenous content.

The D.A.D.S. has seen.

### Recommendation

To sum up, the un-satisfactory features brought out in the Gomatsu tractor project are:—the rather prolonged “teething troubles” leading to heavy loss of tractor hours which may, to some extent, be attributed to the initial decision to enter into a contract with the Japanese firm merely after a study of the technical specifications but without adequate trials in this country.

A team was sent subsequently to Japan to satisfy themselves about the production capacity of the firm, quality control and other related matters.

[S. No. 9(1) of Appendix III to 11th Report (1962/63)].

### ACTION TAKEN

As already explained to the Public Accounts Committee whenever any new equipment is introduced “teething troubles” are bound to arise. These “teething troubles” resulting in loss of tractor hours cannot, however, be attributed to the defective design, workmanship of Komatsu tractors which are as hardy as Caterpillar tractors. The loss in working hours was due to the severe operating conditions in Dandakaranya.

Details of tractors hours lost on the Komatsu first and second lots of tractors during 1962-63 and 1963-64, as furnished by the DDA, are given below:—

	FMU Nos.	Tractors hours lost	
		1962-63	1963-64
1st lot	1 & 6	10,127·4	9,244·6
	4 & 5	10,127·4	9,244·6
2nd lot	7, 8 & 9	10,129·5	6,691·4
	10 & 11	10,129·5	6,691·4

**Recommendation**

*(2) the inability to achieve a saving in foreign exchange to the extent envisaged, one of the major factors being the slow progress achieved in improving the indigenous content of the tractors.*

[S. No. 9(2) of Appendix III to 11th Report (1962-63)]

**ACTION TAKEN**

It is true that there has been a shortfall in the indigenous content. Investigations are, however, being made of the possibility of obtaining certain components from the civil sector. If this succeeds, there will be further increase in the indigenous content.

**Recommendation**

*(3) The discovery of serious mechanical defects in the tractors particularly the failure of the Mitsubishi Engines and the premature breakdown of 12 of them even after overhaul.*

[S. No. 9(3) Appx. III to 11th Report (1962-63)]

**ACTION TAKEN**

Premature failure of the overhauled engines have been investigated and steps are being taken to rectify the defects.

**Recommendation**

*(4) The non-establishment of an adequate servicing and maintenance organisation for a period of some years.*

[S. No. 9(4)-Appx. III to 11th Report (1962-63)]

**ACTION TAKEN**

The existing servicing and maintenance Organisation is under review.

**Recommendation**

*(5) The prolonged controversy between the Ministry of Works, Housing and Rehabilitation and Defence which has taken an unduly long time to settle regarding the causes of the defects in the tractors used in Dandakaranya.*

[S. No. 9(5) of Appendix III to 11th Report (1962-63)]

**ACTION TAKEN**

Out of the modifications in tractors suggested by TCM experts between July 1960 and February 1961, certain modifications/improvements have already been carried out and with carrying out of those modifications/improvements, the performance of the tractors has improved appreciably. The remaining modifications yet to be carried out are being investigated further.

**Recommendation**

(6) *The high operational cost of the Komatsu tractors which still await investigation and remedial action.*

[S. No. 9(6) of Appendix III to 11th Report (1962-63)].

**ACTION TAKEN**

The question of high operational cost of Komatsu tractors will be investigated and if necessary, steps will be taken to reduce it.

The D.A.D.S. has seen.

**Recommendation**

(10) *The Committee understand that the D.G.O.F. has in hand outstanding orders for more than 350 tractors and attachments for the various civil indentors, besides the requirements of the Army and that Government are contemplating the augmentation of the existing capacities to cater for production of 500 tractors and attachments. The Committee hope that every effort will be made by the Ministry of Defence to achieve the contemplated targets of production without impairing in any way the production of defence stores which is the foremost function of the Ordnance Factories in the present national emergency. In this matter the Committee trust that the lessons already learnt in this case regarding the need for adequate precautionary measures at every stage to obviate dislocation and loss will be kept in view.*

[S. No. 10 of Appendix III to 11th Report 1962-63].

**ACTION TAKEN**

We are trying to accelerate the progress of tractor manufacture in the Ordnance Factories without impairing the production of vital Defence Stores. Simultaneously, steps are being taken to secure increased trade assistance in the manufacture of tractor components. The extent of the augmentation of production will, however, depend mainly on the quantum of trade assistance that may

be made available. Necessary precautionary measures will be taken to obviate dislocation in production of tractors.

The D.A.D.S. has seen.

### Recommendation

The Committee are not satisfied with the explanation for non-revision of requirements before placing the final order in view of the fact that changes in the scales of 'A' vehicles had been notified by the Director of Electrical and Mechanical Engineering by December, 1957. Considering that a bulk order for spares had been placed on the basis of the review conducted in 1956, the revision of requirements on the basis of revised scales should have been undertaken in December, 1957 and the final contract on the firm should have been deferred till the revised firm requirements had been worked out. The sanction of Government for an intermediate review (which was given in Jan. 1958) could also have been expedited. The very fact that after placing the contract, the D.O.S. was able to complete a special review within four weeks, indicates that such a review was necessary and could have been conveniently undertaken before placing the final order. The Committee understand from Audit that in pursuance of the recommendation of the Special Committee, a committee was set up in April, 1962 to examine all aspects of provisioning with particular reference to provisioning of spares for 'A' and 'B' vehicles. The Committee would like to know the remedial measure suggested by this departmental committee and action taken to streamline the existing provisioning procedure.

[S. No. 11 of Appendix III to 11th Report (Third Lok Sabha)—Part I].

### ACTION TAKEN

Noted.

2. In April 1962, the Ministry of Defence had set up a Committee—the Ministry of Defence Provisioning Committee—to conduct a detailed study of the system followed for the provisioning of stores for the Services. This Committee was set up in pursuance of a recommendation of the Committee of Secretaries which examined the contract for the supply of Mechanical Transport Spares.

The Committee had its first meeting on 23rd April 1962 and held ten meetings in all during the period from April 1962 to October 1962. The Emergency in October 1962 and the events which followed did not permit any further attention by the members to the task of the Committee. The last meeting was held on 4th October 1962. Thereafter, until recently the discussions were suspended.

3. The Committee then met during 1964 and submitted its first Report to the Government in December 1964. In this report, the Committee made an analysis of certain important aspects of the existing provisioning system and suggested that the existing provisioning policies and techniques required significant modifications which could be decided upon only after a comprehensive systems analysis had been carried out. That Committee recommended that the system analysis should be undertaken by a Team specially constituted for the purpose and staffed primarily by personnel drawn from the provisioning elements of the three Services supported by personnel from other agencies concerned with provisioning/procurement of stores and equipment.

4. The above recommendation was considered by the Ministry of Defence and it was decided in June 65 that a Sub-Committee for carrying out a detailed study of the existing provisioning system in the three Services and allied Organisations should be constituted. The constitution, composition and terms of reference of the Sub-Committee are indicated in this Ministry's Office Memorandum\* No. The Sub-Committee will render a report to the Ministry of Defence Provisioning Committee for consideration. Thereafter, the Ministry of Defence Provisioning Committee would make its final recommendations in regard to the action to be taken to streamline the existing provisioning procedure in the three Services and allied Organisations. A further note indicating the final action taken in streamlining the existing provisioning procedure will be submitted to the Committee in due course.

5. DADS has seen.

[U.O. No. F. 29(17)/63/D(O-I), dated 4-9-1965]

## DEPARTMENT OF SUPPLY & TECHNICAL DEVELOPMENT

### Recommendation

*The Committee consider the deletion of "Refer India" items from the contracts as unjustifiable in view of the fact that the whole transaction was a package deal. The Committee would like to be informed of the outcome of the inquiry into the matter as suggested by the Special Committee.*

[S. No. 16 of Appendix III to Part I of 11th Report (Third Lok Sabha.)]

**ACTION TAKEN**

It will be recalled that in Chapter III of their Report, the *Special Committee of Secretaries* had made a mention of certain items known and could have been conveniently undertaken before placing the as the "Refer India" items which were obtained from the supplying firm at prices in excess of those originally quoted by them. The Committee had desired that further enquiries should be made to ascertain which of the items were referred to India and which of them were subsequently procured at higher prices.

2. In a note dated 7th December, 1961, the Ministry of Defence had stated that the matter had been taken up with the Ministry of Works, Housing & Supply (Now Department of Supply & Technical Development) and the India Supply Mission, Washington and the position in regard to these items would be intimated later on. The enquiry has now been completed by this Department and the position is explained in the subsequent paragraphs.

3. "Refer India" items were those where the firm represented to the India Supply Mission that the quotations given by the firm to the Negotiating Committee were on the low side and had been submitted in error and should be revised upwards. The number of items was 36. The India Supply Mission agreed to convey the firm's representation to the Ministry of Defence for consideration and the firm agreed to abide by the decision of that Ministry. Of these 36 items 14 related to 'A' vehicle spares and 22 to 'B' vehicle spares. As a result of investigations it has been found that it was only in respect of 5 items that the prices actually paid were higher than the agreed prices.

4. In the case of one of these 5 items, initially a sum of \$2 was paid in excess, of which refund was later on obtained from the firm.

In respect of another item, it was found that the quantity obtained at higher prices was an additional requirement of the Ministry of Defence, i.e. over and above that already procured at the agreed rate and, therefore, the firm was not bound to supply the additional quantity at the original price.

Of the remaining 3 items, in one case, there was some misunderstanding as the instructions issued by the Army Headquarters to the India Supply Mission gave the impression that the quantities represented their additional requirements. The Mission, therefore, included the same in the list of additional items covered by the bulk contract dated the 8th October, 1958.

In case of the remaining two items, the India Supply Mission have no doubt paid higher prices to the tune of a total of \$400 approximately. The details of these are furnished below:—

Pt. No. designation	Qty. pro- cured	Higher net rate per unit asked for by Levys	Agreed rate (net) per unit	Net rate at which procu- red	Differ- ence of Cols. 4 and 5	Name of the Supp- liers.
1	2	3	4	5	6	7
DX-5738 (ADT) Braker Starter Switch, Circuit	55	\$ 6.12	\$ 3.80	\$ 4.28	\$ 0.48	Levy A to Parts.
DG-925405 (DG) Volt meter Assy.	50	18.00	5.20	12.60	7.40	-do.-

5. The India Supply Mission have explained that instead of negotiating these items individually on the prices originally indicated by the firm to the Negotiating Committee, it was decided to include them in the list of additional items for which fresh quotations were invited in the hope of getting cheaper prices. This hope did materialise because the deal for stores valued at \$2,37,000 was ultimately concluded at a round figure of \$2,00,000 in respect of the items covered by the contract of October, 1958. Though the Mission over paid approximately \$400 this must be set off against the total gain of \$37,000. (This aspect of procurement through open-tender is mentioned by the Special Committee of Secretaries in Chapter II of their report).

6. The Ministry of Defence and the D.A.D.S. have seen.

#### Recommendation

The Comptroller & Auditor General suggested that, in cases of Projects involving outlay in foreign exchange the Ministry might, in the light of their experience as to the availability of foreign exchange and the progress of expenditure on Projects, impose a lump sum cut on the original estimates. The Committee desire the Ministry of Defence to examine, in consultation with the Ministry

of Finance, the question of implementing this suggestion of the Comptroller & Auditor General at an early date.

[S. No. 2 of Appendix VII to 17th Report (Third Lok Sabha) 1963-64].

#### ACTION TAKEN

The suggestion of the Comptroller & Auditor General that in such cases the Ministry might, in the light of their experience as to the availability of foreign exchange and the progress of expenditure on projects, impose a lump sum cut on the original estimates, arose out of the explanations given to the P.A.C. that most of the manufacturing projects involved foreign exchange and as no definite indication regarding the availability of foreign exchange was available at the time of the estimates were framed, accurate budgeting in matters like these was inherently difficult.

2. During 1964-65, when the Public Accounts Committee was examining certain other instances where budget provision had proved to be excessive or unnecessary, references were drawn to the recommendations in the 17th Report of the P.A.C. The relevant details have since been embodied in Para 3 of the 23rd Report of the P.A.C. It has also been separately explained in further notes resting with Ministry of Defence no. No. F. 11 (16) 64D (Budget), dated 22nd March 1965, that foreign exchange allocations and notings there against are on a "commitment" basis, whereas the budget for the year which is discussed by Parliament at the time of voting on Demands and subsequently by the P.A.C., relates to the physical cash expenditure during the year in question. It has also been explained that the un-utilized provision does not relate to lack of foreign exchange allotted to the Ministry but arises out of shortfalls in actual expenditure due to optimistic estimation, non-materialisation of supplies, belated deliveries etc.

3. It may, however, be mentioned that while framing the budget, the likelihood of materialisation of expenditure is taken into account, to the extent possible, in the light of past experience, regarding belated deliveries, non-availability of supplies etc. and certain cuts are in fact made from the estimates furnished by the Service Headquarters, before the Budget Estimates are finalised by the Ministry of Defence, in consultation with the Ministry of Finance. While framing future budget estimates, the quantum of cuts will be reviewed and varied suitably keeping in view the actual short falls arising out of non-materialisation of stores in the past years.

D.A.D.S. has seen.

[U.o. No. F. 11(10) 64D (Budget) dated 31-8-1965].

**Recommendation**

*The Committee are unable to understand why the instructions issued by the Ministry of Finance in 1958, pursuant to the recommendation of this Committee made in their 8th Report (Second Lok Sabha), according to which in cases where a final decision had not been taken, only a token provision should be made, should not have been made applicable to the Defence Expenditure. The Committee desire that this should now be done without delay.*

[S. No. 3 of Appendix VII to 17th Report (Third Lok Sabha)].

**ACTION TAKEN**

The relevant portions of the instructions issued by the Ministry of Finance in their O.M. No. F. 9(5)-E(Coord)/58 dated the 18th August, 1958, are reproduced below:—

2. "(c) For specific schemes and projects which have already been examined in detail by the Finance Ministry and sanctioned, budget provision will be made on the basis of the estimated requirements of the administrative Ministries under the usual sub-heads.

(d) For new works projects, budget provision will not be considered except for schemes for which administrative approval has been accorded. In the case of large projects, the scope and the cost of which have been accepted as a whole, administrative approval may be accorded in stages for different portions of the project, if necessary. The budget provision in any particular year will, however, be based on the actual requirements of the year. Provision will be made under the usual sub-heads in the budget.

(e) For New schemes, other than purely 'works' projects, provision will be made in the budget only on the basis of a broad picture of requirements in suitable details furnished by the administrative Ministries and accepted by Finance. The details required for this purpose are set out in the form attached (Annexure 'A').

(f) No lump sum provision will be made in the budget except for minor works and for petty temporary establishments. Where a new scheme is planned to be taken up in the budget year which has been accepted in principle and for which details are not available, budget provision will be limited to the requirements for preliminary expenses and for such initial outlay as for example, on collection of materials, recruitment of skeleton staff etc."

2. While the provisions of the O.M. of 18th August 1958, in particular the making only of a token provision against schemes yet to be sanctioned, have not been specifically extended to the Ministry of Defence, it may be stated that every attempt has since been made to follow such a principle.

3. In formulating the capital works budget Inter-services Works Priority Committee goes into details of the works in progress, new works sanctioned but to be executed in the succeeding financial year and the value of works under consideration. For the works and the works already sanctioned but are to be executed in the succeeding years, budget provision is made with reference to the requirements of funds as indicated by the Engineering authorities. In respect of the works under consideration, which are not sanctioned upto the time of the formulation of budget, only a small provision is made. The size of the provision is determined, with reference to an appreciation regarding the stage of the sanction of the projects. Subsequently, even the overall amounts arrived at in this manner are subject to further lump sum cuts. However, it would appear that there is scope for further refinement in respect of this appreciation.

4. In regard to other items under 'Capital', mainly relating to Plant and Machinery, the shortfalls occur mostly due to uncertainties in delivery. There is general awareness of this and conservative estimates are adopted on such items. Further, the lump sum cuts referred to earlier applies to these provisions also. However, since shortfalls occur in spite of these precautions, greater care would henceforth be taken.

5. Under 'Revenue', cases of budget provision required to be made on new schemes would be very few compared to those under 'Capital'. The provision for new schemes is scrutinised by the Ministry of Defence separately along with the branches proposing the estimates and the Ministry of Finance (Defence). After all this is gone through, the estimates are finalised. Even after this, Ministry of Finance impose *ad hoc* cuts on the finalised 'Revenue' estimates (Rs. 20 crores during 1964-65). All these should narrow down, as far as possible, the scope of over-provisioning in the budget. The fact that saving still occur point to the necessity of still greater accuracy in such cases.

6. In the framing of future estimates, particular attention would be directed against the provision suggested for new schemes, both under 'Revenue' and 'Capital'.

7. D.A.D.S. has seen.

### Recommendation

*The Committee regret to observe that the bulk storage tanks for petrol, which had taken five and a half years for completion, could not be commissioned for another two years due to delay in the issue of sanctions for other necessary requirements, such as proper fire-fighting equipment, static water tanks and electricity. The explanation offered by the representative of the Ministry of Defence in evidence is not acceptable to the Committee, for the Fire Adviser to the Ministry could have been consulted much earlier—either before the project was sanctioned or at least in its earlier stages. The Committee also fail to see why the sanction for the electrification should not have been issued well ahead of the installation of the tanks. In the opinion of the Committee, this is another case of defective planning and lack of proper fore-thought.*

[S. No. 14 (Para 15) of Appendix VII to 17th Report (Third Lok Sabha) 1963-64].

### ACTION TAKEN

The Public Accounts Committee expressed the view that the Fire Adviser to the Ministry of Defence could have been consulted much earlier—either before the project was sanctioned or at least in its earlier stages and that the sanction for electrification could have been issued well ahead of the installation of the tanks.

2. The remarks of this Ministry with regard to the points mentioned are as follows:—

#### (1) Provision of fire fighting facilities:

It is agreed that many of the complications which arose subsequently and the delay resulting from the observations of the Fire Adviser regarding the suitability of the site could have been avoided, had the Fire Adviser been associated with the Planning of the scheme from the initial stages. Since however that difficulties which arose were not anticipated, and in the absence of specific provisions in this regard the Military authorities did not consider the necessity of associating the Fire Adviser either before the project was sanctioned or in the earlier stages of its commencement. The military authorities were guided by Army Instruction 61 of 1955 under which a Station Fire Committee recommends the fire fighting equipment including water static tanks necessary for an installation. According to this Army Instruction, no major fire fighting equipment is to be normally authorised to a depot whose total holdings do not exceed 5,00,000 gallons. The need for providing extra precaution against risk of

fire was appreciated and in March, 1958 the Station Fire Committee recommended fire fighting equipment including water static tanks for the depot in view of the proximity to the Railway line and loco shed. The question was re-examined in November, 1959 in the light of instructions contained in Army Headquarters letter No. 96597/OI (D) of 18-11-1958 and they recommended the provision of 2x10,000 gallons, tanks after approval by the Assistant Inspector, Fire Services, Headquarters, Eastern Command in June 1960. The provision of two fire fighting Tanks was sanctioned on the 29th July, 1961 by the Headquarters U.P. Area vide letter No. 221003/59/Q3W of 29th July, 1960. These tanks were completed in December, 1961 and the Bulk Petroleum Installation was ordered to be commissioned in January, 1962.

In November, 1961 when the fire fighting arrangements were in an advanced stage of completion, Fire Adviser, Ministry of Defence was requested to approve the authorisation of the fire crew at reduced scale to man the Trailer Fire Pump already sanctioned. On visiting the Installation, the Fire Adviser expressed doubts about the adequacy of fire fighting arrangements and about the suitability of the site. The Fire Adviser also made the following observations:—

- (a) Not more than 10,000 gallons of P.O.L. in pack should be held at the Bulk Petroleum Installation at any one time.
- (b) Living accommodation for the fire service personnel should be provided in the close proximity of the Installation.
- (c) A fire crew of 13 men should be provided. Action was taken to implement all the recommendations of the Fire Adviser and the Bulk Petroleum Installation was commissioned by Headquarters Eastern Command on 3rd October, 1962. It will, therefore, be seen that the Headquarters Eastern Command had taken action in keeping with the existing Army Instructions and Orders relating to planning of fire precaution and fire fighting arrangements. The Installation conformed to the specific regulations and had also approval of the Chief Inspector of Explosives, Government of India. All the eventual troubles could of course have been avoided if the advice of the Fire Adviser had been sought in the initial stages. This was, however, not done. To avoid recurrence of similar situations in future, instructions have since been issued vide Army Headquarters letter No. 83097/Q3W (Policy) dated the 8th September, 1962 (copy enclosed) to all concerned to associate the representatives of the fire services while planning petroleum installations.

## **(2) Electrification:**

At the time the recce-cum-siting Board assembled on the 24th March, 1955, the representative of the Central Railway was present and it was agreed that Railway authorities would supply electric power upto 10 KW. In August, 1956, the Railway intimated their inability to supply even 5 KW power. After due consideration and in the light of Railways attitude, it was decided in May, 1957 that the installation should be commissioned with diesel engine driven pump sets instead of electric motor driven pumps. Demand for these pump sets had already been placed in March, 1956 for use at ASC Petroleum Installation at Ambala, and it was decided to divert those to Jhansi. These engine driven pumps were, however, supplied by D.G.S. & D. only in March, 1959 and the jerrican and barrel filling equipments in October, 1959. This whole process for procuring the diesel pump sets, therefore, involved a considerable time.

After erection of all the equipment, the installation was tested, the tanks calibrated and then emptied and cleaned. The setting up, connecting, calibrating and testing was completed in December, 1960, and the time taken for these processes is not considered abnormal by the Engineers. The electrification which was necessary only for ventilation and lighting was not in any way connected with the main project of installation, commissioning and operation of the installations and was, as such, not included in the revised Administrative Approval accorded in February, 1960. It was, however, felt later on that electrification for lighting and ventilation was necessary. It was taken up as a separate work. Headquarters Eastern Command was instructed by QMG's Branch in December, 1959 to examine the project for providing electrification for lighting and ventilation only locally under the enhanced financial powers. Administrative Approval for the provision of electricity for lighting and ventilation was accorded on the 11th February, 1961 by the Headquarters Eastern Command at an estimated cost of Rs. 49,230. This estimate was revised to Rs. 41,315 on the 15th June, 1963. The work on electrification was carried out by two agencies part by contract and part by DEL. The contract work was commenced on 17th March, 1962 and completed on 31st January, 1963. The work on installation of generating set was carried out by DEL after its procurement and was completed on 15th February, 1965. The work is now 100 per cent completed.

It will appear from what has been stated above that the electrification for lighting and ventilation of the installation had nothing to do with the delay in commissioning of the installation. The principal

causes for the delay on the ground of electrification was firstly the backing out of the Railways from their promise to give 10 KW power and secondly the time taken by the D.G.S. & D. in supplying the necessary equipment some of which had to be imported.

D.A.D.S. has seen.

No. 96597/QI (D)  
**ARMY HEADQUARTERS**  
 (Quartermaster General's Branch)  
*DHQ PO New Delhi-11, 18 Nov., 58*

**To**

Headquarters,  
 Southern Command (20 copies).  
 Eastern Command (20 copies).  
 Western Command (20 copies).

**SUBJECT:—Fire Fighting Arrangements—KLPs.**

**GENERAL**

It has been observed that recommendations of Station Fire Committees/Boards of Officers preparing Fire Fighting Schemes vary a great deal from one installation/unit to another placed under similar circumstances. In order to achieve as uniform a standard in Fire Fighting arrangements as possible, the instructions given below will be observed by all concerned.

2. While the intention is not to disturb existing arrangements which are not in conformity with these instructions, there is no objection to the arrangements being brought to the standard lay out after carrying out necessary modifications as minor works at a nominal cost.

**FIRE STATIONS**

3. Fire stations in Army installations may be classified as Main Fire Stations and Sub-Fire Stations.

*Main Fire Station*

4. A Fire station manned continuously, located centrally and controlling other fire stations in the same installation will be termed as the Main Fire Station.

*Sub Fire Station*

5. Fire stations other than the Main Fire Station in the installation will be termed as Sub-Fire Stations.

**6. Plans for Main Fire Stations and Sub-Fire Stations will normally comprise the following:—**

**(a) Main Fire Station**

- (i) One bay for each manned pump with towing vehicle located in the station.
- (ii) One bay for each trailer fire pump, in addition to (i) above kept in the station.
- (iii) Office and Control Room—This should be provided with a telephone. Senior most person on duty will hold charge of the office and control room.
- (iv) Store Room.
- (v) Hose Hoist and Drying Rack—Its design will be forwarded later.
- (vi) Repair Bay (or room).
- (vii) Rest Room—for use by staff when not detailed on specific duty.
- (viii) Sanitary Annexe with bath, WC and urinal, if not available nearby.

**(b) Sub-Fire Station**

As in (a) above except (iii) and (iv).

**LOCATION OF FIRE STATION**

7. In cases where fire stations and static water tanks are planned together, it should be ensured that a static water tank is located as near the fire station it feeds, as possible, so that the appliances from that station can come into action without loss of time, should fire occur in the area covered by that particular tank. This will also afford necessary facilities for the testing and maintenance of the fire appliances and gear.

**STATIC WATER TANKS**

8. Capacities of static water tanks and their feedings arrangements for various types of units/installations should be as under:—

(a) Ammunition Depot	} Static water tank of 50,000 gallons capacity.
(b) POL Depots holding more than 5 lakh gallons of POL	
(c) Installations holding more than 1 lakh cubic feet of timber	
(d) POL Depots holding less than 5 lakh gallons of POL	} Static water tanks of 25,000 gallons capacity.
(e) Installations holding less than 1 lakh cubic feet of timber.	
(f) Other store holding depots	
(g) Other units, small depot, detachments	} State water tanks of 10,000 to 15,000 gallons capacity.

### FEEDING ARRANGEMENT FOR STATIC WATER TANKS

9. The arrangements for replenishing the static water tanks should be such that a static water tank, irrespective of its location and distance from the source of water supply can be refilled within 18 hours.

### HYDRANT SYSTEM

10. Under normal circumstances, water hydrants will not be recommended. However, if a hydrant system already exists, a few additional hydrant points can be recommended if they are economical and convenient, and the existing pressure and output at the mains permit such extension. The hydrant should be located at a distance of 50 feet to 75 feet from the building sought to be protected.

### APPLICATION OF THESE INSTRUCTIONS

11. These instructions will be followed in all future planning constructions, especially in KLPs. These instructions will be communicated to units/installations through the medium of Formation orders.

Sd/- P. N. HOON,  
Major.  
for Quartermaster General.

Copy to:—

E-in-C's Branch.  
Q3W (Policy).  
Qe.

Ministry of Defence Fire Adviser—reference his uo No. 49434/24/  
M of D/Fire Adviser, dated 3 Oct. 1958.

No. 96597/Q1 (D)  
ARMY HEADQUARTERS  
(Quartermaster General's Branch)  
DHQ PO NEW DELHI-11

12 March, 1959

To

Headquarters,  
Southern Command.  
Eastern Command.  
Western Command.

**SUBJECT:—***Layout of Static water Tanks in Army Store Holding Installations.*

1. It is observed from various siting cum recess board proceeding and station fire committee proceedings that static water tanks are  
347(aii) LS—13.

sited on *ad libitum* basis. In order to bring about uniformity in all Army installations, the following instructions will be complied with while planning static water tanks in army installations:—

- (a) *General*—for all units/installations in the Army: Layout of the static water tanks will be so planned that the furthest building or the storage site covered by a tank will not be at a distance greater than 600 feet.
- (b) *For units holding POL and other inflammable stores:*
  - (i) The static water tanks will, as far as possible, be located on the windward side.
  - (ii) Where depots are located on a high ground, static water tanks should normally be located on a higher level so that the flow of burning petrol does not engulf the static water tanks causing obstruction to the fire crew in approaching the tanks for fighting fires. In case, it is not possible to site a static water tanks on higher level due to topographical considerations, such cases will be referred to this Headquarters stating whether a baffle wall is recommended for the static tanks or for the storage.
  - (iii) Whenever inflammable liquids or solids, which liquify on heating, are involved, it should be ensured that they do not flow over to neighbouring property and endanger it in the case of fire.
  - (iv) In bulk storage POL tanks, "Saucers" should invariably be provided for this purpose and standard POL stores should also have a baffle wall round them.
- (c) *For units holding Ammunition/Explosives stores:* Static water tanks and pipes feeding them should be located clear off the crater area likely to be formed by an explosion from the nearest building/shed containing explosives.

2. The above information may please be passed down to units.

Sd/- R. S. BUTALIA Lt. Col.  
for Quartermaster General.

Copy to:—Q3W (South), (East), (West), (Planning); Q/STI—4  
copies MGO/OS-20A, MG/ME3.

E-in-C's Branch/E1 (Planning).

Min. of Def./Fire Adviser—reference his uo No. 40434/24/  
M of D/Fire Adviser, dated 16 Feb. 1959.

**No. 83097/Q3Works (Policy)**  
**ARMY HEADQUARTERS**  
**(Quartermaster General's Branch)**  
**DHQ PO NEW DELHI-11**

8 Sep. 1962.

To

**Headquarters,**  
**Southern Command (15).**  
**Eastern Command (15).**  
**Western Command (15).**

**SUBJECT:—Planning of Major Works Projects.**

1. It has been brought to the notice of the HQ that in certain cases representatives of the Fire Service Inspection Organisation have not been associated with the Siting of petroleum installations. As fire prevention is an important aspect in the siting of such installations, it is imperative that an officer of the Fire Services is invariably co-opted as a member of the users' racee-cum-siting/costing boards convened for siting of petroleum installations.

2. You are requested to issue suitable instructions to all concerned accordingly.

*Sd/- Quartermaster General.*

Copy to:—

Q1/(D).  
 Q/ST2B.  
 Q3W (South).  
 Q3W (East).  
 (Q3W (West)).

**MINISTRY OF DEFENCE**

**SUBJECT:—Public Accounts Committee—17th Report (Third Lok Sabha)—Appropriation Accounts (DS) 1961-62 and Audit Report (DS) 1963.**

The following amendments are made to this Ministry's note indicating the action taken on the recommendation of P.A.C. with reference to Serial No. 14 of Appendix VII of the 17th Report, for

warded to the Lok Sabha Secretariat under this Ministry's O.M. No. 11(12)/63/D(Budget), dated the 20th July, 1965:—

- (i) In para 2 of the Note, the words "and 12-3-1959 (copy enclosed)" may be added after the words "Army Headquarters letter No. 98597/QI(D) dated 18-11-1958."
- (ii) In line 17 on page 2 of the Note the date for "29th July, 1960" read "29th July, 1961."
- (iii) In the penultimate sub-para on page 4 of the Note. The sixth sentence viz "The work on electrification was carried out by two agencies part by contract and part by DEL" may be read as—

"The work on electrification was carried out by two agencies—partly by contract and partly by DEL."

D.A.D.S. has been consulted.

Joint Secretary(Q) has seen.

#### **Recommendation**

*The case referred to in para 42(c), of the Audit Report (Defence Services) 1963, is another instance of inordinate delay on the part of the authorities concerned in disposing of surplus land (300 acres). It was urged in extenuation that the matter could not be proceeded with after May, 1958, when a general embargo on the disposal of surplus lands was placed. The Committee can hardly accept this explanation; for, the matter could have been placed before the Defence Minister, and his approval to the disposal of land taken. Even if a delay in the disposal of the land was apprehended, the question of releasing out the land on a year to year basis should have been considered, and an early decision taken in the matter. The delay on the part of the Ministry in doing this had deprived the exchequer of a large amount of revenue. It is hardly necessary for the Committee to point out the need for prompt action in such cases.*

*'The Committee referred to unauthorised plucking of tea leaves for which a sum of Rs. 6,000 was secured in the year 1948 and Rs. 10,000 in the year 1949. The Committee enquired whether there was no produce in the subsequent years to be disposed of. The Additional Secretary to the Ministry stated that, according to his information it had neither been stolen nor taken by any body. The Committee would like to be furnished with a report regarding the disposal of the leaves, grown on this land, in the subsequent years'.*

[S. No. 20 and 21 of Appendix VII to 17th Report (Third Lok Sabha), 1963-64.]

## ACTION TAKEN

The Government derived a sum of Rs. 16,000/- from a Tea Company as damages for unauthorised plucking of tea leaves from the Sookerating Air Field during the years 1948 and 1949 through a Civil suit decided in 1958. The aforesaid Tea Company, however, filed an appeal in June 1958 in the Assam High Court against the judgment of the lower Court. The Government also filed a cross appeal. The matter has since been decided by the High Court in June 1963. According to the decision, the Tea Company are to pay Government only a sum of Rs. 2,000/- for unauthorised plucking of tea leaves by the labour. The costs of the proceedings have been awarded against the Government.

2. The airfield remained under temporary occupation of the State Government till 1954. Thereafter, negotiations for permanent transfer of airfield to the State Government continued till February 1956 when land measuring 469 acres was sold to them. The remaining land measuring 300.20 acres which was tea-bearing land was not accepted by them as the price demanded was considered to be on the high side. Disposal action in respect of this land was started in 1956. This required prior disposal of the created assets. The MES who were responsible for removal of the created assets prepared necessary demolition statements, obtained sanction of the competent financial authority and finally gave out contract for demolition in 1958. In this contract, a time of 12 months was given for demolition. In the meantime in March 1958, Government placed an embargo on declaration of any land as surplus and on its disposal without its prior approval. In view of the above circumstances, the land could not be leased out to any tea estate for rearing the tea bushes and removal of tea leaves, from the year 1950 to 1958. The tea bushes had by then grown so wild in, the absence of proper cultivation that they could not be utilised except for seed. So the seeds alone could be disposed of. In the year 1959, an auction for the sale of seeds was held, but no bid was received. During 1960 and 1961, seeds were disposed of and the Military Engineering Services realised Rs. 205/- and 675/- respectively. Tea leaves give tea yield only if the plants are properly nurtured, the land deweeded, manured and all the related processes of cultivation are carried out.

3. After an embargo on the disposal of the landed property was placed by Government in March 1958, review was carried out by Air HQrs. and other user services. Air HQrs. in November 1959, desired withholding of all disposal action in respect of surplus land at unoccupied airfields in the Eastern Frontier. Due to disturbed conditions in that region, Air HQrs. were not in favour of relinquishing the airfield. It was only in July 1961 that a proposal

came from the local authorities about the leasing out of the land to M/S. Bagrodia Tea Estate. In December 1961, decision was taken to lease the land to tea estates. Accordingly, the tea bearing land was leased out to one Tea Estate on a rental of Rs. 6,300/- for one year from 10th March, 1962 to 10th March, 1963. The amount of Rs. 6,200/- as rent was fixed by the Military Estate Officer as a fair rent in terms of authority conveyed in Government of India, Ministry of Defence letter No. 18/36/L/L&C/54/2348-L/D(C&L), dated the 1st May, 1959 (copy enclosed). For this purpose the Secretary of the India Tea Association Assam which is an impartial body intimately connected with Tea plantation, was consulted. To the rent based on 5% of the value at which the rest of the land measuring 469 acres was disposed of to the State Government which comes to Rs. 8/- per acre the Military Estate Officer made some allowance for the unproductive nature of the land at that time to the extent of Re. 1/- per acre. On the basis of a lease for 5 years which was the minimum period necessary for proper exploitation of Tea Garden (the first year being expected to be wholly unremunerative), the Military Estate Officer calculated the total rent and premium for the five year period on the basis of a premium at 10 times of the annual rent. From the total amount so arrived at he derived the average annual rent at Rs. 21/- per acre and he also suggested a 5 years lease. However, while this rent was accepted, the lease was granted only for one year. Before the expiry of the present lease to the aforesaid Tea Estate it was decided to auction the land for leasing for a further period of one year. The auction was fixed to be held on 8th April, 1963, when the said Tea Estate obtained an injunction against the auction from Assam High Court on 7th April, 1963. The regular suit against the Govt. is still pending in the Court.

4. D.A.D.S. has seen.

[U.O. No. 14(5)/62/D(Lands)7001/D (Works-II), dated 9-8-1965.]

No. 18/36/L/L&C/54/2348-L/D(C&L)

GOVERNMENT OF INDIA  
MINISTRY OF DEFENCE.

To

New Delhi, the 1st May, 1958.

The Director.

Military Lands & Cantonments, (100 copies),  
NEW DELHI.

SUBJECT:—Use of Military Lands for Agricultural Purposes.

Sir,

I am directed to state that the Government of India, in the context of national Grow More Food Campaign, have re-examined the

policy relating to the use of Ministry of Defence land, temporarily surplus to Defence requirements for cultivation purposes.

2. It has now been decided that the possibility of such surplus lands, except those, which, for the present, are already on agricultural lease prior to the issue of this letter, being brought under cultivation, by the Military Farms Authorities or by leasing out to Regimental Farms or to Co-operative Societies of Armed Forces, as the case may be, should be explored before such lands are leased out to individuals and societies in the manner stated in subsequent paragraphs.

3. In supersession of all orders on the subject, proposals to declare lands temporarily surplus to Defence requirements and to entrust the same to the management of the Military Estates Officers as required under rule 14(4) of the Cantonments Land Administration Rules, 1937, in respect of lands inside Cantonments and rule 3(c) of ACR Rules 1944, in respect of lands outside Cantonments, should be routed through and coordinated by the Quartermaster General. The Air Headquarters and Naval Headquarters, should, therefore, forward their proposals in this respect through Quartermaster General. Quartermaster General should examine, in consultation with the Military Farms Authorities/Regimental Farms Authorities whether the said land could be brought under cultivation by them as envisaged in para 2 above. In case such cultivation is possible, QMG will forward concrete proposals in this respect to the Ministry of Defence for further orders. If, however, the land cannot be brought under cultivation as envisaged in para 2 above, Quartermaster General will inform the Ministry of Defence and request that the lands be declared surplus and put under the management of the Military Estates Officer for eventual leasing to individuals and Societies in the manner stated in the following paragraphs.

4. Lands, which cannot be brought under cultivation as envisaged in para 2 above, should not be put to auction but should be parcelled out into suitable holdings, the minimum and maximum limits of which may be adjusted having regard to the economic or family holding as laid down in the laws or rules of the State concerned and the ceiling on future acquisition or the ceiling on existing holdings which might have been fixed or in the absence of such laws in consultation with the Civil Revenue Authorities of the District except as stated below:—

- (a) Land already held under lease prior to the issue of this letter need not be parcelled out. Existing lessees will

be given the option to continue the lease on terms and conditions as laid down in sub-para (d) to (i) below subject to the condition that the aggregate land held by them from Government and other land owned by them or held as tenant with permanent right or as tenant of non-resumable area, does not exceed the upper limit as prescribed in the relevant revenue laws of the State concerned. If the size of any of the existing holdings is in excess of the maximum prescribed by the State Governments, such area should be taken for fresh leasing, according to the procedure as laid down in this letter.

(b) The allotment of holdings other than those referred at para 2 and 4(a) above will be made in the following ORDER OF PREFERENCE:—

- (i) Tenants displaced as a result of resumption of land by landowners for personal cultivation in order to give them lands equivalent to the area from which they have been dispossessed or an area which together with other land owned or held as tenant with permanent rights or tenants of non-resumable area upto the minimum holding prescribed, whichever is higher.
- (ii) Co-operative Societies of Ex-Servicemen who desire to take to cultivation of land themselves.
- (iii) Co-operative Societies of bona fide agriculturists i.e., persons who are tilling land themselves.
- (iv) Co-operative Societies of landless persons, who, in good faith, desire to take to cultivation of land.
- (v) Landless educated, not less than matriculate unemployed young men.
- (vi) Other landless persons.
- (vii) Tenants or owners of land who own or hold less than minimum limit prescribed above.

Where more than one person belonging to the same category apply for the land, efforts should be made to arrive at a mutual agreement. If there is no agreement, lots may be drawn.

- (c) A period of two years should, ordinarily, be allowed to bring the land under cultivation provided where the land is uncultivable or forest land, a period not exceed-

ing five years will be given to bring the land under cultivation.

- (d) Leases shall be ordinarily for a period of five years and may be renewed for a like period except that fresh leases in respect of any existing holding, whose area exceeds 30 acres shall be restricted, at present, for one year only.
- (e) Leases will be terminable without any compensation as and when required by the Ministry of Defence, for which ordinarily a notice for three months will be given. Compensation as assessed by the Military Estates Officer, for crops standing on the land at the time of termination of the lease will be payable to the tenants if in the opinion of the Military Estates Officers, the lessees have not been given sufficient time to collect such crops.
- (f) Improvements may be made on land with the previous approval of the Director, Military Lands and Cantonments or any other authority to whom powers in this respect may be delegated. Where improvement was made with such a prior approval, reasonable compensation as approved by the Ministry of Defence will be paid when the lease is terminated.
- (g) The rent will be determined on the basis of those prevalent in the surrounding area having regard to the conditions of soil and other relevant factors and on the principles laid down under the revenue laws in force in the State concerned, provided the rent so fixed shall not exceed 1/4th of the net profit unless a lower limit is fixed by law in force in the state concerned.

Rent shall be payable in advance according to the dates fixed in the lease.

A proposal is under consideration to fix fair rents on the lines stated above after carrying out necessary survey and soil classification of all lands, belonging to Ministry of Defence and taking into consideration the various Tenancy enactments passed by the State Governments.

Pending survey and determination of fair rent, it has been decided that for the present, rent for the leases will be charged on the basis of Standard Table of Rents, if the land is situated inside Cantonment or on the basis of prevailing rent in the locality, as will be determined by the Military Estates Officer, on the advice of

the Civil Revenue authorities, if the land is situated in all locality not included in any Cantonment limits, provided further that in the case of fresh leases in respect of holding already under lease prior to the issue of this letter, fresh lease will be given by Military Estates Officers/Cantonment Boards on payment of rent as agreed to in the existing leases or according to the current Standard Table of Rents for agricultural purposes in respect of lands situated inside Cantonments and at rates already provided in the existing leases or rates prevailing in the surrounding area as will be determined by Military Estates Officers on the advice of the Civil Revenue authorities in respect of lands situated outside Cantonments, whichever is higher.

(h) The lease will be heritable but not transferable.

- (i) No letting or sub-letting of any plot of land for any period whatsoever will be allowed except in the case of persons mentioned below, who may, with the permission of the Director, Military Lands and Cantonments, be allowed to let or sub-let land to such persons and subject to such conditions as may be approved by the Director:—
  - (ii) (i) An unmarried woman, or if married, divorced or separated from her husband, or a widow.
  - (ii) A minor whose father has died.
  - (iii) A lunatic or a person of unsound mind.
  - (iv) A person incapable of cultivating by reason of blindness or of physical infirmity.
  - (v) A person called for service in the Armed Forces of the Indian Union.
  - (vi) A person under detention or in imprisonment.
  - (vii) A student prosecuting his studies in a recognised institution and not more than 25 years of age.

5. The Military Estates Officers/Cantonment Boards will immediately request the Civil Revenue authorities of the District to furnish a list of persons/Societies who would be allowed to hold the land on lease in the order of preferences referred to above. They will also obtain the details regarding the size of economic holding, maximum and minimum limits of agricultural holdings authorised according to the law or rules of the State concerned and the ceilings on the future acquisition or existing holdings which might have been fixed.

The Military Estates Officer will maintain a register of such persons/Societies who are authorised to hold lands for agricultural purposes as furnished by the Civil Revenue authorities of the District according to the order of priorities furnished by the latter. The register will be revised in consultation with the aforesaid Civil Revenue authorities every year with a view to maintain it upto date. The Military Estates Officer will furnish the above information, after obtaining the same, to the Cantonment Board concerned in respect of agricultural lands managed by them.

Yours faithfully,

Sd/- S. D. NARGOLWALA,

*Joint Secretary to the Government of India.*

Copy forwarded to:—

The Financial Adviser, Ministry of Finance (Defence)—with reference to his u.o. No. 1947/QB of 1958, for communication to the Controller General of Defence Accounts, the Director of Audit, Defence Services, the Deputy Director of Audit, Defence Services, Eastern/Western/Southern Commands and the Controller of Defence Accounts, Eastern/Western/Southern command

The Deputy Financial Adviser (Q).

The Quartermaster General.

Air Headquarters.

Naval Headquarters, etc. etc. etc.

#### **Recommendation**

(i) While the Committee note that cases of losses amounting to Rs. 65 lakhs have since been finalised, they feel that the position is still far from satisfactory. The Committee feel particularly concerned at old losses—more than five years old, which account for about three-fifths of the total losses to be finalised. The Committee trust that the appointment of the Ad Hoc Committee (referred to in evidence) will result in accelerating the pace of finalisation. They would like to have a further report in the matter.

(ii) The Committee desired to be furnished with a statement regarding losses in the MES and Engineer Stores Depots, which were still pending finalisation. They also desired to be furnished with detailed information about some typical cases, involving major losses. These are still awaited.

[S. No. 24 (Paras 29 & 30) of Appendix VII to 17th Report (Third Lok Sabha) 1963-64].

**ACTION TAKEN**

The question of constitution of an Ad Hoc Committee both at the Centre and at the Commands for regularisation of MES losses was under examination in consultation with the Ministry of Finance (Defence) and the D.A.D.S., and the orders on the subject were issued on 18th March 1964. As, however, the financial year was coming to a close and the M.E.S. formations were busy, no progress could be made during the months of March and April 1964 towards finalisation of the cases pertaining to MES losses. Meetings have since been held and a few cases finalised. The life of the Ad Hoc Committee which was set up for a period of six months in the first instance and extended upto 25th January 1965, has been further extended for another year and it is hoped that most of the old cases relating to MES losses pertaining to a period to 31st March 1961 will be finalised by that date. Upto 31st March 1965 M.E.C. losses totalling Rs. 29.81 lakhs were reviewed by Central Ad Hoc Committee and recommended to be written off under Government sanction. In addition losses totalling Rs. 38.20 lakhs recommended by Command Ad Hoc Committees have been received upto 31st March 1965 for review by Central Ad Hoc Committee.

2. Detailed statements regarding losses in the MES and Engineer Stores Depots pertaining to the period ending 31st March 1963, and outstanding on 1st September 1963 are enclosed as Annexures 'A' and 'B'. Instructions have been issued by Army HQrs. on 31st August 1964/2nd September 1964, and by the CGDA as early as September 1963 that loss statements should be dealt with expeditiously at every level.

3. Two lists showing details of some typical cases involving major losses in the M.E.S. and E.S.Ds. are also enclosed as Annexures 'C' and 'D'.

4. D.A.D.S. has seen.

Sd/- L. S. LULLA,  
*Joint Secretary.*

[U.O. No. 15 (6)/63/7997/D (Works-II), dated 18-8-1965].

**ANNEXURE A**  
**All India Revenue version of Command - Loss Statement**

Category	Name of the Command	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	NK	Total
A Storm, Wind and Earthquake	SOUTHERN	18,857.00	..	..	..	..	909.25	1,437.00	4,486.50	5,682.17	7,577.82	7,693.43	6,811.33	36,472.64	70,351.46	87,111.70	2,324.46	..	2,47,795.72
	CENTRAL	..	..	..	..	..	358.00	..	19,343.00	25,265.68	243.32	11,36,526.00	40,211.95	1,14,668.25	4,13,471.13	1,71,748.60	45.00	..	10,17,408.22
	WESTERN	..	..	8,816.75	..	..	1,479.00	210.00	95,111.95	40,244.12	42,422.72	60,211.61	2,25,088.64	1,24,130.09	95,739.25	1,68,775.40	2,155.16	..	8,65,110.24
	EASTERN	..	..	3,25,079.00	..	75.00	..	254.00	15,717.42	2,695.88	15,136.00	46,674.32	95,956.00	79,708.00	26,421.81	1,48,771.15	68,307.22	..	7,67,762.83
	Total	18,857.00	..	3,34,095.75	..	75.00	2,737.25	667.00	1,17,108.87	65,359.55	63,182.95	12,45,143.42	5,69,817.02	3,14,379.88	6,93,423.75	5,44,423.88	72,471.84	..	37,68,666.04
B Storm	SOUTHERN	..	..	..	46,996.50	10,127.37	12,446.50	5,348.31	1,131.00	1,467.81	34,385.80	34,659.48	34,118.16	32,658.19	10,298.24	33,611.33	25,520.66	..	2,69,049.85
	CENTRAL	..	10,998.48	19,859.82	30,240.05	1,03,135.61	..	35,761.81	34,848.62	127.54	1,35,448.22	2,414.22	66,648.79	13,761.99	4,845.82	12,601.01	60.95	..	5,04,395.46
	WESTERN	426.00	1,14,497.25	6,814.00	28,898.16	1,398.25	3,68,031.48	5,07,689.55	75,572.79	2,51,251.53	1,46,238.35	34,791.51	74,009.75	48,427.95	90,429.10	7,602.74	8,224.40	..	18,53,100.38
	EASTERN	6,067.85	5,196.42	27,042.79	747.06	..	..	..	5,694.35	1,845.12	5,731.04	14,614.55	59,093.68	52,809.18	58,951.06	36,138.13	47,511.93	..	3,22,340.26
	Total	6,493.85	1,30,692.15	87,964.41	1,06,982.77	1,15,181.23	3,68,031.48	5,46,699.87	1,12,207.76	2,54,651.50	3,22,200.99	1,09,626.26	1,93,691.01	1,77,688.41	1,74,091.32	1,68,678.11	81,871.71	..	26,75,881.47
C Barned Damages	SOUTHERN	..	..	85.00	413.00	164.87	1,728.26	258.87	4,700.82	259.06	130.00	41.62	4,698.70	103.00	768.09	2,157.40	1,877.00	..	17,314.75
	CENTRAL	443.37	..	..	..	..	..	..	1,630.45	..	..	..	..	..	..	5,079.32	252.06	..	6,800.20
	WESTERN	..	..	..	..	..	..	..	23,082.00	65.16	..	3,187.71	897.90	1,161.50	559.00	201.81	1,490.47	..	31,344.95
	EASTERN	..	..	..	..	..	..	115.00	..	..	..	..	..	..	..	10.00	..	..	22,647.25
	Total	443.37	..	85.00	413.00	164.87	1,728.26	258.87	25,818.27	324.62	22,617.25	3,499.33	5,596.60	1,261.50	1,368.09	7,629.59	3,401.53	..	79,411.15
D Ren and alied changes	SOUTHERN	..	..	..	..	..	67,885.48	3,44,881.17	1,202.12	146.19	5,832.74	2,475.19	17,072.87	1,513.42	10,629.62	1,60,029.16	14,575.46	..	6,11,220.01
	CENTRAL	..	..	..	..	..	5,481.95	..	..	..	..	..	..	..	10,231.44	6,891.93	838.95	..	25,795.90
	WESTERN	1,559.12	..	..	..	..	..	2,522.64	3,682.87	1,700.25	60,164.45	18,561.00	3,014.68	30,638.41	1,592.21	318.06	15,658.50	..	1,36,196.19
	EASTERN	13,222.50	..	..	..	..	6,531.94	..	..	..	..	3,110.69	12,579.69	..	232.36	175.22	..	..	38,852.40
	Total	14,781.62	..	..	..	..	82,677.30	3,48,993.31	5,184.99	1,452.44	66,077.19	24,128.88	32,667.20	32,182.33	20,955.03	1,67,112.37	31,274.75	..	8,45,875.50
E Purchase	SOUTHERN	..	..	..	..	..	..	..	..	..	..	..	3,30,000.00	..	2,100.00	8,759.33	120.00	..	3,49,459.33
	CENTRAL	..	..	..	..	..	1,11,980.00	6,733.00	..	..	6,188.00	..	..	..	3,336.00	..	21,107.00	..	1,58,697.00
	WESTERN	..	..	..	21,694.00	..	1,501.00	..	4,678.00	..	..	100.00	1,092.10	5,635.25	718.75	..	..	..	41,669.10
	EASTERN	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	Total	..	..	..	21,694.00	..	1,13,961.00	6,733.00	4,678.00	..	6,188.00	100.00	3,31,092.10	5,635.25	6,174.75	8,759.33	21,127.00	..	5,16,357.43
F Miscellaneous	SOUTHERN	16,995.00	1,104.75	40,247.86	10,893.31	19,009.92	1,789.52	8,65,407.04	6,140.20	16,829.08	2,390.77	17,614.18	4,322.92	95,261.46	75,271.07	3,21,220.33	375.94	..	15,66,602.78
	CENTRAL	..	8,895.87	..	48,327.37	9,51,487.95	886.18	25,239.20	8,373.00	5,897.31	17,064.06	8,698.10	65,614.32	75,590.41	1,17,865.29	2,10,389.93	..	..	15,25,895.19
	WESTERN	..	240.00	92,828.00	..	..	..	77.37	25,674.94	435.69	20,335.35	756.33	18,682.95	25,618.39	90,891.66	34,429.03	547.60	..	2,69,567.31
	EASTERN	..	6,896.50	..	..	..	11,421.51	20,040.25	..	1,09,320.44	2,697.27	1,71,612.12	139,150.00	35,773.42	4.30	4,751.25	53.27	..	1,09,864.98
	Total	16,995.00	22,827.15	92,081.86	59,312.68	9,70,509.97	14,096.35	9,06,750.66	46,190.21	1,38,689.32	47,737.20	1,09,031.13	2,25,679.39	1,62,261.68	2,83,322.92	6,24,250.54	738.78	..	30,12,842.20
G Stores ExDs	SOUTHERN	..	..	10,07,306.58	1,56,514.00	..	..	..	..	11,200.25	4,994.30	..	..	3,229.47	70,085.53	972.63	70.50	..	12,53,021.32
	CENTRAL	..	..	..	..	..	..	..	..	..	2,50,095.00	24,766.29	..	82,799.68	5,000.00	826.12	..	..	3,63,487.09
	WESTERN	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	EASTERN	5,411.75	..	18,000.00	..	..	43,136.00	..	1,05,45,779.19	1,76,465.18	21,400.00	15,471.15	35,240.05	..	4,726.16	1,769.02	..	..	1,08,68,895.50
	Total	5,411.75	..	10,25,306.58	1,56,514.00	..	43,136.00	..	1,05,45,779.19	1,86,230.71	2,16,460.30	40,247.44	35,240.05	86,029.15	79,861.69	4,997.77	70.50	..	21,45,580.94

## ANNEXURE 'B'

## All India Abstract Categorywise of Outstanding Loss Statements

Category	A	B	C	D	E	F	G	Total	Remarks
	Storm, flood & earthquake	Stores	Barrack Damages	Rent and allied charges	Furniture	Miscellane- ous	Stores— ESDs		
Southern Command	2,47,765·75	2,96,040·95	17,314·75	6,11,226·01	3,40,419·33	15,06,610·78	12,53,021·32	42,72,398·19	
Central Command	19,17,488·22	5,04,395·84	6,800·20	23,703·90	1,51,979·00	15,38,805·19	3,63,487·09	45,06,659·44	
Western Command	8,55,119·24	18,53,102·36	31,348·95	1,39,196·19	41,969·10	2,69,547·31	..	31,90,283·15	
Eastern Command	7,67,694·83	3,22,342·26	22,947·25	38,852·40	..	4,99,861·98	1,98,68,855·50	2,15,20,554·22	
	37,88,068·04	29,75,881·41	78,411·15	8,12,978·50	5,34,367·43	38,14,825·26	2,14,85,363·91	3,34,89,895·70	

(i) MES (A to F) Rs. 1,20,04,531·79

(ii) ESDs (G) Rs. 2,14,85,363·91

TOTAL	Rs. 3,34,89,895·70
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## ANNEXURE 'C'

*List of important loss statements (Above Rs. One Lakh each) pertaining to  
M.E.S. awaiting finalisation on 1-9-1963*

Sr. No.	Amount	Year	Brief details
1	11,30,626	1958	<p><i>Storm damages—COD Kanpur—1958</i></p> <p>This relates to damages to buildings in COD Kanpur due to heavy storm in June, 1958.</p> <p>A Board of Officers was held on 12 June, 1958. The loss statement remained under the correspondence at various levels and ultimately H.Q., Lucknow Sub Area returned with the certain observations. The loss Statement was reported to have been misplaced. Fresh loss Statement was prepared in July, 1964 and this was under examination by staff authorities. The case has been put up to command <i>Ad Hoc</i> Committee.</p>
2	9,48,997	1952	<p><i>Infructuous expenditure due to abandonment of Hindon Project.</i></p> <p>This relates to an Air Force project at Hindion sanctioned in April 1949 at a cost of Rs. 239.67 lakhs. The project was, however, suspended due to financial stringency in Dec. 1949 except for the work on construction of a railway siding which was in progress and this was completed in July 1950. The Audit authorities viewed the expenditure incurred as infructuous and raised objection in 1952-53. The loss statement includes expenditure in backloading of stores, maintainance and interest charges paid to the railway etc.</p> <p>The original loss statement was for Rs. 11.73 lakhs. As a result of observation of Air H.Q. and CDA, EC (Now CC) Meerut, Loss Statement has been revised</p>

1	2	3	4
			and revised loss statement with audit report of CDA was submitted to Air H.Q. on 1 June, 1963. This is under examination between Air H.Q. and Ministry of Defence and Finance.
3.	2,55,322	1961	<i>Storm Damages to buildings at Kheria 1961</i>  The case remained under correspondence between H.Q. operational Command No. 4 Wing AF Station Agra and CDA EC. The case is under examination at Command H.Q. on the basis of the audit report of CDA and the clarification given by the user formations.
4.	1,29,477	1957	<i>Breakage of wired glass-Kanpur</i>  This case is in respect of breakage in transit/handling of wired glass imported from UK & France in 1950. It came to light in 1957 that regularisation action in respect of the cost of breakages had not been taken, A Court of Enquiry which finalised its proceedings in 1960 held that the breakage in part was due to bad handling of packages at destination. The loss statement is pending finalisation of the disciplinary aspect.
5.	1,11,595	1953	<i>Barrack damages—furniture found deficient Agra.</i>  <i>Government sanction was accorded on 19-6-65.</i> This relates to deficiencies of furniture with units at Agra. Some Barrack Damages remained unaccepted as the units concerned had been disbanded. To ascertain that exact position a Staff Board of Officers held a complete check of furniture in the station in 1949-50 as a result of which surpluses and deficiencies were found. The Board remarked that irregularities were mainly due to the accounting of similar items under wrong nomenclature. The surpluses were brought on charge and loss statements prepared for the deficiencies in 1953. The case was examined and recommended for write off by Command <i>Ad Hoc</i> Committee in 1957 but it could

1	2	3	4
			not be put up to Central <i>Ad Hoc</i> Committee as it was wound up by that time. The case was put up for Govt. sanction but Ministry of Finance (Defence) wanted a fresh audit report from CDA. The CDA raised a certain observation and replies were furnished by the chief Engineer. Audit Report received and the case was submitted to Central <i>Ad Hoc</i> Committee.
6.	1,00,000	1948	<i>Fire at Kingsway Camp, Delhi—1948</i>
	Government sanction was accorded on 30-11-64		This relates to loss of certain buildings in Kingsway Camp, Delhi in May 1948 due to outbreak of fire. Court of Enquiry was completed in December, 1948. Loss Statement with the Court of Inquiry proceedings was under examination at various levels but got misplaced. Under instructions from QMG's Branch a fresh case was initiated in 1963. CDA WC Meerut raised certain objections which were replied by CE. Loss statement with CDA's audit report was received on 9-5-64. Case was considered by the Central <i>Ad Hoc</i> Committee on 27-7-64 and recommended for write off under Govt. Orders.
7.	2,18,113	1954	<i>Non-recovery of rent etc. charges—Cecil Hotel, North Cote Guest House and other Messes—Bombay.</i>
	Government sanction was accorded on 28-12-64.		This comprises of 3 loss statements due to non-recovery of amounts from Cecil Hotel, North Cote Guest House, and other Messes which were occupied by Officers during 1947—49 and controlled by local staff authorities. The amounts became irrecoverable as the whereabouts of the individuals are not known and it was decided in 1954 to treat the irrecoverable amount as a loss. Ministry of Finance called for further details but due to lapse of time complete details are not traceable. The case was considered by the Central <i>Ad Hoc</i> Committee on 27 July 1964. The Committee recommended regularisation under Govt. orders.

1	2	3	4
8. (a) 1,72,73 (b) 1,45,493 (c) 2,16,952	1954	<i>Irrecoverable quartering charges—Bombay</i>	
			The loss statements were under examination by Staff authorities at various levels and are being put up to <i>Ad Hoc</i> Committee for regularisation.
9. 1,39,514	1956	<i>Bridging stores—571 Engineer Park</i>	
			This pertains to bridging stores issued to Field units in J & K for repairs to flood damages and received back in unserviceable condition. The case has been submitted to Central <i>Ad Hoc</i> Committee.
10. 1,08,706	1949	<i>Regularisation of loss of Bricks—Palam</i>	
			The loss statement was considered by Command <i>Ad Hoc</i> Committee in 1955 and recommended to be pursued in the normal manner.
			The case was under examination in consultation with Ministry of Finance (Defence) and has been submitted to Central <i>Ad Hoc</i> Committee for regularisation.
11. 1,50,089	1954	<i>AC Products—Damage in storage and handling—Engineer Park Delhi.</i>	
			The loss statement is in respect of damages to Asbestos cement sheets, ridges, etc. in handling and storage over a long period.
			The case is under consideration with Ministry of Defence.
12. 1,43,983	1962	<i>Non-existence of certain Temporary and Permanent buildings in Lucknow Cantt.</i>	
			The case has been submitted to Command <i>Ad Hoc</i> Committee.
13. 1,04,540	1957	<i>Cement, Coal and Steel—Ambala</i>	
			This case relates to deficiencies in stock.
			Loss Statement was returned by CDA WC with certain observations and the same have been replied to CDA. Case is being put up to Command <i>Ad Hoc</i> Committee.

1	2	3	4
14.	1,37,152	1959	<i>Infructuous expenditure, Calcutta</i> Infructuous expenditure on account of abandonment of Diamond Harbour Project Calcutta—1959. Demolition Statement sanctioned by QMGs' Branch and the demolished materials are awaiting disposal. Loss statement will be modified after the disposal of the materials.
15.	1,75,683	1951-52	<i>Deficiencies noticed during the stock taking in 51-52 in Engineer Park Delhi.</i>
<p>Government Sanction Surpluses and deficiencies were noticed was accorded on 5-2-1965 during stock verification.</p> <p>The discrepancies were re-checked by a departmental Board of Officers and a Staff Court of Inquiry was convened in 1955-56. Surpluses were taken on charge and the loss statement is in respect of deficiencies. The case was under consideration at various levels.</p> <p>This has since been considered by the Central <i>Ad Hoc</i> Committee on 25-5-64 and recommended for write off under Government orders.</p>			
16.	2,76,455	1956	<i>Non recovery of extra expenditure incurred in completing work left by defaulting contractor—Pulgaon.</i>
<p>Government sanction This refers to a contract of 1951-1952 was accorded on 8-12-64 Arbitrator ruled no amount was recoverable from the contractor. The amount of loss statement was revised to Rs. 1,22,138/- the actual expenditure incurred by the Government for completion of the work. The balance amount being 10% of penalty on delay is not an actual loss.</p> <p>The case has since been considered by the Central <i>Ad Hoc</i> Committee on 7th August 1964 which recommended write off under Government orders.</p>			
17.	1,19,830	1962	<i>Regularisation of Govt. dues from contractor Shri P.G. Kate Poona—contract of 1950-51.</i>
<p>Government sanction Extra cost of work left incomplete and accorded on 30-11-64 carried out departmentally. Contractor</p>			

1	2	3	4
			refused to pay. Arbitrator awarded a portion in favour of Govt. This could not be recovered as the contractor was ultimately declared insolvent by Govt. Loss statement initiated in 1962 in consultation with audit for the entire extra cost. Case put up to Central <i>Ad Hoc</i> Committee.
18	3,25,076	1950	<i>Damage to buildings on account of storm during May-June 1950 at Panagarh Base and Ondal Airfield.</i> Loss statement since sanctioned vide Govt. of India, Ministry of Defence letter No. 43344 452 EC E2A/3337/D (W-II), dated 13-4-64.
19	1,81,633	1954	<i>Loss of bridging stores—571 Engineer Park.</i> Discrepancies—both surpluses and deficiencies were found in stock verification of the Park in 1952-53. A Board of Officers investigated the discrepancies in June 1953 and were of the opinion that these were largely due to wrong linking or wrong identification in the past due to inexperienced store keepers. The stores were re-checked in 1953-54 as recommended by the Board and the surplus (Rs. 1,54,049) were taken on charge and the loss statement in question prepared for the deficiencies. The loss statement was under examination at various level and has been put up to the Command <i>Ad Hoc</i> Committee.

## ANNEXURE 'D'

### *List of Important Loss statements (Above Rs. One Lakh each) Pertaining to ESDs awaiting Finalisation on 1-9-63.*

#### 1. 1,22,093·81 *Unserviceability of Mechanical Equipment Spares*

*Government sanction  
accorded on 21-10-64*

This Loss Statement relates to losses due to deterioration of perishable articles such as Gaskets, Seals, Bellows, Rubber Hoses, Felt Washers etc. and rejection by EME of certain spares which were received in the Depot during World War II. Although the receipt of stores received thus could not be avoided, no fresh purchase was made of these stores during the period.

The unserviceability of spares came to light in the year 1955-56 at the time of issue of these spares. These spares were received from abroad in sealed packets and to protect these from humid climate these were kept in original sealed packets till the time of issue. When opened during 1955-56, unserviceability was noticed.

(a) Stores were issued to EME Workshops KANKINARA (now 507 Army Base Workshops) but were rejected by them.

(b) When original sealed packages were opened for preservation.

Boards of Officers were convened who opened that the loss was not due to theft, fraud or neglect and as such none was held responsible.

The unserviceable stores in question were sold by auction on 13th September, 1960 along with some scrap for Rs. 7,000·00.

2. 1,06,983·75
3. 8,76,984·92
4. 6,57,137·65

*Loss of felt Bitumenous, PBS, CI Pipes  
Corrugated Sheets Components of Single  
Missen Huts etc. Back loaded to ESD  
PANAGRAH*

Government sanction accorded on 2-2-65. ¶ The above loss statements have been prepared for losses of various stores (viz., Felt Roof Bitumenous, PBS, CI Pipes, Corrugated Sheets, Components of Single Nissen Huts etc. etc.) which were back loaded to ESD PANAGARH by various formations after cessation of last World War II.

The stores were held in General Stock and Subsequent deterioration/unserviceability was noticed in 1954. Deterioration was due to long storage and climate effect.

Boards of Officers were convened on different dates who examined all the aspects of the losses.

The Central *Ad Hoc* Committee has recommended the write off the amount.

5. 151.44 Lakhs *Difference between the book value and sale value of stores disposed of by DGS&D.*

The case pertains to the difference between Book Value and sale Value of all the machinery declared for disposal through DGS&D. Most of these machines were back-loaded from Eastern Theatre of War and were stripped of all serviceable elements such as Dynamos, Magnitor, Carbtorators, Tip, Fuel, Injectors etc. to keep other machines in running condition as well as to keep stock of such items for future replacements, as supply of spares used to take unduly long time.

Large number of machines were disposed of by DGS&D before the partition of the country and a good number of these machines were sold to Priority Indentors by DGS&D at concessional rates of 20% of the assessed market price fixed by DGS&D. Technical and Educational Institutions were given these machines at one fourth of the sale value. Scientific and Educational Institutions were sold these machines at 5% of the Market Value fixed by DGS&D.

The difference between the Book Value and Sale Value is partly due to the disposal method at reduced Market Value in

accordance with Government of India Policy adopted by DGS&D for catering to the other Government Departments, Autonomous Bodies and Institution etc. for the development of the country and partly due to the obsolescence of the machinery.

The case is under examination of the Government.

6. 1,54,524.00

*Loss of Pontoons MKV due to unserviceability.*

Government sanction  
accorded on 1-1-65.

The case is in respect of loss of Pontoon MK V-33 Nos. due to fair wear and tear. These boats were classified as unfit for repair and declared unserviceable due to structural weakness.

The case has been recommended by the Central *Ad Hoc* Committee for write off under Government orders.

### Recommendation

(i) While the Committee are glad to be informed that the alterations in measurements were, on investigation found to be reasonable, they feel that it was a grave lapse on the part of the officer concerned not to have recorded full reasons therefor. The Committee were given to understand in evidence that for this omission, the explanation of the officer concerned has been called for. The Committee would like to be furnished with a further report in the matter.

(ii) They also desired that with a view to obviate the recurrence of such lapses, the Ministry should issue such directions that non-compliance with the existing instructions regarding recording of measurements and maintenance of measurement books would be viewed seriously. The officers who make any alterations in the measurement books should also be required to record full reasons therefor.

(iii) The Committee are not happy over the inordinate delay in the supply of relevant records to the C.T.E. It is hardly necessary for them to point out that if the purpose underlying the technical check by the CTEs Organisation is not to be undermined in any way, the relevant records should be furnished to them promptly. The Committee trust that the Engineer-in-Chief's Branch will bear this in mind in future.

[Sl. No. 25 (Paras 31 & 32) of Appendix VII to 17th Report (III Sabha) 1963-64.]

**ACTION TAKEN**

(i) After careful examination of the explanations submitted by the Superintendent B R Grade I and the Service Officer (Captain, Engineering-in-charge now Major) concerned, non-recordable warnings have been issued to them by the Chief Engineer and Engineer in Chief respectively.

(ii) Necessary instructions have been issued by the E-in-C *vide* Annexure I. Note 6 of the fly-leaf instructions in the Measurement Book *vide* Annexure II states that corrections should be initialled and dated. The rule does not stipulate the reasons for corrections being recorded. This is because corrections are usually of minor nature, made during test checks. Besides not serving much useful purpose, giving reasons for each correction would become cumbersome and, with the limited space in the Measurement Book, make the record confusing. However, as opposed to these corrections of minor nature, alterations of descriptions of items of work, which sometimes have considerable financial effect may be involved. It is considered that reasons should be recorded for such alterations. An amendment *vide* Annexure III suitably amplifying the fly-leaf instructions in Measurement Book has been issued to bring out' this point.

(iii) Documents required by CTE are normally furnished without delay. However, the concerned Chief Engineer has been instructed to avoid recurrence of such inordinate delays in furnishing the relevant records to the CTE.

2. D.A.D.S. has seen.

[U.O. No. 15 (7)/63/3332/D(W-II), dated the 1st November, 1966.]

**ANNEXURE I**

**No. 96304/E.C.**

**ARMY HEADQUARTERS**

**(Engineer-in-Chief's Branch)**

**DHQ PO NEW DELHI-11.**

**14 January 1964.**

**To**

**The Chief Engineer,**

**Southern Command, Poona-1**

**Eastern Command, Fort William Calcutta-21**

**Western Command, Simla-3**

**Central Command, Lucknow.**

**SUBJECT:—Measurement Books.**

In an Item Rate Contract for provision of traverses certain procedural irregularities regarding recording of measurements and maintenance of measurement Books were observed. The following instructions are issued to avoid recurrence of such cases:—

- (a) In contracts involving earthwork, all relevant details (such as location of work, borrow pits or places from where earth is obtained, and leads and measurements of work must be carefully recorded as the work proceeds and the contractor's signature obtained in token of his acceptance of this record.
- (b) Any corrections made in measurements should be initialled and dated. This instruction already exists in note 6 on page 3 of the fly leaves at the beginning of the Measurement Book (IAFW-2261)
- (c) Whenever the description of an item of work entered in a Measurement Book is materially altered reasons for the same should be recorded by the person making the alteration in addition to this being initialled and dated. Instructions contained in note 10 of the fly leaves at the beginning of the Measurement Book is being amended accordingly.

2. Non-compliance with the above instructions will be viewed seriously.

3. This cancels our letter of even No. dated 2nd March 1964 on the above subject.

Sd/-

for Engineer in Chief.

Copy to:—

Chief Engineer

West Coast, 26 Assaye Bldg. Colaba, Bombay-5 etc etc.

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## ANNEXURE II

Measurement Book IAFW 2261

### NOTES

References:—

1. The Measurement Book is a most important record being the basis of all accounts of quantities whether of work done by daily labour or by the piece, or by contract or of materials received which have to be counted or measured. The description of the work must be lucid, so as to admit of easy identification and check.

2. The following instructions will be observed in booking measurements:—

(a) Dimension are to be entered in feet and inches in the centre column.

(b) Where two dimensions are required to give areas or three dimensions to give contents they are to be entered one under the other in the order:—

(i) length

(ii) breadth or thickness

(iii) height or depth.

and a line drawn underneath each set of two or three dimensions.

(c) Where several sets of dimensions are booked against one item of work a vertical line must be drawn over the right hand line of the contents column.

- (d) When dimensions are to be timesed the timesing figure must be written in the left hand column and vertical line drawn between it and the dimension.
- (e) All calculations necessary to find a dimension must be entered on the right hand side of the Book.
- (f) When entering the areas or contents found by multiplying dimensions together in the contents column the results are all to be worked out and written down to the nearest twelfth of a foot.

3. For large works a separate Measurement Book may be set apart, or, if found convenient, two or more books may be set apart for different classes of works.

4. In the case of important services the C.R.E. may order measurements to be carried out by his Surveyor of Work.

Failing such orders measurements should, as far as possible, be taken by S.D.Os., and not by their subordinates. When measurements are taken by subordinates their accuracy should invariably be tested by comparison with sanctioned plans and specifications and also by actual measurements of a proportion on the site by S.D.Os.

GEs are personally responsible for all measurements made by their subordinates and it is their duty both to take sufficient test measurements on site to satisfy themselves of the accuracy of the measuring and by periodical examination of measurement books to ensure that the rules are being complied with.

Whenever possible a certificate of acceptance by contractors of all measurements pertaining to their accounts should be obtained.

5. Each set of measurements should commence with entries starting:—

- (i) In the case of bills for work done—
  - (a) full name of work, as given in estimates;
  - (b) situation of work, exact locality;
  - (c) name of M.E.S. representative taking measurements;
  - (d) name of contractor;
  - (e) number and date of his agreement or work order;
  - (f) date of measurements, and should end with the dated signatures of both parties on each day on which measurements are made.

## (ii) In the case of bills for supply of materials—

- (a) name of supplier;
- (b) number and date of his agreement or order;
- (c) purpose of supply in one of the following forms applicable to the case:—
  - (i) "Stock" (for all supplies for stock purposes).
  - (ii) "Purchase" for direct issue to (here enter full name of work as given in estimate) .....
  - (iii) "Purchases" for (here enter full name of work as given in estimate) .....
  - for issue to contractor .....
  - on .....
- (d) date of measurement,

and should end with the dated signatures of both parties on each day on which measurements are made.

An abstract of measurements will then be prepared in duplicate on IAFW 2264 by the S.D.O. or the S.W. concerned. It will collect, in the case of measurements for work done, the total quantities of each distinct item of work. Schedule times will be arranged in numerical order. This will be checked with the sanctioned plans and specifications before the original copy is supplied to the contractor to enable him to prepare his bill.

6. No page should on any account be torn out of a book nor should any entry be erased or disfigured so as to be illegible. If a mistake be made, it should be corrected by cancelling the incorrect words or figures with a single stroke of the pen or pencil and by writing the correct words or figures separately; and the correction thus made should be initialled and dated. All signatures and initials made in the Measurement Book should be dated.

7. All measurements must be neatly recorded in the authorised form of Measurement Book and in no other. The entries should be made, if possible, in ink but when this is not possible and entries have to be made in indelible pencil, the pencil entries should not be inked over but left untouched. The entries in the 'Contents' column should, however, be made in ink in the first instance and not inked over.

8. As all payments for work or supplies for which a Measurement Book is required to be used, are based on the quantities recorded therein, it is incumbent upon the person taking the measurements to record the quantities clearly and accurately. If the measurements are taken in connection with a running contract account on which work has been previously measured, he is further responsible (1) that reference to the set of measurements is recorded, and (2) that if the entire Job or contract has been completed, the fact is recorded prominently just above his initials. If the measurements taken are the first set of measurements on a running account, of the first and final measurements, this fact should be suitably noted against the entries in the Measurement Book.

9. Entries should be recorded continuously in the Measurement Book and no blank pages should be left. Any pages left blank inadvertently must be cancelled by diagonal lines, the cancellation being attested.

10. When any measurements are cancelled, the cancellation must be supported by the dated initials of the Officer ordering the cancellation or by a reference to his orders initialled by the officer who made the measurements.

In either case the reason for cancellation should be recorded.

11. Each Measurement Book is provided with an index which should be kept up to date.

12. The clerk ordered by the Unit Accountant is responsible for the arithmetical checks of all calculations entered in a Measurement Book; and he must initial (with date) each account in the Book, in token of having so checked it.

13. The Sub-divisional Officer or the subordinate making the measurements may have the "Contents" column of the Measurement Book completed in ink by a clerk but he must abstract the result himself.

14. When an officer or subordinate is required to submit his Measurement Book, with his accounts, to the Divisional Officer, he should be supplied, if necessary, with a second book for alternate use.

15. From the Measurement Book all quantities should be clearly traceable into the documents on which payments are made.

When an abstract is made out for work measured, every page of the book recording the measurement must invariably be lined off with

a continuous vertical line by the officer or subordinate making the abstract and a reference must be made at the beginning of each set of dimensions to the Number and Date of the abstract made. The officer or subordinate who checks the abstracting will also line off all the measurements with a line parallel to the abstractor's line but in brown ink and he will also check the reference given.

16. When the Bill is made out for the work, the reference number of the Bill must be written in the abstract and the abstract (or numbers) must be written on the Bill together with the number and date of order.

The unit accountant before passing the Bill will make and sign the following endorsement below the above entries:—

checked with the Abstract No. .... Dated.....  
and bill passed to C.M.A. ....  
on .....

17. On the occasion of transfers, it will be the special duty of Garrison Engineers to see that the Measurement Books with the relieved officer at the time are recorded in the transfer papers by the numbers they bear, and are acknowledged by the relieving officer, and that necessary corrections are made in the name of officer on the fly leaf of the Measurement Book.

18. In case a Measurement Book is lost an immediate report should be made of the facts of the case and this report must be promptly forwarded to the Chief Engineer together with the explanation of all parties concerned or responsible for the loss.

19. On the completion of each book the Unit Accountant will sign the certificates:

Certified that the book No. .... has been checked and it is found that—

- (a) No page is torn out and missing and blank pages have not been left uncanceled.
- (b) Corrections are properly made and initialled by responsible person.
- (c) Original pencil entries are not inked over and column "Contents" has been entered in ink.
- (d) The number and date of each abstract in which the quantities are entered for payments are noted.

- (e) The entries are lined off.
- (f) In the case of cancelled measurements the reason for cancellation has been given and the cancellation signed by the person who made the measurements and the Garrison Engineer.
- (g) The index is complete.
- (h) Each set of measurements is signed by the officer by whom they were actually made.
- (i) Each set of measurements bears, in addition to the signature of the officer or the subordinate who made the measurements, the initials of the clerk who checked the calculations and the signature of the Officer who passed the measurements or paid the bill.

Unit Accountant  
 Dated . . . . .  
 Record  
 Garrison Engineer  
 . . . . . Division  
 Dated . . . . .

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### ANNEXURE III

No. 15 (7) / 62/6917 D (Works-II)

GOVERNMENT OF INDIA

MINISTRY OF DEFENCE

New Delhi, the 30th July 1965

8th Sravana, 1887.

To

The Chief of the Army Staff,  
 NEW DELHI.

**SUBJECT:—Military Engineer Services—Amendment to Measurement Book (IAFW—2261).**

Sir,

I am directed to convey the sanction of the President to the un-dermentioned amendments to the Measurement Book (IAFW-2261)..

Delete the existing notes 10 and 19(f) of the fly-leaves at the beginning of the Measurement Book and substitute as under:—

(a) *Note 10*

“When the description of an item of work is materially altered the reasons for the same should be recorded by person making the alterations in addition to this being initialled and dated. The decision of the GE as to whether the alteration is material or not shall be final.”

(b) *Note 19(f)*

“Whenever the description of an item of work has been materially altered the reasons for the alteration have been recorded by the person making the same.”

2. This is issued with the concurrence of the Ministry of Finance (Defence) vide their U.O. No. 1964- W-I of 1965.

Yours faithfully,

Sd/- VINAY VYAS.

*Under Secretary to the Government of India.*

Copy of the above forwarded to:—

The Controller General of Defence Accounts.

The Director of Audit, Defence Services, etc. etc.

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No.2 (1)-65/D (HAL-II) AVRO

GOVERNMENT OF INDIA

MINISTRY OF DEFENCE

*New Delhi, the 30th October, 1965.*

OFFICE MEMORANDUM

**SUBJECT:—Public Accounts Committee—17th Report on the Appropriation Account (Defence Services) 1961-62 and Audit Report, 1963.**

The undersigned is directed to refer to this Ministry's Office Memorandum No. 18(1)/63-D(A-P), dated the 17th October 1964 on the above subject and to forward herewith 40 copies of the revised statement showing action taken on S. No. 34(i) to (iii) of Appendix VI (Para 43) of the 17th Report of the Public Accounts Committee

(Third Lok Sabha) which may be substituted for the statement forwarded under the aforesaid Office Memorandum.

2. This has been vetted by Audit

Sd/- B. N. DHOUNDIYAL,  
Under Secretary to the Govt. of India.

To

The Lok Sabha Sectt.,  
New Delhi.

(40 copies)

Copy forwarded to:

1. The D.A.D.S., Church Road, New Delhi.
2. The Ministry of Finance (Def/Proj).
3. The Deptt. of Supply.
4. D(Budget) Section.

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## MINISTRY OF DEFENCE

(Department of Defence Production)

### Recommendation

*S. No. 34(i).—The case referred to in para 29(a) of the Audit Report (Defence Services), 1963 is another instance of bad planning and inordinate delay. It is deplorable that in the case of a machine ordered against an 'Operational Immediate' Indent, stipulating the completion of supply by November, 1960, the final sanction to the construction of an air-conditioning building, required for its utilisation should not have been accorded till September, 1962. As this building (in the absence of which the machine could not be utilised to more than 20-30 per cent of its capacity), was estimated to take two years for completion from the date of order of commencement, it would not be before September 1964, that the machine could be expected to work to full capacity.*

*S. No. 34(ii).—The Committee desire the Ministry of Defence to give serious thought as to how to obviate the recurrence of such cases. They would, in particular like the Ministry to examine, in consultation with Finance, whether the existing procedure for the issue of sanction/administrative approval did not require to be streamlined in the case of urgent Defence Works which brook no delay.*

*S. No. 34(iii).—The India Store Deptt., London, are also not free from blame in this case. As against the normal period of 1-2 months*

*taken in inspection, packing and despatch, they had taken about three months, although the Indent was an 'Operational Immediate' one. The Committee are informed that the attention of India Store Department has been drawn to the delay in the present case. They trust that the said Department will scrupulously avoid such delays in future.*

[S. No. 34(i) to (iii) of Appendix VII to 17th Report, (1963-64).]

#### ACTION TAKEN

S. No. 34(i).—Before placing the Operational Immediate Indent in question, the User Department had convened a Sitting Board on 15-2-60 for drawing up rough estimates for the works services. Before that, a Reccee Board had also gone into the question. The proposal for according administrative approval was received by Govt. in May 1960 and formal approval was conveyed in June 1961 and revised admin. approval in September 1962. The files leading to the issue of the administrative approval and revised admin. approval have been examined carefully. The proposal had all along been dealt with promptly, at each stage. The time taken to issue the administrative approval was certainly longer than it should take to sanction such works but it must be viewed in the background that Government was venturing on an entirely a new project of aircraft manufacture and it had no precedent before itself to guide it. It was, therefore, apt that the proposal was scrutinised carefully at all levels in Air Headquarters, the Ministry of Defence and the Ministry of Finance.

Having a yardstick with which to measure the requirements of works services for a project of this nature, it is not likely that such delays will occur in future. In this case the work has been completed and the machine is being utilised to its full capacity since April 1964. Prior to this, the machine had been used on an average 40-50 hrs per week since September, 1962 by operating it in shifts under cool weather conditions.

S. No. 34(ii).—The Government does not consider it necessary to examine the question, as a general issue, of streamlining the existing procedure since the Emergency Works Procedure is already in existence. However, instructions have been issued to all Undertakings under this Ministry that while considering proposals for the purchase of equipment, it should be ensured that necessary facilities for installation, operation and maintenance of the equipment have been or are being provided and will be completed by the time the equipment arrives. They have also been asked to check up if there is likelihood of any undue delay in the provision of the installation/operation/maintenance facilities in respect of equipment for which

orders have already been placed and submit periodical reports to the Government in respect of cases where such delays are anticipated. A copy of this Ministry's letter No. 17(21)/64-D(PS), dated 18 Nov. 64 is enclosed.

S. No. 34(iii).—Necessary instructions have been issued by the Department of Supply to the DGISM, London.

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No. 17(21)/64-D(PS)

GOVERNMENT OF INDIA

MINISTRY OF DEFENCE

New Delhi, the 18th November, 1964.

To

The Managing Director,

Hindustan Aeronautics Ltd.,

Bangalore.

The Managing Director, Hindustan Aeronautics Ltd.,

601, Sachivalaya Annexe,

(with 4 spare copies)

Bombay-32.

The Managing Director,

Bharat Electronics Ltd.,

Jalahalli, Bangalore.

The Managing Director,

Praga Tools Ltd., Secunderabad.

The Managing Director,

Bharat Earth Movers Ltd., Bangalore.

The Managing Director,

Mazagon Dock Ltd., Dockyard Road,

Mazagon, Bombay-10.

The Managing Director,

Garden Reach Workshop Ltd.,

43. 46 Garden Reach, Calcutta.

SUBJECT:—Delay in the utilisation of imported equipment—Observations made in the Audit Report (Def. Services) 1964.

Sir.

I am directed to say that a case appeared in the Audit Report (Defence Services) 1964, where the delay in utilisation of an import-

ed equipment has been severely criticised. The equipment had remained uninstalled for over three years. It has been observed in the Audit Report that lack of fore thought and proper planning were responsible for the delay in the utilisation of the equipment. It is, therefore, desired that adequate care should be taken by all concerned to ensure that such lapses do not recur. While considering proposals for purchase of equipment it is essential for all concerned to make sure that the required facilities for installation, operation and maintenance of the equipment being procured have been or are being provided and will be completed by the time the equipment arrives.

2. I am therefore to request that in future before ordering any new equipment, the above points should be kept in mind and a certificate invariably furnished to Government regarding availability or provision of necessary facilities for the installation, maintenance and operation of the equipment by the time the equipment is received. In cases where equipment have already been ordered for, it should be checked if there is likely to be any undue delay in the provision of the installation/operation/maintenance facilities. In every case where such delay is expected Government should be informed of the same and periodical reports furnished of the efforts made to overcome the delay and the results thereof.

Yours faithfully,

Sd/- GIAN SINGH,

*Under Secretary to the Government of India.*

Authenticated for issue.

Sd/- B. L. BHATT.

17/11/64

Copy forwarded to:—

The Ministry of Finance (Defence/Proj.).

D(HAL)/D(BEL)/D(GRW MD)/D(MIG)/Avro Project Office

### **Recommendation**

(i) The Committee note that 297 of the 340 imported sets (costing Rs. 5.90 lakhs), stated to be required for immediate incorporation as far back as in 1958, are still lying in stock. While the Committee appreciate the difficulties in the immediate incorporation of the modification in the forward areas, they cannot help observing that the Air Force authorities had been highly unrealistic in their assessment of the time required for the incorporation of modification.

(ii) *While the Committee appreciate the need to tap indigenous sources to the maximum possible extent, they feel that the time taken to do so should be reasonable so that the purpose for which the materials are required is not undermined in any way. In the present case, the authorities concerned had taken about three years to find the materials indigenously at the end of which period they had to place orders abroad for as many as 31 parts, with the result that 223 sets of the parts, supplied by the HAL could not be used. The Committee desire that vigorous efforts should now be made for the expeditious procurement of the remaining parts so that the modification can be incorporated in the aircraft as early as possible.*

[S! No 36 of Appendix VII to 17th Report (3rd Lok Sabha).]

#### ACTION TAKEN

(i) It is accepted that the assessment of time for the incorporation of Vampire modifications 3494 and 3495 was unrealistic. The modification kits for 3494 and 3495 were ordered on HAL and UK respectively. Deliveries from U.K. were about 10 months earlier than those from HAL. It is also accepted that there has been delay in ordering consumable spares from abroad for mod. 3494.

(ii) (a) Modifications 3494 and 3495 are complementary and as such are to be embodied concurrently. Due to non-availability of modification kit 3494, the sets for 3495 which were imported earlier could not be utilised. Taking into account the man hours and extent of work required for incorporation of these modifications, it was decided in September 1960 to embody them during major servicing.

(ii) (b). As all the 31 deficient parts of Modification 3494 have since been received from U.K., Air Headquarters estimate that two years will be required for utilisation of 297 sets of modification 3495 which are already available. Therefore, the likely date of the completion of task will be somewhere in the end of 1966.

Director of Audit Defence Services has seen.

[U.O. No. F. 4(50)/63/D(Air-I), dt. 26-5-1965]

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#### MINISTRY OF TRANSPORT

#### Recommendation

(i) *The Committee observe that the ship in question scheduled to be delivered by September, 1959, is now expected to be completed by October, 1964. The Committee take a serious note of the delay, particularly as the ship is stated to have been urgently required for meet-*

ing the Navy's requirements. While the Committee grant that the delay was primarily caused by the failure of the Consultants (Messrs ACL) to discharge their obligation in regard to the supply of detailed construction plans (including co-ordinated plans), they observe from the conclusions of the Enquiry Committee that the Hindustan Shipyard are in no way lses to blame in the matter. It is inexplicable why the Shipyard should have failed to take advantage of the Naval Headquarters' offer to train a squad of electricians in the Naval Dockyard. Nor are they able to accept any of the suggestions made by M's. ACL or AEG (Electrical contractors) regarding the expeditious completion of the ship. The Committee desire that every effort should now be made to complete the Ship by the new target date (October, 1964).

#### ACTION TAKEN

The Hindustan Shipyard did avail of the offer of the Naval Headquarters and seven electricians were trained in the Naval Dockyard, Bombay. M/s. ACL and AEG had recommended deputation of their officers to the Hindustan Shipyard Ltd., for expeditious completion of the ship with special reference to fitting out without preparation of detailed plans. Such suggestion, it was felt, would only have led the firms to shirk their further responsibility in the matter.

As regards the extent to which the detailed drawing were required, it may be stated that the experience of the HSL is that, with the local technical knowledge of staff available in the yard, detailed co-ordinated plans were necessary for expeditious execution of the outfit work. In fact Hindustan Shipyard Ltd. prepared the co-ordinated plans for "DARSHAK". This is without assistance from abroad and the ship has since been completed and was delivered to the Navy on 29th December, 1964.

#### Recommendation

In evidence, the Committee desired to know what action had been taken on that part of the Report of the Enquiry Committee which deals with Causes for delay. The representative of the Ministry of Transport stated that the Board of Directors had decided to defer its consideration till the ship had been completed for, they feared the consideration of the matter at this stage might hamper expeditious completion of the ship. The Committee are a little surprised at this explanation. They desire that necessary action in the matter should be taken without any further delay.

## ACTION TAKEN

The Board of Directors again reconsidered the matter in the light of the view expressed by the P.A.C. and still subscribed to the view that the Shipyard should concentrate its efforts and energies on the expeditious completion of the ship and refrain from commenting thereon till her delivery, particularly since the shipyard did not entirely agree with all the findings of the Committee. The matter was not therefore, taken up by the Shipyard till the vessel was delivered on 28th December, 1964 and was rendering satisfactory service. The Shipyard's views have since been received and the comments of the Ministry on the findings of the Committee are enclosed as annexure 'A'.

## Recommendation

(iv) *The Committee deprecate the negligence shown in this case which resulted in an avoidable expenditure of Rs. 8.80 lakhs in re-conditioning the electrical and propulsion machinery even before it could be installed in the ship. They also regret to note that the Controller of Stores for the relevant periods had left the Yard, before responsibility for the damage could be fixed. The Committee would like to know the date, on which the damage came to light and the date on which the Controller of Stores left the yard. They now desire that further action in the matter should be taken to fix responsibility without any waste of time and a report made to them.*

## ACTION TAKEN

The Board of Directors of the Hindustan Shipyard Ltd. appointed at their meeting held on 20th October, 1962 a Committee of two Directors to investigate into the circumstances in which damage was caused to the electrical machinery while in storage at the Shipyard, with a view to fixing the responsibility.

It will be noticed from the report that normal attention as per the practice obtaining then was paid by the concerned officers in the Shipyard for the storage of the above machinery and that special attention could not be given on account of:

- (1) handling of large quantities of steel received in bulk in 1958;
- (2) absence of an Inspection Department which was opened only in June, 1960.
- (3) Further, the supplies of the machinery as well as the then Technical Director of Hindustan Shipyard Ltd., an em-

ployee of M/s. A. C. L. specifically advised the concerned departments in the Shipyard not to open the cases till required for erection on ship.

The Board after considering the Committee's Report however, desired the committee consisting of Shri Jehangir P. Patel and Dr. M. V. Krishna Rao, Directors to report further on the following points:—

- (a) Analyse, the various aspects of negligence which had resulted in the damage to the electrical machinery;
- (b) Locate the responsibility therefore, specifying the names of the concerned officers and staff; and
- (c) suggest remedial measures to avoid a recurrence in future.

A copy of the report submitted by the Committee is enclosed as annexures 'B' and 'C'. It would be seen that the Committee did not find it possible to fix individual responsibility for defective storage of the machinery, having regard to the circumstances prevailing at that time. These were adopted by the Board at their meeting held on 13th April, 1964.

The Machinery was received in the Shipyard on 10th April 1958 and was inspected in December, 1961 (when it was required for erection).

It was only at that time that the damage was detected.

The following officers of the Shipyard were incharge for storage of the machinery during the periods shown against each:—

1. Shri R. Seshadri,—Deputy Controller of Stores, upto 31st December, 1961.
2. Shri S. B. Ranadey, Stores Officer upto 26th December, 1960.
3. Shri M. C. D'Lima, Sr. Suptd. of Stores, from 1st January 1962.
4. Shri C. T. Biddappa, Supdt. (Bond and Machy.), from 27th December, 1960.

#### **Recommendation**

(v) *The Enquiry Committee had also recommended that the legal and other formalities for breaking away from Messrs. A. C. L. should be examined by the Management and the Board of Directors. The*

*Committee hope that this aspect has been examined. They would like to be informed of the financial implications of the termination of the contract with the consultants.*

#### ACTION TAKEN

When the contract for the vessel, INS "Darshak" was placed with the Hindustan Shipyard by the Navy, M/s. A. C. L. who were the Technical Consultants of the Shipyard at that time, were entrusted, under a special agreement, with the designing and preparation of the entire drawings required for the construction of this ship. In July 1958, the main technical consultancy arrangement between the Shipyard and Messrs. A. C. L. was terminated, but the special arrangement for the supply of plans and drawings for the survey vessel continued to subsist. Under this agreement, M/s. A. C. L. had undertaken to supply all the plans and drawings necessary for the construction of the survey vessel at a fee of Rs. 6.5 lakhs. While finalising the arrangement for the preparation of designs and Plans with M/s. A. C. L., neither the Shipyard nor M/s. A. C. L. could have a precise idea of the exact quantum of work involved in this job as the vessel was prototype of construction conceived for a specialised service with various extraordinary items of equipment. Consequent on design work done by foreign consultants situated away from the Shipyard, difficult problems of co-ordination, some of them almost intractable, arose between the consultants and the sub-suppliers of various major items of machinery such as propelling machinery, electrical equipment, piping plant, air-conditioning and ventilation system. In December 1960, Messrs A. C. L. complained that they had to do a number of drawings more than once as a result of the alterations made or new ideas introduced by the Navy and also that they were required to supply a good deal of extra plans over those visualised earlier as well as co-ordinate the modified drawings of the sub-contractors. For this they demanded an extra payment of Rs. 3 lakhs, making a total of Rs. 9.5 lakhs. This was agreed to and a fresh agreement comprising the full scope of supply of plans, schedule of delivery of plans, guarantees, etc. was settled in discussion as well as in correspondence. Although a formal contract embodying these terms was drawn up and sent to Messrs. A. C. L. in February, 1962 for their signature, the document was not signed by M/s. A. C. L., despite several reminders. According to the terms of the revised agreement M/s. A. C. L. were to supply all the drawings as referred to in the scope of supply which included, among others, the fully co-ordinated working, drawings of electrical installations as well.

According to the schedule of delivery contained in the revised agreement, the supply of all plans including basic designs, detailed working plans and co-ordination drawings was to be completed latest by the end of October, 1961. Approximately 474 plans were involved, apart from Coordination drawings. Up to the end of 1962, only 307 plans had been received, besides a few Coordination Drawings. This affected the construction schedule of the ship very adversely and put the Shipyard to heavy loss and great inconvenience. Therefore, in January, 1963 when it was clear that M/s. A. C. L. had failed to keep their promise to supply all plans including the coordination drawings according to the terms of the revised agreement, despite all the assistance rendered by the Shipyard, the Board of Directors of the Shipyard, decided to terminate the arrangement with M/s. A. C. L. for supply of plans and to deal directly with various sub-contractors and make other arrangements for completing the job on hand.

Out of the fee of Rs. 9.50 lakhs payable to M/s. A. C. L. for supply of designs/plans, an amount of Rs. 5.05 lakhs had been paid by the time the decision was taken to terminate the arrangement with them. The amount paid to them fell short of the work actually done by them. It was however, decided not to pay the balance to M/s. A. C. L. They did not accept the failure on their part, protested against shipyard's decision to break off with them and expressed their intention to resort to arbitration. However, they have not pursued the matter since August, 1963.

### Recommendation

*(vi) The Committee also understand from Audit that the Consultants have already been paid Rs. 5 lakhs against the total sum of Rs. 9.5 lakhs due to them under the agreement. They would like to know whether the Ministry has satisfied itself that the payment made to the consultants was commensurate with the services actually rendered by them under the contract.*

[S. No. 45 of Appendix VII to 17th Report, 3rd LS.]

### ACTION TAKEN

The Ministry is satisfied that the amount of Rs. 5.05 lakhs paid to M/s. A. C. L. towards their fee of Rs. 9.50 lakhs was commensurate with the services actually rendered by them. They supplied as many as 307 plans out of a total of about 474 plans required for construction of the vessel.

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**ANNEXURE A****FINDINGS OF THE ENQUIRY COMMITTEE***(Para 37)*

(a) The failure of ACL to discharge their obligations. In this connection it may be noted that the design fee was increased from Rs. 6.5 lakhs to 9 lakhs.

(b) The failure of ACL personnel in Hindustan Shipyard Ltd. to keep Hindustan Shipyard Ltd. personnel informed of progress of design, etc. upto July 1958, and to hand over properly prior to their departure.

(c) The lack of understanding in Hindustan Shipyard Ltd. of how a ship of this type ought to be built.

(d) The failure of Hindustan Shipyard Ltd. to take advantage of NHQ offer to train a squad of electricians in the Naval Dockyard.

**COMMENTS OF GOVERNMENT**

Government agrees with the findings of the Committee. Out of the amount of Rs. 9.5 lakhs payable to Messrs. ACL as design fee, an amount of Rs. 5.05 lakhs had been paid by the time the decision was taken to break off with them. The amount paid to them fell a little short of the value of work actually done by them. The Board of Directors have decided not to pay the balance to Messrs. A. C. L. The company did not accept the failure on their part, protested against Shipyard's decision to break off with them and expressed their intention to resort to arbitration. However, they have not pursued the matter since August, 1963.

Although at the time of placing the orders for this ship in 1954 the Shipyard had not enough experience to build a ship of this type, they accepted the order at the instance of the French Consultants and agreed to build the ship to naval requirements for the first time in the yard with the encouragement given to them by M/s. A. C. L. It may be mentioned further that after years of experience of building a number of ocean-going ships, the shipyard has now gained experience in methods by which a ship of this type ought to be built. The ship has since been completed according to the method formulated by Hindustan Shipyard itself and delivered to the Navy on 28th December, 1964.

As already mentioned against para 58, the Shipyard did avail of the offer of the NHQ and seven electricians were trained in the Naval

Dockyard, Bombay, essentially required, yet it may be stated that the insistence of Hindustan Shipyard Ltd. on coordination plans was based on the Naval requirements that the general arrangement plan of the ship showing the electrical fittings, Piping, outfit, Steel etc., should be submitted first. The recommendation of the Enquiry Committee, headed by Admiral T. B. Bosc, that the detailed coordinated plans were not necessary was apparently based upon the practice of shipyards in Europe. The experience of Hindustan Shipyard Ltd. is that, with the Local technical knowledge of staff available in the Yard, detailed coordinated plans were necessary for expeditious execution of outfit work. This has been borne out by the experience of Hindustan Shipyard Ltd. on "Darshak" in as much as the vessel was completed only after preparation of coordinated plans by Hindustan Shipyard Ltd. themselves without assistance from abroad.

The ship has since been completed by the Shipyard and was delivered to the Navy on 29th December, 1964.

#### ANNEXURE 'B'

##### HINDUSTAN SHIPYARD LTD., VISAKHAPATNAM-5

Report of the Investigations done by the members of the Board of Directors, viz. Mr. J. P. Patel and Dr. M. V. Krishna Rao on 23rd and 24th February, 1963 to investigate the following:

"Deterioration of electrical machineries received for the construction of Naval Survey Vessel—I.N.S. "Darshak"—V.C. 136.

#### AND

Procedure for preferring claims on underwriters".

The following officers were examined by the Board of Enquiry on 23rd and 24th February, 1963:

- (1) Mr. B. B. Das Gupta, Controller of Stores
- (2) Mr. F. S. Rodgers, Chief Shipyard Manager
- (3) Mr. G. Puri, Inspector of Stores & Machinery
- (4) Mr. M. C. D'Lima, Senior Superintendent of Stores
- (5) Mr. R. P. Chitra, Asstt. Manager, Engineering Dept.
- (6) Mr. Samson, Foreman, Engineering Dept.
- (7) Mr. G. T. Biddappa, Superintendent of Bond, Machinery and Clearance

(8) Mr. D. Mukhalingeswara Rao, Accounts Department

(9) Mr. P. V. N. Raju, Accounts Department.

As a consequence, the facts narrated below were brought out.

The eight packages of machinery containing the propulsion motor, generators and auxiliary engines for the Naval Survey Vessel—V.C. 136 arrived in the Yard on 10th April, 1958 by s.s. 'Jala Dhanya'. The weight of respective cases were as follows:

(a) Propulsion motors-2 Nos. (case No. 8 & 15)—2½ tons approx.

(b) Propulsion generators-2 Nos. (Case Nos. 9 & 16)—15 tons approx.

(c) Auxiliary generators-4 Nos. (Case Nos. 1 to 4)—14 tons approx.

The cases were kept under the 125 tons crane under cover of double tarpaulin as is the usual practice. These packages are also kept under bond till they are fitted on to the ship and the ship sails from here. It is the usual practice in the Yard to keep the heavy machineries weighing more than or near about 20 tons under double tarpaulin cover under 125 tons crane, as there is no facility for transporting these packages under a covered shed by suitable mobile cranes in the Shipyard. The practice was in vogue from the very beginning. This covering with double tarpaulins is considered adequate and safe as the packages are packed in seaworthy packing and will not be liable to leakage under normal circumstances

Even if temporary covered shed was proposed to be built over these packages, it was not practicable as in that case the 125 tons crane could not operate for movement of these packages and also taking out the machinery from these packages to be fitted on to the ship.

These packages were not opened till they were handed over to the Engineering Department in two lots. Case Nos. 1, 2, 3 and 4 and Case Nos. 8, 9, 15 and 16 were handed over to the Engineering Department on 23rd October, 1961 respectively. It was not the usual practice at that time to open the cases which are imported from abroad mainly for the following reasons:

- (1) The cases were in sea-worthy packing and they were good enough to resist this normal atmosphere condition. The packing cases obtained inner lining of tarred waterproof paper to make it impervious to water.

- (ii) There was no proper inspection cell till it started in June, 1960.
- (iii) There was a verbal instruction from the then French Technical Director Mr. Paul Maerten not to open any packages till such time the machineries are required to be installed in the ships under construction, if the cases are received in sound and outwardly good condition—Exhibit I.

However, in spite of the above conditions the cases were kept under cover of double tarpaulin and the packages themselves were raised from the ground by about 6 to 8 inches due to having dunnage at the bottom of the case. So, no water can get in either from the top or from the bottom.

Since the arrival of these cases in 1958, although normal attention was paid for the safe custody of the cases, particular attention was not possible for the following reasons:

- (i) The then Superintendent of Stores was under suspension from December, 1955 till 30th June, 1959 when his services were terminated. Two staff members from November 1955 and one staff member from May, 1957 were under suspension till 30th June, 1959.
- (ii) In April, 1958 a start was made to shift all the stores from old rigging stores and General Stores scattered all over the yard to the new General Stores, construction of which was completed in August, 1957. Similarly, after the completion of the auxiliary bays of new prefabrication shop, the machineries from Bay No. 3 and 4 of the old Hullshop started shifting in June, 1959 and in May, 1960, the entire Bays No. 3 and 4 of old Hullshop were handed over to General Stores to shift the other bonded materials for safe custody.
- (iii) In 1958, we got an *ad hoc* bulk supply of steel in addition to almost all the machinery packages for V.C. 136. The total receipt for the year was of a very high order which is shown in the Graph for materials handled by Clearance (by sea and rail) Exhibit-II (Not enclosed).

In addition to the above factors, against smooth running of the organisation, several officers were Incharge of Clearance, Bond and Machinery Stores since 10th April, 1958, the arrival of the packages till the handing over of packages to the Engineering Department. The organisation as on 10th April, 1958 was as follows:

- (1) Mr. A. R. Khosla, Controller of Stores.
- (2) Mr. R. Seshadri, Dy. Controller of Stores (Incharge of Clearance, Bond, Machinery and Disposal).

On 1st June, 1959, Mr. S. B. Rande, took charge of Bond, Machinery, Clearance and Disposal under Mr. Seshadri, who was then over-all in-charge of all Stores. Mr. C. T. Biddappa took over the charge of the same on 26th December, 1960. Mr. D'Lima who was promoted as Senior Superintendent of Stores took over charge of Machinery Stores as well on 1st January, 1962. A note from Mr. M. C. D'Lima, Senior Superintendent of Stores, dated 18th August, 1962 is shown at Exhibit No. III.

The Inspection Department of the Shipyard was started in June, 1960. It was then decided that Inspector of Stores should inspect all the cases lying under Bond and Machinery Stores. So, he started first, with inspection of these bonded machinery where the period of insurance with the underwriters was about to expire in addition to the current day to day inspection of the new arrivals. By adopting this method, he completed the inspection of all the bonded materials that were in the Shipyard including the fresh arrivals only in December 1962. That's why, even after the formation of the Inspection Department, these 8 cases of V.C. 136 could not be examined by him as early as 1960 because their period of insurance had already expired. This explanation is not acceptable to us. Now the shipyard is current in their inspection and excepting the new arrivals, there is no other cases in Bond and Machinery which have not been inspected by our Inspection Department.

As the construction of the vessel, V.C. 136 was delayed, Shipyard wanted the guarantee period by M/s. A.E.G. to be extended. There was a discussion between Mr. Holzkamm representing M/s. A.E.G., and Mr. H. C. Raut and Mr. H. S. Rao representing M/s. Hindustan Shipyard Ltd. In their letter dated 11th February, 1960, M/s. Escorts Ltd., Agents of M/s. A.E.G., confirmed the discussion saving "due to indefinite date of starting erection work on V.C. 136 it does not seem to be favourable for opening of the boxes and replacing the machinery to climatic conditions afterwards, until erection takes place". A copy of the letter of M/s. Escorts is shown in Exhibit No. IV M/s. M.A.N., main suppliers of propelling machinery along with M/s. A.E.G. the suppliers of the electrical machineries, vide their letter dated 7th April, 1960, stated "M/s. A.E.G. does not want the cases to be opened before the installation of the parts into the ship takes place, since in this case, the construction of the instrument must be destroyed and in case of further storage, the various parts might be

damaged". The extract from M/s. M.A.N.'s letter dated 7th April, 1960 is shown in Exhibit No. V. There were some discussions on 7th, 8th and 9th April, 1958 between Mr. Borrs representing M/s. A.E.G. and Mr. J. Charpentier and Mr. H. C. Raut, representing M/s. Hindustan Shipyard Ltd., regarding the survey vessel, V.C. 136. In this discussion also, M/s. A.E.G. opined that "representative cases containing the electrical equipments" should not be opened either for inspection or for survey as the equipment is specially packed in cases lined with special materials to make them absolutely impervious to atmospheric conditions. A copy of the Minutes of Discussion is given in Exhibit No. VI.

The above facts will go to show that from all points of view, the opening of the cases by M/s. Hindustan Shipyard Limited, was not possible due to the restrictions imposed by the suppliers themselves and under the conditions prevailing at that time.

At the end of 1961, when it was decided to start erection of the electrical machineries, Case Nos. 1, 2, 3 and 4 were handed over to the Engineering Department on 23rd October, 1961. Engineering Department immediately took up inspection of these cases after opening and they found that some of them were damaged by rusting and in one case both propulsion motor field coils were immersed in the water at the bottom. This inspection was done in December 1961. An extract of the inspection report is attached at Exhibit No. VII. It was really very surprising how the water could be found inside the casing as the packing cases had waterproof lining inside the case and the cases themselves for, these were covered by double tarpaulin and excepting 8 cases no rusting and damages were found in any other machinery of V.C. 136. We are not able to get a satisfactory explanation of how the water damage took place.

Immediately on receipt of this report, the representative of M/s. A.E.G., Mr. Holzkamm, visited the Shipyard during 15th and 17th January, 1962 and inspected these 8 cases and gave us a report with a very approximate estimate of Rs. 1 lakh for the repairs of these electric propulsion motors and generators, vide Messrs. Escorts' letter dated 18th January, 1962, A copy of this letter is enclosed at Exb. No. VIII. Subsequently, M/s. Escorts by their letter dated 3rd May, 1962 sent us a detailed approximate estimate for the repairs of these electrical machineries and from the very beginning they suggested that these electrical equipments have to be sent to Germany for repair and test to enable them to give us the required guarantee of performance after repairs e'c., are carried out. A copy of this letter is enclosed at Exhibit No. IX.

In accordance with the decision taken by the Shipyard/Board of Directors four packages of machinery-propulsion motors and generators were shipped to Germany on 22nd June, 1962 per s.s. "Altenfels" and four number of auxiliary generators—Case Nos. 1, 2, 3 and 4 were shipped on 3rd November, 1962 per s.s. "Almurtaza". In 1962 when the possibility of repairs of the auxiliary generators were referred to the different firms dealing with electrical machineries including Messrs. Heavy Electricals Limited, Bhopal and Naval Dock Yard; everybody else refused to take this job excepting Naval Dockyard, who agreed to take up the repairs of propulsion auxiliary generators only. However, subsequently, even Naval Dockyard expressed their inability to take up the repairs of such electrical machineries due to lack of facilities. That is the reason why the second lot was sent nearly 2½ months after the first lot of four cases.

In the meantime, the Hindustan Shipyard Limited applied for export licence with a request to release foreign exchange to the tune of Rs. 1,65,000 for the repairs which was sanctioned by the Ministry. Subsequently it was thought that Rs. 1,65,000 would not be sufficient to cover the repairs. As such, additional sanction for release of foreign exchange of Rs. 40,000 was asked for. However, this has not come through yet. In the meantime Messrs. A.E.G. on receipt of these eight consignments, opened the cases, examined in detail and has now put up an estimate to the tune of D.Ms. 6,57,000 F.B.O. In addition, the test charges and Lloyd's Survey Fees are separate which has subsequently been intimated to the Shipyard as D.Ms. 3,700.

Messrs. A.E.G. are willing to give a guarantee for these repaired machineries for 6 months after the commissioning of the vessels or 12 months from the date of delivery whichever is earlier. This guarantee is not suitable to the Shipyard considering the date of completion of V.C. 136. Hence, Shipyard has requested Messrs. A.E.G. to increase the guarantee period to 24 months after delivery instead of 12 months. In reply, Messrs. A.E.G. has agreed to increase the guarantee to 24 months after delivery, if Shipyard is prepared to pay for insurance a sum of D.Ms. 12,000.

The offer of Messrs. A.E.G. is valid upto 30-4-1963 and the order has to be placed before 28-2-1963 in order to enable them to send back the first lot of electrical machineries in June 1963 for keeping the schedule of construction.

Sd/- JEHangir P. Patel,

Sd/- M. V. Krishna Rao

## EXHIBIT I

C.S.

T.D.

*Extract from Receipt and issue of machinery, piping plant and electrical materials imported from Germany for V.C. 116/122, dated 5th January, 1954.*

You are aware that a good deal of discussions with Technical departments and M.D. at the time of receipt of the above materials, it was finally decided by T.D. that (1) contents of cases received in sound and outwardly apparent condition are to be taken as correct and these cases are not to be opened but to be issued to departments in cases only (2) that cases received in damaged condition are to be opened and checked with invoices and surveyed, if necessary (3). In cases of shortages found in sound cases on issue for erection shortages to be reported to Purchase to recover claim from underwriters (4) On this basis stores to proceed with Bonding arrangement etc.

## EXHIBIT III

18th August 1962.

SUB:—VC 136 machinery (Propulsion motors and generators) found defective.

1. Description of machinery found defective :
  - (a) Propulsion motors (Wt. 27 tons each approx). . . . . 2 Nos. (Case Nos. 8 & 15).
  - (b) Propulsion generators (Wt. 15 tons each approx). . . . . 2 Nos. (Case Nos. 9 & 16).
  - (c) Auxiliary generators (Wt. 14 tons each) . . . . . 4 Nos. (Case Nos. 1 to 4).
2. Date of arrival : . . . . . 10-4-1958
3. Name of the vessel by which arrived : "JALADHANYA"
4. Total No. of pkgs. arrived per the vessel. . . . . 44 Nos.
5. Bill of entry No. & date . . . . . 81 dated 18-6-1958.
6. Bond No. & Date . . . . . 45 dated 29-7-1958.
7. Where they were stored and how : At the jetty under cover of double tarpaulins.
8. Whether these pkgs. were inspected by anybody before : . . . . . No.

9. Name of the concerned officers  
who were in charge

Mr. R. Seshadri (Dy. C.O. S.)  
upto 31-12-1961.

Mr. S.B. Ranade (Stores Officer)  
upto 26-12-1960.

Mr. M. C. D'Lima, Sr. Supdt.  
of Stores from 1-1-1962.

Mr. C. T. Biddappa, Supdt. (Bond  
& Machinery) from 27-12-1960

Sd/- M. C. D'Lima.

**EXHIBIT IV**

**ESCORTS LIMITED, FORT BOMBAY-1.**

T-198/SN (In duplicate) February 11,  
Messrs. Hindustan Shipyard Limited.  
Gandhigram, Visakhapatnam.

VC 136-I.N.S. 'Darshak' (Survey Vessel)

2 MAN Main Marine Diesel engines V8V22/30 m  
W/No. 309007/8

4 M.A.N. Main marine diesel engines W6V22/30  
W/No. 305026—29.

Dear Sirs,

Kindly refer to MAN's letter dated 2nd February, 1960 addressed to you in regard to the guarantee engineer for the AEG equipment installed in the Survey vessel. In this connection, kindly refer to the discussions our Mr. Holzkamm had with your Mr. H. C. Raut and Mr. H. S. Rao, and we have pleasure in confirming the same as follows:—

1. Our Principals Messrs. AEG Schiffbau insist on a thorough inspection and insulation test of all electrical machinery delivered by them for the above mentioned vessel before replying to your request regarding the extension of guarantee. The representative of Messrs. AEG Schiffbau is requested to check and test the equipment stored for your Yard and submit the detailed report about the condition of the same.
2. Due to the indefinite date of starting erection work on VC 136, it does not seem to be favourable opening all the

boxes and exposing the machinery to climatic conditions afterwards, until the erection takes place.

3. It was agreed upon that you will make necessary arrangements so that the erection work on the propulsion motors may possibly start early March this year, that means the propulsion motors will be tested and inspected soon after opening the boxes. Regarding the propulsion and auxiliary generators, we would request you to please wait for the reply from our Principals in regard to the extension of guarantee.

We shall thank you to please inform us at the earliest about commencing the work in the main engine room as well as in the auxiliary engine room, so that we are able to take necessary action for testing and inspecting the generators. Furthermore please let us know whether the proposed time for starting the work on the propulsion motors can be kept by yourself, so that our representative may proceed to Visakhapatnam by early March this year.

Looking forward to your reply and in the meantime, requesting you to kindly remit the last 10 per cent instalment of DM 287,669, we remain.

Yours faithfully,

for Escorts Limited,

Sd/-

CC to: M.A.N., Augsburg.

AEG Schiffbau.

#### EXHIBIT V

TRUE EXTRACT OF M/S. M.A.N.'S LETTER NO. D2 DATED 7-4-1960 ABOUT  
THE OPENING OF V.C. 136 M/S. A.E.G.'S. CASES

We received again a letter from A.E.G. dated 22nd March, 1960 in which they informed us that their final assent cannot yet be given. Messrs. A.E.G. were informed by their Indian Agent, Mr. Holzkamm, that the installation of the engines into the ship has again been postponed for an indefinite period of time. The A.E.G. does not want the cases to be opened before the installation of the parts into the ship takes place since in this case the protection of the instruments must be destroyed and, in case of further storage, the various parts might be damaged. Thus, it will still take some time until

A.E.G. is in receipt of a final report about the condition of the various engine and electric parts. It is only then that A.E.G. can inform us in how far they can agree to a guarantee extension until June, 1961.

### EXHIBIT VI

*Extracts from the 'Minutes of the Meeting held in the premises of Hindustan Shipyard Private Limited, Visakhapatnam on 7th, 8th and 9th April, 1956 regarding the Survey vessel VC 136.'*

Present:—

Messrs. A.E.G.

.. Mr. Borrs.

Messrs. Hindustan Shipyard  
Limited.

.. Mr. J. Charpentier

.. Mr. H. C. Raut.

(1) The minutes of the meeting held on 7th and 8th April, between Naval Headquarters representatives and M/s. Hindustan Shipyard Private Limited, representatives in the presence of Mr. Borrs of M/s. A.E.G. are given to the representative of M/s. A.E.G. for necessary and urgent action in regard to the points for which M/s. A.E.G. are responsible.

(2)	•	•	•	•
(3) to (11)	•	•	•	•
General:	•	•	•	•

Drawings showing special precautions to be taken by H.S.L. during unloading the machinery and shipping in during erection are to be despatched by M/s. A.E.G. to H.S.L. at the earliest:

In the opinion of M/s. A.E.G. representative cases containing the electrical equipment should not be opened either for inspection or survey, as the equipment is specially packed in cases lined with special material to make them absolutely impervious to atmospheric conditions. Opening of any particular case may be effected, if it is found damaged during transit. Such cases after examination are to be repacked in the same way and stowed in a sheltered dry place.

Sd/- J. CHARPENTIER,  
Technical Director

Sd/- H. C. RAUT.

Sd/- (Borrs.)

A.E.G. Representative

**EXHIBIT VII**

**EXTRACT FROM "VC 136 REPORT OF INSPECTION AND OVERHAULING OF THE AUXILIARY DIESEL ENGINES AND MAIN DIESEL ENGINES IN THE ENGINEERING DEPARTMENT".**

**Engines inspected:** (1) 4 Auxilliary Diesel engines coupled with generator W6V22/30 Super charged.

(2) 2 Main Diesel engines.

(3) Propulsion motors and Main generators.

Both the propulsion motor field coils are immersed in water at the bottom. The generators for Main engine do not have water at the bottom but the parts are rusted inside. Only a superficial inspection was carried out for these 4 machineries.

**Conclusion:**

By viewing the condition of one auxiliary engine which has been overhauled 50 per cent, our comments about replacement of original parts for this engine are that it will not be necessary to replace the parts. It is of course too early to inform about the condition of the Main diesel engine and the other three auxiliary engines.

Sd/-

Asst. Foreman

13-12-1961.

**EXHIBIT VIII**

T-196/Hok.

18th January, 1962.

M/s. Hindustan Shipyard Ltd. (In duplicate)

Gandhigram, Visakhapatnam.

*Electrical propulsion equipment for VC. 136-I.N.S. "Darshak"*  
A.E.G. Ref. S.3272 B 555.

Dear Sirs,

This has reference to my visit to your Yard during 15th and 17th January, 1962. As promised, I am enclosing herewith a brief statement regarding the condition of the electrical machinery of the propulsion plant as well as my suggestion for further procedure.

Kindly note that these suggestions will have to be confirmed by my Principals, M/s. A.E.G. who in general, I feel that the same will be unaltered.

In regard to the scope of replacement parts, kindly note that when stating the value of Rs. 100,000 I did not refer only to field coils and inter-pole coils but also to other materials which at the time of executing the required works are found defective or deteriorated.

Kindly let me have your views on these suggestions by return of mail to enable me to take further steps with my Principals.

Whilst on the subject, I again refer to the link boxes, the order for which has been cancelled. As already explained to you during the visit of Director Pust, I again pointed out that when installing the generators and executing the cable connections, you will have serious difficulties in finding sufficient space for connecting all cables to the existing terminal boxes on the generators. It is therefore strongly advisable to accommodate the link boxes on the generators and I feel that as long as the generators are in your workshop, the mounting of the link boxes i.e. welding of the same on to the generators can be executed in the most suitable way. You are kindly requested to reconsider your final reply and waive the cancellation of the order for the same.

Looking forward to your earliest reply for the above suggestion.

I remain,

Yours faithfully,

For Escorts Limited,

Sd./- V. HOLZKAMM

Encl:

A.E.G. Schiffbau

#### EXHIBIT IX

#### ESCORTS LIMITED BOMBAY-1.

T-196/HOR

3rd May, 1962.

Messrs. Hindustan Shipyard Ltd.,  
Visakhapatnam.

V.C. 136 Reconditioning of electrical propulsion equipment  
supplied by Messrs. A.E.G.-AEG Project No. 26476/62117  
Ex. 48.

Dear Sirs,

This has reference to your letter No. CSP|A|Det Parts|136|2370 dated 7th March, 1962. In response to Mr. Holzkaamm's report to

our principals about reconditioning of the electrical propulsion plant, we are now in receipt of Messrs. A.E.G's. estimate for the arising expenses. We may draw your attention to the fact that since the exact amount of the damage cannot be anticipated by them before thorough inspection in their works, the estimate as given below will naturally be on the high side. However, the basic costs of overhauling are mentioned separately and this covers the general work involved for overhauling each machine without any replacement parts. In details we wish to submit our quotation as follows:

**(1) For Propulsion Motors Type GLC 6976/8**

- (a) General overhauling of each machine i.e. dismantling of machine, removing Compensation frame, dismantling the Main and Interpoles with Coils, renewing the insulation of Coil Cores, vacuum-drying the Coils and varnishing, redoing compensation frame and tinning built anew poles with Coils, fixing up the compensation frame and insulating, Armature drying-up and varnishing, dynamical balancing check-up; Commutator turning, scraping and polishing, cleaning and reconditioning all mechanical parts, Mounting the machine, testing under no-load.

Estimated cost for general overhauling of each machine as mentioned above . . . . . DM 25,500—

(b) Rewinding of each Mainpole Coil Estimated cost each . . . . . DM 5,100—

(c) Rewinding of each Interpole Coil Estimated cost each . . . . . DM 4,675—

(d) Rewinding of each Armature Estimated cost each . . . . . DM 53,750—

**(2) For propulsion Generators Type GC 6762/6**

(a) General overhauling of each machine  
Scope of work as explained under item 1 (a) Estimated cost each . . . . . DM 22,100—

(b) Rewinding of each Mainpole Coil Estimated cost each . . . . . DM 4,450—

(c) Rewinding of each Interpole coil Estimated cost each . . . . . DM 3,480—

(d) Rewinding of each Armature Estimated cost each . . . . . DM 38,600—

**(3) For Ship's General supply Generators Type G 127 Mod.**

(a) General overhauling of machine, Scope of work as explained under item 1(a)  
Estimated cost each . . . . . DM 12,700

(b) Rewinding of each Mainpole Coil Estimated cost each . . . . .	DM 3,690
(c) Rewinding of each Interpole Coil Estimated cost each . . . . .	DM 2,530
(d) Rewinding of each Armature Estimated cost each . . . . .	DM 21,100

**Remarks.**—The above prices are only estimated considering the value of renewed old materials. Should in the course of repair any other damages/faults be noticed other than those mentioned above, the extra work as well as the extra material required will be charged according to actuals.

The maximum repair costs can be obtained after adding the individual cost mentioned above taking into consideration that the propulsion motors have 8 mainpoles and 8 interpoles; the propulsion general have 6 mainpoles and 6 interpoles and the auxiliary generators have 6 mainpoles and 6 interpoles.

In an extraordinary case like the present, it is exceedingly difficult to make even an approximate estimate of what the repairs would cost, but items (1a), (2a) and (3a) *prima facie* appear to be of a basic nature, although even here, the general overhauling may be avoidable in the case of some machines. This could only be determined after a thorough inspection and test of the machines in Germany.

Again the figures indicated represent the best estimate that could be made at this stage but the actuals will vary depending upon the quantum of work involved in each case and the amount of material required to be used.

**Costs.**—The above mentioned prices are estimated and net for you provided that the machinery in question will be delivered to our principals in Hamburg/Bremen with freight paid. Transport costs in Germany are included in the prices as mentioned above, i.e. from German seaport to our principals factories and back to the Port of loading.

**Transport Insurance.**—Since consignment would be insured by you from Visakhapatnam till the German seaport and from there back to Visakhapatnam, our Principals recommend that you kindly insure the consignment till our principals factory and back to your Yard as that does not involve any extra costs for you. This means that you will have to extend the insurance for transport in

Germany as well. The equipment will be repaired in the factories as indicated below:—

- (1) Propulsion motors and Propulsion Generators—AEG Factory, Muehlheim—Ruhr.
- (2) Auxiliary Generators—LDW—Bremen.

*Time of Delivery.*—The estimated time of delivery for overhauling and repairing of the machines in question in our principals factories is approximately 2 months. In case any of the armatures of the above mentioned machinery will have to be rewound, the estimated time of delivery will be approximately 4 months.

*Terms of Payment.*—Our Principals recommend the following terms of payment:

An irrevocable letter of credit to be opened in favour of "AEG Export Department, Frankfurt/Main. AEG-Hochhaus" with our principals' foreign trade bankers M/s. Brinckmann, Writz & Co., Hamburg 1, Ferdinandstr. 75, for the possible maximum contract cost payable against shipping documents after carrying out the actual repairs. Of course it is understood that only the actual amount applicable for the overhauling/repairs will be payable to M/s. AEG and they should be allowed to make partial deliveries.

However, this matter could be settled by mutual discussions.

*Costs for Tests and Certificates.*—Any expenses for tests and certificates of the respective Classification Society if applicable are not covered under the above mentioned prices. Our principals tried to obtain necessary information from the competent Lloyds Surveyor in Hamburg, who presently is out of station. After discussions with the Lloyds Surveyor our principals will forward separate communication in regard to retesting of the equipment. However, in case of a retest, our principals will charge you net according to actuals.

*Guarantee.*—The machines which are overhauled or repaired in our principals factory in Germany will be guaranteed for a period of 6 months after the date of commissioning of the vessel or 12 months after the date of delivery (date of shipment after repairs) whichever is earlier.

*Conditions of Sale.*—Unless our rates are confirmed by us in writing the AEG conditions of Sale for Export 1960 Edition are valid.

**Validity.**—The validity of this quotation expires on 15th June, 1962. Beyond this stage the prices mentioned above are subject to confirmation by our principals in Germany.

Regarding the remaining equipment of the propulsion plant our principals informed us that these could be repaired in your Yard. The material involved is the propulsion switchboard, the engine room propulsion desk, the manoeuvring desk (bridge), the exciter converter sets, etc. The repair costs for these will be charged by our principals according to actuals. Any expenses for replacement parts as well as other costs applicable for overhaul/repair will have to be considered when you are opening a letter of credit.

We hope that with the above you will be able to decide to reship the propulsion equipment to our principals factory in Germany at an early date to effect soonest action on their end. In case any further queries in regard to the above will arise, you are kindly requested to discuss this matter with the AEG representative, Mr. Holzkamm who will be in Visakhapatnam from the 7th of May till 10th of May.

Assuring you of our best cooperation, we remain,

Yours faithfully,

For Escorts Ltd.

Sd/- SHIV NARAIN,  
Vice President.

#### ANNEXURE 'C'

HINDUSTAN SHIPYARD LTD. VISAKHAPATNAM-5

April 16, 1964

In connection with the damages to the machinery the Sub-Committee was asked by the Board to further report on the following points:

- (a) analyse the various aspects of negligence which had resulted in the damage to the electrical machinery;
- (b) locate the responsibility therefor, specifying the names of the concerned officers and staff; and
- (c) suggest remedial measures to avoid a recurrence in future.

Shri Jehangir P. Patel was also requested to indicate in his supplementary report the extenuating circumstances, which led to the negligence or complacency on the part of the concerned persons.

Shri Patel agreed to comply with the Board's request with the assistance of the Managing Director.

The Sub-Committee's findings are as follows:—

(a) *analyse the various aspects of negligence which had resulted in the damage to the electrical machinery:*

- (1) The decision not to open cases was correct in normal circumstances;
- (2) Unfortunate delay in installation on board mainly due to arguments between A.C.L. and other parties regarding preparation of drawings, could not be foreseen.
- (3) It was desirable to place packages under cover but was not practicable due to lack of suitable heavy mobile crane.
- (4) Floods are reported to have occurred in 1958. Even erection of hut over the machinery would not have helped.
- (5) Inspection was desirable after floods and should have been done, in spite of (1) above.

(b) *locate the responsibility therefor, specifying the names of the concerned officers and staff:*

It is not possible to fix having regard to the circumstances prevailing at that time.

(c) *suggest remedial measures to avoid a recurrence in future.*

Shri Jehangir P. Patel was also requested to indicate in his supplementary report the extenuating circumstances, which led to the negligence or complacency on the part of the concerned persons:

- (1) Delay in VC. 136 unusual. In future, time-lag between receipt of equipment and installation should not exceed 2/3 months.
- (2) Acquire 20-ton high jib mobile crane to facilitate storage under cover.
- (3) Inspection to be carried out if packages are accidentally exposed to damage, e.g., rain, flood etc.

Sd/- JEHANGIR P. PATEL.

## MINISTRY OF DEFENCE

(Department of Defence Production)

### Recommendation

*The Committee deprecate the abnormal delay on the part of the Government in according sanction to the scheme. They desire that the sanctioning authorities should scrupulously avoid such delays. The Committee note that, according to the Ministry, the machine was expected to be installed within the next 18 months. They trust that every effort will be made by the authorities concerned to ensure that the machine is commissioned as per schedule.*

[Sl. No. 51 of Appendix VII to 17th Report (III Lok Sabha).]

### ACTION TAKEN

The observations of the Committee with regard to the delay in the sanctioning of the scheme in question have been noted.

2. So far as the commissioning of the IBM equipment is concerned, all except three peripheral machines were commissioned by 1st April, 1964. The remaining three machines were commissioned by 4th September, 1964.

3. Director of Audit, Defence Services, has seen.

### Recommendation

*The Committee are not happy over the manner in which the case referred to in para 15 of the Audit Report (Defence Services), 1963 has been handled. They observe that the administrative approval for the construction of the building was accorded a year and a half after the layout drawings had become available whereafter another two and a half years elapsed before the work could commence. The result was that the commissioning of the furnace was delayed by more than four years. It was urged in extenuation that the tenders were invited twice, but no suitable contractor came forward to do the job. The Committee can hardly accept this explanation for the work could have been done departmentally by the M.E.S. The Committee trust that the Ministry of Defence will benefit from their experience in this case, and ensure that such delays do not recur.*

[Sl. No. 57 of Appendix VII to 17th Report (III Lok Sabha)].

### ACTION TAKEN

The Committee have pointed out the delay in the construction of the building having occurred at two stages, namely (i) according of administrative approval; and (ii) commencement of work.

2. So far as No. (i) is concerned, the position is that on receipt of drawings of the furnace and its ancillaries, the drawings for the building were prepared in consultation with the Furnace Makers. Thereafter a Siting Board was ordered and based on their recommendations an approximate estimate was prepared. The examination of these estimates took time and administrative approval was accorded in June, 1955.

3. As regards delay in commencement of the work, the position was explained to the Committee by the departmental witness.

4. Although it was stated by the departmental witness (Technical Officer from Engineer-in-Chief's Branch) that the work could have been done departmentally, on further examination he has revealed that this could not have been feasible for the following reasons:—

- (a) The work entailed the use of R.C.C. piling. Military Engineering Service has no piling rig and other specialist tools to execute such jobs.
- (b) A large amount of fabrication and erection of structural steel work was needed. The Military Engineering Service has no workshop facilities to carry out fabrication of steel of such magnitude.
- (c) The work was of a specialised nature and no trained personnel for such type of work are available with the Military Engineering Service.
- (d) Specialised job of this nature is not a regular feature and it would not be economical to go in for a special standing Departmental agreement for it.

5 The observations of the Public Accounts Committee have been noted. Instructions have been issued to Director General, Ordnance Factories and the Engineer-in-Chief to avoid delays of this nature vide Ministry of Defence u.o. No. 4/8/61/D(Prod) dated 3rd March, 1965 and 22nd July, 1965 (copies enclosed).

6. Director of Audit, Defence Services, has seen.

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(COPY)

MINISTRY OF DEFENCE

*(Department of Defence Production)*

**SUBJECT:—Public Accounts Committee Seventeenth Report (Third Lok Sabha) (S. No. 57, Para 82 Appendix-VII) Appropria-**  
**347 (a11) LS—19.**

*tion Accounts—Defence Services 1961-62—Audit Report, Defence Services, 1963.*

**Reference:** D.G.O.F. U.O. No. 005/17/A/DPC, dated 17th February, 1964, on the above subject.

A detailed analysis of the delay that occurred at the various stages has been made. The following conclusions have emerged:—

- (a) The placing of indents on D.G.I.S., the placing of orders in his turn on the firm and the delivery of the plant by the supplier were in accordance with reasonable schedules.
- (b) Necessary technical data for finalising plans for buildings were received in December 1953: still, the administrative approval for the civil works (which is only the authority for commencement of civil works and is not the completion of civil works) was issued only in June, 1955. This was mainly due to:—
  - (i) Elaborate procedure for convening Siting Boards.
  - (ii) Number of authorities having to prepare and scrutinise civil works, namely, Chief Engineer, Eastern Command; Staff Officer (I), Factories; Director General of Ordnance Factories; Deputy Financial Adviser (Factories); Deputy Financial Adviser (Works); Engineer-in-Chief.
- (c) The period between administrative approval (June 1955) and completion (February, 1960) was too long, considering that the value of civil works was Rs. 15 lakhs. Reasons were:—
  - (i) Preparation of tender documents was a dilatory process—22nd June, 1955 to 21st January, 1956.
  - (ii) The estimating of the value of civil works was defective in the first instance; re-tendering became necessary—20th March, 1956 to 8th February, 1957.
  - (iii) Delay in the commencement of work even after acceptance of tender—8th February, 1957 to 10 December, 1957.
- (d) Further sanctions became necessary because of inadequate provisions for buildings and services in the first instance.

2 The analysis has shown that at certain stages the delay was avoidable. Delay in the implementation of various projects and

schemes reacts adversely on the production of munition stores. The imperative necessity to avoid these delays may, therefore, be impressed on all concerned.

J. S. (F. & P.) has seen and approved.

Sd/- H. R. KHATTAR,  
U.S.

D.G.O.F., Calcutta (Shri S. S. Jauhari, Addl. D.G.O.F.)

Min of D. u.o. No. 4/8/64/D(Prod.) dated the 3rd March, 1965.

(COPY)

## MINISTRY OF DEFENCE

### (Department of Defence Production)

**SUBJECT:—Public Accounts Committee—17th Report (Third Lok Sabha), Para 82 Appendix VII (Sl. No. 57).**

The delay in the installation and commissioning of electric arc furnace at the Metal & Steel Factory, Ishapore, became the subject-matter of an audit paragraph in the Audit Report, Defence Services, 1963. The matter was considered by the P.A.C. who have made the following observation:—

“The Committee are not happy over the manner in which the case referred to in para 15 of the Audit Report, Defence Services, 1963, has been handled. They observe that the administrative approval for the construction of the building was accorded a year and half later after the layout drawings had become available. Thereafter another two and half years elapsed before the work could commence. The result was that the commissioning of the furnace was delayed by more than 4 years. It was urged in extenuation that the tenders were invited twice but no suitable contractor came forward to do the job. The Committee can hardly accept this explanation for the work could have been done departmentally by MES. The Committee trust that the Ministry of Defence will benefit from their experience in this case and ensure that such delays do not recur.”

2. The Committee are being informed that the work could not be done departmentally in the light of the position explained by DGW, in their note dated 10th August, 1964 recorded below Ministry of Defence U.O. No. 6793/D(Prod) dated 9th July, 1964. In regard to the delay which has occurred in the installation of the equipment, a detailed case study has been made by the Ministry of Defence.

From the study it transpires that the period between administrative approval (June 1955) and completion (Feb. 1960) was too long considering that the value of civil works was only Rs. 15 lakhs. Reasons were:—

- (a) Preparation of tender documents was a dilatory process—22nd June, 1955 to 21st January 1956.
- (b) The estimating of the value of the civil works was defective in the first instance; retendering became necessary—20th March, 1956 to 8th February, 1957.
- (c) Delay in the commencement of work even after acceptance of tender—8th February, 1957 to 10th December, 1957. -
- (d) Further sanction became necessary because of inadequate provisions for buildings and services in the first instance.

3. It will be appreciated that it is necessary that the equipment which is received from abroad should be installed promptly so that the production may commence without undue delay. The delay in the installation of the equipment, therefore, partially defeats the purpose for which the equipment is obtained. It is, therefore, requested that it may be impressed on all concerned that all processes leading to installation of equipment should be attended to with promptitude and delays at various stages avoided.

Sd/-- S. Y. RANADE,  
Joint Secretary (F & P).

E-in-C (Maj. Gen. K. N. Dubey)

Min. of D. u.o. No. 4/8/64/D (Prod.) dated 22-7-1965 Copy to JS (Q).

Sd/- S. Y. RANADE,  
Joint Secretary (F & P).

## MINISTRY OF DEFENCE

### Recommendation

The Committee have come across some cases of serious delay in the completion of important projects and non-utilisation of imported machinery as a result of defective planning, lack of coordination and slow progress in the execution of connected works services. Such inordinate delays are bound to have adverse effects on the indigenous production of vital stores and the training programme in connection with which the equipment was ordered. The Committee desire that

**the Ministry should give serious consideration to the remedial measures necessary for obviating the recurrence of such cases.**

**[S. No. 69 of Appendix VII to 17th Report (Third Lok Sabha) 1963-64.]**

#### **ACTION TAKEN**

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

**Suitable Instructions (Copy enclosed) have been issued to all concerned to avoid delays in the implementation of various projects and schemes.**

**D.A.D.S. has seen.**

**No. F.14(21)/64/D(Budget)**

**GOVERNMENT OF INDIA**

**MINISTRY OF DEFENCE**

**New Delhi, the 14th July, 1965**

#### **MEMORANDUM**

**SUBJECT:—Planning and watching execution of ancillary facilities and Civil Works in case of projects.**

**Cases have come to notice where projects requiring progressing by different Sections or in different aspects in the same Section have suffered from a lack of coordinated planning with the result all the component aspects of a particular project had not progressed according to a coordinated time schedule and consequently there had been infructuous expenditure. The following are instances of this nature:—**

- (i) A hospital being completed but not being put to use for want of fixation of rates or the eligibility of certain categories of people for treatment.**
- (ii) Machinery being imported but the building not being completed as foundation specifications were not formulated in time.**
- (iii) Machinery being imported but the air-conditioning requirement being lost sight of.**
- (iv) Machinery being imported but appropriate and timely action to train personnel to handle the machinery not having been initiated.**

- (v) Buildings being completed, machinery being imported but ancillary facilities such as approach roads, bridge classifications and power supply not having been provided in time.

2. The Public Accounts Committee and the Audit have also on a number of occasions criticised such uncoordinated planning.

3. While there is general awareness for the need for planning, the main difficulty encountered has been to develop and establish a methodology to ensure such planning.

4. The starting point for such coordinated action would be the sanction for either machinery or a building project. Planning and programming should start simultaneously with the issue of a sanction. All the sanctions issued from a particular Branch should be listed out and should be analysed with a view to find out where coordinated planning and programming is necessary. This should be done at the level of Deputy Secretary. Once the necessity for such coordinated planning is identified in projects, a time schedule for various actions to be taken should be drawn up. Periodical meetings on the project could be convened once in two months and reviews by Joint Secretaries concerned every three or six months. Where a case is delayed on account of major issues raised by Finance or difficulties encountered by the supplying agency, the matter should be brought to the notice of Secretary so that it could be taken up at the appropriate level.

5. The planning of a project may involve the following:—

- (i) Buildings.
- (ii) Ancillary Services.
- (iii) Machinery.
- (iv) Establishment.
- (v) Any other important requirement such as specialised training, etc.

6. Every authority seeking sanction for a proposal for a building, purchase of machinery or a training scheme should simultaneously provide answers to the following three major questions:—

- (i) When will the building in which machinery is to be installed be completed?
- (ii) What arrangements have been proposed or made for training the personnel required to operate the machinery?

- (iii) What action has been taken to ensure that there will be no time lag between the completion of the building and the ancillary facilities and the arrival of the machinery.

7. In answering these questions, a time schedule should be worked out backwards from the day the project should be ready to function. This will lead to the dates by which sanctions and other action in regard to various other items should be initiated and completed. The coordinating agency should ensure that action is taken according to the schedule. This could be done by attaching a programming proforma to the sanction file and reviewing it from time to time.

8. It is requested that action on the above lines be initiated immediately. The effectiveness or otherwise of this procedural drill should be reviewed at the end of six months.

Sd/- A. D. PANDIT,  
Defence Secretary.

To

Secretary (DP).  
Additional Secretary.  
All Joint Secretaries.  
D.G.I.  
C.C.R. & D.  
All Deputy/Under Secretaries.

Copy to:—

Army Headquarters  
D.C.O.A.S.  
A.G.  
Q.M.G.  
M.G.O.  
E-in-C.

Naval Hqrs. (D.C.N.S.)

Air Hqrs. (D.C.A.S.)

All Inter-Services Orgns.

### Recommendation

While the Committee are glad to note the improvement in the percentage of overall savings in voted grants during the year under review (5.28 per cent), they note that the amount of the total saving during the year was the highest (Rs. 28.13 crores) for the five year period ending with 1962-63. The Committee feel that there is scope for further improvement in the standard of budgeting in order to

*minimise the gap between the estimates and actuals. They hope that the position will be kept under constant watch.*

[S. No. 1 of Appendix XX to 33rd Report (3rd Lok Sabha)].

#### ACTION TAKEN

The observations of the Committee have been noted.

2. While the total saving during 1962-63 (Rs. 28.13 crores) was no doubt higher than that of previous years, it has to be viewed against the fact that the total grant during the year was also by far the highest, for the five-year period ending with 1962-63. The total voted grants for the Defence Services during the five years ending 1962-63 and the actual expenditure are summarised below:—

	1958-59	1959-60	1960-61	1961-62	1962-63
1. Sanctioned Grants	O. 326.91	O. 305.16 S. 6.02	O. 338.25	O. 342.87 S. 21.84	O. 399.51 S. 132.61
		311.18		364.76	532.12
2. Actual Expenditure	304.28	293.65	310.17	343.63	503.99
3. Savings	22.63	17.53	28.08	21.13	28.13
4. Percentage of 3 to 1	6.92	5.63	8.30	5.79	5.28

NOTE:—'O' stands for Original Grant and 'S' for Supplementary Grant.

3. It will be seen from the above table that the sanctioned grants in 1962-63 far exceeded the total grants in each of the previous four years. Though the savings during the year were higher than in previous years, it will be noted from the table that the percentage of savings to the total grants was the lowest for the five-year period.

4. It will also be seen from the table that out of the total grants of Rs. 532.12 crores, Rs. 132.61 crores were obtained by way of Supplementary Grants. The bulk of it viz., Rs. 95 crores was obtained during November 1962 and Rs. 37 crores in March 1963, to meet the situation created by the emergency. The Supplementary Demands of November, 1962 were prepared on the basis of a very rough assessment, when fighting was in progress both in NEFA and in Ladakh. Had the fighting continued as was the expectation at that time, the additional grants would have been fully utilised. The facts that the Chinese would suspend operations and that there would be a prolonged lull in hostilities, could not be foreseen at that time.

5. It has been the constant endeavour of the Ministry of Defence to improve the standard of budgeting and performance against sanctioned Grants. With this end in view, the progress of schemes and expenditure against the provision made in the budget, is being reviewed in a series of meetings, every quarter, commencing from 1963-64. At these meetings the procedural and practical difficulties arising in the progress of schemes are considered and action taken to overcome them. Store purchases, works and manufacturing programmes which in the past accounted mainly for the shortfalls in expenditure, are critically examined during these reviews. As the result of such reviews the position for 1963-64 has shown a marked improvement, the Budget provision under the 'Revenue' grant was fully utilised, and the accounts of the year closed with a slight excess over the Budget grant.

6. The need for making provision in the Budget on a realistic basis is always kept in view at the time of framing the estimates and every effort is made to frame the estimates as accurately as possible. Nevertheless, shortfalls in expenditure do occur, mainly due to changes in the supply position, advancement in the time schedule for execution of works, supply of stores etc., and some times also due to policy changes leading to modifications in schemes and projects in the course of the year. Subject to the limitations and practical difficulties inherent in the situation, great care is being taken to prepare the estimates as accurately as possible. The position is kept under constant watch.

D.A.D.S. has seen.

### Recommendation

*The Committee regret to observe that the explanation given by the Defence Secretary before the Public Accounts Committee last year (1963-64) that surrenders were due to non-availability of foreign exchange involved in most of the manufacturing projects, does not appear to be consistent with the position now explained to the Committee.*

*The Committee feel concerned to note that in spite of the allotment of foreign exchange for these important schemes, the Ministry have not been able to utilise the funds to the extent expected, resulting in shortfall in planned targets. The Ministry have urged that the surrenders were due to optimistic budgeting. The Committee find from the Ministry's note that the savings on these schemes were due to non-materialisation of supplies of stores or non-implemen-*

*tion of certain schemes. The Committee feel that in the light of the experience of the Ministry about the procurement of stores and implementation of various manufacturing schemes, it should be possible to achieve better results. The Committee are not happy over the shortfall of expenditure in case of these important schemes which have direct bearing on the country's defence efforts.*

[S. No. 2 of Appendix XX to 33rd Report (Third Lok Sabha)].

#### ACTION TAKEN

The recommendations of the Committee have been noted for guidance.

2. D.A.D.S. has seen.

[Note showing Action Taken on S. No. 3(i) of Appendix XX to 33rd Report (3rd Lok Sabha) received and not printed].

#### Recommendation

*The Committee feel concerned to note that on one hand the Ministry of Defence have been requesting for more and more foreign exchange, and on the other they are not able to utilise even the reduced allotments made to them as indicated by the large surrenders made by them. Also the Committee feel that the manner in which the foreign exchange has been utilised leaves much to be desired.*

[S. No. 3(ii) of Appendix XX to 33rd Report (Third Lok Sabha)].

#### ACTION TAKEN

The recommendations of the Public Accounts Committee have been noted.

In reply to the recommendation at Serial No. 3(i), para 4(i), statements showing the Foreign Exchange demands of the Defence Ministry, allocation by the Ministry of Finance and their utilization by the Defence Ministry, have been furnished for the period beginning from October 1957 upto March 1964. It has been explained therein that Foreign Exchange budgeting is done on a commitment basis and cannot be directly related to the expenditure budget. The statements showing the foreign exchange allocation and the utilization would also indicate that whatever foreign exchange was allotted to the Defence Ministry from October 1957 to March 1964 was fully committed.

The surrenders relate to budgetary allotments. The payments did not materialise due to various reasons but primarily due to delay in receipt of stores from abroad. The uncertainties regarding over-

seas supplies are well known and experience over the last few years has shown that no amount of care in preparing the connected estimates is too great for the purpose. Due note has been taken of this and attempts would be made in future to provide adequate safeguards so that such shortfalls in budget do not recur.

L.A.D.S. has seen.

[Note showing Action Taken on S. No. 4 of Appendix XX to 33rd Report (Third Lok Sabha) received and not printed].

**MINISTRY OF FINANCE**  
(Department of Economic Affairs)

**Recommendation**

*The Committee feel that money drawn from Contingency Fund should not generally be in excess of what is required for immediate use in anticipation of the vote of Parliament. They desire that necessary instructions may be issued by the Ministry of Finance to all the Ministries to follow the correct procedure in this respect.*

[S. No. 5(ii) of Appendix XX to 33rd Report (Third Lok Sabha).]

**ACTION TAKEN**

Necessary instructions have been issued vide this Ministry O.M. No. F.8(19)-B/65, dated 17-7-1965 (Copy enclosed).

[No. F. 8(19)-B/65, dated 17-7-1965]

No. F. 8(19)-B/65

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

Department of Economic Affairs

*New Delhi the 17-7-1965.*

**OFFICE MEMORANDUM**

**SUBJECT:—Contingency Fund of India—Drawal of advances from—**

The undersigned is directed to invite a reference to the following recommendation of the Public Accounts Committee made in para 6 of their Thirty-third Report (Third Lok Sabha):

“The Committee feel that money drawn from Contingency Fund should not generally be in excess of what is required for immediate use in anticipation of vote of Parliament.”

2. Rule 8-A of Contingency Fund of India Rules envisages that if in any case, after the order sanctioning an advance from the Contingency Fund has been issued in accordance with Rule 7 *ibid* and before action is taken to obtain Supplementary Grant in accordance with Rule 8 *ibid*, it is found that the advance sanctioned will remain wholly or partly unutilised, an application shall be made to the sanctioning authority for cancelling or modifying the sanction, as the case may be.

3. The Ministry of Home Affairs etc. are requested to carefully note the recommendation of the Committee and ensure that the requirements of Rule 8-A of Contingency Fund of India Rules are strictly adhered to. They are also requested to bring these instructions to the notice of all offices under their control.

Sd/- R. K. MUKERJEE,

Under Secretary to the Govt. of India.

[No. F. 8 (19)-B/65].

To

All Ministries, etc. of the Government of India.

Copy forwarded for information and guidance to:

1. Departments of Expenditure, Revenue, and Company Affairs and Insurance.
2. Administration Branch for circulation in the Department of Economic Affairs.
3. The Comptroller & Auditor General, New Delhi.

Sd/- R. K. MUKERJEE,

Under Secretary to the Govt. of India.

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## MINISTRY OF DEFENCE

### Recommendation

The Committee find no justification for the failure of the Garrison Engineer concerned not to negotiate rates for the extra digging work when it was realised that the work was exceeding the quantity mentioned in the contract. It is regrettable that the Garrison Engineer also exceeded his powers in allowing more than 50 per cent deviation in the work without obtaining the sanction of the higher authorities. The Committee were informed during evidence that instructions were being issued that where estimates were likely to be exceeded for some

*reason, the work should not be stopped but the rates should be negotiated immediately and necessary sanction obtained. The Committee would like to be furnished with a copy of these instructions. The Committee also hope that such cases will not recur.*

[S. No. 11 of Appendix XX to 33rd Report (1964-65) (Third Lok Sabha)].

#### ACTION TAKEN

An extract of clause 7 of the General Conditions of Contract (IAFW 2249) pertaining to deviations is placed at Annexure I for information.

2. Any excess over the limits for deviation prescribed in the contract should be ordered after mutual agreement between the contractor and the authority who accepted the contract, which may include price refixation where necessary. The Garrison Engineer should constantly review the position and bring to the notice of the accepting authority, where the contracts were accepted by the higher authorities, of any excess likely to occur to enable timely action being taken for entering into the agreement. In this case the contract was accepted by the CWE and the agreement should have been entered into by him before the deviation limit was exceeded, and E-in-C's prior concurrence obtained for exceeding the deviation limit prescribed.

Detailed instructions have been issued by Army Headquarters and a copy of the letter is placed at Annexure II. With the issue of these instructions, it is hoped that such cases would not recur in future.

3. D.A.D.S. has seen.

[U.O. No. 2(7) '63/1369/D (Works-II), dated the 25th Feb., 1966].

## **ANNEXURE I**

### ***Extract of Clause 7 of the General Conditions of Contracts (IAFW 2249)***

**Deviations (Applicable specifically to Measurement and Lump Sum Contracts and generally to Term Contracts):—**The Contractor shall not make any alteration in, addition to or omission from the Works as described in the tender documents except in pursuance of the written instructions of the GE.

No work that radically changes the original nature and scope of the Contracts shall be ordered as a Deviation and in the event of disagreement between the Contractor and the Accepting Officer, the decision of the next higher authority (or of the Chief Engineer in case of contracts accepted by him) shall be final and binding on the Contractor.

The Accepting Officer, or person specially authorised by him on his behalf, may vary either by way of addition to and/or deduction from the works so described provided that the Contract Sum be not thereby varied on the whole by more than the percentage set out in the tender documents (referred to herein below as the 'Deviation limit') subject to the following restrictions:—

- (a) The Deviation limit referred to above is the net effect (algebraical sum) of all additions and deductions ordered.
- (b) In no case shall the Additions/Deductions (arithmetical sum) exceed twice the Deviation limit.
- (c) The Deviations ordered on items of any individual trade included in Contract shall not exceed Plus/Minus 50% of the value of that trade in the Contract as a whole or half the Deviation limit, whichever is less except in the case of Prime Cost and Provisional Items where the parties to the contract may agree to a different percentage for any particular item.

"The value of additions of items of any individual trade not already included in the Contract shall not exceed 10% of the Deviation limit".

**"Note:—Individual trade means the trade sections into which a Bill of Quantities or Schedule 'A' has been divided or, in the absence of any such division, the individual sections of MES Standard Schedule of Rates, such as, Excavation and Earthwork, Concrete, Woodwork and Joinery, etc."**

All additions and deductions will be priced as per condition 62 hereof and added to, or deducted from the Contract sum. Whenever the Accepting Officer intends to exercise such right, his intention shall be communicated to the Contractor by the GE whose order in writing shall specify the deviations which are to be made, the lump sum assessment or the proposed basis of payment, the change, if any, in the date for completion of the relevant phase and/or the entire Contract. Any objection by the Contractor to any matter concerning the Deviation Order, shall be notified by him in writing to the GE within seven days from the date of receipt of such order, but under no circumstances shall the progress of the Works be stopped (unless so ordered by the GE) owing to differences or controversy that may arise from such objection. In default of such notification, the Contractor will be deemed to have accepted the order and the conditions stated therein without in any way affecting the right of the parties to rectify any mistake on the basis of payment only to the extent it differs from condition 62. In the event of the Contractor failing to agree with the GE regarding the proposed alteration of time, the objection shall be referred to the Accepting Officer, or in the case of Contracts accepted by the GE to the CWE, whose decision shall be final and binding.

## **ANNEXURE II**

No. 33416/9/E8

**ARMY HEADQUARTERS  
(Engineer in Chief's Branch)**

*DHQ P.O., New Delhi-11*

*26 November, 1964.*

To

Chief Engineer  
Southern Command, POONA  
Eastern Command, CALCUTTA  
Western Command, SIMLA  
Central Command, LUCKNOW.

**SUBJECT:—Deviation limit**

Conditions of contracts stipulate the limit within which deviations may be ordered. Cases have occurred in which this limit has been

exceeded without an amendment being made to the contract to cover any price adjustment arising therefrom. This has resulted in disputes with contractors necessitating reference to arbitration.

2. To avoid recurrence of such cases, it is essential that while work is in progress, quantities likely to be required are periodically checked against those given in the contract. This is necessary to ensure that if the prescribed limit is likely to be exceeded, action is taken to enter into an agreement with the contractor with regard to price adjustment, if any, which may be desired by either party.

3. If work in excess of the permissible deviation limit is required to be executed by the contractor, action to arrive at a settlement with him with regard to price adjustment, if any, should be taken at a suitable stage so that work does not have to be suspended for want of such a settlement. It should be borne in mind that for work in excess of the deviation limit, the contractor is entitled to a reasonable rate which may be either lower or higher than the rate included in the contract for similar work.

4. The question of ordering work in excess of the deviation limit should arise only if such a course is considered unavoidable e.g. when the additional work is closely connected with the original work and it is considered preferable to order it on the same contractor instead of concluding of a fresh contract for it.

Sd./- for Engineer in Chief

Copy to:—

Chief Engineer, West Coast

etc etc.

### **Recommendation**

(i) In this case, even though the lowest tender received in the first contract a few days earlier had disclosed considerably lower rates for rock-cutting work, the lowest tender in the second contract stipulating higher rates (more than three times those given in the lowest tender of the first contract) was accepted by the Engineer concerned without making any effort to get the rates reduced. The proper course was to negotiate with the successful tenderer of the first contract to undertake the second contract also. Alternatively the lowest tenderer in the second case should have been impressed upon to bring down his rates. It is regrettable that the engineer concerned failed to take these normal precautions. The Committee subscribe to the view of the CTE that no proper scrutiny of the tender in

the second case was carried out before acceptance and there was no justification for the acceptance of the higher rates. In spite of the fact that the contractor in the case of contract 'B' had quoted very high rates, the officers concerned were not put on their guard in scrutinising the tender, but they awarded the contract more or less mechanically.. As a result Government have suffered a heavy loss.

(ii) The Committee feel concerned to note that in spite of the observations of the Chief Technical Examiner no action was taken by the Army Headquarters against the engineer concerned for this failure, till the matter came before the Ministry of Defence who ordered the explanation of the officer to be called for. The Committee desire that more serious attention should be paid by the authorities concerned to the observation of an expert organisation like the C.T.E.

(iii) The Committee would like to know the action taken against the officer concerned as a result of his explanation called for recently.

[S. No. 13 of Appendix XX to 33rd Report (3rd Lok Sabha) (1964-65).]

#### ACTION TAKEN

Parts (i) and (ii) of the Recommendation have been noted. As regards part (iii), the explanation of the concerned officer has been considered and it has been decided that a written warning should be administered to him for the administrative lapse on his part in the handling of the contracts.

2. D.A.D.S. has seen.

[U.O. No. 2(12)/63 55-S.D(W-II) dated 21st January, 1966].

#### Recommendation

(i) The Committee feel concerned over the delay in completion of the scheme for improvement of the water supply at the station, which was sanctioned about 10 years back. While the subsidiary works were completed in June, 1964, the deepening of the bed of the catchment area is still to be completed. The objective of the scheme to increase the water supply by 1,75,000 gallons per day has not yet been achieved. In the opinion of the Committee the delay is due to lack of planning and forethought on the part of the engineers. According to the Engineer in Chief's own admission, so far as the dam was concerned they had given a hasty estimate. It is regrettable that the feasibility of raising the height of the dam was not fully investigated before sanctioning the scheme in 1954, with the result

that the work had to be suspended in December, 1956 and the project estimates revised from 5.81 lakhs to 14.11 lakhs in April 1959 (later increased to 17.40 lakhs in January 1962).

(ii) Another disquieting feature of the project is that the workmanship of the masonry reservoir was not up to the standard (as confirmed by the Board of Officers), as a result of which there developed leaks. This indicates that there was lack of supervision over the work done by the contractor. The Committee would like to know the action taken against the officers concerned for laxity in supervision. They would also like to know the action taken to recover the extra expenditure incurred on repairs from the Contractor who initially did sub-standard work.

(iii) It is regrettable that even in a project under the Army a small project like this has taken a decade and still not completed though the necessary funds, materials and equipment were available. This shows that the system of both planning and execution is defective and needs examination with a view to eliminating delays and bad planning.

[S. No. 14 of Appendix XX to 33rd Report (3rd Lok Sabha).]

#### ACTION TAKEN

##### (i) Noted.

It may, however, be stated that the entire scheme of water supply for Ranikhet, Chaubatia and Dulikhet was re-examined at a high level meeting at Army Headquarters in November 1956 and a Technical Board was ordered to prepare a revised scheme taking into account *inter alia* the increased scope. A revised scheme at a cost of Rs. 24.70 lakhs was submitted in March 1957. After scrutiny and consultations at various levels Government sanction was accorded on 21-4-59 in two phases costing Rs. 14.11 lakhs. Phase I costing Rs. 2.24 lakhs consisted of items which were under progress according to original sanction. Phase II costing Rs. 11.87 lakhs comprised additional storage capacity of 48 lakh gallons, change of diesel driven pumps to electrical driven ones, augmentation of water filtration plant at Nagpani, rising mains from Nagpani to highest point to Chaubatia and connected works. The estimate of Rs. 11.87 lakhs for Phase II was further revised to Rs. 15.156 lakhs in January 1962 due to increase in cost of pipes and masonry tanks.

The work of deepening of the bed of the catchment area has since been completed. A supplementary work for Rs. 4.66 lakhs was sanctioned on 30th January 1964, for replacement of an old main from the highest point to Jhula Devi. The work is nearing completion

and the full benefit of the scheme will be achieved on completion of this work.

(ii) The explanations of the officers concerned are being collected by the Chief Engineer and he has been asked to take expeditious action. A further report in this regard will be submitted to the Committee.

The contractor went for arbitration. The award published the arbitrator on 7th May 1965 has upheld in part the Government claim for cost of rectification carried out at the cost of the contractor and Rs. 22,500/- has been awarded in favour of the Government (against Rs. 1,06,200 approximately). This will be recovered from the Contractor's amounts held in deposit.

(iii) Instructions have been issued by Army Headquarters stressing on the various aspects of planning, and execution to avoid delays of this nature, vide Annexure I.

It may, however, be mentioned that the work sanctioned in 1959 was taken up in hand immediately after sanction and almost all the items were completed in 1961 except the rising mains which were held up due to delay in the supply of pipes.

The demands for pipes were placed on DGS&D in October 1959. After repeated tenders (due to unsuitability) of the pipes offered or the high foreign exchange involved DGS&D finally accepted tenders on 23rd March 1961 with Messrs Indian Tube Co., who undertook to manufacture pipes indigenously, foreign exchange being required by them only for certain specials (to the tune of Rs. 34,000). The firm could not keep up the schedule due to unavoidable circumstances (strike in the factory). The last consignment of pipes was received in July 1963 and the work of laying the rising mains was completed on 28-2-1964.

It is reported that the rectification work was completed on 25th June 1964 and the reservoir is now functioning satisfactorily and no further leaks have been noticed. The drilling operation at Bhalu Dam has been completed. The supplementary work of laying of the rising main from the highest point to Jhula Devi sanctioned in January 1964 at a cost of Rs. 4.66 lakhs is in hand and is expected to be completed before end of this year.

D.A.D.S. has seen.

[U.O. No. 2(18)/63/11198/D(W-II), dated the 13th December 1965.]

## **ANNEXURE I**

No. 42413/VIII/E2 Plg.

**ARMY HEADQUARTERS,  
(Engineer-in-Chief's Branch)**

*PHQ P.O. New Delhi-11, 3/6 May, 1965.*

**To**

**The Chief Engineer,  
Eastern Command, CALCUTTA  
Central Command, LUCKNOW  
Western Command, SIMLA  
Southern Command, POONA.  
Bengal Zone, CALCUTTA  
Northern Zone, LUCKNOW  
North Eastern Zone, SHILLONG  
Central Zone, NAGPUR  
North Western Zone, CHANDIGARH  
Delhi & Rajasthan Zone, DELHI Cantt.  
XV Corps, C/o 56 APO  
Poona Zone, POONA  
Southern Zone, MADRAS  
West Coast, BOMBAY  
Andaman & Nicobar Islands C/o 56 APO.**

**SUBJECT:—*Planning and Execution of Projects—delays in Completion.***

A case has come to notice in which an abnormal delay of over ten years has occurred in the planning and the execution of a water supply project. This has been adversely commented on and seriously viewed by the Government.

2. It has been observed that the main cause of delay has been due to the following:—

- (a) Inadequate preliminary investigations and insufficient collection of necessary technical data, resulting in bad planning and necessitating revision of the scheme at later dates.
- (b) Lack of proper attention to technical designs and adequate supervision during execution, resulting in works of sub-

standard specifications and inferior quality/workmanship  
—necessitating rectification/replacement of such works.

- (c) Demands of stores not initiated promptly and progresses to keep in step with the progress on the execution of the works.

3. Before a project is planned and initiated, it is essential that all necessary preliminary investigations are carried out and technical/engineering data collected. This will assist in proper planning of the projects with reasonably sound and economical designs/specifications in the first instance. As soon as the project is sanctioned and released for execution, no time should be lost in working out and floating demands for stores. Even, in cases of short supply stores action for procurement can be taken in anticipation of sanction of a project in terms of Para 646 of Regulations for the MES. In such cases proposal for advance procurement should accompany the A.E.

4. During execution of the project, proper attention to technical designs and adequate supervision is essential so as to guard against sub-standard specifications or inferior quality of workmanship.

5. The above instructions should be observed and followed by all concerned to avoid any recurrence of the nature stated in para 1 above.

Sd/-

for Engineer in Chief.

Internal distribution:—

E2 Army (EC)

" " (CC)

" " (WC)

" " (SC)

E2 Navy

E2 (DP).

Engr 2 Air

E2 (PHE)

E4

E2A

Inspectorate of Works.

### Recommendation

*The Committee regret to note that due to defective wording in the contract an extra expenditure of Rs. 36,000 had to be incurred in this case. They suggest that instructions be issued to the effect that utmost care is taken in wording the description of the work in the contract so that it is not capable of being given different interpretations.*

[Sl. No. 15 of Appendix XX to 33rd Report 1964-65  
(Third Lok Sabha).]

### ACTION TAKEN

Instructions have already been issued in E-in-C's Branch letter No. 33416/E8, dated the 26th March 1959, and of even No. dated the 12th June 1963, stressing the importance of proper wording of contract documents. These instructions have been further clarified in that Branch letter of even reference dated the 19th October 1965. Copies of the letters are enclosed at Annexures I to III.

2. D.A.D.S. has seen.

[U.O. No. 2 (5) 63 10675 D(W-II), dated 9th November, 1965.]

Sd/- (L. S. Lulla)  
Joint Secretary.

**ANNEXURE I**

No. 33416/E8

**ARMY HEADQUARTERS**

**(Engineer-in-Chief's Branch)**

**DHQ P.O. New Delhi, 26th Mar. 1959**

**To**

The Chief Engineer,  
Southern Command, POONA-1  
Eastern Command, LUCKNOW  
Western Command, SIMLA  
Chief Works Officer, NDES, Vithal House, Mint Road, BOMBAY I.

**SUBJECT:—Preparation of Tender Documents.**

The MES Review Committee have recommended as under:—

“the contract documents should be as simple as possible so that the officers who are to conclude and operate them do not find them too complicated.”

2. Government have accepted the recommendation referred to in the preceding para.

3. It should be impressed on all those who are concerned with the preparation of contracts that documents drafted by them are worded in a simple, clear and unambiguous language and that there were no discrepancies between the various documents forming part of a contract.

Sd./-

for Engineer in Chief.

**Copy to:—**

Comdt., College of Military Engineering, Kirkee POONA.

**Internal Distribution**

**File No. 33416|9|E8.**

**File No. 46983|R-55|E8.**

**ANNEXURE II**

No. 33416/E8,

**ARMY HEADQUARTERS****(Engineer in Chief's Branch)**

DHQ P.O. New Delhi 12th June, 1963

**To**

Chief Engineer,  
 Southern Command, POONA  
 Eastern Command, CALCUTTA  
 Western Command, SIMLA  
 Central Command, LUCKNOW.

**SUBJECT:—***Preparation of Tender Documents.*

A reference is invited to this office letter No. 33416/E8, dated the 26th March 1959 wherein it has been stressed that contract documents should be worded in simple, clear and unambiguous language and that it should be ensured that there are no discrepancies between the various documents forming part of a contract.

2. A case has recently been brought to our notice in respect of a contract for supply of bricks in which requirements stipulated for bricks were stated differently at different place in the tender documents. Such variable provisions are likely to result in unnecessary disputes with contractors.

3. In order to avoid a recurrence of such cases, officers responsible for preparation of tender documents should ensure that tender documents are as simple as possible without any conflicting or ambiguous provisions therein.

4. Please issue suitable instructions on the subject to all concerned.

Sd./-  
 for Engineer in Chief.

Chief Engineer,  
 West Coast  
 Southern Zone  
 Central Zone  
 Poona Zone  
 XV Corps, C/o 56 APO  
 QMG's Branch (CTE's Dte.).

**ANNEXURE III****No. 33416/E8****ARMY HEADQUARTERS****(Engineer in Chief's Branch)****DHQPO NEW DELHI—11, 15/19 Oct. 65.****To**

**Chief Engineer,  
Southern Command, Poona-1.  
Eastern Command, (Fort William, Calcutta-21.)  
Western Command, (Rear HQ. Simla-3.)  
Central Command, Lucknow.**

**SUBJECT:—*Preparation of Tender Documents***

A case has been brought to our notice where an Item Rate Contract included the following items of work:—

- (a) Excavation in trenches not exceeding 5 ft. deep.
- (b) Ditto—exceeding 5 ft. deep and not exceeding 10 ft. deep.
- (c) Ditto—exceeding 10 ft. deep and not exceeding 15 ft. deep.
- (d) Ditto—exceeding 15 ft. deep and not exceeding 20 ft. deep.
- (e) Ditto—exceeding 20 ft. deep and not exceeding 25 ft. deep.

2. A dispute arose in regard to the applicability of the tendered rates. The contractor contended that the rate in any of these items applied to the entire depth of excavation and not only to the soil between the depths mentioned in the item e.g. the rate for item (b) applied to the entire 10 ft. depth of excavation and not to the portion exceeding 5 ft. and not exceeding 10 ft. deep. The department on the other hand contended that the rate applied only to the portion exceeding 5 ft. deep and not exceeding 10 ft. deep and thus the portion not exceeding 5 ft. deep was payable under item (a).

3. If it had been made clear in the contract that the different rates applied only to the quantity of earth work carried out in that particular strata the dispute could have been avoided. The necessity of wording the contract documents in simple, clear and unambiguous language has already been stressed in this office letter No. 33416/E8

dated the 26th March 1959. The importance of this instruction should be again brought to the notice of all concerned.

Sd./-  
for Engineer in Chief.

Copy to:—

Chief Engineer,

West Coast, 26 Assaye Bldg. Colaba, Bombay-5, etc. etc.

### Recommendation

*The Committee are not happy over the delay that has occurred in commissioning the five tube wells with the result that there was continuous short-fall in the Production of green fodder in the farm and extra fodder had to be purchased locally at high cost. It is not clear whether before sanctioning the installation of the tube-wells any firm commitment for supply of adequate power was received from the State Government. If not, action should have been simultaneously initiated to procure diesel pumping sets.*

*The Committee would like to be informed whether all the seven tube-wells are now giving satisfactory service.*

[S. No. 16 of Appendix XX to 33rd Report 1964-65 (Third Lok Sabha).]

### ACTION TAKEN

The recommendations of the Committee have been noted.

2. No firm commitment for supply of power was received from the State Government before sanctioning the installation of the tube wells on 15th October, 1959. The question was, however, under active discussion by the Command authorities with the Chief Engineer Hydel, U.P. Government and it was hoped that required supply would be made available. The administrative approval also contained the remarks, "This estimate has been prepared on the assumption that electric power for the tube wells will be available from Hydel as mentioned in the Board Proceedings". This question was also subsequently taken up at Ministry's level with the State Government on 22nd December, 1959. The Chief Engineer (MES) was informed by U.P. Government on 21st March, 1960 that due to shortage of electric power in that area, the State Government were not in a position to give necessary supply. The matter was, however, still pursued between Ministry of Defence and the U.P. Government. The latter wanted to know on 4th May 1960 the minimum

demand, and the details were furnished by Defence Ministry on 6th July, 1960. After a further reminder on 3rd August, 1960 the State Government intimated on 27th September, 1960 that while necessary supply for lights and fans could be made available, power supply for the tubewells could be given only for a few hours during night. This did not meet our requirements.

3. In the meanwhile, HQ. Eastern Command, on finding that the State Government was not in a position to supply the required power, forwarded on 10th August, 1960 revised estimates substituting diesel driven pumping sets for electrically operated ones. This was approved by Government and necessary Corrigendum to the original Admin. Approval was issued on 23rd September, 1960.

The original estimate was provisionally prepared on the belief that electric power for the tube wells will be available from Hydel. Until the position was known definitely, it was not possible to take simultaneous action for provision of diesel engines as this would have become infructuous had supply been made available by the State Government.

4. It is reported that all the tube wells are running satisfactorily and working to their full capacity and no complaints have been received.

5. D.A.D.S. has seen.

[U.O. No. 2(16)/63. 9535/D (Works-II), dated the 5th October 1965.]

#### **Recommendation**

The Committee feel concerned over the inordinate delay in coming to a final decision about the disposal of a large number of tanks (131 out of 472 tanks) constructed during the last war, resulting in heavy expenditure on watch and ward. The Committee are alarmed at the magnitude of the expenditure judging from the two instances given in the Audit Para. Three tanks at Sanatnagar and 11 tanks at Asafnagar taken back from other parties in 1951 and 1954 respectively have been lying unused for 10 to 13 years, and an expenditure of about 40,000 had been incurred on watch and ward upto 31st March, 1963 with recurring annual expenditure of Rs. 3,840 (the total cost of the tanks is Rs. 95,650). The Committee had desired to be furnished with a note stating the expenditure incurred on maintenance, watch and ward etc. in respect of all the 472 tanks, the latest position of the disposal and the manner of disposal. The information has been furnished (Appendix IV). The Committee note that 131 tanks have now been finally decided as surplus to

*Defence requirements and were being disposed of. The other tanks had either been utilised or disposed of.*

*The Committee desire that the disposal of the unwanted tanks should be made early so that expenditure on watch and ward etc. could be avoided.*

[Sl. No. 17 of Appendix to 33rd Report (Third Lok Sabha).]

#### **ACTION TAKEN**

The position with regard to the disposal of the surplus tanks as on 16th August 1965 is stated below:—

Out of 131 tanks declared surplus 9 were subsequently utilised. 40 tanks have been disposed of. 69 tanks have been declared to DGS&D and 9 are under auction by MES. As regards the remaining 4 tanks the question whether these should be declared to DGS&D or sold by auction in situ by MES is under consideration.

D.A.D.S. has seen.

[U.O. No. 8(4), 65/D(W-1), dated the 18th October, 1965.]

#### **Recommendation**

The Committee regret to point out the following unsatisfactory features of these cases:—

(i) There was a failure on the part of the Camp Commandant to report till November, 1962 about the unauthorised occupation of the Government buildings comprising an area of 3280 sq. ft. from January, 1951 onwards.

(ii) There was a failure to appoint a Survey Board before the expiry of the lease agreement on 31st December, 1953 to assess the compensation payable to the contractor for the improvements effected by him in the cinema hall and also failure to terminate the lease agreement on the date. This resulted in the contractor obtaining an injunction from the Court in May, 1955 restraining Government from evicting him till the dispute was settled in arbitration.

(iii) There has been inordinate delay in concluding the arbitration proceedings. The Arbitrator appointed in March 1956 could not complete the arbitration proceedings before his retirement in 1959. After his retirement, no effective steps were taken to settle the dispute. The result was that the court injunction issued against Government in May 1955 is not yet vacated even after about 10 years.

(iv) Under the advice of the Ministry of Law, no rent has been accepted from the contractor since 31st October, 1957. According to Audit, the rent accumulated for recovery is Rs. 2.5 lakhs. The Committee feel that the question whether under these circumstances the rent could be accepted under protest without prejudice to the legal position should have been specifically examined.

The Committee desire that the matter should be fully investigated with a view to fixing responsibility of the officers concerned for the various lapses.

[S. No. 19 of Appendix XX to 33rd Report. (Third Lok Sabha).]

#### ACTION TAKEN

(i) The matter was investigated by a Court of Inquiry held in December, 1963. The Court held that the Camp Commandant who signed the contract deed in 1952 was to be blamed for not including the total accommodation in occupation of the contractor and similarly the successive Camp Commandants and Quartermasters of Army Headquarters Troops were responsible for not submitting occupation returns and conducting physical checks till November, 1962. No action could be taken against those who had already retired or had died. The case was seen by the Chief of the Army Staff who agreed with the findings of the Court of Inquiry and whose displeasure has been communicated to the following service officers who are still in service:—

(i) Major	Camp Commandant Army H.Q. Camp
(ii) Lt. Col.	—do—
(iii) Major	—do—
(iv) Captain	Quartermaster Army H.Q. Troops and Army H.Q. Camp
(v) Captain	—do—
(vi) Captain	—do—
(vii) Lt.	—do—

(ii) It is not correct that no Survey Board was held before the expiry of the lease agreement on 31st December, 1953. A Survey Board was in fact held on 19th October, 1953. It estimated the cost of improvements effected by the contractor at Rs. 71,545. The lease

of the contractor could not, however, be terminated on the 31st December, 1953 as details of the scheme for taking over Garrison cinemas, including the National Stadium cinema, by the Canteen Stores Department (I) were then being worked out. As some delay was anticipated in the cinemas being taken over by the CSD(I), instructions were issued on 19th November, 1953 in consultation with the Ministry of Finance (Defence) that the lease of such cinemas should not be auctioned but should be renewed with the same contractor on a month to month basis. In March, 1954, instructions were issued to extend the lease of Garrison Cinemas for a period of one year on the existing terms. On the 11th February, 1955, Army H.Q. informed the local military authorities that the Board of Control, Canteen Services, which *inter-alia* included the Defence Secretary and the Financial Adviser, Ministry of Finance (Defence), had approved the scheme for taking over the cinemas by the CSD(I) and that they could take over the National Stadium cinema on the 1st April, 1955, at the earliest. They were also asked to extend the lease of the National Stadium cinema upto 31st March, 1955. Since the lease of the cinema was extended upto 31st March, 1955, any decision to determine the amount of compensation payable to the contractor more than one year in advance, would not have been in order. The contractor was therefore also informed that the question of payment of compensation will be considered in terms of the lease agreement when the CSD(I) actually took over the building. A second Survey Board was accordingly held on the 3rd March, 1955. It assessed the cost of additions/alterations, electric fittings and furniture supplied by the contractor at Rs. 27,320. (This excluded the cost of projectors, exhibiting screen and two cycles.) The contractor however, claimed a sum of Rs. 78,345. Unfortunately, the second Survey Board was not properly constituted, in that neither the contracting officer was the Chairman of the Board nor was the contractor a member of the Board. The question of payment of compensation to the contractor was taken up with the Ministry of Finance (Defence). Before, however, a decision could be taken in the matter, the contractor moved the civil court on the 31st March, 1955 and obtained on 2nd April, 1955 an interim injunction restraining the Government from dispossessing him of the National Stadium cinema. The interim injunction was confirmed by the Court on the 26th May, 1955 till the award by the arbitrator. Thus, while everything possible was done, the contractor could not be ejected on the 1st April, 1955 on the termination of the extended lease due to his having obtained an injunction from the Civil Court. Government had, therefore, to abide by the orders of the court.

(iii) There was inordinate delay in finalising the Arbitration Proceedings as the contractor claimed that he had been assured by Gen. K. M. Cariappa, the then C-in-C, Army, and Lt. Gen. S. P. P. Thorat that his lease would be extended to 10 years. These General officers had, therefore, to be examined by arbitrator which took a long time. The contractor had also moved the civil court in May, 1958 for revocation of the authority of the arbitrator and his removal on the ground that the arbitrator refused to allow the contractor to produce a witness. The arbitrator had, therefore, to postpone further hearing till a decision by the Court. The application of the contractor was dismissed by the Court in February, 1959. The arbitrator thereupon proceeded further with the arbitration proceedings and when the arbitration proceedings were about to be completed, he received orders for his transfer in March, 1959. He thereupon adjourned the arbitration proceedings *sine die* with the order that the Government should obtain directions from the Court as to whether he should continue as arbitrator in his personal capacity or whether the new GOC Delhi and Rajasthan Area was to carry on the arbitration. Thereupon an application was filed in the Court on the 12th October, 1959 for authorising Maj. Gen. U. C. Dubey to continue the arbitration proceedings and give his award. Hearings of the case was fixed on the 14th November, 1959, 12th February, 1960 and the 9th April, 1960, but every time the case was postponed. It has not been possible to ascertain from the local military authorities the final outcome of the application filed in the Court as the officers and staff dealing with this case have been posted out and the records held by the local military authorities do not throw any light on this aspect. Efforts were thereupon made to effect a compromise with the contractor. The contractor was agreeable to vacate the premises after a period of 5 years but insisted that the compensation should be determined and paid to him before he vacated the premises.

After consideration of the case in consultation with Army H.Q. and the Ministry of Finance (Defence), it was not considered desirable to give the contractor an extension of 5 years and it was decided to give an extension of 3 years. Ultimately in February, 1962, the contractor agreed to the extension of his lease upto 31st March, 1964. Terms of lease were drafted in consultation with the Ministry of Law and the local military authorities were asked to negotiate with the contractor. The local military authorities, however, could not effect a compromise as the contractor procrastinated in signing the agreement. The matter was, therefore, taken up again with the Ministry of Law. The possibility of evicting the contractor under the Defence of India Rules was also examined but the Ministry of

Law advised in January, 1964 that action under the D.I.R. was not advisable and suggested that an application should be filed in the Court under Section 8 of the Arbitration Act for the appointment of a fresh arbitrator. Army H.Q. instructed the local military authorities in February, 1964 to file the requisite application in the Civil Court. The local military authorities contacted the Government Pleader who desired that the necessary instructions for filing an application in the Court should be sent to him by the Litigation Branch, Ministry of Law.

In the meantime, the question of additional accommodation occupied by the contractor had come to the notice of the Government in October, 1963. In June, 1964, the case was, therefore, again referred to the Ministry of Law for advice in regard to recovery of rent of the additional accommodation occupied by the contractor and vacation of that extra accommodation by him.

In September, 1964, the Ministry of Law advised that an application should be filed in the court for the appointment of a fresh arbitrator and that the court should also be moved to discharge/vary or set aside the injunction order in so far as it relates to the additional accommodation occupied by the contractor.

Since then the question of evicting the contractor has been discussed in several meetings with the Ministry of Law. In view of the complicated nature of the case, the Ministry of Law prepared a statement of case citing a number of cases in which High Court and the Supreme Court had not relied on agreements, etc., which had not been signed on behalf of the President. The effect of such judgments in the opinion of the Ministry of Law was that since the lease agreement in the case of National Stadium cinema had not been executed in the name of the President of India, it was not binding on the Union Government. This being so, the arbitration clause in the lease agreement was automatically nullified. The Solicitor General of India has tendered his advice on 8th April, 1965 in the matter and the Ministry of Law are taking action accordingly.

(iv) The Ministry of Law had advised non-acceptance of rent as acceptance thereof would create tenancy rights for the contractor whom we were considering as an unauthorised occupant. The matter remained under arbitration for a sufficient time and efforts were also made to effect a compromise with the contractor. In these circumstances, the question as to whether rent could be accepted under protest without prejudice to the legal position was not examined

earlier. However, the question whether the arrears of rent should be accepted was referred on 17th June, 1965 by the Ministry of Law to the Solicitor General in continuation of his earlier opinion.

The Solicitor General stated on 30th June, 1965 that he would not advise acceptance of either rent or compensation at least for the present when an application to the court has been advised and is about to be made. He has also advised that there would, however, be no objection to rent or compensation being accepted without prejudice to the contention of the Government and that a letter should be written to that effect, if and when money is tendered and a receipt given in the same terms. Necessary instructions in this regard were issued by Army H.Q. to the local military authorities on 17th November, 1965. A specimen copy of the letter and the receipt form to be issued to the contractor, duly approved by the Ministry of Law, was also forwarded to them by Army H.Q.

In view of the circumstances explained in the preceding paragraphs, no responsibility can be fixed for any lapse on any other officer except those mentioned in part (i) above to whom the displeasure of the Chief of the Army Staff has already been communicated.

DADS has seen.

#### **Recommendation**

*The Committee are unhappy about the inordinate delay in finalisation of both these cases relating to the Stadium and Race Course Cinema. They desire that vigorous efforts should be made to finalise them. The Committee would like to be informed about the progress of these cases.*

[S. No. 20 of Appendix XX to 33rd Report (Third Lok Sabha)]

#### **ACTION TAKEN**

In order to expedite in finalisation of the case a meeting was convened in the Ministry of Law at high level in December, 1964. At the meeting it was noted that the case was pending in the Court of Sub-Judge, Delhi and had been posted for passing orders. It was therefore decided that the Court's orders should be awaited.

2. In the meanwhile the Sub-Judge called the Government Counsel and requested him to ascertain from the new Chief of the Air Staff, Air Marshal Arjan Singh, whether he would be willing to arbitrate in the case. The Chief of Air Staff declined to do so.

347 (a) LS—21.

3. The position of the Court case is that an application under sections 5, 31(2), 38 and 41 read with Schedule II of the Indian Arbitration Act, 1940 and Order 39, Rule 4 and section 151 and an affidavit were filed by the Additional Central Government Counsel on 29th December, 1964. The other party (Contractors) filed its reply on 19th February, 1965. Government Counsel filed the replication on 9th March, 1965. On 22nd May, 1965 evidence was given on behalf of the applicants that after the death of Air Marshal S. Mukerjee, both his successor, Air Marshal A. M. Engineer and the present Chief of Air Staff, Air Marshal Arjan Singh, declined to arbitrate in the disputes. At the hearing fixed on the 7th August, 1965 a medical certificate was produced by the opposite party stating that Shri Sahni was suffering from a heart attack. The next hearing is fixed for 25th September, 1965.

4. The Court proceedings are being closely followed and every effort is being made to expedite the case.

5. A note indicating the latest position of the case relating to Stadium Cinema will be submitted to Public Accounts Committee separately.

6. The Director of Audit, Defence Services has seen.

#### **Recommendation**

*The Committee are unhappy about the inordinate delay in the finalisation of both these cases relating to the Stadium and Race Course Cinemas. They desire that vigorous efforts should be made to finalise them. The Committee would like to be informed about the progress of these cases.*

[S. No. 20 of Appendix XX to 33rd Report (Third Lok Sabha)]

#### **ACTION TAKEN**

As indicated in our reply to Serial No. 19, Appendix XX to thirty-third Report, Public Accounts Committee (1964-65), due to the intricate nature of the case relating to Stadium Cinema the matter was referred to the Solicitor General and his opinion, as regards the further course of action to be followed in obtaining possession of the Stadium Cinema Building, has been obtained and action is being taken as per his advice. A report regarding Race Course Cinema has been submitted separately.

2. Regarding recovery of arrears of rent outstanding in respect of Stadium Cinema, the Ministry of Law sought the advice to the Solicitor General on 17th June, 1965. The Solicitor General stated

on 30th June, 1965 that he would not advise acceptance of either rent or compensation at least for the present when an application to the court had been advised and was about to be made. He also advised that there would, however, be no objection to rent or compensation being accepted without prejudice to the contention of the Government and that a letter should be written to that effect, if and when money is tendered and a receipt given in the same terms. Necessary instructions were issued by Army Headquarters to the local military authorities on 17th November, 1965 in this regard. A specimen copy of the letter and the receipt form to be issued to the contractor, duly approved by the Ministry of Law, was also forwarded to them by Army Headquarters.

DADS has seen.

### Recommendation

*While the Committee appreciate that there are difficulties in coming to a decision regarding disposal/utilisation of building lying unused due to change in requirements of the Army arising from time to time and each case had to be examined fully, they feel that such examination should not take several years. In case there is no reasonable chance of the properties being required in a foreseeable future, action should be taken to dispose them of, as the delay only results in heavy expenditure on watch and ward and deterioration of buildings. The Committee hope what as a result of the instructions issued by the Ministry and the proposed delegation of powers to the lower authorities to dispose of surplus buildings, undue delay in their disposal will not occur.*

[S. No. 21 of Appendix XX to 33rd Report (Third Lok Sabha).]

### ACTION TAKEN

*Vehicle Depot, Whitefield.*—The land at Whitefield has not been considered suitable for the permanent location of K.L.P. units. The case regarding its disposal is under examination by the Government.

*2. British Institute Camp, Jalahalli.*—The land being surplus to Defence Services requirements, necessary instructions for its disposal were issued to the local military authorities in August 1964. The assets have been disposed of by public auction on 29th December, 1964. Out of 8 acres 11 gunthas of requisitioned land, 3 acres 20 gunthas of land was released on 12th February, 1965. The remaining area of land will be released to its owner as soon as the site is cleared.

*3. As regard the concluding sentence of the recommendations of the Public Accounts Committee, necessary instructions to avoid*

delay in disposal of surplus properties have already been issued to HQ Commands vide a copy of Army Headquarters Circular No. A/06627/A/Q3(Coord) dated 18th November, 1964 (copy attached). The case for delegation of powers to the local Commanders to dispose of surplus properties locally to the best advantage of the State is still under examination by the Government.

D.A.D.S. has seen.

[U.O. No. 10(1)/63/D(Qtg) dated 29th July, 1965.]

(COPY)

OP IMMEDIATE

No. A/06627/A/Q3(Coord)

ARMY HEADQUARTERS

(Quartermaster General's Branch)

DHQ P.O. New Delhi-11.

18th November, 1964.

To,

Headquarters,  
Southern Command  
Eastern Command  
Western Command  
Central Command.

**SUBJECT:**—*Avoidable expenditure due to delay in the disposal of Assts.*

1. Infructuous expenditure on watch and ward due to delay in disposal of assets has come up for severe criticism before the Public Accounts Committee. It is, therefore, imperative that recurrence of such expenditure is avoided.

2. A review of all properties surplus to requirements will, therefore, be carried out with a view to ascertain their disposal or firm utilisation and following action taken:—

- (a) Watch and ward employed to look after the assets will be wound up within next 3 to 4 months. Wherever this is not practicable, this may be brought to the notice of this HQ.
- (b) Properties without assets will be released to DML&C either for disposal or where the properties may be requir-

ed, for leasing the land for cultivation until they are required.

3. A report regarding these cases will be forwarded to respective sections of Quartermaster Directorate on 20th of each month. The first report containing the number of cases of this nature that is required to be settled will be sent by 30 November, 1964.

Sd./-

for Quartermaster General.

### **Recommendation**

*The Committee find little justification for retention of the building after September 1963 when the decision regarding the location of troops had been finalised. They feel that the expenditure on rent (Rs. 1,500 per month) and on watch and ward after September 1963 was avoidable.*

[Serial No. 22 of Appendix XX to 33rd Report 1964-65.]

### **ACTION TAKEN**

Ministry of Defence have noted the observations.  
D.A.D.S. has seen.

[F. No. 10/11/63/DQ&C].

### **Recommendation**

*The Committee hope that gaining experience from this case necessary action will be taken by the Supply depots to maintain better coordination with the consignor farms in regulating supplies of hay to the depots. The supply depots should also take necessary action to provide adequate storage accommodation for hay to prevent its deterioration during monsoon.*

[Serial No. 23 of Appendix XX to 33rd Report (Third Lok Sabha).]

### **ACTION TAKEN**

In order to prevent deterioration of hay during monsoon due to lack of storage accommodation, remedial instructions have been issued *vide* Army Headquarters letters No. A/39381/Q/ST6B/Q1(B), dated 21st November, 1963, No. A/45714/Q/MF-3, dated 8th June, 1965 and No. A/39381/Q/ST6B, dated 10th June, 1965 (copies enclosed) to all concerned to ensure that—

- (a) Delivery programmes are carefully chalked out in accordance with the storage facilities available at the time of delivery.

- (b) Delivery programmes are strictly adhered to by all concerned.
- (c) Storage accommodation or facilities are provided before deliveries materialise.
- (d) Effective coordination between the ASC and Military Farms is maintained at all stages and levels.

2. D.A.D.S. has seen.

[F. No. A/39381/Q/ST6B].

No. A/39381/Q/ST6B

ARMY HEADQUARTERS

(Quartermaster General's Branch)

DHQ P.O. New Delhi-11.

10th June, 1965

To

BsASC,  
Southern Command  
Eastern Command  
Western Command  
Central Command.

**SUBJECT:—Issue of Fodder—Avoidance of losses due to deterioration.**

Reference the attached copies of this Headquarters letters No. A/39381/Q/ST6B/Q(B) dated 21st November, 1963 and No. A/45714/Q/MF-3 dated 8th June, 1965.

1. Please ensure that orders contained in para 2 of this Headquarters letter No. A/39381/Q/ST6B/Q1(B) dated 21st November, 1963 are invariably complied with.

2. Effective co-ordination between the ASC and Military Farms should be maintained at all stages and levels regarding the supply of hay by Military depots to ASC depots.

3. Please acknowledge.

Sd/-

for Director of Supplies and Transport.

Copy to:—

MF Directorate (M F-3).

**REGISTERED/SDS****No. A/39381/Q/ST6B/Q1(B)****ARMY HEADQUARTERS****(Quartermaster General's Branch)****DHQ P.O. New Delhi-11.****21st November, 1963.****To****Headquarters****Southern Command****Eastern Command****Western Command****Central Command****SUBJECT:—Issue of Fodder—Avoidance of Losses due to deterioration.**

1. A case has come to light where a considerable quantity of hay had deteriorated for want of adequate storage facilities during the monsoon season, thus causing a heavy loss to the State. This happened because delivery of hay had not been made according to the progress given by the indenter who could not, therefore, make necessary storage arrangements at the time of delivery.

2. To obviate recurrence of such losses, please ensure that:—

- (a) Delivery programmes are carefully chalked out in accordance with the storage facilities available at the time of delivery.
- (b) Delivery programmes are strictly adhered to by all concerned.
- (c) Storage accommodation or facilities are provided before deliveries materialise.

2. Please acknowledge.

Sd/-

for Quartermaster General.

**Copy to:—**

**Military Farms Dte.**

**No. A/45714/Q/MF-3**  
**ARMY HEADQUARTERS**  
**(Quartermaster General's Branch)**

DHQ P.O. New Delhi-11.

8th June, 1965.

To

The DDsMF  
Southern Command  
Central Command  
Western Command  
The ADMF  
Eastern Command

**SUBJECT:—Issue of Fodder—Avoidance of loss due to deterioration.**

1. It has been reported by the ST Directorate at this HQ that certain military farms have not adhered to the schedule of despatches intended by the indenting ASC units. This has resulted in dislocation of storage arrangements and consequent losses due to improper storage at the ASC Depots.

2. In order to avoid such incidents, it is essential that there should be an effective co-ordination between the ASC (indentor) and military farms (Suppliers) in the placing of demands of hay, phasing of deliveries and actual despatches at various stages. According to the existing procedure, BsASC Commands consolidate the demands of hay in respect of all Supply Depots in the Command for the whole year showing the delivery programme and place the same on DDsMF Commands. The latter issue instructions to the stock-holding military farms to arrange despatches/deliveries in accordance with the delivery programme given by the BsASC Commands. In case, there is any change in the demand or delivery schedule, ASC Supply Depot are required to notify BsASC Commands through CsASC Area/Div. who in turn inform BBsMF for implementation. It will thus be seen that the co-ordination between ASC and Farms Department is maintained at Command level. It is not always possible for the Supply Depots to deal direct with the consignor farms as that is likely to upset the overall delivery programme chalked out between BsASC and DDsMF Commands.

3. It is necessary that copies of release orders and subsequent amendments thereto, placed by the DDsMF Commands on the consignor military Farms are endorsed to the consignee depots. Subsequently, the consignor farm will keep the consignees informed of the actual progress of despatches and anticipated delays in deli-

veries to enable the consignee ASC Depots to plan for provision of adequate storage facilities at their ends.

4. It is also of vital importance that the delivery programmes desired by the BsASC are adhered to. In case delays are inevitable in some cases, BsASC and the consignee depots should invariably be informed immediately.

5. Effective co-ordination between the ASC and Military Farms should be maintained at all stages and levels.

Sd./-

for Director of Military Farms.

Copy to:—

The ADMF

MF School and Research Centre

MEERUT CANTT.

#### Recommendation

The Committee are surprised to find how vacillating and dilatory the Ministry had been in deciding about the utilisation/disposal of these chassis. 132 Sucoe chassis had been found unsuitable for single specialised role as early as 1952 and had been recommended for use in G.S. role. But the question of their unsuitability for the other role also and their disposal could not be finalised till 1963. The Public Accounts Committee (1959-60) were distressed at such delays as happened in this case and had expressed the opinion that only expeditious action in such matters would be in the best interest of Government. It is regrettable that even after the observations of the Committee, the question of utilisation/disposal of these 132 chassis was not finalised expeditiously. The Committee hope that such cases will not recur, and that these chassis would now be disposed of without further delay. The Committee would further like to reiterate that prompt action in such cases would be in the best public interest.

[S. No. 24 of Appendix XX to 33rd Report (Third Lok Sabha), 1964-65.]

#### ACTION TAKEN

Noted. All the 132 Sucoe chassis have been declared to the DGS&D for disposal as under:—

Type of Vehicles	Quantity	Date on which declared for disposal
1	2	3
(i) Chassis 5 ton 4×4 with winch PWD SUCOE . . . . .	78	6th October, 1964.

	1	2	3
(ii) Chassis 5 ton 4×4 with winch FWD SUCOE		28	23rd January 1965.
(iii) Chassis 5 ton 4×4 w/o winch FWD SUCOE . . . . .		25	18th November 1964.
(iv) Chassis 5 ton 4×4 GS FWD SUCOE . . . . .		1	17th/20th November 1964.
Total . . . . .		132	

2. D.A.D.S. has seen.

[U.O. No. 29(1)/65/SOI/D(O-I), dated the 16th June 1965.]

### Recommendation

The Committee are surprised to note from the statement furnished that in one case the circumstances in which airlift was allowed are 'not known' and in another case a complete detail of airlifts, etc., is neither available with the Army authorities nor with the Air Force authorities. These instances indicate that airlifts are being allowed without proper scrutiny and without maintaining proper records, which is objectionable. While the Committee appreciate the need for providing airlifts for mercy mission or in emergent cases, they desire that the Ministry should carefully examine and issue suitable instructions so that airlifts are allowed only in suitable cases within the framework of rules and not in violation thereof.

The Committee note that 21 cases of airlifts still remain to be regularised. The Committee also feel concerned about the delay in regularisation of the outstanding cases of airlifts not covered by sanction of Government. They hope that suitable steps would be taken by the Ministry to minimise such delays.

[S. No. 25 of Appendix XX to 33rd Report (Third Lok Sabha)—1964-65.]

### ACTION TAKEN

The two cases referred to in the recommendation of the Public Accounts Committee are those of the airlift provided in an IAF helicopter to the Political Officer, Sikkim, on 30th March, 1963, and certain civilians and stores airlifted in the normal flights of IAF aircraft in the Jammu and Kashmir area during April 1962 to March 1963.

2. Full details of the flights undertaken by the IAF helicopter for the airlift of the Political Officer, Sikkim, on the 30th March 1963, have been received from the unit concerned and action is in hand to regularise the airlift. In regard to the airlift of civilians and stores in the normal flights of the IAF aircraft in the — & K area, the details of the airlifts undertaken are awaited from the Army authorities.

3. Specific rules/orders already exist defining the powers of the various authorities to sanction airlifts of personnel and stores in Air Force aircraft in specified circumstances. Instances of such rules and orders are given below:—

- (1) Under Air Force Instruction No. 44 of 1960, as amended from time to time, powers have been delegated to the Ministry of Defence, the Chief of the Air Staff, the Air Officers Commanding in Chief, Commands, and Air Force Station Commanders to sanction airlifts in the circumstances specified therein.
- (2) In Ministry of Defence O.M. No. F. 7(11)/60/Vol. I/ D(Air-II), dated the 4th October 1962, as amended from time to time, standing rules governing the entitlement of certain personages to travel in the V.I.P. flight of the Indian Air Force have been laid down.
- (3) Under the Ministry of Finance (Defence) U.O. No. Coord/ M/A/54-B, dated the 9th May 1961, the Ministry of Defence is authorised to provide airlifts to foreign VIPs and VVIPs, provided that the flying hours involved are met from within the authorised flying quota, and prescribed charges are recovered from the parties concerned.
- (4) Under Ministry of Finance (Def/Air) Office Memorandum No. 344/Bud/AF dated the 27th February 1963, as subsequently amended, the Ministry of Defence is authorised to sanction airlifts, subject to the availability of space, in IAF aircraft to accredited Press Correspondents, State Guests and officials of the Ministries of External Affairs and Information and Broadcasting on duty, to Srinagar/Jammu/Tezpur, on payment, and from these bases to forward areas free of charge when the visits are in the interest of Defence Services. The delegation has been extended up to the 26th February 1967, or for the duration of the Emergency, whichever is earlier.

- (5) Under Ministry of Finance (Defence) O.M. No. 201-Bud-S/AF dated 12th March 1963, the Ministry of Defence is authorised to sanction free airlifts of non-officials in the Indian Air Force Super-Constellation Courier Service to Assam, if the airlift is considered necessary in the interest of the Defence Services.
- (6) Under the Ministry of Finance (Defence) O.M. No. 1802/Bud/AF, dated the 19th November 1963, as extended *vide* Office Memorandum No. 2974/Bud/AF, dated the 1st December 1964, the Ministry of Defence is authorised to sanction free airlifts of Indian non-officials to forward areas in Indian Air Force aircraft, where such airlifts are necessary in the interest of Defence.
- (7) Under Ministry of Finance (Defence/Air) Office Memorandum No. 2191/Bud/AF, dated the 8th September 1964, the Ministry of Defence is authorised to sanction in the public interest, airlifts of supplies belonging to Central Government, and of Central Government servants other than those who are connected with the Defence Services and in respect of whom, Chief of the Air Staff has powers to sanction airlifts, provided space can be made available in normal flights without prejudice to Air Force requirements and charges for the airlift are recovered.
- (8) In Ministry of Defence letters No. 8(1)/60/D(Air-II), dated 19th February 1960 (as amended from time to time), No. Air HQ/15212/1/7/Ops/2781-S/D (Air-II), dated 10th August 1962 (as amended from time to time) and No. F. 7(40)/63/1715-S/D(Air-II), dated the AOC-in-C, Eastern Air Command has been authorised to sanction airlifts of certain categories of personnel (*viz.*, civilian Government servants of the NEFA Administration and Nagaland State/Assam Rifles personnel, Police personnel on loan to the NEFA Administration, personnel of the Central Intelligence Bureau stationed in NEFA, social workers and tribal leaders), and engineering stores of the NEFA Administration and Nagaland State, in routine flights of Air Force aircraft, when space is available, on the requests of the prescribed civil authorities, and subject to recovery of the prescribed charges from the Ministry of External/Home Affairs.

4. A circular has been issued *vide* Ministry of Defence letter No. F. 7(7)/64/D(Air-II), dated 28th December 1964 (copy attached), emphasising the necessity of reducing to the minimum demands

from civil indentors for airlifts in Air Force aircraft which are not covered by the standing orders referred to above, indicating the conditions attached to the provision of the airlifts and obtaining an airlift application form calling for specific acceptance of liability for the cost of the airlift, on the part of the indentor.

5. It would be clear that instructions already exist for providing airlifts in I.A.F. aircraft in suitable cases only. The question whether there have been any violations of the existing orders in regard to the provision of airlifts, brought about by failure to carry out proper scrutiny and to maintain proper records etc. will be examined when considering the regularisation of the remaining cases of airlifts. Out of the 21 cases of airlifts mentioned by the Public Accounts Committee, which had not been regularised as on the 26th November 1964, *ex-post-facto* Government sanction has since been issued in 5 cases and 3 other cases are covered by the standing orders referred to in para 3 above. A procedure has been introduced in the Ministry of Defence with effect from 6th October 1964, to ensure that the required authority for an airlift which is outside the scope of powers delegated to the Chief of the Air Staff or lower Air Force authorities, is issued either prior to or within a few days of the airlifts having been provided.

6. Nature and circumstances for undertaking 'mercy missions' or provision of airlifts in 'emergent cases' are explained in paras 8, 9 and 20 of AFI 44/60. Issue of further instructions in this regard is not considered necessary.

7. D.A.D.S. has seen.

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*Immediate*  
No. F. 7(7)/64/D(Air-II)  
GOVERNMENT OF INDIA  
MINISTRY OF DEFENCE

New Delhi, *the 28th December, 1964.*  
*Pausa 7, 1886 (Saka)*

To |

The Chief Secretaries to All State  
Governments/Union Administrations.

SUBJECT:—*Use of Air Force aircraft for civilian purposes—  
Introduction of airlift application form.*

Sir,

I am directed to say that the Indian Air Force is frequently called upon to provide airlift for officials of various Central Gov-

ernment Ministries and Departments and State Governments, as well as certain civilian dignitaries. Experience has shown that such requests are received at extremely short notice unaccompanied by complete details of the airlift requirement. This creates serious difficulties, as in the case of most of the airlifts a great deal of planning has to be done to achieve the necessary economy of effort as well as flight safety. Air Force aircraft are located at certain stations only, and are fully engaged in meeting normal Defence commitments. In order to meet requests for airlifts from civilians, the aircraft have sometimes to be withdrawn from far places, to the detriment of Defence needs. It is, therefore, necessary that demands from civilian indentors for airlifts in Air Force aircraft should be reduced to the minimum, i.e., when other means of transport do not exist or cannot be availed of due to the urgency of the task. It is also necessary that the request for the airlifts should contain complete details necessary, and should reach Air Headquarters in time for the necessary arrangements to be made properly. Having regard to these considerations it has been decided that with effect from 7th January 1965, requests for airlifts in Air Force aircraft from State Governments and Central Ministries/Departments, which cannot be arranged locally by lower formations under the powers vested in them and which are also not covered by existing special orders covering certain types of cases, would be entertained only in the attached airlift application form (Annexure A) to this letter. This form should be sent, in duplicate, to this Ministry through the Air Headquarters, as indicated in the form; and the decision on the application would be communicated with the least possible delay by the Ministry of Defence. (The attached form does not apply to VIP flights which are provided under Ministry of Defence Office Memorandum No. F. 7(11)/60/Vol. I/D (Air-II), dated 4th October, 1962, as amended from time to time, as well as airlifts of press correspondents, personnel of the Ministries of External Affairs and Information and Broadcasting and State Guests, to forward areas in Defence interest).

2. As regards paragraph 4 of the attached airlift application form, I am to say that airlift to be provided by the Air Force would be subject to the conditions stipulated below:—

- (a) Airlift will be subject to weather conditions and may be cancelled at short notice.
- (b) Captain's decision with regard to take-off, height of flight, landings, diversions, payload, etc., will be final.
- (c) Route/schedule originally asked for and accepted cannot be changed without the approval of Air Headquarters.

- (d) A representative of the indenting agency will arrive at the airport at least half an hour prior to the take-off of the aircraft. He will assist the Captain of the aircraft, to complete the passenger/freight manifest, which will be prepared in quadruplicate. All four copies will be signed by the Captain of the aircraft as well as the representative of the indenting agency. No change in the names of passengers will be accepted after the manifest has been completed. Two copies of the manifest will be retained by the Captain of the aircraft and a third copy will be sent by registered post acknowledgement due to the IAF unit to which the aircraft or helicopter belongs. At any station where there is no Air Force staff available, the representative of the indenting agency will himself undertake to forward a copy of the passenger manifest by registered post to the Air Force unit concerned. In all cases the fourth copy of the manifest will be retained by the indenting agency for record purposes.
- (e) Form of Undertaking (for Government officials—*vide* Annexure B) and Indemnity Bond (for non-officials—*vide* Annexure C) duly completed and signed by each passenger, will be furnished (in triplicate) at least half an hour prior to boarding the aircraft. One copy will be given to the Captain of the aircraft, the second copy will be given to the local air force representative for sending by registered post/acknowledgement due, to the unit to which the aircraft belongs, and the third copy will be retained by the indenting agency for record purposes. At any station where there is no Air Force staff available, the representative of the indenting agency will himself send the second copy by registered post to the Air Force unit concerned.
- (f) If any passenger has any ailment/disability (such as heart trouble, diabetes, etc.) which is likely to be aggravated due to flying or cause complications, a medical certificate signed by the competent Government Medical authority certifying that the person is fit for air travel on the day of airlift, will be handed over to the Captain of the aircraft, for transmission to the parent I.A.F. unit along with the passenger/freight manifest.
- (g) The luggage limitations will be as under:—
- (i) For fixed wing aircraft, when it is not provided solely for the indenting agency—a maximum of 20 Kgs. per individual.

- (ii) For helicopters—a maximum of 5 Kgs. per individual.
- (h) No arms or pets/animals will be carried in the aircraft. Cameras are also not to be carried unless specifically agreed to by the Ministry of Defence.
- (i) If an I.A.F. aircraft as a whole is required transport and accommodation (in case of overnight stay) will be arranged by the indenting agency for the crew wherever I.A.F. facilities do not exist. The indenting agency will inform the aircrew and other I.A.F. Maintenance personnel of the arrangements made for accommodation, transport, etc. and the charges payable for these facilities, which will be recovered from the Air Force personnel before the departure of the aircraft from the station. Air Headquarters have no legal liability in regard to recovery of the charges.

Note:—Helicopter aircrew will normally comprise 2 officers and ground crew and safety services personnel would approximately be 6. For fixed wing aircraft (like Otter, Dakota, Viscount) there will be 2 to 5 officer aircrew and about 6 non-commissioned officers for maintenance, etc.

- (j) Medical facilities will be made available by the indenting agency at unmanned landing grounds and helipads to the extent practicable, in order to attend, if necessary, to air crash patients.

3. Under standing orders, Air Force Station Commanders may authorise special flights of any aircraft under their control to meet requests from State Governments for assistance in emergency or natural catastrophies, under immediate advice to Air Headquarters. Such flights will be on payment, the recovery charges being decided by the Central Government. Civil servants of the State Governments and other civilians can be carried on such flights at their own risk after signing a Form of Undertaking or Indemnity Bond as the case may be. Requests for airlifts in circumstances not covered by these standing orders, for reconnaissance purposes should, however, be forwarded to the Ministry of Defence through Air Headquarters. In respect of such requirements, the attached airlift application form should be amplified to furnish the following additional information:—

- (a) The exact area which is proposed to be reconnoitred. (Map references of the points describing the area).

- (b) Is any circling over particular points en-route desired? If so, for what duration and over which points (map references and height, etc.).
- (c) Are any landings required en-route. If so, give the exact location of the places (giving map references) and confirmation whether landing grounds/helipads are available and in serviceable state. (Please see Annexure 'D' for requirements of helipad). Also give period of halt at ALG/Helipad desired.

4. I am to request that the receipt of this letter may kindly be acknowledged.

Yours faithfully,

Sd/- V. SUBRAHMANYAN.

*Deputy Secretary to the Government of India.*

Copy to:—

All Ministries/Departments of the Central Government.

## ANNEXURE A

### AIRLIFT APPLICATION FORM

(For use by Central Ministries/Departments and State Governments only).

From:—(Name of the sponsoring agency, i.e. Ministry/Department/State Government).

To:—The Ministry of Defence (To be submitted in duplicate, through Assistant Director of Operations (Logistic Support), Directorate of Operations (Transport & Logistic), Air Headquarters, "Vayu Bhavan", New Delhi).

Note:—This form (in-duplicate) should reach Air Headquarters four days prior to the date of airlift.

1. It is requested that airlift by I.A.F. aircraft may be provided for the passengers as given below. It is certified that the individuals are required to travel on duty:—

Sl.No.	Name	Designa- tion/ Appoint- ment/ Rank	Minis- try/ Depart- ment/ State Govern- ment	From	To	Date/ Time
1	2	3	4	5	6	7

Note: Return flights must also be shown.

2. The following freight is also to be carried:—

Sl. No.	Article	Dimensions			weight
		Length	Breadth	Height etc.	
1.					
2.					
3.					
4.					

3. The alternative means of transport available between the places mentioned above are as under:—

From	To	Civil Air Road Rail River
------	----	---------------------------

The alternative means of transport are not suitable for the following reasons:—

4. This Ministry/Department/State Government is aware that the airlift (including positioning flights/reconnaissance flights, standby aircraft, maintenance flights, use of mechanical transport and other ancillary expenses, etc. as required to support the main task) is on payment and hereby accept the charges. It is also accepted that the airlift will be provided subject to the conditions stipulated in paragraph 2 of Ministry of Defence letter No. F.7(7)/64/D(Air-II), dated the 28th December, 1964.

Signature of  
Sponsoring Officer

(Name in Block Letters)

Designation

Ministry/Department /  
State Government.

Telephone No. Office \_\_\_\_\_

Residence \_\_\_\_\_

## **ANNEXURE B**

### **FORM OF UNDERTAKING**

*(For Civilian Government Officials)*

In consideration of my being carried on duty as a passenger in aircraft, the property of Government and/or in charge of an officer of airmen of the Air Force in India, I undertake and agree that neither I nor my heir (in case of my death) will make any claim against the Government, except that which may be admissible under the relevant extraordinary Pension Rules, or against any officer or airmen of the Air Forces in India or against any person in the service of the Government of India in respect of any loss or injury (including injury resulting in death) sustained by me to my person or property in consequence of the proposed flight. I also undertake and agree to pay damage to the Government of India for any third party risk (e.g., damage to a fellow passenger) arising out of any act or default on my part in course of the flight.

Signature of applicant.....

Address and designation of applicant.....

.....  
.....

## **ANNEXURE C**

### **FORM OF INDEMNITY**

**(For Civilian Non-officials)**

In consideration of my being carried at my request as a passenger in an aircraft which is the property of the Government of India, and/or in charge of any officer or airman of the I.A.F., I undertake and agree that neither I nor my executors nor administrators will make any claim against the Government of India or against any officer or airman of the I.A.F. or against any person in the service of the Government of India in respect of any loss or injury to property or person (including injury resulting in death) which I may suffer while or in consequence of my being so carried, and I understand that no compensation will be paid by the Government of India or by any officer or airman of the I.A.F. in respect of any such loss or injury and I agree so as to bind myself, executors, and administrators, to indemnify the Government of India and any officer or airman of the I.A.F. and any person in the service of the Government of India against any claim which may be made by any third party against them or any of them arising out of any act or default on my part during or in connection with the said flight.

Signature of applicant.....

Address & Designation of Witness.....

.....  
.....

Address & Designation of Applicant.....

.....  
.....

Date.....

## **ANNEXURE**

### **HELIPAD REQUIREMENTS**

In case of helipads (i.e. landing area for helicopters) have to be constructed by indenting agency, the minimum size required for helicopter flights upto 2000-3000 feet above sea level should be 50×50 yds. on hard level ground. There should be no obstacles (such as tall trees, telephone wires, high tension cables, etc.) within a radius of 250 yards from the centre of the helipad all around. The corners (boundary) of the helipad should be marked in "white" and the marking should be at least 2 feet wide. The centre of the helipad should be marked with letter "H" painted in white (lime/white wash), the size of each Limb of the letter being 12 feet long and 3 feet wide and of the cross-bar 6 feet long and 3 feet wide. Indication of wind direction is to be provided by smoke candle or by burning dry wood at about 10 feet from the edge/boundary of the helipad at right angles (90°) to the direction of wind. There helipads will have to be inspected by I.A.F. and flight will be undertaken only on satisfactory state of helipad. Trial landing will be necessary for this purpose.

### **Recommendation**

*This case brings out avoidable purchase of imported stores (atomizers, shrouds and sleeves) of modified pattern at a cost of Rs. 6.92 lakhs, which led to unnecessary overstocking, not expected to be needed for some years. The Committee are unhappy to note the explanation of the Defence Secretary that this mistake occurred due to the lack of technical knowledge on the part of the provisioning authorities. In view of the fact that Air Force provisioning authorities had insufficient technical knowledge about the equipment, the question of inter-changeability of the parts of the new and old models should have been made clear with the manufacturers before placing an order for the modified parts in August, 1960. It is also not clear why this question was not settled even after receipt of supplies against the order of August, 1960, and before placing further orders for the new models in January and February, 1962. As there is an overall scarcity of foreign exchange, such a mistake resulting in over-provisioning of stores becomes serious. The Committee hope that adequate*

steps will be taken by the Air Force Authorities to avoid such mistakes in future. The Committee also hope that suitable measures would be taken to overcome the drawback of "insufficient technical knowledge" in such important matters.

[S. No. 26 of Appendix XX to 33rd Report (Third Lok Sabha)]

#### ACTION TAKEN

The circumstances under which over provisioning of atomisers, shrouds and sleeves was made had already been explained to the P.A.C. Suitable steps for imparting sufficient technical knowledge to the staff are under consideration.

2. The provisioning staff has been instructed to check on the inter-changeability of breakdown spares with the Technical Directorate concerned before provisioning action is taken. A copy of instructions issued vide Director of Equipment's Instructions to Branches No. 14/65 is enclosed.

3. Director of Audit, Defence Services, has seen.

[U.O. No. F.4(10)/65/ (Air-I), dt. 13-12-1965]

#### AIR HEADQUARTERS, NEW DELHI

##### (Directorate of Equipment)

#### DIRECTOR OF EQUIPMENT'S INSTRUCTIONS TO BRANCHES No. 14/65

#### Provisioning of Modified Items and their Break-down Spares

##### Information

An instance of overprovisioning of equipment which was due to the misinterpretation of the term interchangeability was adversely commented upon by the P.A.C. In this case, the major component of an aeroengine was modified by the manufactures to achieve better performance and the manufacturers issued a note to the effect that the un-modified and modified assemblies were interchangeable. This was erroneously misunderstood by the Provisioning Section to mean that the break-down parts of the unmodified and modified assemblies were also interchangeable and under this misconception, a break-down spare of the modified assembly was ordered in excess.

2. In order to avoid recurrence of similar instances in future the instructions laid down in the succeeding paragraph are to be strictly complied with.

### ***Ascertaining Interchangeability and Obsolescence/obsoleteness***

3. Whenever an item of equipment is modified and Government sanction is obtained for the provisioning of the modified item, the Provisioning Section will obtain the following information from the specialist Directorate if the same has not already been furnished:—

- (a) interchangeability of the unmodified and modified items;
- (b) interchangeability of break-down spares of the unmodified and modified items;
- (c) obsolescence/obsoleteness of the unmodified item and its break-down spares.

4. PCR cards for the unmodified and modified items and their components will be clearly annotated with the interchangeability and obsolescence/obsoleteness, as advised by the specialist Directorate. Simultaneously, the Provisioning Section should initiate action for promulgating this information in Routine Order Part IV. The R.O. Pt. IV should also include the following:—

- (a) Units should demand only the modified items.
- (b) Items declared obsolescent should be issued/used till stocks are exhausted.
- (c) Method of disposal in respect of items declared obsolete.

### ***Provisioning***

5. Future indents will be raised for the modified item only, even if the unmodified and modified items are interchangeable.

6. As regards break-down spares, the following procedure is to be followed:—

(a) *If the spares for the unmodified and modified items are interchangeable*, the existing assets of spares for the unmodified item should be duly taken into consideration when determining the net requirement for which indent is to be raised.

(b) *If the spares are not interchangeable*, indents for spare for the unmodified item should be restricted to the anticipated repair requirements of the unmodified items (after duly taking into account the existing assets), provided the unmodified item is required to be used till existing stocks are exhausted. Otherwise, no fresh indents

are to be raised for these spares. Break-down spares for the modified item will, however, be provisioned as per normal procedure.

Sd/-

Wg. Cdr.,

D.D.E. 8

(K. CHIDAMBARAM)

EXT. 277.

[No. Air HQ./32366/82/E14A, dated 7th December, 1965]

**Distribution:**

D of E

J.D.E.(A) J.D.E.(B) J.D.E.(C)  
DDE1 DDE2 DDE3 DDE4 DDE5 DDE6 DDE7  
DDE9 DDE10 DDE11 DDE12 DDMT(EQ) DDGW(Q)  
D.D. MET.

All Sections and Officers of Dte. of Equipment.

Dte. of Tech. Services	10	copies
Dte. of Signals	5	"
Dte. of Elect. Engineering	5	"
Dte. of Armament	5	"

**Recommendation**

The Committee regret to point out that this is another case of over-provisioning involving avoidable purchase of 12 numbers of the item of ground equipment at a cost of Rs. 74,000. The Committee note that though in August 1961 the scale of the item was drastically curtailed, a further demand was placed for the same item in November, 1961. The Committee were informed that due to the increased operations of the aircraft during the Emergency, the stores were no longer surplus. The Committee hope that such cases of maintenance of duplicate cards for the same item which resulted in over-provisioning would not recur. They also suggest that during periodical physical verifications of stores, an attempt should be made to detect duplicate cards opened for the same item of equipment.

[S. No. 27 of Appendix XX to 33rd Report (3rd Lok Sabha)]

**ACTION TAKEN**

To avoid over-provisioning, due to maintenance of duplicate cards for the same item, instructions have been issued by Air Headquarters vide Director of Equipments Instruction to Branches No. 12/64 (copy

enclosed) to the effect that immediately the new scale is issued. Provisioning Section concerned will check the relevant Provision Control Record Card and amend Vocab Section, part number and description of the item so as to tally with the particulars stated in the new scale. The new scale is to be compared with the superseded scale and immediate review carried out both of the new item (including change in the quantity on scale) and the superseded items.

2. Periodical physical verification of stores is done at Depots/Units who maintained Tally Cards/Single Stock Record Cards for each item. Every Tally Card/S.S.R.C. is allotted a serial No. from the Tally Card Registers, kept Vocab section-wise and as such there is no chance of duplicate Cards at Depots/Units for the same item. However, sometimes superseding/modified items are received at stock-holding depots from the manufacturers. These are supplied under Reference Nos. or Part Nos. different from those under which the items were originally indented and therefore these have to be brought on charge on new tally cards under the new numbers.

3. To ensure proper linking of superseding/modified items with the superseded items, instructions were issued to the depots for the cross reference of tally cards of the items superseded and those of the superseding item, vide Air HQrs. letter No. Air HQ/32538/10/E14, dated 8th January, 1959 (copy attached), the provisions of which are being re-iterated.

Director of Audit, Defence Services has seen.

[U.O. No. F. 4(11)/65/D(Air-I), dt. 2-8-1965]

## AIR HEADQUARTERS, NEW DELHI

### (Directorate of Equipment)

#### DIRECTOR OF EQUIPMENT'S INSTRUCTION TO BRANCHES No. 12

#### *Cancellation/Reduction of Outstanding Indents due to change in Scales*

In January, 1961 an indent was placed on I.S.M. Washington for the procurement of 104FC/HT-192 Tester Indicator Power Unit on the basis of the then existing scale. Subsequently, in August, 1961, revised scale was issued necessitating reduction in requirement. However, no action was taken to reduce/cancel the surplus quantity indented for till August, 1962. By that time the item involved had

already been contracted, shipped and no reduction in the quantity indented for could then be effected thereby resulting in considerable infructuous expenditure to the State. This has been reflected in the Audit Report Defence Services 1964.

2. In order to obviate similar lapses in future, the instructions contained in the succeeding paragraphs are to be strictly complied with.

3. Immediately the new scale is issued, provisioning Section concerned will check the relevant P.C.R. Card and amend Vocab Section, part number and description of the item so as to tally with the particulars stated in the new scale. The new scale will be compared with the superseded scale and immediate review carried out both of the new item (including change in the quantity on scale) and the superseded item.

4. In case, the special review carried out as per para 3 above reveals surplus assets, immediate action will be taken to cancel or suitably reduce outstanding indents, if any.

5. If, however, the special review reveals deficiency, provisioning action will be promptly taken for the additional requirement arising as a result of the revised scale.

6. This supersedes D.E.I.B. No. 4/63.

Sd./- Air Cdre.  
D. of E.  
G. B. SINGH.

[No. Air HQ/32366/82/E14A, dated 3rd June, 1964]

From: Air Headquarters, New Delhi-11.

To: HQ. Maintenance Command, IAF (34 copies).

Date: 8th January, 1959

Ref.: Air HQ/32358/10/E.14.

*Receipt of in lieu and superseding Items from the Manufacturers*

You are aware that copies of all contracts entered into by ISM/ISD in respect of stores indented by this Headquarters are being supplied to the consignee depots as advance information. Similarly, amendments to the contract issued by ISD/ISM for supply of modified/superseding items in place of items contracted for are also forwarded to the consignee depots.

2. It is noted that issue of amendments to the contract takes a considerable time at ISD/ISM/and modified/superseding items are received at the consignee depots long before the receipt of covering amendment to the contract. There is likewise considerable delay in the issue of amendments to the manufacturer's list of spare parts and the consumer units therefore continue to demand items under old part numbers. It is felt that unless suitable record of modified/superseding item supplied in lieu, of item contracted for is maintained at the consignee depot, there is a possibility of the demand being transcribed as inability instead of being met by issue of the modified/superseding item. To obviate this contingency it is necessary that when a modified/superseding item is brought on charge by the consignee depot under the part number as invoiced, a dummy tally card is simultaneously raised for the original item contracted for and endorsed that. "Demand for this item is to be met by issuing modified superseding Item Part No. ...." For example, if the item contracted for is Part Number 313-15-1 and the item received is 813-15-2 and item will be brought on charge under Part No. 813-15-2 and Tally Card will be raised for Part No. 813-15-1 duly annotated as stated above.

3. Depots/Units under your control may please be instructed accordingly.

Sd.- R. D. KHANNA, Gp. Capt.

Air Commodore,

Air Officer-in-charge Maintenance.

#### Recommendation

*The Committee feel concerned over the gross over-provisioning of spares which were ordered in this case on the basis of the manufacturer's recommendation. Out of 8 items valuing Rs. 2.42 lakhs, the entire stock of 7 items valuing Rs. 1.22 lakhs has been lying unutilised ever since the purchase, and the remaining one item has been utilised in a very small number. The Committee feel that on the basis of past experience the Ministry should have taken more precaution while ordering spares at the manufacturer's recommendation. The Committee suggest that the feasibility of including a provision in such contracts that surplus spares would be returned to the manufacturers at their cost, might be examined.*

*The Committee also desire that the Ministry should take steps to review the position of spares and ensure that the hold-up in the execution of repairs of the flame tubes is reduced to the minimum.*

*The Committee feel that since instances of over-provisioning of stores are the annual feature of this Ministry, a positive and effective action should be taken by the Ministry to stop this.*

[S. No. 28 of Appendix XX to P.A.C. (1964-65) Thirty-Third Report  
(Third Lok Sabha) ]

#### ACTION TAKEN

Certain spares required for carrying out major repairs on flame tubes Mk. III fitted on Nene engines were proposed by the manufacturers in 1954 on the basis of their experience. The IAF had hardly operated Toofani aircraft for one year by then and, as such had no practical experience in the repair of similar types of flame tubes. In view of this, IAF was not in a position to assess the quantities of spares required for this purpose. Accordingly these spares were provisioned as per contract dated 15-4-55 based on the recommendations of the manufacturers and accepted by I.A.F. in the light of available consumption data of comparable items used on Vampire aircraft.

2. As on 26th April 1965, No. 1 BR.D. has consumed the spares in question in the quantity indicated below. The remaining spares are likely to be consumed when more flame tubes are taken up for repair.

Part No.	Description	Qty. Provi- sioned	Qty. con- sumed	Balance
251. 277	Diffuser	324	36	288
251. 279	Ring	550	55	495
251. 280	Ring	84	30	54
251. 281	Ring	84	19	65
250. 978	Rear Conical Sec- tion	80	39	41
253. 325	Head Assy.	1301	623	678
BK 12082	Conical Section	24	24	..
BK 12084	Conical Section	80	38	42

3. Headquarters Maintenance Command has taken steps to ensure a production of 10 flame tubes per day. The necessary additional manpower required for the clearance of accumulated backlog was positioned by December, 1964, by Air Headquarters.

4. The following observations of the Committee are being examined separately and as soon as a final decision is taken, it will be reported to the Committee:

".....The Committee suggest that the feasibility of including a provision in such contracts that surplus spares would be returned to the manufacturers at their cost, might be examined.

".....The Committee feel that since instances of over-provisioning of stores are the annual feature of this Ministry, a positive and effective action should be taken by the Ministry to stop this."

Director of Audit Defence Services has seen.

[U.C. No. F. 4(12)/65/D (Air. 1), dated 8-9-65.]

### Recommendation

*The Committee feel concerned over the gross overprovisioning of spares which were ordered in this case on the basis of the manufacturer's recommendation. Out of 8 items valuing Rs. 2.42 lakhs, the entire stock of 7 items valuing Rs. 1.22 lakhs has been lying unutilised ever since the purchase, and the remaining one item has been utilised in a very small number. The Committee feel that on the basis of past experience the Ministry should have taken more precaution while ordering spares at the manufacturer's recommendation. The Committee suggest that the feasibility of including a provision in such contracts that surplus spares would be returned to the manufacturers at their cost, might be examined.*

[S. No. 28 (i) of Appendix XX to 33rd Report (Third Lok Sabha)]

### ACTION TAKEN

In this Ministry's note dated 8th September, 1965, it was stated *inter-alia* that the following observations made in recommendation No. 28 of Appendix XX of PAC (1964-65) Thirty-third Report (Third Lok Sabha), were being examined:—

"The Committee suggest that the feasibility of including a provision in such contracts that surplus spares would be returned to the manufacturers at their cost, might be examined."

The suggestion that every indent for the purchase of spare parts should contain a provision that the items found surplus would be returned to the manufacturers at their cost has been examined and

is not considered feasible. The procurement of spare parts already presents considerable difficulty in many cases. The manufacturers of spare parts are not likely to agree to any such clause. Even if they agree, the extra price which they are likely to demand therefore will be exorbitant and will be more than the risk of obsolescence. It is felt that the proper remedy is adequate care in the indenting of spare parts. The broad policy is to place indents on the basis of actual experience of consumption. However, in the case of new equipment of which adequate experience is not available, greater reliance has naturally to be placed on the recommendations of the manufacturers. Another consideration which detracts from the suggestion is the fact that in many cases spares have to be specially manufactured against the Defence requirements and there is no common civil use for the said spare parts. While some risk of obsolescence of spare parts is inescapable in order not to render immobile particularly during operations essential equipment, all care is taken to anticipate as accurately as possible the likely requirements.

DADS has seen.

[U.O. No. 29(2)/65/D(0-1)].

#### **Recommendation**

*This is yet another case of bad planning. The equipment costing Rs. 3.78 lakhs received in May, 1959 has not yet been installed. At the time of ordering the equipment, it should have been known that an air-conditioned building would be required for its installation and necessary action initiated in that direction. It is also regrettable to note that the proceedings to acquire land for the building were started only in 1962 i.e. 3 years after the arrival of the equipment.*

*The Committee feel concerned to learn that there are similar cases in other Services also where buildings etc. required for installation of various equipment were not completed by the time of their arrival. They would like to know the methods devised by the Ministry to prevent recurrence of such cases.*

[S. No. 31 of Appendix XX to 33rd Report (3rd Lok Sabha)]

#### **ACTION TAKEN**

An Instrument Landing System equipment was indented at a cost of £ 25,408 in October, 1957. The equipment purchased at a total cost of £ 28,368 (Rs. 3,78,240) was received at No. 2 E.D. Bombay in May, 1959. Later it was transferred to No. 4 Wing Agra in April, 1960. The equipment however, could not be permanently installed so far.

2. According to earlier plans, the Works Services were expected to be completed by March, 1965. It has now been intimated that on account of rejection of work done to inferior specification, the contractor is still on the job, the work was expected to be completed by 31st August 1965. Meanwhile however, the middle and outer marker buildings have been completed on the requisitioned land and are in use. Temporary Electric connection have been given and the I.L.S. is functioning with these connections. As for the permanent electric connection, the poles have since been laid but the electrical wiring is yet to be provided. The over-all progress of the project is 95 per cent\*.

3. In view of the abnormal delay in installing the machine, we have asked Air HQ on 30-7-64 to investigate the circumstances in which the equipment could not be installed so far. The Court of Inquiry constituted by Air HQ in this respect in January, 1965 has not submitted its proceedings to the Govt. As soon as the same are received, the findings will be communicated to the Public Accounts Committee.

4. As several cases of non-utilisation of costly equipment have been brought to the notice of Govt. we have taken the following steps to avoid recurrence of such instances:—

- (i) Instructions have now been issued *vide* Ministry of Defence u.o. No. 23(26)/64/S03/D(0-1) dated 26-10-64 (copy enclosed) to service HQ that whenever any equipment is ordered, it must be seen whether facilities required for its installation maintenance, and operation are available or are being provided. Ministry of Defence would also insist on suitable certificate from Air HQ on this point before agreeing to any proposals involving works services.
- (ii) Instructions are being issued that whenever proposals for purchasing new equipment are made, the indenting authority should also specify whether similar equipment is already in its possession and not in use and in such cases give reasons why new equipment should be ordered.
- (iii) Air Headquarters have also been asked to submit to the Ministry of Defence and Ministry of Finance (Def.) a six monthly report in respect of all equipment machinery costing Rs. 50,000 and above which have remained unutilised for 8 months or more since the date of receipt in

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\*It has since been verified that the works services for the equipment have been completed.

India either at Embarkation Headquarters or at the units, vide Min. of Def. u.o. No. 37(10)/64/D(A-IV), dt. 29-3-65 (Copy enclosed). The return will cover only equipment and machinery in the nature of capital goods requiring installation and therefore, will exclude equipment/machinery obtained as reserve backing. Such return has been asked for so that they reflect the position as on 30th June and 31st December and would be submitted to the Ministry on or before 31st July and 31st January respectively. They have also been instructed that the first return should include past indents.

DADAS has seen.

[F. 7(3)/63/D(Air-IV), dt. 10-9-1965]

### MINISTRY OF DEFENCE

SUBJECT:—*Prevention of non-utilisation of costly equipments and machinery in the IAF—return regarding.*

Attention is invited to the minutes of the meeting held in the room of Addl. F.A. III on the 2nd March 1963 circulated to all concerned under this Ministry's u.o. No. 37(10)/64/D(Air-I), dated 19th March, 1965.

2. It has been decided by JS(A) that Air HQrs. should submit to the Ministries of Defence and Finance (Defence) a six monthly report, as in the proforma attached in respect of all equipment/machinery costing Rs. 50,000 and above and which have remained unutilised for 8 months or more since the date of receipt in India either at Embarkation Headquarters or at the unit. The return would cover only Equipment and machinery in the nature of capital goods requiring installation and would exclude equipment/machinery obtained as reserve backing. The return should be as on 30th June and 31st December and should be submitted on or before the 31st July and 31st January respectively. It has also been decided that the first return should include all past indents.

Sd/- J. A. KALYANAKRISHNAN,  
Deputy Secretary (A-II)

Tele: 31923

Air HQrs. (DOE-Air Cdre. G. B. Singh)

No. of D u.o. No. 37(10)/64/D(Air IV) dated 29th March, 1965.

347(aii) LS—23.

**PROFORMA**

Name of Equipment/ Machinery	Cost of Equipment with f.s. element	Whether imported or indigenous.	Date of indent/ date of A/T.	Date when the equipment was received at embarkation H/ Unit.	Reason for non-installation.	Remarks
1	2	3	4	5	6	7

**MINISTRY OF DEFENCE****D(O-I)**

**SUBJECT:—***Delay in utilisation of imported equipment—Crash Barriers.*

A case has appeared in the audit Report, Defence Services, 1964, where the delay in utilisation of an imported equipment, viz. Crash Barriers for the Air Force has been severely criticised. Orders for this equipment were placed in 1960 and the equipment was received in 1961 and 1962. The installation of the equipment which has to be done at different airfields has not been completed even now. The delay in installation of this equipment at various airfields was due to the non-fulfilment of the following requirements:—

- (a) Extension of runway;
- (b) construction of over-run;
- (c) Non-availability of land and acquisition of land requirements;
- (d) nature of terrain; and
- (e) unsuitability of soil due to heavy rain and resultant bogging.

2. It has been observed in the Audit Report that lack of forethought and proper planning are responsible for the delay in the utilisation of the Crash Barriers. Defence Secretary therefore desires that adequate care should be taken by all concerned to ensure that such lapses do not recur. While considering proposals for purchase of equipment it is essential for all concerned to make sure that the required facilities for installation, operation and maintenance of the equipment being procured have been or/are being provided and will be completed by the time the equipment arrives.

3. In future, before ordering any new equipment, all services/ Branches should keep the above points in mind and invariably furnish a certificate to Government regarding the availability or provision of necessary facilities for the installation, maintenance and operation of the equipment by the time the equipment is received. In cases where equipment have already been ordered for Services/ Branches should check up if there is likely to be any undue delay in the provision of the installation, operation/maintenance facilities. In every case where such delay is expected Government should be informed of the same and periodical reports furnished of the efforts made to overcome the delay and the results thereof.

Sd/- S. KRISHNAMOORTHY,

Under Secretary

26-10-64

Tele: 32770

[U.O. No. 23(26) /64/S03/D(O1) dated 26-10-1964.]

#### Recommendation

*The Committee are not happy over the delay that occurred in the present case in establishing electro-polishing facilities for want of a suitable rectifier, which resulted in heavy accumulation of turbine blades requiring electropolishing. In addition to the large number of blades requiring electropolishing (4000 in January 1964) affecting working of the Air Force, the delay in starting the project also resulted in an extra expenditure of £ 1600 (Rs. 21,333) in the shape of payment of technical liaison fee to the foreign collaborators. While the Committee appreciate the anxiety of the technical Committee to procure the rectifier indigenously, they regret that no serious efforts were made to obtain it. The Committee are surprised that even the correct specifications of the rectifier were not obtained from the manufacturers at the time of entering into an agreement in 1958. Again after obtaining the specifications in 1959, the D.G.S.&D. was not approached to procure the rectifier indigenously. The fact that the rectifier was subsequently available indigenously indicated that there was failure previously to find out one in the country. The Committee feel that the urgency of the project was not felt because of the large stock of new blades being available for replacing those needing electropolishing. The Committee hope that such delays would be scrupulously avoided in future.*

[Serial No. 32 of Appendix XX to 33rd Report (3rd Lok Sabha).]

## ACTION TAKEN

At the outset, this Ministry regret that in reply to a note required by P.A.C. at their sitting held on 27th October, 1964 with regard to steps taken to procure the rectifier after the Technical Committee decided to procure it in India, incorrect information was furnished to them. It was stated in reply to this note that the rectifier was received in Repair and Maintenance Depot in October 1963 and was installed there immediately. The position, however, was that in January 1964, Air HQ. had asked Air Force Station, Kanpur to confirm that the rectifier was installed immediately on its receipt and that it was being put into use for electropolishing process. Air Force Station, Kanpur in turn replied by saying that there was no hold up in the electropolishing of turbine blades. Air Headquarters, therefore, assumed that the rectifier was installed and the Govt. was informed accordingly. The same information was incorporated in this Ministry's note in reply to PAC's query referred to above (not vetted by Audit. Subsequently the position was again checked up at the instance of audit and it was found that the rectifier was not installed and that HQ. Maintenance Command had asked R&MD to postpone the installation as it would have involved expenditure on certain electrical fittings which would be infructuous when the whole electropolishing plant was erected in a new shop under the Reorganisation Plan. To ensure that there was no hold up in the output of electropolishing blades and also to clear backlog, as much as possible, the electropolishing of turbine blades at that time was being done with the help of a stand-by motor generating set.

2. In view of the above position, this Ministry has examined the matter further and have come to the conclusion that the electropolishing facilities could have been established earlier even without the rectifier. In fact, with the stand-by arrangements R&MD had electropolished about 3886 turbine blades during the period January 1964 to February 1965. This cleared the major portion of the backlog.

3. The requirement of the rectifier is, however, a permanent necessity for electropolishing of the blades as long as I.A.F. is using jet engines and the stand-by arrangements are meant to cater for an emergency in cases of breakdown of rectifier. The rectifier has been temporarily installed since March 1965 and is now being used for electropolishing of turbine blades.

4. It is accepted that there has been some delay in the procurement and installation of the rectifier. The recommendation of the

Committee that such delays be scrupulously avoided in future, has been noted.

5. The Director of Audit Defence Services has seen.

[U.O. No. F. 4(14)/65/D(A-I), dated 28-8-1965.]

#### **Recommendation**

*The Committee regret to note that the saving in manpower expected as a result of installation of automatic accounting machines has not been achieved. It is surprising that the output of the Air Force Operators is less than 50 per cent of that of the firm's Operators. It is not known whether less output of the Air Force Operators is due to their inexperience in operating these machines. If so, the Air Force Operators should be intensively trained in operating these machines so that the anticipated saving in manpower is achieved at an early date.*

[S. No. 33 of Appendix XX to 33rd Report (Third Lok Sabha)]

#### **ACTION TAKEN**

The average output on machines at Equipment Depots arrived at on the basis of returns rendered during the last 15 months ending April 1965 is approximately 223 postings per machine per day against 420-600 postings achieved by the Arm's demonstrator.

2. It must be appreciated that such demonstrators are specially selected and trained by the firm for demonstrations. Therefore, the output achieved by them can seldom be equalled by regular personnel. A comprehensive programme for training the operators at Equipment Depots with a view to increase the output is being worked out by Air HQrs. in consultation with M/s Remington Rand (the firm who supplied the machines).

3. Further, the pay scales, incentives and working conditions offered by civil firms enable them to get a much higher calibre staff. In the Air Force the postings are done by civilian Store Keepers and/Airmen Equipment Assistants. This is necessary because of their background and knowledge of equipment procedure.

4. Another vital factor in acquiring increase of output is the continuity and practice on the machines, just as in the case of typing. Unfortunately, Air Force Operators cannot be retained on these duties for too long a period without affecting their career prospects. Therefore, at least once every three years the operators are changed. This also affects the average output. Nevertheless Air HQrs. are examining the question whether these operators cannot be retained for a longer period without affecting their prospects.

5. Another factor is that the last 15 months' average of 223 postings per machine per day has been achieved in spite of the poor serviceability of machines. It is of interest to note that 6 out of 8 machines have been due for overhaul since November, 1963. The poor serviceability of the machines has been due to difficulty in obtaining spare parts from abroad. Although the machines are purchased, the responsibility for servicing the machines and supply of spares necessary, rests with M/s Remington Rand. Unfortunately, the firm has not been able to obtain import licence for the spares required. In November, 1963 when the machines came up for overhaul the firm advised Air HQrs. about their difficulty in obtaining the import licence. The firm was asked to prepare the estimates and give other details relating to the requirements, which were necessary before the case could be put up to the Government. These details were provided in July, 1964 and the case was immediately put up to the Government. The Import Licence was finally issued only in January, 1965. Against this the spares have been ordered by the firm but have not yet been received. Therefore, the overhaul of the machines has not yet been taken in hand and the serviceability of the machines continues to be low.

6. The present output of operators in the Air Force Depots compares favourably with that in other Government Offices. Notwithstanding the present output, 12 men have already been reduced from the establishment at Nos. 2,3,4, and 5 Equipment Depots. It may be stated here that this reduction of 12 men was not made on the basis of the present output of 223 lines but was originally worked out on the anticipated output of 420-600 lines. Increase in output from the present figure of about 223 lines is not expected to exceed 420-600 lines under any circumstances. Reduction in staff should, however, not be taken as the sole criterion in estimating the utility of the machines. Intensive training alone will also not help to reach the standards of output in commercial firms in the absence of similar working conditions for the operators. It is, however, hoped that when the machines are overhauled after receipt of necessary spares from abroad, the output will further increase thereby helping in the clearance of arrears.

7. Director of Audit Defence Services has seen.

[U.O. No. F. 4(15)/65/D(Air-I), dated 4th April, 1965.]

#### **Recommendation**

*The Committee view with concern the action of the Air Force authorities to levy entrance fee for the static exhibition without*

*prior approval of Government and to transfer the excess receipts of gate money (Rs. 46,706) to private funds (Air Force Benevolent Association and Unit Welfare Funds). The Committee hope that such cases will not recur.*

[S. No. 34 of Appendix XX to 33rd Report (Third Lok Sabha.)]

#### ACTION TAKEN

The enclosed circular letter issued by Air Headquarters on 25th August, 1964 to all Air Force Units is sufficient to prevent recurrence of such cases. No further action is considered necessary. D.A.D.S. has seen.

From:—Air Headquarters, New Delhi.

To:—As per distribution list 'A'

Date:—25th August, 1964

Ref:—Air HQ 28502 138 PS

#### *Celebration of IAF Anniversaries—Collection of Funds*

In an exhibition organised on IAF Anniversary an admission fee at the rate of 50 paise per adult and 25 paise per child was charged to regulate the crowds and the proceeds were credited to Air Force Welfare Funds. The Ministry of Defence has ruled that charging of entrance fee and crediting the proceeds to non-public funds is irregular and there should be no recurrence of such an irregularity.

2. It is, therefore, emphasised that if in future it is desired to charge an entrance fee on any exhibition or display organised by the I.A.F. prior approval of this Headquarters must be obtained.

Sd/- S. S. ENAND

Wg. Cdr.

for Air Vice Marshal Air Officer i/c Admin.

Copy to:—

Ministry of Defence—D(A-III)

Ministry of Defence—D(Cer).

#### Recommendation

*The Committee feel concerned over the delay in finalisation of the provisional payments made to the HAL for purchase of aircraft,*

*supply of spares and services rendered. The outstanding of Rs. 142.40 lakhs as on 31-12-1963 included an amount of Rs. 117.30 lakhs relating to the projects completed by June 1961. As desired by the Committee a note stating the latest position of the adjustment of this amount has been furnished.*

*The Committee desire that the Ministry should find out the real bottlenecks in the finalisation of the payments after completion of the jobs and take special steps to ensure that the time lag in this regard is minimised.*

[S. No. 35 of Appendix XX to 33rd Report (Third Lok Sabha) 1964-65].

#### ACTION TAKEN

Out of the outstanding amount of Rs. 142.40 lakhs, a sum of Rs. 68.57 lakhs has since been adjusted.

2. Three price proposals relating to Vampire and Gnat aircraft have been received from the HAL and are under consideration of the Government. On the finalisation of these price proposals, which is expected to be done shortly, a further sum of Rs. 69.89 lakhs will be adjusted against the provisional payments so far made. Measures to reduce the delay in the finalisation of the payments after the completion of the jobs are also under examination of the Government. A note on the results of this examination and the steps proposed to be taken to ensure that the time lag in the finalisation of the payments is minimised, will be submitted in due course.

Director of Audit, Defence Services has seen.

[U.O. No. F. 4(16)/65/D (Air. 1) dated 6-11-1965]

#### Recommendation

*The Committee regret to note that an amount of Rs. 28.29 lakhs out of the total advance of Rs. 77.15 lakhs is still to be adjusted after more than five years. They hope that efforts would be made to expedite the adjustment of the outstanding amount.*

[S. No. 36 of Appendix XX to 33rd Report (Third Lok Sabha)]

**ACTION TAKEN**

The position as on 15th July, 1965, in regard to the adjustment of the amount of Rs. 28.29 lakhs out of the total advance of Rs. 77.15 lakhs is given below:—

**Adjustment of advances in the books of Deputy Controller of  
Defence Accounts (Air Force)**

	<i>As on 30.9.1964</i>	<i>As on 15-7-1965</i>
	<i>Rs.</i>	<i>Rs.</i>
Total Advance . . . . .	77.15 lakhs	77.15 lakhs
Less: Adjusted by the DCDA (AF)	26.16 lakhs	27.32 lakhs
Less: to be adjusted by the DCDA (AF) against stores invoices verified by the Local audit Officer (Air Force).	22.70 lakhs	29.70 lakhs
Balance:	28.29 lakhs	20.13 lakhs

H.A.L. have also submitted further invoices and it is expected that when these are linked and verified, a considerable amount of the balance outstanding, viz., Rs. 20.13 lakhs will be cleared.

Every effort is being made to expedite adjustment of the outstanding amount, H.A.L. and the L.A.O. (AF) will do their best to complete production/verification of stores invoices as expeditiously as possible.

Director of Audit Defence Services has seen.

[U.O. No. F.4(17)/65/D(A.1), dated 26th October, 1965.]

**Recommendation**

(i) Article 6 of the contract with the firm provides:—

“If some modifications could be carried out in order to improve the stores to be supplied as per Appendix II, the seller will advise the buyer accordingly and if these modifications involve financial effect the buyer shall notify his decision to the seller within one month after he has been advised by the seller.”

The Committee are really surprised that despite this provision in the contract the firm did neither supply any flame tubes for 18 months:

(from June 1957 upto January 1959) nor did they notify the buyer about the modification made therein involving financial implications (higher cost of Mk. IV) during this long period. (The firm advised about this only in January 1959 i.e., 18 months after the conclusion of the agreement).

The Defence Secretary urged that in the case of purchase of such proprietary items, the Ministry had no option even if the manufacturers charged ten times the price. Upto a certain extent, the Ministry were at their mercy. He, however, added that all the firms were not unreasonable. But if a firm took a firm line, the Ministry had either to scrap the aircraft or improvise some alternatives which were extremely difficult to effect, because the safety of the aircraft was also involved.

The Committee do not consider this a happy state of affairs under which the Defence Ministry have no alternative but to accept the terms laid down by the firms, however unreasonable these might sometimes be. The Committee desire that the Ministry should take a serious note of this aspect and take necessary measures to remedy such a situation. They feel that in the matter of procurement of Defence Stores the Ministry should not be at the mercy of the manufacturers.

(ii) The Committee find it difficult to appreciate the vacillating attitude adopted by the Air Headquarters in regard to Mark IV flame tubes in first refusing to accept these tubes, then deciding to accept 875 numbers and to return the balance 558 numbers and eventually accepting the entire lot of 1433 which was despatched by the firm without prior concurrence.

(iii) The Committee find that one of the considerations which weighed with the Ministry for the purchase of Mk. IV flame tubes (costing Rs. 1734 each) in lieu of Mk. III flame tubes (costing Rs. 1,118 each) was the claim of the firm about the technical superiority of Mk. IV tubes. The average life of Mk. IV tube (i.e. sum total of first and second lives) was claimed to be 50% more than the average life of flame tube Mk. III. The first life of Mk. IV tube has proved to be 35% higher. Its second life has not yet been tested. The Committee desire that the Ministry should watch the second life of the tube in order to verify whether the claim of the firm about 50% higher average life of Mk. IV tube over Mk. III tube is substantiated in actual use. The Committee would like to be informed about the outcome of these tests.

[S. No. 37 of Appendix XX to 33rd Report (3rd Lok Sabha)].

## ACTION TAKEN

The recommendation of the Public Accounts Committee at (i) is being examined by the Government in consultation with the Procurement Agencies and the Committee will be apprised of the outcome in due course.

2. As regards the recommendation at (ii) above, the reasons for refusing, in the first instance, to accept MK. IV Flame Tubes supplied by the manufacturers are given below:—

There was a vast difference between the cost of MK. III and MK. IV Flame Tubes. In the interest of the State, it was necessary to examine the full implications of the supply of MK. IV Flame Tubes by the manufacturers, viz.

- (a) whether the Government was committed to accept MK. IV Flame Tubes in accordance with the terms of the contract, and
- (b) the higher cost for MK. IV was fully justified.

It was on the above account that the MK. IV Flame Tubes supplied by the manufacturers were, in the first instance, refused to be accepted though urgent requirements for the Flame Tubes existed. But during the period of these investigations I.A.F. assets of MK. III Flame Tubes were fully exhausted. The following two alternatives were, therefore, open:

- (a) Not to accept the Flame Tubes and insist on the supply of MK. III Flame Tubes which had already gone out of production with no prospects of their supply and eventually ground the whole fleet of Toofani aircraft on the purchase of which the Government had spent several crores of rupees;
- (b) To accept a limited number (875) of MK. IV Flame Tubes required to keep the Toofani fleet in Service and analyse the full implications of the supply of MK. IV Tubes made by the manufacturers.

The decision to accept the remaining 558 Flame Tubes, making a total of 1433, was taken after making a technical appreciation with regard to the superiority of MK. IV Flame Tubes in comparison with its higher cost. Before accepting this Qty., the requirements were re-worked and it was found that I.A.F's. actual requirements were 1566. The Government, therefore, had shown caution at this stage in making sure that the acceptance of 1433 tubes did not amount to

over-provisioning and this Qty. was, in fact, less than what was actually required.

3. With regard to the recommendation at (iii) above, it is stated that the first life of MK. IV Tubes has already been proved to be 35 per cent higher than that of MK. III Tubes as compared to increase of roughly 23 per cent forecast by the manufacturers. There is a further inherent saving by the use of MK. IV Flame Tubes in place of MK. III Tubes as the number of MK IV Tubes that is required to be changed during a specified number of flying hours is less than that of MK. III Flame Tubes due to the longer life of the former.

4. Necessary instructions have already been issued by Air H.Q. to the units operating Toofani aircraft as well as to the Repair Agency to maintain complete statistics by recording the requisite information on the Engine Log Cards in order to assess the second life of Flame Tubes MK. IV as well as MK. III. As soon as the requisite data is built up, the Committee will be apprised of the same.

5. Ministry of Finance (Defence) and Director of Audit Defence Services have seen.

[U.O. No. F.4(18)/65/D(Air.1) dated 8th July, 1965.]

### Recommendation

*The Committee regret to observe that this case is indicative of lack of proper planning and coordination. Before ordering the equipment for electrical training, the desirability of Introduction of electrical training facilities in this college should have been fully considered, and the facilities already available in the other training establishment should have been kept in view. The Committee regret that this was not done and it resulted in avoidable duplication. It is also regrettable that after the completion of the first training course, the Naval Headquarters took two years in deciding about the location of the electrical training facilities. The Committee are also not happy about the long time taken to start the connected civil works for the remaining equipment costing Rs. 0.30 lakhs received during 1957—59. The Committee hope that such delays would be avoided in future.*

[S. No. 41 of Appendix XX to 33rd Report (Third Lok Sabha)]

### ACTION TAKEN

Noted.

2. In order to avoid recurrence of such cases in future, instructions have already been issued in this Ministry's U.O. No. 23(26)/

64/S03/D(O-I), dated the 26th October, 1964 (copy enclosed), and a Navy Order 494 of 1964 has also been issued (copy enclosed).

3. The DADS has seen.

[U.O. No. F.5(7)/65/D(N-I), dated the 24th June, 1965.]

### **Recommendation**

*The Committee regret to note that this is yet another case of lack of planning. The equipment received during the years 1956 to 1960 had not yet been installed, with the result that the utilisation of equipment for training purpose had been inordinately delayed. It is also astonishing to note that the guarantee period of one year had long since expired even before the equipment had been unpacked. In the opinion of the Committee it is no consolation to be assured that the equipment is not likely to deteriorate. It is regrettable to note that if the equipment does not work satisfactorily after installation, the Ministry will have already forfeited the valuable right to invoke the guarantee.*

*The representative of the Ministry of Defence admitted during evidence that considering the importance of the training scheme, it was a mistake to postpone the construction of the connected building from Phase III to Phase IV of construction programme at the station. The equipment was received in 1956—60, the sanction for the construction of building was accorded in June, 1961, and the tenders were called in June, 1962. The Committee view with concern these delays at different stages. The Committee also observe that there was avoidable delay in according sanction for the construction of the building and also in calling for the tenders for the same. The Committee note that instructions have been issued in February, 1964, that connected civil works in respect of important and valuable equipment ordered from abroad should be planned well in advance so that the buildings were almost ready by the time the equipment was expected to arrive. They hope that there will be proper planning in future of civil works for installation of important and valuable equipment.*

[No. 42 of Appendix XX to 33rd Report (Third Lok Sabha)].

### **ACTION TAKEN**

Noted.

2. In order to avoid the recurrence of such cases in future instructions have been issued in this Ministry's U.O. No. 23(26)/64/S03/D

(O-I), dated the 26th October, 1964, and a Navy Order 494 of 1964 has also been issued in addition to the instructions of February, 1964 mentioned in the Report of the PAC, (Copies enclosed).

3. The DADS has seen.

[U.O. No. F.5(8)/65/D(N-I), dated the 26th July, 1965].

**NAVAL ORDER NO. 494 OF 1964**

***Prompt Installation and Utilisation of New Equipment***

(WM/1001)

Cases have occurred in the past when costly equipment ordered/received was not installed/utilised for a considerable period. This defeats the object for which large sums (including foreign exchange) were expended. In most cases, thorough and timely planning taking into account all factors, could have averted at least some of the delays that have occurred.

2. In order to eliminate such delays, in future, administrative authorities/Commanding Officers of establishments are to ensure that before a case for ordering new equipment is forwarded to Naval Headquarters all processes connected with its expeditious installation/utilisation are carefully evaluated. In other words, all facts connected with it, such as acquisition of land/plans for the building facilities required for installation/operation must be viewed as part of one programme. Annexure I to this Navy Order lists for guidance some of the important aspects, needing examination.

3. Administrative authorities and Commanding Officers of Establishments are also to make sure that the machinery/equipment ordered by them is complete in all respects and that no additional accessories/fittings will be required at a later date to complete the equipment or to make use of it after installation.

4. All ships and establishments are to carry out an annual review of the equipment ordered/received by them and to render to NHQ through the Administrative Authorities, a return, in the proforma given in Annexure II to this Navy Order. This return is to reach Naval Headquarters by the 31st December each year. Under the "Remarks" column any likely delays on the installation/utilisation of the equipment should be clearly indicated. Remedial action taken should also be shown.

5. If the requirement for a particular item of equipment has altered at the time of this annual review due to whatever circumstances, this should be clearly indicated so that the proposal could be modified or cancelled as necessary.

6. The return is to be confined to equipment installed during the year under review and all equipment awaiting installation/arrival. No return is required in respect of stores/spares order under the normal provisioning procedures.

## ANNEXURE I

1. Details of equipment including cost.
2. Purpose for which required.
3. Place where it is to be installed.
4. Availability of land. If not available what is proposed.
5. Availability of building to house the equipment. Indicate space and construction required.
6. Facilities to store the equipment prior to installation.
7. Installation specifications, drawings, foundation details.
8. Number and category of personnel required for installation.
9. Facilities such as crane, trolley required and their availability.
10. Details of tests to be carried out on completion of the installation.
11. Recurring expenditure.
12. Additional complaint required with full justification.
13. Technical and user publications, drawings, specifications etc. pertaining to maintenance, operation etc. of the equipment on board.
14. Details of on board Base and Depot spares.

## ANNEXURE II

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Serial No.	Indent	Date	Details of equipment	Date received	Date Installed	*Remarks
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See notes 1 and 2 below.

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\*Note 1. Reasons for any delay in installation should be shown. If due to non receipt of stores / materials relevant correspondence must be quoted.

\*Note 2. If the equipment is under installation, indicate probable date of completion.

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**MINISTRY OF DEFENCE**  
**D(0-1)**

**SUBJECT:—Delay in utilisation of imported equipment—Crash Barriers.**

A case has appeared in the Audit Report, Defence Services, 1964, where the delay in utilisation of an imported equipment, viz., Crash Barriers for the Air Force has been severely criticised. Orders for this equipment were placed in 1960 and the equipment was received in 1961 and 1962. The installation of the equipment which was to be done at different airfields, has not been completed even now. The delay in installation of this equipment at various airfields was due to the non-fulfilment of the following requirements:—

- (a) extension of runway;
- (b) construction of over-run;
- (c) non-availability of land and acquisition of land requirements;
- (d) nature of terrain; and
- (e) unsuitability of soil due to heavy rain and resultant bogging.

2. It has been observed in the Audit Report that lack of forethought and proper planning are responsible for the delay in the utilisation of the Crash Barriers. Defence Secretary therefore desires that adequate care should be taken by all concerned to ensure that such lapses do not recur. While considering proposals for purchase of equipment it is essential for all concerned to make sure that the required facilities for installation, operation and maintenance of the equipment being procured have been or/are being provided and will be completed by the time the equipment arrives.

3. In future, before ordering any new equipment, all Services/Branches should keep the above points in mind and invariably furnish a certificate to Government regarding the availability or provision of necessary facilities for the installation, maintenance and operation of the equipment by the time the equipment is received. In cases where equipment have already been ordered for, Services/Branches should check up if there is likely to be any undue delay in the provision of the installation/operation/maintenance facilities. In every case where such delay is expected Government should be informed of the same and periodical reports furnished of the efforts made to overcome the delay and the results thereof.

(Sd.) S. Krishnamoorthy,  
Under Secretary,  
28-10-64.

Tel: 32770

	Copies
DGOF	10
MGO'S Branch	25
QMG'S Branch	15
E-in-C' Branch	35
DGAFMS	20
NHQ	37
Air Hq.	50
Production & Inspection Orgn.	24
Research & Development Orgn.	50
DSP (N)	10
DTD & P (Air)	10

M of Def. u. o. No. 23 (26) /64/So 3/D (or) dated 26-1-1964.

Copy to:—

DS (A-III)

D(QS);	D(Works-1),	D(Med);
D(Prod);	D(N-1);	D(Air-1);
D(Budget);	DD(Contract);	D(Proj);
D(HAL);	D(Prod/Admn);	D(Air-IV)
D(Bel);	D(GRW/MD);	

Ministry of Finance (Def/o-2)-20 Copies.

SO1

SO2

### COPY

Reply should be addressed to  
the Chief of the Naval Staff.

quoting No. WM/1001

The Flag Officer Commanding, Indian Fleet,  
Fleet Office, Naval Dockyard, Bombay.

The Flag Officer, Bombay.

The Commodore-in-Charge, Cochin.

The Commodore East Coast, Vishakhapatnam.

The Naval Officer-in-Charge, Goa.

Naval Headquarters,  
New Delhi.

12th February, 1964.

### NON-UTILISATION OF IMPORTED EQUIPMENT

Cases have occurred in the past where costly equipment imported from abroad was not installed for a considerable period. This has resulted in equipment not being put to use early thereby defeating the object for which such large sums in foreign exchange were expended.

2. Although in some cases a certain amount of delay was unavoidable due to circumstances beyond the control of the establishment concerned, it is felt that more thorough planning in advance, taking into account the foreseeable factors could have averted the delays that occurred.

3. In order to eliminate such delays in future Administrative Authorities are to ensure that prior to a case being forwarded to Naval Headquarters for ordering new equipment from abroad, all the aspects connected with its expeditious installation should be carefully considered.

(Sd.) S. N. KOHLI,  
for Vice Admiral.

#### **Recommendation**

*The Committee are not satisfied with the delay that has occurred in this case in finalising the terms with the private oil company and making recoveries from the firm according to the revised agreement. Pending the final settlement, at least provisional payment according to the revised rates could have been obtained from the firm. The Committee hope that such inordinate delays would be avoided in future.*

[Serial No. 44 of Appendix XX to 33rd Report  
(Third Lok Sabha)].

#### **ACTION TAKEN**

Noted.

2. The D.A.D.S. has seen.

[U.O. No. F.5(13)/63/D(N-I), dated the 17th June, 1965.]

#### **Recommendation**

(i) *The Committee are unhappy over the inordinate delay of over 5 years in the utilisation of the hospital building which was completed in May 1958. It is surprising that at the time of approval of the construction of the building, the question of entitlement of the industrial staff to the medical facilities, for whom the hospital had been planned, was not properly examined. The Committee suggest that the circumstances in which this important lapse took place in the initial stage might be investigated and suitable action taken against person found responsible.*

*The Committee are also not satisfied over a period of three years being taken in deciding the question of entitlement of industrial*

*workers to the medical facilities in the hospital and further delay of three years in recruitment of staff etc.*

*(ii) The Committee suggest that the hospital facilities should be extended to the non-industrial workers also (including their families) who have been allotted 43 per cent. of the quarters in the Pawai colony. If necessary, a suitable contribution, as in the case of the Central Government Health Scheme may be realised from the non-industrial workers, for extending the hospital facilities to them.*

[Serial No. 45, of Appendix XX to 33rd Report 1964-65.]

#### ACTION TAKEN

The Committee's recommendation at (i) is noted. It may be stated that in view of the medical facilities given on the Army side to the Ordnance Civilian Labour and no medical facilities being available at Pawai, an M.I. Room, and not a hospital, as proposed by Naval Headquarters was agreed to in 1949. In the circumstances, the provision of M.I. Room and Sick Bay was only in the nature of a medical cover and the question of entitlement did not arise at that stage.

2. Subsequently in 1957, when a proposal for setting up a 20 bedded hospital in lieu of M.I. Room came up, the question of medical entitlement of the workers was raised, but the construction of the hospital building was completed even before a final decision was reached on this question. The delay in finalising the question of entitlement was due to the general question of medical entitlement of industrial personnel of the three services which was then already under examination of the Government. The question of entitlement had to be examined not only on inter-service basis for the three Defence Services, but also taking into account the position of workers on the civil side and Railways. Since a large number of workers are employed on those sides, the question could not be decided in isolation for the workers of Pawai Colony alone, whose medical needs were being met by the M.I. Room functioning there. Pending finalisation of the same, the hospital building could only be progressively utilised. However, the M.I. Room and Sick Bay sanctioned earlier and which was already functioning in the Pawai Colony was housed in the building from the date of its completion in 1958 and the vacant portion was allotted to Garrison Engineer's organisation which had no proper accommodation in the Colony. Thus, though fullfledged hospital started functioning only 5 years after completion of the building, the building was, however, partially utilised for housing the M.I. Room and partially for Garrison Engineer's office throughout.

Taking this into account, as well as the considerable lapse of time, it is considered that no useful purpose will be served nor result achieved by an investigation at this distant date.

3. Regarding the delay in the recruitment of the medical staff, the Medical Officer for the hospital was to be recruited through the Union Public Service Commission and hence the delay. The recruitment of the non-gazetted staff could only be made after the post of Medical Officer was filled. Indoor treatment in the hospital started from October 1964 and full indoor treatment including issue of diet started from December 1964.

4. With regard to the recommendations made at (ii) orders making the non-industrial staff eligible for hospital treatment at Pawai have since been issued vide Government of India, Ministry of Defence letter No. CP(A)/5903/NHQ/5237/D(N-II), dated the 5th June 1965 (copy enclosed).

The Director of Audit, Defence Services has seen.

[U.O. No. F.14(5)/65/D(N-II), dated the 16th November 1965.]

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No. CP(A)/5903/NHQ/5237/D(N-II)

GOVERNMENT OF INDIA  
MINISTRY OF DEFENCE

New Delhi, the 5th June, 1965|JYAISTHA 15, 1887—Saka.

To

The Chief of the Naval Staff, (with 20 spare copies).

SUBJECT:—*Extension of Medical facilities to non-Industrial Employees and their families at Pawai Hospital, Bombay.*

Sir,

I am directed to refer to paragraph 1 of Ministry of Defence letter No. CS/1116/NHQ/5316/D(Med), dated 30th September, 1961 and to convey the sanction of the President to the extension of medical facilities at M. I. Room and Hospital at Pawai to non-Industrial employees and their families residing in the Pawai Colony Bombay.

2. The Medical Officer-in-Charge of the Hospital will be deemed to be the Authorised Medical Attendant for all purposes and will certify admission of these personnel in civil hospitals in rare cases whenever reimbursement of expenses incurred in these hospitals is claimed by the Non-Industrial personnel.

3. This letter issues with the concurrence of the Ministry of Finance (Defence) vide their u.o. No. 2153-NA, dated 5th June, 1965.

(Sd.) AJIT SINGH,

*Under Secretary to the Govt. of India.*

Copy of the above forwarded to:—

The Deputy Financial Adviser (N) 2 copies.

The Deputy Financial Adviser (AG). 2 copies. (with reference to their u.o. No. 1850-PD, dated 2-8-65).

The Controller General of Defence Accounts, New Delhi 2 copies.

The Director of Audit, Defence Services, New Delhi.

The Deputy Director of Audit, Defence Services, Bombay.

The Controller of Defence Accounts (N), Bombay. 2 copies (one copy signed in ink).

#### **Recommendation**

*The Committee suggest that for proper and effective functioning of the Hospital an ambulance car may be made available to the Pawai hospital which is situated far away from Bombay city.*

[S. No. 46 of Appendix XX to 33rd Report, (Third Lok Sabha)].

#### **ACTION TAKEN**

An ambulance was supplied to Pawai Hospital on 14th September 1965.

2. The D.A.D.S. has seen.

#### **Recommendation**

*The Committee suggest that the feasibility of providing a suitable train stoppage near the colony may be examined in consultation with the Ministry of Railways.*

[S. No. 47 of Appendix XX to 33rd Report (Third Lok Sabha)].

#### **ACTION TAKEN**

The matter has been examined in consultation with the Ministry of Railways (Railway Board) on a number of occasions both at the secretariat and the ministerial level. As late as 2nd September 1964, the Chairman, Railway Board regretted his inability to agree to the proposal to open a new suburban Railway Station at Pawai on financial considerations. In view of this it is proposed to drop the matter.

2. DADS has seen.

[U.O. No. F.5(10)/65/D(N-1), dated the 10th August, 1965.]

### Recommendation

*The Committee are not satisfied over the delay of more than three years in sanctioning airconditioning for the building, in the absence of which the building (completed in January, 1963) still remains to be utilised. The Committee have in the past emphasised proper planning of works so that the connected services can be completed simultaneously with the buildings. They desire that the Ministry should be more careful in planning such works in futures.*

[S. No. 48 of Appendix XX to 33rd Report (3rd Lok Sabha).]

### ACTION TAKEN

In August 1959, Government had sanctioned the construction of an Operation Theatre, X-Ray Block and Pathological Laboratory for the Naval Hospital (INHS ASVINI) at Bombay at an estimated cost of Rs. 6.24 lakhs. In the meantime, however, due to engineering reasons, the cost of the works went up and fresh Government approval had to be obtained based on the tendered cost of the works. Government approval was conveyed in February, 1961 and the tender was accepted in February, 1961. Formal revised Government sanction for the works at an estimated cost of Rs. 8.71 lakhs was issued in April, 1962. The hospital building was completed in January, 1963 in so far as the building works were concerned.

2. The provision for airconditioning which could be undertaken only when the main building had been completed or was nearing completion, was *inter-alia* included in the original proposal. The scales then applicable, however, did not authorise the provision of new air-conditioners in hospital buildings and the question of revision of these scales had been under examination as a matter of policy for military hospitals on the basis of a report submitted in May, 1957 by a Committee (known as the Gupta Committee). With a view to avoid excess provision and consequential infructuous expenditure at a later date, it was, therefore, decided to delete the provision of airconditioning from the original scope of the works retaining only the provision of ducting.

The revised scales of accommodation for military hospital based on the Gupta Committee's recommendations were published in January, 1961 but even these scales did not authorise provision of airconditioning in INHS ASVINI. The matter had, therefore, to be examined in great detail on its own merit keeping in view the bed strength and the use of other economical means. The works on the airconditioning were ultimately sanctioned by Government at an

estimated cost of Rs. 1.71 lakhs in December 1962. The works, however, involved release of foreign exchange and certain special conditions were included in the tender documents. These needed approval of the Government. Foreign exchange for the works was released in June, 1963 and contract was awarded on 25th June, 1963. The airconditioning work on the building constructed in January 1963 was completed on 31st January, 1964 and the hospital was commissioned on the 19th February, 1964.

Thus it would be seen that even though there was some delay in airconditioning the hospital building mainly due to the time taken by Government in finalizing the scales for airconditioning INHS ASVINI, there was no delay in commissioning the hospital once the building was complete in all respects.

3. The recommendation made in the concluding sentence is noted.

4. The Director of Audit, Defence Services has seen.

[U.O. No. F.14(3)/65/D(N-II) dated the 16th Oct., 1965].

(Department of Defence Production)

#### Recommendation

*It is not clear why no action was taken by the Director General, Ordnance Factories to cancel the order for the manufacture of two new gas generators required by the Rifle Factory, Ishapore, after two gas generators became surplus in another factory in August, 1958 (The manufacture of these two new gas generators started only in May, 1960). Such a course would have saved expenditure on the manufacture of two new generators. The Committee regret to observe that lack of proper coordination between Director General, Ordnance Factories and the two factories resulted in this avoidable expenditure of Rs. 50,000. The Committee also asked the reasons for delay of three years in taking up manufacture of the two new gas generators. The Director General, Ordnance Factories stated that these gas generators were required for replacement of the existing ones in the factory in accordance with the normal prescribed procedure. But during the period 1956-60 there was hardly any work in the factory. Even assuming that the Rifle Factory, Ishapore, had no knowledge about the two surplus gas generators available from the second factory in August, 1958, the Committee are perturbed to note that there was inordinate delay in taking up the manufacture of new gas generators. The two generators were taken up for manufacture in May, 1960 and November 1962, and were completed in September, 1960 and March, 1963, respectively.*

[Sl. 52 of Appendix XX to 33rd Report (Third Lok Sabha).]

**ACTION TAKEN**

The gas generators at Rifle Factory, Ishapore which worked in a battery were of 5,000 cub. ft. capacity each. Two of these generators required replacement in 55-56. The gas generators declared surplus in 1958 at Small Arms Factory, Kanpur, were of 4,000 cub. ft. capacity each. Fitting these two generators into the battery at the Rifle Factory, Ishapore, would have involved extensive modifications to the pipe and flue arrangements of the battery. This would have interfered with the production at Rifle Factory, Ishapore, besides, entailing a significant expenditure. It was, therefore, decided to go ahead with manufacture of the two generators at Rifle Factory, Ishapore of the same capacity as the others in the battery.

As regards delay in undertaking manufacture of these generators at Rifle Factory, Ishapore, the Factory was carrying on, for the time being, with its production programme without these two generators; and no immediate or serious difficulty was being experienced. During the period 1958-60, the lead on the factory was very little and the manufacture of the two gas generators was not undertaken as an urgent project. During this period, therefore, the production effort did not suffer because of the non-replacement of the two generators. From 1961 onwards, the work load on the factory progressively went up so that not only were the two gas generators manufactured at Rifle Factory, Ishapore fully utilized but the need was felt for the two surplus generators from Small Arms Factory also. Both the gas generators from Small Arms Factory, Kanpur have since been installed at Rifle Factory, Ishapore, one in 6/65 and the other in 7/65. In view of these circumstances, the expenditure incurred in the manufacture of the new generators may not be viewed as avoidable. Also no loss has been caused to Government.

DADS has seen.

[U.O. No. 4/5/65/D(Prod), dated 17-3-1966].

**Recommendation**

The Committee are not convinced of the logic that packing and forwarding charges of imported components which have substantially reduced in quantity and bulk should be the same as for the complete unit. They feel that the agreement was defective on this point and gave an unintended benefit to the firm. According to audit, the unintended benefit accruing to the firm in respect of 5,840 trucks upto October, 1963 would work out to Rs. 15 lakhs. The Committee are not satisfied over the marginal reduction in the packing charges (i.e. the charges would be 10 per cent of the cost of components).

when it goes below Rs. 6,000) which the Ministry have been successful to secure from the firm. The Committee trust that the Ministry will be more careful while entering into future agreements.

[S. No. 57 of Appendix XX to 33rd Report (Third Lok Sabha)].

#### ACTION TAKEN

Noted. Necessary instructions (copy enclosed) have been issued to all concerned for guidance.

2. D.A.D.S. has seen.

(COPY)

#### MINISTRY OF DEFENCE

(Department of Defence Production)

D (Prod-Admin)

**SUBJECT:—Public Accounts Committee (33rd Report, Third Lok Sabha)—unintended benefit to a foreign firm.**

An agreement was concluded by the Ministry of Defence with a West German firm in September 1958 for progressive indigenous manufacture of trucks in Ordnance Factories. According to the terms of the agreement, the total price of each complete unit FOB German port, included a certain element on account of packing and forwarding charges with an imported element of 72·7 per cent per unit. The audit authorities objected that with the progressive decrease in the number, bulk and weight of imported components per unit ordered on the firm, the contracted amount on account of packing and forwarding charges should also have been correspondingly scaled down, whereas the amount originally agreed upon per unit was still being paid to the firm. According to Audit, this resulted in an unintended benefit to the firm.

2. The above objection figured as an Audit Para in the Audit Report, Defence Services, 1964 and was discussed by the Public Accounts Committee in its meeting held in October 1964. The committee felt that the agreement was defective and gave an unintended benefit to the firm. They have recommended that the Ministry should be more careful while entering into future agreements.

3. The above observations of the Public Accounts Committee are brought to the notice of all Sections of the Department of Defence Production and they are directed to be more careful while entering into future agreements so that similar defects in the agreements do not occur.

Sd./- B. B. TANDAN,

Deputy Secretary.

All Sections of the Department of Defence Production.

M. of D. u.o. No. 823/S\*/D (Prod-Admin), dated 18-5-63.

Ministry of Defence (D/FA&P).

Copy also to:—

S.A. \*Papers on file No. 2/14/65/D (Projects).

D.G.O.F.

D.G.I.

C.C.R.&D.

D.T.D.&P. (Air)

Director (P.&C.)

#### Recommendation

*The Committee had in their Seventeenth Report (Third Lok Sabha) expressed their concern over the production of trucks lagging behind the planned targets and had expressed the desire that every effort should be made to adhere to the revised programme of production. The Committee regret to note the shortfall in production even according to the latest revised programme. They hope that vigorous steps will be taken to adhere to the revised programme. The Committee would like to watch the progress in this behalf through future Audit Reports.*

[S. No. 58 of Appendix XX to 33rd Report (Third Lok Sabha)].

#### ACTION TAKEN

Noted. Every effort is being made to increase the production of trucks in Ordnance Factories.

2. D.A.D.S. has seen.

#### Recommendation

*The Committee are distressed at the halting manner in which the question of revision of the rent for the quarters had been dealt with by the Ministry after the need for revision was pointed out by Audit in August 1949. The assessment of rent was agreed to*

*in principle by the Ministry after six years in July, 1955. There was a delay of another 3 years in appointing a board of officers to advise on reassessment of rent. The Board took another 3 years and submitted their report in February, 1961. The final decision on their recommendations has not yet been taken. The Committee are surprised that after this question had been thoroughly gone into by the Board of Officers, the Ministry again want to review the matter at this stage. The Committee find a little justification for not implementing recommendations of the Board. The Committee desire that the final decision in the matter should be taken without any further delay.*

[S. No. 60 of Appendix XX to 33rd Report (3rd Lok Sabha)].

#### ACTION TAKEN

After careful consideration, Government have decided not to revise the rent of the quarters, which carry concessional rent unless these quarters are renovated to conform to the standards of other houses provided by Government.

D.A.D.S. has seen.

#### Recommendation

*The Committee regret to point out that there was inordinate delay in training the dogs. The dogs purchased in March, 1959 were placed on duty in September, 1961. (The second team of dogs started functioning from August, 1962. The Committee are also disappointed to note that the original expectation that each trained dog could replace about 12 men does not appear to have been fulfilled. In case of one of the two factories from which statistics have been collected, the reduction in strength has been stated at 11 posts (4 posts were actually surrendered in October, 1959 long before deployment of the dogs). The Committee suggest that the economies effected as a result of deployment of the security dogs, as also the improvement effected, if any, in security arrangements should be properly assessed with a view to examining the desirability of introducing the system in other factories.*

[S. No. 61 of Appendix XX to 33rd Report (Third Lok Sabha)].

#### ACTION TAKEN

The economies effected as a result of the employment of security dogs as also the improvement effected, if any, in security arrangements have been worked out in terms of savings in security men replaced by the Dogs Scheme. The following particulars will

show the recurring savings effected consequent on the employment of two dogs each in two factories namely, Rifle Factory, Ishapore and Gun Carriage Factory, Jabalpur from September, 1961:—

*Rifle Factory, Ishapore:*

In Rifle Factory, Ishapore 4 posts of site wardens had fallen vacant in October, 1959 and one post of durwan in May, 1961. These posts were not filled in view impending engagement of the team of dogs on security duty. The dog handlers were shown against the 4 posts of site wardens (their scale of pay being the same). Subsequently, two more posts of durwans fell vacant in 1962 and these were also not filled up. Further from September, 1961 one NCO and 3 ORS were released from their responsibilities at the Stockyard. They were, however, placed on duty in other areas of the factory, the work relating to security of the factory having increased. The accruing savings as a result of the implementation of the Dog Scheme have been shown in the enclosed statement. It will be seen that the recurring expenditure for the total 11 posts mentioned above is of the order of:

	Rs.	p.m.
4 Site Wardens	1000	
3 Durwans	340	
4 DSC personnel	1000	"
Total	2340	"

2. As against this, the total recurring charges for two dogs and two handlers would be of the order of:—

*Per dog per month including handler*

	Rs.
Feeding Charges . . . . .	90.00
Veterinary Charges . . . . .	12.50
Pay & allowances for handler . . . . .	225.00
	<hr/>
	327.50

For 2 dogs per month Rs. 327.50 × 2—Rs. 655.00.

*Gun Carriage Factory, Jabalpur:*

No specific surrender of posts of security personnel against the Dog Scheme was made in this factory. However, after the scheme was implemented in September, 1961, the augmentation in security arrangements due to increased activities in the factory and in the

wake of the declaration of the emergency was provided for by the dogs on security duty. As such, in effect, there was a sizable saving in security personnel, though no specific surrender of the existing posts was made in the factory.

3. These dogs are put on duty in night time as a matter of administrative convenience. A pair of trained dogs is capable of performing by their strong sense of smell a security function which, normally, a human being cannot perform with equal speed or certainty. However, their very presence affords a dependable deterrent against possible theft or pilferage.

4. The experience gained in the working of the Dogs Scheme in the two factories and economies effected will be kept in view as and when extension of the Scheme to other factories is contemplated.

5. At pages 87 and 207 of the PAC (1964-65) Thirty Third report, the following sentences appear:—

- (i) The Ministry have not been able to collect similar statistics from the other factory where from August 1962 a team of 2 security dogs has been functioning.
- (ii) The second team of dogs started functioning from August, 1962.

It has since been ascertained that the team of 2 dogs were put on duty in Gun Carriage Factory, Jabalpur on 11th September, 1961 and not in August 1962, as intimated to the PAC earlier.

6. Ministry of Finance (Def/Fys) have seen.

7. D.A.D.S. has seen.

[F. No. 1(7)/63/D(Fys).]

EXPENDITURE					ESTIMATED SAVINGS	
Year	Feeding charges of Dogs	Veterinary charges	Kennel Exp. including utensils up-to date	Pay & Allices of Dog. Handlers	Due to surrender of 4 site wardens from Oct.'59	Due to surrender of 3 posts of Durwans
	Rs. NP	Rs. NP	Rs. NP	Rs. NP	Rs. NP	Rs. NP
1959-60	3235.94	415.15	61.62	2151.00	Pay & allowances of Site wardens for 4 years @ Rs. 1007/- per month —Rs. 48,336/-	Pay & allowances of 3 Durwans @ Rs. 341.50 per month —Rs. 16,392/-
1960-61	3418.88	176.65	61.83	7953.00		
1961-62	2247.30	375.29	..	6597.00		
1962-63	1859.45	145.95	..	4747.00		
1963-64	1769.01	102.38	..	5088.00		
TOTAL	12530.58	1215.32	123.45	26536.00	Rs. 48,336/-	Rs. 16,392/-

From the above it will be seen that the total expenditure incurred in Rifle Factory on account of maintenance of :—  
 (4 dogs from March '59 to 29-8-61)  
 (2 dogs from 30-8-61 to 31-3-64)

Total savings effected on account of surrendering posts of 4 Site Wardens and 3 Security Durwans :—

and expenditure on account of Dog Handlers :—

(2 Dogs Handlers from 18-12-59 to 31-3-64)  
 (1 Dog Handler from 24-12-59 to 12-9-60)  
 (1 Dog Handler from 22-2-60 to 29-8-61)  
 (1 Dog Handler from 15-2-61 to 29-8-61)

TOTAL		Rs. 40,305/- Approx.	TOTAL Rs. 64,728/- Approx.
Savings on account of withdrawal of MDSC Post			Per capita expd. per month.
Pay and allowance			Rs. 100 p.m.
Rations			Rs. 46 "
Ordnance equipments			Rs. 14 "
Conservancy & Hot Weather Estt.			Rs. 2 "
Clothing			Rs. 15 "
Accommodation (average)			Rs. 30 "
Hospital Charges			Rs. 40 "
			Total Rs. 247 or say
			Rs. 250/- per month

### Recommendation

*The Committee are perturbed to note from the statement furnished by the Ministry (Appendix XV) that 20 vouchers out of these 21 had been outstanding since 1956-59. They would like to know the outcome of the court proceedings.*

*The Committee also find from the statement that 4 vouchers of the value of Rs. 69,034 relating to another private firm have been outstanding since 1952-53. They would like to know the reasons for non-clearance of these vouchers for such a long time.*

[S. No. 64 of Appendix XX to 33rd Report (1964-65).]

### ACTION TAKEN

The 20 vouchers relating to Messrs. Frontier Woollen Mills, New Delhi, pertain to the period 1956-59. Of these, only 3 vouchers pertained to the year 1956-57, to the year 1957-58, and 16 to the year 1958-59. In December 1958, while verifying credit of the receipts, it was revealed in internal audit that the firm had committed fraud upon the Government, in that against 21 vouchers/Inspection Notes, they had obtained 90 per cent advance payment by furnishing false proof of despatch to the Pay and Accounts Officer, whereas consignee depot had neither received the stores nor copies of the vouchers. The case was handed over to the SPE, who after necessary investigation, took all these papers/documents in their possession on 23 June 1960 to launch criminal proceedings against the firm. The case is still being pursued in the Court.

2. The 4 vouchers relating to Messrs. Himat Singh Timber Ltd. pertain to the period 1952-53. The stores against these inspection Notes have been taken on charge and the relevant CRV Nos. and dates have been intimated to the internal audit authorities. The items are outstanding only due to non-availability of the Account Cards which are with the Court in connection with the case relating to irregularities in local purchase of timber at present under trial. Records of the depot concerned pertaining to the stores supplied by this firm were taken possession of by the SPE on 21st September, 1962. The case is still pending in the court. Efforts will be made to obtain the Account Cards to carry out the necessary verification by the internal audit.

3. DADS has seen.

[U.O. No. 2(4)/65/1143/D(O-II), dated 16th February 1966.]

### Recommendation

*The Committee are not happy over the delay of one year in taking action by the Ministry of Defence to apply to the civilian officers on the Defence side, the revised scales of accommodation prescribed*

by the Ministry of Works, Housing and Supply in July, 1962. It is regrettable that no action was taken in the present case on the suggestion made by Audit in October, 1962 to review the requirements of each class of quarters in the light of the revised scales prescribed by the Ministry of Works, Housing and Supply in July 1962. Since the tenders for the project were issued nine months later in July, 1963, the Ministry should have revised the requirements. This failure resulted in the extra expenditure of Rs. 5 lakhs on the project. The Committee suggest that failure to bring to the notice of higher authorities the revised scales of accommodation in October, 1962, on being pointed out by Audit, may be investigated and responsibility fixed.

The redeeming feature of the case is that the quarters have actually been allotted to the officers who were entitled to them under the revised scales except in the case of one quarter of C-1 type. But, the Committee regret to note that as a result of this, the lower staff for whom the quarters had been built would remain without accommodation. The Special Secretary had assured the Committee that any shortage of accommodation as a result of this was being made up. The Committee would like to be informed of the action taken in this regard.

[S. No. 66 of Appendix XX to 33rd Report (Third Lok Sabha).]

#### ACTION TAKEN

The Committee had observed that no action was taken in the present case on the suggestion made by Audit in October, 1962 to review the requirements of each class of quarters in the light of the revised scales prescribed by the Ministry of Works, Housing and Supply in July 1962. Since the tenders for the project were issued nine months later in July, 1963, the Ministry should have revised the requirements. This failure resulted in the extra expenditure of Rs. 5 lakhs on the project. The Committee, therefore, suggested that failure to bring to the notice of higher authorities the revised scale of accommodation in October, 1962, on being pointed out by Audit, may be investigated and responsibility fixed.

Explanations were called for on 7th December, 1964, from two ex-officers—these officers have since retired w.e.f. 29th April, 1964 and 2nd November, 1964—who were responsible for not bringing the audit observations to the notice of higher authorities. Reply from one officer was received on 16th December, 1964 and reply from the other, who, after retirement, proceeded to Germany, is still awaited. The replies will be considered and PAC will be informed of the action taken against them. In order to avoid similar lapses in future, standing orders have been issued vide Ministry of Defence

U.O. No. 96098/RD-30, dated 13th November, 1964 (copy enclosed) that all references from DADS should be invariably brought to the notice of higher authorities and further action taken on their orders.

2. As regards Special Secretary's assurance that any shortage of accommodation as a result of this was being made up, it is stated that quarters for non-gazetted staff authorised by the Government in the Pashan Project are being built on the site of Pashan Camp at AMTC, Ganeshkhind, Poona, where some residential quarters converted from the old war time barracks already exist. The zoning of new quarters have been planned in a manner so as to ensure the maximum utilisation of the existing temporary quarters. The deficiencies in the quarters of Types II and III are 50 and 4 respectively. These deficiencies are fully covered by the temporary quarters converted from war time barracks. In view of this, the proposal to build new quarters to make up the deficiency in lower category, is not at present being considered. The condition of old quarters will be reviewed periodically and fresh constructions corresponding to the number of quarters declared dangerous from time to time will be taken up as and when necessary.

3. DADS has seen.

[U.O. No. 4/1/64/D(R&D), dated 17-9-1965.]

## MINISTRY OF DEFENCE

(Defence Research and Development Organisation)

### STANDING INSTRUCTION NO. 2/64

SUBJECT:—Audit References

All audit references received from the Director of Audit Defence Services, will be first put up to Director of Administration/CCR/& D/Chief Scientist for orders before any action is to be taken on the relevant file. No "rejection action" should be taken except at the level of CCR&D/Chief Scientist/Director of Administration.

Sd/- A. S. PUJJI,

for Director General Research & Development.

All Dtes/Sections of R&D Hors.

Min. of Def. U.O. No. 96098/RD-30, dated 13 Nov., '64.

Copy to:—

SO|SA, PA|CCR&D, PA|DCS, PA|DS (R&D) and US (R&D).

### Recommendation

*The Committee are unhappy at the loss of cash in the Cantonment Board Dehu amounting to Rs. 2,23,726. They desire that necessary remedial measures including the tightening up of supervision should be taken to avoid recurrence of such cases. The Committee would like to know in due course about the outcome of the criminal proceedings against the accused officers and the departmental action taken in this case. The Committee would also like the Ministry to examine carefully how the misappropriation of such a large amount occurred without prompt detection and whether there is any lacuna in the existing procedure for supervision and internal check which requires to be filled up.*

*The misappropriation in this case came to light in August, 1962 but the Head Clerk was arrested and suspended from duty in June, 1964. It is not clear to the Committee why it took nearly two years to establish a suspicion of complicity against the Head Clerk. The Committee desire that the circumstances leading to the delay should be examined with a view to ensuring that the completion of investigation in future cases of this nature does not take an unduly long time.*

[S. No. 71 of Appendix XX to 33rd Report Third Lok Sabha.]

### ACTION TAKEN

The Defence Ministry has noted the desire of the Public Accounts Committee that necessary remedial measures including the tightening up of supervision should be taken to avoid recurrence of such cases as the one examined by the Committee. Necessary instructions were issued on the 29th August, 1962 by the Director, Military Lands and Cantonments to all Cantonment Executive Officers emphasising the proper observance of the provisions of the Cantonment Account Code, 1924 generally, and Rules 4, 26 and 28 in particular, regarding handling, remittance and accounting of monies received for credit to the Cantonment Fund. Director, Military Lands and Cantonments has also obtained a confirmation from all the Cantonment Executive Officers that quarterly internal audit of accounts of the Cantonment Board by a Committee of the Cantonment Board is being regularly conducted. The supervision has been further tightened by raising the frequency of inspection of Cantonments by the Deputy Director, Military Lands and Cantonments of Command Headquarters from yearly to half yearly.

### 2. Criminal Proceedings.

2. Criminal proceedings against the accused officer and the official of the Cantonment Board viz., the Head Clerk are still in progress in the Court. Charges have been framed by the Court against

the accused on 12th August, 1965. The case stands posted for hearing on 22nd November, 1965. Further progress of the case is not available.

The question of taking departmental action against the two accused officers has been examined. On the advise of the Ministry of Home Affairs, departmental action against the accused officers now under trial before a criminal Court has been kept in abeyance till the conclusion of trial.

Ministry of Defence has also considered in consultation with the GOC-in-Chief, Southern Command, the question of holding enquiry against the President, Cantonment Board with a view to fixing responsibility for the lapse. It is considered that the enquiry, if ordered at this stage, would entail examination of documents in the custody of the Special Police Establishment in connection with the criminal proceedings. Further the possibility of the President, Cantonment Board and other officers being examined as witnesses in the Criminal Court cannot be ruled out. It may also raise the question of contempt of Court. This enquiry has, therefore, been held in abeyance pending decision of the Court.

### *3. Delay in detection and removal of lacuna in the existing procedure.*

Ministry of Defence has also examined how the misappropriation of such a large sum as Rs. 2,23,726 occurred without prompt detection. The result of examination has revealed that the misappropriation was rendered possible due to the following reasons:

- (i) Failure on the part of the President, Cantonment Board in not exercising the duties imposed on him by Section 22 of the Cantonments Act, 1924.
- (ii) The Board's indulgence in the matter of waiving of the non-compliance of its Resolution regarding periodical remittances into the Bank. Further the Board's assurance to the Audit, when the non-remittance of Cash regularly by the Executive Officer was pointed out by the latter in the Audit Note, to the effect that "the provisions of the rules will be strictly complied with in future and that all cash on the last day of the month will be credited in the Bank," without watching its implementation also facilitated the misappropriation by the accused Executive Officer.

To avoid recurrence of such cases the Controller General of Defence Accounts has drawn attention of all Controllers of Defence Accounts on 25th February, 1965 to the

procedure to be followed in the matter of physical check of cash in the Cantonment Boards by the local Audit Officers according to which Cash balances will not be verified ordinarily by Local Audit Party. But, where any unsatisfactory state of Cash Book is revealed as a result of audit or review, the L.A.O. etc may, at his discretion, proceed with the actual physical check of the Cash balances. This discretion should be exercised by the Local Audit Officers more frequently in warranted cases.

Ministry of Defence has further examined whether there is any lacuna in the existing procedure for supervision and internal check which required to be filled up. The Defence Ministry find that the existing provisions of the Act, the provisions of the Cantonment Account Code, 1924, the system of quarterly internal check by a Committee of the Board, in addition to half yearly inspection of Cantonment Fund Accounts by the Controller of Defence Accounts, provide sufficient safeguards and checks to prevent recurrence of cases of the instant nature. The Defence Ministry, therefore, is of the view that there is no lacuna which needs to be filled up.

#### *4. Delay in establishing suspicion against the Head Clerk.*

Ministry of Defence have examined the circumstances leading to the delay of nearly two years between the date of coming to light of the misappropriation and the date of arrest and suspension of the Head Clerk of the Cantonment Board, Dehu Road. Ministry of Defence find that immediately the misappropriation came to light, the local police registered (on 25-8-1962) a case of commission of offence under Section 409 Indian Penal Code and 5(2) of Act II of 1947 for investigation against Shri A. Viswanathan, the accused officer. The Enquiry Committee appointed by the Cantonment Board for the purpose, held Shri Viswanathan, the Cantonment Executive Officer as solely responsible for the loss. The Special Police Establishment, Bombay commenced investigation of the case on 28-8-1962 and concluded the same some time in October, 1963. It was only after conclusion of the investigation that the Special Police Establishment came to the conclusion that there was enough evidence against both the accused i.e., the Executive Officer and the Head Clerk of the Cantonment Board, Dehu Road. The Special Police Establishment Bombay on 28-10-1963 requested the GOC-in-Chief, Southern Command to accord necessary departmental sanction for prosecution of the accused Head Clerk of the Cantonment Board. On 18-11-1963, Headquarters Southern Command asked the President, Cantonment Board, Dehu Road to take

necessary action, as in respect of the Head Clerk, a servant of the Board, the Cantonment Board Dehu Road is the competent authority to accord such sanction. The Cantonment Board accorded the requisite sanction on 29th November, 1963. The SPE (Bombay) on 29th January, 1964, requested the President, Cantonment Board to have an amended Resolution passed by the Cantonment Board in place of their earlier Resolution of 29th November, 1963, wherein sanction of the Board for the prosecution of its Head Clerk had been accorded on the lines of a draft given by them (the SPE). The Cantonment Board on 29th April, 1964 decided to request the SPE to make available to the President, Cantonment Board for his perusal, the documents on which the allegations against the Head Clerk were based. The Investigating Officer of the SPE discussed personally the matter with the President, Cantonment Board on 22nd May, 1964, and the former agreed that the sanction for prosecution of the Head Clerk already accorded by the Board would meet the requirements and that no further action on the part of the Board was necessary in the matter. A charge sheet was filed on 2-6-1964 in the Court of the Special Judge Greater Bombay against the accused. The Head Clerk was arrested by Police on 22-6-1964 and also suspended from the Board's Service. From the foregoing sequence of events, it would be seen that although the misappropriation came to light in August, 1962, the investigation of the case by the SPE was completed only by the end of October, 1963. Thereafter the requisite legal formalities connected with the prosecution of the accused Head Clerk leading to his arrest on 22nd June, 1964 entailed a further period of time.

5. This case could not be finalised in time as information had to be obtained from different authorities, required from time to time by the administrative and audit authorities.

6. DADS has seen.

### **Recommendation**

(i) *The Committee are surprised that inspite of a clear provision in the lease agreement that Government shall hand over the premises in the same condition as they were at the time of commencement of tenancy, the officers concerned failed to clear the Government assets before handing over the building to the owner, and there was inordinate delay in accepting the offer of the owner's representative for the Government assets in view of the fact that the owner had been sending rent bills monthly even after taking over the building, necessary action should have been taken either to accept her offer or dispose of the assets otherwise. The Committee are alarmed at the gross*

negligence on the part of the officers concerned which has resulted in unnecessary payment of rent and interest amounting to Rs. 33,314 together with the cost of suit (not yet assessed) in the High Court, merely because some small assets (which fetched only Rs. 130) were not disposed of in time. The Committee are not satisfied over the casual manner in which the investigation was made in 1956. They note that the Ministry have called for relevant papers for further examination of the case with a view to pinning down responsibility. Since this has already become an old matter the Committee desire that the examination should be completed within six months and action finalised without further delay. The Committee would also like to know the outcome of further investigation and action taken against the officers concerned.

[S. No. 72 of Appendix XX to 33rd Report (Third Lok Sabha).]

#### ACTION TAKEN

The concerned files the CWE (Commander Works Engineers) have since been received and examined by Ministry of Defence, HQ. 20 Division file on the subject is reported as not traceable.

2. At the time of examination in 1956 the case was 8 years old and due to re-organisation of the formations and changes of personnel, full particulars were not available. CWE who was asked by HQ. 20 Division to investigate the matter thoroughly and forward his comments instructed in turn the GE to forward his comments. On the basis of the report of GE, the CWE came to the conclusion that the question of rent due to not giving vacant occupation of the compound did not strike the then GE probably as handing/taking over certificate signed by both parties was in his possession. The CWE reported accordingly to HQ. 20 Division on 19th September 1956. CWE's files do not contain any further correspondence on the matter from HQ. 20 Division.

The CWE's view is not borne out by the information available in the file which shows that rent bills received from the landlady for the period after date of handing over of the building and returned to the owner by the GE unaccepted were sent back by the owner contesting the GE's view and asking for arbitration. The CWE who investigated the case in 1956 retired in June 1957 and died in 1958.

3. It is agreed that with more careful appreciation of the position and speedier action by the officers concerned bulk of the expenditure could have been avoided.

Instructions have been issued by E-in-C's Branch to the Chief Engineers on 13th September, 1965, pointing out the circumstances under which the case in question had arisen resulting in infructuous expenditure with a view to avoiding such cases in future.

As regards disciplinary aspect it may be mentioned that even in 1956 the CWE had difficulty in obtaining information due to changes in staff. Now the case being 16 to 17 years old and some of the officers being no longer in service, it is considered that holding of a Court of Inquiry at this stage to pin down responsibility for the delay in disposal of assets will not be feasible.

4. Incidentally it may be mentioned that the amount of Rs. 33,314 referred to in the PAC recommendation includes a sum of Rs. 9,689 pertaining to disputes in regard to enhanced rent etc. covering earlier period viz., 9th November 1943 to 25th May 1947.

5. DADS has seen.

[U.O. No. 15(2)/65/994/D(Works-II), dated the 8th February, 1966.]

#### **Recommendation**

*The Committee are unable to agree with the view of the Chief Engineer. The action of the subordinate in making entry in the Measurement Book in anticipation of the receipt of the 'Charpoys' was a serious irregularity as it involved the deliberate falsification of an important initial record. All this happened as there was an attempt to show the available funds as utilised even though the materials had not actually been received. The attempt to evade rules to cover up the matter by making a false entry resulted in loss of Rs. 45,219 in this case. The Committee desire that non-observance of rules in such cases should be viewed seriously in future and suitable action taken in this case both against the subordinate and against the officer who directed that the funds should be withdrawn and kept in deposit. The Committee would also like to know whether any departmental action was taken against the contractor.*

[S. No. 73 of Appendix XX to 33rd Report 1964-65.]

#### **ACTION TAKEN**

As desired by the Public Accounts Committee, the Chief Engineer has been instructed to initiate disciplinary proceedings against the concerned personnel and report result. A further note will be sent to the P.A.C. when the disciplinary proceedings are finalised.

Suitable remedial instructions have also been issued by E-in-C's Branch to avoid recurrence of similar cases in future vide Annexure

I. The contractor's name was removed from the approved list of contractors of HQ. 133 Works Engrs. in February, 1960.

2. DADS has seen.

[U.O. No. 15(3)/65/8485/D(Works-II), dated the 9th September, 1965].

#### ANNEXURE 1

No. 36364/E8

ARMY HEADQUARTERS

Engineer-in-Chief's Branch

DH& PO NEW DELHI-11, 19th June 1965

To

The Chief Engineer,  
Southern Command, POONA,  
Eastern Command, CALCUTTA,  
Western Command, SIMLA,  
Central Command, LUCKNOW.

SUBJECT—*Measurement Book—Entries.*

In a contract for supply of furniture a portion of the funds allotted for the work remained unspent towards the close of financial year on account of delays on the part of the contractor in making deliveries. In order to avoid lapse of funds it was desired to place the sum in deposit for adjustment against bills for furniture to be delivered later. This was sought to be done by making an entry in the Measurement Book in anticipation of supplies being made in the future.

It was, however, immediately realised that this action was irregular and the entry, to which contractor's signature had not been taken as a matter of caution, was cancelled the same day, by the subordinate who had made it. The AGE also signed the cancellation without giving any reasons for it. The funds left surplus were allowed to lapse.

2. Thereafter the contractor alleged that he had supplied furniture for which no receipts had been given to him. He based his claim on the entries made in the Measurement Book. This resulted in a dispute which had to be resolved by reference to arbitration.

The entries in the Measurement Book and their subsequent cancellation prejudiced Government case and led to an unfavourable award against Government.

3. Entry in a Measurement Book in anticipation of future deliveries is a serious irregularity as it involves deliberate falsification of an important initial record. An attempt at showing that the available funds have been utilised when the material has not in fact been received is most unjustified.

4. Please take appropriate action to prevent such irregularities in future.

Sd/-

for Engineer in Chief.

Copy to:—

Chief Engineer,

West Coast, 26 Assaye Buildings, BOMBAY-5 etc. etc.

• • • • •

### Recommendation

*The Committee suggest that the Controller General Defence Accounts should examine the feasibility of indicating in his future certificates the number of cases in which substantial amounts are awaiting recovery or (b) have been irregularly spent and/or lost and are awaiting regularisation for more than one year.*

[Sl. No. 74 (Sub-para 2) of Appendix XX to 33rd Report (3rd Lok Sabha).]

### ACTION TAKEN

The suggestion of the P.A.C. can be divided into the following two parts:—

- (a) The number of cases in which substantial amounts are awaiting recovery should be mentioned in the Controller General of Defence Accounts' Certificate;
- (b) The number of cases where regularisation action for more than one year is awaited both in respect of audit objections and losses should be mentioned in the certificate.

2. (i) As regards (a) above, the total of the amounts outstanding on account of stores supplied/services rendered as also outstandings due on account of rent and allied charges are already being shown in the Controller General of Defence Accounts' Certificate. The P.A.C. has now suggested that the number of cases where substantial amounts are awaiting recovery should also be mentioned in the Controller General of Defence Accounts' Certificate. Accordingly, it is proposed to amplify the above reservations in the Controller

**General of Defence Accounts' Certificate** by mentioning the number of cases where the amount of outstandings exceeds Rs. 5,000 in each individual case for more than one year.

(ii) In regard to the audit objections referred to in (b) above, important cases of expenditure under objection, exceeding Rs. 5,000 in each case, where sanction of the Government of India is required, are at present listed in Annexure I to the Controller General of Defence Accounts' Certificate incorporated in the Appropriation Accounts. The number of such cases enumerated in the *previous years'* Appropriation Accounts which are still awaiting regularisation, will also be mentioned in the annexure to the Controller General of Defence Accounts' Certificate in future.

As regards losses awaiting regularisation for more than one year and where the amounts involved are substantial, we consider that losses substantial enough to require sanction of the Government of India may be mentioned in the Controller General of Defence Accounts' Certificate as an additional reservation indicating the number of cases and the amount involved.

3. D.A.D.S. has seen.

### **Recommendation**

*The Committee are alarmed at the occurrence of such a large number of cases of misappropriation, frauds etc. in the Defence Organisation in spite of rigid security measures and vigilance arrangements existing therein. What is more surprising, the Defence Department could detect only about 1/5th of these cases, the remaining were taken up by the Special Police Establishment on their own. This indicates that there is some slackness in supervision and vigilance in the Defence Department. They suggest that the Ministry should review the present vigilance arrangements at various levels and take necessary action to strengthen them.*

[Para 76 of 33rd Report (3 LS).]

### **ACTION TAKEN**

The recommendation made by the Public Accounts Committee consists of the following three points:—

- (i) The large number of cases (*viz.* 766) of misappropriation, frauds, etc. in the Defence Organisation;
- (ii) most of the cases were taken up by the Special Police Establishment on their own and the Defence Department could detect only 1/5th of the cases; and

- (iii) the present vigilance arrangements should be strengthened.

2. We have the following remarks to offer on the above three points:

- (i) The total number of cases of misappropriation, frauds, etc., referred to by the Public Accounts Committee are in respect of a long period of 9 years from 1956 to 1964. The Defence Organisation, which comprises the Ministry of Defence, the Department of Defence Production, the Armed Forces Headquarters, the Inter-Services Organisations, various other departments and public undertakings, with their units, formations and establishments spread throughout the length and breadth of India, is a very large organisation. The duties of many units include, *inter alia*, purchase of large quantities of stores, production of equipment, execution of works, use of material resources, etc., in which there is considerable scope for corruption, fraud and other malpractices. In view of these factors, the number of cases referred to by the Public Accounts Committee does not appear to be abnormally large.
- (ii) It is true that the Special Police Establishment has detected a larger number of such cases than the Defence Department has done. This may be so in the case of other Departments also. The Special Police Establishment was set up with the specific object of detecting such cases and it is engaged almost exclusively in this work. It has been provided with a sizeable investigating agency for this purpose. But the other Departments of the Government are engaged mainly in the tasks assigned to them and do not have any separate investigating machinery. They may not be expected to detect cases of misappropriation etc. in the same way as the Special Police Establishment is doing. However, all such cases brought to the notice of the Ministry of Defence from time to time by the Special Police Establishment, the Central Vigilance Commission, the Vigilance Officers of the various branches and departments under the Ministry and by members of the public are examined and action as appropriate is taken in each such case. In some cases, the complaints are found to be baseless, when no action is taken. In other cases departmental disciplinary proceedings or court martial proceedings or prosecutions in civil courts, as may be

deemed necessary, are undertaken against the delinquent officers. In a few cases, the officers are suitably warned when the nature of their misdemeanour and the attendant circumstances warrant this.

- (iii) The Ministry of Defence deal with cases of misappropriation, fraud etc., whenever such cases come to light. In order to tighten up vigilance arrangements, necessary general orders and instructions are also issued from time to time to all subordinate and attached offices. Since investigations for detection of such cases will continue to be carried out by the Special Police Establishment, it does not seem necessary to strengthen the vigilance set-up of the Ministry of Defence at this stage. Such strengthening may not yield any tangible or useful results. To set-up a separate investigating agency in the Ministry of Defence will involve considerable expenditure to Government. If in the course of the work of the various vigilance units, it is found that some units need to be strengthened, necessary action will be taken accordingly.

3. Vigilance Officers have been appointed to cover main organisations, departments and public undertakings under the administrative control of this Ministry.

Ministry of Finance (Defence/Budget) and D.A.D.S. have seen.

### **Recommendation**

The Committee feel concerned over the delay in the disposal of the cases for departmental action, some of which have been pending for more than three years. They desire that the Ministry of Defence should examine the difficulties in the disposal of these cases and take necessary action to overcome them. The Committee would like to be informed about the progress made in this behalf.

(Para 77 of 33rd report (3 L.S.).

### **ACTION TAKEN**

According to the information given by the Special Police Establishment to the Public Accounts Committee, out of the total number of cases referred by them (SPE) to this Ministry during the period from 1957 to 1964, 142 cases are pending departmental action. Attempts were made to finalise the cases which were pending for long by collecting necessary information from the Branches/Organisations. Discussions were also held with the officers concerned with a view to finalising some of these cases.

**2. The present position of 142 cases shown by the SPE as pending departmental action is analysed below:—**

(i) Case finalised or closed	79
(ii) Cases pending departmental action	53
(iii) Cases in which it has been decided that delinquent officers should be prosecuted by civil courts (Necessary action has been taken by this Ministry in so far as it is concerned)	4
(iv) Cases held up pending a proposed amendment to the Prevention of Corruption Act, 1947	3
(v) Cases in which the individuals concerned were State Govt. employees and, therefore, did not come under the control of Defence Ministry (the State Government concerned have been informed accordingly)	2
(vi) Cases in which departmental action has been kept pending till a decision is given by a civil court	1

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Total : 142

**3. From the above analysis it will be seen that only 53 cases are pending departmental action. The delay in the disposal of these cases is mainly due to the following factors:—**

- (a) Time taken in submission of replies to charge sheets, by delinquent officers, particularly when they request for perusal of various documents/records and raise technical issues before submitting their defence statements;
- (b) Time taken in examination of defence statements both by the lower formations and by this Ministry in consultation with the Ministry of Home Affairs and Ministry of Law in obtaining further clarifications, wherever necessary;
- (c) Time taken by the Commissioner for Departmental Enquiries to complete oral enquiries;
- (d) Time taken in consulting the UPSC in those cases where the delinquent officers have retired from service and the departmental proceedings against them have had to be converted into proceedings under 351(A) of the CSR.

4. Delay in the finalisation of some of the cases is, thus, inevitable and beyond the control of the authorities concerned, Efforts are, however, being made by this Ministry to finalise all pending cases as early as possible and all Vigilance Officers under this Ministry are also being instructed to progress the pending cases on a high priority basis and take suitable action to finalise them as expeditiously as possible.

Ministry of Finance (Defence/Budget) and D.A.D.S. have seen.

#### **Recommendation**

The Committee appreciate the anxiety of the Ministry of Defence not to curtail any of the facilities enjoyed by the Welfare Organisation and agree with them in this respect. All that they are anxious to ensure is that the constitutional irregularity in keeping the financial transactions of the Canteen Stores Department outside the Consolidated Fund of India should be rectified. This be easily done by adopting the procedure suggested by the Ministry of Finance. The difficulties pointed out by the Ministry of Defence can be overcome by establishing a convention to be followed by suitable orders that the entire profits earned by the Canteen Stores Deptt. in any year should be given as a grant to Defence Welfare Organisations in the following year, in consonance with the existing practice. Government may implement this suggestion at an appropriate time.

[S. No. 9 of Appendix III to 40th Report (Third Lok Sabha).]

#### **ACTION TAKEN**

The suggestion of the Committee will be examined at the appropriate time in consultation with the Ministry of Finance and the Comptroller and Auditor General, and a further note indicating the final action taken in the matter will be submitted in due course.

D.A.D.S. has seen.

#### **Recommendation**

The Committee appreciate that the surplus capacity in the Ordnance Factories which was previously available for the manufacture of Crawler Tractors is being fully utilised for the production of armaments, which is the foremost duty of the ordnance factories. The Committee hope that the present proposals to augment the tractor production to 300 tractors per annum by setting up a new project will be carefully examined, so that the factors which have been responsible for shortfall in production in the past are scrupulously avoided. The Committee would like to be informed about the progress made in this regard.

[S. No. 11 of Appendix III to 40th Report (Third Lok Sabha).]

**ACTION TAKEN**

Government sanction for the setting up of a new factory for the production of Heavy Earth Moving Equipment and Crawler Tractors was accorded on July 16, 1965. The Crawler Tractor portion of the project will involve a capital expenditure of Rs. 7.08 crores including Rs. 2.27 crores in foreign exchange. The proposals envisage production of the following equipments:—

	Nos. per annum
(a) Motorised Scrapers . . . . .	150
(b) Rear Dumps . . . . .	125
(c) Haulpaks . . . . .	150
(d) Motorgraders . . . . .	150
	<hr/>
	575
(e) D-80 Tractors . . . . .	300
(f) D-120 Tractors . . . . .	200
	<hr/>
	500

2. The new factory to be located at Kolar, Mysore State, is expected to commence production in 1968-69 and reach peak production in respect of tractors during 1972-73. The planning of the new factory is such that it will not depend on the ordnance factories for the supply of any components.

3. The detailed planning and execution of this self-contained factory are being based on a feasibility study recently conducted by a team of US Industrial Consultants.

4. During the interim period of 1965-66 to 1967-68, production of tractors will continue to be undertaken in ordnance factories.

5. D.A.D.S. has seen.

Sl. No.	Name of Agent	Agency No.	Sl. No.	Name of Agent	Agency No.
27.	Bahree Brothers, 188, Lajpatrai Market, Delhi-6.	27	33.	Bookwell, 4, Sant Narakari Colony, Kingsway Camp, Delhi-9	96
28.	Jayana Book Depot, Chaparwala Kuan, Karol Bagh, New Delhi.	66		MANIPUR	
29.	Oxford Book & Stationery Company, Scindia House, Connaught Place, New Delhi.	68	34.	Shri N. Chaoba Singh, News Agent, Ramlal Paul High School Annexe, Imphal	77
30.	People's Publishing House, Rani Jhansi Road, New Delhi.	76		AGENTS IN FOREIGN COUNTRIES	
31.	The United Book Agency, 48, Amrit Kaur Market, Pahar Ganj, New Delhi.	88	35.	The Secretary, Establishment Department, The High Commission of India, India House, Aldwych, LONDON, W.C.-2.	
32.	Hind Book House, 82, Janpath, New Delhi.	95			

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