

PUBLIC ACCOUNTS COMMITTEE
1957-58

(SECOND LOK SABHA)

SIXTH REPORT

**[Appropriation Accounts (Defence Services) 1954-55
and Audit Report, 1956]**

VOL. I—REPORT



सत्यमेव जयते

**LOK SABHA SECRETARIAT
NEW DELHI**

April, 1958

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CORRIGENDA

to

**The Sixth Report of the Public Accounts Committee
on the Appropriation Accounts (Defence Services)
1954-55 and Audit Report 1956. – Vol. 1 Report.**

Contents Page, under heading Appendix: *for 'ummary' read
'Summary'*

Page (iii), para 5, line 2: *for 'notes memoranda' read notes/
memoranda'*

Page 1, 1st Table, under Column Actual Expenditure, line 2:
for '0.4' read '.04'

Page 6, line 2: *for 'severally' read 'severely'*

Para 11, line 4 from bottom: *for 'Engineering-in-Chief'
read 'Engineer-in-Chief'*

Page 8, line 20: *for 'absolescent' read 'obsolescent'*

line 33: *for 'way or replacement' read 'way of replace-
ment'*

Page 11, line 3: *for 'basis or each review' read 'basis of each
'review'*

line 22: *delete 'the' after 'shows'*

Page 25, para 35, line 4: *for 'manufacture' read 'manufactured'*

Page 26, Table: *for 'Profit: (+)—Loss(—)' read 'Profit(+) Loss(—)'*

Page 39, line 8: *for 'Committee' read 'the Committee'*

Page 47, para 69, line 2: *for 'ships' read 'ship'*

/P T.O.

Page 50, line 7 & 8: *underline* the portion: 'a proper enquiry shall be instituted against him as provided under the rules'

Page 61, under heading witnesses: for 'Shri P. N. Verna' read 'Shri B. N. Varma'

Page 62: for 'Mej. Gen. Harkirat Singh' read 'Maj. Gen. Harkirat Singh'

Page 65, line 1: for 'representatives' read 'representative'

Page 69, para 106, line 2: for 'additains' read 'additions'

Page 74, Para 120: *delete* 'of' at the end of line 4

line 12: for 'mins' read 'minus'

Page 79, para 127, line 3: for 'Rs 35.54crores' read 'Rs. 85.54 crores' and for 'Rs. 39 29' read 'Rs. 39 29'

Page 89, para 146, line 9 for 'entered' read 'entirely'

Page 98, line 7: for 'PRESENT' read 'Members'

Page 110, Sl. No 2, Col 4, line 6: for 'limit' read 'limits'

Page 114, Sl. No. 9, Col 4, line 6 for 'thorought' read 'thorough'

Page 115, Sl. No 12, Col 4, Line 7. for 'no' read 'not'

Page 119, Sl. No. 19, Col 4, line 4: for 'referred to para 15' read 'referred to in para 15'

Page 121, Sl. No. 24, Col. 4, last line: for 'therein' read 'thereon'

Page 122, Sl. No. 25, Column 4, sub-para (iv), line 5: for 'Airlines Corporation' read 'Indian Airlines Corporation'

Page 124, Sl. No 30, Col. 4, Line 16: for 'pecack of peraltive' read 'lack of perspective'

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**8th, 11th, 12th and 13th sittings relate to the 4th Report.

†16th to 44th sittings relate to 4th & 7th Reports etc.

‡References given to the various Appendices in the body of the report have been embodied in volume II of this Report.

COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE 1957-58

Shri T. N. Singh— *Chairman*

Members

2. Shri Ram Subhag Singh
3. Shri N. C. Laskar
4. Shri N. G. Ranga
5. Shri Radhelal Vyas
6. Shri A. C. Guha
7. Shri N. R. M. Swamy
8. Shri Upendranath Barman
9. Shri J. M. Mohamed Imam
10. Shri H. C. Dasappa
- *11. Shrimati Tarkeshwari Sinha
12. Shri Prabhat Kar
13. Shri Jaipal Singh
14. Shri N. Siva Raj
15. Shri Vijayarama Raju
16. Shrimati Pushpalata Das
17. Shri P. T. Leuva
- **18. Shri Shyam Dhar Misra
- **19. Shri R. M. Deshmukh
20. Shri M. Govinda Reddy
21. Shri Jaswant Singh
22. Shri J. V. K. Vallabharao.

SECRETARIAT

1. Shri S. L. Shakdher —*Joint Secretary.*
2. Shri V. Subramanian —*Deputy Secretary.*
3. Shri M. C. Chawla —*Under Secretary.*

*Ceased to be Member of the Committee on appointment as Deputy Minister with effect from the 2nd April, 1958 under Rule 309(1) of the Rules of Procedure and Conduct of Business in Lok Sabha.

**Ceased to be Members of the Committee with effect from the 3rd April, 1958 consequent on retirement from the Rajya Sabha.

INTRODUCTION

I, Chairman of the Public Accounts Committee, having been authorised by the Committee to submit the Report on their behalf, present this Sixth Report on the Appropriation Accounts (Defence Services), 1954-55 and Audit Report thereon.

2. The Appropriation Accounts of the Defence Services for the year 1954-55 and Commercial Appendix thereto and the Audit Report, Defence Services, were laid on the Table of the House on the 22nd December, 1956.

3. The Committee examined these Accounts and Audit Report thereon at their sittings held on the 8th, 21st and 22nd August and 2nd and 3rd September, 1957.

4. A brief record of the proceedings of each of the above mentioned sittings of the Committee has been maintained and forms part of this Report.

5. The Committee appointed a Sub-Committee to consider the notes memoranda furnished by the Ministry of Defence pursuant to action taken by them on the earlier reports of the Committee relating to the Defence Services Accounts and the Audit Reports thereon namely Ninth, Fourteenth and Nineteenth Reports. The Sub-Committee held six sittings on the 12th, 14th, 17th, 27th and 29th August, 1957. The observations made by the Sub-Committee have been embodied in Chapter VII dealing with Outstanding Recommendations.

6. The working of Ordnance Factories has been under constant examination by the Public Accounts Committee and year after year the attention of Parliament has been drawn to the various defects both in regard to the production organisation and the stores wing of the Ordnance Factories. It has been found that a large number of orders on the Ordnance Factories remains pending for several years. They are subsequently cancelled or suspended due sometimes to frequent changes in the decisions of the user services. In other cases their manufacture cannot be established though in the meantime large quantities of raw materials have been imported and accumulated. Besides causing large amount of infructuous expenditure such a situation leads to inefficiency and waste. Provisioning and storing of huge quantities of raw materials without having established production of any

(iv)

particular item is to say the least, unwise and at times fraught with risks. The proper method should be for the Ordnance factories to accept an educational order of such items and first establish production. Only when they are confident of manufacturing these items successfully should they provision for bulk production.

The Defence Ministry have now accepted this position. It is however surprising that the Ministry should have taken years to come to this obvious decision. A review should, therefore, be undertaken early to reduce or cancel unfulfilled orders previously placed. The present system leads to unsystematic working at the factories and accumulation of unusable stores and raw materials.

The defence expenditure which stood at Rs. 186 crores in 1950-51 is estimated to rise to Rs. 305 crores in 1958-59, i. e. by nearly 64% during the period of last 8 years. The Committee, are anxious that the large amount voted by Parliament should be utilised economically and in the best interests of national defence. At a time when appropriations are being cut to limits the country's foreign exchange position can afford, it is more than ever essential that the funds voted are put to the best possible use. The Committee trust that the observations and recommendations made in this Report would be considered carefully by the Government.

7. A statement showing the summary of the principal recommendations/observations of the Committee is also appended to the Report (Appendix).

8. The Committee place on record their appreciation of the assistance rendered to them in their examination of these Accounts by the Comptroller and Auditor General of India.

NEW DELHI;
The 18th April, 1958.

T. N. SINGH,
Chairman,
Public Accounts Committee.

I

FINANCIAL WORKING OF THE GRANTS RELATING TO THE DEFENCE SERVICES; 1954-55

The following table compares the original and final grants and appropriations with the actual expenditure for the year, 1954-55.

(In lakhs of rupees)

	Original Grant & Appro- priation	Final Grant & Appro- priation	Actual Expendi- diture
Total expenditure met from Revenue.			
(Voted)	2,23,47	2,23,47	2,06,79
(Charged)	06	06	0.4
Total expenditure met from Capital			
(Voted)	20,05	20,05	11,76
(Charged)
GRAND TOTAL			
(VOTED)	2,43,52	2,43,52	2,18,55
(CHARGED)	06	06	0.4

There was thus a saving of Rs. 24.97 crores or about 10.25 per cent. over the final grant during the year 1954-55.

2. The following table shows at a glance the savings over Voted grants as compared with the previous years.

(In lakhs of rupees)

Year	Final Grant	Savings	Percen- tage of savings
1950-51	2,03,10	17,08	8.4
1951-52	2,17,28	20,83	9.6
1952-53	2,33,66	25,51	10.9
1953-54	2,37,97	25,00	10.5
1954-55	2,43,52	24,97	10.25

Saving over Voted Grants:

3. Savings occurred mostly under Army, Air Force and Defence Capital Outlay during the year under report, the last item accounting for 41.3% of the Grant. The corresponding percentages in 1952-53 and 1953-54 were 34.6 and 40.6 respectively.

Savings ranging from 8 to 10 per cent in the sanctioned grants have become a recurring feature of the Defence Grants during the last 6 years.

Non-surrender of savings:

4. There were also cases where surrenders were either not made or inadequately made under Grants Numbers 12, 13, 14 and 114.

Control over expenditure:

5. A few important aspects of defective control noticed during the year under report are mentioned below:

The savings under Defence Capital Outlay, as in the previous years continued to be abnormally high, being more than two-fifths of the total vote. One of the causes of the saving in the grant for works expenditure was that substantial provision was made for items the execution of which could not possibly be expected in the course of the year. Appendix 'G' to the Appropriation Accounts shows a number of works where savings were also attributable to the non-availability of sites for works in time, revision of administrative approvals as a result of change in the requirements of the users, non-availability of stores non-payment of final bills of contractors, non-receipt of debits in time and slow progress of works.

The Committee find from a note (Appendix I) submitted by the Ministry of Defence, that with a view to avoid lapse of funds, the general policy adopted from the year 1957-58 is to include in the budget provisions for those works only which have been approved or are likely to be approved at least 3-4 months before the beginning of the financial year, so that technical planning can be completed before allotments are made and works taken in hand. *The Committee would like to watch the results of this change through future Audit Reports.*

6. The Committee note that non-procurement of stores to the extent anticipated continued to be an important factor responsible for substantial lapse of appropriations. *While the Committee appreciate that certain practical difficulties might be unavoidable in estimating accurately the supplies which will materialise during the*

closing months of the financial year, they reiterate the recommendation made in their previous reports that a higher standard of estimating could be achieved by a closer liaison between the indenting and supplying departments.

In the opinion of the Committee, the budgetary control of the Defence Services Grants leaves much to be desired. It is obvious that the large savings have been occasioned by overbudgeting. Overbudgeting by one Ministry immobilizes sums of money which could be utilised for other important purposes by other Ministries.

7. Another factor to which the Committee would like to draw attention is the rush of expenditure in the last month of the year. In para 12 of their Nineteenth Report, the Committee had already referred to this unusual rush of expenditure. According to Audit in spite of administrative instructions issued from time to time, the rush of expenditure during the last month of the year continued to be heavy during the year under report, being three times the average of the first eleven months. The Committee understand that the main reasons leading to this were heavy interim payments, non-submission of bills in time, delay in sanction of minor works and late conclusion of contracts. With a view to examining some important cases involving rush of expenditure during the closing month of the year, the Committee desired to be furnished with the following information separately, in respect of such works:—

- (i) Amount spent during the closing month of the year . vis-a-vis the earlier months.*
- (ii) Reasons leading to rush of expenditure during the closing month.*
- (iii) Date of sanction to expenditure, administrative approval, expenditure sanctioned and date of commencement of work.*

The Committee regret that the information was not made available to them, as this could not be collected conveniently by the Ministry of Finance (Defence) from the Controller General of Defence Accounts in respect of each work separately. The Committee desire that at the time of consideration of the Accounts of the Defence Services each year they should be furnished with a statement showing the requisite details in respect of major construction works to enable them to examine this question. In the meantime, the Committee would reiterate the recommendation made in their Nineteenth Report that payments should be spread out evenly throughout the year as far as possible with a view to avoiding laxity of control because of rush.

8. The Committee would like to refer to another important factor in connection with Defence Expenditure. The total expenditure on Defence in 1950-51 was approximately Rs. 186 crores and the estimated expenditure during 1958-59 is of the order of Rs. 305 crores an increase of Rs. 119 crores. It is of paramount importance, that the increase in the outlay is put to the best possible use. The Committee in the past have come across instances of purchase of defective or unwanted stores involving loss or wasteful expenditure. Again, there has been a number of cases of infructuous expenditure by the Ordnance Factories as a result of their taking up manufacture of arms and ammunition which were either not required immediately or were beyond their capacity to manufacture. The Committee have referred to specific cases in their previous report. In the present report too, a few cases of this type have been commented upon. *The Committee therefore desire that the Ministry of Finance (Defence), which performs a dual role viz., of treasury control and of financial advice, will address itself more effectively to the latter aspect with a view to ensuring that expenditure conforms not only to policy but also to well-laid standards of economy, efficiency and propriety in public finance.*

II

WORKS EXPENDITURE

Para 8—Loss of revenue due to defective planning of works

9. At a station certain accommodation built by the MES remained vacant for long periods due to non-completion of services pertaining to the buildings. This resulted in considerable loss of revenue (rent), payment of house rent allowance and avoidable expenditure on Watch and Ward. The buildings formed three separate works. It has been stated in the Audit Report that the loss of revenue suffered by Government on account of non-receipt of rent and payment of house rent allowances amounted to Rs. 2,16,194 in addition to an expenditure amounting to Rs. 33,704 incurred as wages of chowkidars employed for looking after the buildings.

During evidence, the Committee were informed that in the case of the first work which was started on 25-1-1952, the delay in the completion of services was mainly due to inadequate initial planning. Certain changes in drainage and external sewage system necessitated the use of an ejector pump to lift sewage. The original estimate was found insufficient and had to be revised from Rs. 4.6 lakhs to Rs. 5.1 lakhs. The administrative approval for the revised estimate was accorded by Government in May, 1954. In a note (Appendix II) submitted to the Committee, it has been stated that the building work was practically completed by April, 1953 except for drains and foot-paths which because of their link with the drainage system and lay-out of roads, could not be completed, as the latter items were under revision. The work on drains and foot-paths was suspended in April, 1953 and eventually deleted from the contract by a deviation order in March, 1954 and the work was foreclosed. The rest of the work was commenced only in November, 1954 after the issue of the revised administrative approval. Further, the original estimates were prepared without adequate examination of the site conditions as it was the general practice during the last War and some years thereafter to estimate the cost of services on a lump sum basis. Similarly in the third work, no definite provision was included for the services viz., drains, roads and foot-paths while seeking the administrative approval. Necessary provision had to be made at a late stage.

10. *The Committee view with strong disfavour revision of estimates when the works are nearing completion and they would*

8

suggest that in future any tendency to prepare the original estimates without proper and detailed planning should be severally dealt with. The Committee were informed that in the present case disciplinary action has been initiated against the officers responsible. The Committee are glad to note that the practice has now been changed to include the approximate cost of services on the basis of more detailed planning taking into account the site conditions.

11. *Another feature in this case was the lack of coordination between the building works, and services pertaining to them. In evidence, the Committee were informed by the Defence Secretary that necessary instructions had been issued in August, 1955 that projects should be properly planned and phased and contracts be given with due regard to the practicability of each phase; and all ancillary services should be completed either shortly before or immediately after the completion of the buildings. The Committee were also informed that a Review Committee had been appointed to review the implementation of these instructions from time to time. The Committee, however, find from the note submitted by the Defence Ministry that no such instructions had in fact been issued in August, 1955 and instructions have only recently been issued by the Engineering-in-Chief. The Committee would like to draw attention to para 106 of their 19th Report and reiterate their observation that the representatives of the Ministry should come fully briefed before the Committee and give correct information when asked.*

12. *The Committee have not yet been furnished with information* with regard to the time lag and the reasons therefor in handing over the quarters by the M.E.S. and their actual occupation.*

*Since received.

III

PURCHASE OF STORES

**Para 9—Acquisition of unwanted stores*

13. An indent was placed in August 1950 by the Director of Ordnance Services on the United Kingdom for procurement of 69 numbers of a certain store as a result of the deficiency revealed in the provision review as on the 1st April, 1950. A previous demand placed in 1949 on the United Kingdom for 545 numbers was also outstanding at that time. Two demands were placed on the Director General of Ordnance Factories in September 1950 and May, 1951 for 360 numbers to establish indigenous production.

Towards the end of 1950, it was decided to use an alternative store (which was an older type) in lieu of the one mentioned above. The provision reviews as on 1st April, 1951 and 1st April, 1952 disclosed surpluses of 863 and 1027 numbers respectively after taking into account the stock in hand of the older type. In October 1951, a suggestion was made to the High Commission in the U.K. to cancel 545 numbers out of the demands placed previously without financial repercussions but the General Staff Branch decided in January 1952 to defer reduction in demand till the results of the next provision review (1952) were known and the High Commissioner was informed accordingly in April, 1952. Attempts were made in January, 1953 to reduce the demand on the U.K. by 245 numbers but without success, as it involved payment of £22,050 as compensation. In December 1953, the demand placed on the Director General, Ordnance Factories was reduced by 320 numbers. The factory has been left with surplus components of the value of Rs. 1,68,000 which are now being retained for maintenance of the equipment.

Later provision reviews disclosed the position of surpluses as below:—

<i>Date of provision review</i>	<i>Surplus</i>
1st October, 1954	430
31st March, 1956	169
1st October, 1956	35

The annual requirement of this store was only 45 numbers. Therefore, had action been taken earlier in 1951 to reduce the demands on the U.K. [D.G.O.F. the surplus could have been avoided.

**See also Appendix III.*

During the course of evidence, the Committee were informed that the orders for the new type of store were placed on the U.K. and on the Director General of Ordnance Factories with a view to replacing completely by 1951 the older type of the store already in use which was getting obsolescent, the policy of replacement having been decided in 1947. The demands placed on D.G.O.F. in 1950 and 1951 for establishing indigenous manufacture was in the nature of a maintenance order calculated on the basis of the requirements of the Army. Due to emergency conditions in 1951, it was decided to keep both the old and new types in use in order to conserve stocks and to postpone the replacement of the obsolescent type until the emergency was over. The Army authorities, therefore, did not take effective action to reduce immediately the demands placed on the United Kingdom and on the Director General of Ordnance Factories in spite of the surplus disclosed in the provision review in 1951. Audit pointed out that, according to the records made available to them, the service authorities held the view that the old type could as well be used for the same purpose as the new type. *If so, the Committee could hardly see any convincing reason for the decision to defer the reduction in demand on the U.K. as obsolescent stores should under existing orders be utilised.* They have been given to understand that the supplies by the D.G.O.F. have not materialised so far. *The Committee are surprised that no action was taken to reduce the bulk order placed on the D.G.O.F. till December, 1953 by which time, surplus components of the value of Rs. 1,68,000 had been accumulated.* The D.G.O.F. urged in extenuation that the store was of a complicated nature consisting of a large number of components, the bulk of which has been manufactured by the Ordnance Factories. As soon as the remaining components were completed, the manufacture of the store would be taken up. The Committee wanted to know whether the parts manufactured so far by the Ordnance Factories were of the right specification and whether they had been tested in use by way or replacement. The reply was in the negative.

The above case is not the first instance where a bulk order was placed on the D.G.O.F. involving establishment of technique of production. The Committee have come across a number of such cases in the past where bulk orders were accepted by the D.G.O.F. in respect of stores which have not been previously manufactured. In para 34 of their 19th Report, they have recommended that in the interests of operational efficiency, all pending orders should be reviewed periodically with a view to reassessing the needs in the light of the latest trend both in technique and demand. They would reiterate the necessity for such a review also in the interests of economy as during

a short space of three years, the Committee have come across a number of such cases where for want of proper co-ordination and organization, infructuous expenditure of a very large magnitude had been incurred.

When asked to explain how the surplus has come down from 430 to 35 in a period of two years when the annual consumption was only of the order of 45, the Committee were informed that it was due to the re-organisation of the Army and sale of 51 numbers of the new type to a foreign Government. *The Committee were surprised to hear that the store sold to the foreign country was of the new type while on the other hand it is urged that it was urgently required by the Army authorities for replacement of the old type. Another interesting feature which the Committee noticed in this case was the procedure adopted by the Defence authorities for declaring a store obsolescent/obsolete. The Committee recognise that in the technical field the opinion of the Chief of the General Staff should be accepted. But in the light of cases which the Committee have come across they feel that greater caution and closer scrutiny is needed in deciding upon both the necessity for and pace of replacement. The Committee would, therefore, urge upon both the Ministry of Defence and the Financial Adviser to exercise more vigilance while scrutinising replacement so that available resources are not frittered away.*

Para 10(a)—Accumulation of surplus materials due to delay in reduction of demand

14. As a result of provision review as on the 24th February, 1951, a demand was placed on the Director General, Ordnance Factories on the 3rd April, 1951 for supply of 1,45,000 numbers of an item of store. A review as on 1st April, 1951, completed in September 1951, disclosed a surplus due to reduction in the requirements from the 1st April, 1951 to the extent of 24,751 numbers and subsequent reviews as on 1st April, 1952, 1st April, 1953 and 1st January, 1954 also revealed surpluses. No action was, however taken by the indenter to reduce the demand placed in April 1951 till May 1954. Even in May 1954, only a reduction of 23,000 was intimated to the Director General, Ordnance Factories. The D.G.O.F. had in the meantime placed orders in September 1951 for raw materials required for the manufacture of the full quantity although the manufacture of the item of store had yet to be established. This has led to an accumulation of surplus materials and components valued at Rs. 6,49,756.

In a note (Appendix IV) submitted to the Committee, the Ministry of Defence have stated that the provision review as on 24th February, 1951, which included an operational requirement of 2,44,000,

disclosed a deficiency of 2,20,290 but a demand of 1,45,000 only was placed on the Director General, Ordnance Factories, the balance of 75,290 was left uncovered as the general question of reduction in the War wastage rates was then under consideration. At that time an earlier order for 11,000 of the same store which was placed on the D.G.O.F. in 1949 was also outstanding. The surplus of 24,751 disclosed in the review on 1st April, 1951 was caused by a reduction in the operational requirement from 2,44,000 to 1,41,360 which was mainly due to a revision of war wastage rates and partly due to a change in the 'Unit Entitlement'. No action was taken to reduce the demand; nor were the reasons for not reducing the demand on record. The reviews, as on 1st April, 1952 and 1st April, 1953, revealed surpluses of 14,934 and 8,699 respectively. A reduction in the demand by 23,000 was made when the review as on 1st May, 1954 revealed a surplus of 23,973 which was mainly caused by a further reduction in the operational requirement by 19,000. When the review as on 1st January, 1955 revealed a surplus of 8,826 and the General Staff Reserve was reduced by 50,000 in May, 1955, demand to the extent of 58,000 was suspended. In December, 1956 review, the operational requirement increased by 36,840 due to reorganisation of the Army and a deficiency of 26,322 was revealed. The D.G.O.F. was asked on the 16th July 1957 to revive the suspended order by 26,000 leaving a balance of 32,000 only under suspension. The latest position was that out of 11,000 and 1,45,000 originally ordered on the D.G.O.F. in 1949 and 1951 respectively, 23,000 were cancelled; 32,000 numbers remained suspended, about 90,000 had been supplied by the D.G.O.F. and 11,000 had yet to be supplied. The question of cancellation of the order for 32,000 was still (November 1957) under consideration.

15. The Committee were informed that after taking into account the cost of surplus materials which could be put to alternative use, the financial effect of the manufacture of this item would be:

Cost of stores rendered surplus on account of the cancellation of the order by 23,000	Rs. 3,08,743
Cost of stores rendered surplus due to reduction in Order by 32,000	Rs. 15,85,318
TOTAL	Rs. 18,94,061

The Committee are not satisfied with the results of the provision reviews referred to above. Large deficiencies turned into surpluses in the following review in the course of a period of a year. They have not been convinced by the explanation advanced

in evidence. In their opinion the whole question requires a thorough examination to.

- (i) ensure that the basis of each review is itself sound and economic taking into account all reasonable reductions in requirement;
- (ii) see that orders are placed abroad or on the D.G.O.F. only for the actual quantity required; and
- (iii) secure immediate action for reducing the demand already placed when a later provision review discloses surplus.

The Committee feel that this will go a long way in avoiding much of the infructuous expenditure incurred by the Ordnance Factories.

This case also revealed the unplanned manner in which raw materials for the manufacture of the stores were ordered for by the D.G.O.F. Not only was the entire quantity of the raw materials required for the manufacture of the stores ordered all at once although the manufacture had yet to be established, but, the date of delivery of the materials was not indicated. Actually the raw materials were received by July 1954 in 9—10 different shipments i.e., about 3 years after the order was placed though the stores were required by the Director of Ordnance Services during the year 1951-52 for operational requirements. *This case clearly shows the the defective system under which the organisation of D.G.O.F. works.*

Para 10(b)—Accumulation of surplus materials in Factory due to delay in reduction of a demand

16. In September, 1949, an inter-factory demand had been placed on the Ordnance Factory for the manufacture of 64,000 numbers of a particular type of store. In February, 1950, the user service stated that they had in stock 97,900 numbers of unmodified type of this store which, after suitable modification could be utilised to meet their demand. They were accepted by the D.G.O.F. for modification. But the order already placed for 64,000 was not cancelled or even curtailed by the D.G.O.F. in spite of the feeder factory's suggestion to this effect in June 1950 and again in July 1951. In November 1953, the D.G.O.F. decided to curtail manufacture of this store to a minimum educational order for the purpose of establishing indigenous manufacture. By this time the bulk of materials and components required for the manufacture of the entire quantity of 64,000 had been collected but manufacture of the store had not commenced. In December 1953,

the D.G.O.F. finally decided to abandon manufacture altogether as the prospects of establishing manufacture were not clear even then. Meanwhile a new indigenous design for this store was under development in the Technical Development Establishment of the Ministry of Defence. Raw materials collected to the extent of Rs. 4,87,251 and tools, jigs and component parts manufactured to the extent of Rs. 21,946 were reported to have been rendered surplus as a result of this experiment.

Explaining the reasons for proceeding with the order for 64,000 numbers, despite the suggestion of the feeder factory, the D.G.O.F. in his evidence informed the Committee that the object was two-fold, viz., first, to establish indigenous manufacture of the new type of store, and, secondly, to meet any shortage of the store as he anticipated further orders for this store from the user service. The Committee desired to know why orders for raw materials were placed for the manufacture of the entire quantity of 64,000 numbers when manufacture was yet to be established. The D.G.O.F. stated that in his opinion the order for 64,000 constituted the minimum economic unit for procurement of raw materials as purchase of raw materials for lesser quantities would have resulted in payment of higher prices; not to speak of the loss of time. The Committee were not convinced by the above explanation.

17. In a note (Appendix V) furnished by the Ministry of Defence, subsequently the Committee find that the Ministry held the view that the D.G.O.F. should have started with an initial minimum order, such as 1,000 or so and should not have taken provision action for the total requirements before establishing manufacture. They note that necessary steps have been taken by the Ministry to avoid recurrence of such cases, in pursuance of the recommendation in their 19th Report. They welcome the assurance by the Ministry that as a result of the measures taken so far, such a case of overprovisioning and infructuous expenditure on materials and components would not arise in case of order placed after February, 1953. *They feel that the working of the Ordnance Factories should be under a close and constant review.*

The Ministry have also stated that the performance of the repaired store has not been found to be entirely satisfactory and in the opinion of the Controller of Development at least part quantity of service requirements should be met from new manufacture.

The Committee do not appreciate how the suggestion to modify 97,900 numbers lying in stock was made by the user-service without any forethought. It is amazing how the D.G.O.F. carried out the modification without testing the operational efficiency of the modified

store. The Committee cannot but remark that the working of the wings under the D.O.S. and the D.G.O.F. needs overhaul and reorganisation.

Para 11—Overprovisioning of Stores

18. In a forecast demand, the requirements of a store for the years 1951-52 and 1952-53 had been erroneously communicated by the Engineer-in-Chief Branch to the Master General of Ordnance Branch as 1415 cwts. for each year instead of 1415 lbs. Even when the Engineer-in-Chief's Branch were asked by the M.G.O. Branch in April 1951 to review the requirement of this store in view of the high cost of that store, the Engineer-in-Chief's Branch did not detect the mistake. They indicated their minimum requirement for 1951-52 as 1061 lbs. and requested the balance quantity to be deferred till 1952-53 without realising that the quantity shown in the earlier forecast demand was in cwts. and the balance for 1951-52 would be 1415 cwts. less 1061 lbs. In July 1952, the Engineer-in-Chief's Branch requested cancellation of the deferred demand for 1951-52 by which time 1,16,171 lbs. (1037- $\frac{1}{2}$ cwts.) had already arrived and the balance tendered for inspection by the suppliers; the indent could not, therefore, be cancelled at that stage. The provision review for 1953-54 indicated, after providing for requirements upto 1955-56 a surplus of about 2,88,000 lbs. valued at Rs. 16.61 lakhs approximately.

The Committee were informed by the representative of the Ministry of Defence that the two officers responsible for the original mistake had left service in March, 1951 and December, 1953 respectively and that the mistake came to notice only in December, 1955. From a note submitted by the Defence Ministry (Appendix VI), the Committee understand that the displeasure of the Engineer-in-Chief was conveyed to the Officer responsible for the subsequent omission of not detecting the original mistake, when the requirement for 1951-52 was revised.

The Committee wanted to know how the mistake escaped the notice of the Finance Ministry also. They were informed* that there was failure to detect the mistake at two stages in that Ministry. The first stage was when the Deputy Financial Adviser attached to the Engineer-in-Chief's Branch did not notice that the accounting Unit of this item (which should be in lbs.) had not been indicated correctly while scrutinising the forecast prepared by the

*See also Appendix VII.

Engineer-in-Chief's Branch. The second occasion was when the evaluation of the requirements was prepared in an Ordnance Depot, the Deputy Assistant Financial Adviser attached to the Depot took notice of the abnormal demand valued at about Rs. 25 lakhs and forwarded it to the Deputy Financial Adviser attached to Ordnance in the Ministry of Finance (Defence) for final scrutiny and concurrence. The Assistant Financial Adviser in the Finance Ministry did not apply his mind to the remarks of the Deputy Assistant Financial Adviser. The Committee understand from the note submitted by the Ministry of Finance (Defence) that further enquiry is being made into the matter. *They would like to be informed of the action taken against the officers concerned in the Ministry of Finance (Defence).*

19. The Committee observe from the note (Appendix VI) submitted by the Defence Ministry that out of the surplus stocks of this item, 1,00,000 lbs. are likely to be issued to the D.G.O.F. by the end of 1960-61 on payment (at present issues are being made to him at the rate of Rs. 474 per cwt. against the purchase price averaging about Rs. 646 per cwt., there is thus bound to be a loss even in the event of the entire stock being issued to the D.G.O.F.) A quantity of 1,04,840 lbs. is being held in stock which it is reported will amount to 20 years' requirements of the M.G.O. and the Engineer-in-Chief's Branches.

The Committee note that instructions have been issued both by the Ministry of Defence and the Ministry of Finance (Defence) to avoid recurrence of such cases.

Para 12—Purchase of stores at high prices

20. In September 1954, an order was placed by a Naval Stores Officer on the Purchase Organisation for procurement of 18,000 yards of Canvas Cotton white. The latter could not take any action for want of specifications which were supplied later by the indenter on 31st March, 1955. In April 1955, on the advice of the Naval Stores Officer, the indent was treated as operational by the Purchase Organisation and a higher quotation at Rs. 5/8/- per yard for delivery within 15 days was accepted against another quotation of Rs. 4/8/- per yard for delivery in August, 1955. The order was placed on the 3rd May, 1955 but supplies were actually completed on the 31st July, 1955 upto which the date of delivery was extended without imposing any penalty. A second indent for 57,000 yards of the same cloth was placed on the 4th April, 1955 which was marked urgent for delivery by the 15th June, 1955 and was upgraded as 'operational' by the Naval Stores Officer on the 29th

April, 1955. A second order for the supply was placed on the same firm for delivery by the 15th June, 1955 which was later extended upto 31st August, 1955 without penalty. Although the indents were marked 'operational' no issues were made till October, 1955 and between October and December, 1955 only 15,138 yards of cloth were issued.

21. In his evidence before the Committee, the representative of the Ministry of Defence admitted that there had been considerable delay in communicating the specification particulars to the Purchase Organisation. In extenuation, he urged, that it was the first time when the store was procured indigenously and specimen of the previous imported cloth had to be sent to the Technical Development Establishment for drawing up the specifications in consultation with the Naval authorities. This took about five months. By that time the stock of the clothing items made out of such cloth was exhausted and therefore the first indent was upgraded as 'operational' for meeting certain urgent requirements. As regards the second indent, only 10,000 out of 57,000 yards of cloth had been upgraded as 'operational' for delivery by 15th May, 1955 but the Purchase Organisation had treated the whole indent as 'operational'. The representative of the Directorate General of Supplies informed the Committee that, although the Naval Authorities had desired only 10,000 yards of cloth in the second indent to be delivered by 15th May, 1955, and the balance of 47,000 yards by the 15th June, 1955, the interval between the two dates was hardly a month. As the order was placed on the 9th May and the delivery period was in June, the indent was treated as urgent and rates were negotiated. There were only two firms who could supply and the order was placed with the same firm with which the first order was placed.

The Committee are not convinced by the above explanation. The indent was treated as 'operational' as supplies were required urgently and a higher price was accepted. But in point of fact, the supplies were received very much after the stipulated date, besides, subsequent issues made till October, 1955 proved that there was no need to treat the indent as 'operational'. It was mentioned in the course of evidence that the supplies against the first indent were needed urgently at one time but the urgency disappeared as the supply was delayed. The Committee could not get any satisfactory answer why the Naval Authorities did not draw up their provisioning programme in advance until the stores were completely exhausted and react to the changed situation promptly.

22. In reply to a question why the penalty clause in the contract for delay in delivery could not be invoked, the Committee were

informed by the Directorate General of Supplies & Disposals that the delay was not due to any fault on the part of the supplier. He added that in the case of the first indent, the contract was placed on the 2nd May with 17th May as the delivery date. The samples were made available by the supplier on the 6th but were approved by the inspectors on the 18th. Bulk production commenced and again the stores were passed by the inspectors on the 15th July and the supplier despatched the goods the same day. The defect, therefore, lay in the unrealistic delivery date fixed by the Naval authorities.

The Committee are surprised how the Naval authorities could fix the delivery period as a fortnight with all the processes of inspection in respect of a store which was being procured for the first time from the local market and why it took their Technical Establishment 5 months to fix the specifications. A realistic appraisal of the position would have avoided the purchase of the cloth in the present case at comparatively higher prices on the ground of urgency.

The Committee would therefore desire:—

- (i) *that delivery periods in contracts should be fixed in a realistic manner allowing adequate time for inspection;*
- (ii) *that requirements should be planned and worked out in advance in the light of consumption and other data to obtain replacements before stocks are completely exhausted and to allow sufficient time for tender action; and*
- (iii) *that the Naval Authorities should ensure that when demands are placed for purchases etc. the requisite specifications are ready and are sent simultaneously along with the indents.*

Para 13—Purchase of unwanted stores at high prices

23. On a request from the Officer-in-Charge of a Naval Dockyard, a Naval Store Officer placed an indent on the 20th March, 1951 on the Purchasing Organisation for urgent supply of perforated steel and zinc sheets by the 30th April, 1951 and also indicated in the indent the name of the firm with whom stocks were available. The Purchasing Organisation thereupon purchased the sheets from the same firm even though their rates were higher than those quoted by other firms, in consideration of the earlier delivery offered by them. This resulted in an extra cost of Rs. 12,628. The entire quantity valued at Rs. 40,000/- which was received between May to October, 1951 had not been used even after 5 years of their receipt.

During evidence the Committee were informed that the irregularity in this case had since been investigated by the Special Enquiry Officer of the Ministry of Home Affairs and his report had been received. Departmental action was being taken against the officer concerned. *The Committee would express their disapproval of the action of the Naval Store Officer in suggesting the name of a particular supplier to the Purchasing Organisation. The Committee would like to be informed of the action taken against the officers held responsible in this case, as a result of the enquiry.*

IV

DEFENCE FACTORIES AND INSTALLATIONS

Director General of Ordnance Factories.

Para 14—Planning and progressing of orders placed on the Ordnance Factories.

24. It was mentioned in para 66 of the Ninteenth Report of the Committee, that as many as 5,239 orders placed on the Ordnance Factories upto 31st March, 1952 were outstanding as on 31st March, 1954. Of these, according to statements furnished by the Ministry of Defence, 62 orders valued over Rs. 10,000 each were outstanding and 23 were under suspension/cancellation on the 31st March, 1956. According to the present Audit Report, 3021 orders out of the 5239 orders were still outstanding on 30th June 1956. In addition, 7458 orders placed during the period 1952-56 were also outstanding.

25. The Defence Secretary informed the Committee that the figures in the Audit Report included trial orders. He added that a number of these orders had since been completed or cancelled. On the 1st July, 1957, only 1626 orders out of those placed upto 31st March, 1952 and 4617 relating to the period 1952-56 were outstanding.

The Committee find from a note (Appendix VIII) submitted by the Ministry of Defence that 20% reduction in the outstandings has been effected as a result of cancellation of orders. The representative of the Defence Ministry gave an analysis of the causes for delays in the execution of orders in the past under the following three categories and indicated the remedial measures taken:—

(a) Delay in supply of drawings:

Considerable time-lag occurred between placing of orders on the D.G.O.F. and actual supply of particulars regarding specifications and drawings, which held up the D.G.O.F. from proceeding with the orders. The Committee also noted from the *statements submitted by the Defence Ministry showing details of outstanding orders valuing over Rs. 10,000 relating to the years 1947-50, that in some cases it took 4-5 years to finalise the designs after the orders had been placed. The Committee were informed that to

*Not printed.

remedy this, instructions had been issued that if drawings were not supplied to the D.G.O.F. within two months of placing the orders, the D.G.O.F. would treat the orders, as cancelled.

The Committee trust that the new procedure would reduce the number of outstanding orders. They would also suggest that the real causes for bottlenecks at various stages in the procedure should be investigated and the procedure streamlined. In this connection they would invite attention to the recommendation of the Estimates Committee in para 90 of their Sixty-eighth Report that the responsibility of various authorities including the Technical Development Directorate should also be pin-pointed for delays in the matter.

(b) *Suspension of orders by indentors:*

Orders were suspended by the indentors for long periods because of uncertainty of the use of the equipment or proposed modifications. The Committee were informed that it had been decided to treat an order as cancelled if it was kept under suspension for more than six months. The Committee noted from the statement of outstanding orders that in certain cases orders were suspended after the factories had already made considerable progress in the manufacture of stores and incurred heavy expenditure on raw materials and tools and gauges. These orders were in some cases revived after a couple of years, or kept pending for cancellation.

The Committee feel concerned about the financial losses that arise from cancellation of orders at a late stage. The matter requires to be carefully considered before taking action to cancel the pending orders. Suspension of orders also indicate lack of proper planning and forethought on the part of indentors at the time of placing orders. The Committee are of the view that the present system of placing orders is inherently defective and needs improvement.

(c) *Inadequacy of staff:*

The Committee were informed that there was dearth of technical staff both at the headquarters of the D.G.O.F. and in the ordnance factories for doing preproduction planning, particularly in drawing office design, rate fixing and estimating. The Ministry of Defence had recently sanctioned additional technical staff such as, Works Managers, Foremen etc., for being posted in the factories and at the head-quarters of the D.G.O.F. The Committee trust that

the provision of technical staff in the factories should improve the efficiency of the factories. They are, however, unable to appreciate the need for any additional technical staff at the Headquarters of the D.G.O.F. for the same purpose. They would like to know the precise duties of such personnel at the headquarters where technical supervision at higher levels is already available.

Joint Planning of orders.

26. The Committee find from the note (Appendix IX) submitted by the Defence Ministry, that the Liaison Officer appointed to go into the question of delays in the execution of orders by ordnance factories *inter alia* held that lack of detailed planning and systematic progressing in the past were responsible for the inordinate delays. In his view the orders were accepted initially without proper appreciation or planning and without regard to the capacity of the factories or economics of production and in some cases because the ordnance factories were the only organisation manufacturing arms and ammunitions. For new items, the provisional dates of delivery could not be complied with due to lack or a failure of initial appreciation of likely difficulties and also unexpected bottlenecks in production.

The Committee are glad to learn that to remedy this, the Ministry of Defence have accepted the recommendation of the Liaison Officer that forward planning should be carried out in respect of important items jointly by the D.G.O.F. and the Services.

A revised procedure for review of outstanding orders is also reported to have been laid down in February, 1957 under which monthly, half yearly and annual progress reports are required to be submitted by the ordnance factories indicating their recommendations for cancellation/reduction of certain orders. The D.G.O.F. would scrutinise these reports and review the recommendations of the Factories in consultation with the service indentors, having regard to the financial repercussions in the case of cancellation/reduction of the orders.

While the Committee appreciate the steps taken in this behalf they would also invite attention to the recommendation made in para 95 of the Sixty-eighth Report of the Estimates Committee that progress reports should also specify the reasons for delay in execution of orders and the D.G.O.F. should see that these causes

are removed as far as possible, so that production could be expedited. These reports should also be scrutinised at half-yearly intervals by the Controller General of Defence Production and the Defence Production Board so as to enable them to initiate timely action.

Procurement of raw materials:

27. The Committee's attention was also drawn to the observation of the Liaison Officer that lack of basic raw materials from procurement agencies and limitation in provisioning for future requirements were partly responsible for delay in the execution of orders. The Committee note that instructions have been issued in June, 1956, for removing these defects in the provisioning procedure. Accordingly indents for raw materials on the basis of six months requirements are required to be placed on the purchase organisations one year in advance of the period of utilisation. Safeguards have also been made against interruption in production by relaxing the normal basis of six months' requirements and providing for minimum safety balances for indigenous as well as imported items and also provisioning by local purchase in cases of emergency. From the statement* of outstanding orders, the Committee, however, find that in some cases the supply position of the raw materials is not clear even after lapse of more than 6 years of placing indents. While the Committee appreciate that there might be in some cases real difficulties in obtaining the requirements from suppliers they consider that the delay in most cases would be due to lack of proper chasing up of the indents. In their opinion closer coordination and timely pursuit of indent with the Organisation of the D. G. S. & D. would improve the situation considerably. They also desire that the present procedure of processing the indents of the D.G.O.F. by the D.G.S. & D., I.S.D., London and I.S.M., Washington should be reviewed with a view to removing inordinate delays in supplies.

Placing of Petty orders.

28. It was brought to the notice of the Committee that petty orders placed on the D.G.O.F., such as teleprinter spares, automobile spares, etc. requiring the same amount of planning and designing in the factories as was necessary for large orders, had been responsible for delaying the execution of major orders for ordnance stores. To relieve the D.G.O.F. of the responsibility for execution of petty orders of this nature it had been decided that an Electrical

*Not printed.

and Mechanical Engineering Workshop should investigate the feasibility of undertaking such work, as no one from trade was interested to undertake such work, specially as the stores were complicated and orders were too small. *The Committee feel that it would be worthwhile to tap the various Departmental workshops/factories for supply of such stores.*

Para 15—Production of a store despite surplus

29. In spite of large surpluses ranging from two to three lakhs of a certain item revealed in the provision review conducted in 1949 and in the subsequent provision reviews, the annual rate of its production was continued at 54,000 numbers till 1952-53 when it was reduced to 44,400. In 1953-54 it was reduced to 16,500 and in 1954-55 to 12,000 and in August, 1955 the production was finally stopped. The provision review as on 1st January, 1955 showed surplus numbering 2,93,977 valued at Rs. 3,13,57,547 which according to the Audit Report would take 20 years to be consumed. In addition, surplus components valued at Rs. 33 lakhs had also accumulated the disposal of which would result in heavy loss to Government.

The Committee were informed that the position regarding surpluses had remained under constant review by the Ministry of Defence and the production was continued at the annual rate of 54,000 numbers in view of the uncertain political and military situation obtaining upto 1952. From a *note submitted by the Defence Ministry, the Committee understand that after 1952, the production was continued with a view to avoiding retrenchment of labour that would have otherwise been rendered surplus. Although the assessing authorities, viz., M.G.O. and General Staff had suggested stopping of production and the Armed Forces Reorganisation Committee had recommended the production of this store to be kept to the minimum necessary only to keep the technique alive, the reaction of the Defence Ministry was slow. The reduction was effected only in small phases over a period of 3 years from 1952 to 1955, until the production was finally stopped from September, 1955.

30. The Committee understand that the surplus stock of the store as on 1st April, 1957 was 2,83,181 numbers (2,39,835 serviceable and 43,346 repairable) and in addition there were components and raw materials valued at Rs. 18.33 lakhs and Rs. 31 lakhs, respectively. It has been stated that the surplus components and raw materials now in stock are expected to be consumed in the course of the next four or five years against maintenance requirements and orders

*Not printed.

from foreign Governments. The Committee would like to know, about the disposal of completed stores, the surplus components and the raw materials.

31. The Committee are not satisfied with the decision of the Defence Ministry to continue production in this case at the high rate even after the emergency was over, merely to avoid retrenchment of labour. For, in the present case, the Committee understand that a new type of store was under development which was expected to replace this item. In that case, the entire stock of this store which would last for 20 years would become obsolescent. As years roll by, the operational efficiency of the store will also go down, leading to heavy condemnation. Further, heavy expenditure will also be incurred on care and maintenance of stocks. The Committee feel that this case requires a thorough investigation with a view to fixing responsibility.

Para 16—Infructuous expenditure on the manufacture of a certain weapon in an Ordnance Factory

32. A covering demand for the manufacture of 36,00 numbers of a certain type of weapon was placed by a Service Branch in June, 1949 on the Director General of Ordnance Factories. The supply was to be effected at the rate of 300 numbers per month from April, 1949. Though the item was not an established item of manufacture, bulk manufacture was undertaken as the administrative authority considered that its manufacture was well within the capacity of the factory concerned. Not even one complete weapon could be turned out till the end of 1954. In January, 1955, the demand was finally cancelled as the user Service chose to prefer a new type of weapon in lieu. The components and equipments collected for the manufacture of the item amounting to Rs. 1,38,354 have thus been rendered surplus.

The Committee were informed in evidence that the store already used by the Services needed modifications as a result of a number of incidents. Bulk order was placed on the D.G.O.F. in the belief that the modifications were well within the capacity of the Ordnance Factories, although the manufacture as such had not been established. The preliminary designs were forwarded to the D.G.O.F. in September, 1949 but he was asked to wait as further modifications were contemplated by the Technical Development Establishment. The final drawings were completed and made available to the D.G.O.F. in December, 1951. The D.G.O.F. had ordered for the raw materials for the entire quantity in 1950 on the

basis of the original specifications, as no appreciable changes were expected in raw materials on account of the proposed modifications in drawings. It was disclosed that while the indigenous raw materials were ordered by the D.G.O.F. in proportion to the requirements, the imported raw materials were procured for 15,000 numbers, as according to the D.G., India Store Department, London, the sellers were not interested in smaller orders.

33. *This is yet another case where the fundamental principle of first establishing manufacture of a new store by undertaking trial order before provisioning for bulk manufacture, was ignored by the D.G.O.F., resulting in infructuous expenditure on raw materials and surplus components.*

The Committee have commented on a number of similar cases involving infructuous expenditure. From a statement prepared by the Comptroller and Auditor-General, the Committee observe that in past years such expenditure amounted to about Rs. 68 lakhs because the D.G.O.F. accepted bulk orders and went ahead with bulk provisioning before establishing manufacture of the stores. *The Committee regret to note that this practice has been a normal feature of the working of the Ordnance Factories.*

The Committee note that remedial measures* have been taken now. Instructions, it is stated, have been issued in January, 1957 that even when the D.G.O.F. is confident of establishing manufacture of a new store, he should request the Service indenter for a demand for a small number or quantity of the store to establish production; the number or quantity of the store being decided by what would be suitable for economic manufacture. Bulk orders would only be placed after the technique of production has been established. The Committee are glad to note this. *They, however, feel that it would be necessary to define precisely what should constitute an "educational order" and what should be the quantity suitable for economic manufacture in such orders. For, there had been cases where bulk orders were treated as educational order by the D.G.O.F. and raw materials were purchased for the bulk quantity on the plea that sizeable quantities of raw materials would facilitate economic purchase. This might to some extent be true; but, at the same time, it is important not to ignore the fact that the expenditure would become infructuous if production were not subsequently established. In one such case, the D.G.O.F. even observed that certain metals intended for a store, whose manufacture was not established ultimately, would still be worth their value*

as metal. The Committee deprecate the casual manner in which expenditure on purchase of raw materials was looked upon by the D.G.O.F.

The Committee, therefore, recommend that the necessity of an educational order and its size should both be determined by the Defence Ministry.

Outstanding Recommendation

34. *Manufacture in Ordnance Factories for stock purposes in excess of requirements—paras. 70-71 of 19th Report.*—In paras. 70-71 of their 19th Report the Committee had expressed their concern over large quantities of stores manufacture by the Factories for stock purposes. The Committee are perturbed to note* that the stock-holding Committee which examined the stocks of all items individually valued at Rs. 1 lakh or more, in 16 out of 20 Factories, recommended the disposal of the items valued at Rs. 4.20 crores out of Rs. 22.5 crores worth of items examined by them. They consider the percentage of surpluses (nearly 20%) to be too high, which only confirms their belief that the Ordnance Factories are not functioning efficiently. The Committee desire that the results of similar examination carried out in respect of the stores worth less than Rs. 1 lakh, should also be communicated to them.

The Committee recommend that with a view to relieving congestion in the Ordnance Factories and Depots, a procedure should be evolved for carrying out regular reviews of unwanted stock in the Ordnance Factories and Depots.

As regards prescribing a limit to the financial powers of the D.G.O.F. in incurring expenditure on the manufacture of components for stock purpose, the Committee were informed that pending the fixation of the limit, the D.G.O.F. has been instructed not to manufacture components except on firm orders. They desire that the limit should be fixed early.

General Observations

35. The preceding paragraphs indicate that the administration and working of the Ordnance Factories is far from satisfactory. The Committee were informed that as a result of the measures taken recently, (they have been dealt with by the committee at the appropriate places in this Report) the planning and production in the Ordnance Factories would be brought to a satisfactory level.

*See Statement showing action taken or proposed to be taken on the Outstanding recommendations—Appendix I of Vol. II.

It was added that a system for joint planning by the D.G.O.F., Technical Development authorities and Services had been evolved in order to remove the present bottlenecks. *The Committee would be interested to be informed of the working of the revised procedure.*

The Committee were also informed by the Defence Secretary that a Departmental Committee was reviewing the whole production programme in the Ordnance Factories. *They would like to know the composition and the main recommendations of this Committee and the action taken by Government thereon.*

Hindustan Aircraft (Private) Ltd.

Annexure to the Commercial Appendix at pp. 264-273 of the Appropriation Accounts Defence Services, 1954-55

36. Hindustan Aircraft (Private) Ltd., is a Government Company owned jointly by the Governments of India and Mysore. Its authorised capital is Rs. 18 crores while the paid-up capital is Rs. 6.80 crores of which the share of the Mysore Government is Rs. 60 lakhs.

The factory has 3 divisions viz., (i) Aircraft Manufacture and Overhaul, Engine Manufacture and Overhaul, (ii) Rail-coach Manufacture and (iii) Bus Body manufacture.

The following table shows the department-wise profit/loss during the years 1954-55 and 1955-56:—

	Profit (+)—Loss(—)	
	1954-55	1955-56
Aircraft	(+) 3,44,884	(+) 9,49,580
Rail coach	(+) 1,39,327	(+) 7,050
Bus Body and Commercial	(—) 1,32,268	(—) 2,98,381
	(+) 3,51,943	(+) 6,58,249

The Committee enquired of the reasons for the continued loss in the working of the Bus Body and Commercial Division of the H.A.L. The representative of the H.A.L. stated that the factory had since closed the Bus Body Building Section and had given the work to a contractor on royalty terms. The factory would supply only straight metal sections. The losses made previously would be

treated as developmental losses half of which would be made up in a period of 5 years. The Committee suggest that the workshop capacity thus released should be suitably utilised in other expansion schemes of the factory.

Manufacturing and Trading Account of the H.A.L. for the year ended 31st March 1955—(p. 270 of the printed Accounts)

Under the head 'Labour and Applied Overhead Expenses', the amount of Salaries and Wages has been shown as Rs. 1.33 crores. In evidence it was stated that only 1/4th of those represented the wages and the balance 3/4ths the overheads.

Debits outstanding for recovery

37. In evidence, the Committee were informed that the amounts due to the H.A.L. from its customers were of the order of Rs. 1.58 lakhs as on 31st March 1956 and a cash credit accommodation guaranteed by the Government with a limit of Rs. 50 lakhs had been obtained from a bank (the actual withdrawals during 1956 being about Rs. 40 lakhs). The representative of H.A.L. stated that a Special Committee consisting of the representative of the H.A.L., I.A.F. and Controller General of Defence Accounts had been constituted to bring down the outstandings.

The Committee are surprised that the H.A.L. should have allowed the dues to accumulate in this manner. For, its main customer is Ministry of Defence whose representative functioned as a Director on its Board of Management. Because of delay in settlement of claims by the Ministry, the H.A.L. had to borrow money from a Bank and pay interest thereon. The Committee would suggest that a procedure should be evolved by the H.A.L. in consultation with Ministry of Defence whereby payments of bills for services rendered or supplies made by it are made regularly and within a stipulated period.

Production and Overhaul of Aircrafts

38. The Committee consider it to be of the utmost importance that the capacity of the factory should be fully utilised. In the interest of both the I.A.F. and H.A. (P) Ltd., the latter would do well to examine the questions of increasing their production and manufacture of engines and airframes of the types selected by the I.A.F. to meet their growing requirements. The Committee would also like to know what progress is being made in each of the directions laid down in the Memorandum of Association of the H.A. (P) Ltd.

The Committee were also informed by the representative of H.A. (P) Ltd., that although the factory could manufacture certain type of aircraft, the demands placed on it were not regular. They would, therefore, suggest that the Ministries of Defence and Communications should work out their requirements for 2-3 years in advance of the period of use to enable the factory to plan its production programme and phase it over a period. The Committee understand that certain suggestions in this behalf have been made to Government by the H.A.L. and they would like to know the final decision arrived at in the matter.

The Committee observe from the Fourteenth Annual Report of the Directors that during the year under review, sales on the aircraft overhaul side declined in 1954-55 to Rs. 31·97 lakhs as compared to Rs. 43·73 lakhs in 1953-54 and Rs. 48·31 lakhs in 1952-53—the main reason being the Indian Airlines Corporation having themselves taken over the Civil aircraft overhaul work and enquired how the H.A.L. was utilising this capacity.

In evidence, the representative of the H.A.L. explained that the factory had been switching over from overhaul to manufacturing side and eventually it expected to take up completely the manufacturing side. While the Committee welcome this gradual change-over to the production of aircrafts till its capacity is fully absorbed by manufacture of aero-engines or complete air-crafts, they would suggest that the H.A.L. should explore the possibilities of securing some overhaul work from some of the friendly neighbouring countries till such time as it is in a position to utilize its full capacity on the manufacturing side. They would also suggest that its capacity for overhaul and servicing etc., should be fully utilised, suitably co-ordinated and pooled with the Air India International, Indian Airlines Corporation and I.A.F. internal facilities, for such purposes to avoid over-lapping in the interest of economy and efficiency.

During the visit to the factory in October, 1957, the Committee learnt that Flying Clubs in the country were unwilling to purchase HT-2 trainer aircraft manufactured by the H.A.L. as its price of Rs. 70,000 was considered too high as compared to Rs. 12,000 to 15,000 for cheaper aircrafts like 'Piper' charged by foreign firms.

The performance of HT-2 produced by the H.A.L. was reported to be much better and its life longer than the cheaper foreign aircraft, and there was, therefore, no comparison between the aircrafts. The Committee suggest that the manufacture of cheaper trainer aircraft by the H.A.L. should be investigated in order to cater to the

growing needs of Flying Clubs in the country. The desirability of supplying HT.-2 aircraft to Flying Clubs on instalment basis should also be considered by the H.A.L. as it will facilitate more sales and make people more air-minded in the country.

The Committee would like to know in due course the progress made in the execution of some of the projects for manufacture of certain aircraft and engines.

Manufacture of Integral Rail Coaches

39. The Committee were informed that the work on the project of manufacture of Integral Rail Coaches by H.A.L. in collaboration with a German firm was proceeding subject to availability of foreign exchange. Buildings were being put up and raw materials and machinery imported. The integral coaches manufactured by the H.A.L., although almost of the same weight as those produced by the Integral Coach Factory, Perambur, were expected to be cheaper in cost. *The Committee would like to have a comparative statement of the cost of the Integral Coaches manufactured by the two undertakings.*

Standardization of the type of aircrafts for feeder services

40. During the course of on-the-spot visit to the H.A.L. in October, 1957, the Committee suggested to the Managing Director, H.A.L., that H.A.L. as a prospective manufacturer of aircrafts might consider the desirability of standardising the types and designs of aircrafts required for internal feeder services. The Committee would suggest that the H.A.L. should consider the feasibility of implementation of the suggestion.

Outstanding Recommendations

Para 41 of 14th Report —Detailed Annual Report on the working of the H.A.L.

41. *The Committee find that the H.A.L. have not so far taken any concrete steps to prepare a detailed annual report on the working of its various Branches for being made available to Members of Parliament as recommended by them in para 41 of their 14th Report. They would, therefore, reiterate their earlier recommendation in this behalf and desire that the H.A.L. should make an early start in this direction.*

Bharat Electronics (Private) Ltd.

Para 17—Establishment of Bharat Electronics (Private) Ltd., for the manufacture of certain Electronic equipments

42. An agreement with a French firm was concluded by the Government of India for a period of 10 years with effect from the 1st January, 1953 for establishing a factory for the manufacture of certain electronic equipments. According to this agreement, the French firm undertook to assist the Government of India in the establishment of such a factory to produce electronic equipment and components (including valves) and over a hundred different types of equipment as mentioned in Schedule I thereto. A sum of Rs. 53 lakhs excluding royalty on production was payable to the firm in instalments during the period of contract.

Under Clause 8 of the agreement, the French firm undertook to make available to Government all technical, industrial and other services and assistance necessary to run the factory. The production programme was also drawn up for the manufacture of certain specified equipments which included:—

30 types of High Frequency and Very High Frequency transmitters.

20 types of High Frequency and Very High Frequency Receivers.

10 types of High Frequency and Very High Frequency trans-receivers.

45 types of Radio equipments, and several other miscellaneous items and tubes.

The production was to commence from the Calendar Year 1956 but the programme for the years 1956 and 1957 could not be adhered to and with the approval of the management of Bharat Electronics, a revised programme was fixed for these years. This programme was again modified as the right prototype of wireless sets required for the use of the Army was not produced by the French firm. The firm, therefore, prepared an alternative programme for the year 1956-57—the first year of production. The future production programme is yet to be determined.

According to Audit, due to the high cost of raw materials and components and also higher overheads in the initial stages of limited production, the cost of production of equipment was high and, therefore, some consumers were reluctant to pay this high price as imported equipment was obtainable at much lower prices. Further, the French firm had not yet given the necessary information and specifications for the raw materials and components in English and according to International Standards and therefore it was not possible for the Bharat Electronics to obtain raw material by open tenders, which had to be purchased from the suppliers of the French firm.

43. In evidence, the Committee were informed that B.E.L. was at present producing electronic equipments for the use of Civil Departments only, viz., Railways, Civil Aviation, All India Radio and the Police and was not supplying anything to the Defence Services although it was primarily set up to meet the Defence requirements. The factory had made the first prototype of a wireless set for the Army which was being tested and another equipment was in the process of designing. The representative of the Bharat Electronics stated that because of difficulties and delays in getting the design of the equipments accepted by the Services, B.E.L. had not been able to supply any Defence requirements so far. In reply to a question, he admitted there was some reluctance on the part of the Army to use the equipments of the French firm because of the unfamiliarity with the French system of calibration etc. The Master General of Ordnance, as the user, stated that the Services would accept equipments produced by B.E.L. if they came up to their requirements. *The Committee were surprised how regardless of the user's preference for English type of equipments, Government had sought the assistance of a French firm and entered into an agreement with it.* Explaining the background of the agreement, the Secretary of the Ministry of Defence stated that at that time, in response to Government's invitation, only two firms had tendered viz., the French firm and a British firm. A Technical Sub-Committee on which the Signal Officers of the Army, Navy and Air Force were represented, recommended collaboration with the French firm in preference to the British firm. The Signal Officers of the Army, Navy and Air Force also visited the French firm in April, 1951 and they were impressed by the standard of manufacture of the French firm though not with the tempo of design and development. There were certain other considerations also which weighed with Government in choosing the French firm viz., that self-sufficiency in manu-

facture could be reached earlier, the programme of production was flexible and the Indianisation of the factory could be attained earlier.

It is, therefore, apparent that the decision of Government to enter into an agreement with the French firm was arrived at after careful consideration. If so, the Committee think, it is idle to suggest now (after half the period of contract has rolled by) that the user Services were averse to purchase the equipment manufactured by B.E.L. because of their unfamiliarity etc. Such an attitude, if it is allowed to continue, will hamper production and smother, if not kill, the incentive to produce. The Committee are, therefore, very much concerned that the capacity of the factory should be put to the best possible use and to this end, the Government, the user Services and the B.E.L. should address themselves earnestly.

The Committee like to add here that this is not the first case of its kind where Government could not utilise the installed capacity of a factory fully. Similar is the case of the Machine Tool Prototype Factory at Ambernath. They trust that the Ministry will profit by these experiences.

44. The Committee next went into the question of delay in production and the frequent changes in the production programmes—twice in the course of the first two years. In extenuation, it was stated that the French firm took a long time to produce the prototypes. According to the Audit Report, the right prototypes of Wireless set 'P' and Wireless set 'R' required by the Army were not produced by the French firm. In a note* furnished to the Committee, the Ministry have observed that Wireless set 'P' had reached the prototype stage and the prototypes had recently undergone technical and user tests and production was expected to commence in 1959. As regards Wireless set 'R', it has been stated that the technical specifications of this set were given by the Army to the French firm in the latter part of 1955 and the paper designs prepared by the firm were approved by the Technical Directorate in February 1956 and the firm was working on the first prototype. Production of this set was not expected before 1960-61.

The Committee observe from the Audit Report that the production programme for 1957 envisaged the manufacture of 3120 Wireless sets 'R' at an estimated cost of Rs. 1,24,80,000 (60% of that year's production in value). It is a matter of common knowledge that there will be a time lag between the designing and manufacturing of a prototype and establishment of bulk manufacture (the Ministry have anticipated this period as 4 years approximately in the case

*Not printed.

of Wireless 'R'). If so, the Committee are amazed at the **overoptimism** of the Ministry in including the manufacture of this set in the programme for the 2nd year of production.

45. In retrospect, the conclusion is irresistible that the production programmes have not been well-planned in the Project Report; nor have they been properly scrutinised by the Technical Directorate in the Ministry. The Committee understand from para 117 of the 39th Report of the Estimates Committee that the Technical Subcommittee which examined the Project Reports in 1950 had pointed out some changes in the order of priorities in the production schedule of B.E.L. It is not known whether attention was paid to this suggestion either at the time of finalising the contract or while modifying the production schedules subsequently. Undoubtedly the initial set-backs encountered by B.E.L. in establishing production were due to lack of perspective in planning production. The emphasis on the development aspect was more than it ought to be. In a new venture like the electronic industry, a better and more prudent course would have been to start production of types of equipment already in use (and therefore acceptable to users without modifications and elaborate tests and trials) and then switch over to new types gradually.

The Committee understand from the note of the Ministry (referred to in para 44) that in respect of another wireless set Q required by the Army, development work has been stopped. Thus of the three types of wireless sets required for the Defence Services, production in two cases is not expected to commence earlier than 1959 and 1963 respectively, while in the third, development work has been stopped. The Committee would, therefore, suggest that production of less complicated equipments should now be taken up by B.E.L. so as to utilise the idle capacity for the intervening period. Had this been done much earlier, the B.E.L. would have gone into production years before and would have saved the much needed foreign exchange. With a view to examining this aspect in greater detail, the Committee called for a note stating the value of various equipments imported by the Defence Services which could have been manufactured by the B.E.L. had the original schedule of production been adhered to. The information is still awaited.

Though the performance of the B.E.L. was disappointing so far as the requirements of the Defence Services were concerned, the factory has manufactured electronic equipments for civil users like Railways, Police, A.I.R. and Civil Aviation Department. The Committee were assured that with the setting up of the Radio and Cable Control Board, the manufacturing capacity of the B.E.L. would be

fully utilised by the Government departments, for the Board scrutinised the indents of the user Departments for the import of electronic equipments which could be undertaken by the B.E.L., were they so directed. The Committee would like to know how far the present production of equipments required for civilian use has enabled the company to utilise its capacity and would also like to be informed of the effect of the setting up of the Radio and Cable Control Board on the future utilisation of the capacity.

46. The Committee consider that as a factory run on business principles, B.E.L. should have an efficient Sales Department. This Department should be manned by competent technical officers who will contact the user Departments with a view to ascertaining their future requirements and thus enable B.E.L. to plan ahead the production programme. Officers of this Department may also be sent abroad periodically to visit the French firm to select the items of equipment produced by that firm which will be acceptable to users here, for manufacture at B.E.L. Similarly, they may also select other equipments to manufacture under licence in B.E.L. In fact, the Committee understand that a delegation of experts headed by an officer of the Defence Ministry toured the U.K. on a similar assignment and have selected a number of such items. It is reported that their report is under the consideration of Government. The Committee trust that speedy action will be taken on this report and the production schedule of B.E.L. drawn up quickly.

47. *Manufacture of Valves.*—In regard to the manufacture of valves, the Committee learnt that the position was as follows:

Although the agreement with the French firm also included the manufacture of valves by the B.E.L. in 1958, it was found that the type of valves produced by the firm did not suit the requirement of the users in India. After prolonged investigations, the Board of Management of B.E.L. decided to negotiate an agreement with a reputed firm in Holland for the production of valves. While the draft agreement was being considered by the Board, the question of manufacture of valves in the context of the valves being replaced by transistors was raised. The Technical Committee, appointed to go into this aspect, had observed that it would take at least another 5 to 10 years for transistors to replace valves. In the meanwhile, another company from America had offered to set up a factory by itself in the private sector and thus save B.E.L. the foreign exchange. The question was whether valve manufacture should be in the private or public sector.

The Committee were informed that B.E.L. had already spent Rs. 20 lakhs on the machinery and building in connection with establishing valve production, while the machinery required for the

complete project was estimated to be worth Rs. 25 lakhs. In these circumstances, the Committee considered that the obvious choice is the public sector. The Committee would therefore, urge that the negotiations with the other Company in this behalf should be finalised without any further delay and production of valves started by the B.E.L.

The Committee are informed by Audit that under the agreement with the French Company the valves project alone is likely to cover 20 to 30% of the production target.

One important question which the Committee understand is being considered by the Defence Ministry in this regard is how far the entering into of licensing agreements with other firms for valves would affect the obligations of Government under the terms of their agreement with the C.S.F. as this would affect the full utilisation of Bharat Electronics Lt.'s capacity with and without the assistance of the C.S.F. The Committee would like to be informed of the final decision on this point and of the progress made in the matter of undertaking manufacture of valves in Bharat Electronics Ltd. before they next take up examination of the accounts of the company.

48. *Cost Control.*—It has been mentioned in para 42 above that the cost of production of equipment by B.E.L. was high compared to imported equipment. During the visit of the Committee to the factory in October last, they discussed at some length the costing procedure followed in the B.E.L. They also called for a note in this behalf from the B.E.L. According to this note, which explains the costing procedure followed by the B.E.L., every job undertaken in the factory has a predetermined estimate of direct materials and labour hours required. As and when a job is completed, the actual materials drawn and labour hours spent are compared with estimates with a view to checking up the extent of variation between the original estimates and actuals. In cases of excess or saving, the reasons are analysed for future guidance. Similarly, predetermined overhead rates are applied to all jobs completed in the factory. At the end of every quarter, the predetermined rates would be compared with actuals and at the end of the financial year any under or over-recovered overheads would be charged off to the profit and loss account provided the amount involved is small. If it is large the same will be distributed over the items manufactured during the period under review. The Committee understand that Audit have already suggested that the review should be quarterly and on the basis of such review, the rate of overheads for the subsequent

period should be suitably adjusted with a view to avoiding the necessity of reopening all the closed work orders at the end of the year for reallocation of the under or over-recovered overheads. The Committee desire that the suggestion should be examined by the B.E.L. and the Committee informed in due course, how the change suggested by the Audit has worked.

In paras 122 and 123 of their 39th Report, the Estimates Committee had commented upon higher prices of the equipment manufactured by the B.E.L. as compared to the imported equipments, in spite of the fact that the customs duty for the equipment imported by the B.E.L. for the purpose of production is charged at the concessional rate of 2 5/8 per cent. whereas the normal duty for these items is about 31½ per cent. In this connection, the Committee also understand that the B.E.L. has since reduced its sale price as a result of which it had to sustain a loss of Rs. 20·57 lakhs in respect of 147 sets of transmitters and 314 sets of receivers. This amount has been debited to the "Deferred Revenue Expenditure". The Committee should be informed as to the manner in which this amount is proposed to be finally adjusted.

49. Overhead costs.—At present, with the major part of B.E.L.'s capacity lying unutilised, the overhead costs are disproportionately high. A sort of weighted overhead is being charged on the equipments manufactured at present. The Committee were given to understand that this was inevitable and with the tempo of production rising, the element of overheads in costs will decrease over a period of years. While the Committee appreciate this, they are of the view that the B.E.L. should devise effective measures to guard against extravagance and allocating too much overhead on its products which might result in "pricing itself out of the market". With this object in view, the B.E.L. should scrutinise its overhead costs periodically and see that its costs are comparable, if not competitive, with imported equipments.

V

STOCK VERIFICATION

Para 18-Stock verification in Army Units and formations (other than factories)

50. In para 18 of the Audit Report, it has been pointed out that the stock verification carried out during 1954-55 disclosed considerable surpluses/deficiencies in four Central Ordnance Depots, despite the completion of the Reorganisation Scheme, as indicated below:

	Value of surplus- es	Value of deficien- cies
1st Depot	23,87,021	1,54,311
2nd Depot	7,61,247	2,43,429
3rd Depot	1,47,106	64,254
4th Depot	26,13,517	54,51,469

In para 82 of the Nineteenth Report, the Public Accounts Committee drew attention to considerable surpluses and deficiencies disclosed in the last two Ordnance Depots during the first annual stock verification after completion of the Reorganisation Scheme.

51. While the Committee have been assured by the Ministry of Defence that strict instructions have been issued by them to the various service authorities on the subject of proper maintenance of store accounts and stock verification, *the Committee regret to observe that store-accounting and store-keeping continues to be in an unsatisfactory condition, and even after completion of the Re-organisation Scheme, no perceptible improvement has been noticed. They would, therefore, reiterate their oft-repeated observation that unless the quantity and location of stores are known with reasonable accuracy, full operational efficiency of the services cannot be attained. They desire that the surprise check of the physical stock by the C.G.D.A. should be introduced in respect of the items where large surpluses and deficiencies have been noticed.*

Para 20-Stock verification in Air Force Units and Formations

52. This para disclosed an unsatisfactory state of stock verification and store accounting in the Air Force Equipment Depots and formations. The biennial stock verification completed on the 31st March, 1955 in respect of three Equipment Depots revealed the following deficiencies and surpluses:

	Deficiencies	Surpluses
	Rs. in lakhs	Rs. in lakhs
	Rs.	Rs.
1st Depot	14.2	17.4
2nd Depot	6.5	9.8
3rd Depot	*12.5	16.7

* (The value of deficiencies of some items has not been assessed by the Depot due to non-availability of information about prices).

The last two stock verification in respect of the 1st and 2nd Depots for the periods ending 31st March, 1951 and 31st March, 1953 had also revealed deficiencies and surpluses.

At the end of the last War, enormous stocks of equipments were left behind by the Royal Air Force and U.S.A. Air Force and an *ad hoc* procedure was prescribed for verification of stocks on the basis of markings on the cases which lay scattered all over the country. Even on the date of the above stock-verification all cases had not been opened and as such stocks could not be assessed accurately either qualitatively or quantitatively.

53. According to the Audit Report, though these stores had been lying unused for more than ten years and were not likely to be used by the Indian Air Force, the I.A.F. authorities found it difficult to declare them to disposals, as a certificate to the effect that no item would ever be required in future had to be given which the officers were unable to give without detailed examination and identification of each item. The Comptroller and Auditor-General had suggested that a high level decision should be taken for the disposal of these stores without further delay, as these stocks were occupying valuable storage space and considerable expenditure was being incurred on their care and maintenance at a time when there was acute shortage of covered accommodation to the detriment of proper storage of new materials in current use.

54. During evidence, the Committee were informed by the representative of the Ministry that instructions had been issued on the 6th August, 1957 to separate the entire stocks into two portions—the 'active portion' which was for future use and the 'inactive portion' which was to be disposed of through the Director General of Supplies and Disposals. In reply to a question as to what steps had been taken to overcome the difficulty with regard to issuing certificates that the stores would not be required for future use, Committee were informed that the stores categorised as 'inactive' would not be subjected to detailed stock-taking and the requirement of a certificate regarding their future usability would not apply to them. However, quantity stock-taking in terms of number of packages and loose bulky items held, would be done every year.

The Committee understand from a note (Appendix XI) furnished by the Ministry of Defence that stock holding Depots have segregated some 7,000 items and surplus reports therefor are being referred to the Air Headquarters. The Depots are also preparing separate lists in respect of items which might be put to alternate uses and the items which are 'inactive' only partially, i.e., where stocks are useful but dis-proportionately large compared to the requirements. Where the portion of stocks of the items has to be retained the Air Headquarters would scrutinise the relevant lists and fix up quantities to be retained for future use and the balance would be declared surplus thereafter.

55. *The Committee regret to observe that so long after the end of the War, the store keeping was allowed to remain in such a chaotic state in the Air Force Depots. In their opinion, the situation warranted much earlier action to screen the old stocks with a view to determining their usability and disposing of obsolete and unwanted items. While the Committee appreciate that the present procedure is designed to ensure that stocks which might be required in future should not be declared surplus, if we consider that on a long term point of view, it would be more economical to dispose of stores of doubtful usability and resort to purchases, if and when, the necessity actually arises in future.*

They would like to know in due course the value of stores declared 'inactive' and progress made in their disposal.

VI

MISCELLANEOUS IRREGULARITIES

Para 22-Arrears in rent recoveries

56. This para disclosed that as on the 30th September, 1955, a sum of Rs. 1,17,61,029 was outstanding on account of arrears of rent in respect of the Defence Services buildings. Out of this, a sum of Rs. 68·47 lakhs pertained to the Rehabilitation Department on account of occupation of military buildings by displaced persons and a sum of Rs. 61·56 lakhs related to other Ministries of the Central Government and certain State Governments, while a sum of Rs. 18·17 lakhs was outstanding from private persons, messes, clubs etc. The break up of the remaining sum of Rs. 23·41 lakhs was not given in the Audit Report, as the details were not available. At the instance of the Committee, the Ministry has given details* of a further sum of Rs. 20·28 lakhs viz., Ministry of Rehabilitation—Rs. 2·07 lakhs, other Ministries of Central and State Governments—Rs. 10·60 lakhs and private persons etc.—Rs. 7·61 lakhs. The break up of the balance of Rs. 3·13 lakhs is yet to be furnished by the Defence Ministry.

Explaining the position regarding recoveries from private persons, catering contractors etc., the representative of the Ministry of Defence stated that in spite of various orders issued and measures taken, the Ministry had been able to recover only a sum of Rs. 2·68 lakhs while the arrears had risen to Rs. 29,19,370 as on 31-12-1956. The Quarter Master General was making efforts to recover the outstandings. *The Committee desire that these outstandings should be reduced considerably.*

As regards dues from the Ministries of Central Government, the Committee were informed by the Defence Secretary that consequent upon the issue of an amendment to the Civil Accounts Code, no rent would be payable by the Civil Departments except the Commercial Departments for the use of defence services buildings for non-residential purposes and the bulk of outstandings due from them would shortly be adjusted. The Rehabilitation Ministry had paid Rs. 35 lakhs in the past and would pay Rs. 14 lakhs shortly. *The Committee would like to know the progress made in the matter of adjustments or recoveries made.*

*See Appendix XII.

Para 23—Short recovery of rent.

57. A civilian lady clerk whose basic pay was Rs. 80 per mensem was allotted a requisitioned quarter with effect from 16-1-1954 with an assessed rent of Rs. 102/9 p.m. at her personal request and on a declaration from her that she was willing to pay the assessed rent. She regularly paid the assessed rent upto October, 1955, when the Controller of Defence Accounts concerned held the view that the recovery of assessed rent was incorrect and decided to refund to her the amount recovered in excess of 10 per cent. of her pay and to restrict further recoveries accordingly.

In evidence, the Defence Secretary admitted that it was wrong to have allotted her this quarter which was of a higher class but having allotted it the rent should have been recovered from her at the assessed rent as agreed to by her. It was stated that the officer responsible for the decision to refund had retired from service.

The Committee enquired whether the Controller General of Defence Accounts had any explanation to offer. In reply it was observed that the sub-Area Commander had recommended payment of house rent allowance to the lady clerk but the Command Controller of Defence Accounts held that under the rules, payment of house rent allowance was not permissible in respect of leased accommodation. He held the view that in respect of accommodation provided by Government, recovery of rent from a Government servant in excess of 10 per cent of pay was irregular and the Controller of Defence Accounts has, therefore, directed the refund of rent recovered from her in excess of 10 per cent. of her emoluments.

The Committee are amazed at this explanation. How could the Command Controller overlook the fact that the allotment in this case was made on the personal undertaking of the lady clerk to pay the assessed rent? The Committee are distressed to note that Finance also should have chosen to act in this manner. The Committee desire that with a view to avoid such irregularities in future, necessary instructions should be issued to ensure that no higher accommodation is allotted to Government servants than is warranted by their status, but that if in any case such higher accommodation is actually allotted to them at their own request, full assessed rent should be recovered. The Committee understand that in the case of civil departments such a position is already laid down by rules and do not see any reasons why the same principles should not be followed in cases of this type.

Para 24(a)—Loss due to belated/incorrect fixation of price rates

58. Consequent upon the receipt of 15,480 Turkish Bath Towels Large Bleached at an increased rate in April, 1953, the sale price of such towels should have been increased from Rs. 3/12/- each to Rs. 4/11/-, but instead, the rate was reduced by mistake to Rs. 2/8/- with effect from 11th August, 1954. To rectify the mistake the sale rate was revised on the 2nd March, 1955 but again it was incorrectly fixed at Rs. 4/9/- each instead of at Rs. 4/11/-. The correct rate was finally promulgated with effect from the 19th May, 1956. The loss in a single officer's shop was Rs. 12,191 during the period from May, 1953 to July, 1956.

During evidence, the Committee were informed that the total loss in this case, taking all the officers' shops into account, worked out to be Rs. 40,000/-. Disciplinary action had been taken against the staff responsible for the mistake and instructions had been issued to prevent recurrence of such mistakes in future.

Para 24(b)—Losses due to belated/incorrect fixation of price rates

59. Valises Officers (holdalls) were being sold at Rs. 32 each, a rate originally fixed some time in 1946. No attempts were made to ascertain the manufacturing cost of the article till June, 1955 when it was found that its manufacturing cost was Rs. 61/-. Sale of the articles was therefore suspended from the 25th August, 1955 pending revision of the sale rate. A revised sale price of Rs. 85/9 each was notified to take effect from 25th November, 1955. According to the Audit Report, 333 holdalls were sold in one officers' shop alone at the old price of Rs. 32/- from the 4th June, 1955 to 24th August, 1955 resulting in a loss of Rs. 17,836. After the upward revision of the price, it was reported that only one holdall could be sold during 3 months.

In this evidence before the Committee, the representative of the Ministry of Finance (Defence) stated that the actual loss was only on the sale of 138 holdalls which were manufactured at a higher cost.

60. At the instance of the Committee, the Ministry of Finance (Defence) submitted a note (Appendix XIII). From that note the Committee observe that the total number of holdalls sold at Rs. 32 each between 4-6-1955 to 24-8-1955 was 845 and the total loss incurred on their sale was Rs. 46,036/5/-. It was not possible to find out how many of these were from the old stocks manufactured by the D.G.O.F. during 1945-46 and 1947-48 (post-partition) at a cost of

Rs. 37·69 and Rs. 28·70 each respectively and how many came from those produced during 1953-54 to 1955-56 at higher rates ranging from Rs. 46·34 to Rs. 63·24 each. However the number of holdalls manufactured by the Factory upto March, 1955 at the higher rates of Rs. 46·34 to Rs. 63·24 was only 138.

The Committee understand from Audit that although under the standing orders it was the duty of the Accounts Officer to furnish half yearly basic costs of manufacture of all stores of the type in question, the Accounts Officer attached to the Ordnance Factory failed to comply with the instructions and that the case was under investigation. *It is obvious that in this case the loss was not due to any defect in the procedure but due to failure to follow the correct procedure. The Committee would like to be informed of the disciplinary action taken against the delinquents.*

61. The Committee also observe from the above-mentioned note that while placing orders on the Director General of Ordnance Factories for supply of Stores required for sale in the Officers' shops, it is not the practice to obtain an estimate of likely cost of production. In the present case the manufacture rate Rs. 28·70 of the previous lot made in 1947-48 was taken as a guide by the indenter while placing an indent in 1950. This resulted in the Officers' shops being saddled with holdalls produced at higher rate which could not be sold when the sale rate was revised upwards to Rs. 85/9/- each. The Committee are informed that the item has since been deleted from the Officers' shop price list and is not intended to be sold through these shops and that it is included in the camp kit authorised to officers of the Army and Air force. The entire stock is to be issued against free entitlement to the officers of the Permanent Commission and on loan to Short Service Commission Officers.

62. *The Committee feel that the system of placing orders for various items whether issued to users direct or through Officers' Shops is defective inasmuch as the estimated cost of manufacture is not made known to or ascertained by the indenter. They desire that the Ministry of Defence in consultation with the Ministry of Finance (Defence) should revise the procedure forthwith.*

It is equally surprising how the factory embarked on a programme of manufacture at a cost so much higher than that of previous manufacture. Such consultation and scrutiny are necessary for purposes not only of Factory control but also of budgetary control. The very fact that the cost of production of holdalls has gone

up three times in a period of seven years discloses that the manufacturing efficiency of the factory needs looking into.. In fact for articles available in the market (in this case at even lower prices) the Ordnance Factories need not undertake production.

Para 27—Loss due to delay in publication of payment issue rate

63. Due to delay in the publication of the payment issue rate, Shoes Brown, Canvas (Leather sole) purchased at Rs. 14/13/- per pair in May, 1952 were continued to be sold at the old rate of Rs. 5/- per pair. The revised payment issue rate of Rs. 16/11/- was worked out in May 1953 and made effective only from 1st October, 1953. Between May 1952 and September, 1953 a loss of Rs. 39,317 was incurred on the sale of 3,364 pairs of shoes at the old rate.

During his evidence, the representative of the Ministry of Defence admitted that this was a common type of occurrence in the past, but this had now been rectified by the revised procedure and the position was improving. *The Committee would like to watch the results of the implementation of the revised procedure.*

Such cases were numerous. The Committee had commented in their Nineteenth Report also on such delays in the publication of correct issue rates. They would, therefore, urge that such cases should be investigated thoroughly and serious notice taken of such lapses.

Para 25—Idle tractors in Ordnance Depots

64. Out of 191 Industrial tractors meant for shifting stores within the depots, 45 tractors were in serviceable condition and the rest had been unserviceable for six or seven years for want of repairs which could not be done for lack of spare parts. The cost of spare parts was assessed at Rs. 33,600 approximately. The work was being carried on by manual labour at a considerable extra cost to Government. In 3 depots the drivers of idle tractors continued to be employed, resulting in an avoidable expenditure.

In evidence, while admitting that there had been delay in handling this matter at different levels, the representative of the Ministry of Defence informed the Committee that the tractors had since been checked up by the Mechanical Engineering Authorities to ascertain whether these could be repaired on availability of spare parts. The High Commission of India in U. K. had been addressed with regard to procurement of spare parts needed for repairing the

tractors. To a question whether repair of these tractors would be economical, the Committee were informed that the cost of repairing a tractor would approximately come to Rs. 300 as against the cost of Rs. 13,000 of a new tractor. As regards the continued employment of the drivers of the idle tractors, the Committee were informed that each one of them was being utilised in lieu of two persons—fitter and fitter-mate—for the maintenance of vehicles etc.

The Committee are not happy about the inordinate delay in repairing the tractors in this case which resulted not only in extra expenditure on manual labour, but also loss of efficiency. They would like to be informed in due course of the progress made in repair work. They would also like a statement for each Depot to be furnished to the Committee duly vetted by Audit showing the number of vacancies existent during the period of irregularity in the authorised establishment of fitters and fitter-mates and the number of surplus drivers utilised in lieu and how far the employment of drivers in lieu of fitters and fitter-mates is feasible and justified from the point of view of efficiency and economy.

Para 26—Disposal of obsolete ammunition

65. Under instructions received from Army Headquarters in February, 1955, the Embarkation Commandant of a port invited tenders for the disposal by dumping into the sea of about 1,700 tons of obsolete ammunition held in a depot. As the work had to be completed before the monsoon, Government awarded the contract to one who undertook to complete the entire operation within 15 days (against one or two months by others) although his rate of Rs. 50/8/- per ton was the highest (the lowest being Rs. 35 per ton.). He also offered to supply a ship for the purpose as opposed to barges which the others offered to provide.

When the first special train carrying 600 tons of ammunition arrived at the port on the 10th May, 1955, the contractor could not provide a ship. A special train with another 600 tons of ammunition also left the Depot on the 10th May, 1955. The contractor could manage to dump only 163 tons of ammunition by carrying it in a barge towed by a tug. On the sea tending to be rough, the Contractor stated on the 14th May, 1955, in writing his inability to proceed with the contract. The ammunition had to be back-loaded to the depot resulting in an infructuous expenditure of Rs. 3,77,000 approximately.

According to Meteorological authorities, who were consulted later, the best time for the dumping operation from the point of sea conditions was the second half of December and the month of

January. The balance of about 1500 tons of ammunition was successfully dumped during the period from 7th December, to 23rd December, 1955 with the assistance of the Director General of Shipping at a cost of Rs. 51,975 as against Rs. 79,790 demanded by the original contractor.

66. During the evidence, the representative of the Defence Ministry stated that before placing the contract the Embarkation Commandant had personally inspected the ship offered by the Contractor for the operation and had fixed 23rd May, 1955 as the date for completion of the work. But the ship promised by the contractor was not there. He admitted that the antecedents of the contractor were not satisfactorily verified before awarding the contract.

The Committee understand from a note (Appendix XIV) submitted by the Ministry of Defence that the case is being referred for arbitration in terms of the contract and a claim for a tentative sum of about Rs. 3,77,241/10/3 is being made against the contractor in consultation with the Ministries of Law and Finance (Defence).

67. *The Committee think that the whole transaction was ill-planned and ill-conceived. They endorse the view of Audit that the infructuous expenditure could have been avoided if the operation had been well timed. It is surprising that the most favourable part of the year for this operation should have been unknown to the Defence authorities who have been dumping ammunition for quite a number of years. The Committee also take a serious view of the manner in which the Embarkation Commandant failed to take the ordinary precaution of verifying the antecedents and proven ability of the contractor to undertake the work in consultation with the D.G. Shipping, before the contract was given. In their opinion, the case calls for disciplinary action against the officers responsible for negligence of their duty. The Committee would also like to know in due course the final outcome of the arbitration proceedings in this case.*

68. The Committee note that with effect from the 1st August, 1956 the Indian Navy have been made responsible for dumping of obsolete ammunition and explosives at Bombay port; and in cases where the quantities were too large to be handled by the Navy and in cases where the dumping was to be done at other ports, the work would be handled by contractors. In order to ensure better planning of dumping operations, necessary administrative instructions

are proposed to be issued to the Service Headquarters including Navy. *The Committee trust that these instructions would prevent recurrence of such nugatory expenditure in future.*

The case is typical of the many cases where contracts were placed at higher rates in consideration of urgency but which in practice were either not urgent or not fulfilled in time. The Committee desired to know what steps the Ministry proposed to take in such cases to safeguard the Government against losses. *The Committee note that the Ministry of Defence propose to evolve, in consultation with the Ministries of Works, Housing and Supply and Law, suitable terms of contracts to be applicable in such cases with a view to enforcing deterrent penalties against defaulting contractors and also to increase amounts of security. The Committee would like to be informed of the final decision arrived at in the matter.*

Para 28—Non-recovery of charges for surveys' carried out by a Naval Survey Ship

69. Survey work on behalf of the Port Trusts and State Governments is sometimes carried out by a Naval Survey Ships and the cost of such survey is to be recovered at the rates prescribed by Government for each ship. No rate of recovery was fixed by Government in respect of surveys carried out by the Naval Survey Ships in four ports between November 1953 and April, 1955. According to Audit, on the basis of the rate of recovery prescribed by Government in respect of a similar survey ship, the amount due for recovery worked out to Rs. 17.72 lakhs approximately.

The Committee were informed by the representative of the Ministry of Defence, that out of four surveys carried out by the Navy, two were done at the instance of the Ministry of Transport and two at the instance of the State Governments. From a note (Appendix XV) submitted by the Ministry of Defence, the Committee understand that it has been decided by Government that the surveys at two ports constituted Defence liability in respect of which no recovery was due. The recoveries outstanding in respect of the surveys of the remaining ports had been worked out at Rs. 9 lakhs. The matter was being pursued with the State Governments concerned through the Ministry of Transport and Communications. *The Committee would like to have a further report regarding the recoveries made in the matter.*

VII . . .

OUTSTANDING RECOMMENDATIONS—ACTION TAKEN ON

70. The Committee now proceed to deal with some of the important items outstanding from their previous Reports. They recommend that in each case, the final action should be expedited.

Para 115 of the 9th Report—Advance payments to the U.K. Government:

71. The Committee learn from a note (Appendix XVA) submitted by the Ministry of Defence that advances to the U.K. Government for purchase of stores for short-term and long-term deliveries were inevitable according to the procedure laid down by the Treasury in U.K. in this behalf, which was applicable to all the Commonwealth Countries. *The Committee desire that in order to enable them to have a proper appreciation of the position in this regard, they should be furnished with a statement showing the details of outstanding advances as on 30th June, 1957, the orders to which they relate, the date on which the orders were placed and the progress of supply against these orders.*

The Committee would suggest that the Government of India should also consider the question of demanding advance payments whenever bulk orders for stores are placed on them by other countries.

Para 25 of the 14th Report—Contracts for purchase of asbestos cement sheets:

72. The Committee observe from a note (Appendix XVI) submitted by the Ministry of Works, Housing and Supply that while placing the contracts, the Director General, India Store Department, London, changed the specifications of the asbestos sheets without consulting the indenter. The representative of the Ministry of Works, Housing and Supply informed the Committee that in view of the urgent demand for the sheets by Defence Ministry, the Director General, India Store Department anticipated that the changed specification would be acceptable to the indenter. After placing the orders on the U.K. and Italian manufacturers, he informed the indenter that the Italian sheets would be somewhat different from those of U.K. specifications but he did not care to communicate the detailed specifications. The Committee note that copies of the two contracts giving all particulars of the supplies

were received by the indenter in January, 1951 and November, 1951 respectively, while the consignments had started arriving in December, 1949.

73. The Committee wonder how the Defence authorities (indenter) could acquiesce in the view that the sheets would have been accepted even with the changed specifications. The Committee are of the view that the D.G., I.S.D., London had failed in his duty in not getting the prior consent of the indenter before placing orders for stores of the changed specifications. They desire that in future prior concurrence of the indenter should invariably be taken by the Supply Wing in cases where the original specifications are changed for any reason.

Para 40 of the 14th Report—Future set up of the Canteen Stores Department:

74. The Committee are given to understand that it is proposed to allow the Canteen Stores Department (India) to function as at present and to finance it from a Fund outside the Consolidated Fund of India but within the Public Account. The Committee are of the view that the position will still be extremely anomalous and would therefore recommend that the question of placing the organisation on a statutory basis as a corporate body under an Act of Parliament should be further considered.

Para 33 of the 9th Report and para 45 of the 14th Report—Loss on purchase of aviation stores without proper verification of the financial status of a firm named Messrs. Aircraft Instrumentation Ltd.:

75. The Committee observe from a note (Appendix XVII) submitted by the Ministry of W.H. & S. that according to the High Commissioner's report the items of stores in question were obsolete and were not being manufactured. The only possible source of supply was, therefore, the surplus dealers. In suggesting the name of Messrs. Aircraft Instrumentation Ltd., the Air Adviser followed only the prevailing practice which was for his Department to make a recommendation in respect of likely suppliers. The Defence Ministry have accepted the view of the High Commissioner that the Air Adviser did not go out of his way to recommend the name of the likely supplier. The High Commissioner has, however, held the Controller of Supply Branch in the India Stores Department responsible for certain administrative lapses, viz., (i) for not maintaining up-to-date the lists of approved contractors of Aeronautical Inspection Directorate/Air Registration Board (from which the name of the firm in question had been removed), and (ii) for not bringing the default in supplies on the part of the firm in time

to the notice of the higher authority. Intimating the action taken against this Officer, the Ministry of W.H. & S. have stated as follows :—

“* * * taking into consideration has unblemished record of 33 years, it has been decided that he should be asked to retire from service voluntarily and if he does not do so, a proper enquiry shall be instituted against him as provided under the rules”.

It appears from the portion underlined above that a proper enquiry into the matter was not instituted. In evidence the Committee were informed by the representative of the Ministry of Works, Housing and Supply that the officer concerned had three more years to serve and he was made to retire from service prematurely due to this lapse on his part. *The Committee feel the Officer had been let off lightly.*

76. *As observed by the last Committee, the method of procurement of stores followed in this case was unbusinesslike. The Committee consider the practice followed by the Air Adviser in suggesting the name of possible suppliers as highly irregular and desire that this practice should be stopped.*

Another interesting fact that was disclosed while examining this case was that the payment was made to the firm in advance on an ‘understanding’ to get the benefit of cash discount. The Committee have not been furnished with the details of this type of payment. The Ministry have assured the Committee that a review of the procedure was in progress to see whether its continuance was in the interest of Government. *The Committee would await the results of the review.*

Para 58 of the 14th Report—Excessive rates of daily wages of labour.

77. In the Southern Command, the rates fixed for labour in a Military Engineering Division were far in excess of the rates paid by other Departments in the same station. The Committee had desired to be apprised of the various facts leading to this excess payment. The Committee understand from a note (Appendix XVIII) submitted by the Ministry of Defence that difference between the daily wage rates paid to labour by the Defence authorities (Supply and Transport and M.E.S.) and those paid by the local P.W.D. during May/June, 1955 was more than 25 per cent in some stations. It has been

stated that higher rates were paid by the Defence authorities due to following reasons:—

- (i) Mazdoors employed by the S.&T. authorities are required to carry heavy weights and to stack bags upto certain heights which requires a higher standard of physical fitness.
- (ii) Mazdoors employed by the M.E.S. are required to work in vastly scattered areas which in some cases are situated in restricted areas where they are subjected to security measures like searching etc. This affects the recruitment of labour.

The Committee are not convinced that these reasons justified variation between the rates of wages paid by the Defence authorities and the local P. W. D. etc. to the tune of 25%.

The Committee trust that with the issue of instructions by the Defence Ministry in December, 1956 there would not be such variations in future between the rates of wages paid by the various Defence Authorities and the local P.W.D. rates at any place. They desire that similar reviews of wages paid by the Defence authorities vis-a-vis rates fixed by the local Government, Railways etc. should be carried out in other Commands also.

Para 28 of the 19th Report—Infructuous expenditure involved in provision of reserve storage for mechanical transport fuel;

78. In para 28 of their 19th Report, the last Committee commented that even after so many years since the cessation of hostilities in 1945, the (surplus) welded tanks in the possession of the Army had not been salvaged and kept ready for use in emergency. In a note* the Ministry have explained that, in accordance with the decision taken in 1955, tanks on non-requisitioned land should be disposed of in situ and those on requisitioned land should be exhumed and tested. Action was reported to be in progress. Out of 118 tanks exhumed so far 78 have been found to be serviceable. The Committee feel, that, had action been taken earlier, the number of

*See Statement showing action taken or proposed to be taken on the Outstanding recommendations—Appendix I of Vol. II.

serviceable tanks would have been more. They would like to have further information on the following points:—

- (a) Has the survey of the tanks located at all the airfields and stations been completed? If so, what was the total number of tanks available and number of those in serviceable condition? Figures in respect of above-ground and underground tanks to be given separately.*
- (b) Whether all the surplus tanks on non-requisitioned land were unserviceable. If not, the reasons leading to the decision to dispose them of in situ.*

Paras 29—36 of the 19th Report—Purchase of stores from the United Kingdom:

79. In para 36 of their Nineteenth Report, the Committee had desired to know the result of the investigation made in this case in which the Defence Ministry were saddled with obsolete stores of the value of Rs. 25·53 lakhs due to failure on the part of the Military adviser to the Indian High Commission in U.K. to communicate to the War Office the precise specifications. From a note submitted by the Ministry of Defence (Appendix XIX) the committee understand that Government have decided to convey their displeasure to the officers in the India High Commission, London, who were responsible for the lapses in this case. The Committee regret to observe that the punishment meted out to the officers is inadequate and not commensurate with the gravity of the lapse involved. They would like to know whether a proper enquiry was held in the matter for fixing responsibility in this case.

The Committee understand from Audit that, as a result of further correspondence and discussion between the Military Adviser and the supplier, a rebate of £20,643-10-0 was paid by the supplier to Government and the case closed. The Committee feel that this is a case where the question of refund of at least the amount representing the cost of entire stock found unserviceable should be taken up with the supplier.

Paras 37—44 of the 19th Report—Procurement of mechanical transport Vehicles :

80. The Committee had expressed their dissatisfaction in the paras referred to above over the purchase of 4X2 vehicles from 2

Indian firms to meet the deficiency in 4x4 vehicles. The Ministry of Defence have informed* that the purchase of 4x2 vehicles was primarily resorted to only as a temporary expedient to replace the war time fleet so long as the 4x4 type was not available, although the development of the indigenous industry was also borne in mind. The Committee do not accept this explanation as, admittedly, 4X2 vehicles could not take the place of 4X4 vehicles. They were told in evidence that the firm in question were given these orders for 4X2 vehicles to enable them to take up manufacture of 4X4 vehicles in due course. The Committee would like to be informed whether the manufacture of 4x4 vehicles has since been established by the two firms.

The Committee also desire to be informed how the deficiency of 8124 of 4×4 type in 1951-52 was reduced to 3,071 in 1952-53 when no fresh purchases of the 4×4 were made.

With regard to the procedure for discard and condemnation of vehicles for disposal, the Committee would like to be informed whether any system exists in the Army for calculating the rate of depreciation of the vehicles with a view to fixing their book value at the time of disposal and also the period after which a vehicle is normally declared for disposal.

The Committee also desire to know whether there are any instructions as to which particular parts are to be retrieved from different types of vehicles before their disposal, having regard to their not losing resale value and whether proper account of the retrieved parts is kept by the appropriate authorities.

Para 46 of the 19th Report—Non-utilisation of spares procured for mechanical transport vehicles:

81. The Committee had desired to know the position of overhaul of the balance of 31,000 pre-1948 mechanical transport vehicles (all types) out of 39,000 originally put down on a three year overhaul programme beginning from 1st October, 1952, which programme had turned out to be conjectural. The Committee note* that according to the revised repair programme of 'B' vehicles 13,469 vehicles are scheduled to be overhauled during the 3 years 1956-57, 1957-58 and 1958-59, the annual over-hauling capacity of the workshops being 3,500 vehicles per year. The Committee would like to know the average number of vehicles that are required to be repaired per year, the period expected to be taken to overhaul the backlog of 31,000

*See Statement showing action taken or proposed to be taken on the Outstanding recommendations—Appendix I of Vol. II.

vehicles and those sentenced as repairable subsequently. They should also be informed of the improvement effected in the overhauling capacity of workshops and of other measures, if any, taken to step up progress of repairs of vehicles.

Paras 47—53 of the 19th Report—Infructuous expenditure due to cancellation of a demand

82. The Committee of 1955-56 were informed that the delay in cancellation of the order placed on the D.G.O.F. for the manufacture of a certain store was due to the fact that the D.G.O.F. was expecting an order for 50,000 numbers from a foreign country. They are now given to understand* that no firm order had been placed by the foreign Government for supply of 50,000 numbers, but only an 'enquiry' from them had been under consideration since February, 1953 and it was known in November, 1953 that the country was not interested in the stores. The Ministry of Defence did not, therefore, take up the question of compensation with that country. The Committee are surprised that the D.G.O.F. should have proceeded with the order on the basis of a casua 'enquiry'.

83. As regards overprovisioning in this case, the Committee had expressed the view that the existing system of provision reviews called for a thorough and detailed investigation of the basis on which the provision reviews were made and the estimates of the requirements were acted upon. The Ministry of Defence hold the view that the present system of provision reviews is generally comprehensive and is not in need of a wholesale revision. The Committee regret to observe that the large number of cases of defective provisioning brought to light in successive years do not support the Ministry's contention. The Committee would, therefore, reiterate that the matter requires a more detailed examination with a view to improving the method of provisioning. Over-provision leads to heavy accumulation of stock for long periods affecting the operational efficiency of stores and heavy expenditure on their care and maintenance. They would like to invite attention to para 15 of this Report also.

Para 55 of the 19th Report—Acquisition unwanted stores

84. In this case due to delay in cancellation of an order placed on U.K. for certain ordnance stores which had been later superseded obsolete stores worth Rs. 36,000 had to be accepted. The Committee observe that the disciplinary action taken in this case has been confined to the lower staff only. They feel that the responsibility of higher officers should also be fixed.

*See Statement showing action taken or proposed to be taken on the outstanding recommendations—Appendix I of Vol. II.

Paras 74-76 of the 19th Report— Ordnance Factories—Action taken on recommendations of the Ordnance Factories Reorganisation Committee (Baldev Singh Committee)

85. The Committee had recommended in para 36 of their Fourteenth Report the overhauling of the administration of the Ordnance Factories. They desired to be furnished with a statement showing the recommendations of the Ordnance Factories Reorganisation Committee set up on this behalf and action taken by Government thereon. The Committee note that in pursuance of the recommendation of that Reorganisation Committee to set up a Sales Organisation to step up civil trade work by the Ordnance, it has been decided to appoint a sales expert. *The Committee would like to suggest in this connection that the Ordnance factories should also open show rooms in important cities in the country with a view to giving wider publicity to their civilian products. The Committee, are, however, of the opinion that the expenditure incurred on the Sales Organisation should not be incommensurate with the sale proceeds from civil trade. They would like to know the progress made in the appointment of the sales expert and increase effected in securing orders from the civil trade.*

86. *The Committee are of the opinion that with a view to utilising the idle capacity of the Ordnance factories, a review of the requirements of the private trade and Government Departments for items of civil use should be undertaken. The Committee would like to know the steps taken to secure orders from private trade and Government Departments and the value of orders executed for the Government Departments and private trade for civilian items during the last three years, year-wise.*

Paras 79-81 of the 19th Report —Arrears in linking of invoices with packing accounts

87. The Committee had emphasised the importance of timely linking of invoices with packing accounts relating to stores purchased in the U.K. to avoid losses due to shortages, pilferage or misappropriation. They note that the number of the outstanding invoices to be linked with the packing accounts in respect of the stores purchased in the U.K. for the period 1948-49 to 1953-54 had come down to 695 as on 28-2-1957 from 2680 as on 31-3-1955. On the other hand, according to Audit, the arrears for the period upto the end of the year 1955-56 had gone up to 2,000. The overall progress is thus not satisfactory. *In the Committee's opinion, the linking of invoices for the current years should have been done simultaneously. They feel that delay in the completion of this work is fraught with dangers and,*

therefore, they would like to be informed of the procedure followed in linking of invoices in the case of stores purchased from other countries and quantum of arrears, if any.

Paras 84—86 and 87—89 of the 19th Report—(i) Disposal of Blankets and (ii) Delay in publication of payment issue rate

88. The Committee understand that on the conclusion of an enquiry held in the matter of disposal of blankets (Appendix XX) and delay in publication of payment issue rate of cloth resulting in losses of Rs. 43,560 and Rs. 52,881 respectively to Government, the officers responsible in these two cases had been let off with a warning. In the opinion of the Committee, the punishment meted out was grossly inadequate.

Paras 90—100 of the 19th Report Ex-gratia payment to a Private Firm

89. In this case, an *ex-gratia* payment of Rs. 10,51,084 was sanctioned by Government in May, 1950 towards the reimbursement of sales tax to a supplier on whom two orders had been placed in 1948 for supply of jeeps at a firm price, although there was no stipulation in the contracts regarding payment of sales tax.

Originally, the Sales tax claimed by the firm was disallowed from the bills. On receipt of letters of protest from the firm in March, 1949, the Ministry sought the legal advice of the Government Solicitor who advised against payment of the sales tax, as in his opinion it was payable by the seller unless otherwise specified in the contract. The case was re-opened by the office of the D.G.S.D. on verbal representation from the representatives of the firm and a fresh legal opinion was obtained and the firm was paid the amount of sales tax. The Committee of 1955-56 felt that the re-opening of the case by the D.G. S.&D. *suo moto* reflected on the *bona fides* of the officials concerned and a thorough enquiry (in the case) was, therefore, necessary.

In a note submitted to the Committee, the Ministry of Works, Housing and Supply (Appendix XXI) have now stated as below in extenuation:—

“Whilst it is true that the officers then in the department stated, that the representatives of the firm did press for further consideration of their claim, it is also clear from the detailed examination of the case that the matter was not dropped by the Administrative Ministry and their accredited Finance as the legal opinion expressed seemed doubtful and they, therefore, remitted the case to the

D.G. S.&D. for further examination and comments after receipt of the opinion recorded by the then Assistant Director (Law) to the D.G. S.&D."

The Committee regret that complete facts were not brought to the notice of the Committee of 1955-56. They desire that in future all relevant and complete facts should invariably be placed before them either during the course of evidence or through notes/memoranda submitted to them subsequently.

In the present case, the Committee are not still convinced that the payment of sales-tax was legitimately due to the firm in respect of the first contract as there was no reference to sales-tax in the firm's offer. They are also not sure whether there was any case for payment on grounds of equity as payment on grounds of equity will arise only in the case of proved loss to the firm in the deal.

The Committee learn that the majority of the jeeps purchased were moved out of Bombay within 3 months of their purchase for which refund of sales-tax is being claimed. As a result of examination of the departmental witnesses, the Committee had called for further information on the following points:—

- (i) How many jeeps were moved out of Bombay State within 3 months of their purchase and how many were removed within six months?
- (ii) What is the position regarding claim of refund of sales tax for the quantity?

They regret that although a period of 6 months has elapsed, the Ministry have not furnished the relevant information. The Committee are, therefore, obliged to defer their further comments on the merits of the case.

Para 104 of the 19th Report—Provision of covered accommodation

90. *The Committee had expressed a desire that due priority should be given to provide accommodation for stores which were lying in the open for many years. They would like to know the progress made in the matter.*

NEW DELHI;
The 18th April, 1958.

T. N. SINGH,
Chairman,
Public Accounts Committee.

PART II

**Proceedings of the sittings of the Public Accounts Committee
held on the 8th, 21st and 22nd August and 2nd and
3rd September, 1957 and 18th April, 1958.**

PROCEEDINGS OF THE SEVENTH SITTING OF THE PUBLIC
ACCOUNTS COMMITTEE HELD ON THURSDAY, THE 8TH
AUGUST, 1957

91. The Committee sat from 15·00 hours to 17·15 hours.

PRESENT

Shri T. N. Singh—*Chairman.*

MEMBERS

2. Shri Ram Subhag Singh
3. Shri N. G. Ranga
4. Shri Radhelal Vyas
5. Shri A. C. Guha
6. Shri N. R. M. Swamy
7. Shri Upendranath Barman
8. Shri J. M. Mohamed Imam
9. Shri H. C. Dasappa
10. Shrimati Tarkeshwari Sinha
11. Shri Jaipal Singh
12. Shri N. Siva Raj
13. Shri P. T. Leuva
14. Shri M. Govinda Reddy
15. Shri Jaswant Singh
16. Shri J. V. K. Vallabharao

Shri A. K. Chanda—*Comptroller and Auditor General of India.*

Shri P. C. Padhi—*Additional Deputy Comptroller and Auditor General of India.*

Shri S. Natarajan—*Director of Audit, Defence Services.*

SECRETARIAT

Shri V. Subramanian—*Deputy Secretary.*

WITNESSES

Ministry of Defence

Shri O. Pulla Reddi—*Secretary.*

Shri C. S. Ramachandran—*Joint Secretary.*

Shri P. N. Verma—*Joint Secretary.*

Shri K. K. Framjee—*Director General of Ordnance Factories.*

Maj. Gen. R. E. Aserappa—*Engineer-in-Chief, Army Headquarters.*

Maj. Gen. R. N. Nehra—*Director of Ordnance Services, M.G.O. Branch, Army Headquarters.*

Mej. Gen. Harkirat Singh—*Acting Master General of Ordnance.*

Maj. Gen. P. S. Chowdhuri—*Director of Supply and Transport, Q MG'S Branch, Army Headquarters.*

Ministry of Finance (Defence)

Shri S. D. Nargolwala—*Additional Financial Adviser (Defence) I.*

Shri M. K. Hariharan—*Additional Financial Adviser (Defence) II.*

Shri Batuk Sing—*Controller General of Defence Accounts.*

The Committee took up consideration of the Audit Report (Defence Services), 1956.

AUDIT REPORT (DEFENCE SERVICES), 1956

Para 8—Loss of revenue due to defective planning of works.

92. Explaining the reasons for the considerable time-lag, that had occurred in the 3 works referred to in this para, between the completion of the buildings and of the external and internal services, the Defence Secretary observed that in the first work, the delay was mainly due to certain changes in the drainage and external sewage work which necessitated the installation of an ejector pump to lift the sewage. The original estimates were defective and they had to be revised; there was delay in obtaining the administrative approval for the revised estimates.

The Engineer-in-Chief stated that at first they thought that the original estimate of Rs. 4.6 lakhs for the whole project would suffice. But at the last stage, before the sanitation work was completed, they found they were running short to the tune of half a lakh of rupees and it took 15 months to obtain the administrative approval which was received in May, 1954. He admitted that their reaction to the situation was slow; they should have foreseen the contingency of an ejector pump before undertaking the work.

The Engineer-in-Chief further stated that the delay was also partly due to the non-availability of certain items of sanitary fittings in the local market which had to be imported. Further they had to get sullage pumps from the D.G.O.F.

93. In the case of the second work, he added that the delay was in the completion of internal sanitation and water supply which was occasioned by the non-availability of the requisite sanitary fittings and it took time to decide on the nature of the substitute—an imported one or of an indigenous make.

When asked to explain the circumstances which led to the long time (25 months) taken for completion of the building work in respect of the first work, the Engineer-in-Chief stated that the work was partially held up due to lack of cement. Out of the total requirement of 7174 tons of cement, order for which was placed in August, 1952, only 760 tons was received by March, 1953. Intervening, the Defence Secretary stated that due to lack of co-ordination between the authorities concerned, the MES could not supply cement in time. There was, however, much more effective coordination now. In reply to a question how the short supply of cement did not affect the progress of the third work which was also in progress then, the Defence Secretary explained that the third work was started 10 months earlier than the first and the limited quantity of cement available was used on that work.

94. The Chairman drew the attention of the representative of the Defence Ministry to the fact that in the past also the Committee had expressed concern over cases where the estimates had been revised after completion of the work. This meant bad planning and failure to anticipate even ordinary things. He desired to know the action taken by the Ministry in this regard. The Defence Secretary observed that disciplinary action had been taken in the present case against the Assistant Engineer and Superintendent concerned. Measures to ensure proper planning in advance of the administrative approval have now been devised. Instructions were issued in August, 1955 that the projects should be planned and contracts given with due regard to practicability of each phase and all concerned services should be completed in time either before or immediately after the completion of the buildings. The Chairman enquired whether there existed any check to see whether these instructions were being followed. The Defence Secretary stated that a Review Committee was appointed in 1956 to look into such matters. Once a year they reviewed the instructions given and the implementation thereof. In reply to a question whether any case of failure to carry out instructions had been detected during the last 2 years, the Engineer-in-Chief replied that there were cases where the 'Usability' of the project was not given sufficient weightage in planning the project.

95. The Comptroller and Auditor General drew attention to the observations of the Chief Technical Examiner in his report for the period 1st July to 31st December, 1954, submitted in March, 1955, that the work relating to the external services was taken up in the present case 3 years after the building had been completed and it would have been proper to take up the work simultaneously with the building construction and it should have been included in the same contract. He enquired whether the observations of the C.T.E.

were incorporated in the instructions issued in August, 1955. The Defence Secretary stated that the Quarter Master General who was controlling the Organisation of the CTE issued detailed instructions on 15th March, 1956 as to how work of this kind should be processed so that there was no lack of coordination. The C. & A.G. observed that there was still scope for improvement. He cited a recent case relating to some work at Yerrwada where similar delay occurred in completion of the external services after the building was completed. He urged the need for proper planning in view of the present difficult economic situation in the country. The Defence Secretary stated that some lapses were inevitable even in the best of planning. The Committee desired that the Defence Ministry should not be complacent in this matter.

96. The Defence Secretary undertook to submit a detailed note to the Committee on the points arising from this case.

Para 9—Acquisition of unwanted stores.

97. This para dealt with a case where orders for the manufacture of a large number of a store item were placed both on the U.K. and the Director General Ordnance Factories in India when the annual requirement of the store was only 45 in number. The Committee's attention was drawn to the delay in cancellation/reduction of the orders placed on the U.K. and the Director General of Ordnance Factories in India when the provision reviews as on 1st April, 1951 and 1st April, 1952 after taking into account the stock of an alternative type of store had disclosed surpluses to the tune of 863 and 1027 numbers respectively. The Committee desired to know why orders for large quantities were placed on the U.K. and D.G.O.F. in India when the annual requirement was only 45 numbers and also the reasons for not cancelling the orders, when the surpluses were brought to notice. The representative of the Ministry of Defence stated that the decision to place orders on the U.K. as well as D.G.O.F. was taken with a view to replacing the old type in use which was getting obsolescent by a more modern and upto-date type. The Government had expected to complete the replacement of the obsolescent type in 1951. Later, due to emergency conditions prevailing in 1951 and in 1952 they decided to keep both the old and the new type in use in order to conserve stocks. They also decided to postpone the replacement of the obsolescent type until the emergency was over. In the circumstances they did not think of cancelling the orders placed on U.K. and D.G.O.F. although the provision reviews disclosed surpluses. He further stated that according to the latest provision review conducted nine months back, the surplus was only 35 in number.

In reply to a question as to how the surplus of 43 disclosed in the review on 1st October, 1954 and 169 on 31st March, 1956 had

been set off against the annual requirement of 45, the representatives of the Defence Ministry stated that due to reorganisation in the Army, the annual requirement of the store had now gone up.

The representative of the Defence Ministry further stated that it was in 1947 that they decided the policy of replacement of the obsolescent type of equipment. In 1949 they placed orders on the U.K. and subsequently they placed maintenance order for 360 numbers on the D.G.O.F. in view of the special emphasis on indigenous production. The quantity was calculated on the basis of the requirement.

98. In reply to a question, the Master General of Ordnance stated that according to the provision review the total requirement of the new type required for replacement of the obsolescent store worked out to be 240, for which they placed order on the D.G.O.F. in 1951 to encourage indigenous production. He added that constant changes in the Army affected the results of the provision reviews.

Explaining the procedure in respect of declaring stores as obsolescent the Master General of Ordnance stated that decision to declare a particular item as obsolescent was made by the General Staff Equipment Policy Committee which was presided over by the Chief of the General Staff. Generally the Defence Ministry did not question the technical judgement of the General Staff. The representative of the Finance Ministry stated that Finance checked the requirements of stores with reference to the number of units entitled to it and did not question the necessity for a new store. In the present case he stated, they were guided by the decision of the General Staff to replace the entire holdings of the old type with units by the new type.

In reply to a question why towards the end of 1950 it was decided to use the old type, the M.G.O. stated that this was done because sufficient supplies of the new type had not materialised. The C.&A.G. pointed out that he found from the records that at a later stage the Defence authorities came to the conclusion that the old type could be used with the same effect and for the same purpose as the new type.

99. Turning to the D.G.O.F., the Committee enquired whether he had established production of this item in the country and made any supplies in respect of these orders placed on him as far back as September, 1950 and May, 1951. In his evidence the D.G.O.F. stated that no supplies had been made to-date, as the store was of a complicated nature, containing 253 components of which some were extremely precise. The factories had produced 95% of the components and they expected to establish production by the end of the

year. Intervening the Chairman pointed out from a list of outstanding orders placed on the Ordnance Factories, supplied by the Defence Ministry that a number of orders were still lying unexecuted. He enquired of the D.G.O.F. why he undertook orders for complicated or highly technical stores for which he might not have the requisite machinery and know-how. The D.G.O.F. stated that prior to Independence, they were only making 'bread and butter' items and it was only after Independence that they had established a large number of items like Gun carriages, Guns etc. In the Western countries also, he stated, it took them 7 years to establish such items and they also produced in batches and not in bulk quantity. After Independence, they had also the difficulty in getting the technical staff as the European staff had left. The Chairman stated that while he did not want to minimise the achievements of the D.G.O.F., the Committee's concern was that there were many orders which had not been fulfilled even after seven years. Intervening, the Defence Secretary stated that the procedure had now changed; only educational orders are placed first; when manufacture is established, bulk orders are placed. The Chairman pointed out that this was a very elementary principle of manufacture, which should have been realised much earlier.

100. In reply to a question as to what check was exercised by the Defence Ministry on progressing of production programme in the Ordnance Factories, the Committee were informed that the D.G.O.F. submitted monthly, half-yearly and annual reports to the Defence Ministry, covering various categories of items. Then there were also regular meetings of the Defence Production Board Sub-Committee in which the members from Production side, members of the Directorate of Weapons, and Directorate of Technical Development participated; and considered the priorities of all important items and recommended suspension|cancellation of items not required, having regard to the financial implications vis-a-vis 'stocks and dues' position.

In the present case the order had now been reduced to 40 numbers. This reduction, the D.G.O.F. stated, had kept him with surplus components of the value of Rs. 1,68,000 and these had been adjusted against the maintenance stock. The Chairman enquired whether the components manufactured by the D.G.O.F. had been put to test with a view to checking their suitability. The D.G.O.F. replied that these components could be assembled and tested only when all the remaining 15 components were manufactured. All the components manufactured so far had been inspected by an independent body to see that each component part was according to the drawings and specifications.

101. The C.&A.G. enquired whether the components supplied by the D.G.O.F. to the D.O.S. for maintenance of the imported equipments, had been tried for replacement purposes. The D.O.S. stated that the components received from D.G.O.F. and U.K. were not kept separately and as there was no marking on them to indicate the country of origin, it would be difficult to give an answer.

102. The Chairman enquired whether there were any cases where the D.G.O.F. had to abandon manufacture of stores because of the inability of the factories to establish manufacture. The D.G.O.F. could not cite any such case. The Chairman, thereupon drew his attention to certain cases commented upon in the previous reports of the P.A.C.

103. Before the Committee adjourned, they decided to postpone further consideration of the Defence Services Accounts to the 21st and 22nd August, 1957.

PROCEEDINGS OF THE NINTH SITTING OF THE PUBLIC
ACCOUNTS COMMITTEE HELD ON WEDNESDAY THE,
21ST AUGUST, 1957

104. The Comimtte sat from 15·00 hours to 17·35 hours.

PRESENT

Shri T. N. Singh—*Chairman.*

2. Shri N. C. Ranga
3. Shri Radhelal Vyas
4. Shri A. C. Guha
5. Shri N. R. M. Swamy
6. Shri Upendranath Barman
7. Shri J. M. Mohammed Imam
8. Shri H. C. Dasappa
9. Shri Prabhat Kar
10. Shri Jaipal Singh
11. Shri N. Siva Raj
12. Shrimati Pushpalata Das
13. Shri P. T. Leuva
14. Shri M. Govinda Reddy
15. Shri J. V. K. Vallabharao

Shri A. K. Chanda—*Comptroller and Auditor General of India.*

Shri P. C. Padhi—*Additional Deputy Comptroller and Auditor General of India.*

Shri S. Natarajan—*Director of Audit, Defence Services.*

SECRETARIAT

Shri V. Subramanian—*Deputy Secretary.*

WITNESSES

Ministry of Defence

C. S. Ramachandran—*Joint Secretary.*

Shri B. N. Verma—*Joint Secretary.*

Shri K. K. Framjee—*Director General of Ordnance Factories.*

Maj. Gen. R. E. Aserappa—*Engineer-in-Chief.*

Maj. Gen. Harkirat Singh—*Master General of Ordnance.*

Maj. Gen. R. N. Nehra—*Director of Ordnance Factories.*

Ministry of Finance (Defence)

Shri S. D. Nargolwala—Additional Financial Adviser I

Shri M. K. Hariharan—Additional Financial Adviser. II

Shri Batuk Singh.—Controller General of Defence Accounts.

Shri R. Bhaktavatsalu—Joint Financial Adviser.

Shri Shiv Naubh Singh—Deputy Secretary, Ministry of Finance (E. A. Department).

Ministry of Defence

105. At the outset the Chairman stated that he had acceded to a request of the Defence Secretary expressing his inability to attend that day's sitting of the Committee on account of an urgent engagement.

106. He then urged that witnesses should not make drastic and material additions and alterations in the reporters' record of the evidence tendered by them before the Committee which was circulated to them for correction. Under the Parliamentary practice, he pointed out, they could only make corrections relating to grammatical mistakes and errors in figures; in case they wanted to supplement their evidence, they might give any additional information they had when they appeared before the Committee next time.

107. The Committee then resumed further consideration of the Audit Report (Defence Services), 1956.

AUDIT REPORT (DEFENCE SERVICES), 1956

Para 10—Accumulation of surplus materials in a factory due to delay in reduction of a demand.

108. Sub para (a).—This para disclosed that delay in reduction of an order placed on the D.G.O.F. in April, 1951 for supply of a store resulted in accumulation of surplus materials and components valued at Rs. 6,49,756. The D.G.O.F. had placed orders for the raw materials required for the manufacture of the entire quantity of demand i.e., 1,45,000 numbers, even though the manufacture of the store had yet to be established. In extenuation, the representative of the Defence Ministry stated that the D.G.O.F. was confident of executing the entire order, but, judging from his past experience he was expecting delay in procurement of the raw materials from abroad; he, therefore, ordered for the entire quantity of raw materials in September 1951 which were received in 9-10 different shipments by July, 1954.

Explaining the reasons for non-reduction of the demand placed on the D.G.O.F. till May, 1954, inspite of surplus disclosed in April, 1951 and subsequent provision reviews, he stated that although their operational requirement which stood at 2,44,800 numbers on 24-2-1951 had dropped to 1,41,000 numbers on 1-4-1951, it remained stationary in the subsequent reviews. When the review on 1st January, 1954 disclosed a further down-ward trend in the operational requirement, they reduced the order. The Comptroller and Auditor General pointed out that, when the order was reduced in 1954, the review had disclosed a surplus of 23,973 numbers. Although there was a surplus of 24,571 numbers as on 1st April, 1951, no action was then taken to reduce the demand. In extenuation the representative of the Defence Ministry stated that although the operational requirement had been stationary during 1951 and 1954 the training requirement was progressively going up; it increased from 2980 on 24-2-1951 to 10,150 on 1-1-1954. Another reason which weighed with them was that in 1951 and 1952 their stock of this store included repairable quantities to the extent of 58,000 and 33,000 respectively; they wanted to use the fresh supplies for meeting their operation requirement.

109. The Committee were not convinced of the reasons advanced by the representative of the Ministry of Defence for deferring the reduction of the order for 3 years. They drew attention to the disturbing feature of delayed action in reduction /cancellation of demands, which in the case of stores ordered from foreign countries involved payment of compensation and in the case of orders placed on the D.G.O.F. resulted in accumulation of surplus raw materials of considerable value. The representative of the Finance Ministry agreed with the Committee that when surpluses were disclosed, the administrative Ministry should consider cancellation or reduction of demands. Explaining the control exercised by Finance in the matter, he stated that before the year 1954, only in cases where a demand was to be placed because of deficiency in the stock, Finance were approached for concurrence, but the position had changed since 1954; surplus in stock was also reported to them when they pressed for a corresponding reduction of the demand in such cases.

110. In his evidence the Director of Ordnance Services informed the Committee that the fall of about one lakh numbers in the operational requirement in the review on 1st April, 1951 was due to the fact that under a direction of the General Staff they reduced their requirement from 9 to 6 months.

111. The Master General of Ordnance stated that the surplus of 24,000 disclosed in April, 1951 review, was only a paper surplus as in calculating their assets they had taken into account 1,45,000 ordered from the D.G.O.F. They did not reduce the order in September, 1951 for the reason that this small surplus was likely to be used up by the time the order matured. This expectation, he said, was borne out by the actual reduction of surplus to 8,699 in 1953. He continued that at that rate, the surplus would have been negligible in the January, 1954 review, had the operational requirement not then dropped further by about 20,000.

When asked whether in view of the experience gained by them with regard to the time taken to get supplies from the D.G.O.F., they considered it prudent to treat the 'dues-in' against outstanding orders as assets, the D.O.S. informed the Committee that it was not then expected that the deliveries would take such a long time. Now, before placing orders on the D.G.O.F. they ascertained the delivery period from him and if he was not in a position to supply the stores within the required period, they sought supplies from other sources. Intervening, the representative of the Defence Ministry stated that in case of only operational demands, if it was not possible for the D.G.O.F. to make deliveries in time, they tried other sources. But in cases when they could take the risk of waiting for a couple of years, they placed orders on the D.G.O.F. with a view to utilising the indigenous capacity to the maximum extent.

112. In reply to a question, the D.G.O.F. informed the Committee that the production of this store was established in September, 1954, three months after the receipt of the raw materials and upto 1-8-57 they had manufactured 90,000 numbers. He further stated that no date for the supply of the raw materials had been indicated to the suppliers. The D.O.S. was not in a position to say whether in this case any date for supply of the stores by the D.G.O.F. had been indicated to the latter. The Committee were informed that the order had since been further reduced by 32,000 numbers and surplus raw materials left over were of the order of Rs. 18 lakhs, which the D.G.O.F. expected to use in the manufacture of another store.

113. *Sub-para (b) of para 10.*—In September, 1949 an inter-factory demand had been placed on an Ordnance Factory for the manufacture of 64,000 numbers of a particular type of store. Subsequently 97,900 numbers of an unmodified type which could be used in lieu, after modifications, were accepted by the D.G.O.F. for modification.

But the demand already placed for 64,000 numbers was not cancelled in spite of the feeder factory's suggestions to this effect in June, 1950 and again in July, 1951. In November, 1953 the D.G.O.F. decided to curtail the manufacture to a minimum educational order for the purpose of establishing indigenous manufacture, by which time the bulk of materials and components required for the manufacture of the entire quantity had been collected. In December, 1953, the D.G.O.F. finally decided to drop the indigenous manufacture altogether.

114. Explaining the reasons for proceeding with the order for 64,000, the D.G.O.F. stated that, firstly, he wanted to establish the indigenous manufacture of the new type of store and secondly there was an acute shortage of the complete store of which this item formed an integral part. The Committee felt that before coming to a decision, the D.G.O.F. should have consulted the Ministry of Defence and the Master General of Ordnance. When asked why he ordered raw materials for the manufacture of entire quantity of 64,000 when the purpose was only to establish manufacture, the D.G.O.F. stated that in the case of this item that size of the order (64000 numbers) constituted the minimum economic unit for procurement of sufficient raw materials. A batch of 1000, in this case, would have involved purchase of raw materials at a higher cost and would also have resulted in delay in bulk production because of the time lag in procuring of raw materials.

Explaining the reasons for curtailing the order to the minimum educational order in November, 1953 and finally dropping the manufacture in December, 1953, the D.G.O.F. stated that by November, 1953 it was known that there were no prospects of an order for the complete store of which this item formed a component which he was expecting earlier. By about the same time, it was known that the Technical Development Establishment had an entirely different type of this component under development.

As regards the infructuous expenditure incurred on raw materials, he stated that the full value of these materials could be retrieved from the components as their value lay in their metal content, the price of which was not unfavourable in the market; the cost of the tool making was only Rs. 228 and that of melting the components would be insignificant.

115. As regards the scope of an educational order, the representative of the Defence Ministry stated that the quantity suitable for minimum economic production was determined by the D.G.O.F., but in the

case of urgent demands where delay in the procurement of the raw materials was likely, the latter took reasonable risk of placing the bulk order along with the trial order. Explaining the position of the Defence Ministry in this matter, he informed the Committee that the quantum of order was approved by the Defence Ministry before placing it on the D.G.O.F.; it was then for the D.G.O.F. to decide in consultation with his Financial Adviser, within the powers delegated to him, the various stages of its implementation and the Ministry did not come into the picture. When asked whether the D.G.O.F. was competent to proceed with the order in the present case as an educational order, the representative of the Defence Ministry stated that according to the instructions issued on 15-2-1956, the D.G.O.F. was not justified in treating such a large quantity as an educational order. He, however, wanted to check up whether the D.G.O.F. had at that time the authority to take this decision. He agreed with the Committee that the D.G.O.F. should not ignore the user's preference for a particular type of store.

116. In reply to a question, the D.G.O.F. stated that he did not get any instruction in this case from the D.O.S. who was the indenter, to cancel the original order for 64,000 numbers. The D.O.S. stated that they had ordered for the complete store of which this item formed a part. Within 3 months of placing the order, they offered to the D.G.O.F. an unmodified type which according to the Technical Development Establishment could be used after suitable modification; they did not, therefore, specifically ask for the suspension of the production of the part.

117. Reverting to the procedure for execution of orders by the D.G.O.F., the Committee drew attention to a note* submitted by the Defence Ministry stating they agreed with the Committee's previous recommendation that trial orders for purpose of developing the technique of manufacture should be for a small quantity, provided it formed an economic unit of production, and bulk orders should be undertaken only after establishing the technique of production. But from the evidence of the D.G.O.F., the Committee felt that the definition of an economic unit of production was rather confusing, as in some cases a bulk order was treated as an educational order. The Committee's view point was that before undertaking a bulk order the technique should be established by producing a prototype. The Committee then referred to a list supplied by Audit containing a number of cases wherein orders for bulk quantities of stores had been accepted by the D.G.O.F., the manufacture of which could not be established

*See Statement showing action taken on the outstanding recommendation of the PAC.—Appendix I of Vol. II.

later, thus resulting in accumulation of surplus materials valued at about Rs. 68 lakhs. The Committee, were, therefore perturbed to note that funds were being locked up unnecessarily in this manner. The representative of the Defence Ministry assured the Committee that their recommendation regarding educational orders had been recently implemented and any further direction of the Committee would be considered by them.

When asked whether any action was proposed to be taken in the present case for deliberately not cancelling the order, the representative of Defence Ministry informed that remedial measures were taken to prevent recurrence of such cases.

118. The Comptroller and Auditor General pointed out that the direction of the Defence Ministry on educational and bulk orders did not clarify as to what constituted an economic unit of production and enquired whether this quantity was to be decided by the D.G.O.F. or the M.G.O. or the Defence Ministry. The representative of the Defence Ministry replied that he would welcome a suggestion from the Committee in this regard.

119. The Committee were also informed that the Reorganisation Committee had gone into the affairs of the Ordnance Factories and submitted a detailed report. A number of the recommendations of this Committee had been implemented by Government. On the completion of the reorganisation in factories, matters were expected to improve. Further, the staff in the D.G.O.F.'s headquarters was being augmented in order to strengthen the planning side; and certain progress reports had also been introduced.

Para 11—Over provisioning of stores

120. In a forecast demand the requirements of a store for the years 1951-52 and 1952-53 had been erroneously communicated by the Engineer-in-Chief's Branch to the M.G.O. Branch as 1415 cwts. for each year instead of 1415 lbs. of Even when the Engineer-in-Chief's Branch were asked by the M.G.O. Branch in April, 1951 to review the requirement of this store in view of the high prices, the Engineer-in-Chief's Branch did not detect the mistake; they indicated their minimum requirement for 1951-52 as 1061 lbs. and requested the balance quantity to be deferred till 1952-53, without realising that the quantity shown in the earlier order was in cwts. and the balance would be 1415 cwts. mins 1061 lbs. In July, 1952, the Engineer-in-Chief's Branch requested the cancellation of the deferred demand for 1951-52 by which time 1,16,171 lbs. (1037½ cwts.) had already arrived and the balance tendered for inspection by the suppliers; the indent could not be cancelled at that stage.

The representative of the Defence Ministry stated that the two officers responsible for the original mistake had left service in March, 1951 and December, 1953, respectively, and the mistake came to notice only in December, 1955. Adequate departmental action had been taken against the officer responsible for the subsequent omission of not detecting the original mistake when the requirement was revised.

121. When asked how the mistake escaped the notice of Finance, the representatives of the Ministry of Finance (Defence) stated that in this case instead of following the normal procedure of forwarding a fair copy of the forecast which was overdue, the Engineer-in-Chief's Branch made available to the Deputy Financial Adviser attached to the E-in-C's Branch the working copy of the forecast which had been prepared on a spare copy of the previous forecast after deleting the items not required currently. The Deputy Financial Adviser whose duty it was to make a quantitative check of the requirements with reference to the previous figures, did not detect that the accounting unit of this item (which should be in lbs.) had not been indicated correctly. Later, the evaluation of the requirements was prepared by an Ordnance Depot for placing an indent on the D.G.S. & D. The Deputy Assistant Financial Adviser attached to the Depot did take a note of this abnormal demand valued at about Rs. 25 lakhs and forwarded the demand to the Deputy Financial Adviser, Ordnance, in the Ministry of Finance (Defence) for final scrutiny. The case was dealt with in the Finance Ministry at an Under Secretary's level who did not apply his mind to the remarks of the D.A.F.A. So, there was failure to scrutinise the demand at two places. The Committee were informed that the disciplinary aspect of the case was under examination in the Finance Ministry also.

122. The Committee then adjourned.

PROCEEDINGS OF THE TENTH SITTING OF THE PUBLIC
ACCOUNTS COMMITTEE HELD ON THURSDAY, THE 22ND
AUGUST, 1957.

123. The Committee sat from 15·00 hours to 18·10 hours.

PRESENT

Shri T. N. Singh—*Chairman.*

MEMBERS

2. Shri Ram Subhag Singh
3. Shri N. C. Laskar
4. Shri N. G. Ranga
5. Shri Radhelal Vyas
6. Shri A. C. Guha
7. Shri N. R. M. Swamy
8. Shri Upendranath Barman
9. Shri J. M. Mohamed Imam
10. Shri H. C. Dasappa
11. Shri Prabhat Kar
12. Shri Jaipal Singh
13. Shri N. Siva Raj
14. Shrimati Pushpalata Das
15. Shri P. T. Leuva
16. Shri M. Govinda Reddy
17. Shri J. V. K. Vallabharao.

Shri A. K. Chanda—*Comptroller and Auditor General of India.*

Shri P. C. Padhi—*Additional Deputy Comptroller and
Auditor General of India.*

Shri S. Natarajan—*Director of Audit, Defence Services.*

SECRETARIAT

Shri V. Subramanian—*Deputy Secretary.*

Ministry of Defence

Shri O. Pulla Reddy—*Secretary.*

Shri C. S. Ramchandran—*Joint Secretary.*

Shri B. G. Rau—*Joint Secretary.*

Shri L. M. Nadkarni—*Joint Secretary.*
 Shri B. N. Verma—*Joint Secretary.*
 Maj Gen. Harkirat Singh—*Acting M.G.O.*
 Maj. Gen. R. E. Aserappa—*Engineering-in-Chief.*
 Maj. Gen. P. S. Chowdhury—*Acting Quartermaster General.*
 Maj. Gen. R. N. Nehra—*Director of Ordnance Services.*
 Commodore D. Shankar—*Chief of Material, Naval Headquarters.*
 Commodore A. Chakravarti—*Deputy Chief of Naval staff.*
 Capt. Balwant Singh—*Director of Stores, Naval Headquarters.*
 Air Commodore S. N. Goyal—*A.O.T. & E.S., Air Headquarters.*
 Group Captain G. B. Singh—*D.O.E., Air Headquarters.*
 Shri K. K. Framji—*Director General of Ordnance Factories.*

Ministry of Works, Housing and Supply

Shri M. R. Sachdev—*Secretary.*
 Shri V. N. Rajan—*Director General of Supplies and Disposals.*

Ministry of Finance (Defence)

Shri S. D. Nargolwala—*Additional Financial Adviser I.*
 Shri H. K. Hariharan—*Additional Financial Adviser II.*
 Shri Batuk Singh—*Controller General, Defence Accounts.*

AUDIT REPORT (DEFENCE SERVICES), 1956

Para 14: Planning and progressing of orders placed on Ordnance Factories

124. According to para 20 of the Audit Report Defence Services 1955, on the 31st March, 1954 as many as 5239 orders placed upto 31st March, 1952 were outstanding in the Ordnance Factories. This para disclosed that on the 30th June, 1956, 3021 orders out of these were still outstanding. In addition, 7458 orders placed during the period 1952 to 1956 were also outstanding.

The Defence Secretary mentioned that the figures also included trial orders, a number of which had since been completed or cancelled. On the 1st July, 1957 only 1626 orders out of those placed upto 31st March, 1952 were outstanding. As regards the position regarding outstanding orders relating to the period 1952—56, the balance was stated to be 4617 on that date. The D.G.O.F. stated that reduction in the figures due to cancellation of orders was

approximately 10%. Explaining the reasons for delay in the execution of orders relating to the past years it was stated by the representative of the Ministry that it was partly due to the time-lag between date of placing of the indents on the D.G.O.F. and supply of complete particulars regarding specifications, drawings etc. which varied from 2 months to two years.

To remedy this defect, the Ministry of Defence had issued instructions early in 1957 to the effect that if drawings were not supplied within two months of the placing of the orders, the D.G.O.F. should treat such orders as cancelled. The second reason was that a number of orders were being kept with indentors themselves because of the uncertainty of the use of the equipment or because of proposed modifications with the result that orders were kept suspended for certain periods. In order to remedy this defect the Ministry decided that any order that was kept suspended for more than six months should be treated as cancelled by the D.G.O.F. The third reason for the delay was stated to be the inadequacy of staff both at the Headquarters of the D.G.O.F. and in the factory for doing the pre-production planning, particularly in drawing office design, rate-fixing and estimating. To meet this situation the Ministry had recently sanctioned some additional technical staff such as Works Managers, Foremen etc. and started certain training courses. In reply to a question, the representative of Defence Ministry stated that the designs were generally supplied by the Technical Development Establishment except in a few cases where the D.G.O.F. was to prepare the drawings at his end.

125. With regard to an earlier recommendation of the Estimates Committee that as far as possible the D.G.O.F. should be spared the responsibility for the production of stores relating to petty orders, the representative of the Ministry stated that in order to avoid delay, the Ministry had decided that the EME Establishment at Bangalore might investigate the possibility of undertaking such orders, as no one from the trade was prepared to undertake such orders, specially as the stores were complicated. When asked why such stores as automobile spares and teleprinter spares could not be imported, the Committee were informed by the D.G.O.F. that as these spare parts related to the old type of equipments, these were not available from abroad. When further questioned as to how in that case the teleprinters in use in the Posts and Telegraphs Department and Press Agencies were being run, the representative of the Ministry of Works, Housing and Supply categorically stated that except perhaps in a very few cases, there was no case in which they had been unable to supply the stores asked for either locally or by import.

The Committee felt that these spares could be obtained from other Government establishments producing similar stores, and detailed planning and designing in Ordnance Factories for these small scale orders was not necessary.

126. The Committee then drew attention to the unsatisfactory manner in which the orders were being executed. In spite of the recommendation of the Committee that where manufacture had yet to be established, a prototype should first be produced and an educational order placed, there were cases where this procedure was not being followed strictly. Bulk orders were being treated as educational orders. raw materials were being purchased for the entire quantity ordered on the plea that sizeable quantities of raw materials would facilitate economic purchase but in the end production could not be established. According to a statement prepared by Audit the amount of infructuous expenditure in such cases was of the order of Rs. 68 lakhs; 3 of these cases had already been commented upon in the 14th and 19th Reports of the Public Accounts Committee.

In extenuation the representative of Defence Ministry read out the instructions issued on the 15th February, 1956 emphasizing upon the indentors to place trial orders on the D.G.O.F. in the first instance and to place bulk orders only after the technique of manufacture had been established.

127. The D.G.O.F. informed the Committee that the total value of raw materials held in stock in the Ordnance Factories on the 31st March, 1957 was Rs. 35:54 crores as compared to Rs. 39:29, Rs. 41:69 and Rs. 42:79 crores in 1956, 1955 and 1954, respectively. When asked how much reduction was due to condemnation or write off, the D.G.O.F. was not in a position to give figures.

The D.G.O.F. also informed that the annual production of the Ordnance Factories was of the value of Rs. 14 crores out of which Rs. 6 crores accounted for the cost of raw materials. When asked how the stocks of raw materials were so high in comparison to the annual requirements, he stated this was, firstly, due to the vast range of production undertaken by the Factories and secondly, they had to keep reserves in adequate quantities to guard against uncertainties in procurement of stores.

The Committee were informed by the representative of the Defence Ministry that with a view to avoiding over-provisioning in factories, instructions had been issued to the D.G.O.F. on the 30th June, 1956 that provisioning should be made on the basis of six

months requirements as assessed with reference to firm demands from the services and other industries and that provisioning should be on the basis of the quantity expected to be produced by the D.G.O.F. during the year and not in respect of the entire demand. Prior to that, there was no limit on the powers of the D.G.O.F. The Committee desired to be supplied with a copy of the instructions and a note showing the powers of the D.G.O.F. in this respect before and after the issue of these instructions.

128. When asked what was the relationship between the Controller General of Defence Production and the D.G.O.F., the representative of Defence Ministry stated that the office of the C.G.D.P., was set up in pursuance of the recommendation of the Reorganisation Committee and he is in overall charge of not only the Ordnance Factories but also the Technical and Scientific Research and Development Establishment, while the D.G.O.F. was responsible for production in Ordnance Factories.

In reply to a question it was stated by the representatives of the Ministry that most of the orders for war-like stores for the Ordnance Factories were placed directly with the India Store Deptt., London, while for non-war-like store the services of the Director General of Supplies and Disposals were usually availed of; in cases where the latter was unable to obtain them, orders were placed on the I.S.D., London.

Para 15: Production of store despite surpluses

129. In spite of a large number of surpluses as revealed in the provision review of 1949, the annual rate of production of an item of store was reported to have been maintained at 54,000 till 1952-53. The production rate was gradually reduced every year till August, 1955 when production was finally stopped. But by that time surpluses numbering 2,93,977 valued at Rs. 3,13,57,547 had accumulated which would take 20 years to consume. Surplus component parts valued at Rs. 33 lakhs had also accumulated.

130. Questioned as to why in spite of surpluses, the production of the item of store was continued and whether such production was continued with the approval of the Ministry, it was stated by the representative of the Ministry that the production was continued with the full knowledge of the Ministry. The position was under constant review, in view of the uncertainty of situation then prevailing. The surplus was being gradually reduced and by the end of December, 1956 there was a surplus of 1,90,000. In answer to a question, it was stated that the reduction was due to a higher rate of issue of the store and supply to a friendly foreign country. The latest

figure of the surplus represented the requirements of about 8 or 9 years. But, should there be an emergency, this surplus would be used up in full and they might require even more. The Committee were informed that the preliminary assessing authorities with regard to defence requirements were the General Staff and the M.G.O., but in cases where the value of the demands exceeded Rs. 5 lakhs, prior approval of the Defence Ministry was necessary. But prior to 1951, the M.G.O. could order for stores beyond this limit without reference to the Ministry. In the present case the Ministry considered the suggestion of the assessing authorities to stop production but decided to continue the production in spite of the surpluses in view of the situation prevailing at that time. In 1955, however, even when the Factory concerned pressed for the continuance of production of this item to ensure adequate supplies in times of emergency although it might be infructuous expenditure, they decided not to continue production.

As regards the surplus component parts, it was stated by the representative of the Ministry that the value of these parts in stock on the 1st July, 1957 was Rs. 13.11 lakhs as against Rs. 33 lakhs disclosed in the Audit Report and these were expected to be utilised in three or four years.

Para 16: Infructuous expenditure incurred on the manufacture of a certain type of weapon in an Ordinance Factory.

131. This para revealed another instance where without establishing manufacture of a store, order for the manufacture was undertaken by the D.G.O.F. in 1949 but nothing could be produced by him till the end of 1954 and in 1955 the order was cancelled as the user chose a new type in lieu. The components and equipment collected for the manufacture of the item amounting to Rs. 1,38,354, have thus been rendered surplus.

132. Questioned as to why the administrative authorities considered the manufacture of this item well within the capacity of the D.G.O.F. when its manufacture was not established, it was stated by the representative of the Ministry that the D.G.O.F. had been able to establish manufacture of a more complicated store. This being a less complicated store, the administrative authority considered the manufacture of this store within the capacity of the D.G.O.F. In the present case the store used by the services had to be modified because of a number of incidents. After investigations, it was sent to the Technical Development Establishment who wanted **certain** modifications to be made. The preliminary designs were forwarded to the D.G.O.F. in September, 1949, but later, the D.G.O.F. was

asked to wait, as further modifications were contemplated. These modifications were completed only in December, 1953 and thereafter the final drawings were made available to the D.G.O.F.

It was disclosed that raw materials were ordered by D.G.O.F. in 1950 on the basis of the original specifications as no appreciable change was expected in the raw materials on account of the proposed modifications in drawings. The Comptroller and Auditor General enquired why against the indent for 3600 numbers of the store, the D.G.O.F. procured raw materials for 15,000 numbers. In extenuation, it was stated by the representative of the Ministry that the D.G.O.F. had taken action for the provisioning of indigenous materials in proportion to the requirement, but with regard to materials to be imported, the D.G.I.S.D., London, stated that the sellers were not interested in such small orders. Therefore, in order to get some response, the D.G.O.F. suggested that the order for raw materials be increased to 15,000 numbers. When asked whether it was usual for the D.G.O.F. to procure raw material for a much larger number of stores than indented for, it was stated by the D.G.O.F. that the usual procedure is to provision for 6 months' requirements, 12 months ahead of the provisioning period, but in cases where it was difficult to get raw materials, the D.G.O.F. had power for bulking them in excess of the limit in consultation with the Financial Adviser. In the present case the approval of Financial Adviser to the bulking of several years' requirements was obtained.

133. When asked about the remedial steps proposed to be taken by the Ministry to improve the state of affairs in the Ordnance Factories, the representative of the Ministry admitted that certain things had happened in the past but these had been reviewed from time to time and instructions had been issued from 1955 in this matter. It was also stated that a Committee was at the present moment functioning to review the whole production programme and after the report of the Committee was received, the Ministry would be able to review all these matters and see what they could do to step up indigenous productions as also avoid any waste. The Committee desired to be furnished with a note* stating improvements made in the matter of executing orders since the setting up of the Defence Production Board.

Para 20: Stock verification in Air Force Units and Formations

134. This para disclosed inordinate delay in indentification and verification of a large stock of stores taken over from the Royal Air Force and the U.S.A. Air Force after the last war, which are lying unused for the last ten years but the Indian Air Force authorities were also unable to declare the stock as surplus, as under the existing procedure a certificate is to be given that none of these items would be

*See Appendix. X.

required in future. The Comptroller and Auditor General had suggested that a high level decision should be taken regarding the speedy disposal of these stores as they were occupying valuable storage space and considerable expenditure is being incurred on their care and maintenance.

135. In extenuation, the representative of the Ministry informed the Committee that the stock had been decided to be separated into two portions—the active portion which was for future use and the inactive portion which was to be disposed of through the D.G.S. & D. The Ministry had issued instructions on the 6th August, 1957 for segregating the stocks accordingly, and this work was expected to be completed in the course of the next two months. In reply to a question as to what steps had been taken to overcome the difficulty with regard to the issuing of certificates that the stores would not be required in future, the representative of the Ministry stated that according to a recent decision items which had been segregated shall not be subjected to stock-taking and the certificate regarding their usability at a future date would not apply in the present case. Quantitative stock-taking in terms of number of packages and individually in the case of loose bulk items would be done every year.

The Committee desired to be furnished with a report* on the progress made in the matter as also value of the stores both under active and inactive heads and the approximate expenditure incurred annually for their maintenance.

Para 12: Purchase of stores at high price

136. In this case orders were placed by a Naval Stores Officer in September, 1954 for the procurement of 18,000 yards of Canvas Cotton white. Specification particulars were supplied only on the 31st March, 1955. On the advice of the Naval Stores Officer the order was treated as operational; a higher rate of Rs. 5/8 - per yard was given; the order was placed on the 3rd May, 1955 for the delivery within 15 days, but the supplies were actually made by the 31st July, 1955 upto which date the period of delivery had been extended without any penalty. A second indent for 57,000 yards was placed on the 4th April, 1955 marked urgent for delivery by the 15th June, 1955 was subsequently upgraded as 'operational' by the Naval Stores Officer and order for the same was placed for delivery by the 15th June, 1955 at the higher rate. But in this case also the date of delivery was extended upto 31st August, 1955 without any

*See Appendix XI.

penalty. In spite of the fact that the indents were marked operational, no issues of cloth were made till October, 1955 and between October and December, 1955 only 15,318 yards had been issued.

137. Explaining the reasons for upgrading the first order as 'operational', the representative of the Defence Ministry stated that although the indent was placed by the Naval Stores Officer in September, 1954 there was considerable delay in communicating the specifications to the Director of Textiles. As the store had not been procured indigenously before, samples from the previous imported stock had to be called for from the indenting unit and sent to the Technical Development Establishment for laying down the specifications. This took about five months; by that time their stock of the clothing stores made of this canvas had become practically nil and the indent was consequently upgraded as 'operational' in March, 1955. The Committee were informed that the Navy had since established their own specification section and now they were able to draw up specifications within a couple of days.

As regards the second indent, the Committee were informed that the Naval authorities had desired in their letter dated 29th April, 1955 only 10,000 out of 57,000 yards to be treated as 'operational' demand for supply by the 15th May, 1955; the balance was to be supplied by the 15th June, 1955 as originally required. But both these quantities were ordered by the Purchase Organisation for delivery by the 15th June, 1955. When asked to explain the justification for characterising the indents as 'operational' in view of the fact that no issue was made till October, 1955, the representative of the Defence Ministry stated that the situation at that time warranted that action. At the time of upgrading the first indent their stocks were nil and in the second case, 10,000 yards were required for the ships scheduled for sail, but the ships had sailed off before the arrival of the supplies. The Committee felt that this was a case of defective provisioning and the Naval Authorities should have reacted to the changed situation after the ships had sailed off. The Committee were informed that during the period from 1st October, 1955 to 31st March, 1956, 31,989 yards of the cloth were issued.

138. The representative of the Ministry of Works, Housing and Supply stated that the indent in the second case had been marked for delivery by the 15th June, 1955 but subsequently the Naval Authorities desired 10,000 yards to be delivered by the 15th May, 1955. The Supplier in the second contract was the same as in the first. Considering the back-log of the previous order, the indenter agreed to the entire delivery being made by the 15th June, 1955; the order itself was placed on the 9th May, 1955. He further stated that in

the second contract, Rs. 5/8/- per yard was the lowest quotation received and there was no price preference given for early delivery date. The Committee felt that the quotation would have been lower, had not the delivery date been fixed as 15th June, 1955. In extenuation the representative of the Ministry of Works, Housing and Supply stated that the firm which had given the lowest quotation of Rs. 4/8/- per yard in the first contract quoted Rs. 5/12/- per yard in the second contract with delivery period between October and December, 1955. The Committee were informed that due to shortness of the delivery period indicated in the indent, open tenders were not invited and instead enquiries were made from 15 firms.

When asked why no penalty was imposed on the supplier for late delivery of the cloth, the representative of the Ministry of Works, Housing and Supply stated that the delay was caused in the process of inspection. In the first case the contract was placed on the 2nd May, 1955 with the deliveries to be made by the 17th May, 1955, but the Inspection Wing considered the delivery date to be unrealistic. The advance sample sent by the firm on the 6th May, 1955 was approved only on the 18th May, 1955. Thereafter the bulk manufacture commenced and the stores were passed by the Inspectors only on the 15th July, 1955 on the same date the entire goods were supplied by the firm.

Para 13: Purchase of unwanted stores at high price

139. In this case the Naval Store Officer placed an indent on 20th March, 1951 on the Purchasing Organisation for urgent supply of perforated steel and zinc sheets by the 30th April, 1951 and also indicated in the indent the name of the firm with whom stocks were available. The stores were purchased from that firm even though their rates were higher than those quoted by other firms.

The Committee took strong objection to the procedure adopted in this case. Not only had the Officer himself indicated the name of the firm from which the stores were to be purchased, which was highly irregular, but the stores had also been purchased by paying prices higher than those quoted by other firms. The Committee had come across similar cases in the past and had recommended that the practice of indicating the source from which stores are to be purchased should be discontinued.

The Committee were further informed that the matter had since been investigated and the report of the Special Enquiry Officer of the Ministry of Home Affairs had been received. Further Departmental action was being taken against the officers concerned.

The representative of the Ministry pointed out that the position with regard to the disposal of the entire stores valued at Rs. 40,000 is that 18 steel plates and 6 zinc sheets had so far been used and the remaining quantity was also likely to be used for Naval requirements. This they had not mentioned when the audit para was received in the Ministry.

Para 27: Loss due to delay in publication of payment issue rate

140. In para 28 of Audit Report, 1955 mention was made of a case involving heavy loss to State due to delay in publication of payment issue rate. A similar irregularity was disclosed in the present para. Due to delay in the publication of payment issue rate of shoes Brown Canvas (Leather sole), 3,364 pairs were issued at the old rate of Rs. 5/- per pair whereas the revised issue rate was calculated at Rs. 16/11/- per pair. This resulted in a loss of Rs. 39,317 to the State.

The representative of the Ministry stated that the procedure in this matter has since been revised. Under this procedure as soon as acceptance of the tender is known, it is communicated to the Deputy Financial Adviser in Bombay who works out the rate and indicates it to the Naval Headquarters. Every order is at once issued. If there is a difference of more than 10% in the price as arrived at, that price is made as the factory rate from the first of the month in which the supply is made. While admitting that this was rather a common type of occurrence in the past, the representative of the Ministry stated that this had now been rectified and the position was improving. The Committee wanted to watch the results of the implementation of the new procedure.

Para 28: Non-recovery of charges for surveys carried out by a Naval Survey ship

141. Certain surveys had been carried out by a Naval Survey ship in certain ports between November, 1953 and April, 1955. As no rate of recovery had yet been fixed by Government no recovery had yet been made. On the basis of recovery rate prescribed by Government in respect of a similar survey ship the amount due, worked out to Rs. 17.72 lakhs approximately.

The Committee were informed by the representative of the Ministry of Defence that out of four surveys carried out by the Navy, two were done at the instance of the Ministry of Transport and two were done at the instance of State Governments. There

were two survey ships. The original idea was that the rates should be identical in both the cases. But it was found that the fuel consumption and other things in the case of one ship were higher and the rates had to be fixed in respect of the second ship on a more detailed basis. This had been worked out in consultation with the Finance and the claims had since been preferred. The Ministry of Transport will recover the amount from the State Governments. The total cost of the two surveys was Rs. 9 lakhs.

Para 21: Irregular payments of pay and allowances

142. In view of the fact that Government had since issued instructions to give immediate effect to the objections from the internal Accounting authorities, the Committee decided not to proceed with the case further.

143. The Committee then adjourned.

PROCEEDINGS OF THE FOURTEENTH SITTING OF THE
PUBLIC ACCOUNTS COMMITTEE HELD ON MONDAY,
THE 2ND SEPTEMBER, 1957

144. The Committee sat from 15·00 hours to 17·40 hours.

PRESENT

Shri T. N. Singh—*Chairman*.

MEMBERS

2. Shri N. C. Laskar
3. Shri Radhelal Vyas
4. Shri A. C. Guha
5. Shri N. R. M. Swamy
6. Shri J. M. Mohamed Imam
7. Shri H. C. Dasappa
8. Shri N. Siva Raj
9. Shri P. T. Leuva
10. Shri M. Govinda Reddy
11. Shri J. V. K. Vallabharao.

Shri A. K. Chanda, *Comptroller and Auditor General of India*.

Shri P. C. Padhi, *Additional Deputy Comptroller and Auditor-General of India*.

Shri S. Natarajan, *Director of Audit, Defence Services*.

Shri P. N. Bhandari, *Director of Commercial Audit*.

Shri R. N. Chatterjee, *Chief Audit Officer, Food, Rehabilitation and Supply*.

SECRETARIAT

Shri V. Subramanian, *Deputy Secretary*.

WITNESSES

Ministry of Defence

Shri O. Pulla Reddi, *Secretary*

Shri B. N. Verma, *Joint Secretary*

Shri B. G. Rau, *Joint Secretary*

Maj. Gen. P. S. Chowdhury, *Acting Quarter Master General*

Maj Gen. R. E. Aserappa, *Engineer-in-Chief*
 Shri J. M. Srinagesh, *General Manager, Hindustan Aircraft*
(Private) Ltd.
 Shri V. G. Kamath, *Financial Manager, Hindustan Aircraft*
(Private) Ltd.
 Shri H. K. Mendhi, *Accounting Manager, Hindustan Aircraft*
(Private) Ltd.

Ministry of Finance (Defence)

Shri M. K. Hariharan, *Additional Financial Adviser, II*
 Shri Batuk Singh, *Controller General of Defence Accounts*
 Shri R. Bhaktavatsalu, *Joint Financial Adviser*

Ministry of Works, Housing and Supply

Shri M. R. Sachdev, *Secretary*

Ministry of Finance (Works Division)

Shri J. S. R. Narayana Swamy, *Financial Adviser.*

145. At the outset, the Committee took up consideration of the Statement showing action taken on their outstanding recommendations.

Ministry of Works, Housing and Supply

Para 90—100 of 19th Report: Ex-gratia payment to a private firm

146. In a note* submitted by the Ministry of Works, Housing and Supply, the Committee were informed that the position explained to the Committee of 1955-56 that after the receipt of legal opinion against reimbursement of Sales Tax to the firm, the question of payment was revived by the D.G.S. & D. on 16-7-1949 on the verbal representations made by the firm's representatives, was not wholly correct. While, according to the officers, then in the Department the representatives of the firm did press for further consideration of their claim, the case had actually not been entered dropped by the Ministry but had been referred back to the D.G.S. & D. for his remarks before further action was taken. The question of intimating the decision to the firm did not arise until the case had been further examined by the D.G.S. & D.

147. The Committee were distressed to note that complete facts were not brought to the notice of the Committee of 1955-56, who were led to the conclusion that the case was reopened by the office of D.G.S. & D. *suo moto* and reflected on the *bona fides* of the officials concerned. They urged that in future all relevant and complete facts should invariably be placed before them either in the course of the evidence or in notes submitted subsequently. When asked whether at the time of placing orders, it was considered that some of the jeeps might be required outside Bombay State and their

*See Appendix XXI

delivery arranged at such a place so that the actual sales tax current in the State only be paid, the representative of the Ministry of Works, Housing and Supply stated that the D.G.S. & D. was asked by the Defence Ministry to arrange the entire deliveries at Bombay. In future, he said, it had been decided to ask the contracting firms to quote all inclusive terms inclusive of Sales Tax and with the enforcement of the Inter-State Sales Tax it would not make any difference even if the stores were delivered outside the state of their purchase.

The Comptroller and Auditor-General stated that according to the information made available to him, in the present case 2,147 jeeps were moved out of Bombay within 3 months and 478 jeeps within 6 months of their purchase. Government had claimed a refund of Sales Tax from the firm in respect of this quantity. The Committee wanted to know whether any recovery had been made. The representative of the Ministry of Works, Housing and Supply stated that it was for the consignee to take up the matter with the State Government; he would check up whether action had been taken in this regard.

Para 32 of 9th Report: Loss on purchase of aviation stores without proper verification of the financial status of a firm

148. From a *note submitted by the Ministry of Works, Housing and Supply, the Committee understood that the Controller of Supply Branch in the India Store Department, London, was responsible firstly, for not maintaining up-to-date lists of the approved contractors of Aeronautical Inspection Directorate/Air Registration Board—from which the firm, M/s Aircraft Instrumentation Ltd. had been subsequently removed—and secondly, for not bringing in time to the notice of the higher authority the default in supplies on the part of the firm. Taking into consideration his unblemished record of 33 years, it had been decided to ask him to retire from service voluntarily failing which he should face a departmental enquiry. In his evidence the representative of the Ministry of Works, Housing and Supply stated that this officer who had 3 more years to serve was made to retire from service due to the serious lapse on his part in this case. The firm in question had in the past executed orders correctly but in this particular case it did not do so presumably due to financial difficulties.

Paras 25—28 of the 14 Report: Contracts for the purchase of asbestos cement sheets

149. The Committee observed from a note† submitted by the Ministry of Works, Housing and Supply that while placing the contracts the Director General, India Store Department, changed the specifications

*See Appendix XVII.

†See Appendix XVI.

of the sheets without consulting the indenter. In extenuation, the representative of the Ministry of Works, Housing and Supply, stated that in view of the urgent demand of the sheets by the Defence Ministry, the D.G.I.S.D. anticipated that changed specifications would be acceptable to them. After placing orders for sheets on U.K. and from the Italian manufacturer, he informed the indenter that the Italian sheets would be somewhat different from the U.K. specifications but detailed specifications were not communicated.

The Committee then resumed consideration of the Audit Report Defence Services, 1956.

MINISTRY OF DEFENCE

Para 22: Arrears in rent recoveries

150. This para disclosed that as on 30th September, 1955 a sum of Rs. 1,71,61,029 was outstanding on account of arrears of rent in respect of the Defence Services buildings. Out of this, a sum of Rs. 68.47 lakhs pertained to the Rehabilitation Department on account of occupation of military buildings by displaced persons and a sum of Rs. 61.56 lakhs related to other Ministries of the Central Government and certain State Governments, while a sum of Rs. 18.17 lakhs was outstanding from private persons, clubs etc. The break up of the remaining amount of Rs. 23.41 lakhs was not available either with the Defence Ministry or Audit.

151. Explaining the position regarding recoveries from private persons, catering contractors etc., the representative of the Defence Ministry stated that in spite of the various orders issued and measures taken, they had been able to recover only a sum of Rs. 2.86 lakhs while the arrears had risen to Rs. 29,19,370 on 31-12-1956. The Quarter Master General was making efforts to improve matters. The Committee desired that the outstandings should be brought down; if some amounts were unrealisable the question of their write-off should be taken up.

As regards dues from the Ministries of the Central Government, the Defence Secretary stated that consequent on the issue of an amendment to the Civil Accounts Code, no rent would be payable by Civil Departments except Commercial Departments for the Defence Services buildings used for non-residential purposes and the bulk of outstandings due from them would shortly be adjusted. The Rehabilitation Ministry, it was stated, had paid Rs. 35 lakhs in the past and would pay Rs. 14 lakhs shortly. During the current and next years they were expected to clear a considerable portion of the arrears.

Para 23: Short recovery of rent

152. In this case a civilian lady clerk whose basic pay was Rs. 80 *per mensem* was allotted a requisitioned quarter with effect from 16-1-1954 with an assessed rent of Rs. 102/9 p.m. at her personal request and declaration of willingness to pay the assessed rent. She regularly paid the assessed rent upto October, 1955, when the Controller of Defence Accounts concerned held the view that the recovery of assessed rent was incorrect and directed the refund of the amount recovered in excess of 10% of her pay. According to Audit, since the allotment was made to the lady clerk on her personal request and undertaking to pay the assessed rent, the decision of the C.D.A. to refund and restrict the future recovery to 10% of salary. was not in order.

The Defence Secretary admitted that it was initially wrong to have allotted this quarter which was of a higher class to the lady clerk and having allotted it, she should have been asked to pay the assessed rent. It was stated that the officer primarily responsible for the decision had retired from service.

In the course of the evidence by Controller General of Defence Accounts, it was revealed that the lady clerk was originally occupying another quarter with the same rent of Rs. 102/8/- from April, 1952 having floor area of 670 sq. feet, which she was asked to vacate as it was required for allotment to an officer. A smaller flat was allotted to her but, as she wanted to have a higher class quarter the allotment was cancelled. She was allotted the present quarter with floor area of 450 square feet and rent of Rs. 102/9/- Later, the Sub-Area Commander suggested the payment of Bombay House Rent Allowance to her. The C.D.A. stated that under the rules, the payment of the allowance was not permissible. At the same time, as rent was being paid by her at Rs. 102/9/- p.m. when her emoluments were Rs. 80/- p.m. only, it was against the rules and so he ordered the refund of the excess rent over 10% of her emoluments.

The Committee were not convinced of the reasons advanced for allotment of the quarter to the lady clerk with assessed rent of Rs. 102/9/- per month and subsequently for reduction of the rent recovery to 10% of her salary in spite of an undertaking given by her to pay the assessed rent.

Para 26: Disposal of obsolete ammunition

153. In this case a contract was awarded to a contractor for dumping of about 1,700 tons of ammunition into the sea within 15 days (against one to two months required by others) at a higher rate

of Rs. 50/8/- per ton (against the lowest quotation of Rs. 35 per ton). This contractor also offered to supply a ship for this purpose as opposed to barges which the others offered to provide. As the work was to be completed before the monsoon, the contract was awarded to him. When a train carrying 600 tons of ammunition arrived at the port on 10th May, 1955 the contractor could not provide a ship. A second special train with another 600 tons of ammunition also left the Depot on 10th May, 1955. He could manage to dump only 163 tons by carrying it in a barge towed by tug. On the sea tending to be rough, the contractor on 14th May, 1955 stated in writing his inability to proceed with the contract. The ammunition had to be back-loaded to the depot resulting in an infructuous expenditure of Rs. 3,77,000 approximately.

The balance of about 1500 tons of ammunition was successfully dumped during the period from the 7th December, 1955 to 23rd December, 1955 with the assistance of the Director General of Shipping at a cost of Rs. 51,975 as against Rs. 79,790 which would have been payable to the original contractor.

154. In his evidence, the Defence Secretary stated that the contract was placed at the higher rate in consideration of a 900-ton sea-going ship offered by the Contractor for use during operation as also the time-limit of 15 days within which he undertook to complete the operation. The ship had been personally inspected by the Embarkation Commandant concerned and after consulting the Meteorological authorities the programme of dumping was drawn up so as to complete the work by 23rd May, 1955. But the ship promised by the contractor was not there. The representative of the Defence Ministry admitted that the antecedents of the contractor were not satisfactorily verified before awarding the contract. They had now issued instructions that in future in every case of dumping operations, the Director General of Shipping should be consulted with a view to check up whether a particular contractor had got resources to undertake the dumping work. The Quarter Master General stated that in this particular case the Embarkation Commandant had approached the Director General, Shipping but the latter replied that he did not handle such jobs. He also approached the Naval authorities but without success. On the arrival of the ammunition at the port, he again sought the help of the D.G. Shipping but same reply was repeated.

The Defence Secretary informed that on the advice of the Ministry of Law the case was being referred for arbitration in terms of the contract. Both the parties had named their arbitrators. The Law Ministry was being consulted whether in the event

of disagreement between the arbitrators, the decision would be binding on both parties. Government had with them, the security deposit of Rs. 10,500 furnished by the contractors, while total claim came to Rs. 3,77,000 being the expenditure incurred on account of freight etc.

The Committee expressed their concern over such cases frequently coming to their notice, where contracts were placed at higher rates in consideration of urgency but later these were not fulfilled in time. They desired to be furnished with a note* stating remedial measures taken to prevent their recurrence.

155. The Committee then took up consideration of the Accounts of Hindustan Aircraft (Private) Ltd. for the year 1954-55 (pp. 264-273 of the Appropriation Accounts Defence Services, 1954-55).

Hindustan Aircraft (Private) Ltd.

156. The Committee drew attention to losses incurred by the Hindustan Aircraft Ltd. in the sale of bus bodies to the tune of Rs. 1,32,000 and Rs. 2,98,000 during the years 1954-55 and 1955-56, respectively. The representative of the Hindustan Aircraft Ltd. stated that the company had since stopped the manufacture of bus bodies and given the work to a sub-contractor on royalty terms. The losses made previously would be recovered as development losses half of which would be recovered in 5 years. When asked why the Hindustan Aircraft Ltd. should have suffered losses in the manufacture of bus bodies while the contractor could produce them at profit, he stated that the Hindustan Aircraft Ltd. depreciated its development charges at a high rate and secondly the factory's workmanship was of a higher standard but the indentors were not inclined to purchase the bodies at high prices. In reply to a question, he stated that except for straight metal sections the factory would stop bus body building work. The workshop capacity so released would be absorbed in the expansion programme proposed by the Hindustan Aircraft Ltd.

Para 41 of 14th Report of the P.A.C.

157. The Committee desired that as recommended in their 14th Report, a full report embracing the various activities of the Hindustan Aircraft Ltd. should be made available to Members of Parliament annually.

*See Appendix XIV.

Paras 62—65 of 19th Report of the P.A.C. Purchase of unsuitable aero-engine bearings

158. The representative of the Hindustan Aircraft Ltd. stated that in returning the undersized bearings to the suppliers, the factory had to incur a financial loss of 10% on their cost, plus freight charges on their shipment to the U.S.A.

Accounts of the H.A.L. 1954-55

159. Reverting to the accounts of the H.A.L. for 1954-55, the Committee wanted to know the reasons for reduction in income on overhaul of aircrafts and aircrafts engines. The representative of Hindustan Aircraft Ltd. stated that for the last 4-5 years, the factory had been switching over from overhaul to manufacturing side and eventually it expected to switch over completely to manufacturing side. When the work-load on the manufacturing side was less, the factory utilized the surplus capacity for overhaul work. He stated that, in spite of factory's capacity to manufacture fighters—even supersonics and light transport—the demands placed on it were not regular. Intervening, the Defence Secretary stated that, where planes were required by the Defence Services urgently, the Ministry placed orders on foreign countries. The Ministry could not depend on the Hindustan Aircraft Ltd. in emergencies for supplies of advanced aircraft in time. The Committee wanted to be furnished with a note* stating the potentiality of the Hindustan Aircraft Ltd. to manufacture various types of planes. In reply to question the Defence Secretary stated that the H.A.L. was supplying spare parts for 'Vampires' with the Defence Services.

160. As regards the profit made by the H.A.L. during the year, the representative of H.A.L. stated that out of the profit of Rs. 20 lakhs, certain appropriations had been made, leaving a net profit of Rs. 3½ lakhs. As the products of the H.A.L. were mainly sold to Government Departments—Ministries of Defence, Railways and Indian Airlines Corporation—the element of profit was limited. In the case of coaches supplied to the Railway Ministry the profit margin worked out to 5% and in case of transactions with the Defence Ministry it was from 5% to 10%, while the H.A.L. had to pay 4% as interest for the money borrowed by it. The factory had declared a dividend to the shareholders only once since it started production.

161. The Committee wanted to know whether any measures had been thought of to utilize the full capacity of the H.A.L. which would also help in saving foreign exchange by cutting down imports. The representative of the H.A.L. stated that certain suggestions had been made to Government in the matter. The factory

*Not printed.

wanted to manufacture light transport for which it had to procure tools and train the personnel over a period of 3 years. The demand for this had, therefore, to be worked out 3 years in advance. The Ministries of Defence and Communications had considered the type of the transport required, but their decision had not yet been made known. One great difficulty was that the decision with regard to the requirements of a particular year was taken by Government in the current year and not in advance.

162. When asked whether the factory had entered into any contracts by which it might be bound to import raw materials from particular suppliers, the representative of the H.A.L. stated that the H.A.L. did not generally enter into such contracts. Only in the case of some specific types of parts or units, orders were placed on particular suppliers. In reply to a question he stated that in the manufacture of 'Gnat', the factory had ordinary aircraft specifications which were according to the British specifications. The Committee wanted to be furnished with the salient features* of the agreements entered into by the H.A.L. with foreign firms. They also desired to have information regarding the working of the agreement entered into by the Government for supply of 'Vampires'.

163. With regard to the position regarding the manufacture of Integral Rail Coaches by the H.A.L., the representative of the H.A.L. stated that the factory had entered into an agreement with a German firm and work was proceeding on this project subject to the availability of foreign exchange. The Integral Coaches manufactured by the H.A.L., although of the same weight as those produced by the Integral Coach Factory Perambur, were expected to be cheaper than those manufactured by the I.C.F. The profit margin per coach would be of the order of Rs. 5,000 subject to an examination of the cost. For the manufacture of coaches, the H.A.L. was getting the services of 6 foreign technicians.

164. In reply to a question, the representative of the H.A.L. stated that the percentage of the overhead charges worked out to be 300% of the direct labour, and varied from shop to shop. In the figure of Rs. 133 lakhs shown against salaries and wages during the year 1954-55, 1/3rd represented wages and 2/3rd related to overheads and salaries. As regards stocking of materials, he stated, 18—25 months requirements were normally kept in stock. In reply to a question it was stated that the Government of India's share in H.A.L. was

*Not printed.

Rs. 6 crores and that of the Mysore Government Rs. 60 lakhs. The Central Government's loan to H.A.L. stood at Rs. 50 lakhs at 3½% interest.

The Committee were informed that the H.A.L. had outstation projects at Barrackpore, Jodhpur, Agra and Cochin for doing the first and second line maintenance of aircrafts at these places. The staff transferred to these stations from Headquarters also received an outstation allowance which was not admissible to locally recruited staff.

165. The Comptroller and Auditor General pointed out that the outstanding amount due from the Indian Airlines Corporation and other customers as on 31st March, 1956 was of the order of Rs. 1.58 lakhs while a cash credit accommodation guaranteed by the Government with a limit of Rs. 50 lakhs had been obtained from a Bank. As a commercial concern the H.A.L. should recover its outstanding bills rather than borrow money on interest. The representative of the H.A.L. stated that a special Committee consisting of the representatives of the Indian Airforce, Accounts and H.A.L. had been constituted to bring down the outstanding amounts. When asked how despite this Committee, the outstandings had increased from Rs. 1.48 lakhs on 31st March, 1955 to about Rs. 1.58 lakhs on 31st March, 1956, the representative of the H.A.L. stated that the figures represented 4 months outstandings and in many cases the bills had to be drawn only after the actual costs were available which took 2 months. Every effort was being made to reduce this figure.

As regards the doubtful debts shown in the accounts, the representative of the H.A.L. stated that these were due from the Airline Companies started after the War which had gone into liquidation. The Court proceedings against them were not yet over. The H.A.L. had recovered from them Rs. 6 lakhs out of a total of Rs. 17 lakhs.

166. The Committee then adjourned till 2-30 p.m. on the 3rd September, 1957.

**PROCEEDINGS OF THE FIFTEENTH SITTING OF THE PUBLIC
ACCOUNTS COMMITTEE HELD ON TUESDAY, THE
3RD SEPTEMBER, 1957**

167. The Committee sat from 14-30 hours to 17-00 hours.

PRESENT

Shri T. N. Singh—*Chairman.*

PRESENT

2. Shri N. C. Laskar
3. Shri N. G. Ranga
4. Shri Radhelal Vyas
5. Shri A. C. Guha
6. Shri N.R.M. Swamy
7. Shri Upendranath Barman
8. Shri J. M. Mohamed Imam
9. Shri H. C. Dasappa
10. Shri Jaipal Singh
11. Shri N. Siva Raj
12. Shri P. T. Leuva
13. Shri Shyam Dhar Misra
14. Shri M. Govinda Reddy
15. Shri J. V. K. Vallabharao.

Shri A. K. Chanda, *Comptroller and Auditor General of India.*

Shri P. C. Padhi, *Additional Deputy Comptroller and Auditor General.*

Shri S. Natarajan, *Director of Audit, Defence Services.*

Shri P. N. Bhandari, *Director Commercial Audit.*

SECRETARIAT

Shri V. Subramanian, *Deputy Secretary.*

WITNESSES

Ministry of Defence

Shri O. Pulla Reddy, *Secretary.*

Shri C. S. Ramchandran, *Joint Secretary.*

Shri B. G. Rau, *Joint Secretary.*

Shri A. K. Ghosh, *Managing Director, Bharat Electronics (P) Ltd.*

Maj. Gen. L. P. Sen, *Master General of Ordnance.*

Maj. Gen. R. N. Nehra, *Director of Ordnance Services*

Ministry of Finance (Defence)

Shri S. D. Nargolwala, *Additional Financial Adviser I.*

Shri M. K. Hariharan, *Additional Financial Adviser II.*

Shri Batuk Singh, *Controller General of Defence Accounts.*

Bharat Electronics Ltd., Bangalore***Para 17 of Audit Report—Establishment of Bharat Electronics Ltd., Bangalore, for the manufacture of certain electronic equipment***

168. An agreement with a French firm was concluded by Government for a period of 10 years with effect from the 1st January, 1953 for establishing a factory for the manufacture of certain electronic equipments. According to this agreement the French firm undertook to assist the Government for the establishment of such a factory for which a sum of Rs. 53 lakhs excluding royalty on production was payable to it in instalments during the period of contract. A production programme for production of certain types of signal stores was also stipulated in the agreement. The production was to commence from the calendar year 1956, but the programme of production for the years 1956 and 1957 could not be adhered to and with the approval of the management of Bharat Electronics, a revised programme was fixed for these years. This programme was again modified as the right proto-types of wireless sets required for the use of the Army were not produced by the French firm. The firm, therefore, prepared an alternative programme for the year 1957—the first year of production. According to Audit, due to the high cost of raw material and components and also higher over-heads in the initial stages of limited production, the cost of production of equipment was high and, therefore, some of the consumers were reluctant to pay this high price, as imported equipment was obtainable at much lower prices. Further, the French firm had not yet given the necessary information and specifications for the raw materials and components in English and according to international standards and, therefore, it was not possible for the Bharat Electronics Ltd. to obtain raw material by open tenders.

169. The Committee wanted to know whether having regard to the preference of the users in India for equipments not of the French manufacture, it was prudent to have entered into an agreement with a French firm. The representative of the Bharat Electronics Ltd. disclosed that at the time when the Agreement was entered into five years ago, there were only two firms who had tendered viz., this French firm, and a British firm having a subsidiary in India. It was considered unwise to enter into an agreement with the British

firm as that firm would not be willing to help the Government in establishing a factory which might adversely affect the trade of its subsidiary in India.

The Committee were informed that an equipment produced by the firm for the Army was under test while the firm was in the process of designing another equipment. When asked whether the equipments produced by the factory suited the requirements of the Army, the representative of the Bharat Electronics Ltd. stated that their first customers were Railways and Civil Aviation and not the Army. The Committee wanted to know whether the type of sets proposed to be manufactured were suitable for Army use and acceptable by the Army authorities. The Defence Secretary stated that the representatives of the Army, Navy and Air Force Signals visited the C.S.F. in April, 1951 and submitted a report containing their observations but they did not make any specific recommendation on the subject. The Technical Sub-Committee on which the Signal Officers of the Army, Air and Navy were represented recommended collaboration with the French firm in preference to the British firm. They were impressed by the standard of manufacture of C.S.F. which showed excellent workmanship of the finished equipment, though they were not very much impressed with the tempo of the design and development. The Defence Secretary admitted that the selection of C. S. F. was not an ideal choice but in the circumstances then obtaining, there could have been no better choice. Other considerations which weighed with Government in arriving at the decision were that self-sufficiency could be reached earlier; the programme of production was flexible and Indianisation of the factory could be attained earlier.

In reply to a question, it was stated by the representative of Bharat Electronics Ltd., that the factory was not supplying anything to the Army at present; it had made the first proto-type which was being tested and it would be possible to start production for the Army in another six months' time. At present the factory was producing for Civil Departments only. He admitted that there was some reluctance on the part of the Army to use the equipment because those equipments were not in use by the Army. Explaining the Army's view-point, the Master General of Ordnance stated that they would accept the equipment produced by the Bharat Electronics Ltd. provided it came up to their requirements.

170. Explaining the procedure for production of equipment required by the Army, the representative of the Defence Ministry stated that the user departments gave the general specifications of the set, broad use to which the set would have to be put. On that basis the technical Development Establishment worked out details giving all

the technical specifications. These specifications were given to the Bharat Electronics Ltd., who designed a prototype and this was put to laboratory tests. It was pointed out by the Comptroller and Auditor General that the correct procedure should have been the initial production of something already in use in Defence Services which could be improved upon at a later stage. For this purpose, an agreement with the British firm would have been more prudent, as the products could be put to immediate use by the Army. The representative of Defence Ministry stated that from the project reports of the British firm it was found that that firm too contemplated manufacture of equipment of its own choice and it was assessed that 20% of the equipment would be uneconomical to manufacture or assemble and a further 15% would be assembled and not manufactured. Even so, it did not plan the production of the rest of the equipment before the fifth year. As against this, the French firm indicated a production programme of equipments, components and valves including radar, within three years for equipments and components and four years for valves. When asked whether any penalty could be imposed on the C. S. F. for failure to produce equipment according to the specifications indicated to it, the Defence Secretary stated that in such a case in terms of clause 19 of the agreement, the Government, without prejudice to any other rights which they might have against the company, had the right to terminate the agreement by three months' previous notice in writing and the company would not be entitled to any payment in respect of any period after the termination of the agreement. As regards the production schedule, the representative of the Bharat Electronics Ltd., informed the Committee that if the firm took more time for the production of an equipment, the payments would be spread over a longer period. When asked whether there had been any failure on the part of Bharat Electronics Ltd. to produce the right type of equipment, the Defence Secretary stated that they had not failed, although they took longer time to manufacture the equipment. As a result, they were paid only £19,687 for the year 1956 against £40,000 envisaged in the agreement. In reply to a question the representative of the Bharat Electronics Ltd. stated that there had been only one instance where a prototype which was rejected had to be modified in France as all the technical personnel were not available in India. When asked about the financial effect in case of the termination of the agreement with the firm, the Defence Secretary stated that it was difficult to consider of this step unless Government were convinced that the firm was adopting dilatory methods and was not co-operating. Further, termination of the agreement might also raise questions of patent rights and might stand in the way of the factory proceeding with the production programme which was of the order of Rs. 1.5 crores.

171. The Committee were informed by the Defence Secretary that the Army did not take to the new equipment because of its unfamiliarity. He added that the Chief of the General Staff who was also on the Board of Directors of the Bharat Electronics Ltd., was the proper authority to decide about the suitability of an equipment for the use of the Army. No permission to import any wireless equipment was given unless a clearance was got from the Radio and Cable Control Board who were attempting a certain type of rationalisation and standardisation. Particulars were forwarded by them to Bharat Electronics in order to ascertain whether it would be possible to undertake the production of the equipment within the next two years or within the period the Services required them. At the same time the possibility of establishing production was also considered by Bharat Electronics Ltd. The prototype under production for the Army was entirely designed by the Army Authorities. The Committee felt that the factory should be put to the best use possible by the Army. They desired that a note* stating action proposed to be taken to utilize the capacity of the Bharat Electronics Ltd. by the Army should be submitted to them.

172. The Comptroller and Auditor General pointed out that during the year 1955-56, Rs. 1,61,00,000 worth of equipment which could have been manufactured by the Bharat Electronics Ltd. was imported. The figures included other equipments which were not strictly for military needs but the bulk of this related to military equipments. The representative of the Defence Ministry pointed out that this was mainly attributable to the import of complicated apparatus like Radars which could not have been manufactured even in the next 4 or 5 years. He promised to furnish a note giving the value of the equipment imported, which could have been manufactured by the Bharat Electronics Ltd., had the original schedule of production been adhered to. The representatives of Bharat Electronics Ltd. informed that the factory should have produced Rs. 50 lakhs worth of equipment in the first year and Rs. 2 crores worth in the second year but it was one year behind schedule. In reply to a question, the representative stated that the cost of production in the factory was less than the cost of similar equipments imported from France but the equipments from France were themselves expensive.

173. The Committee were informed that the production programme had also been provisionally fixed for the year 1957-58 on the basis of the estimated demands of the users.

They further learnt that the production schedule had recently been modified by the firm with the approval of the Board of Directors. In view of the changes made in the production schedule a

change had been made in the agreement to safeguard Government against loss if schedules were not adhered to.

174. The Committee then wanted to know the position with regard to the production of valves. The representative of the Bharat Electronics Ltd. stated that although the agreement with C.S.F. covered the manufacture of valves also, it was found that the firm did not manufacture the type of valves required by the Indian users. The firm was, therefore, asked to try to come to an agreement with some other firm—Philips or A.E.I. of England or R.C.A. These companies were also asked by the Bharat Electronics Ltd. in 1956 to furnish project estimates direct. Project estimates were submitted by the English and the French firms jointly and by the American firm. When negotiations were in progress with the Philips, the American company came forward with a suggestion that it would itself set up the factory and save the Bharat Electronics Ltd. foreign exchange. The matter was under examination now. When asked how the question of saving foreign exchange arose when machines required for the manufacture of valves had already been acquired by the Bharat Electronics Ltd., the representative of the Bharat Electronics Ltd. stated that equipment worth Rs. 25 lakhs was required for this purpose whereas the company had already spent about Rs. 20 lakhs on both the building and machinery. The Committee were informed that according to the production programme the manufacture of the valves should have started a year back and the value of production of valves anticipated in a year was about Rs. 50 lakhs. The Committee, therefore, felt that in saving a few lakhs by way of cost of machinery, the Government were losing Rs. 50 lakhs in foreign exchange by importing valves. Too much time had been taken in negotiations and production had thereby been delayed. In extenuation, the Defence Secretary stated that the question of production of valves was also being considered in the context of their being replaced by transistors. The matter had been referred to a committee which included two distinguished scientists. The Committee were not convinced of the reasons advanced for the delay in starting production of valves. The Defence Secretary stated that the Board of Directors were rather cautious in this case before coming to a conclusion. When asked why the negotiations for production of valves were suspended even before this idea of producing transistors was mooted in April, 1956, the representative of Bharat Electronics Ltd. stated that the question of cost was then under examination and they were considering the comparative advantages in placing orders with either the British firm or Dutch firm.

The Committee were informed that it would take 12-18 months to establish production of valves if the Bharat Electronics Ltd. started manufacture now. The Committee felt that the production should

have been taken in hand as quickly as possible with a view to utilising the capacity of the factory and also saving foreign exchange on imported valves. The Committee were not satisfied with the situation that the Bharat Electronics Ltd. had been going on without producing anything useful and desired that speedy action be taken to utilise the full capacity of the Bharat Electronics Ltd.

175. The Committee were informed that some transmitters produced were offered to the Communications Ministry but since these did not suit the need of that Ministry, some changes had to be made. Now the factory was producing and meeting the demands of the Communications Ministry for Civil Aviation. The representative of the Bharat Electronics Ltd. stated that they could manufacture transmitters for the All India Radio but the Information and Broadcasting Ministry was not satisfied with the equipment offered. The factory had supplied some equipment to the Police and the latter were satisfied about it. As the orders for the wireless equipment required by Government Departments including the Home Ministry were routed through the Radio and Cable Control Board, the latter ensured that the orders which could go to the Bharat Electronics Ltd. were so directed. As regards supply of the requirements of the State Governments, the representative stated that to his knowledge, the Home Ministry was co-ordinating the requirements but he promised to check it. The Committee then wanted to be informed about items of equipment imported by the various Ministries, which could be manufactured by the B.E.L. at short notice, and whether there had been cases where the products of the B.E.L. were not purchased by the users on account of their being too costly. The representative of the B.E.L. stated that only once a department had complained about the high price and the factory reduced the price in that case. As regards placing of orders by Government Departments for equipment on the B.E.L. instead of importing the same from abroad, the representative of the Defence Ministry stated that with the setting up of the Radio and Cable Control Board whose Chairman was a Director of the B.E.L., the interests of the Bharat Electronics were duly looked after. A liaison Officer had also been appointed last year, who kept a close contact with the various Ministries regarding their requirements.

176. As regards the procedure for selection and recruitment of persons for appointment in the Bharat Electronics, the representative of the B.E.L. stated that there were set rules in this respect. Senior grade posts were advertised throughout the country, while for class III posts, the advertisements were confined to regional areas viz., Bangalore and Madras only. The Estimates Committee, it was stated, had recommended the recruitment to be made on

regional basis rather than on local basis for which the entire Southern region—Andhra, Bombay, Kerala besides Madras and Bangalore should be covered. There was also a Screening Committee of Selection having one outside expert in it. The approval of the Defence Secretary was taken for all senior appointments. There were no written tests but there were practical tests for some technical posts. The Committee felt that the B.E.L. should consider the introduction of written tests also with a view to avoid any outside pressure on the Selection Committee. The Committee were informed that under a scheme of apprentice engineers, about 6 persons would be trained. As for apprentice workmen, they were being put through the training school for six months; about hundred persons were trained in a year. The trainees were from the Southern region. In reply to a question it was stated that under-studies had been put with each foreign expert and some of them had more than one under-study.

Para 24: Losses due to belated/incorrect fixation of sale rates.

177. Sub-para. (a) Consequent on receipt of 15,480 Turkish Bath Towels Large Bleached at an increased rate in April, 1953 their sale rate should have been increased from Rs. 3/12/- each to 4/11/- but instead, the rate was reduced by mistake to Rs. 2/8/- with effect from 11th August, 1954. The sale rate was again revised on the 2nd March, 1955 in order to rectify the mistake, but again it was incorrectly fixed at Rs. 4/9/- each. Finally the correct rate of Rs. 4/11/- was promulgated with effect from the 19th July, 1956. This resulted in heavy loss to Government—the loss in a single Ordnance Officers' shop being Rs. 12,191 during the period May, 1953 to July, 1956.

In evidence the representative of the Ministry of Finance (Defence), admitted that the mistake was committed by the staff while fixing the rates; disciplinary action had been taken in the matter and instructions had also been issued to prevent the recurrence of such a mistake. The total loss in this case taking all the shops into account would amount to about Rs. 40,000/-.

178. Sub-para. (b) Officers Valises (hold-alls) were being sold from the Officers' shops at Rs. 32 each since 1946. No attempts were made till June 1955 to ascertain the manufacturing cost of the article, when it was found that the manufacturing cost of the article was Rs. 61 each. Sale of the article was, therefore, suspended from 25th August, 1955. On the 25th November, 1955 the revised price of Rs. 85/9/- was fixed. The loss due to the sale of the

hold-alls at Rs. 32/- from 4th June, 1955 to 24th August, 1955 amounted to Rs. 17,836 for 333 hold-alls, in one Officers' shop only.

The Comptroller and Auditor General pointed out that according to a statement made available by the Ministry of Finance (Defence) the total loss in this case amounted to about Rs. 43,805. The representative of the Ministry of Finance (Defence) stated that this figure represented the amount of technical loss but the actual loss was on the sale of 138 Valises only which had been manufactured at higher price and therefore the net loss would be much less. In reply to a question if it was now possible to recover the full price from the officers who had already purchased them at a lower price, he stated that it would not be possible as those officers might not have purchased, had the higher price been quoted to them at the time of purchase. Actually after the rate was revised only one hold-all was sold. The Director of Ordnance Services, who was the indenter in this case, stated that the price had further gone up to about Rs. 86/- per hold-all and the officers were not interested in purchasing at such a high price. The Comptroller and Auditor General pointed out that, if so, the value of the hold-alls might have to be written off ultimately. The representative of the Ministry of Finance (Defence) stated that he would look into the circumstances leading to the placing of orders on the D.G.O.F. for these expensive hold-alls and also devise measures* to sell them without incurring a loss as far as possible.

Para 25: Idle Tractors in Ordnance Depots.

179. In this case out of 191 industrial tractors used for shifting heavy stores within the Depots, only 45 tractors were in serviceable condition and the rest had been unserviceable for the last six or seven years for want of repairs which could not be done for lack of spare parts. The cost of spare parts had been assessed at Rs. 33,600/- approximately and their purchase was being considered by Army Headquarters. The work was now being carried on by manual labour at considerable extra expenditure to Government. According to Audit, in two Depots the drivers of the idle tractors continued to be employed resulting in avoidable expenditure of Rs. 70,000 and Rs. 13,000 respectively till October-November, 1955. In another Depot they were continued till 31st July, 1954 resulting in avoidable expenditure of Rs. 3,298 approximately.

The representative of the Ministry admitted that there was delay in handling this matter at different levels. The tractors had been checked by the Mechanical Engineering authorities to see

*See Appendix XIII

whether they could be repaired provided the spare parts were available. In consideration of the fact that the approximate cost of repairs per tractor would come to only about Rs. 300 as against the cost of Rs. 13,000 of a new imported tractor, they had decided to repair the old ones. The Military Attache in the London High Commission had been addressed with regard to the availability of spares required for repairing them.

With regard to the continuation in service of the drivers in spite of the tractors being out of use, the D.O.S. stated that actually none of the drivers was surplus as each of them had been employed in lieu of two persons—fitter and fitter mate for the maintenance of vehicles etc. Thus, they had actually made some saving in this behalf. In reply to a question as to why this position was not explained to Audit, it was stated that the draft audit para was received late and the explanation therefore was also delayed.

180. Before the Committee adjourned, they desired the Defence Ministry to submit a note* explaining the reasons for large savings disclosed in the year 1954-55 and also replies to the points raised by the Committee during their sittings.

181. The Committee then adjourned.

*See Appendix IA

PROCEEDINGS OF THE FORTY-FIFTH SITTING OF THE PUBLIC
ACCOUNTS COMMITTEE HELD ON FRIDAY, THE
18TH APRIL, 1958

182. The Committee sat from 15-00 hours to 17-25 hours.

PRESENT

Shri T. N. Singh—*Chairman*.

MEMBERS

2. Shri Ram Subhag Singh
3. Shri N. C. Laskar
4. Shri N. G. Ranga
5. Shri Radhelal Vyas
6. Shri A. C. Guha
7. Shri Upendranath Barman
8. Shri J. M. Mohamed Imam
9. Shri H. C. Dasappa

Shri A. K. Chanda, Comptroller and Auditor General of India.

Shri S. Natarajan, Director of Audit, Defence Services.

Shri P. N. Bhandari, Director of Commercial Audit.

Shri P. K. Basu, Director, Director of Audit, Food, Rehabilitation, Supply, Commerce, Steel & Mines.

SECRETARIAT

Shri V. Subramanian, Deputy Secretary.

Shri M. C. Chawla, Under Secretary.

183. The Committee considered their Draft Report on the Appropriation Accounts (Defence Services), 1954-55 and Audit Report, 1956 and approved it subject to certain additions and alterations here and there.

184. The Committee authorised the Chairman to present this Report on their behalf to the Lok Sabha.

The Committee also authorised Shri P. T. Leuva to present this Report to the Rajya Sabha.

185. The Committee then adjourned.

APPENDIX

Statement showing the summary of principal observations/recommendations made in the Sixth Report of the Public Accounts Committee on the Appropriation, Accounts Defence Services 1954-55 and Audit Report, 1956

Sl. No.	Reference to Para No. of the Report	Ministry concerned	Summary of conclusions/recommendations
1	2	3	4
1	6 (Introduction)	Defence	<p>The working of Ordnance Factories has been under constant examination by the Public Accounts Committee and year after year the attention of Parliament has been drawn to the various defects both in regard to the production organisation and the stores wing of the Ordnance Factories. It has been found that a large number of orders on the Ordnance Factories remains pending for several years. They are subsequently cancelled or suspended due sometimes to frequent changes in the decisions of the user services. In other cases their manufacture cannot be established though in the meantime large quantities of raw materials have been imported and accumulated. Besides causing large amount of intractuous expenditure such a situation leads to inefficiency and waste. Provisioning and storing of huge quantities of raw materials without having established production of any particular item is to say the least, unwise and at times fraught with risks. The proper method should be for the Ordnance Factories to accept an educational order of such items and first establish production. Only when they are confident of manufacturing these items successfully should they provision for bulk production.</p> <p>The Defence Ministry have now accepted this position. It is, however, surprising</p>

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			<p>that the Ministry should have taken years to come to this obvious decision. A review should, therefore, be undertaken early to reduce or cancel un-fulfilled orders previously placed. The present system leads to unsystematic working at the factories and accumulation of unusable stores and raw materials.</p>
2 6	(Indro- duction)	Defence/ Finance (Defence)	<p>The Committee are anxious that the large amount voted by Parliament should be utilised economically and in the best interests of national defence. At a time when appropriations are being cut to limit the country's foreign exchange position can afford, it is more than ever essential that the funds voted are put to the best possible use. The Committee trust that their observations and recommendations made in this Report would be considered carefully by the Government.</p>
3	3	Do	<p>Savings ranging from 8 to 10 per cent in the sanctioned grants have become a recurring feature of the Defence Grants during the last 6 years.</p>
	5	Defence/ Finance (Defence)	<p>The savings on Defence Capital Outlay, as in the previous years continued to be abnormally high, being more than two-fifths of the total vote. One of the causes of the saving in the grant for works expenditure was that substantial provision was made for items the execution of which could not possibly be expected in the course of the year.</p> <p>The Committee would like to watch the results of the general policy adopted from the year 1957-58 to include in the budget, provisions for those works only which have been approved or are likely to be approved at least 3-4 months before the beginning of the financial year, so that technical planning can be completed before allotments are made and works taken in hand.</p>

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4	6	Defence/ Finance (Defence)	<p>While the Committee appreciate that certain practical difficulties might be unavoidable in estimating accurately the supplies which will materialise during the closing months of the financial year, they reiterate the recommendation made in their previous reports that a higher standard of estimating could be achieved by a closer liaison between the indenting and supplying Departments.</p> <p>In the opinion of the Committee, the budgetary control of the Defence Services Grants leaves much to be desired. It is obvious that the large savings have been occasioned by over-budgeting. Over-budgeting by one Ministry immobilizes sums of money which could be utilised for other important purposes by other Ministries.</p>
5	7	Finance (Defence)	<p>Another factor to which the Committee would like to draw attention is the rush of expenditure in the last month of the year. The Committee regret that the information desired by them in this connection to enable them to examine some important cases was not made available to them, as this could not be collected conveniently by the Ministry of Finance (Defence) from the C.G.D.A. in respect of each work separately. The Committee desire that at the time of consideration of the Accounts of the Defence Services each year they should be furnished with a statement showing the requisite details in respect of major construction works to enable them to examine this question. In the mean-time, the Committee would reiterate the recommendation made in their Nineteenth Report that payments should be spread out evenly throughout the year as far as possible with a view to avoiding laxity of control because of rush.</p>
6	8	Do.	<p>It is of paramount importance that the increase in Defence outlay is put to the best possible use. The Committee</p>

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in the past have come across instances of purchase of defective or unwanted stores involving loss or wasteful expenditure. Again, there has been a number of cases of infructuous expenditure by the Ordnance Factories as a result of their taking up manufacture of arms and ammunition which were either not required immediately or were beyond their capacity to manufacture.

The Committee therefore desire that the Ministry of Finance (Defence) which performs a dual role *viz.* of treasury control and of financial advice, will address itself more effectively to the latter aspect with a view to ensuring that expenditure conforms not only to policy but also to well-laid standards of economy, efficiency and propriety in public finance.

- 7 10 Defence (i) In the case referred to in para 8 of the Audit Report, 1956, the Committee view with strong disfavour revision of estimates when the works are nearing completion and they would suggest that in future any tendency to prepare the original estimates without proper and detailed planning should be severely dealt with.

- (ii) Another feature in this case was the lack of coordination between the building works, and services pertaining to them.

- Defence (iii) The Committee would like to draw
 All Ministries attention to para 106 of their 19th Report and reiterate their observation that the representatives of the Ministry should come fully briefed before the Committee and give correct information when asked.

- 8 13 Defence (i) In the case referred to in para 9 of the Audit Report, 1956, the Committee could hardly see any convincing reason for the decision to defer the reduction in

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demand on the U.K., as obsolescent stores should under existing orders be utilised.

(ii) The Committee are surprised that no action was taken to reduce the bulk order placed on the DGOF till December, 1953 by which time, surplus components of the value of Rs. 1,68,000 had been accumulated.

(iii) This case is not the first instance where a bulk order was placed on the DGOF involving establishment of technique of production. The Committee have come across a number of such cases in the past, when bulk orders were accepted by the DGOF in respect of stores which have not been previously manufactured. In para 34 of their 19th Report, they have recommended that in the interests of operational efficiency, all pending orders should be reviewed periodically with a view to reassessing the needs in the light of the latest trend both in technique and demand.

(iv) They would reiterate the necessity for such a review also in the interests of economy as during a short space of three years, the Committee have come across a number of such cases where for want of proper co-ordination and organisation, infructuous expenditure of a very large magnitude had been incurred.

The Committee were surprised to hear that the store sold to the foreign country was of the new type while on the other hand it is urged that it was urgently required by the Army authorities for replacement of old type.

(v) Another interesting feature which the Committee noticed in this case was the procedure adopted by the Defence

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authorities for declaring a store obsolete/obsolescent. The Committee recognise that in technical field the opinion of the Chief of the General Staff should be accepted. But in the light of cases which the Committee have come across they feel that greater caution and closer scrutiny is needed in deciding upon both the necessity for and pace of replacement. The Committee would, therefore, urge upon both the Ministry of Defence and the Financial Adviser to exercise more vigilance while scrutinizing replacement so that available resources are not frittered away.

9 15 Defence

The Committee are not satisfied about the results of the provision reviews as large deficiencies turned into surpluses in the following review in the course of a period of one year. In their opinion the whole question requires a thorough examination to—

- (i) ensure that the basis of each review is itself sound and economic taking into account all reasonable reductions in requirements;
- (ii) see that orders are placed abroad or on the D.G.O.F. only for the actual quantity required;
and
- (iii) secure immediate action for reducing the demand already placed when a later provision review discloses surplus.

The Committee feel that this will go a long way in avoiding much of the infructuous expenditure incurred by the Ordnance Factories.

This case clearly shows the defective system under which the organisation of DGOF works.

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10	17	Defence	<p>(i) The Ministry assured the Committee that as a result of the measures taken cases of over-provisioning and infructuous expenditure on materials and components would not arise in case of orders placed after February, 1953. The Committee feel that the working of the Ordnance Factories should be under a close and constant review.</p> <p>(ii) The Ministry have stated that the performance of the repaired store has not been found to be entirely satisfactory. The Committee do not appreciate how the suggestion to modify 97,000 numbers lying in stock was made by the user-service without any forethought. It is equally amazing how the D.G.O.F. carried out the modification without testing the operational efficiency of the modified store. The Committee cannot but remark that the working of the Wings under the D.O.S. and the D.G.O.F. needs overhaul and reorganisation.</p>
11	18	Finance (Defence)	<p>(i) In the case regarding over-provisioning of stores referred to in para 11 of the Audit Report, 1956, the Committee would like to be informed of the action taken against the officers responsible for negligence in the Ministry of Finance (Defence).</p>
	19	Defence/ Finance (Defence)	<p>(ii) The Committee note that instructions have been issued both by the Ministry of Defence and Ministry of Finance (Defence) to avoid recurrence of such cases.</p>
12	21	Defence	<p>(i) The Committee are not convinced by the explanation given by the Ministry of Defence for treating the two indents placed on the purchase organisation for supply of cloth as operational. The Committee could not get any satisfactory answer why the Naval authorities did not draw up their provisioning programme in advance until the stores were completely exhausted and react to the changed situation promptly after the urgency disappeared.</p>

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(ii) The Committee are surprised how the Naval authorities could fix the delivery period as a fortnight with all the process of inspection in respect of a store which was being procured for the first time from the local market and why it took the Technical Establishment 5 months to fix the specifications. A realistic appraisal of the position would have avoided the purchase of the cloth in the present case at comparatively higher prices on the ground of urgency. The Committee would therefore desire:

(i) that delivery periods in contracts should be fixed in a realistic manner allowing adequate time for inspection.

(ii) that requirements should be planned and worked out in advance in the light of consumption and other data to obtain replacements before stocks are completely exhausted and to allow sufficient time for tender action.

(iii) that the Naval Authorities should ensure that when demands are placed for purchases, etc. the requisite specifications are ready and are sent simultaneously along with the indents.

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Defence

The Committee would express their disapproval of the action of the Naval Store Officer in suggesting the name of a particular supplier to the Purchasing Organisation. They would like to be informed of the action taken against the officers held responsible in this case, as a result of the enquiry.

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Do

(i) The Committee trust that the instructions issued regarding cancellation of orders placed on the D.G.O.F. in case drawings were not supplied

within two months of placing the orders, would reduce the number of outstanding orders. They would also suggest that the real causes for bottlenecks at various stages in the procedure should be investigated and the procedure streamlined. In this connection they would invite attention to the recommendation of the Estimates Committee in para 90 of their 68th Report that the responsibility of various authorities including the Technical Development Directorate should also be pin-pointed for delays in the matter.

(ii) The Committee feel concerned about the financial losses that arise from cancellation of orders at a late stage. The matter requires to be carefully considered before taking action to cancel the pending orders. Suspension of orders also indicates lack of proper planning and forethought on the part of indentors at the time of placing orders. The Committee are of the view that the present system of placing orders is inherently defective and needs improvement.

(iii) The Committee trust that the provision of technical staff in the factories should improve the efficiency of the factories. They are, however, unable to appreciate the need for any additional technical staff at the Headquarters of the D.G.O.F. for the same purpose. They would like to know the precise duties of such personnel at the Headquarters where technical supervision at higher levels is already available.

(i) The Committee are glad to learn that to remedy lack of detailed planning and systematic progressing of the orders placed on the D.G.O.F., the Ministry of Defence have accepted the recommendation of the Liaison Officer

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that forward planning should be carried out in respect of important items jointly by the D.G.O.F. and the Services.

(ii) While they appreciate the steps taken to lay down a revised procedure for review of outstanding orders, they would also invite attention to the recommendation made in the para 95 of the 68th Report of the Estimates Committee that progress reports should also specify the reasons for delay in execution of orders and the D.G.O.F. should see that these causes are removed as far as possible so that production could be expedited. These reports should also be scrutinised at half-yearly intervals by the Controller General of Defence Production and the Defence Production Board so as to enable them to initiate timely action.

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Defence

W.H. & S.

(i) While the Committee appreciate that there might be in some cases real difficulties in obtaining the requirements of raw materials from suppliers, they consider that the delay in most cases would be due to lack of proper chasing up of the indents. In their opinion closer coordination and timely pursuit of indents with the Organisation of the D.G.S. & D. would improve the situation considerably. They also desire that the present procedure of processing of indents of the D.G.O.F. by the D.G.S. & D., I.S.D., London and I.S.M., Washington should be reviewed with a view to removing inordinate delays in supplies.

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Defence

The Committee feel that it would be worthwhile to tap the various Departmental workshop factories for supply of stores against petty orders for teleprinter spares, automobile spares, etc.

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19	30	Defence	(i) The Committee would like to know about the disposal of completed stores, the surplus components and raw materials in the case referred to para 15 of Audit Report, 1956.
31		—Do—	(ii) The Committee are not satisfied with the decision of the Defence Ministry to continue production in this case at the high rate even after the emergency was over, merely to avoid retrenchment of labour. For, in the present case, the Committee understand that a new type of store was under development which was expected to replace this item. In that case, the entire stock of the store which would last for 20 years would become obsolescent. As years roll by, the operational efficiency of the store will also go down, leading to heavy condemnation. Further, heavy expenditure will also be incurred on care and maintenance of stock. The Committee feel that this case requires a thorough investigation with a view to fixing responsibility.
20	33	—Do—	(i) This is yet another case where the fundamental principle of first establishing manufacture of a new store by undertaking trial order before provisioning for bulk manufacture, was ignored by the D.G.O.F. resulting in infructuous expenditure on raw materials and surplus components.
<p>The Committee have commented on a number of similar cases involving infructuous expenditure. From a statement prepared by the Comptroller and Auditor General, the Committee observe that such expenditure amounted to about Rs. 68 lakhs because the D.G.O.F. accepted bulk orders and went ahead with bulk provisioning before establishing manufacture of the stores. The Committee regret to note that this practice has been a normal feature of the working of the Ordnance Factories.</p>			

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- (ii) The Committee, feel that it would be necessary to define precisely what should constitute an "educational order" and what should be the quantity suitable for economic manufacture in such orders. For, there had been cases where bulk orders were treated as educational orders by the D.G.O.F. and raw materials were purchased for the bulk quantity on the plea that sizeable quantities of raw materials would facilitate economic purchase. This might be true to some extent, but, at the same time, it is important not to ignore the fact that the expenditure would become infructuous if production were not subsequently established. The Committee deprecate the casual manner in which expenditure on purchase of raw materials was looked upon by the D.G.O.F.

The Committee, therefore, recommended that the necessity of an educational order and its size should both be determined by the Ministry of Defence.

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Defence

- (i) The Committee desire that results of examination carried out in respect of stores worth less than Rs. 1 lakh, should also be communicated to them.

The Committee recommend that with a view to relieving congestion in the Ordnance Factories and Depots, a procedure should be evolved for carrying out regular reviews of unwanted stock in the Ordnance Factories and Depots.

- (ii) They also desire that the limit to the financial powers of the D.G.O.F. in incurring expenditure on the manufacture of components for stock purpose should be fixed early.

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Do.

- (i) The preceding paragraphs indicate that the administration and working of the Ordnance Factories is far from satis-

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			<p>factory. The Committee were informed that as a result of the measures taken recently, the planning and production in the Ordnance Factories would be brought to a satisfactory level. They were also informed that a system of joint planning by D.G.O.F., Technical Development Authorities and Services had been evolved in order to remove the present bottlenecks. The Committee would be interested to be informed of the working of the revised procedure.</p> <p>(ii) The Committee would like to know the composition and the main recommendations of the Departmental Committee which was reviewing the whole production programme in the Ordnance Factories, and the action taken by Government thereon.</p>
23	36	Defence	<p>The Committee suggest that the workshop capacity released in H.A.L. as a result of the closing down of the Bus Building section should be suitably utilised in other expansion schemes of the factory.</p>
24	37	Do	<p>The Committee are surprised that the H.A.L. should have allowed the dues of the order of Rs. 1,58 lakhs (as on 31-3-56) to accumulate in this manner. For, its main customer is the Ministry of Defence whose representative functioned as a Director on its Board of Management. Because of delay in settlement of claims by the Ministry, the H.A.L. had to borrow from a Bank and pay interest therein.</p> <p>The Committee would suggest that a procedure should be evolved by the H.A.L. in consultation with the Ministry of Defence whereby payments of bills for services rendered or supplies made by it are made regularly and within a stipulated period.</p>
25	38	Do Communica- tions	<p>(i) The Committee consider it to be of the utmost importance that the capacity of the factory should be fully utilised. In the interest of both the I.A.F. and H.A.L., the latter would do well to examine the questions of</p>

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increasing their production and manufacture of engines and airframes of the types selected by the I.A.F. to meet their growing requirements. The Committee would also like to know what progress is being made in each of the directions laid down in the Memorandum of Association of the H.A.L.

Defence
Communi-
cation

(ii) The Committee would suggest that the Ministries of Defence and Communications should work out their requirements for 2-3 years in advance of the period of use to enable the factory to plan its production programme and phase it over a period. The Committee understand that certain suggestions in this behalf have been made to Government by the H.A.L. and they would like to know the final decision arrived at in the matter.

Defence

(iii) While the Committee welcome the gradual change-over to the production of aircrafts till its capacity is fully absorbed by manufacture of aero-engines or complete aircrafts, they would suggest that the H.A.L. should explore the possibilities of securing some overhaul work from some of the friendly neighbouring countries till such time as it is in a position to utilise its full capacity on the manufacturing side.

Defence
Communica-
tions

(iv) They would also suggest that its capacity for overhaul and servicing etc. should be fully utilised, suitably co-ordinated and pooled with the Air India International Airlines Corporation and I.A.F. internal facilities, for such purposes to avoid over-lapping in the interest of economy and efficiency.

Defence

(v) The Committee suggest that the manufacture of cheaper trainer aircraft by the H. A. L. should be investigated in order to cater to the growing needs of Flying Clubs in the country.

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			<p>The desirability of supplying H.T. 2 aircraft to Flying Clubs on instalment basis should also be considered by the H.A.L. as it will facilitate more sales and make people more air-minded in the country.</p>
			<p>(vi) The Committee would like to know in due course the progress made in the execution of some of the projects for manufacture of certain types of aircraft and engines.</p>
26	39	Defence	<p>The Committee would like to have comparative statement of the cost of the Integral Rail Coaches to be manufactured by the H.A.L. and the Integral Coach Factory, Perambur (Madras.)</p>
27	40	Do	<p>The Committee would suggest that the H.A.L. should consider the feasibility of implementation of their suggestion regarding the desirability of standardising the types and designs of aircrafts required for internal feeder services.</p>
28	41	Do	<p>The Committee find that the H.A.L. have not so far taken any concrete steps to prepare a detailed annual report on the working of its various Branches for being made available to Members of Parliament as recommended by them in Para 41 of their 14th Report. They would, therefore, reiterate their earlier recommendation in this behalf and desire that the H.A.L. should make an early start in this direction.</p>
29	43	<p>Defence Communications Railways</p>	<p>It is apparent that the decision of Government to enter into an agreement with the French firm was arrived at after careful consideration. If so, the Committee think, it is idle to suggest now (after half the period of contract has rolled by) the user Services were averse to purchase the equipment manufactured by B.E.L. because of their unfamiliarity etc. Such an attitude, if it is allowed to continue, will hamper production and smother</p>

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			<p>if not kill, the incentive to produce. The Committee are, therefore, very much concerned that the capacity of the factory should be put to the best possible use and to this end, the Government, the user Services and the B.E.L. should address themselves earnestly.</p>
		Defence	<p>The Committee like to add here that this is not the first case of its kind where Government could not utilise the installed capacity of a factory fully. Similar is the case of the Machine Tools Prototype Factory at Ambarnath. They trust that the Ministry will profit by these experiences.</p>
30	45	Defence	<p>(i) In retrospect, the conclusion is irresistible that the production programmes have not been well-planned in the Project Report; nor have they been properly scrutinised by the Technical Directorate in the Ministry. It is not known whether attention was paid to the suggestion of the Technical sub-Committee regarding some changes in the production schedule of B.E.L. either at the time of finalising the contract or while modifying the production schedules subsequently. Undoubtedly the initial set-backs encountered by B.E.L. in establishing production were due to peccack of perslitive in planning production. The emphasis on the development aspect was more than it ought to be. In a new venture like the electronic industry, a better and more prudent course would have been to start production of types of equipment already in use (and therefore acceptable to users without modifications and elaborate tests and trials) and then switch over to new types gradually.</p> <p>(ii) Of the three types of wireless sets required for the Defence Services, production in two cases is not expected to commence earlier than 1959 and 1963 respectively, while in the third, development work has been stopped. The Committee</p>

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would, therefore, suggest that production of less complicated equipments should now be taken up by B.E.L. so as to utilise the idle capacity for the intervening period. Had this been done much earlier, the B.E.L. would have gone into production years before and would have saved the much needed foreign exchange. With a view to examine this aspect in greater detail, the Committee called for a note stating the value of various equipments imported by the Defence Services which could have been manufactured by the B.E.L. had the original schedule of production been adhered to. The information is still awaited.

- (iii) Though the performance of the B.E.L. was disappointing so far as the requirements of the Defence Services were concerned, the factory has manufactured electronic equipments for civil users like Railways, Police, A.I.R. and Civil Aviation Department. The Committee were assured that with the setting up of the Radio and Cable Control Board, the manufacturing capacity of the B.E.L. would be fully utilised by the Government Departments, for the Board scrutinises the indents of the user department for the import of electronic equipments which could be undertaken by the B.E.L. were they so directed. The Committee would like to know how far the present production of equipments required for civilian use has enabled the company to utilise its capacity and would also like to be informed of the effect of the setting up of the Radio and Cable Control Board on the future utilisation of the capacity.

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Defence

The Committee consider that as a factory run on business principles, B.E.L. should have an efficient Sales Department. This Department should be manned by competent technical officers who will contact the user Departments with a view to ascertaining their future requirements and

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thus enable B.E.L. to plan ahead the production programme. Officers of this Department may also be sent abroad periodically to visit the French firm to select the items of equipment produced by that firm which will be acceptable to users here for manufacture at B.E.L. Similarly, they may also select other equipments to manufacture under licence in B.E.L.

In fact the Committee understand that a delegation of experts headed by an officer of the Defence Ministry toured the U.K. on a similar assignment and have selected a number of such items. It is reported that their report is under the consideration of Government. The Committee trust that speedy action will be taken on this report and the production schedule of B.E.L. drawn up quickly.

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Defence

(i) The Committee were informed that B.E.L.² had already spent Rs. 20 lakhs on the machinery and building in connection with establishing valve production, while the machinery required for the complete project was estimated to be worth Rs. 25 lakhs. In these circumstances, the Committee considered that the obvious choice is the public sector. The Committee would, therefore, urge that the negotiations with the other company in this behalf should be finalised without any further delay and production of valves started by the B.E.L.

(ii) One important question which the Committee understand is being considered by the Defence Ministry in this regard is how far the entering into the licensing agreements with other firms for valves would affect the obligations of Government under the terms of their agreement with the C.S.F. the French firm as this would affect the full utilisation of Bharat

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Electronics Ltd.'s capacity with and without the assistance of the C.S.F. The Committee would like to be informed of the final decision on this point and of the progress made in this matter of undertaking manufacture of valves in Bharat Electronics Ltd. before they next take up examination of the accounts of the company.

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| 33 | 48 | Defence | <p>(i) The Committee understand that Audit have already suggested that the review of under or over-recovered overheads should be quarterly, and on the basis of such review, the rate of overheads for the subsequent period should be suitably adjusted with a view to avoiding the necessity of reopening all the closed work orders at the end of the year for reallocation of the under or over-recovered overheads. The Committee desire that the suggestion should be examined by the B.E.L. and the Committee informed, in due course, how the change suggested by Audit has worked:</p> <p>(ii) The Committee should be informed as to the manner in which the amount of loss of the order of Rs. 20.57 lakhs in respect of 147 sets of transmitters and 314 sets of receivers is proposed to be finally adjusted.</p> |
| 34 | 49 | Do. | <p>At present, with the major part of B.E.L.'s capacity lying unutilised, the overhead costs are disproportionately high. A sort of weighted overhead is being charged on the equipments manufactured at present. The Committee were given to understand that this was inevitable and with the tempo of production rising, the element of overheads in costs will decrease over a period of years. While the Committee appreciate this, they are of the view that the B.E.L. should devise effective measures to guard against extravagance and allocating too much overhead on its products which might result in</p> |

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			<p>"pricing itself out of the market." With this object in view, the B.E.L. should scrutinise its overhead costs periodically and see that its costs are comparable, if not competitive, with imported equipments.</p>
35	51	Defence <hr/> Finance (Defence)	<p>The Committee regret to observe that store-accounting and storekeeping continues to be in an unsatisfactory condition, and even after completion of the Re-organisation Scheme, no perceptible improvement has been noticed. They would therefore reiterate their oft-repeated observations that unless the quantity and location of stores are known with reasonable accuracy, full operational efficiency of the Services cannot be attained. They desire that the surprise check of the physical stock by the C.G.D.A. should be introduced in respect of the items where large surpluses and deficiencies have been noticed.</p>
36	55	Defence	<p>(i) The Committee regret to observe that so long after the end of the War, the store keeping was allowed to remain in such a chaotic state in the Air Force Depots. In their opinion the situation warranted much earlier action to screen the old stocks with a view to determining their usability and disposing of obsolete and unwanted items. While the Committee appreciate that the present procedure is designed to ensure that stocks which might be required in future should not be declared surplus, if we consider that on a long term point of view it would be more economical to dispose of stores of doubtful usability and resort to purchases if and when, the necessity actually arises in future.</p> <p>(ii) The Committee would like to know in due course the value of stores declared 'inactive' and progress made in their disposal.</p>
37	56	Defence	<p>The Committee desire that the outstanding rent recoveries in respect of the Defence Services Buildings should be reduced</p>

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			considerably. The Committee would like to know the progress made in the matter of adjustments or recoveries made.
98	57	Defence Finance ■ (Defence)	The Committee are amazed at the explanation of the C.G.D.A. for restricting the rent recovery from the allottee to 10 percent of her pay. How could the Command Controller overlook the fact that the allotment in this case was made on the personal undertaking of the lady clerk to pay the assessed rent? The Committee are distressed to note that Finance also should have chosen to act in this manner. The Committee desire that with a view to avoid such irregularities in future necessary instructions should be issued to ensure that no higher accommodation is allotted to Government servants than is warranted by their status but that if in any case such higher accommodation is actually allotted to them at their own request, full assessed rent should be recovered. The Committee understand that in the case of civil departments such a position is already laid down by rules and they do not see any reasons why the same principles should not be followed in cases of this type.
39	60	Do.	The Committee understand from Audit that although under the standing orders it was the duty of the Accounts Officer to furnish half yearly basic costs of manufacture of all stores of the type in question, the Accounts Officer attached to the Ordnance Factory failed to comply with the instructions and that the case was under investigation. It is obvious that in this case the loss was not due to any defect in the procedure but due to failure to follow the correct procedure. The Committee would like to be informed of the disciplinary action taken against the delinquents.
	62	Defence Finance (Defence)	The Committee feel that the system of placing orders for various items whether issued to users direct or through Offi-

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			<p>cers' Shops is defective inasmuch as the estimated cost of manufacture is not made known or ascertained by the indenter. They desire that the Ministry of Defence in consultation with the Ministry of Finance (Defence) should revise the procedure forthwith.</p>
40	63	Defence	<p>The Committee would like to watch the results of the implementation of the revised procedure regarding publication of the payment issue rate.</p> <p>The Committee had commented in their Nineteenth Report also on delays in the publication of correct issue rates. They would, therefore, urge that such cases should be investigated thoroughly and serious notice taken of such lapses.</p>
41	64	Do.	<p>The Committee are not happy about the inordinate delay in repairing the tractors in this case which resulted not only in extra expenditure on manual labour, but also loss of efficiency. They would like to be informed in due course of the progress made in repair work. They would also like a statement for each Depot to be furnished to the Committee duly vetted by Audit showing the number of vacancies existent during the period of irregularity in the authorised establishment of fitters and fitter-mates and the number of surplus drivers utilised in lieu and how far the employment of drivers in lieu of fitters and fitter-mates is feasible and justified from the point of view of efficiency and economy.</p>
42	67	Do.	<p>(i) The Committee think that the whole transaction was ill-planned and ill-conceived. They endorse the view of Audit that the infructuous expenditure could have been avoided if the operation had been well-timed. It is surprising that the most favourable part of the year for this operation should have been unknown to the Defence authorities who have been dumping ammunition for quite a number of years.</p>

68 Defence (ii) The Committee trust that necessary administrative instructions with regard to dumping operations when issued would prevent recurrence of nugatory expenditure in future.

43	69	Defence	The Committee would like to have a further report regarding the recoveries made, from the State Governments in respect of the surveys of the two ports, which work out to be Rs. 9 lakhs.
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45	71	Defence Finance	The Committee desire that in order to enable them to have a proper appreciation of the position with regard to advance payment made to the U.K. Government for purchase of stores for short and long term deliveries they should be furnished with the statement showing the details of outstanding advances as on 30th
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			<p>June, 1957, the orders to which they relate, the date on which the orders were placed and the progress of supply against these orders.</p>
			<p>The Committee would suggest that the Government of India should also consider the question of demanding advance payments whenever bulk orders for stores are placed on them by other countries.</p>
46	73	<p>Defence W.H. & S.</p>	<p>The Committee wonder how the Defence authorities (indentor) could acquiesce in the view that the asbestos cement sheets required by the Defence authorities would have been accepted even with changed specifications. The Committee are of the view that the D.G., I.S.D., London had failed in his duty in not getting the prior consent of the indentor before placing orders for stores of the changed specifications. They desire that in future prior concurrence of the indentor should invariably be taken by the Supply Wing in cases where the original specifications are changed for any reason.</p>
47	74	<p>Defence</p>	<p>The Committee are given to understand that it is proposed to allow the Canteen Stores Department (India) to function as at present and to finance it from a Fund outside the Consolidated Fund of India but within the Public Accounts. The Committee are of the view that the position will still be extremely anomalous and would therefore recommend that the question of placing the Organisation on a statutory basis as a corporate body under an Act of Parliament should be further considered.</p>
48	75	<p>Defence W.H. & S.</p>	<p>(i) It appears that a proper enquiry into the case relating to the purchase of aviation stores referred to in para 33 of the 9th Report of the P.A.C. was not instituted. The Committee feel that the Controller of Supply Branch in the India Store Department who was responsible for certain administrative lapses, has been let off lightly.</p>

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76	Defence W. H. & S.	(ii)	As observed by the last Committee, the method of procurement of stores followed in this case was unbusinesslike. The Committee consider the practice followed by the Air Adviser in suggesting the name of possible supplies as highly irregular and desire that this practice should be stopped.
		(iii)	The Committee have been assured by the Ministry of Works, Housing and Supply that the review of the procedure regarding payments on 'understanding' was in progress to see whether its continuance was in the interest of the Government. The Committee would await the results of the review.
49	77	Defence	(i) The Committee are not convinced that the reasons given by the Ministry of Defence for excessive rates for daily wages paid to labour in Southern Command justified variation between the rates of wages paid by the Defence authorities and the local P.W.D. etc. to the tune of 25%.
		(ii)	The Committee trust that with the issue of instructions by the Ministry of Defence in December, 1956 there would not be such variations in future between the rates of wages paid by the various Defence Authorities and the local P.W.D. rates at any place. They desire that similar reviews of wages paid by the Defence authorities <i>vis-a-vis</i> rates fixed by the local Governments, Railway etc. should be carried out in other Commands also.
50	78	Do.	The Committee feel that had action been taken earlier to salvage the war-time installed tanks for reserve storage for mechanical transport fuel, the number of serviceable tanks would have been more. They would like to have further information on the following points:—
		(a)	Has the survey of the tanks located at all the airfields and stations been

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			<p>completed? If so, what was the total number of tanks available and number of those in serviceable condition? Figures in respect of above-ground and underground tanks to be given separately.</p>
			<p>(b) whether all the surplus tanks on non-requisitioned land were unserviceable. If not, the reasons leading to the decision to dispose them of <i>in situ</i>.</p>
51	79	Defence	<p>(i) The Committee regret to observe that the punishment meted out to the officers responsible for not communicating to the War Office the precise specifications of the store required by the Defence Ministry in the case referred to in paras 29 to 30 of the 19th Report of the P.A.C., is inadequate and not commensurate with the gravity of the lapse involved. They would like to know whether a proper enquiry was held in the matter for fixing responsibility in this case.</p>
			<p>(ii) The Committee feel that this a a case where the question of refund of at least the amount representing the cost of entire stock found unserviceable should be taken up with the supplier.</p>
52	80	Do.	<p>(i) The Committee do not accept the explanation given by the Ministry of Defence for the purchase of 4×2 vehicles to meet the deficiency of 4×4 vehicles, as admittedly 4×2 vehicles could not take the place of 4×4 vehicles. They were told in evidence that the firm in question were given these orders for 4×2 vehicles to enable them to take up manufacture of 4×4 vehicles in due course. The Committee would like</p>

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			to be informed whether the manufacture of 4×4 vehicles has since been established by the two firms.
			(ii) The Committee also desire to be informed how the deficiency of 8124 of 4×4 type in 1951-52 was reduced to 3,071 in 1952-53 when no fresh purchases of the 4×4 type were made.
			(iii) With regard to the procedure for discard and condemnation of vehicles for disposal, the Committee would like to be informed whether any system exists in the Army for calculating the rate of depreciation of the vehicles with a view to fixing their book value at the time of disposal and also the period after which a vehicle is normally declared for disposal.
			(iv) The Committee also desire to know whether there are any instructions as to which particular parts are to be retrieved from different types of vehicles before their disposal, having regard to their not losing re-sale value and whether proper account of the retrieved parts is kept by the appropriate authorities.
53	81	Defence	The Committee would like to know the average number of vehicles that are required to be repaired per year ; the period expected to be taken to overhaul the backlog of 31,000 vehicles and those sentenced as repairable subsequently. They should also be informed of the improvement effected in the overhauling capacity of workshops and of other measures, if any, taken to step up progress of repairs of vehicles.
54	82	Do.	(i) In the case relating to the infructuous expenditure due to cancellation of a demand referred to in paras 47-53 of the 19th Report of the P.A.C. the Committee are surprised that the D.G.O.F. should have proceeded with the order on the basis of a casual 'enquiry' from a foreign country for 50,000 numbers of the store.

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83	Defence	(ii)	As regards the system of provisioning of stores, the Ministry of Defence hold the view that the present system of provision reviews is generally comprehensive and is not in need of a wholesale revision.
			The Committee regret to observe that the large number of cases of defective provisioning brought to light in successive years do not support the Ministry's contention. The Committee would, therefore reiterate that the matter requires a more detailed examination with a view to improving the method of provisioning. Over-provision leads to heavy accumulation of stock for long periods affecting the operational efficiency of stores and heavy expenditure on their care and maintenance. They would like to invite attention to para 15 of this Report also.
55	84	Do.	The Committee observe that the disciplinary action taken in the case re : acquisition of unwanted stores referred to in para 55 of their 19th Report has been confined to the lower staff only. They feel that the responsibility of higher officers should also be fixed.
56	85	Do.	(ii)
			The Committee would like to suggest that the Ordnance factories should also open show rooms in important cities in the country with a view to giving wider publicity to their civilian products. The Committee, are however, of the opinion that the expenditure incurred on the Sales Organisation should not be incommensurate with the sale proceeds from civil trade. They would like to know the progress made in the appointment of the sales expert and increase effected to securing orders from the civil trade.
86		Do.	(ii)
			The Committee are of the opinion that with a view to utilising the idle capacity of the Ordnance Factories, a review of the requirements of the private trade and Government Departments for items of civil use should be undertaken.

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			<p>The Committee would like to know the steps taken to secure orders from private trade and Government Departments and the value of orders executed for the Government Departments and private trade for civilian items during the last three years, year-wise.</p>
57	87	Defence	<p>In the Committee's opinion the linking of invoices with packing accounts relating to stores purchased in the U.K. for the current years should have been done simultaneously. They feel that delay in the completion of this work is fraught with dangers and, therefore, they would like to be informed of the procedure followed in linking of invoices in the case of stores purchased from other countries and quantum of arrears, if any.</p>
58	88	Do.	<p>In the opinion of the Committee the punishment meted out to the officers responsible in the two cases (i) Disposal of blankets and (ii) Delay in publication of payment issue vote referred to in paras 84—86 and 87—89 respectively of their 19th Report, was grossly inadequate.</p>
		<p>Do. W.H.&S. All other Ministeries</p>	<p>The Committee regret that complete facts were not brought to the notice of the Committee of 1955-56, regarding the case referred to in paras 90-100 of their 19th Report—<i>Ex-gratia</i> payment to a private firm. They desire that in future all relevant and complete facts should invariably be placed before them either during the course of evidence or through notes/memoranda submitted to them subsequently.</p>
59	89	W.H.& S.	<p>In the present case, the Committee are not still convinced that the payment of sales tax was legitimately due to the firm in respect of the first contract as there was no reference to sales-tax in the firm's offer. They are also not sure whether there was any</p>

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			<p>case for payment on grounds of equity as payment on grounds of equity will arise only in the case of proved loss to the firm in the deal.</p>
		Defence	<p>They regret that although a period of 6 months has elapsed, the Ministry of Defence have not furnished to them the information desired by them regarding the claim of refund of sales tax in respect of the jeeps moved out of Bombay after their purchase. The Committee are, therefore, obliged to defer their further comments on the merits of the case.</p>
60	90	Defence	<p>The Committee had expressed a desire that due priority should be given to provide accommodation for stores which were lying in the open for many years. They would like to watch the progress made in the matter.</p>

