E.C. No. 216

ESTIMATES COMMITTEE
1960-61

HUNDRED AND SEVENTEENTH REPORT

(SECOND LOK SABHA)

MINISTRY OF DEFENCE

Action taken by Government on the recommendations contained in the Fifty-Fourth Report of the Estimates Committee (First Lok Sabha) on the Ministry of Defence—Ordnance Factories (Organisation and Finance)

LOK SABHA SECRETARIAT
NEW DELHI

March, 1961
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CORRIGENDA

HUNDRED AND SEVENTEENTH REPORT OF THE ESTIMATES COMMITTEE (2ND LOK SABHA)

1. Page 1, para 2, line 12: *for* 'is' *read* 'in'
2. Page 5, Col.3, line 10: *for* 'any' *read* 'an'
3. Page 13, Col.4, line 10: *for* 'sutiable' *read* 'suitable'.
4. Page 14, Col.3, line 3: *for* 'Commitete' *read* 'Committee'.
5. Page 23, Col.4, line 18: *for* 'Estimate' *read* 'Estimates'.
6. Page 25, Col.4, line 12: *delete* 'be'.
7. Page 29, Col.4, lines 13 & 14: *for* 'Ordnace' *read* 'Ordnance'.
8. Page 34, Col.3, line 17: *delete* 'that'

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INTRODUCTION

I, the Chairman of the Estimates Committee, having been authorised by the Committee, present this hundred and Seventeenth Report of the Estimates Committee of the Second Lok Sabha on the Action taken by Government on the recommendations contained in the Fifty-Fourth Report of the Estimates Committee (First Lok Sabha) on the Ministry of Defence—Ordnance Factories (Organisation and Finance).

2. The Fifty-Fourth Report of the Estimates Committee was presented to the Lok Sabha on the 28th March, 1957. Government furnished their replies indicating action taken on the recommendations contained in this Report between the 11th February and 3rd October, 1960. The replies were examined by a Study Group of the Estimates Committee on the 24th November, 1960.

3. The Report has been divided into five Chapters:

I—Report.

II—Recommendations that have been accepted by the Government.

III—Replies of the Government that have been accepted by the Committee.

IV—Replies of the Government that have not been accepted by the Committee.

V—Recommendations in respect of which final replies of the Government are still awaited.

4. An analysis of the action taken by Government on the recommendations contained in the Fifty-Fourth Report (First Lok Sabha) is given at Appendix I. It would be observed therefrom that out of 55 recommendations in the Report, 31% of the recommendations have been accepted by Government and replies in respect of 40% of the recommendations have been accepted by the Committee. Of the rest, the replies in respect of 14% of the recommendations have not been accepted by the Committee while final replies to 15% of the recommendations have not yet been received in spite of special reminders.

NEW DELHI;
March 6, 1961.
Phalguna 15, 1882 (*Saka*).

H. C. DASAPPA,
Chairman,
Estimates Committee.

CHAPTER I

REPORT

In paras 15 to 18 of their Fifty-Fourth Report (First Lok Sabha) the Committee observed that the newly created Defence Production Board, by its very composition and absence of autonomous powers, could hardly be expected to serve the purpose for which it was recommended by the Baldev Singh Committee. They felt that the question of bringing the Organisation of Ordnance Factories under a company system of management or under a statutory corporation needed to be reviewed and examined afresh by Government. In case it was decided that the company system was not practicable for Ordnance Factories, a statutory and autonomous Board analogous to the Railway Board was commended for adoption. In para 49, the Committee further recommended that the feasibility of handing over the Ordnance Factories producing non-war-like stores to the then Production Ministry (now Ministry of Commerce & Industry) for being managed under the Company system so as to facilitate the enlargement of their scope for production of a larger variety of stores be examined.

2. In reply, Government have stated that the Defence Production Board has since been redesignated as the Defence Minister's Production Committee on the lines of Defence Minister's (Army), (Navy) and (Air Force) Committees and that its composition and functions revised. The matters arising out of the deliberations of this high level body, particularly in respect of indigenous production of defence stores and equipment, received immediate attention of the Government. In regard to the adoption of Company system of management for Ordnance Factories, the question was stated to have been examined by a Departmental Committee which decided against it on grounds of secret nature of work involved in the production of defence stores; the work being dissimilar to that done in the civil production is that it had to be done at any cost and could not be linked up with the profit and loss account; administrative complexities and accountability to Parliament etc. The question of conferment of autonomous powers on the Defence Production Board and running the Ordnance Factories on the lines of Railway Board was also stated by the Ministry to be linked up with the general question of having internal financial advice for the Defence Ministry which was separately under consideration. As to the desirability of transferring control of Ordnance Factories producing non-war-like stores to other civil Ministries, it has been stated that the matter was gone into by the Defence Production Planning Committee and it was decided to continue the existing arrangements.

3. In this connection, the Committee would invite attention to paras 6 and 7 of their 80th Report (Second Lok Sabha). In para 6 they expressed themselves in favour of continuing the departmental form of organisation for Defence Undertakings having a strategic or security bias. In para 7 of that Report they recommended the appointment of an expert committee to examine the whole question and to advise the Government on the principles which should determine the appropriate form of organisation for the various types of undertakings. *They trust that after the expert committee recommended in para 7 of the 80th Report* ibid *had gone into the matter of appropriate form of organisation for Public Undertakings, Government would consider the desirability of having a suitable form of organisation, other than departmental, for Ordnance Factories not having a strategic or security bias.*

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Sl. No. of re-comm-endation	Ref. to para No. of the Report	Summary of Conclusions/Recommendations	Reply of the Government
1	2	3	4
15	32	The Committee feel that the tardy manner in which important recommendations of the Baldev Singh Committee are being examined *e.g.* preparing plans for mobilisation of resources in an emergency, the question of decentralisation of authority to secure business like and efficient working of Ordnance Factories etc. is to a certain extent a measure of the complaints of delays in giving decisions on important matters made against the Defence Ministry. The Committee	The remarks of the Committee are noted. It may however be mentioned that various plans and proposals have to be considered thoroughly from a number of aspects such as financial, administrative etc. by the various authorities concerned, the delay thus caused is not always avoidable. The CGDP Organisation is still in the process of development and necessary changes are being effected in order that this organisation may effectively and speedily achieve

1	2	3	4
		hope that it would be possible for the Controller General, Defence Production to pursue vigorously his activities for ensuring coordination among different authorities and for keeping the defence production at the optimum level by cutting down red tape and paper work so as to keep the country fully prepared for all emergencies. It should also be his constant endeavour to streamline and rationalise the organisation for Defence Production in general and of the OFs in particular.	its objective *viz*. selfsufficiency in the matter of production of defence stores. [*Min. of Defence O.M. No.* 14(45)/58/*CG* (*P&C*) *dated the* 11*th February*, 1960].
20	40	The Committee feel that the selection of an officer to hold the important post of DGOF should be based on highest consideration of merit, drive and integrity and that he should be delegated sufficient powers, authority and discretion comparable to that of Managing Director of a limited Company in the public sector.	The recommendations of the Committee are noted and, in fact, they have already been, and are being, followed from time to time. Sufficient powers authority and discretion have already been delegated to the DGOF as far as possible and necessary. [*Min. of Defence O.M. No.* 14(45)/58/*CG* (*P & C*) *dt. the* 11*th Feb.*, 1960].
21	41	The Committee understand that the DGOF's powers were greatly enhanced in recent years. In view of the great responsibilities carried out by the DGOF and the industrial character	The DGOF and Superintendents of Ordnance Factories had already been delegated powers. The question of further enhancement of their powers was examined recently by the Defence

		of the Ordnance Factories, they recommend that the question of further delegation of powers to the DGOF consistent with his responsibilities should be examined afresh at the highest level in the light of the present day conditions.	Production Planning Committee and, as a result, further powers have since been delegated. [*Min. of Defence O.M. No.* 14(45)/58/*CG*/(*P & C*) *dt. the* 11*th Feb.*, 1960].
22	42	The Committee suggest that to avoid concentration of authority in a single individual and for the management of day to day affairs of the Ordnance Factories, it would be of great advantage if any executive Board is set up with the DGOF as its Chairman, and consisting of the DDGs, one or two ADGs, DFA (Fys), and the CDA (Fys) as its members. In addition, while discussing problems of particular regions or Ordnance Factories, the Board should co-opt one or two Superintendents of the Local Factories to ensure prompt disposal of business. It should also maintain minutes of meetings, meet regularly at least once a week or fortnight and have definite rules of procedure.	The Board of Management as envisaged by the Committee has already been constituted and is actually functioning. [*Min. of Defence O.M. No.* 14(45)/58/*CG*/(*P & C*) *dated the* 11*th Feb.*, 1960].
26	48	The Committee feel that the question of the location of Ordnance Factories with reference to security consideration as also of their rationalisation with a view to economic and efficient out-put needs to be constantly kept under review by the Defence Production Board and the Controller-General of Defence Production.	The recommendation is noted. [*Min. of Defence—O.M. No.* 14(45)/58/*CG*/(*P & C*) *dt. the* 11*th Feb.*, 1960].
33	60	The Committee feel that the association of Accounts Officers with the Management through membership of Factory/ Executive Board at the Factory	The CDA (Fys) is a member of the DGOF's Board of Management which has been set up, *vide* comments on Sl. No. 22 of the Committee's

1	2	3	4
		and the DGOF's level respectively would go a long way in inducing among them a feeling that they are equally responsible for management and execution of important defence work and also in bringing about harmonious relation between the executive and the accounts officers.	recommendations. As regards Factory Boards, please see comments on Sl. No. 25 of the recommendations. [*Min. of Defence O.M. No.* 14(45)/58/*CG*/(*P & C*) *dt. the* 11*th February*, 1960].
34	61-62	Even though a number of relaxations had recently been allowed in the matter of exercising of powers by the Director General of Ordnance Factories and Superintendents without prior concurrence of the associated Finance, the Committee formed the impression that there was a general feeling of dissatisfaction among the executive authorities over the general system of obtaining prior financial concurrence, which was considered by them to be very irksome and responsible for most of the delays in the smooth functioning of the Factories. The Committee feel that, with the adoption of the Railway pattern of finance and accounting administration in the Organisation of Ordnance Factories, most of the difficulties felt and delays caused at present would be resolved to a considerable extent. They do not, however, consider it either sound or desirable to do away altogether with financial control and scrutiny over the proposals of the	As pointed out by the Estimates Committee a large number of relaxations have already been granted dispensing with the need for obtaining the prior concurrence of the Accounts Authorities by the Superintendents. It will be seen from the relaxations decided upon that the Superintendents of factories do not have to get prior concurrence of the Accounts authorities in practically all the matters relating to the day to day production activities of the factories. The full impact of these relaxations could be felt only after some experience and the factory authorities begin to exercise these powers discerningly and with confidence. With these relaxations and certain other enhanced powers which the DPPC has recommended, the Superintendents should not experience any difficulty in the day to day production activities. Headquarters of the DGOF, however, is in a slightly different position as its responsibilities are more

		executive and administrative authorities. They consider that certain reserve powers for finance representatives as in commercial concerns in the public sector are necessary and desirable in the present circumstances and have therefore recommended earlier the provision of such powers in a modified manner, in the revised set up of the organisation of the Ordnance Factories.	administrative, relating to overall control and are not directly and immediately concerned with the day to day work in the factories. The powers of the DGOF have been recently reviewed by the DPPC which has recommended enhancement of some of these powers. Even though the DGOF need not come to Government for obtaining sanction, it would be desirable that as in other organisations the DGOF should continue to obtain the advice or concurrence of his Financial Adviser and the Committee has recommended enhanced powers keeping in view that such an advice and concurrence would be there. Orders have also been since issued in some cases delagating these enhanced powers, *vide* remarks against Sl. No. 21 of the recommendations. Issue of orders in regard to some others in consultation with the WH&S Ministry is under consideration. [*Min. of Defence O.M. No.* 14(45)/58/*CG*/(*P & C*) *dt.* 11*th February*, 1960].
38	71	In regard to the proposed capital expenditure in the Ordnance Factories during the period of the second Five Year Plan, the Committee invite attention to the depressing fact that in the past, defence authorities have been consistently able to spend far less than what they planned to spend. They hope that every effort will be made by the Defence Ministry to fulfil their plan fully by taking sufficient and timely action for the	The recommendation is noted and is already being given effect to. [*Min. of Defence O.M. No.* 14(45)/58/*CG*/(*P &C*) *dt. the* 11*th February*, 1960].

1	2	3	4
		various preliminaries necessary for the purpose so that not only will the production capacity of Ordnance Factories have improved but funds required by other authorities will also not be kept away from them. They would, threfore, suggest that firm annual programme and targets should be carefully laid down in advance and systematic reviews should be conducted at frequent intervals so as to avoid any shortfall in the target.	
39	72	The Committee regret to observe that although the defective preparation of budget estimates and over-estimation of the spending capacity had been the subject of adverse comments in successive Audit Reports and Public Accounts Committee Reports, there has not been any marked improvement in the position. The Committee would like to endorse the remarks of the Public Accounts Committee contained in paras 9 and 10 of their 19th Report that effective action should be taken by the Ministry of Finance (Defence) to evolve a better mechanism of budgetary control. The Committee also recommend that timely action should be taken in regard to placing of orders for plant and machinery and for surrender of funds not required.	It is pointed out that every care is taken to ensure that the variation between the original appropriation and the actual expenditure is as small as possible. In spite of best efforts, it has not been possible to anticipate with more accuracy the budget estimates. The recommendations of the Committee are, however, noted. [*Min. of Defence O.M. No.* 14 (45)/58/*CG* (*P & C*) *dt. the* 11*th February*, 1960.]

		Further, the Committee also feel that the present machinery is not quite competent to work efficiently in the production of military requirements and that an overhaul of the present system of management in favour of Company or Board system is called for.	
40	75	The ratio of pay of staff to the total expenditure as well as to the total outturn has been showing an upward trend in the last few years. The Committee feel that the existence of surplus labour in the Factories alone does not fully explain the rise in expenditure on the pay of staff.	Ordnance Factories have to maintain certain staff and labour for meeting emergency requirements. During slack periods of production, although the value of production would come down, the expenditure on account of such staff would remain constant and this would give an erroneous impression of lower productivity. Between 1952-53 and 1955-56, although the output of service stores fell, there was a significant addition to the activities of the Ordnance Factories. Various financial Commitments in the way of allowance were incurred which significantly affected the ratio of expenditure to the value of outturn as related to expenditure on staff and labour are not, therefore, truly and completely indicative of a fall in the productivity of labour. However, steps are also being taken to bring down the ratio of expenditure on pay of staff as much as possible. [*Min. of Defence O.M. No.* 14(45)/58/*CG* (*P* & *C*) *dt.* 11*th February*, 1960.]
42	77	The expenditure on Charges in England and Capital Expenditure on Works and Plant and Machinery have also registered a fall in the last few years. The Committee feel that the fact the plant and machinery etc., most of which has to be imported,	The suggestion is noted and is already being given effect to. [*Min. of Defence O.M. No.* 14(45)/58/*CG* (*P* & *C*) *dt.* 11*th February*, 1960.]

1	2	3	4
		in the Ordnance Factories required considerable modernisation and improvement would indicate the necessity of drawing up plans and for taking timely action to implement them so as to improve the capacity and the efficiency of the work in the Ordnance Factories. The Committee hope that the comments made above will be fully taken into account while implementing the projects proposed under the 2nd Five Year Plan.	
48	88	The Committee also recommend as a further step in the process of establishing complete control over all factories, which are subject to the influence of management, the introduction of the system of standard costing under which standard costs or pre-determined costs are prepared in advance of operations according to a carefully planned method of making a product or rendering a service and serve the purpose of cost analysis and cost control.	Under the existing system, the management prepare quantitative estimates in regard to materials required as well as labour to be employed on each batch for production. Thus control on a quantitative basis already exists. These estimates cannot be exceeded without the sanction of the Factory Superintendents. Standard costing has been defined as "preparation of *standard costs* and their use to clarify the financial results of a business particularly by the measurement of variations of actual costs from standard costs, for the purpose of maintaining efficiency by executive action". A standard cost is an estimated (or predetermined) cost 'prepared in advance of production, correlating a technical

specification of materials and labour to the prices and wage rates estimated for a selected period of time with the addition of an apportionment of the overhead expenses estimated for the same period within a prescribed set of working conditions.' The essence of a standard cost is, therefore, the establishment of sound quantitative standards for material, labour and other production services. This is primarily an engineering job as it involves a careful selection of materials, time and motion studies of operations and a study of equipment and other production facilities. As the element of overhead charges included in the standard cost must necessarily be based on an assumption as to volume of production, a flexible budget showing the amount of overhead expenses for successive levels of activity has to be prepared before variances between the actual overhead charges incurred in a period and the amount charged to products at the standard rate can be analysed into volume and utilisation (efficiency) factors. Likewise, a system of floor time-keeping for each job is necessary for the purpose of analysing the variances in direct labour cost into price and utilisation variances. As at the end of each period there will always be a certain amount of work in progress, stock taking of the unworked or partly worked materials in the production shops is necessary before the cost variations arising in a period can

1	2	3	4
			be apportioned as between completed production and the work in progress. 2. The introduction of 'Standard Costing' has already been accepted in principle and a start has already been made for budgeting overhead expenses but it will be some time before full budgetary control of overheads can be successfully established. To start with arrangements have already been made for job time recording in the Bengal group of factories. 3. While it is possible to introduce standard costing once the pre-requisites are well established, the question of extra cost involved both on the part of the managment and the Accounts in producing the detailed statistics and reports required in working the standard cost system has also to receive consideration lest we fall into one of the common pitfalls of cost accounting, *viz.*, the cost ofcost-accounting being larger than any saving accruing as a result of possible cost control thereof. 4 A Committee was constituted by the Director General, Ordnance Factories for examining the question of the early introduction of standard costing in the Ordnance Factories. The Committee reported that the introduction of standard costing presupposes the existence of certain

			suitable conditions to facilitate its satisfactory working in a manufacturing unit and these conditions have to be created for the factory as a whole and cannot be applied in isolation to certain specific items only. The report of the Committee was considered by the Board of Management for Ordnance Factories at Calcutta and it was agreed that standard costing could not be introduced immediately without having a system of budgetary control and efforts for effecting suiable budgetary control are now being made. [*Min. of Defence O.M. No.* 14(45)/58/*CG* (*P* & *C*) *dt. the* 3*rd October*, 1960.]
49	93	The Committee recommend that in the light of the remarks made above the entire cost accounting system at present followed in the Ordnance Factories may be had comprehensively examined by the experts *e.g.*, the Cost Accounts Branch of the Ministry of Finance and the modern cost accounting system, as obtaining in advanced countries, may be adopted and introduced, without any further delay. They suggest for the purpose that the system of costing in the Royal Ordnance Factories in U.K. may also be examined with a view to its introduction in India in the Ordnance Factories as well as in all other industrial undertakings in the public sector if found suitable.	The Ministry of Defence agree to the Committee's suggestion. It is, however, considered that it would be preferable to have the existing Cost Accounting system examined by the Cost Accounts Branch of the Ministry of Finance before any decision is taken to introduce the system obtaining in the Royal Ordnance Factories in United Kingdom. [*Ministry of Defence O.M. No.* 14(45)/58/*CG* (*P* & *C*) *dt. the* 3*rd October*, 1960.]
50	95	The Committee would suggest that for the efficient working of the cost department, suitable and	It is agreed that personnel dealing with the costing system should have appropriate training. A

1	2	3	4
		selected personnel may be had specially trained for the purpose both in India and abroad.	vast majority of the Accounts Officers doing this work have some experience and training in cost account and some of them hold professional qualifications in cost accountancy. Among the various grades of staff employed in the Organisation of CDA (Fys), there are roughly 100 qualified cost accountants. [*Min. of Defence. O.M. No.* 14 (45)/58/*CG* (*P* & *C*) *dt. the* 11*th February*, 1960.]
51	99	The Commitete feel that even if a mere proforma account of the Renewal and Reserve Fund is kept, the annual depreciation charged off the Production account and credited to the proforma R & R Account, should be determined on some realistic basis. They therefore, recommend that the rates of contribution to the R & R Fund may be examined afresh with reference to the present day life of plant and machinery and suitably revised so that the correct charges on this account may be reflected in the production accounts of factories.	The question of revising the existing rate of depreciation on machine tools is under consideration. At present machine tools are depreciated at an uniform rate irrespective of the nature of work done by them. Action is, therefore, in hand to fix new rates of depreciation charges with due regard to the nature of work performed by them. As agreed to by the Ministry of Finance (Defence) the new rates will be worked out on the basis of replacing production shop machinery and tool room machinery after rendering 20 years and 10 years of effective service respectively. Based on the above the Board of Management for Ordnance Factories have made certain recom-

			mendations in this regard. These are now being finalised. [*Min. of Defence O.M. No.* 14(45)/58/*CG* (*P & C*) *dt. the* 11*th February*, 1960.]
54	102	The Committee observed that the first Financial Review for the two yeras *viz.* 1952-53 and 1953-54 was prepared in July, 1955 and the second for 1954-55, in May, 1956 *i.e.* over a year after the close of the year to which it pertained. They hope that it would be possible to publish the Financial review on the working of the Ordnance Factories more expeditiously. They further hope that it would also be possible in future for the DGOF to take more prompt and energetic action on the comments made by the Deputy Financial Adviser (Factories) in his reviews.	The preparation of Financial Review by the DFA (Fys) is dependent upon the finalisation of the annual accounts of the Ordnance Factories. Steps have been taken to ensure that no avoidable delay takes place in the preparation of the Financial Review. [*Min. of Defence O.M. No.* 14(45)/58/*CG* (*P & C*) *dt.* 11*th February*, 1960.]
55	103	The Committee feel that at present losses in the Ordnance Factories are on the high side and that action should be initiated to reduce them to the minimum.	The recommendations of the Committee are noted and action as necessary will be initiated. [*Min. of Defence O.M. No.* 14(45)/58/*CG* (*P & C*) *dt. the* 11*th February*, 1960.]

CHAPTER III

REPLIES OF THE GOVERNMENT THAT HAVE BEEN ACCEPTED BY THE COMMITTEE

Sl. No. of the recommendation	Para No. of the Report	Summary of conclusions/recommendations	Reply of the Government
1	2	3	4
1	15	Even one year and three months after the Defence Production Board was set up, which itself was done two years after the Baldev Singh Committee was set up to recommend re-organisation of the Ordnance Factories and one year after it submitted its recommendations, the Government have not thought it sufficiently urgent or even necessary to invest it with any powers in spite of the clear and emphatic recommendation of the Baldev Singh Committee in this respect	It was decided in March 1957 that the decisions of the Defence Production Board will constitute sufficient authority for taking action although formal Government orders may follow, if necessary Full autonomy of the Board is not practicable in as much as a certain amount of restriction of its powers is inevitable in order to secure conformity with general Government policy in matters such as purchases of stores, housing of labour, pay and establishment etc. To ensure fuller powers in financial matters, it would have been desirable to make financial representation on the Board independent of the Finance Ministry. This issue is, however, linked up with the general question of having a system of internal financial

			advice for the Defence Ministry under the general control of the Defence Minister which is separately under consideration. The Defence Production Board has since been included in the Higher Defence Control Chart and has been redesignated as the Defence Minister's Production Committee on the lines of DM's (Army), (Navy) and (Air Force) Committees. It has been done in order that the matters arising out of deliberations of this high level body, particularly in respect of indigenous production of defence stores and equipment should receive immediate attention of the Government. [*Min. of Defence O.M. No.* 14(45)/58/*CG* (*P & C*) *dated* 11*th February*, 1960].
2	16	The Committee feel that at best the meetings of the Defence Production Board with such large and diverse membership would merely serve as inter-departmental and inter-service meetings to iron out differences.	*Sl. Nos.* 2 & 3: Before proposals are submitted to the Board (since redesignated as Defence Minister's Production Committee) for its consideration, all inter-departmental and inter-service matters are first settled at the working levels. A proper appreciation of the role that the Defence Production Board (Defence Minister's Production Committee) is called upon to play in the scheme of Defence Production, can be made from its revised composition and functions which are shown below.

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3	17	From the important decisions on policy so far taken by the Board, it would appear that while some of them are, of a self-evident nature, most of the others are such as had already been recommended by the Baldev Singh Committee in December, 1954. The Committee feel that by its (Defence Production Board) very composition and absence of autonomous powers the Board could hardly serve the purpose for which the Board of Management was recommended by the Baldev Singh Committee.	*COMPOSITION* *Chairman* Minister of Defence *Vice Chairman* Dy. Defence Minister-II *Members* Chief of Army Staff Chief of Air Staff Chief of Naval Staff Secretary, Ministry of Defence Addl. Secretary, Ministry of Defence Financial Adviser, Ministry of Finance (Defence) Scientific Adviser, Ministry of Defence. Controller General of Defence Production Director General of Ordnance Factories Chief Controller (Research & Development) *Functions* (1) To regulate defence production effort in the country and co-ordinate it with the civil industrial capacity with a view to achieving self-sufficiency in Defence Stores as economically and as expeditiously as possible; (2) To review from time to time the mobilisation plans for Defence Production, pre-

pared by the Controller General of Defence Production;

(3) To examine and approve important industrial projects regarding the modernisation and expansion of the Ordnance Factories;

(4) To approve major projects for submission to the Defence Committee of the Cabinet; and

(5) To give policy decisions on all matters beyond the competence of Controller General of Defence Production with a view to ensuring effective operation of the Ordnance Factories.

The scope of the functions of the Board of Management as envisaged by the Baldev Singh Committee was restricted only to the extent of discharging the responsibilities involved in the efficient working of the Ordnance Factories. With a view to making the country self-sufficient in the matter of production of Defence stores as early as possible and consequently to avoid a multiplicity of Committees, working more or less in the same spheres, the scope of the Defence Production Board (Defence Minister's Production Committee), as will be noticed from the above, has been made to cover a much wider field than was originally envisaged for the Board of Management. To carry out these

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			functions effectively, close collaboration amongst the Services and technical and production branches is an absolute necessity. The membership of the Board which includes the above-mentioned authorities, in view of the role it has to fulfil, is therefore fully justified. As regards its lack of autonomous powers, the position is explained in our comments on Sl. No. 1. above. [*Ministry of Defence O.M. No.* 14(45)/58/*CG(P&C) dated the* 11*th February*, 1960] .
4	18	The Committee are of the firm view that all industries in the Public Sector, whether defence or civil should be run as industries are intended to be run anywhere in the world, *i.e.* not under the departmental system of management but under the Company System of management. The Committee feel that the question of bringing the organisation of Ordnance Factories under a Company system of management or under a corporation to be set up by an act of Parliament needs to be reviewed, and examined afresh by Government. In case it is decided not to adopt the Company system of management, the Committee recommend the adoption of the organisational set up of Railways in the Ordnance Factories and the setting up of a statutory and autonomous Board analogous to the Railway Board for the administration of Ordnance Factories in an	The Baldev Singh's Committee whilst commenting on the management of the Ordnance Factories, were of the opinion that for the Ordnance Factories the control should be exercised through a Board of Management and did not recommend the company system of management for the following reasons:— (a) Ordnance Factories have to undertake a great deal of work in the production of defence stores which is very dissimilar to that done in the civil production; work must be done at any cost which cannot be linked with the profit and loss account. (b) The employees of the Ordnance factories are government servants and as such a change over may create some problems.

efficient manner and on business principles. The Board should be directly responsible to the Defence Minister, who might retain certain reserve powers, so as to ensure effective control over it.

(c) The Ordnance Factories have to undertake a great deal of secret work in the production of defence stores.

This question has, again been examined in detail by a departmental committee appointed by the Defence Minister which came to the conclusion that the company system of management could not be adopted for the Ordnance Factories for the following reasons in addition to those mentioned above.

(*i*) In order to discharge his responsibility to the Parliament the Defence Minister could exercise more direct control over the Ordnance Factories if they were run departmentally

(*ii*) The administrative complexities that would arise by virtue of following the Company Law.

The question of running Ordnance Factories on the same lines as the Railway Board is again linked up with the general question of having internal financial advice for the Defence Ministry under the control of Defence Minister which as mentioned earlier is separately under examination.

[*Ministry of Defence O.M. No.* 14(45)/58/*CG* (*P & C*) *dated the* 11*th February*, 1960].

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5	19	The Committee consider it necessary to associate a few prominent industrialists with the Defence Production Board. The Committee recommend that irrespective of whether Government agree to have the company system of management for the Ordnance Factories or a statutory and autonomous Defence Production Board, the Board of Directors in one case and the Board in the other should be a compact body consisting of those who will be usefully and directly connected with the organisation and the working of the Ordnance Factories, *e.g.* Controller General of Defence Production, Director General of Ordnance Factories, Financial Adviser, etc. and two or three private industrialists.	This recommendation is apparently based on the assumption that the Board (now Defence Minister's Production Committee) is solely concerned with the efficient working and administration of the Ordnance Factories, which is not the case. The Board has other important functions to perform as mentioned earlier which require close collaboration of the Services as also Research and Development Organisations. Furthermore, the Board's/Committee's deliberations relate to a number of domestic matters which in the interest of security should not be disclosed to any person outside the Government. For example, consideration of proposals regarding coordination of production planning with defence planning and drawing up of mobilisation plans are matters of a highly secret nature.
		The Committee do not consider it necessary that the Board should also have on it representatives of the Defence Science Organisation (Research) and of the Design and Development Establishments of the Services whose activities they feel, should be coordinated by the Controller General of Defence Production through associate or advisory boards or committees.	The recommendation made by the Committee has been examined. In this connection it may be pointed out that the present membership of the Defence Minister's Production Committee (as shown in reply to earlier recommendation) has been evolved after considerable thought and as a result of experience gained from the working of the Board over the last few years. Production is very closely linked with design, research and development. In fact prior to

			launching of production of new items of Defence equipment evaluation and/or technical trials have to be carried out which is the responsibility of Research and Development Organisation. When some questions come up for consideration before the Defence Minister's (Production) Committee, the presence of their representatives is extremely useful. It may also be mentioned that likewise CGDP is represented on Defence Minister's Research and Development Committee. [*Ministry of Defence O.M. No.* 14(45)/58/*CG* (*P & C*) *dated the* 11*th February and* 12*th April*, 1960].
6	20-21	The Committee do not consider the appointment of the Minister for Defence Organisation as the Chairman of the Defence Production Board as a satisfactory arrangement. They recommend that the Chairman of the Board should be drawn from the category of private industrialists. The Controller General of Defence Production may, however, be the Vice-Chairman.	The reasons for the non-inclusion of private industrialists as members of the Board (now Defence Minister's Production Committee) also apply to the Estimate Committee's suggestion of having a private industrialist as Chairman of the Board. As would appear from the composition of the Defence Minister's Production Committee mentioned earlier, Defence Minister will be Chairman of the committee. This imparts a large measure of autonomy and importance to the Committee. [*Ministry of Defence O.M. No.* 14(45)/58/*CG*(*P&C*) *dated the* 11*th February*, 1960].

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7	22	It is fundamental that the Defence Production Board should approach the tasks facing it, keeping in view the dictum that "before effective action is achieved, it must be decided what is to be done, how it is to be done and who is going to see that it is done". It should be the Defence Production Board's aim to set right the present unsatisfactory position in regard to the country's Defence Production and to augment it in all respects on an emergency basis. At the same time, it is also the Board's responsibility to make a realistic assessment of the defence potential of the country in relation to its requirements and to advise the Government to what extent the military strength of the country should be augmented by imports from foreign countries in various matters such as modern and up-to-date equipment including aircraft, tanks and other weapons, arms and ammunition, so as to be prepared for all eventualities.	The remarks of the Committee are noted. It is, however, not possible for the Defence Production Board (now Defence Minister's Production Committee) to advise the Government regarding the augmentation of the military strength of the country by imports from foreign countries on various matters such as modern and up-to-date equipment including aircraft, tanks and other weapons, arms and ammunition as this is the direct responsibility of the Chiefs of Staff Committee. The main object for which the Board (now Defence Minister's Production Committee) was set up is to see, as far as possible that the country is made self-sufficient in the production of Defence Stores required by the Services as early as possible. [*Ministry of Defence O.M. No.* 14(45)/58/*CG*(*P & C*) *dated the* 11*th February*, 1960].
12	28	The Committee regret to observe that the Research Committee which was to assist the Controller General, Defence Production in regard to research has not yet started functioning. They hope that every effort will be made to make it a success.	The Defence Research and Development Committee held four meetings till May 1958. Thereafter it was dissolved and a separate committee *viz.* Research and Development Advisory Committee was constituted under the Chairmanship of the Scientific Adviser to the Minister of Defence. [*Ministry of Defence O.M. No.* 14(45)/58/*CG* (*P&C*) *dated the* 11*th February*, 1960].

13	29	The Committee suggest that to make the Defence Production and Supply Committee effective, industrialists should also be actively associated with it. Once this is done, they would suggest that the question of merging this committee and the Defence Production Advisory Committee so as to avoid unnecessary duplication of Committees should also be considered.	The Defence Production and Supply Committee is a purely departmental Committee and therefore had no representation from Private Industrialists on it. As has already been mentioned, wherever, advice from other Ministries or Private Industry is needed, in connection with defence production matters, their representatives can be co-opted in the Defence Minister's Production Committee. [*Ministry of Defence O.M. No.* 14(45)/58/*CG (P & C) dated the* 11*th February*, 1960].
14	31	Although the need and importance of the post of Controller General of Defence Production to co-ordinate the various activities relating to Defence Production was stressed by the Armed Forces Reorganisation Committee in 1952 and Ordnance Factories Reorganisation Committee in 1954, the Committee find that there was considerble delay in creating the post and appointing an officer to it.	It may be pointed out that the OFRC submitted its report in December, be 1954 which was subsequently examined by the Government. The post of the Controller General of Defence Production was created in September, 1955. [*Ministry of Defence O.M. No.* 14(45)/58/*CG(P&C) dated the* 11*th February*, 1960].
16	36	In view of the importance and potentialities of civil production in Ordnance Factories the Committee feel that the question of the Organisation for Civil Trade Production, including the sales organisation needs to be examined to determine whether it would be necessary to have more officers and representatives at the H.Q. of the D.G.O.F., at certain regional Headquarters and in the Ordnance Factories.	This question has been considered by Government and it was decided that a Sales Officer should be appointed at the DGOF's HQ for canvassing and encouraging sale of Ordnance Factories products. An officer has been selected by the U.P.S.C. to man this post and he is likely to take over the job soon. As regards the question as to whether more officers representatives at the D.G.O.F's HQ or at regional zones are needed, *prima facie*, there is little justification at present to multiply the strength

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			of the Sales personnel in the D.G.O.F's Organisation because the sale of principal items is being effected through agencies and this agency arrangement can be progressively applied to other items of manufacture and also a large percentage of the civil trade activities of Ordnance Factories pertain to manufacture and sale of steel which is generally a controlled item and orders for which are placed by the Iron and Steel Controller. However, this question will be further examined after the Sales Officer takes position and the position is watched for some time. [*Ministry of Defence O.M.No.* 14(45)/58/*CG* (*P&C*) *dated the* 11*th February*, 1960].
17	37	The Committee find it rather surprising that in a large industrial undertaking like the Ordnance Factories the Statistical Quality Control section should have been introduced only in 1955 and that too on an experimental basis. They feel that the Organisation for Quality Control at the Office of the D.G.O.F. should be examined to determine whether it would be necessary to have more officers and staff not only in the Headquarters but also in the Ordnance Factories themselves. Further, the feasibility of entrusting the function of interpreting vital statistics revealed by cost accounts data, so as to enable initiation of action to improve efficiency to the Statistical Quality Control Branch may also be examined.	Although the present sanction of the Statistical Quality Control cell at the D.G.O.F's HQ is for a period of two years only in the first instance, it is the intention to continue this unit more or less on a permanent basis if the results of experiment warrant taking such a course of action. As regards question of setting up of S.Q.C. units in the Factories, this question will be considered after gaining experience of the unit established at the D.G.O.F's HQ. As regards the feasibility of entrusting the function of interpreting vital statistics revealed by cost accounts data so as to enable initiation of action to improve efficiency to the Statistical Quality Control Branch, this is one of the primary functions of the S.Q.C. unit. The

			results so evaluated are subject to critical examination and all measures are taken to better the quality of production. The maximum benefit is thus drawn by introducing a system of better performance in production.
			[*Ministry of Defence O.M. No.* 14(45)/58/*CG (P&C) dated the* 11*th February*, 1960].
18	38	The Committee would suggest that the question of opening 'Organisation and Methods Division' in the offices of the Controller General of Defence Production and D.G.O.F. to constantly examine the question of staff strength, increase in paper work etc., should also be considered.	The procedure laid down by the Organisation and Methods Division to all the Ministries also applies to the offices of the Controller General of Defence Production. The O. & M. Officer in the Defence Ministry looks after such work of the C.G.D.P. HQ. Similarly, this work in the D.G.O.F's HQ is also looked after by an O. & M. Officer specially nominated for this purpose. These problems are constantly examined and considered by these O. & M. Officers.
			[*Ministry of Defence O.M. No.* 14(45)/58/*CG(P & C) dated the* 11*th February*, 1960].
19	39	The Committee had some doubts about the necessity of the posts of Chief Security Officer, the Chief Medical Officer etc., at the Headquarters of the DGOF. They suggest that in the light of the doubts expressed by them, this question should be examined afresh.	The primary duties of the Chief Security Officer and the Chief Medical Officer (the Security Officer and DADG, Hygiene, help these two Chief Officers in their work and also look after their work when they go on tour) are to serve as coordinating link between the officers posted at Factories and other Govt. and non-Govt. agencies outside the DGOF Organisation. They also serve as advisers to the DGOF in their respective

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			spheres. Their services are essential so that the security and medical services in the Organisation could be run efficiently. It will not be possible to achieve any co-ordination or efficiency in these matters without these two Chief Officers at the HQ to control and guide the respective officers in the factories and also advise the DGOF who is in overall charge of, *inter alia*, security and medical arrangements of his Organisation. [*Ministry of Defence O.M. No.* 14(45)/58/*CG* (*P&C*) *dated the* 11*th February*, 1960].
24	44	The Committee recommend that for the sake of economy, close co-operation and coordination between the DGOF on the one hand and the Services, Defence Ministry, CGDP, DGS&D, etc., on the other, as well as reducing paper work and red-tape, the feasibility of shifting the Office of DGOF from Calcutta to Delhi or to some other central place may be carefully considered at the highest level.	The question of locating DGOF's HQ at a suitable central place has been carefully examined. Under the present conditions, the centre of gravity of steel works and heavy engineering industry being nearer in Calcutta and also of the fact that the Ordnance Factories will be in the coming years, utilised to a greater extent to meet civil demands, its present location at Calcutta is considered to be ideal. There is no lack of coordination and active cooperation between the DGOF's HQ on the one hand and various other organisations located in New Delhi due to the location of DGOF's HQ at Calcutta. [*Ministry of Defence O.M. No.* 14 (45)/58/*CG* (*P & C*) *dated the* 11*th February*, 1960].

30	57	The Committee find that the expenditure on the organisation of the Controller of Defence Accounts (Fys) has not shown any decrease in spite of the falling workload in the Ordnance Factories over the last few years and that no comparative study of the accounting staff in the various Ordnance Factories *inter se* as well as with that obtaining in other State Industrial Undertakings and Factories in the Private Sector had ever been undertaken. They feel that such a comparison would be useful in determining the standard strength of the staff in this respect as also their duties. The Committee suggest, therefore, that such a comparative study may be undertaken and in the light of it a fresh review of the accounting staff in the Ordnance Factories may be conducted.	The strength of each Accounts Office is fixed with reference to the quantum of work in that office and with reference to the scales of work which have been laid down after careful assessment of each item of work. The cost of accounting (and internal audit) to a great extent is in the nature of a fixed charge and cannot, therefore, be automatically brought down to correspond to reduction in output unless the factory organisation itself contracts visibly in relation to the existing workload. The accounts staff position is constantly under review and adjustments are made according to shifting load of work in each Ordnace Factory. The ratio of expenditure on accounting staff to that on other staff in the Ordnance Factories varies between 3 to 5 per cent depending upon the relative proportion of piece-workers and day workers and the type of production in each factory. Since the Defence Accounts Organisation in the Ordnance Factories has several specific functions of internal audit to protect the interest of the State in the matter of public expenditure, the like of which would not form part of the accounting in the private industry, it is felt that no realistic comparison could be made with the private industry. The CGDA has reviewed the position in the light of the Estimates Committee's recommendations and is of the view that no worthwhile reduction

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			in the Factories accounting staff was likely unless some work they were doing at the moment was transferred to others or was dispensed with. [*Ministry of Defence O. M. No.* 14(45)/58/*CG* (*P & C*) *dated the* 11*th February*, 1960].
31	58	The Committee feel that Finance and Accounts are complementary to each other especially in manufacturing concerns and that it would be an advantage if they are performed by one officer. In this connection they would refer to the arrangement prevailing on the Railways and would suggest that a post analogous to that of Financial Adviser and Chief Accounts Officer (Railways) may be created in place of the existing two posts of Deputy Financial Adviser (Factories) and the Controller of Defence Accounts (Fys).	Prior to April, 1952, the CDA(Fys) was also performing duties of the DFA(Fys). In regard to financial matters he worked directly under the Financial Adviser and had staff for this purpose which formed part of the Ministry of Finance (Def.) as distinct from the Defence Accounts Department. However, as the volume and complexity of work increased both on the accounts side and the finance side, it was found that the work-load was too heavy for one officer and a separate whole-time post of DFA (Fys) for financial matters was created. Both the DFA(Fys) and the CDA(Fys) are all the time available to the DGOF for advice and the setting up of the Board of Management in which both of them are members further facilitates in bringing about the necessary coordination and close consultation, which the Estimates Committee have in view in recommending the combining of

			the posts of the Deputy Financial Adviser and the Controller of Defence Accounts (Factories). [*Ministry of Defence O.M. No.* 14(45)/58/*CG*(*P & C*) *dated the* 11*th February*, 1960].
32	59	Under the theory of separation of audit from accounts the accounts organisation should be placed under the administrative authorities. While the accounts of Defence expenditure were separated from audit about 30 years back, they were placed under the Ministry of Finance (Defence) and not under the Administrative Ministry. The Committee hope that it would be possible to rectify this state of affairs at an early date.	The Factory Accounts Organisation provides a specialised and effective agency for looking after the work connected with the maintenance of accounts etc. of the factories and for exercising an independent check on defence expenditure. This organisation is also responsible for carrying out internal audit and the Comptroller and Auditor General exercises only a test check which in relation to the activities on the Defence side would be inadequate unless it is coupled with a continuous internal audit as carried out by the Defence Accounts Department. Moreover, in addition to the maintenance of cost accounts, the Factory Accounts Organisation is also responsible for maintaining financial accounts, rendering financial advice to the factory management and carrying out internal audit. Separation of Cost Accounting staff from the rest of the existing responsibilities of the Factory Accounts Organisation and the transfer of the Cost Accounts staff to the management might not by itself result in any advantage, but on the other hand might necessitate extra accounting staff. The general scheme for separation of audit from accounts and bringing the accounts organisation

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			under the control of the administrative Ministry is at present being tried out as an experimental measure in some individual Ministries. [*Ministry of Defence O.M. No.* 14(45)/58/*CG* (*P&C*) *dated the* 11*th February*, 1960]
36	65	The Committee feel that the details, under which the estimates for expenditure on Ordnance Factories are at present asked for, do not indicate sufficiently the break up of the expenditure under the various heads. They, therefore, suggest that the following improvements may be made in the presentation of the estimates of Ordnance Factories :— (1) Pay of Staff should be shown separately for supervisory staff, non-industrial staff. (2) Expenditure on allowances may be shown separately. (3) (*i*) Expenditure on the various Training Schemes in the Ordnance Factories ; (*ii*) Expenditure on the inspection staff ; (*iii*) Expenditure on repairs and maintenance of plant and machinery ; and (*iv*) Expenditure on miscellaneous operating expenses as fuel and oil, etc. may also be shown separately.	A suggestion has been made that the pay of staff should be shown separately for various categories of staff. This could be accepted and implemented subject to the modification that instead of three categories of staff as mentioned by the Estimates Committee the figures could be furnished for two categories, industrial and the rest. As regards the suggestion that the expenditure on allowances should be shown separately, it may be mentioned that there is no special advantage and as such the allowances might be merged with the pay of each category. It has been suggested that expenditure on various training schemes, inspection staff, repairs and maintenance of plant and machinery, miscellaneous operating expenses, cost of welfare activities etc. may be shown separately. Each of the items referred to would consist of different categories of expenditure, for example, pay, stores, travelling allowance, overhead charges, etc. and in some

		(4) Expenditure on welfare activities may be shown separately. On the receipt side, the value of work done for various departments may also be shown.	cases it might even be utilisation of materials purchased in the previous year. Any attempt to furnish full details would lead to interlocking of financial and cost accounts and would lead to complications in regard to reconciliation. In any case, in the Annual Accounts of the Ordnance Factories, which are based on proforma cost accounts, the details of such expenditure are indicated and it would not be possible to show these in the Financial Accounts. In connection with the similar question regarding information on expenditure proposed to be incurred by the Government on important activities like the medical services, education, training research and development etc. it has already been brought to the notice of the Estimates Committee that the present arrangements contemplate the exhibition of expenditure according to the nature of the charge, for example pay and allowances, stores, works etc. The compilation of accounts on a functional basis cannot be attempted without bringing out extensive changes which may largely frustrate the object for which the present layout was adopted. [*Ministry of Defence O.M. No.* 14(45)/58/*CG*(*P&C*) *dated the* 11*th February*, 1960].
45	81	The Committee are not happy with the existing arrangement under which cost accounting and the staff therefor are not the responsibility of the DGOF and the Superintendents of Ordnance Factories. It is necessary that	An Accounts Officer is attached to each Ordnance Factory and he works in close liaison with the factory management. With the introduction of the Budget Committee, such liaison will be closer and the needs of the management and the

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		there should be perfect coordination between the factory management and the cost accounting organisation in regard to the various types of cost data required by them within reasonable time of the completion of the particular job.	requirements of accounts are expected to be treated with better understanding and sympathy. As regards the Committee's recommendation that the organisation of the Controller of Defence Accounts (Fys) should work under the administrative control of the DGOF, please see our remarks on recommendation No. 32.
		The Committee have already recommended that the Organisation of the Controller of Defence Accounts (Factories) as in any manufacturing industry should work under the administrative control of the DGOF subject, of course, to certain reserve powers. They feel that, once this is done, the difficulties experienced at present in securing greater co-ordination between the cost accounts staff and the factory staff might not continue to the same extent. At the same time, they consider that that the DGOF and the Superintendents of Factories should each have a cell working under him to interpret to him the various statistics furnished by the cost accounts branch, so as to enable him to initiate necessary action for the purpose of controlling costs and of improving the efficiency.	[*Ministry of Defence O.M. No. 14(45)/58/CG(P&C) dated the 11th February, 1960*]

52	100	The figures of expenditure from the R&R Fund in the past would indicate that sufficient care and attention had not been bestowed on the replacement and modernisation of plant and machinery in the Ordnance Factories which has become outmoded in most cases.	Urgent action is now being taken for the procurement of plant and machinery needed for replacement and modernisation of Ordnance Factories as already stated in remarks on Sl. Nos. 38 and 42. [*Ministry of Defence O.M. No. 14(45)/58/CG(P&C) dated the 11th February, 1960*]
53	101	The Committee feel that the question of resuscitation of the R&R Fund needs to be examined again at the highest level in the light of the realistic assessment of the condition of Plant and Machinery in Ordnance Factories and the present circumstances and a decision taken on it without any delay If the Govt. still decide that there is no need for a R. & R. Fund, the Committee suggest that the question of placing more funds at the disposal of the DGOF for replacement of Plant and Machinery may be examined,	The question of resuscitation of the Renewal Reserve Fund had been considered at various times at the highest levels in this Ministry as well as in the Ministry of Fin. (Defence) The last occasion when the Government considered it was when the Ordnance Factories Re-organisation Committee (Baldev Singh Committee) made this proposal. It is, however, regretted that this fact was not specifically brought to the notice of the Estimates Committee through oversight. The question was later on discussed at a meeting of the Defence Production Planning Committee of which the Deputy Defence Minister is the Chairman. It was decided to drop the proposal for the following reasons :— (*i*) The amount at credit of the fund will not be enough to meet all the renewals programme unless contributions are made to it by Government retrospectively for the past periods when the fund was discontinued. This will, however, not be feasible at present. (*ii*) Any renewal programme willl have to be justified on financial grounds whether the

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			cost is met out of the Renewal/Reserve Fund or from the Consolidated Fund. (*iii*) Since the major part of any machinery/plant replacement has to be necessarily met by import, the actual purchase is dependent on the availability of Foreign Exchange irrespective of whether the equivalent in rupees is available in the Renewal/Reserve Fund, and each such replacement proposal has to be considered on its own merit on the basis of inescapability and availability of foreign exchange rather than automatic replacement on the basis of money available in the Renewal/Reserve Fund. The Government have taken the following steps for speeding up the replacement of worn out plant and machinery in Ordnance Factories and especially for eliminating delays in obtaining approval sanctions :— (*i*) The Government have accepted in principle a programme for the replacement and modernisation of the Ordnance Factories during the Second Five Year Plan. (*ii*) The question of enhancing the local purchase powers of the DGOF for the purchase of plant and machinery is under the consideration of this Ministry.

(*iii*) The Government have evolved a simplified procedure for authorising the DGOF to replace machine tools in the tool rooms after 10 years life excluding idle periods.

(*iv*) Similar provision has been made for the replacement of machine tools in the production shops after 20 years.

[*Ministry of Defence O.M. No.* 14(45)/58/*CG* (*P&C*) *dated the* 11*th February*, 1960].

CHAPTER IV

REPLIES OF THE GOVERNMENT THAT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Sl. No. of the recommendation	Reference to para No. of the Report	Summary of Conclusions/Recommendations	Reply of the Government	Comments by the Committee
1	2	3	4	5
8	23	The Committee regret to observe that the Defence Production Advisory Committee which was set up on 2-1-56 has so far held only one meeting to which also no private Industrialist was invited.	*Sl. Nos.* 8 *to* 11 A meeting of the Defence Production Advisory Committee was held on 25th March, 1957 to consider the question of harnessing trade capacity to meet Defence requirements, in peace and in emergency. The following industrialists attended :— (*a*) Shri Babubhai M. Chinai, President, Federation	*Sl. Nos.* 8 *to* 11 The Committee donot consider the present *ad-hoc* arrangement of associating Indian Industrialists with the Defence production as satisfactory. They, therefore, recommend that the Defence Production Advisory Committee be revived and made an effective instrument of enlisting the co-operation of prominent industrialists as also of the pro-
9	24	The Committee observe that while the recommendation of the Baldev Singh Committee for the association of two private industrialists on		

the Board of Management of the Ordnance Factories was not accepted, no attempt has yet been made even to make a success of the alternative Defence Production Advisory Committee which was set up. The Committee consider this as very unbusinesslike and unsatisfactory for a Ministry which is charged with the responsibility of being always prepared with plans to defend the country in an emergency and to secure the full mobilisation of the country's resources at short notice for the purpose. The Committee feel that a revolutionary change in this attitude of complacency on the part of the Defence Ministry in the important matter of Defence Production is called for and hope that it would be possible to secure for this purpose the whole-hearted co-operation of the Indian Industrialists (and also of the Production Units in the Public Sector) by	of India Chambers of Commerce and Industry. (b) Shri S.N. Haji, President, All India Manufacturers Organisation. (c) Shri K.A.D. Naoroji, Resident Director, Tata Industries Ltd., New Delhi. It would not therefore be correct to state that no representative of private industry was invited to attend the meeting of the Defence Production Advisory Committee. This Committee has since been dissolved as it was considered that its membership was the same as that of the erstwhile Defence Production Board except for representatives from the various Ministries and private Industrialists who could be coopted whenever it was desired to have their advice. *(Min. of Defence O.M. No. 14(45)/58/CG(P & C) dated the 11th Febr. 1960).*	duction units in the Public Sector in the matters of Defence Production where such an association would not be prejudical to national interest.

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		working the Defence Production Advisory Committee more effectively.		
10	25	The Committee recommend that the existing arrangement under which the private industrialists are to be associated with the Defence Production Advisory Committee only as and when necessary, and not on a permanent and regular basis, should be altered so as to provide for their association on a regular basis.		
		They also suggest that, if necessary, the Advisory Committee may be assisted by a number of Sub-Committees each dealing with specific allied problems relating to Defence Production, with the industrialists and other civil production units, directly concerned with the subiects represented on it.		

11	26	The Committee recommend that the Chairman of the Defence Production Advisory Committee also should not be the Minister for Defence Organisation.		
27 (partly)	49	The Committee feel that even if it is not possible to constitute the Ordnance Factories producing warlike stores into the company system of management, it would still be worth-while and advantageous to consider the feasibility of handing over the Ordnance Factories producing non-warlike stores to the Production Ministry for being managed under the Company system so as to facilitate the enlargement of their scope for the production of a larger variety of stores. They also feel that it would be an additional advantage if the Defence Ministry which was probably overburdened could be relieved of the responsibility of managing industries which	The question of transferring the control of Ordnance Factories which produce non-warlike stores from the Ministry of Defence to other civil Ministries was examined by the Defence Production Planning Committee in great detail and it was decided taking all factors into account, that the Factories should continue to be under the Defence Ministry. *(Min. of Defence O.M. No. 14 (45)/58/CG (P & C) dated the 11th Feb., 1960).*	Please see Chapter I.

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		are not of a strictly security nature as it would enable that Ministry to concentrate on Defence matters which are of vital importance to the defence of the country. The Committee therefore recommend that the question of transferring the control of the Ordnance Factories which produce non-warlike stores from the Ministry of Defence to the Ministry of Production should be examined seriously and expeditiously.		
35	64	The present form of budget estimates in respect of Ordnance Factories does not show at one place the anticipated total capital and revenue expenditure in all Ordnance Factories on the one hand and the estimated receipts, including the value of issues to various parties (*e.g.* Army, Navy, Air Force, etc.) on the other.	The presentation of the factory expenditure under a spearate demand will involve the pricing of individual issues from the factories to the Army, necessitating the employment of additional staff. This would also have the effect of increasing the size of the total Defence demands as the issues to the Army would also	The Annual Accounts of the Ordnance Factories are not laid on the Table of the House. Moreover, the difficulties pointed out are not insuperable. In fact the complete separation of Ordnance Factories' Budget would facilitate a proper appraisal of the financial results of their working.

The Committee consider such a presentation of budget figures as very desirable so as to facilitate proper appreciation of the financial working of the Ordnance Factories Organisation. The Committee, therefore, recommend that the estimates on account of expenditure on Ordnance Factories be asked for as a separate demand and that a statement similar to that prepared in U.K. may also be submitted to the House along with the budget estimates.	have to be provided for in the Army demand. Further, there have been considerable variations between the estimates of issues from Ordnance Factories to the Navy and Air Force provided in the budget and the actual issues, resulting in surrenders of sanctioned amounts from the Navy and Air Force grants. The separation of the factory demands will create the same situation in the case of Army estimates also and on a much bigger scale. There are also other inherent difficulties in framing the estimates of the issues from the factory to the Army. The object of the recommendations of the Estimates Committee seems to be to obtain a clear and complete picture regarding the expenditure in the Ordnance Factories at one place which is given in the Annual Accounts of the factories. (*Min. of Defence O.M. No.* 14 (45)/58/*CG*(*P&C*) *dated the* 11*th Feb.*, 1960).	Hence the reply is not acceptable and the Committee would like to reiterate the recommendation. In this connection attention is also drawn to the Committee's recommendation made in para 12 of their 20th Report (2nd Lok Sabha) on Budgetary Reform and their remarks against Sl. No. 4, Chapter IV of the 60th Report (2nd Lok Sabha) on action taken on the above Report.

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37	66	Since the Ordnance Factories are industrial undertakings producing defence stores, the Committee consider that there should be a system by which actual expenditure could be readily compared and correlated to outturn and that the form of the Budget should also exhibit this correlation to the extent possible. They would, therefore, recommend that in the interest of efficiency and economic functioning of not only the Ordnance factories but all other undertakings in the Public Sector, the system of correlating actual expenditure with performance and of managerial control should be introduced. The Committee feel that with an improved and modern cost accounts system it should be possible to enforce such a control. In this connection, the Committee would also refer to their recommen-	A well defined system of cost accounting is in vogue in the Ordnance Factories, under which a continuous and concurrent check is exercised on the utilisation of labour and consumption of materials to see that the estimates for various jobs are not exceeded. All recurring items of production are controlled with reference to Standard Estimates which prescribe the quantities and the qualities of materials to be used and also the types and the grades of labour to be employed as also the time required. When any job is undertaken, a warrant in two parts—a manufacture warrant dealing with time allowed and grade of labour authorised and a material warrant setting forth the quantity and the quality of raw materials to be drawn is issued with reference to the Standard Estimates. For	Government have not given any reply regarding the exhibition of the correlation of actual expenditure to the output in the Budget. To that extent the Committee would therefore, like to reiterate the recommendation. In this connection they would also refer to para 3 of their 73rd Report (Second Lok Sabha) regarding performance budgeting which equally applies to Ordnance Factories.

dations contained in paras 19—23, 31-32, 86—90 of their 31st Report on Finance and Accounts in the Ministry of Railways.

non-recurring jobs *ad hoc* estimates are prepared. As the work progresses, the material utilisation as well as labour utilisation are collated and watched to ensure that the limits authorised are not exceeded. Any deviations necessary can be carried out only under the orders of the Superindendent or the Works Manager of the factory. On completion of any job as detailed out in the warrant the cost card pertaining thereto is closed by including therein the overhead charges. The estimated and actual costs are compared and variations exceeding 10% under each direct element of cost or the total cost, are analysed and the reasons are reported to the Supdt. for his information, remarks and for exercising a better cost control in future wherever possible.

During the course of manufacture only a quantitative and

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			qualitative control on the drawal of material and utilisation of labour with reference to the totals authorised can be exercised. Thus, the entire material needed for the job could be drawn at the time of commencement of the job. Where a large number of operations are involved it is quite possible to complete the earlier operations for the entire quantity to be produced, while the final operations are still in progress in regard to the major part of the output. The progressive expenditure booked against any particular warrant would not therefore be in proportion to the number completed. While therefore the monthwise and progressive figures of expenditure against each warrant are regularly recorded and submitted to the Superintendent of the factory	

whenever called for, it is not possible to effect during the course of manufacture any comparison between the recorded and the estimated expediture of finished items forming part of an order unless an inventory of partly finished items could be made available for working out the cost of those completed.

Further, with a view to ensure that cost per unit becomes available, the manufacturing warrants are opened for production in batches and any upward trend in production cost could be scrutinised by management and reasons therefor analysed to assist in controlling the production cost of subsequent batches. Moreover, information in regard to the following is made available to the executive authorities every month: labour payment statistics, record of piece-work profits ratio of indirect to direct labour, labour abstracts,

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			material abstracts, value of working stock, stock-pile, surplus stores, statements regarding cost of services, like gas, water, steam, electricity etc. variable overheads and fixed overhead statements etc. These monthly statistical data should indicate to the Management the direction in which controls should be exercised. *(Ministry of Defence O.M. No. 14(45)/58/CG (P. & C) dated the 11th February, 1960).*	
41	76	The expenditure on minor maintenance as well as its ratio to the value of capital assets has been steadily rising in the last few years. The Committee feel that the capital assets are probably becoming increasingly obsolete and that this is a matter which should be viewed with concern and efforts made to improve the position.	The expenditure authorised in minor maintenance of building works is according to certain prescribed percentages. The increase in this expenditure is, due to increase in the assets. *(Ministry of Defence—O.M. No. 14(45)/58/CG (P & C) dated the 11th February 1960)*	The reply of Government does not clearly state why the ratio of expenditure to the total value of capital assets is rising. The reply is therefore not acceptable and the Committee reiterate the recommendation.

CHAPTER V

RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF THE GOVERNMENT ARE STILL AWAITED

Serial No. of the recommendation	Reference to Para. No. of the Report	Summary of Conclusions/ Recommendations	Reply of the Government	Comments by the Committee
1	2	3	4	5
23	43	The Committee feel that instead of the casual inspection carried out at present there should be a system of regular inspection of Ordnance Factories by a Central Team headed by a senior officer for the purpose of carrying out a detailed examination of the various production activities and staff problems of Factories, of the extent of implementation of	The question of setting up of a central team for the purpose of regular inspection of Ordnance Factories, as suggested by the Estimates Committee, is under consideration (*Ministry of Defence O. M No* 14(45)/58 *CG* (*P&C*) dated *the 11th February*, (1960)	The Committee would like to know the decision taken in the matter.

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		the various instructions of the D.G.O.F. etc, with particular reference to the detection by an on-the-spot study of uneconomical and wasteful methods of production, employment of excessive staff etc.		
25	47	The Committee consider that the powers of the Superintendents of Ordnance Factories should be reviewed so that they might have in all matters authority consistent with their responsibility. It should also be watched centrally by the D.G.O.F. that these powers are properly and sufficiently used. The powers of the Superintendent should be exercised in consultation with a Factory Board to be set up consisting of himself, Works Manager, one or two A. W. Ms., the Factory Accounts Officer and where necessary the Labour Officer to advise the Superintendent in the	Please see comments on Sl. No. 21 of the recommendations As regards setting up of Factory Boards, the matter is under consideration. *(Ministry of Defence O M. No. 14(45)/58/CG(P&C) dated the 11th February, 1960).*	The decision in regard to the setting up of Factory Board may be intimated when arrived at.

		day to day working of the Factory, with rules similar to those recommended for the Executive-Board of the D.G. O.F.		
27 (Partly)	49	The Committee also feel that the feasibility of extending such agency arrangements, as have been set up for the production of Benzene/Toulene, to the production of other items of non-lethal stores required by the Defence Services should be constantly kept under review.		
28	51	The existing procedure whereby the Financial Adviser arranges to obtain the views of all concerned on important matters where there is likely to be a difference of opinion between the Finance and the Defence Ministries before the meeting of the Defence Production Board, makes it difficult for the Board to function effectively. The Committee would like to refer in this connection	*S. Nos.* 28 *and* 29 This question is under separate consideration for the Defence Ministry as a whole *vide* our comments on Sl. No. 1 of the Committee's recommendation. [*Ministry of Defence O.M. No.* 14 (45)/58/*CG* (*P&C*) *dated the* 11*th February*, 1960].	*S. Nos.* 28 *and* 29 The Committee may be informed of the decision in due course.

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		to the role of Financial Commissioner, Railways, who functions as Secretary to the Ministry of Railways in matters relating to Railway expenditure.		
29	51	The Committee suggest that the arrangement obtaining in the Railways under which the Financial Commissioner, Railways functions as a member of the autonomous Railway Board but with certain reserve powers and under which his representatives at lower levels work under the General Managers but also with reserve powers may be adopted with advantage in the case of Ministries dealing with industrial projects and commercial matters and in the Ministry of Finance (Defence) in so far as Defence Production is concerned.		

43	78	The extent of work done for the Navy, Air Force etc., is increasing in recent years, though it meets only a small portion of their total requirements. The Committee are glad to observe that the civil production in the Ordnance Factories has been steadily rising.
44	79	The Committee do not consider it worth-while to compare the total outturn with the total expenditure since the former actually represents only the cost of production. A worth-while comparison could only be in terms of physical quantities so as to enable a comparison to be made of the cost of production per unit. It is for these reasons that they have suggested earlier the system of managerial control.
46	82-83	The Committee can hardly consider the existing system of cost accounting, which is only a historical collection of facts long after the event, satisfactory, particularly in a

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		monopolistic industry, the economy and efficiency of which are of vital concern to the country. The Committee regret to observe that, inspite of the criticism of the Baldev Singh Committee, made over 2 years back, about the cost accounting system in the Ordnance Factories, which was characterised as out-moded and unsatisfactory, the system continues unchanged as before.		
47	87	The Committee fail to understand why under present cost accounting system followed in the Ordnance Factories, the cost data and reports cannot be made available to the executive authorities at the end of a reasonable interval after a particular process of manufacture. They do not have in view instantaneous preparation of cost data by electronic devices, but they understand that the		

D.G.O.F. would be satisfied if it could be made available after a week or even a fortnight instead of as at present. The Committee recommend that immediate steps should be initiated by the Financial Adviser to secure this reform.

NEW DELHI;

March 6, 1961

Phalguna 15, 1882(*S*)

H.C. DASAPPA,

Chairman,

Estimates Committee

APPENDIX I

Analysis of the action taken by Government on the recommendations contained in the Fifty-Fourth Report of the Estimates Committee (First Lok Sabha).

1.	Total number of recommendations	55
2	Recommendations accepted by Government :	
	Number	17
	Percentage of Total	31%
3.	Recommendations not accepted by Government but replies in respect pf which have been accepted by the Committee.	
	Number . . .	22
	Percentage of Total .	40%
4.	Recommendations to which replies of Government have not been accepted by the Committee	
	Number	7½
	Percentage of Total	14%
5.	Recommendations to which final replies of Government have not been received :	
	Number	8½
	Percentage of Total . .	15%

GM GIPND—LS I—2032 (Aii) LS—22-3-61—1175.