

PUBLIC ACCOUNTS COMMITTEE
(1968-69)

(FOURTH LOK SABHA)
FIFTY SECOND REPORT

[Action Taken by Government on the recommendations of the Public Accounts Committee contained in their 16th Report (Fourth Lok Sabha) on Appropriation Accounts (Defence Services) 1965-66 and Audit Report (Defence Services) 1967-Defence Production.]



LOK SABHA SECRETARIAT
NEW DELHI

March, 1969/Phalguna 1890 (Saka)

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(1968-69)

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*Declared elected on 19th August 1968 ~~Vice~~ Shri M. M. Dharia who resigned from the Committee.

STATEMENTS

INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Fifty-Second Report on the Action taken by Government on the recommendations of the Public Accounts Committee contained in their 16th Report (Fourth Lok Sabha) on the Appropriation Accounts (Defence Services) 1965-66 and Audit Report (Defence Services) 1967—Defence Production.

2. On 12th June, 1968, an 'Action Taken' Sub-Committee was appointed to scrutinise the replies received from Government in pursuance of the recommendations made by the Committee in their earlier Reports. The Sub-Committee was constituted with the following Members :

1. Shri D. K. Kunte *Convener.*
2. Shri C. K. Bhattacharyya
3. Shri K. K. Nayar
4. Shri Narendra Kumar Salve.
5. Shrimati Tarkeshwari Sinha
6. Shri N. R. M. Swamy.

3. The draft Report was considered and adopted by the Sub-Committee at their sitting held on the 17th February, 1969 and finally adopted by the Public Accounts Committee on 3rd March 1969.

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

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

M. R. MASANI,
Chairman,
Public Accounts Committee.

NEW DELHI;
March 11, 1969/Phalguna 20, 1890 (Saka)

CHAPTER I

REPORT

1. This Report of the Committee deals with action taken by Government on the recommendations contained in their 16th Report (Fourth Lok Sabha) on the Appropriation Accounts (Defence Services) 1965-66 and Audit Report (Defence Services) 1967—Defence Production, which was presented to the House on 29th February, 1968.

1.1. Out of 26 recommendations contained in the Report action taken notes/statements have been received in respect of 21 recommendations. Replies are still outstanding in respect of recommendations at S. Nos. 4-5.

1.2. The action taken notes/statements on the recommendations of the Committee contained in this Report have been categorised under the following heads :—

- (i) *Recommendations/observations that have been accepted by Government :*
S. Nos. 6, 14, 19, 20, 24, 25 and 26.
- (ii) *Recommendations/observations which the Committee do not desire to pursue in view of the replies of Government :*
S. Nos. 1, 2, 3, and 18.
- (iii) *Recommendations/observations replies to which have not been accepted by the Committee and which required reiteration :*
S. Nos. 7, 11, 12, 13, 16, 17, 21, 22, and 23.
- (iv) *Recommendations/observations in respect of which Government have furnished interim replies :*
S. No. 15.

1.3. The Committee hope that replies to the outstanding recommendations and final reply in regard to the recommendation to which only interim reply has so far been furnished will be submitted to them expeditiously after getting it vetted by Audit.

1.4. The Committee propose to pursue the recommendations made in paragraphs 1.55—1.57 (S. Nos. 8-10) regarding off loading orders for certain items to trade through their Report on the Appropriation Accounts (Defence Services) 1966-67 and Audit Report 1968.

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

Distribution of workload in Ordnance Factories— Paragraph 1.50 (S. No. 7).

1.6. In paras 1.38 to 1.50 of their Sixteenth Report (Fourth Lok Sabha), the Committee had drawn attention to instances of certain stores being manufactured in two different ordnance factories even though the cost of production in one was higher than that in the other. The Committee were

then informed that the allocation of workload amongst different factories for the same item was a matter for "higher management at Director-General; ordnance factories, Headquarters." In deciding the allocation the delivery schedule "was the decisive factor in most cases and not the cost". Orders were allotted to the ordnance factories on the basis of past performance; capacity and load charts* were however available for major items. There was also a Methods Study Cell at Headquarters of the Director General Ordnance factories; it was engaged on the study of the processes and methods of manufacture with a view to achieving maximum production as also maximum utilisation of material employed in production. Similar cells had also been established in three factories and, pursuant to a decision taken at a General Managers Conference held in 1966, these cells were in the process of being set up in other factories also. Difficulty was being experienced in getting adequate number of trained men for the purpose.

1.7. After taking note of the foregoing position, the Committee made the following observations in Para 1.50 of the Report:

"The Committee agree that the most important consideration for the production of stores for defence purposes is the time factor and the priority indicated by the Forces. The Department of Defence Production have now a very large number of manufacturing Units and a number of them are capable of producing the same item of equipment. It is, therefore, absolutely essential that, for any rational distribution of orders, the management should have a clear idea not only of the capacity available, the capacity booked and the spare capacity remaining, but also a precise idea of the relative cost and time factor involved. The Committee are not able to appreciate how in the absence of such basic data, the Director General, Ordnance Factories, is able rationally to distribute the orders in the interest of achieving economy and efficiency. The Committee therefore, cannot too strongly stress that the Method Study Cells in the Department of Defence Production should effectively discharge their responsibilities by providing reliable data for the rational distribution of orders for the manufacture of stores and equipment in the ordnance Factories."

1.8. In their reply dated 11-10-1968, the Ministry of Defence stated :

*A Study Group of the P.A.C. which visited some ordnance factories in December, 1968 were given to understand that submission of capacity and load statistics by the factories was discontinued after the Chinese aggression. A Study Group setup by the D.G.O.F. in March, 1968 to examine the question of centralised planning and co-ordination of production recommended, *inter-alia*, the constitution of a centralised planning and co-ordinating agency in the headquarters of the Director General Ordnance factories by re-adjustment of technical staff already deployed in the organisation. This agency was to prepare production programmes for the main and stores as well as the component programme for the feeder factories, taking into account the Service orders, priorities, manufacturing lead time and capacities. All matters pertaining to production costing were also to be dealt with by this agency. On the basis of the recommendations of the Study Group, it was decided to recall capacity and load charts from different factories on a quarterly basis. The question of transferring responsibility for production planning to a central co-ordinating agency was also taken up for implementation. The Study Group also understood that a computer system had been installed in March, 1964, *inter alia* to assist the Directorate General of Ordnance factories in preparing an integrated production programme for the various factories taking into account the requirements of the Services, their priorities and the capacities of various factories. Machine capacity data is being collected from the concerned factories for being processed through the computer.

"At present Method Study Cell is engaged on Studying the major items of production and their recommendation and suggestions are being scrutinized by the respective factories for implementation to the extent feasible under the existing condition of Plant and Machinery available in the factory. As regards the *Ad-Hoc* items, the number of items being exceedingly large and the quantities on individual items ordered from time to time being considerably small as compared to major items of productions, decisions for allocation for manufacture of the *Ad-Hoc* orders are taken on the basis of urgency of requirements; even though in some cases this may be slightly higher in cost. In most cases the factories which were entrusted with manufacture of these items in the past were asked to undertake manufacture on subsequent orders also. While the ordnance Factories organisation are aware of the variations in cost, decisions are taken mostly on urgency of requirements even than this involves increase in cost of production. The cost factor is now being looked into and for future allocation of orders between more than one factory for any items, more detailed analysis will be carried out before placement of orders."

"In order to streamline the working of the Method Study Cell, a programme has been drawn up to divide ordnance factories into four zones for training of senior non-gazetted staff working in Rates and Estimates sections and Method Study Cells by departmental officers from Headquarters. Under the programme, training has successfully been completed in Method Study by 68 non-gazetted officers. With a view to building up a nucleus of staff/officers with a better background and advanced training on the subject, training facilities available in the country have been availed. So far, one Dy. Manager, 4 Assistant Foreman and 3 Chargeman have been trained in Method Study Courses conducted by National Institute of Training in Industrial Engineering. 21 officers of the rank of Assistant Manager and above have also received/advanced training in works Study conducted by Defence Institute of Works Study."

"A proposal to have a regular Method Study Cell in every ordnance factory in a phased programmes is under Consideration. This will, however, take time, as trained men are not available for a cell in every factory."

"The Method Study Cells will be strengthened, as and when necessary, depending upon the nature of work. It, however, takes time to get the staff trained."

1.9. In their further reply dated 24th December, 1968, the Ministry of Defence have stated :

Allocation of orders on the basis of cost aspect

"The allocation of orders for principal items of manufacture in ordnance factories is done in January and February each year. The background of the cost aspect is being kept in view in all cases and decision will be taken after due consideration at the time of allocation of orders."

Introduction of a regular Method Study Cell in Ordnance factories.

"The matter is still under consideration of the Government. As already stated in the Government's reply to the recommendation, the proposal to have a regular Method Study Cell in every factory in a phased manner will take time since trained men are not available in every factory and it takes time to get the staff trained."

1.10. The Committee can hardly emphasise adequately the need for rational programming of production in ordnance factories. Such programming has two aspects. The manufacture of stores should be allotted to the factory which is able to produce it at the cheapest rate, as far as this is consistent with consideration of urgency of requirements. Besides, the manufacture of stores, which are more economically procurable from the market, should be left to the market.

1.11. The Committee understand that, pursuant to the recommendations made by a Study Group set up by the Director General of Ordnance Factories, production programming through a centralised agency has been started on the basis of capacity and load charts, submitted by the factories. They hope this would ensure rational allocation of the workload amongst the various ordnance factories. In the process of allocation, it is vital that the production cost factor should also be continuously kept in view. Considering that in peace time "only 30 per cent or 40 per cent" of the capacity of factory is engaged in production, even "urgency of requirement" should not normally stand in the way of programming amongst different factories being done primarily on the basis of cost considerations.

1.12. The Committee note that to facilitate proper programming, computer facilities were made available to the Directorate in 1964 and machine capacity data is still being collected from the concerned factories for being processed. The Committee hope that the work in this respect will be speeded up.

1.13. Another aspect to which the Committee would like to draw the attention of Government is the need to instil cost consciousness in individual factories. The Committee note in this connection that as far back as 1966, it was decided at a General Managers Conference to set up Method Study Cell in the various factories to analyse the processes and methods of manufacture so as to maximise production and minimise wastage. The decision still awaits implementation, apparently due to shortage of trained men in the factory. The Committee hope that the pace of training will be accelerated and effective units to secure production and cost control set up expeditiously in each factory.

*Rejections in Manufacture—Paragraphs 1.78 and 1.79
(S. Nos. 11, 12 and 13)*

1.14. Rejections in manufacture in ordnance factories and clothing factories may be avoidable and unavoidable. Unavoidable rejections are inherent in the manufacture of an article and are taken into account while estimating the cost of manufacture. All rejections over and above those included in the standard cost are regarded as avoidable. In six cases of avoidable rejections amounting to Rs. 12.25 lakhs that occurred in 1965-66 The rejections were attributed to bad material. The Committee made the following observations in paragraphs 1.78 and 1.79 :

"The Committee are distressed to note that in all the six cases of rejection reported by Audit bad material of the value of Rs. 12.25 lakhs was supplied by other feeder factories under Government where it had already been tested and passed before despatch. This raises not only the question of the adequacy of the procedure for inspection which permits such bad material to be caused by the feeder factories, but also the larger question of efficiency and the reliability of materials and goods supplied by such ordnance factories direct to the Armed Forces."

"The Committee feel that it should be possible for the Government to evolve, in consultation with the feeder and user ordnance factories and Armed Forces, satisfactory standards for quality control. It should also be impressed on the inspection staff that the standards for, passing materials and components should be strictly enforced and improved. Where rejections in the manufacture of a particular item are detected to be unduly high, a thorough investigation should be carried out with the utmost expedition so as to devise suitable remedial measures to check the losses and the possibility of introducing inspection at various stages should be fully considered."

1.15. In their reply dated 11th September, 1968, the Ministry of Defence have stated :

"The problem of improvement in quality control* with the object of elimination of defective materials produced in feeder factories at the inception is receiving active consideration of the Directorate General of Ordnance Factories and the Director General of Inspection. The General Managers of Metal & Steel Factory, Ishapore, Ordnance Factory, Kanpur, Ordnance Factory, Katni, Ordnance Factory, Ambernath, who are the main suppliers of materials for ammunition items in forged/rolled condition have been specially instructed to tighten up the inspection procedure in the factories' work of Inspection Section before the submission of material to Inspector of Metals or his representative (the latter is under the D.G.I.). The Chief Inspector of Metals is also taking suitable steps to improve the quality of materials and to eliminate to the maximum extent possible the defective materials produced by the feeder factories. Specific measures taken by the Chief Inspector of Methods in this connection are :

- (i) defects and discrepancies observed during inspection in all cases are brought to the notice of the production section and factory management by appropriate endorsement on relevant inspection notes;
- (ii) where rejection or rectification appear as excessive or abnormal, the reasons and remedial measures are discussed personally with the factory management;
- (iii) further periodical reports high-lighting heavy rejections and reasons for them are prepared by Chief Inspector of Metals and forwarded to DI (Arm) with copies endorsed to the General Manager (Fys), and D.G.O.F."

*A Study Group of the PAC which visited some ordnance factories adhered that statistical quality control cells are functioning in 19 out of 27 ordnance factories.

"The user factories which are mainly Gun & Shell Factory, Cassipore, Ordnance Factory, Kanpur, Gun Carriage Factory, Jabalpur, Ordnance Factory, Khakaria, Rifle Factory, Ishapore, Ordnance Factory, Dum Dum and such other factories have been also instructed (*vide* Annexure I) to report the rejection percentages to the feeder factories as well as to DGOF for immediate investigation for evolving suitable remedial measures to check recurrence of such losses and to introduce check points to reduce the rejections to the absolute minimum."

"As regards inspection, generally the materials are tested by the Inspectors in the feeder factories for chemical and physical properties only. It is possible in certain instances that some incipient defects such as blow-holes, internal cracks, inclusions etc. may remain undetected in the individual ingots. The materials can also deteriorate during storage before they are taken up for use. Such defects will only be detected by the Inspector when the material is subjected to further processes such as machining, bottling, shot blasting etc."

"All the precautions that have been stipulated according to the standard practice of inspection are being rigidly followed in all the stages, right from the stage of casting of ingots for the shells, bombs etc. In spite of these precautions, defects in the material that are considered inherent in the material itself are revealed at the stage of subsequent operations and cannot in all cases be located earlier. Even after the item has been established for a number of years, such defects can occur and in fact they cannot be eliminated altogether although quality control is rigidly followed."

1.16. The Committee had also referred in their report to avoidable rejections totalling Rs. 63.53 lakhs relating to the period upto March, 1965 which had not been regularised. In this connection they made the following observations in paragraph 1.81 :

"The Committee are not happy over the delay of several years in evolving a procedure for the regularisation of losses arising from these rejections. The Committee feel that, apart from the formality of regularising these losses, what is more important is to analyse the reasons so as to take effective remedial measure."

1.17. In their reply dated 3rd October, 1968, the Ministry of Defence have stated :

"As regards the first part it may be stated that there is an existing procedure for regularisation of losses arising from rejection. The necessity for expeditiously dealing with cases of regularisation of losses is always borne in mind. The latest position in regard to these regularisation of the losses in question is furnished in the attached statement (see page 35). While every effort is being made to regularise the outstanding losses as quickly as possible, it is pointed out that some time is unavoidable in investigating the reasons for the rejections, as such cases involved more than one factory and rejections are detected at a latter stage during machining."

"As regards the second part in so far as the procedure suggested by the Committee that the cases of losses should be analysed in order to find out the reasons and based on which defective remedial measures

should be taken is concerned, it is pointed out that this procedure is already being followed in Directorate General of Ordnance Factories. Whenever a loss due to rejection is reported to the DGOF for regularisation, the loss statement is invariably analysed to ascertain the various causes of rejections and based on this analysis, suitable remedial measures for reducing the recurrence of such losses are taken. So far as the rejections due to bad material are concerned, General Manager, Ordnance Factory, Kanpur, along with General Manager, Ordnance Factory, Katni and a representative of Inspectorate of Metals are going into the details, of the causes of such rejection. Their report is awaited. As soon as the report is received, necessary further action will be taken."

1.18. The Committee observe that the number of pending cases of rejections in manufacture awaiting investigation and regularisation are still very large. As against rejections valued at Rs. 63.53 lakhs up to March, 1965, which were awaiting investigation when they last considered the question, of rejections valued at Rs. 53.67 lakhs were still pending as on 2nd September, 1968. The Committee trust that these outstanding cases will be expeditiously investigated and necessary positive remedial measures in the light of the investigations will be taken.

1.19. The Committee also note that, pursuant to their observations, steps have been taken to intensify inspection of stores produced by the feeder factories so as to minimise rejections by user factories. The Committee would, however, like to emphasise that the inspection procedure devised should be such that adequate checks and controls over the quality of the product, exist at each of the stages, of manufacture of the product in the feeder factories. It is also necessary that material recovered for forging/casting etc. is adequately checked is to quality before it is accepted for use in the feeder factories so that the extent of supplier's responsibility is also determined. The foregoing procedures should help to identify precisely the causes for rejections that now occur.

Manufacture of spares and completion of extracts, Paragraphs 1.100 and 1.101 (S. Nos. 16 and 17).

1.20. A study Group on production control set up by the Director General, Ordnance Factories in April, 1966 had observed that a large number of orders for spares remains outstanding even though the Ordnance Factories had the capacity to manufacture them. The Committee made the following observations in paragraphs 1.100 and 1.101 :

"As spares are vital for maintaining operational efficiency of arms and equipment with the Armed Forces, the Committee suggest that the Director General, Ordnance Factories, should devise a systematic procedure to undertake their manufacture and supply in keeping with the requirements."

"Since capacity for the manufacture of these spares is admittedly available with the Ordnance Factories, there should be no reasons for arrears of demand to accumulate."

1.21. In their reply dated 31st October, 1968, the Ministry of Defence stated :

"After the Chinese aggression in 1962, the Services demands placed on the Director General of Ordnance Factories registered a steep rise and consequently the number of extracts (i.e. authorities to factories to undertake manufacture) also increased considerably. As the capacity in various Ordnance Factories could not be immediately expanded commensurate with the unexpected increase in demands firstly because such sudden expansion of capacity was not feasible and secondly because it was not prudent to expend the capacity at considerable capital outlay without reasonable assurance of the continuity of the increased load for a sufficiently long period and therefore production against the extracts had to be necessarily spread out.

"The attached statement (Annexure)* indicate the numbers of extracts placed and the numbers of extracts completed from 1962-63 (i.e. after Chinese aggression) to 1967-68. This statement includes all the extracts issued on various Ordnance Factories during these years (both for arms, equipment general stores as well as spares. Separate statistics for extracts for spares alone are not maintained. The old overdue extracts pertain mainly to spares. It will be seen from the statement that the number of extracts placed are gradually coming down from year to year while the number of extracts completed is going up and it will be reasonable to expect that after a few years the number of extracts placed and the number of extracts completed will generally balance each other."

"Acceptance of Army's requirements for spares has to be done as a matter of routine and the Ordnance Factories cannot refuse demands for the spares on the ground of lack of capacity. There is, therefore, no alternative but to plan production of the spares whenever demands for them are received. As emphasised by the Public Accounts Committee, the Director General, Ordnance Factories, has been systematically planning manufacture of spares required by the Services."

1.22. The Committee note that as on 1st December, 1968 the total number of pending orders awaiting execution by the Ordnance Factories was 8,278. Of these, 5502 pending orders alone were accounted for by 3 factories. The Committee would like it to be investigated whether there are any special bottlenecks in these factories which need to be attended to. The Committee need hardly add that Government should also examine the scope for clearance of these orders through their redistribution amongst the various factories if possible. Speed is of the essence of complying with Defence requirements. Delay in execution of orders, apart from pushing up cost, and hampering operational efficiency, might cause infructuous expenditure also as with changing equipment priorities of the Forces items belated supplied might well turn out to be not required when actually supplied.

1.23. Another aspect of these pending orders is that 968 of these, i.e. about one ninth of the total, have been awaiting execution since 1962-63 or even earlier. The Committee would like these and other old orders to be reviewed in consultation with the indentors, so that such orders, as are not required to be executed now, in the light of changed requirements, are cancelled.

1.24. The Committee would also like a review of the pending orders to be made to ascertain how far they could be conveniently met by Trade.

*Year-wise/factory-wise statement of pending orders as on 1st December, 1968, which was furnished to the Study Group, appears as Annexure 1A.

1.25. During the years 1962-63 to 1964-65 the indentors cancelled or suspended orders for 20 items on which an expenditure of Rs. 1.5 crores had already been incurred. An expenditure of Rs. 7.15 lakhs was incurred by the Machine Tool Prototype Factory on the development of machines orders for which had been cancelled or suspended.

*Co-ordination between the user and ordnance factories—
paragraphs 1.117 and 1.118 (S. No. 21)*

1.26. In paragraphs 1.117 and 1.118 the Committee made the following observations on the need for better coordination between the user and the manufacturer to avoid infructuous expenditure arising from cancellation of orders and to reduce the time lag between the placing of orders and supply :

“The Committee would like the Government to devise suitable remedies in the light of experience so as to reduce to a minimum infructuous expenditure on account of cancellation of orders.”

“The Committee need hardly stress that, with better coordination between the user (the Defence Forces) and the manufacturer (the Ordnance Factories), it should be possible to get at the earliest information about variation in demand due to changes in requirements. Similarly where the development of manufacture of a store is likely to take considerable time, close liaison should be kept by the DGOF to make sure that the user's demand has not in the meantime undergone a radical change or ceased so that expense on a developmental effort is not continued unnecessarily. The Committee cannot strongly stress the need for reducing the present time lag of three to four years between the placing of orders and supply so that the production programme can be more easily adjusted in the light of the changing requirements.”

1.27. In their reply dated 7th November, 1968 the Ministry of Defence have stated :

“The Committee's recommendation that Government should devise suitable remedies in the light of experience so as to reduce to a minimum infructuous expenditure on account of the cancellation of orders has been noted for compliance.”

“So far as better coordination between the user and the manufacturer is concerned, such coordination is already being achieved by convening meetings at different levels at different times for discussion of matters of mutual interest between the indentors and the manufacturer.

The Armament Committee meetings are held three or four times a year. The meetings are attended by senior officers of the Service Headquarters and also by Ministry of Defence/Department of Defence Production. Any variations in demand due to changes in requirements of Services are generally indicated in these meetings. Similarly where the development of manufacture of a store is likely to take considerable time the DGOF reports on them in these meetings.”

"The Production Review Meetings are held in the Department of Defence Production under the Chairmanship of Secretary (Defence Production) where, along with the representative of the Services HQ., Ministry of Defence representatives of Ministry of Finance (Defence) also are present. These meetings discuss in detail various problems concerning production in Ordnance Factories and take decisions."

"In pursuance of the recommendation made by the Committee, every effort will be made to reduce the time lag between the placing of orders and supply."

1.28. The Committee note that in order to have better co-ordination between the user and the manufacturer, Armament Committee meetings and Productions Review meetings are periodically held apart from the meetings convened at different levels for discussions of matters of mutual interest. It is, however not clear whether at these meetings only general production matters are discussed or individual items of production are also specifically reviewed. The Committee suggest that the Ministry should examine the present arrangement for apprising the manufacturer of the changes in the requirements of the user in order to ensure that timely action is taken to suspend or cancel orders and avoid infructuous expenditure.

Uncoordinated procurement of paint—Paragraphs 2.8 and 2.13 (S. Nos. 22 & 23)

1.29. On 12th July, 1963, an Ordnance Factory initiated action for procurement of 83,210 litres of red-oxide paint costing Rs. 2.08 lakhs through D.G.S. & D. for painting certain types of ammunition boxes/carriers. It was later found that 50,400 litres were indented for in excess of requirement. The remaining 32,720 liters also became unnecessary in January, 1964 when the Director General, Ordnance Factories ordered suspension of manufacture of two ammunition carriers. Timely action was not taken to cancel the orders. A Board of Enquiry was appointed in September, 1967 to investigate into the causes and circumstances of excess provisioning. The Committee made the following observation in paragraph 2.8 :

2.8 "The Committee hope that, on receipt of the Report of the Board of Enquiry, set up to investigate into the causes and circumstances of excess provisioning of the store and to determine loss, if any, and other related matters, remedial measures will be taken to avoid a recurrence of such cases."

1.30. Referring to the Ministry's contention that the excess provisioning did not result in any loss because of rise in the price, the Committee observed :

"The Committee do not appreciate the contention of the Ministry. Excess provisioning of stores done erroneously results in the blocking of capital which could well be used elsewhere to greater advantage."

1.31. In their reply dated the 3rd October, 1968 the Ministry of Defence stated :

Para 2.8. "The findings of the Board of Enquiry set up in September, 1967 were scrutinised by the Director General, of Ordnance Factories and a further probe into the case was ordered with

a view to determining the causes and circumstances of excess provisioning on basis of relevant records available in the factory. For this purpose, a Senior Officer was deputed to Gun Carriage Factory Jabalpur to examine personally the relevant documents and to endeavour to determine the facts leading to excess provisioning."

"As a result of discussions and examination of records at Gun Carriage Factory by the Senior Officer, referred to above,

- (i) A quantity of 40,000 litres of paint red oxide ordered against Gun Carriage Factory's local purchase supply order dated 24-12-62 had not been taken into account by Gun Carriage Factory, as their assets while making fresh provision for this paint in May/June, 1963. Supplies against this purchase order materialised from June, 1963 onward and the last consignment was despatched to the factory on 15-9-63.
- (ii) Although the monthly consumption of paint red oxide was assumed as 10,000 litres per month to meet the planned outturn the actual consumption per month was much less.
- (iii) No action was apparently taken by the factory in time to reduce the requirements of paint consequent on the reduced monthly target requirements of boxes B-184, cancellation of production of Carriers No. 18 and 10.

"Accordingly, the General Manager, Gun Carriage Factory appointed a one-man Board of Enquiry for making a fresh investigation into the matter in the light of the discussions held."

"The proceedings of the Board of Enquiry confirmed that the asset of 40,000 litres of paint due against the local purchase supply order of Gun Carriage Factory, dated 24-12-62 had not been taken into account by the factory management and that the actual monthly consumption of paint was considerably less than the supposed Monthly. Receipt of 10,000 litres per month, to meet the planned outturn of ammunition packages."

"The concerned non-gazetted staff were interrogated by the Board of Enquiry with regard to :

- (a) non-inclusion of asset of 40,000 litres of paint due against the Gun Carriage Factory's local purchase order dated 24-12-62, and
- (b) failure to take action to reduce the quantity of the paint to be procured, due to reduction in the requirement of ammunition packages.

"Their contention was that the above action was not taken owing to the instructions given them verbally by the then Divisional Officer and the then General Manager."

"Since the quantity of paint which was procured in excess of requirements for the provisioning period has already been subsequently consumed in the Ordnance Factories and as it is no longer possible to verify the statements made by the individuals concerned regarding the alleged verbal orders given by the then officers, the Director General of Ordnance Factories has decided to convey his displeasure to the individuals concerned, (a Foreman, a Storekeeper, a Supervisor and

M-68 LLS/68

a Lower Division Clerk) for their failure to submit correct proposals and factual position to the higher authorities and also to warn the individuals to be careful in future. Director General of Ordnance Factories has also issued instructions on 13-6-68 to General Managers of Ordnance Factories that in all cases of provisioning involving financial implications, individuals concerned must obtain written orders of the officers concerned."

"To avoid recurrence of excess provisioning in future, Circular letter No. 005/16/22-23/A/B, dated the 28th May, 1968 (see page 40) has been issued to the General Managers of Ordnance Factories to ensure that provisioning of stores is made strictly in accordance with the instructions issued from Directorate General of Ordnance Factories, Headquarters and that under no circumstances excess provisioning of any item over the authorised limit is made. Besides, it has also been urged upon the General Managers to see to it personally that provisioning of stores is made on a rational and realistic basis, so that no occasion arises for capital being locked up due to excess provisioning."

Para 2.13. "The remarks made by the PAC regarding blocking of capital due to excess provisioning of stores are noted. A circular has been issued to the General Managers of Ordnance Factories to see to it personally that no occasion arises for capital being locked up due to excess provisioning. A copy of the circular is enclosed." (See page 42)

1.32. The Committee Note from the information furnished to them that general instructions about provisioning have been issued by the Directorate General of Ordnance Factories from time to time. It might be an advantage, if, as a facility to the provisioning wing in the Factories, a consolidated provisioning Manual could be brought out indicating the guide lines for stocking of stores and for periodical review of existing holdings particularly those which involve expenditure in foreign exchange. The Committee understand that the computer system installed in the Directorate in 1964 is *inter alia* intended to facilitate Material Planning" so that purchase and stocking of stores could be efficiently and economically done. The Committee also understand that the application of the computerised system to some of the factories is awaiting amendment of the existing Factory Accounting Rules. The Committee would urge that a decision on this point be speeded up so that the factories are equipped with upto date techniques of stores control.

*Based on information gathered by Study Group of public Accounts Committee during their tour in December 1968.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendations

The committee are also disturbed to find that some of the consignments containing imported components/materials were received at the factory in a water logged condition. The Committee feel that adequate arrangements for the handling of these and other defence consignments should be provided at Embarkation Headquarters, Bombay, so as to eliminate the chance of damage by rain.

[Serial No. 6 of Appendix IV of the 16th Report of the Public Accounts Committee (1967-68) (4th Lok Sabha)].

Action taken

The following steps have been taken for the expeditious and safe delivery of Defence stores and to avoid damage to them through rain or mishandling :—

- (a) Embarkation Headquarters have been instructed on 16th April 1968 to take expeditious action for the safe clearance of Defence stores, particularly machinery and other sensitive and valuable equipment, in all cases where advance intimation with regard to the arrival of stores is received by them either from the shippers abroad or from the Defence indentors.
- (b) Defence indentors have been requested on 16th April 1968 to give advance intimation about the arrival of all important, valuable and fragile/sensitive stores direct to Embarkation Headquarters so that special attention may be paid by Embarkation Headquarters in the matter of handling and onward despatch of such stores to the consignees.
- (c) The details of stores which generally require special handling at the port and in transit are also being collected by Service Headquarters. On receipt of these details, a comprehensive list of such stores will be prepared and forwarded to Embarkation Headquarters for enforcing special handling arrangements whenever such stores arrive at the ports.
- (d) (i) To avoid damage to stores through rain, the Defence indentors have been requested on 10th April 1968 to ensure that a suitable clause is inserted in their indents for proper packing, with water-proof material, of all imported Defence stores susceptible to damage by sea water/rain.
(ii) It has also been impressed upon Defence indentors that consignments of machinery and precision instruments likely to reach India during the monsoon season (June-September)

should be diverted preferably to Madras/Kandla port to avoid losses due to corrosion etc.

- (e) In 1965 one more shed was allotted to Embarkation Headquarters, Bombay, in the Bombay Port Trust premises by requisitioning the area occupied by a private firm and this has greatly relieved the pressure. Further, the Ministry of Transport are being requested to issue standing instructions to the Bombay Port Trust that overriding priority should be given to the Defence as and when additional sheds are required.
- (f) It has been decided to post an officer of the Directorate General of Ordnance Factories' Organisation to the Embarkation Headquarters Bombay to assist the Embarkation Headquarters in taking delivery of stores of their concern. This is expected to assist in prompt and efficient clearance of stores meant for Ordnance Factories.

Ministry of Defence (Department of Defence Production)
File No. 4/3/68/D (Prod)-PC-III, dt. 8-10-68.

Recommendation

The Committee feel that apart from the check of the avoidable percentage of rejections provided in the estimates which might be undertaken by the attached financial officers, it is incumbent on the Director General of Ordnance Factories, as the technical head of the Organisation, to ensure that :—

- (i) the unavoidable loss allowed for in the estimates of cost is the lowest possible consistent with the standard of manufacture desired; and
- (ii) manufacture in Ordnance Factories is undertaken economically.

The Committee would like the Director General to keep these two aspects specially in view and take effective measures to discharge these responsibilities.

The Committee would like to be informed of the action taken by the Director General of Ordnance Factories in pursuance of these recommendations.

[Serial No. 14 of Appendix IV of the 16th Report (4th Lok Sabha) of the Public Accounts Committee (1967-68)].

Action taken

In accordance with the recommendation made by the Committee, Director General, Ordnance Factories has already formed a Cell in his Headquarters whose function is to review the existing percentages of avoidable rejections provided in the Standard Estimates and assess the extent to which reduction can be effected. It is also the function of the Cell to deal with all the aspects of economical manufacture of stores in the ordnance factories.

The General Manager of Ordnance Factories have been instructed on 6-5-68 (*vide* Annexure I) to indicate in a consolidated list the principal items of manufacture in their respective factories quoting the unavoidable rejection percentages incorporated in Standard Estimates. Where the item of manufacture is common with any other ordnance factory the unavoidable rejection percentage is to be fixed in consultation with the General Manager of that factory so that such fixation is on a more broad based engineering experience. This is intended to ensure, as recommended by the Committee, that :—

- (i) the unavoidable rejection percentages allowed for in the estimate of cost is the lowest possible consistent with the standard of manufacture desired;
- (ii) manufacture in Ordnance Factories is undertaken economically.

Director of Audit, Defence Services, has seen.

Ministry of Defence (Department of Defence Production)

File No. 4/4/68/D(Prod). dt. 9-9-68.

ANNEXURE I

No. 005/16/A/B

GOVERNMENT OF INDIA

Ministry of Defence

Directorate General Ordnance Factories

6, Esplanade East,

Calcutta-1.

Dated the 6th May, 1968.

To

The General Manager,

Reference : Public Accounts Committee 1967-68—Sixteenth Report—
Fourth Lok Sabha—PAC Recommendation No. 11 and 12.

The relevant paras 1·78 and 1·79 are reproduced below for perusal of the General Manager.

1·78. “The Committee are distressed to note that, in all the six cases of rejection reported by Audit, bad material of the value of Rs. 12·25 lakhs was supplied by other feeder factories under Government where it had already been tested and passed before despatch. This raised not only the question of the adequacy of the procedure for inspection which permits such bad material to be passed by the feeder factories, but also the larger question of efficiency and the reliability of materials and goods supplied by such ordnance factories direct to the Armed Forces.

1·79. “The Committee feels that it should be possible for Govt. to evolve, in consultation with the feeder and user ordnance factories and Armed Forces, satisfactory standards for quality control. It should also be impressed on the Inspectorate staff that the standards for passing materials and components should be strictly enforced and improved. Where rejections in the manufacture of a particular item are detected to be unduly

high, a thorough investigation should be carried out with the utmost expedition so as to devise suitable remedial measures to check the losses and the possibility of introducing inspection at various stages should be fully considered."

2. Recently in very many cases pointed out by Sr. DADS it was observed that in machining of Empty shells and Fuzes the actual rejection had exceeded the unavoidable percentage of rejection allowed in the respective Estimate. In few cases it has also been observed that the unavoidable rejection percentage has been revised in the past probably on the assumption that the previous percentages were fixed on an unrealistic basis.

3. The General Manager is required to review the cases once again and indicate in a consolidated list the Principal items of manufacture in their respective factories quoting the unavoidable rejection percentages incorporated in Standard Estimates. Where the item of manufacture is common with any other Ordnance Factory the unavoidable rejection percentage is to be fixed in consultation with the General Manager of those factory/factories so that such fixation is on a more broad based engineering experience. This is intended to ensure that—

(i) The unavoidable rejection percentage allowed for in the estimate of cost is the lowest possible consistent with the Standard of manufacture desired.

(ii) Manufacture in Ordnance Factories is undertaken economically.

4. It is observed that in the loss statements submitted by the Machining Factories for regularisation of losses due to rejection beyond allowable percentage of rejection in the estimate, the reason for rejection is quoted as "Bad material such as cracks, pitted, eccentricity in bore in shells etc." In all such cases care is to be taken to ensure that the cases of rejection has been brought to the notice of the feeder factory/factories including their inspectorate and the remarks obtained from them to ensure that they have gone into the problem before the loss statement has been submitted to the DGOF. Any loss statement received without such remarks from feeder factories and the respective Inspectorate will not be accepted for consideration.

5. In order to avoid delays in processing such loss statements factory's senior staff in production section, store and planning including Works office should be instructed to bring to the notice of GM/DGM any defect noticed in the production section immediately it is observed during production and they must not keep this undisclosed till the warrant is finally closed as in that case a proper investigation will naturally become difficult due to time lag.

6. Please acknowledge receipt of this letter and arrange for wide circulation in the factory for information of all concerned.

Sd/-
Addl. Dg.

for Director General, Ordnance Factories.

Copy to :—

ADG/QC, ADG/P(M), ADG/P&C,
Sr. DADG/C, Section P/C, A/B Case No. 466/A/B.

Recommendation

Now that a decision has been arrived at and final orders have been issued by Government, the Committee hope that action will be taken to finalise the losses/infructuous expenditure incurred by factories due to the cancellation/curtailment of orders by the indentors.

[Serial No. 19 of Appendix IV of the 16th Report (4th Lok Sabha) of the Public Accounts Committee]

Action Taken

The recommendation is noted.

Every effort is being made to finalise as quickly as possible the losses infructuous expenditure incurred by the Ordnance Factories due to cancellation/curtailment of orders by the indentors in accordance with the instructions issued in 1967.

Ministry of Defence (Deptt. of Defence Production)
File No. 4/5/68/D(Prod), dt. 7-11-68.

Recommendation

The Committee also suggest that while scrutinising the cases of infructuous expenditure, the reasons for it should be carefully analysed with a view to taking effective remedial measures to reduce such losses to the minimum.

[Serial No. 20 of Appendix IV of the 16th Report (4th Lok Sabha) of the Public Accounts Committee].

Action Taken

The suggestion made by the Committee has been noted for compliance.

Ministry of Defence (Deptt. of Defence Production)
File No. 4 5/68/D(Prod), dt. 7-11-68.

Recommendations

The Committee are disturbed to find that it has taken the Ordnance Factory almost five years since the communication of the sanction in August, 1963, to instal the arc-furnace which was required to augment the production of steel ingots for forging gun barrels. The Committee deprecate such inordinate delay in the commissioning of work connected with the augmentation of capacity for vital armaments in Ordnance Factories.

What is even more distressing is the fact that the delays in this case could have been reduced. There was a lack of co-ordination regarding the purchase of arc-furnace and the construction of civil works. The Committee desire that the Department of Defence Production should coordinate the purchase of costly machinery and the execution of civil works in such a

manner that the machinery ordered is utilised according to the schedule prescribed for its erection.

[Sl. Nos. 24 and 25, Appendix-IV, Para Nos. 2.22 and 2.23 of the PAC's (1967-68) 16th Report (4th Lok Sabha)].

Action Taken

The recommendations of the Committee in this respect have been noted and instructions have been issued to all General Managers of Ordnance Factories to ensure co-ordination in the purchase of machinery and co-ordination of civil works, so that delays in installation and construction are avoided. A copy of these instructions is attached (*vide* Annexure II). While every endeavour is generally made to co-ordinate the two, occasions do arise when complete co-ordination due to unforeseen circumstances is not possible.

Ministry of Defence (Deptt. of Defence Production).

File No. F. 26(6)/68/D(PA), dated 15-7-1968.

ANNEXURE II

No. 005/16/A/B,
GOVERNMENT OF INDIA,
Ministry of Defence,
Directorate General of Ordnance
Factories,
6-Esplanade East,
Calcutta-1, dated the 25th April, 1968.

To

All Factories.

(For personal attention of the General Manager)

SUBJECT :—Purchase of plant and machinery and construction of Civil works for erection and installation thereof.

In connection with an audit para relating to erection and installation of heavy machines, which revealed lack of coordination between the purchase of an arc-furnace and construction of civil works in a particular ordnance factory, the PAC have made the following observation in the 16th Report (Fourth Lok Sabha) of Public Accounts Committee, 1967-68 :—

"2.22. The Committee are disturbed to find that it has taken the Ordnance Factory almost five years since the communication of the sanction in August, 1963, to instal the arc furnaces which was required to augment the production of steel ingots for forging gun barrels. The Committee deprecate such inordinate delay in the commissioning of work connected with the augmentation of capacity for vital armaments in Ordnance Factories.

2.23. What is even more distressing is the fact that the delays in this case could have been reduced. There was a lack of co-ordination regarding the purchase of arc furnaces and the construction of civil works. The Committee desire that the Department of Defence Production should coordinate the purchase of costly machinery and the execution of civil works in such a manner that the machinery ordered is utilised according to the schedule prescribed for its erection.

2. It will be observed from the above that delay in installation of the Arc Furnace and the lack of co-ordination between the purchase of costly machinery and the execution of Civil Works connected therewith have been adversely commented upon by the PAC who have emphasized upon better coordination between the purchase of costly machinery and the execution of civil works connected therewith.

The observation made by the PAC may please be borne in mind for guidance in future, so that delay in the installation of machinery or in the construction of civil works may be avoided.

3. In connection with another audit para relating to the provision of an effluent disposal plant in another Ordnance Factory the Committee have observed as under :

"3.8. The Committee hope that the procedure outlined above for calling composite or separate tenders for civil works and plant and machinery will be strictly followed in future. Consistent with the needs of economy, the Committee feel that the acquisition and installation of plant and machinery on the one hand and the construction of civil works on the other should proceed in a co-ordinated manner so that delays in the installation of machinery or in the construction of civil works are avoided."

Pursuant to the observation made by the PAC, it may please be ensured that consistent with the needs of economy, acquisition and installation of plant and machinery and construction of civil works are so co-ordinated that delays in the installation of machinery or in construction of civil works may be eliminated to the maximum extent possible.

4. Kindly acknowledge receipt and confirm that contents of this Circular have been brought to the notice of all concerned.

5. This issues with the approval of Addl. DG/C.

Sd/-

for Director General, Ordnance Factories.

N.O.O.

Saparete Copy to :

1. DDG/Engg. }
2. OSD/Explosives }

For information and guidance.

Recommendation

The Committee hope that the procedure outlined above for calling composite or separate tenders for Civil works and plant and machinery will be strictly followed in future. Consistent with the needs of economy, the Committee feel that the acquisition and installation of plant and machinery on the one hand and the construction of civil works on the other should proceed in a co-ordinated manner so that delays in the installation of machinery or in the construction of civil works are avoided.

[Sl. No. 26 of Appendix IV to 16th Report of the PAC (4th Lok Sabha) 1967-68].

Action Taken

Observations of PAC have been noted for compliance. A copy of the instructions issued to the General Managers on 25-4-1968 is attached. (*Vide* Annexure III).

Ministry of Defence (Department of Defence Production)
File No. 26(4)/68/D(PA). dt. 11-7-68.

ANNEXURE III

No. 005/16/A/B,
GOVERNMENT OF INDIA.
Ministry of Defence,
Directorate General of Ordnance
Factories,
6-Esplanade East,

Calcutta-1, dated the 25th April, 1968.

To

All Factories,

(*For personal attention of the General Manager*)

SUBJECT :—Purchase of plant and machinery and construction of civil works for erection and installation thereof.

In connection with an audit para relating to erection and installation of heavy machines, which revealed lack of coordination between the purchase of an arc furnace and construction of civil works in a particular ordnance factory, the PAC have made the following observation in the 16th Report (Fourth Lok Sabha) of Public Accounts Committee, 1967-68 :—

“2.22. The Committee are disturbed to find that it has taken the Ordnance Factory almost five years since the communication of the sanction in August, 1963, to instal the arc furnace which was required to augment the production of steel ingots for forging gunbarrels. The Committee deprecate such inordinate delay in the commissioning of work connected with the augmentation of capacity for vital armaments in Ordnance Factories.

2.23. What is even more distressing is the fact that the delays in this case could have been reduced. There was a lack of coordination regarding the purchase of arc furnaces and the construction of civil works. The Committee desire that the Department of Defence Production should coordinate the purchase of costly machinery and the execution of civil works in such a manner that the machinery ordered is utilised according to the schedule prescribed for its erection."

2. It will be observed from the above that delay in installation of the Arc Furnace and the lack of co-ordination between the purchase of costly machinery and the execution of Civil Works connected therewith have been adversely commented upon by the PAC who have emphasized upon better coordination between the purchase of costly machinery and the execution of civil works connected therewith.

The observation made by the PAC may please be borne in mind for guidance in future, so that delay in the installation of machinery or in the construction of civil works may be avoided.

3. In connection with another audit para relating to provision of an effluent disposal plant in another Ordnance Factory, the Committee have observed as under :—

"3.8. The Committee hope that the procedure outlined above for calling composite or separate tenders for civil works and plant and machinery will be strictly followed in future. Consistent with the needs of economy, the Committee feel that the acquisition and installation of plant and machinery on the one hand and the construction of civil works on the other should proceed in a co-ordinated manner so that delays in the installation of machinery or in the construction of civil works are avoided."

Pursuant to the observation made by the PAC, it may please be ensured that consistent with the needs of economy, acquisition and installation of plant and machinery and construction of civil works are so co-ordinated that delays in the installation of machinery or in construction of civil works may be eliminated to the maximum extent possible.

4. Kindly acknowledge receipt and confirm that contents of this Circular have been brought to the notice of all concerned.

5. This issues with the approval of Addl. DG/C.

Sd/-

for Director General, Ordnance Factories.

N.O.O.

Separate Copy to :—

1. DDG/Engg.

2. OSD/Explosives.

} For information and guidance.

CHAPTER III

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

Recommendation

Apart from the fact that the extended monorail has remained inoperative for the last seven years, the Committee are concerned at the manner in which projects for the consideration of Government are prepared and accepted without critical scrutiny. It will be recalled that the extension of the monorail was part of the bigger project for the setting up of an extrusion press. The venue of the extrusion press was not only changed but its size was also drastically reduced from 3,500 tons as sanctioned in 1951 to 2,000 tons in 1955. This clearly shows that the proposals were not prepared in depth and with adequate care and that the scrutiny of these proposals before sanction by Government was also far from satisfactory, with the result that revisions were made time and again.

[Sl. No. 1, Appendix-IV, Para No. 1-19, of PAC's 1967-68 16th Report (Fourth Lok Sabha)].

Action Taken

1. The observations of the PAC have been noted.
2. The circumstances in which it was decided to set up the monorail and the circumstances in which it has remained un-utilised, were explained in the testimony given before the PAC and also in the written reply to the questionnaire received from the PAC seeking further information on the subject.
3. The size and venue of the project for setting up an extrusion press—of which project for the monorail was only a relatively minor part—were changed for valid reasons, some of which could not have been foreseen at the time the original proposal for a 3,500 ton extrusion press was initiated. The original proposal was for a 3,500 ton press at OF Katni, which could extrude not only heavy duty aluminium alloy sections but also take on the extrusion of brass and copper which was already being carried on by the older press at that factory. OF Katni was the only factory having technical personnel with sufficient knowledge and experience in large-scale non-ferrous extrusion.
4. The project at OF Katni had to be abandoned because subsequent experiments revealed that it was inadvisable to have aluminium alloys extruded using the same press in which brass and copper were being extruded, because (i) there was risk of contamination, and (ii) separate ancillary facilities for heat treatment of aluminium alloy were necessary. The project had, therefore, to be subjected to rethinking from the technical point of view, as a result of which it became clear that a separate press for extruding exclusively aluminium alloys was necessary.

5. The new location, namely OF Ambernath, was decided upon because modern facilities for non-ferrous metallurgy with a full-fledged laboratory were available in the Machine Tools prototype Factory at Ambernath itself. Further, OF Ambernath was nearer to the port of Bombay and presented no difficulties regarding ancillary facilities such as water, power etc.

6. The reduced capacity of the extrusion press, namely 2,000 tons, was decided upon partly for the reason that a 2,000 ton extrusion press was available from UK on favourable terms for early delivery. Further, this capacity was sufficient to meet the aluminium alloy sections requirements of the Services as known at that time and the capacity could safely be restricted to this level.

7. The above considerations could not have been fully foreseen at the time the original project was prepared on the basis of the experience and technical knowledge available to the ordnance Factories.

Ministry of Defence (Deptt. of Defence Production)

File No. 26(5)/68/D(PA), dt. 1-3-69.

Recommendation

The Committee feel that if the economics and technical feasibility of the proposal for the extension of the monorail had been scrutinised in 1955 or in 1959 when lister trucks were procured by the factory, it should have been possible to prevent this infructuous expenditure.

[Sl. No. 2, Appendix-IV, para No. 1-20 of PAC's 1967-68, 16th Report (Fourth Lok Sabha)].

Action Taken

The main reason for the monorail being included in the project was that a monorail already existed and was working efficiently at the factory. The monorail (cost Rs. 76,500) was, however, a very minor part of the project (cost Rs. 46.5 lakhs) and the feasibility of linking the new monorail to the existing one, was not gone into before 1955; the monorail was to be ready only by the time the extrusion press was commissioned (The press was commissioned in 1961). However, its feasibility was examined in 1955-56 and the Superintendent of the Factory made a deliberate decision and the monorail would be useful even if loads have to be transhipped at a take-off point, from the existing monorail to the new monorail. When a few lister trucks were procured in 1957-59 these were meant to be used for other work and not for meeting the requirements of the extrusion press that was being established. It was only when the general mechanical handling facilities in the factory, as in other factories also, were improved in pursuance of a general policy decision, after 1962, that the monorail became clearly superfluous.

Ministry of Defence (Deptt. of Defence Production)

File No. 26(5)/68/D(PA), dt. 1-3-69.

Recommendation

It is also strange that relevant papers on the extension of the monorail are not forthcoming and that an inquiry into the matter has been ordered only recently by Government. The Committee hope that, apart from fixing responsibility for the lapse, Government will tighten up the procedure for drawing up, submission and sanction of projects so that such instances of infructuous expenditure do not recur. The Committee suggest that Government should also take an early decision about the disposal of the extended monorail which is laying unused at the factory.

[Sl. No. 3 Appendix—IV, Para No. 1·21 of PAC's 1967-68—16th Report (Fourth Lok Sabha)]

Action Taken

From the records relating to the erection of the monorail, Government have come to the conclusion that the decision to have a monorail even though it was not technically feasible to link it to the existing monorail, was taken in 1956 by the then Superintendent of OF Ambernath. He took this decision as the most practical of the various alternatives, knowing fully well that the arrangement for the transshipment was not suitable in all respects. Subsequent events, especially the improvement of roads and procurements of road transport make this decision appear, in retrospect, as unsound. Government do not consider taking into account the circumstances in which the decision was taken, that there are sufficient grounds to hold the officer responsible for the subsequent non-utilisation of the monorail. Incidentally, the particular officer has resigned from service in October 1962.

2. It is admitted that it is necessary to tighten up the procedure for drawing up, submission and sanction of projects. A new procedure has already been introduced in respect of projects in the Public Sector Undertakings. A copy of the orders prescribing this procedure is attached (*vide* Annexure IV). These are being suitably adapted for implementation in departmental undertakings.

3. It is expected that the monorail could be installed with advantage in the Gun Carriage factory. The plan for its installation has been prepared, is under scrutiny. As it is expected that the monorail could be made use of, the question of its disposal has not arisen.

Ministry of Defence (Deptt. of Defence Production)

File No. 26(5)/68/D(PA), dt. 1-3-69.

ANNEXURE IV

No. 2(75)/68-BPE (GM)

GOVERNMENT OF INDIA

Ministry of Finance

Bureau of Public Enterprises.

New Delhi, the 23rd April, 1968.

OFFICE MEMORANDUM

SUBJECT :—*Procedure for scrutiny of project proposals.*

In the context of the imperative need for proper preparation and adequate scrutiny of the proposals for projects, certain procedures have already been laid-down in letter No. 1942/DPM/67, dated the 3rd August, 1967 from the Deputy Prime Minister and letter No. 3213-S(IPF)/67 dated the 5th August 1967 from the Secretary Expenditure. For facility of reference these procedures which envisage the following three distinct stages prior to the according of final sanction for all new projects or expansion schemes are summarised below :—

- (i) *Formulation of project* : Projects are generally formulated by the administrative Ministries when the Five Year Plan is being drawn up, but in some cases new projects take shape also during the Plan period. This stage should normally begin as soon as the sectoral programmes in the Plan are settled and should generally conclude with the commissioning of one or more feasibility studies. Besides the administrative Ministry (Which should take the initiative) the Planning Commission and the Finance Ministry are also vitally concerned with the initial stage of project formulation, when the need for a additional investment in the public sector has to be established, and the scope for such investment is determined in broad terms. The Departments of Expenditure and Economic Affairs in the Finance Ministry both being concerned with project formulation, a joint unit, functioning for this purpose in the Finance Ministry, with one Joint Secretary in the Department of Economic Affairs and Director (Capital Budger) in the Department of Expenditure, is associated in all discussions, preliminary studies, etc. undertaken by the Ministries at the planning stage of new projects. When it is decided that a feasibility study is to be commissioned, the approval of the Financial Adviser is sought for the expenditure involved.
- (ii) *Preparation of Feasibility Study* : Since the Studies about the economic, commercial and financial aspects of projects are essential pre-requisites for sound investment decisions, the absolute need for the preparation of feasibility studies as thoroughly as possible on the lines indicated in the Planning Commission's Memorandum "Feasibility Studies for Public Sector Projects" has been emphasised. Such feasibility study will normally be the basis on which an investment decision can be taken by Government. The feasibility study will be referred by the administrative Ministry (enclosing at least four copies) to the Financial

Adviser, who will be the focal point for all references from this stage, and who will be responsible for arranging such consultations, as may be necessary, with other parts of Finance Ministry including Department of Economic Affairs and Bureau of Public Enterprises. If particular sources of external credit have to be explored for financing the project in question; the Department of Economic Affairs, in the appropriate Division, is to be consulted by the administrative Ministry, keeping the Financial Adviser informed. When a feasibility study has been accepted, and the investment approved in principle, clearance could be given for preliminary expenditure pending the preparation of the detailed engineering designs and cost estimates.

- (iii) *Preparation of a Detailed Project Report* : Where the feasibility study gives sufficient information as indicated in the Planning Commission's Memorandum, there may be no need for a separate D.P.R. Otherwise after the acceptance of feasibility study and approval of the investment, in principle, the D.P.R. is to be commissioned, or detailed engineering done and cost estimates prepared separately, depending upon the circumstances of the case. The sole point of scrutiny of D.P.R. or detailed cost estimates will again be the Financial Adviser, who may, however, consult the Bureau or any other agency.

2. After the above three stages, formal expenditure sanction to the project as a whole will be given on the detailed cost estimates. Once such sanction has been given, the project authorities can incur expenditure according to the approved estimates and the capital budget for the year, without further reference to Government.

3. As a supplement to the instructions of August, 1967, the following procedures are also laid down, with a view to further streamlining the procedure for the formulation and scrutiny of project reports feasibility studies :—

- (a) At the project formulation stage, the investment decision in principle, should be taken in case of each project at a meeting convened by the Secretary of the Administrative Ministry. Besides, the Secretaries of the Ministries of Finance and the Industrial Development, Secretary, Planning Commission should also be associated. The administrative Ministry should in each case prepare and circulate in advance a summary of the proposal.
- (b) This meeting should also take a decision on whether foreign collaboration or consultancy is required and the machinery for preparing the feasibility study.
- (c) In finalising foreign collaboration terms, if this is being sought, the present procedure for consideration of such agreements, above specified limits, by the Negotiating Committee should continue.
- (d) Where the Project Report (or feasibility study) is not to be prepared by the foreign/Indian Consultants, the administrative Ministry should set up a team for preparing it.

- (e) In case of all major **projects/expansions**, the feasibility study should give to the fullest extent possible the details required in the Planning Commission's Manual and specially cover the main points indicated in the Annexure.
 - (f) The Bureau of Public Enterprises assists in the scrutiny of Feasibility/Project Reports, but in the present stage of its organisation, it is hardly in a position to associate itself with the preparation of such reports. However, the Bureau can assist in the drawing up of D.P.R./Feasibility Studies in so far as they relate to construction and financial (as distinct from technical) aspect. It will also be relevant to point out that there are a number of consultancy organisations existing in the country, both in the public and the private sectors. As regards the information about existing capacities, both in the public and the private sectors, reliance should be placed on the Directorate General of Technical Development.
 - (g) On receipt of feasibility study, the administrative Ministry should send sufficient copies to the Finance Ministry, Planning Commission and other Ministries concerned together with a summary of the information required for financial examination. Once the respective views have been formulated, the Secretary of the Administrative Ministry concerned may if necessary, call an *ad hoc* meeting of the Secretaries of the Ministries concerned (including the Finance Ministry) to reconcile differences.
 - (h) If fundamental differences still exist the unresolved issues should be presented, if necessary, to the Cabinet or appropriate sub-committee of the Cabinet. Reference of such issues to another Committee of Secretaries is not necessary.
 - (i) With the enforcement of the system of scrutiny of investment proposals at the three stages of formulation, feasibility study, and DPR/Detailed engineering costs, the Expenditure Finance Committee procedure would no longer be necessary.
4. The above procedure will apply to all fresh projects, including the Public Enterprises of the Ministry of Defence (other than Ordnance factories and Units catering only for the Defence Forces), and expansions. In the case of projects or expansion schemes, which are already being processed, this procedure need not be applied, unless the administrative Ministries themselves so desire.

Director, Bureau of Public Enterprises.

To

All Ministries/Department of the Govt. of India.

Copy to :—

Recommendation

The Committee agree with Government that the long delay of eight years in arriving at a decision regarding the writing off the losses was not justified. The Committee feel that Government should look into the circumstances in which this abnormal delay of eight years took place with a view to fixing the responsibility and devising ways and means of avoiding a recurrence of such cases.

[Serial No. 18 of Appendix IV of the 16th Report (4th Lok Sabha) of the Public Accounts Committee]

Action Taken

The circumstances in which it took 8 years to arrive at the decision regarding the writing off the losses due to cancellation/reduction of demands placed by the Services on the DGOF has been carefully scrutinised by the Government. It is observed that the case, being a complicated procedure one, led to extensive nothing between the DGOF, MGO's Branch in Army HQs, Ministry of Finance (Defence) and Defence. Meetings were also held at various times at various levels upto the Secretary's level. Besides, other items of work had to be given priority at the time of and immediately after the Sino-Indian hostilities in 1962 and Indo-Pakistan conflict in September, 1965. No particular individual can, therefore, be held responsible for the delay. Care will, however, be taken to ensure that such delays are not repeated in future.

M. of D. (Department of Defence Production)

File No. 4/5/68/D(Prod.) dt. 7-11-68.

CHAPTER IV

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

Recommendation

The Committee agree that the most important consideration for the production of stores for defence purposes is the time factor and the priority indicated by the Forces. The Department of Defence Production have now a very large number of manufacturing Units and a number of them are capable of producing the same item of equipment. It is, therefore, absolutely essential that, for any rational distribution of orders, the management should have a clear idea not only of the capacity available, the capacity booked and the spare capacity remaining, but also a precise idea of the relative cost and time factor involved. The Committee are not able to appreciate how in the absence of such basic data, the Director General, Ordnance Factories, is able rationally to distribute the orders in the interest of achieving economy and efficiency. The Committee therefore, cannot too strongly stress that the Method Study Cells in the Department of Defence Production should effectively discharge their responsibilities by providing reliable data for the rational distribution of orders for the manufacture of stores and equipment as the Ordnance Factories.

[S. No. 7 of Appendix IV of the 16th Report (4th Lok Sabha) of the Public Accounts Committee].

Action Taken

At present Method Study Cell is engaged on studying the major items of production and their recommendations and suggestions are being scrutinized by the respective factories for implementation to the extent feasible under the existing condition of Plant and Machinery available in the factory. As regards the *Ad-Hoc* items, the number of items being exceedingly large and the quantities on individual items ordered from time to time being considerably small as compared to major items of productions, decisions for allocation for manufacture of the *Ad-Hoc* orders are taken on the basis of urgency of requirements; even though in some cases this may be slightly higher in cost. In most cases the factories which were entrusted for manufacture of these items in the past are asked to undertake manufacture of subsequent orders also. While the Ordnance Factories organisation are aware of the varieties in cost, decisions are taken mostly on urgency of requirements even when this involves increase in cost of production. The cost factor is now being looked into and for future allocation of orders between more than one factory for any items, more detailed analysis will be carried out before placement of orders.

2. In order to streamline the working of the Method Study Cell, a programme has been drawn up to divide ordnance factories into four zones for training of senior non-gazetted staff working in Rates and Estimates sections and Method Study Cells by departmental officers from Headquarters. Under the programme, training has successfully been

completed in Method Study by 68 non-gazetted officers. With a view to building up a nucleus of staff/officers with a better background and advanced training on the subject training facilities available in the country have been availed. So far, one Dy. Manager, 4 Assistant Foremen and 3 chargemen have been trained in Method Study Courses conducted by National Institute of Training in Industrial Engineering. 21 officers of the rank of Assistant Manager and above have also received advanced training in Works Study conducted by Defence Institute of Works Study.

3. A proposal to have a regular Method Study Cell in every ordnance factory in a phased programme is under consideration. This will, however take time, as trained men are not available for a cell in every factory.

4. The Method Study Cells will be strengthened, as and when necessary, depending upon the nature of work. It, however, takes time to get the staff trained.

Min. of Def. (Deptt. of Defence Production)

File No. 4/6/68/D(Prod.)PC. dt. 11-10-68.

Further Information

S. No. 7(i) It has been stated in the Ministry's note 'The cost factor is now being looked into and for future allocation of orders between more than one factory for any item, more detailed analysis will be carried out before placement of orders.'

Please intimate the progress made in completing the analysis and the progress made in allocation of orders as between different ordnance factories keeping centrally in view the cost factor.

(ii) It is further stated 'A proposal to have a regular Method Study Cell in every ordnance factory in a phased programme is under consideration'. Please intimate the decision taken in the matter.

Reply

S. No. 7(i) The allocation of orders³ for principal items of manufacture in ordnance factories is done in January and February each year. The background of the cost aspect is being kept in view in all cases and decision will be taken after due consideration at the time of allocation of orders.

(ii) The matter is still under consideration of the Government. As already stated in the Government's reply to the recommendation, the proposal to have a regular Method Study Cell in every factory in a phased manner will take time since trained men are not available in every factory and it takes time to get the staff trained.

DADS has seen.

M. of D. (Deptt. of Defence Production)

F. No. 4/6/68/D(Prod.)PC. dt. 24-12-68.

Recommendation

The Committee are distressed to note that in all six cases of rejection reported by Audit, had material of the value of Rs. 12.25 lakhs was supplied by other feeder factories under Government where it had already been tested and passed before despatch. This raises not only the question of the adequacy of the procedure for inspection which permits such bad material to be passed by the feeder factories, but also the larger question of efficiency and the reliability of materials and goods supplied by such ordnance factories direct to the Armed Forces.

[Serial No. 11 of Appendix IV Para 1.78 of the 16th Report (4th Lok Sabha) of the Public Accounts Committee 1967-68].

The Committee feel that it should be possible for the Government to evolve, in consultation with the feeder and user ordnance factories, and Armed Forces, satisfactory standards for quality control. It should also be impressed on the Inspection staff that the standards for passing materials and components should be strictly enforced and improved. Where rejections in the manufacture of a particular item are detected to be unduly high, a thorough investigation should be carried out with the utmost expedition so as to devise suitable remedial measures to check the losses and the possibility of introducing inspection at various stages should be fully considered.

[Serial No. 12 of Appendix IV Para 1.79 of the 16th Report (4th Lok Sabha) of the Public Accounts Committee 1967-68].

Action Taken

The problem of improvement in quality control with the object of elimination of defective materials produced in feeder factories at the inception is receiving active consideration of the Directorate General of Ordnance Factories and the Director General of Inspection. The General Managers of Metals and Steel Factory, Ishapore, Ordnance Factory, Kanpur, Ordnance Factory, Katni, Ordnance Factory, Ambernath, who are the main suppliers of materials for ammunition items in forged rolled condition have been specially instructed to tighten up the inspection procedure in the factories' Work Inspection Section before the submission of material to Inspectorate of Metals or his representative (the latter is under the DGI). The Chief Inspector of Metals is also taking suitable steps to improve the quality of materials and to eliminate to the maximum extent possible the defective materials produced by the feeder factories. Specific measures taken by the Chief Inspector of Metals in this connection are :

- (i) defects and discrepancies observed during inspection in all cases are brought to the notice of the production section and factory management by appropriate endorsement on relevant inspection notes;
- (ii) where rejection or rectification appear as excessive or abnormal, the reasons and remedial measures are discussed personally with the factory management;
- (iii) further periodical reports high-lighting heavy rejections and reasons for them are prepared by Chief Inspector of Metals and forwarded to DI(Arm) with copies endorsed to the General Manager (Fys), and DGOF.

2. The user factories which are mainly, Gun and Shell Factory, Cossipore, Ordnance Factory, Kanpur, Gun Carriage Factory, Jabalpur, Ordnance Factory, Khamaria, Rifle Factory, Ishapore, Ordnance Factory, Dum Dum and such other factories have been also instructed (*vide* Annexure V) to report the rejection percentages to the feeder factories as well as to DGOF for immediate investigation for evolving suitable remedial measures to check recurrence of such losses and to introduce check points to reduce the rejections to the absolute minimum.

3. As regards inspection, generally the materials are tested by the Inspectors in the feeder factories for chemical and physical properties only. It is possible in certain instances that some incipient defects such as below-holes, internal cracks, inclusions etc. may remain undetected in the individual ingots. The materials can also deteriorate during storage before they are taken up for use. Such defects will only be detected by the Inspector when the material is subjected to further processes such as machining, bottling, shot blasting etc.

All the precautions that have been stipulated according to the standard practice of inspection are being rigidly followed in all the stages, right from the stage of casting of ingots for the shells, bombs etc. In spite of these precautions, defects in the material that are considered inherent in the material itself are revealed at the stage of subsequent operations and cannot in all cases be located earlier. Even after the item has been established for a number of years, such defects can occur and in fact they cannot be eliminated altogether although quality control is rigidly followed.

M. of D. (Deptt. of Defence Production)

File No. 4/4,68,D(Prod.)-Pt.I. dt. 11-9-68.

ANNEXURE V

No. 005/16/A/B

GOVERNMENT OF INDIA

Ministry of Defence

Directorate General, Ordnance Factories

6, Esplanade East,

Calcutta-1

dated the 6th May, 1968.

To

The General Manager.

Reference : Public Accounts Committee 1967-68—Sixteenth Report—
Fourth Lok Sabha—PAC Recommendation No. 11 and 12.

The relevant paras 1·78 and 1·79 are reproduced below for perusal of the General Manager.

1·78. "The Committee are distressed to note that, in all the six cases of rejection reported by Audit, bad material of the value of Rs. 12·25 lakhs was supplied by other feeder factories under Government where it had already been tested and passed before despatch. This raised not

only the question of the adequacy of the procedure for inspection which permits such bad material to be passed by the feeder factories, but also the larger question of efficiency and the reliability of materials and goods supplied by such ordnance factories direct to the Armed Forces."

1-79. "The Committee feels that it should be possible for Govt. to evolve in consultation with the feeder and user ordnance factories and Armed Forces, satisfactory standards for quality control. It should also be impressed on the Inspectorate staff that the standards for passing materials and components should be strictly enforced and improved. Where rejections in the manufacture of a particular item are detected to be unduly high, a thorough investigation should be carried out with the utmost expedition so as to devise suitable remedial measures to check the losses and the possibility of introducing inspection at various stages should be fully considered."

2. Recently in very many cases pointed out by Sr. DADS it was observed that in machining of Empty shells and Fuzes the actual rejection had exceeded the unavoidable percentage of rejection allowed in the respective Estimate. In few cases it has also been observed that the unavoidable rejection percentage has been revised in the past probably on the assumption that the previous percentages were fixed on an unrealistic basis.

3. The General Manager is required to review the cases once again and indicate in a consolidated list the Principal items of manufacture in their respective factories quoting the unavoidable rejection percentages incorporated in Standard Estimates. Where the item of manufacture is common with any other Ordnance Factory the unavoidable rejection percentage is to be fixed in consultation with the General Manager of those factory factories so that such fixation is on a more broad based engineering experience. This is intended to ensure that :—

- (i) The unavoidable rejection percentage allowed for in the estimate of cost is the lowest possible consistent with the Standard of manufacture desired.
- (ii) Manufacture in Ordnance Factories is undertaken economically.

4. It is observed that in the loss statements submitted by the Machining Factories for regularisation of losses due to rejection beyond allowable percentage of rejection in the estimate the reason for rejection is quoted as "Bad material such as cracks, pitted, eccentricity in bore in shells etc." In all such cases care is to be taken to ensure that the cases of rejection has been brought to the notice of the feeder factory/factories including their inspectorate and the remarks obtained from them to ensure that they have gone into the problem before the loss statement has been submitted to the DGOF. Any loss statement received without such remarks from feeder factories and the respective Inspectorate will not be accepted for consideration.

5. In order to avoid delays in processing such loss statements factory's senior staff in production section, store and planning including Works office should be instructed to bring to the notice of GM/DGM any defect noticed in the production section immediately it is observed during production and they must not keep this undisclosed till the warrant is finally closed as in that case a proper investigation will naturally become difficult due to time lag.

6. Please acknowledge receipt of this letter and arrange for wide, circulation in the factory for information of all concerned.

Sd/-

Addl. DG.

for Director General, Ordnance Factories.

Copy to :—

ADG/QC, ADG/P(M), ADG/P & C,

Sr. DADG/C, Section P/C, A/B Case No. 466/A/B.1

Recommendation

The Committee are not happy over the delay of several years in evolving a procedure for the regularisation of losses arising from these rejections. The Committee feel that, apart from the formality of regularising these losses, what is more important is to analyse the reasons so as to take effective remedial measure.

[Serial No. 13 of Appendix IV of the 16th Report (4th Lok Sabha) of the Public Accounts Committee 1967-68].

Action Taken

As regards the first part it may be stated that there is an existing procedure for regularisation of losses arising rejection. The necessity for expeditiously dealing with cases of regularisation of losses is always borne in mind. The latest position in regard to the regularisation of the losses in question is furnished in the attached statement (*vide* Annexure VI). While every effort is being made to regularise the outstanding loss as quickly as possible, it is pointed out that some time is unavoidable in investigating the reasons for the rejections, as such cases involved more than one factory and rejections are detected at a latter stage during machining.

2. As regards the second part in so far as the procedure suggested by the Committee that the cases of losses should be analysed in order to find out the reasons and based on which effective remedial measures should be taken is concerned, it is pointed out that this procedure is already being followed in Directorate General of Ordnance Factories. Whenever a loss due to rejection is reported to the DGOF for regularisation, the loss statement is invariably analysed to ascertain the various causes of rejections and based on this analysis, suitable remedial measures for reducing the recurrence of such losses are taken. So far as the rejections due to bad material are concerned, General Manager, Ordnance Factory, Kanpur, along with General Manager, Ordnance Factory, Katni and a representative of Inspectorate of Metals are going into the details of the causes of such rejection. Their report is awaited. As soon as the report is received, necessary further action will be taken.

M. of. D. (Deptt. of Defence Production)

File No. 4/4/68/D(Prod.) dt. 31-10-68.

ANNEXURE VI

Statement showing position (as on 2-9-68) in respect of rejection outstanding and yet to be regularised

Factory	Position as shown in Annexure to Appx. II to 16th Report of 4th Lok Sabha	Position as on 2-9-68
1	2	3
	(Rs.)	(Rs.)
MSF	2,72,555·95	2,05,790·65
OFC	1,916·29	NIL
GSF	13,04,368·38	12,77,053·83
SAF	5,39,742·00	4,55,654·00
OFM	4,90,403·02	4,12,663·54
AFK	24,61,692·44	21,74,689·63
CFS	16,964·37	16,964·37
OFK	10,80,655·08	7,60,700·35
OFB	55,576·91	23,167·98
MPF	1,435·60	NIL
RFI	1,27,862·62	41,198·88
	63,53,172·56	53,67,892·23

Recommendation

As spares are vital for maintaining operational efficiency of arms and equipment with the Armed Forces, the Committee suggest that the Director General, Ordnance Factories, should devise a systematic procedure to undertake their manufacture and supply in keeping with the requirements.

[Serial No. 16 of Appendix IV of the 16th Report of the PAC (4th Lok Sabha)—1967-68].

Since capacity for the manufacture of these spares is admittedly available with the Ordnance Factories, there should be no reason for arrears of demand to accumulate.

[Serial No. 17 of Appendix IV of the 16th Report of the PAC (4th Lok Sabha)—1967-68].

Action Taken

After the Chinese aggression in 1962, the Services demands placed on the Director General of Ordnance Factories registered a steep rise and consequently the number of extracts (i.e., authorities to factories to undertake manufacture) also increased considerably. As the capacity in various Ordnance Factories could not be immediately expanded commensurate with

the unexpected increase in demands firstly because such sudden expansion of capacity was not feasible and secondly because it was not prudent to expand the capacity at considerable capital outlay without reasonable assurance of the continuity of the increased load for a sufficiently long period and therefore production against the extracts had to be necessarily spread out.

2. The attached statement (*vide* Annexure VII) indicates the numbers of extracts placed and the numbers of extracts completed from 1962-63 (*i.e.* after Chinese aggression) to 1967-68. This statement includes all the extracts issued on various Ordnance Factories during these years (both for arms, equipment general stores as well as spares. Separate statistics for extracts for spares alone are not maintained. The old overdue extracts pertain mainly to spares. It will be seen from the statement that the number of extracts placed are gradually coming down from year to year while the number of extracts completed is going up and it will be reasonable to expect that after a few years the number of extracts placed and the number of extracts completed will generally balance each other.

3. Acceptance of Army's requirements for spares has to be done as a matter of routine and the Ordnance Factories cannot refuse demands for the spares on the ground of lack of capacity. There is, therefore, no alternative but to plan production of the spares whenever demands for them are received. As emphasised by the Public Accounts Committee, the Director General, Ordnance Factories, has been systematically planning manufacture of spares required by the Services.

M. of D. (Deptt. of Defence Production).

File No. 4/5/68/D (Prod.)-PC.-II

dt. 21-10-68.

ANNEXURE VI A
EXTRACTS OUTSTANDING AS ON 1-12-1968
Name of the Factory

Year	C	A	F	B	E	M	H	O	I	D	J	G	L
60-61	1	60	6	9	8	6	9	6	—	5	—	—	2
61-62	11	60	5	46	30	13	5	5	1	5	—	—	16
62-63	154	153	11	150	58	45	6	11	3	41	—	1	27
63-64	354	191	7	622	27	17	5	7	24	31	—	—	35
64-65	491	300	7	172	62	37	82	99	41	88	—	2	42
65-66	536	301	18	189	169	38	55	52	43	117	—	13	34
66-67	423	93	19	271	224	54	138	8	117	14	6	9	42
67-68	568	110	28	237	320	84	50	8	115	9	10	4	20
GRAND TOTAL :													
TOTAL :	2538	1268	101	1696	898	314	350	196	314	310	16	29	218 = 8278

GMGIPND—LS I—590 LS—26-4-69—1300.

ANNEXURE VII

Total No. of Extracts placed on Fys and Cleared by Completion/Shortclosing/Cancellation
(Except Truck & CEF Group of Factories)

Name of Factory	1962-63		1963-64		1964-65		1965-66		1966-67		1967-68	
	Ext. issued	Compl. eted.	Ext. Issued	Compl. eted.	Ext. Issued	Compl. eted.	Ext. Issued	Compl. eted.	Ext. Issued	Compl. eted.	Ext. Issued	Compl. eted.
1	2	3	4	5	6	7	8	9	10	11	12	13
A	554	186	563	235	415	306	518	213	167	283	133	364
B	529	474	877	788	197	172	717	392	536	498	209	642
C	1,710	962	1,903	1,285	1,127	721	1,153	921	699	1,093	702	804
D	191	109	169	78	159	36	204	26	60	26	60	45
E	899	139	392	86	496	92	518	192	413	187	373	266
F	Commenced from 1964-65 only				157	24	40	43	36	41	34	23
G	23	12	12	11	18	13	44	21	36	10	19	11
H	739	220	177	123	201	315	195	341	323	145	105	202
I	244	148	202	143	137	120	169	192	344	120	191	148
J	204	180	19	13	111	105	87	67	173	57	47	82
K	1	9	6	1	3	2	7	4	5	2	3	3
L	335	226	100	68	90	48	290	156	139	30	126	98
M	167	86	53	90	94	100	92	69	66	64	86	48
N	24	8	7	14	24	30	24	22	12	14	7	16
O	66	56	46	60	209	57	93	71	13	53	10	159

Recommendation

The Committee would like the Government to devise suitable remedies in the light of experience so as to reduce to a minimum infructuous expenditure on account of cancellation of orders.

The Committee need hardly stress that, with better coordination between the user (the Defence Forces) and the manufacturer (the Ordnance Factories), it should be possible to get at the earliest information about variations in demand due to changes in requirements. Similarly where the development of manufacture of a store is likely to take considerable time, close liaison should be kept by the DGOF to make sure that the user's demand has not in the meantime undergone a radical change or ceased so that expense on a developmental effort is not continued unnecessarily. The Committee cannot strongly stress the need for reducing the present time lag of three to four years between the placing of orders and supply so that the production programme can be more easily adjusted in the light of the changing requirements.

[Serial No. 21 of Appendix IV of the 16th Report (4th Lok Sabha) of the Public Accounts Committee].

Action taken

The Committee's recommendation that Government should devise suitable remedies in the light of experience so as to reduce to a minimum infructuous expenditure on account of the cancellation of orders has been noted for compliance.

2. So far as better coordination between the user and the manufacture is concerned, such coordination is already being achieved by convening meetings at different levels at different times for discussion of matters of mutual interest between the indentors and the manufactures.

The Armament Committee meetings are held three or four times a year. The meetings are attended by senior officers of the Service Headquarters and also by Ministry of Defence/Department of Defence Production. Any variations in demand due to changes in requirements of services are generally indicated in these meetings. Similarly where the development of manufacture of a store is likely to take considerable time to DGOF reports on them in these meetings.

The Production Review Meetings are held in the Department of Defence Production under the Chairmanship of Secretary (Defence Production) where, alongwith the representatives of the Services HQ., Ministry of Defence representatives of Ministry of Finance (Defence) also are present. These meetings discuss in detail various problems concerning production in Ordnance Factories and take decisions.

3. In pursuance of the recommendation made by the Committee, every effort will be made to reduce the time lag between the placing of orders and supply.

M. of D. (Dep'tt. of Defence Production)

File No. 4/5/68/D (Prod.)

dt. 7-11-1968.

Recommendation

The Committee hope that, on receipt of the report of the Board of Enquiry, set up to investigate into the causes and circumstances of excess provisioning of the store and to determine loss if any and other related matters, remedial measures will be taken to avoid a recurrence of such cases.

[Sl. No. 22 of Appendix IV para No. 2·8 of P.A.C.'s 16th Reports (Fourth Lok Sabha) 1967-68].

Action Taken

The findings of the Board of Enquiry set up in September, 1967 were scrutinised by the Director General, of Ordnance Factories and a further probe into the case was ordered with a view to determining the causes and circumstances of excess provisioning on basis of relevant records available in the factory. For this purpose, a Senior Officer was deputed to Gun Carriage Factory Jabalpur to examine personally the relevant documents and to endeavour to determine the facts leading to excess provisioning.

2. As a result of discussions and examination of records at Gun Carriage Factory by the Senior Officer referred to above, the following facts came to light :—

- (i) A quantity of 40,000 litres of paint red oxide ordered against Gun Carriage Factory's local purchase supply order dated 24-12-62 had not been taken into account by Gun Carriage Factory, as their assets while making fresh provision for this paint in May/June, 1963. Supplies against this purchase order materialised from June, 1963, onwards and the last consignment was despatched to the factory on 15-9-63.
- (ii) Although the monthly consumption of paint red oxide was assumed as 10,000 litres per month to meet the planned out turn, the actual consumption per month was much less.
- (iii) No action was apparently taken by the factory in time to reduce the requirements of paint consequent on the reduced monthly target requirements of Boxes B-184, cancellation of production of Carriers No. 18 and 10.

Accordingly, the General Manager, Gun Carriage Factory, appointed a one-man Board of Enquiry for making a fresh investigation into the matter in the light of the discussions held.

3. The proceedings of the Board of Enquiry confirmed that the asset of 40,000 litres of paint due against the local purchase supply order of Gun Carriage Factory, dated 24-12-62 had not been taken into account by the factory management and that the actual monthly consumption of paint was considerably less than the supposed Monthly Receipt of 10,000 litres per month, to meet the planned out turn of ammunition packages.

The concerned non-gazetted staff were interrogated by the Board of Enquiry with regard to :—

- (a) non-inclusion of asset of 40,000 litres of paint due against the Gun Carriage Factory's local purchase order dated 24-12-62, and
- (b) failure to take action to reduce the quantity of the paint to be procured, due to reduction in the requirement of ammunition packages.

Their contention was that the above action was not taken owing to the instructions given to them verbally by the then Divisional Officer (late Shri V. A. Murthy) and the then General Manager (late Shri A. D. Wilks).

4. Since the quantity of paint which was procured in excess of requirements for the provisioning period has already been subsequently consumed in the Ordnance Factories and as it is no longer possible to verify the statements made by the individuals concerned regarding the alleged verbal orders given by the then officers, the Director General of Ordnance Factories has decided to convey his displeasure to the individuals concerned, (a Foreman, a Storekeeper, a Supervisor and a Lower Division Clerk) for their failure to submit correct proposals and factual position to the higher authorities and also to warn the individuals to be careful in future. Director General of Ordnance Factories has also issued instructions on 13-6-68 to General Managers of Ordnance Factories that in all cases of provisioning involving financial implications, individuals concerned must obtain written orders of the officers concerned.

5. To avoid recurrence of excess provisioning in future, Circular letter No. 005/16/22-23/A/B, dated the 28th May, 1968 (*vide* Annexure VIII) has been issued to the General Managers of Ordnance Factories to ensure that provisioning of stores is made strictly in accordance with the instructions issued from Directorate General of Ordnance Factories, Headquarters and that under no circumstances excess provisioning of any item over the authorised limit is made. Besides, it has also been urged upon the General Managers to see to it personally that provisioning of stores is made on a rational and realistic basis, so that no occasion arises for capital being locked up due to excess provisioning.

M. of D. (Deptt. of Defence Production)

File No. 4(7) 68/D (Prod.)

dt. 3-10-68.

ANNEXURE VIII

No. 005/16/22-23/A/B,
GOVERNMENT OF INDIA,
Ministry of Defence,
Directorate General,
Ordnance Factories,
6, Esplanade East,
Calcutta-1,

Dated the 28th May, 1968.

To

All Ordnance Factories, (for personal attention of the General Manager).

SUBJECT :—*Provision of stores in excess of requirement — Avoidance of.*

In connection with an audit para relating to excess provisioning of a store in an Ordnance Factory, the Public Accounts Committee have made the following observations, *inter alia*, in the 16th Report (Fourth Lok Sabha) of Public Accounts Committee 1967-68.

".....excess provisioning of stores done erroneously results in the blocking of capital which could well be used elsewhere to greater advantage".

2. The DGOF therefore desires that the General Managers should ensure that Provisioning of Stores is made strictly in accordance with Ministry of Defence letter No. 12/38/64/D(Prod), dated 2-9-65, circulated under DGOF letter No. 01/XV/5/SP/C, dated 14-10-65 and that under no circumstances excess provisioning of any item over the authorised limit is made.

3. Kindly acknowledge receipt and confirm that the contents of this circular have been made known to and noted by all concerned.

Sd/-

Addl. DG/C,
for D.G.O.F.

Copy to :—

SP/I, SP/2, SP/4, SSP/, SP/CA,
E/M—(3 copies), E/C, P/Proj. I, P/Proj. II,
P/Proj. III, P/V, P/TA, P/EP, P/C (8 copies)
OEF Group (15 copies).

Recommendation

The Committee do not appreciate the contention of the Ministry. Excess provisioning of stores done erroneously results in the blocking of capital which could well be used elsewhere to greater advantage.

[Sl. No. 23 of Appendix IV, Para No. 2-13 of 16th Report (Fourth Lok Sabha) 1967-68]

Action taken

The remarks made by the PAC regarding blocking of capital due to excess provisioning of stores are noted. A circular has been issued to the General Managers of Ordnance Factories to see to it personally that no occasion arises for capital being locked up due to excess provisioning. A copy of the circular is enclosed (*vide* Annexure IX).

M of D (Dep'tt. of Defence Production)

File No. 4/7/68/D(Prod.)

dt. 3-10-68.

ANNEXURE IX

No. 005/16/22-23/A/B,
 GOVERNMENT OF INDIA
 Ministry of Defence,
 Directorate General, Ordnance
 Factories, 6, Esplanade East,
 Calcutta-1,
Dated the 13th June, 1968.

To

All Ordnance Factories.

(For personal attention of the General Manager)

Subject : Provision of stores in excess of requirements—Avoidance of.

Reference : This office circular No. 005/16/22-23/A/B dated 28-5-68.

In continuation of the instructions contained in this office Circular quoted above, DGOF desires that the General Managers should see to it personally that provisioning of stores is made on a rational and realistic basis so that no occasion arises for capital being locked up due to excess provisioning.

2. General Managers may also please arrange to have instructions issued to all concerned in factories to the effect that in all cases of provisioning involving financial implications, the individuals concerned must obtain written orders of the officer/officers concerned.
3. Kindly acknowledge receipt and confirm that action has been/is being taken accordingly.
4. This issues with the approval of Addl. DG/C.

Sd/-

DADG/PAC,

for *Director General Ordnance Factories.*

CHAPTER V

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

Recommendation

The Committee are disturbed to find that "capacity and load charts (of the ordnance factories) are not available" for most of the items and that orders are generally placed "without much of check on the feasibility of production". It is, therefore, no surprise to the Committee that the percentage of incomplete warrants has risen during the last three years from 12.3 at the end of 1963-64 to 17.6 in 1966-67. The Committee feel that, to check this malady the Director General should evolve effective instruments of control which can be provided only through a methods and cost study.

[S. No. 15 of Appendix IV of the 16th Report (4th Lok Sabha) of the Public Accounts Committee]

Action taken

Capacity and load charts are available on all major items. So far as other items are concerned, considerable expertise and knowledge are available in DGOF's HQ to ensure that work is by and large allocated to various factories duly taking into account their installed capacity. Besides, production problems are discussed in great detail in the internal meetings in DGOF's HQs. Armament Committee Meetings and Production Review Meetings in the Ministry. The Government, however, realise that the existing method of planning and coordination of production in Ordnance Factories can be further improved.

2. In order to effect this improvement, the question of programming in the various Ord. Fys. giving the items to be manufactured in each factory during the year on a quarterly basis after taking into consideration the plant capacity, the load condition in various Ordnance Factories and the priority of the items, is under consideration. The *ad-hoc* orders on extracts (authorities to factories to undertake manufacture) are also contemplated for programming on a quarterly basis by a centralised planning and coordination section.

3. A Study Committee was set up on 13-3-68 for examining the various aspects as to how best the centralized planning and coordination cell can be organised to take up planning of all the orders on DGOF in a methodical way. The Study Team has submitted their report on 7-6-68 which is under examination. Every effort is being made to reorganise the system of planning and coordination of production in Ord. Fys. based on the recommendations of the Study Team as early as possible.

4. The planning and coordination of production in respect of placement of different orders or ordnance factories is, however, not the function of the Method Study Cell. The Method Study Cell has got a distinct function in as much as they are called upon to study certain problems of examining the existing process of manufacture of certain stores and to compare with the process

in another factory with respect to the various materials and labour estimates and to give their views regarding the modification that is desirable for streamlining the process. While an order is allocated, the help of the Method Study Cell is taken as and when required; it cannot, however, be considered as a regular process for Method Study Cell to go into every item of manufacture unless they are called for. DGOF is contemplating to evolve a regular Method Study Cell in every Ordnance Factory in a gradual way but it may be appreciated that this will take considerable time as trained men are not available for immediately implementing the Cell in every factory. Considerable amount of training will have to be imparted to the individuals concerned before successfully establishing a cell in every factory.

M of D (Deptt. of Defence Production)

File No. 4/5/68/D(Prod.)-PC 1

dt. 8-8-68.

M. R. MASANI,

Chairman,

Public Accounts Committee.

NEW DELHI;

March 11, 1969.

-Phalguna 20. 1890(Saka).

APPENDIX

Summary of Main Conclusions/Recommendations

S. No.	Para No. of Report	Ministry/Department concerned	Recommendations
1	2	3	4
1.	1-3.	Ministry of Defence	The Committee hope that replies to the outstanding recommendations and final reply in regard to the recommendation to which only interim reply has so far been furnished will be submitted to them expeditiously after getting it vetted by Audit.
	1-4.	Do.	The Committee propose to pursue the recommendations made in paragraphs 1-55—1-57 (S. Nos. 8—10) regarding off loading orders for certain items to trade through their Report on the Appropriation Accounts (Defence Services) 1966-67 and Audit Report 1968.
	1-5.	Do.	The Committee will now deal with action taken by Government on some of the recommendations.
2.	1-10.	Do.	The Committee can hardly emphasise adequately the need for rational programming of production in ordnance factories. Such programming has two aspects. The manufacture of stores should be allotted to the factory which is able to produce it at the cheapest rate, as far as this is consistent with consideration of urgency of requirements. Besides, the manufacture of stores, which are more economically procurable from the market, should be left to the Market.
3.	1-11.	Do.	The Committee understand that, pursuant to the recommendations made by a Study Group set up by the Director General of Ordnance factories, production programming through a centralised agency has been started on the basis of capacity and load charts, submitted by the factories. They hope this would ensure rational allocation of the work load amongst the various ordnance factories. In the process of allocation, it is vital that the production cost factor should also be continuously kept in view. Considering that in peace time "only 30 per cent or 40 per cent" of the capacity of factory is engaged in production, even "urgency of requirement" should not normally stand in the way of programming amongst different factories being done primarily on the basis of cost consideration.

1	2	3	4
4.	1-12	Ministry of Defence	<p>The Committee note that to facilitate proper programming, computer facilities were made available to the Directorate in 1964 and machine capacity data is still being collected from the concerned factories for being processed. The Committee hope that the work in this respect will be speeded up.</p>
5.	1-13.	Do.	<p>Another aspect to which the Committee would like to draw the attention of Government is the need to instil cost consciousness in individual factories. The Committee note in this connection that as far back as 1966, it was decided at a General Managers Conference to set up Method. Study Cell in the various factories to analyse the processes and methods of manufacture so as to maximise production and minimise wastage. The decision still awaits implementations, apparently due to shortage of trained men in the factory. The Committee hope that the pace of training will be accelerated and effective units to secure production and cost control set up expeditiously in each factory.</p>
6.	1-18.	Do.	<p>The Committee observe that the number of pending cases of rejections in manufacture awaiting investigation and regularisation are still very large. As against rejections valued at Rs. 63.53 lakhs upto March, 1965, which were awaiting investigation when they last considered the question, of rejections valued at Rs. 53.67 lakhs were still pending as on 2nd September, 1968. The Committee trust that these outstanding cases will be expeditiously investigated and necessary positive remedial measures in the light of the investigations, will be taken.</p>
7.	1-19.	Do.	<p>The Committee also note that, pursuant to their observations, steps have been taken to intensify inspection of stores produced by the feeder factories so as to minimise rejections by user factories. The Committee would, however, like to emphasise that the inspection procedure revised should be such that adequate checks and controls over the quality of the product, exist at each of the stages, of manufacture of the product in the feeder factories. It is also necessary that material received for forging/ casting etc. is adequately checked as to quality before it, is accepted for use in the feeder factories so that the extent of supplier's responsibility is also determined. The foregoing procedures should help to identify precisely the causes for rejections that now occur.</p>

1	2	3	4
8.	1-22	Ministry of Defence	<p>The Committee note that as on 1st December, 1968 the total number of pending orders awaiting execution by the Ordnance Factories was 8,278. Of these, 5502 pending orders alone were accounted for by 3 factories. The Committee would like it to be investigated whether there are any special bottlenecks in these factories which need to be attended to. The Committee need hardly add that Government should also examine the scope for clearance of these orders through their redistribution amongst the various factories if possible. Speed is of the essence of complying with Defence requirements. Delay in execution of orders, apart from pushing up cost, and hampering operational efficiency, might cause infructuous expenditure also as with changing equipment priorities of the Forces items belatedly supplied might well turn out to be not required when actually supplied.</p>
9.	1-23.	Do.	<p>Another aspect of these pending orders is that 968 of these, i.e., about the one ninth of the total, have been awaiting execution since 1962-63 or even earlier. The Committee would like these and other old orders to be reviewed in consultation with the identors, so that such orders, as are not required to be executed now, in the light of changed requirements, are cancelled.</p>
10.	1-24	Do.	<p>The Committee would also like a review of the pending orders to be made to ascertain how far they could be conveniently met by Trade.</p>
11.	1-28	Do.	<p>The Committee note that in order to have better co-ordination between the user and the manufacturer; Armament Committee meetings and Production Review meetings are periodically held apart from the meetings convened at different levels for discussion of matters of mutual interest. It is, however, not clear whether at these meetings only general production matters are discussed or individual items of production are also specifically reviewed. The Committee suggest that the Ministry should examine the present arrangements for apprising the manufacturer of the changes in the requirements of the user in order to ensure that timely action is taken to suspend or cancel orders and avoid infructuous expenditure.</p>

1	2	3	4
12.	1-32	Ministry of Defence	<p>The Committee note from the information furnished to them that general instructions about provisioning have been issued by the Directorate General of Ordnance Factories from time to time. It might be an advantage, if as a facility to the provisioning wing in the Factories a consolidated provisioning Manual could be brought out indicating the guide lines for stocking of stores and for periodical review of existing holdings, particularly those which involve expenditure in foreign exchange. The Committee understand *that the computer system installed in the Directorate in 1964 is <i>inter alia</i> intended to facilitate 'Material Planning'. So that purchase and stocking of stores could be efficiently and economically done. The Committee also understand that the application of the computerised system to some of the factories is awaiting amendment of the existing Factory Accounting Rules. The Committee would urge that a decision on this point be speeded up so that the factories are equipped with upto date techniques of stores control.</p>

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25.	Sat Narain & Sons, 3141, Mohd. Ali Bazar, Mori Gate, Delhi.	3	35.	The United Book Agency, 48, Amrit Kaur Market, Pahar Ganj, New Delhi.	88
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PUBLISHED UNDER RULES 379 & 382 OF THE RULES OF PROCEDURE AND
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THE MANAGER, GOVERNMENT OF INDIA PRESS, FARIDABAD
