

**SIXTY FIRST REPORT
PUBLIC ACCOUNTS COMMITTEE
(1986-87)**

(EIGHTH LOK SABHA)

**BLOCKING UP OF CAPITAL DUE TO NON-
COMMISSIONING OF AIR-CONDITIONING PLANT**

MINISTRY OF COMMUNICATION

(DEPARTMENT OF TELECOMMUNICATIONS)



Presented in Lok Sabha on.....

Laid in Rajya Sabha on.....

**LOK SABHA SECRETARIAT
NEW DELHI**

October, 1986/Asvina, 1908 (Saka)

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PUBLIC ACCOUNTS COMMITTEE (8TH LOK SABHA).

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PART II*

Minutes of the Public Accounts Committee (1985-86 & 1986-87)

28.1.1986

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6.10.1986

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(1986-87)

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1. **Shri N.N. Mehra—*Joint Secretary.***
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3. **Shri Brahmanand—*Senior Financial Committee Officer.***

INTRODUCTION

I, the Chairman of the Public Accounts Committee, authorised by the Committee, do present on their behalf this Sixty-first Report on paragraph 20 of the Report of the Comptroller and Auditor General of India for the year 1983-84-Union Government (P&T)-Blocking up of capital due to non-commissioning of air-conditioning plant.

2. The Report of the C&AG of India for the year 1983-84, Union Government (P&T) was laid on the Table of the House on 12 April, 1985.

3. The Report highlights the irregularities committed by the Department of Telecommunications and Director General of Supplies and Disposals in awarding contract for air-conditioning ladies dormitory of Trunk Telephone Exchange in Kidwai Bhavan, New Delhi at an estimated cost of Rs. 2.69 lakhs in January 1973 to a private firm M/s. Bombay Ammonia Pvt. Ltd. In the opinion of the Committee the whole deal was shady and calls for a detailed investigation into all these lapses spelt out below :

- (i) The circumstances that led to the selection of this firm viz., M/s. Bombay Ammonia Pvt. Ltd. for the award of this contract when it was well-known that the past performance of the firm had not been satisfactory.
- (ii) The reasons why the information regarding removal of the firm from the DGS&D list of approved suppliers was not passed on to the suppliers immediately and was delayed for over a year and why the records pertaining to this firm were destroyed even before the contract of the firm were completed and whether there is need to revise the procedures in this regard.
- (iii) Awarding of the contract for a plant for which it was known that the floor strength of the dormitory was not adequate.
- (iv) Gross negligence and excessive indulgence shown to the firm by granting them extensions for 12 years for a job which should have been completed within 6 to 12 months.
- (v) Excessive delay in making a reference to the Ministry of Law for arbitration in February 1986 when the arbitration had been sought by the firm in June 1984.

4. While the Committee have desired that these lapses should be investigated and responsibility fixed, they have also desired that relevant rules and procedures should be reviewed to forestall such lapses in future.

They have further desired that the system of inspection and payment should be reviewed so as to minimise the scope of manipulation and to ensure that the firm executing the job is compelled to complete the same in time.

5. The Public Accounts Committee, 1985-86, examined the Audit paragraph at their sittings held on 28 and 29 January 1986.

6. The Committee considered and finalised this Report at their sitting held on 6 October 1986, based on the evidence already taken and written information furnished by the Ministries of Communication (Department of Telecommunications) and Industry (Department of Supply). The Minutes of the sittings from Part II* of the Report.

7. For reference, facility and convenience, the observations and recommendations of the Committee have been printed in thick type in the body of the Report and have also been reproduced in a consolidated form in Appendix I to the Report.

8. The Committee place on record their appreciation of the commendable work done by the Public Accounts Committee (1985-86) in taking evidence and obtaining information for the Report.

9. The Committee would like to express their thanks to the officers of the Ministries of Communication (Department of Telecommunications) and Industry (Department of Supply) for the cooperation extended by them in giving information to the Committee.

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

NEW DELHI :
October 28, 1986
Kartika 6, 1908 (Saka)

ERASU AYYAPU REDDY,
Chairman,
Public Accounts Committee.

*Not printed (one cyclostyled copy laid on the Table of the House and five copies placed in the Parliament Library).

REPORT

AUDIT PARAGRAPH

Blocking up of capital due to non-commissioning of Air-conditioning Plant.

Air-conditioning of ladies dormitory of Trunk exchange and Special Services in Kidwai Bhawan, New Delhi was sanctioned by the General Manager, Delhi Telephones, (GMT) New Delhi at an estimated cost of Rs. 2.69 lakhs in October 1972. The work of supply and installation of air-conditioning plant was awarded to firm 'A' in January 1973 through the Director General, Supplies & Disposals (DGSD) for completion by March 1973 and June 1973 respectively. The load bearing capacity of the floor of the dormitory was not assessed before the work was awarded. In February 1973, the department discovered that the flooring was not strong enough to take the load of the equipment.

2. Consequently, it was decided in September 1973 to change the type of equipment to be installed. The original tender was amended in December 1973 at a revised cost of Rs. 2.86 lakhs with the schedule for delivery and installation as 20th March 1974 and 20th June 1974 respectively.

3. The equipment after inspection by the DGSD was delivered at the site in February 1975 and installation commenced thereafter.

4. The first joint inspection was carried out in July 1977 when a number of items were found incomplete and thereafter winter test of the plant in February 1979 showed a number of defects. In spite of opportunities given to the firm, it failed to remove the defects. Consequently, the contract was rescinded by the DGSD in January 1981. It was decided in January 1981 to get the balance work completed at the risk and the cost of the firm 'A'. As the plant was under lock and key of the firm, nothing could be done till March 1981. Finally it was decided in consultation with the Ministry of Law to break open the locks in May 1982 and take possession of the plant for getting the unfinished jobs completed. Action to break open the locks was taken only in November 1982. The plant was yet to be commissioned after getting the faults rectified (June 1984).

5. The department now (January 1984) feels that the plant is beyond economical repairs.

6. Thus, the intended facility of air-conditioning sanctioned in October 1972 has not been provided although Rs. 2.55 lakhs have been spent. The expenditure has been almost a total waste.

[Paragraph 20 of the Report of the Comptroller and Auditor General of India for the year 1983-84), Union Govt. (Posts & Telegraphs)].

7. Kidwai Bhavan in New Delhi has a number of manual Trunk Exchange where a large number of telephone operators work. These Trunk Exchanges work round the clock and these operators have to work in shifts. Some of them, who work on shifts during certain parts of the day, cannot go home after duty and have to stay in the premises itself. For this purpose dormitories have been provided in Kidwai Bhavan. As a measure of economy, the dormitories are not air-conditioned in the general scheme of air-conditioning. Due to expansion of the trunk exchange in Delhi, the increased number of operators was to be accommodated in the limited space available in Kidwai Bhavan, and two tier system, as is done in the Railways, (one at the bottom and another at the top) was introduced. After providing two tier system, it was found that air-circulation was not enough. At this stage it was decided in early 1970s to provide air-conditioning to the ladies dormitory and air-conditioning plant was sanctioned for this dormitory in October 1972.

Selection of Firm and Award of Contract

8. The Committee have been informed that the subject requirement was advertised and tenders were opened on 25 November, 1971. Only three offers were received. Out of these 3 offers, adverse capacity report dated 17.1.72 was given by the Director of Inspection, Northern India Circle in respect of M/s. Air Freeze Industries, New Delhi. The second offer of M/s. York India was also found not acceptable by the indentor after its technical evaluation as also confirmed by the indentor through subsequent discussions, that left the offer of only, M/s. Bombay Ammonia Pvt. Ltd. on whom the order was placed as per recommendation of the indentor.

9. The Committee have been furnished with the details of air-conditioning plants supplied to various Government Departments by

air-conditioning firms and not functioning satisfactorily after installation during the last 2 decades. These are given below :

S. No.	Name of the firm	A/T No. & Date	Consignee
1.	M/s. Bombay Ammonia Pvt. Ltd., New Delhi	SE-6/7454-N/1/3657 dated 10.11.64	Mangalore, Telephone Exchange
2.	—do—	SE-6/221/II/3953 dated 3.4.1965	Hubli Telephone Exchange
3.	M/s. Air O-Engrs. New Delhi	ME-4/202/04/373/I/ 425 dt. 22.12.70	Dehradun Telephone Exchange
4.	M/s. Frick India Ltd.	ME-4/107/04/127/ 7.6.70/I/443 PAOD dt. 22.3.71	Defence Cordite Factory, Aruvankadu
5.	M/s. Atlantic, New Delhi	ME-4/202/281/II/ 437 dt. 7.4.71	Kanpur Telephone Exchange
6.	M/s. Bombay Ammonia Pvt. Ltd., New Delhi	ME-4/201/04/295/I 451 dt. 24.5.71	CSMRS, Hauz Khas, New Delhi
7.	—do—	ME-4/202/04/119/ 517 dt. 23.12.71	Kidwai Bhawan, New Delhi
8.	M/s. Atlantic Engg.	ME-4/201/340/04/ 1/413 dt 22.9.70	Wireless Transmitting Station, Amritsar
9.	M/s. I.B. Engg. Cp., Bombay	ME-4/202/04/281/ II/487 dt. 5.2.72	Poona Telephone Exchange
10.	M/s. Voltas Ltd., New Delhi	ME-4/202/04/790/ II/639/ dt. 21.10.74	Aligarh Telephone Exchange
11.	M/s. Bombay Ammonia	ME-4/202/04/321/ II/649 dt. 28.12.74	Vijawada Telephone Exchange
12.	M/s. Bombay Ammonia	ME-4/202/04/147/ II/655 dt. 24.1.75	Sangli Telephone Exchange
13.	M/s. Bombay Ammonia	ME-4/201/04/584/ I/663 dt. 19.3.75	FRI, Dehradun

10. As would be clear from the above statement, performance of M/s. Bombay Ammonia Pvt. Ltd. had not been satisfactory in the past in as much as in the two cases in which the air-conditioning plants were supplied by them before the present contract was entered into had not been working satisfactorily.

11. Asked why this firm was not black listed when the plants supplied by it in the past were not working satisfactorily, the Department of Supply stated :

"The relevant registration records pertaining to the firm were destroyed in February 1982 according to the prescribed schedule. It appears from the available records that the registration of M/s. Bombay Ammonia Pvt. Ltd., New Delhi was valid with DGS&D only upto 10.6.75. The firm was informed of the removal of their name from the list of approved suppliers on 3.9.76."

12. According to the information furnished by Audit, the Department was well aware in August/November, 1971 that the load bearing capacity of the floor on which the AC Plant was to be installed was only 200 Lbs. per Sq. Ft. and it could not be increased to 300 Lbs. per Sq. ft. as per the opinion given by Civil Engineering Wing of Indian Posts & Telegraphs Department in their letter dated 3.11.1971. Having known these facts, the Department placed supply order in January 1973 to instal an AC Plant which required higher load bearing capacity. Only in September 1973, the Department realised that the existing building did not have load bearing capacity and they changed the type of equipment.

13. Asked to justify their action, the Department of Telecommunication in a note after evidence submitted that :

"Soon after the receipt of the information that the load bearing capacity of the floor on which the A.C. Plant was to be installed was only 200 Lbs. per Sq. ft., calculation were made whether this load bearing capacity is sufficient to take the load.

From the calculations, it was found that load bearing capacity of 200 Lbs./sq. ft. was sufficient to carry this load and hence orders for one unit were allowed to be placed in January, 1973.

Subsequently the Department informed the Committee that technical opinion was, however, not obtained as to whether the flooring could be strengthened to bear the load of 300 Lbs./Sq. ft. before placing indent with DGS&D."

14. The Department of Supply in a note after evidence explained the position as follows :

"It was by Amendment Letter dated 17/18.12.73, the contract was amended asking for 2 air handling units (AHU) instead of one and delivery period refixed as 20.3.74 for supply and 20.6.74 for installation. It is observed from firm's letter dated 23.4.74 that the location of the AHU had to be changed to suit the convenience of the indentor. The revised ducting and plumbing drawings were still to be approved as on 20.5.74. A meeting was held on 19.6.74 in the DGS&D with the indentor in this connection, regarding masonry work connection with weather maker to be done by P&T. Even in July & August, 74 the revised drawing submitted by the firm (ducting) was not approved by P&T. On 5.9.74 firm expedited for approval of drawings and also that if delivery of equipment was not taken by the consignee within 15 days they would dispose of the plant and claim loss suffered by them. A copy was endorsed to the indentor. The matter was pursued with the indentor who vide his letter dated 22.7.74 followed by clarification dated 19.11.74 recommended for extension in delivery period. Accordingly delivery period was extended upto 15.2.75."

15. The equipment of the plant after inspection by the DGS&D was delivered at site in February, 1975 and the site was "ready for installation of the equipment". The firm were required to install the equipment within two or three months which the firm failed to comply with. Asked to explain the reasons for delay in installation, a representative of Department of Telecommunication stated during evidence that :

"When the Company supplied the consignment in February, 1975, they had compared it with the Accepted Tender (AT). The officer found certain defects in it and in the month of March 1975, they had carried out a coordination meeting to sort out these issues. At that meeting the Director of the Company had promised that he would start the work in March 1975 itself and complete within two months. In the year 1975 itself he appeared to have given that job to a sub-contractor and got into certain problems of payment resulting in some sort of a litigation. Therefore, the Company said that the work had not been done properly and the sub-contractor is responsible for that. For one year the whole work was stopped by the Government."

16. The equipment of the plant was delivered at the site in February, 1975. But the joint inspection could be carried out only in July, 1977. The inspection revealed the following deficiencies :

"The two air-handling units of the weather maker rooms were started and were found in working order. However, the job is still incomplete in respect of the following :

(1) Insulation of chilled water pipes and expansion water tank has not been done. Shri Dua of M/s. Bombay Amonia promised to complete this before 15.7.1977.

(2) Some of the controls could still be installed such as modulating motor etc.

(3) Connection of the chilled water pipes with the main A/C plant still to be done. Representative of the firm requested for the shut down of the main A/C Plant for 12 hours to facilitate him to make the connection. The date of the shut down was provisionally decided with the consultation of the Area Manager (LD) on 16.7.1977."

This report clearly says that the installation was not complete and the plant was not ready for final test. There is no question of malfunctioning at that stage.

17. Asked what sort of inspection was carried out by DGS&D at the firm's premises when later on incomplete items and deficiencies in equipment were detected during the joint inspection, the Department of Supply in a written note after evidence stated as follows :

"This being a case of erection contract, initial inspection of the items ordered under the contract was carried out at the firm's premises/site. Initial inspection is basically a visual inspection of the items being supplied according to the description given in the Contract. On receipt of the stores, the consignee (P&T) reported certain discrepancies and short receipt of some items. A joint investigation was undertaken in June 1975. The Joint inspection report revealed that items reported to have been received short by the consignee were not actually included in the contract. Moreover the transit damages/shortages observed by the consignee could not be attributed to the deficiency in the initial inspection. The supplied stores being in accordance with the contract terms were, therefore, accepted by the consignee and Inspection Notes were released as token of their acceptance."

18. Asked why the equipment delivered at the site in February, 1975 could be inspected jointly in July 1977 only, i.e. after 2 years 5 months, the Department of Supply in a note after evidence stated as follows :

"The stores were to be inspected by the Director of Inspection, NI Circle/Inspecting Officer, Pune either at firm's premises or at the site.

The stores tendered for inspection on 27.1.75 were released by inspection note dated 13.2.75.

On account of some confusion at the consignees end stores were not taken delivery of by the consignee. The matter was taken up with P&T. At the request of the Indentor copies of the contract and amendment letters issued to the contract were sent to them.

The consignee intimated discrepancies in the receipt of the stores. At the suggestion of the DGS&D the joint inspection was held at the consignee's premises by the Director of Inspection on 11.6.75.

The Director of Inspection suggested the amendment to the contract on the basis of the joint inspection. He suggested for change in thermocole from Technicalities of providing thermocoal and incorporation of some recommended items.

In the meantime, consignee wanted two additional heating thermostat. The firm took a stand the A/T covers only 2 Nos. heating thermostat which were already supplied but consignee insisted on supply of 4 Nos. heating thermostat. The firm stated that they can supply the additional thermostat at an extra cost. After exchange of further correspondence with the firm and P&T a meeting was held in the DGS&D on 6.10.1975. The firm's representative was advised to consider supply of items involved without extra payment.

The firm replied (8th October, 1975) that they agreed to supply free of cost certain items which were not specifically mentioned in the contract but for other items they asked for additional cost i.e. for 1 No. humidifier pump including starter, switch, wiring material and 2 Nos. heating thermostat which were nor covered by A/T. The Indentor was not agreeable to the additional cost. Between October, 1975 and March, 1976 after further correspondence with the Indentor/firm, the Indentor was requested for clearance of all points to enable the firm to complete the job. The Indentor confirmed the extension of the delivery period upto 15.4.1976. No decision, however, could be taken regarding supply of humidifier pump etc. for which the firm was asking for additional price.

In April, 1976 the firm informed the consignee about the work that had already completed at the site viz. ducting work,

insulation of the outer wall, foundation work and starting of the plumbing and requested the consignee to recommend further extension in the delivery date upto 30.6.1976.

In July, 1976 the Inspection Wing opined that the firm can not escape their liability to supply the humidifier pump despite the fact that they had not specifically mentioned the same in the revised price furnished by them earlier.

On 9.11.1976 the firm intimated that since the installation had nearly been completed and only work remaining was inter-connecting the chilled water pipelines with the existing plant which was installed by another firm and since A/C plant was being used during summer they were not allowed to carry out inter-connections. The firm requested for extension of delivery period and also a meeting to sort out the issues. Ultimately a meeting could be arranged on 5.5.77 in the DGS&D. The difficulties regarding connection of their blower chiller pipes with the existing plant were sorted out with the consignee.

Thereafter joint inspection was held on 11th July, 1977 (copy of the joint inspection report enclosed)."

19. As regards the reasons for a further delay of 18 months (from July 1977 to January 1979) in installation and commissioning of the plant and making it ready for winter test, the Department of Supply, in a note after evidence stated as follows :

"The joint inspection report dated 11.7.77 indicated that the job was still incomplete regarding insulation of chilled water pipe and expansion of water tank which the firm earlier promised to do by 15.7.77. Some controls were still to be installed ; connection of chilled water piping with main airconditioning plant was also still to be done. Meetings were held on 25.7.77 to review progress. However, as insulation work on the chilled water line pipe lines was found incomplete and chilled water line from 2nd floor to 8th floor was still uninsulated, monsoon tests could not be carried out. Winter test was fixed to be held in December 1977 (meeting held in the room of Indentor with firm and DGS&D on 5.11.77), but this did not come through because it was also directed in the meeting held on 5.11.77 that before fixing the tentative date for test the firm should complete the installation and offer the plant for inspection and test. Regarding short supply of humidify packages and heating thermostat no decision was taken yet, the firm stated that they will arrange to supply humidify packages and heating thermostat within a month. As regards the spray eliminators it was explained to the firm that there was no space to instal the same in AHUs. On 22.12.77 the

letter was issued to the firm asking them to complete the pending job. The firm replied that the work was not progressing because of the delay on the part of the P&T Department in taking a decision regarding fresh water humidifiers or to have a storage tank. This was taken up with the consignee on 18.1.78. However, the winter test could not be taken in hand.

In meeting held on 27.5.78 the firm was told that if summer tests were not done by 12.6.78 due to the fault of the firm, consignee would be authorised to carry out further job at the risk and expense of the firm.

This was followed up by a letter dated 9.6.78. Consignee also wrote to the firm on 23.6.78 stating that chilled water will be supplied by 25.6.78. On 14.7.78 the firm was called upon to complete the installation, rectify the defects and offer the plant for tests by 31.7.78. However, the firm did not tender the same for inspection.

On 29.11.78 the firm wrote to the consignee to ensure that the remaining piping work was completed so that they can commission the plant and offer the same for final inspection. On 26.12.78 the firm wrote to Director of Inspection, New Delhi to fix a date for winter test. It was decided to conduct test on 7.2.79 and 8.2.79. The winter test was conducted on 7/8.2.79 but the plant was not able to maintain the required inside conditions."

20. When pointed out that the Department of Tele-communication was not serious in getting the work executed expeditiously a representative of P&T stated in evidence :

"From the records, we have seen that during the period 1977 to 1979, while he (the Controller) used to attend the meetings and he would say we will start the test, and he was continuously asked to offer the plant for summer test and winter test. He always goes on bringing about some point or other like the humidified storage tank, these were all discussed in the meetings. It was all from the records. It is not very clear as to how he was saying all this."

21. The representative added that the

"firm was trying to evade the issue by bringing small points."

22. It was pointed out during evidence that the firm had been black listed in 1975 and removed from the approved list. Placing of order thereafter was discontinued which meant that the said firm had cheated both P&T and DGS&D. The representative of the Department of Supply observed in this connection as follows :

"In this case, they are not actually the manufacturers of this equipment. For example, equipment like compressors, chillers, etc. are brought out from reputed firms like Kirloskars, and others. With reference to the manufacturers specification, we are able to make sure that the proper equipment has been offered. When finally it is integrated into the system and if at that time there are any defects in the system's engineering, the ultimate end result, i.e. the performance of this equipment is not achieved. That is where the problem started. While we have removed them from the registration in respect of this particular item, the registration rules do not allow us to automatically lay off that contract. That contract has to be taken care of according to the normal contract laws. So, we have to give them an opportunity and consider their point of view, so that we are not found in the wrong later on. Moreover, this work was not done on a turnkey basis in which case we could give them broad parameters. In such cases as this, where part of the work is done by the Department and part of the work is done by the installers, there is large scope for disputes. As the General Manager (Telephones) pointed out, they insisted that as regards, the humidifier and two other items costing about Rs. 11,000, those were not part of the contract and that they were not obliged to supply them. But we were able to prevail upon them and though it took time, we convinced them to supply the items. Similarly, they again took a stand saying that their contract was only to supply a part of the equipment, because the main air-conditioning plant had already been in existence in that place. Because the linking up work is another part of the work, so long as this connection is not established, the contractor can take a stand and we cannot tell whether the expected end result will be there or not."

23. The winter test, according to the Department of Supply, was carried out on 7/8.2.79 but the plant failed to comply with the A/T conditions and all concerned were intimated about the results of joint inspection. Efforts were again made for testing of the plant on 9.2.79 and 27.2.79 but the plant could not be tested due to non-removal of defects by the firm as pointed out in the earlier joint inspection.

24. Asked what specific action was taken against the firm at that time for not removing the defects, the Department of Supply in a note submitted :

"On 12.3.79 it was intimated that winter test conducted on 7/8.2.79 resulted in the plant not maintaining the required inside conditions. On 1.5.79 the firm wrote to the Inspectorate, asking for suitable date for summer test. 4.6.79 was fixed for summer test. On 27.7.79 Inspectorate reported that the summer test could not be carried out on 4.6.79."

On 5.9.79 DGS&D asked the consignee to furnish detailed history of the case to consult Ministry of Law. The file was referred to Ministry of Law on 11.10.79. On 21.11.79 Ministry of Law opined that the only work which was required to be done was to put the plant to various tests as per terms of the A/T. After discussing the issue Ministry of Law opined that it was open to the purchaser to declare the contract at an end. Meanwhile, P&T wrote letter to the firm on 5.10.79. It was, therefore, considered that the cancellation was not possible at this stage without giving further opportunity to the firm. It was decided to ask the Indentor the period upto which the extension was given to the firm.

The Indentor and Inspector were informed of the opinion of the Ministry of Law *vide* letter dated 14.12.79.

On 8.1.80 Indentor wrote to the firm intimating the decision that the blower section should be installed and all associated works completed by 20.1.80. The firm's suggestion to run the plant with reduced CFM for the time being was accepted conditionally. Simultaneously, on 18.1.80 the Indentor reported that the case has so far not made any progress because the firm had not been able to improve the CFM to 17000. It was also reported that as far as pending tests were concerned these could be held only after the then present level of CFM was improved. The position was considered on 27.2.80 and a decision was taken to get the concurrence of the Indentor for the replacement of the blower section and to get the defects rectified. The firm's request for extension upto 31.3.80 was also taken up with the P&T. The Indentor, however, *vide* letter dated 25.2.80 stated that no useful purpose would be served by giving any more opportunities to the firm. They also stated that the firm had no wherewithal for completion of the work. However, he agreed for extension by giving a final opportunity upto 31.3.80. The firm was asked to complete the supply by 15.4.80.

In April, 1980 the firm requested the consignee for the provision of water temperature as per the A/T to enable them to do the trial running of the plant and offer the plant for inspection.

On 14.5.80, the file was referred to the Ministry of Law. On 6.6.80, the Ministry of Law sought certain clarifications. This was furnished on 13.6.80. At the request dt. 20.8.80 of the Ministry of Law the case was discussed on 3.10.80 whereafter Ministry of Law gave the opinion on 9.10.80. It was opined that we should serve a performance notice to the firm making time as the essence of the contract. On 15.10.80 performance notice was issued giving date upto 15.11.80.

The firm having failed to complete the contract, the file was referred on 24.12.1980 to Ministry of Law. On 3.1.1981 Ministry of Law advised to put an end to the contract and for getting the balance work completed at the expense of the firm. Decision was taken on 9.1.1981 to declare the contract at an end. Accordingly on 30.10.1981 the contract was declared at an end."

25. Asked if the plant had now been cleared by the Inspection Wing, it has been stated in a note that :

"The Plant has not been finally accepted due to unsatisfactory performance and incomplete installation and final Inspection Note has not been issued so far (August 1986)."

26. Asked about the steps taken or proposed to be taken to avoid the recurrence of such lapses in installations of air-conditioning plants, a representative of Telecommunication Department stated in evidence that in 1974-75, a decision was taken to the effect that so far as the P&T was concerned, the Department would do its own contracting. Elaborating the decision he stated :

"Initially, we did have some problem, but I should say that we have got over most of them. One thing that we did was this. We immediately conducted a total review of the performance of all the Contractors in the past. And we imposed a ban on some of those contractors that we would not place orders till they came back and showed us that they had done other works in private sector which were working satisfactorily. Otherwise we would not consider their contract. As a result of that, about four companies were totally debarred. One of them was Bombay Ammonia. We have not placed any order with them since then. We also looked at our methods of work and found that we were making a mistake about them. There is no doubt about it."

27. In a note after evidence, the Department of Supply informed the Committee as follows :

"On account of reports from the users about problems being faced by them in running the air-conditioning plants, a working group was constituted in 1977 under the Chairmanship of Superintendent Engineer (Electrical) CPWD for streamlining the procedure of procurement of air-conditioning plants. The Working Group recommended modification in the procedure for inspections before and after installation of air-conditioning plants. The procedure has also been included in DGS&D form 232 of the booklet issued regarding instructions to tenderers quoting against the DGS&D tender enquiries. Payment terms have also been modified and 80% of the contract price is only paid in initial inspection and delivery of the equipment at site" followed by

"further payments in stages of 10%, 5% and 5%, thus receiving the possibility of abuse of payment terms."

Payment

28. The Plant was delivered at the site (Kidwai Bhavan) in February, 1975. The cost of the plant was 2.86 lakhs plus Rs. 20,000/- being installation charges. The representative of DGS&D stated during evidence that after initial inspection and receipt by P&T consignee, 90% of this cost was paid to M/s. Bombay Ammonia Pvt. Ltd., (the supplier). As regards the stages of payment the Department of Supply stated in a note after evidence, as follows :

"In terms of the contract the firm is entitled for following payment terms :

- (i) As per General Conditions of Contract contained in Form No. DGS&D-68 (Revised) for spares and tools, 95% payment is released to the contractor on proof of despatch and balance 5% on receipt of the stores in good condition by the consignee.
- (ii) As per Conditions of Contract governing Suppliers of plant and Machinery contained in Form No. DGS&D-71 (As amended upto date), for main equipment 90% payment of the cost of equipment is released on proof of delivery at site after initial inspection and balance 10% of the cost of the equipment plus 100% erection charges, if any, after final test of the plant and acceptance of the same by the consignee.

According to the information collected from the Controller of Accounts, New Delhi the firm has so far been paid Rs. 2,44,199.85 representing 90% of the cost of main equipment and 95% of the cost of spares and tools againsts even bills dated between 8.9.1975 and 3.11.1977. The contract value is Rs. 2,85,774/- plus Sales Tax, including Rs. 20,000/- as charges for installation and testing of the equipment. Value of the spares and tools ordered in the contract is Rs. 4,230/-. Balance 10% and 5% payment of the cost of the main equipment and spares and tools respectively and installation/testing charges of Rs. 20,000/- and pending and have not been released."

29. Asked whether there was any penalty clause in the agreement for delay in supply of equipment and if so what action was taken against the firm for all these irregularities and delay, the Department of Supply stated in a note that :

"The contract is governed by DGS&D-68 (Revised) which contains provisions for levy of liquidated damages for delay in supplies. The contract was declared at an end on 30th January, 1981. Final claim

is still (August 1986) to be made on the firm. However, on the basis of estimated extra expenditure likely to be incurred on account of failure of the firm as intimated by the Indentor in February, 1984 a claim has been served (15th June, 1984) on the firm for Rs. 1,85,662.00."

30. Asked how the DGS&D propose to recover the expenditure made on repair from the firm, Department of Supply in a note informed as follows :

"The contract is governed by DGS&D-68 (Revised). As stated in reply to point 4(ix), DGS&D has lodged on 15th June, 1984 the tentative claim on the firm for an amount of Rs. 1,85,662/- on the basis of Indentor's estimate. The firm *vide* their letter dated 22.6.1984 regretted their inability to accept our claim and requested for appointment of arbitrator as per terms and conditions of the contract. The exact amount of expenditure incurred in rectification of the plant is awaited from P&T Department, on receipt of which the final claim will be made. Thereafter the claim will have to be adjudicated by the arbitrator and recovery action can be taken only after that. Ministry of Law who were referred again on 17.2.1986 for advice whether the case could be referred to arbitration without waiting for the actual expenditure incurred by the Consignee in rectification of the plant at this stage have advised on 27.2.1986 that the details regarding actual loss suffered in completion of the balance work be obtained and the case be referred to arbitration within 2 months.

P&T have been apprised on 5.3.1986 of the legal opinion. This was followed up again on 23.4.1986."

31. Kidwai Bhavan has a major manual trunk exchange where a large number of Telephone Operators work. Operators, released from duty at odd hours in the night are provided lodging accommodation in the dormitories provided for the purpose. As a measure of economy the dormitories were not airconditioned. However, with the increase in number of operators caused by expansion of the trunk exchange in Delhi, two tier beds, were introduced in the ladies dormitory for more accommodation more beds. With the introduction of two-tier system, it was found that air-circulation was not adequate. At this stage in early 1970s it was decided to air-condition the ladies dormitory. The subject requirement was advertised by the DGS&D and only three tenders were received (November, 1971). After scrutiny, offers of two firms were rejected—one on the basis of adverse report given by the Director of Inspection, Northern India Circle and the second on the basis of technical evaluation and subsequent discussion by P&T Department, leaving only M/s. Bombay Ammonia Pvt. Ltd. in the field. The work of supply and installation of air-conditioning plant was awarded by the DGS&D to this firm in consultation with the P&T Department in January 1973 at an estimated cost of Rs. 2.69 lakhs for completion

of supply of the plant and its erection by March 1973 and June 1973 respectively. Load bearing capacity of the dormitory floor was not considered at the time of placing orders for the plant despite the fact that the Civil Engineering Wing had already intimated the same in November, 1971. Finding that the floor of the dormitory was not strong enough to take the load of the equipment, in September 1973, the type of equipment to be installed was changed and original tender was revised and the new cost fixed was Rs. 2.86 lakhs with a schedule for delivery and installation as 20 March and 20 June, 1974 respectively. Even though the schedule of delivery and installation was changed a number of times on the request of the firm, M/s. Bombay Ammonia Pvt. Ltd., they failed to execute the job and the contract was ultimately rescinded in January 1981.

32. The Department of Supply has furnished to the Committee a list of 13 cases of non-satisfactory working of installations of Central air-conditioning plants in Central Government Departments between 1964 and 1975. The Committee note that seven of these were plants supplied by M/s. Bombay Ammonia Pvt. Ltd. Of these seven cases, five related to installation of air-conditioning plants in P&T Exchange buildings. Out of these five contracts, two were awarded during the period prior to the present contract. As such performance of this firm in atleast two cases relating to 1964 and 1965 was known to the Department and accordingly the Committee see no reason for the department not exercising due caution in awarding further contract to this firm. Further, the delay in delivery of the equipment, subsequent erection of the plant through a sub-contractor, delay in trial runs and dismal performance of the plant have convinced the Committee that selection of M/s. Bombay Ammonia Pvt. Ltd. for air-conditioning of ladies dormitory in Kidwai Bhavan was not a prudent decision. Being fully aware of the reputation of the firm and keeping in view the past experience of the Department of Supply (DGS&D) and the P&T Department in regard to the capabilities of this firm, the Department should have entrusted the job to a better firm, if necessary, by inviting fresh tenders. The Committee are also inclined to conclude that the DGS&D, a technical organisation under Department of Supply, have also failed to offer suitable guidance to P&T in their selection.

33. The Committee were informed that the registration of M/s. Bombay Ammonia Pvt Ltd. in the approved list of suppliers was valid with the DGS&D upto 10.6.75. However, the information regarding removal of their name from DGS&D list of approved suppliers was communicated to the firm only on 3.8.76, i.e., after one year and 3 months. Further, the relevant registration records pertaining to this firm were destroyed by DGS&D in February 1982. The Committee thus observe that registration records of M/s. Bombay Ammonia Pvt. Ltd. were destroyed by DGS&D even before their contract terms were completed. This appears to the Committee highly objectionable. A complete record of performance of

approved suppliers are necessary to ascertain the background of the firms before awarding them any such contract.

34. The Committee find that P&T Department awarded the contract for installation of an air-conditioning plant on the floor of the dormitory of Kidwai Bhavan knowing fully well that load bearing capacity of the floor was only 200 lbs per sq. ft. whereas the indented A/C plant required load bearing capacity of 300 lbs. per sq. ft. Surprisingly no attempt was made to have this vital factor examined. This initial lapse on the part of the P&T Department necessitated change in the design of the equipment and supply schedule. Initially the contract was for supply of one air handling unit. Subsequently it was required to supply two air-handling units. Revised drawing for installation of air handling units submitted by the firm could not be cleared by the Department till November 1974 which forced the Department to extend the delivery period upto 15 February 1975. The Committee fail to appreciate the haste for supply of one air-handling unit when the Department were aware as early as in November 1971 that the floor strength was not adequate to take the load of the unit. All this resulted in revision of the contract, design of the plant and its commissioning period. Surprisingly no effort was made to enter into a contract by floating fresh tenders in the changed circumstances

35. As per the revised schedule the company supplied the consignment after getting it inspected by DGS&D at the site in February 1975 and installation was to be completed within 2/3 months from then. However, installation of the plants and inspection of the working of the plant for summer, monsoon and winter tests were put off time and again on frivolous and extraneous grounds. The contractor successfully evaded the issue of completion of the job by bringing in small points until the contract was recinded on 9 January 1981 and it was decided to get the balance work completed at the expense of the firm. The Committee are astonished to find that though the contract was recinded in January 1981, decision to take possession of the plant was taken 14 months later in May, 1982, and the possession of the equipment was taken after further delay in six months in November, 1982. This course of events indicates gross negligence in dealing with this firm and excessive indulgence shown to this firm.

36. Installation of the Plant remained incomplete due to unsatisfactory performance of the firm (August, 1986). The Committee are astonished to observe that M/s. Bombay Ammonia Pvt. Ltd. were given opportunities and extensions for the last 12 years for a job which was required to be completed within a period of 6 months to one year for reasons which are not justified.

37. Payment for Rs. 2.55 lakhs being 90 per cent of the cost of the plant was made to the firm as early as September 1975 on receipt of the consignment (of the plant) contents of which could not be proved genuine even after 12 years. It has further been observed that in November 1979

when the Ministry of Law advised the DGS&D that the consignee could terminate the contract, the P&T Department tried to persuade the firm to complete the job within the extended period and also with reduced capacity.

38. The Committee observe that after the arbitration was sought for by the firm in June 1984 the case was referred to the Ministry of Law by the DGS&D as late as in February 1986 and further action on the settlement of the case is still pending. The Committee regret to observe that approach to the whole issue has been lackadaisical even after it has been proved to be a bad deal.

39. In the foregoing paragraphs the Committee have brought out a number of lapses on the part of P&T Department in the case of awarding of and subsequent follow-up of the contract for installation of an air-conditioning plant in the ladies dormitory of the Kidwai Bhavan Trunk Exchange. In the opinion of the Committee the whole deal was shady and calls for a detailed investigation into all these lapses spelt out below :

- (i) The circumstances that led to the selection of this firm viz. M/s. Bombay Ammonia Pvt. Ltd. for the award of this contract when it was well-known that the past performance of the firm had not been satisfactory.
- (ii) The reasons why the information regarding removal of the firm from the DGS&D list of approved suppliers was not passed on to the suppliers immediately and was delayed for over an year and why the records pertaining to this firm were destroyed even before the contract terms of the firm were completed, and whether there is need to revise the procedures in this regard.
- (iii) Awarding of the contract when it was known that the floor strength of the dormitory was not adequate.
- (iv) Gross negligence and excessive indulgence shown to the firm by granting them extensions for 12 years for a job which should have been completed within 6 to 12 months.
- (v) Excessive delay in making a reference to the Ministry of Law for arbitration in February 1986 when the arbitration had been sought by the firm in June 1984.

While the Committee would like these lapses to be investigated and responsibility fixed therefor, they would at the same time like P&T Department to review the relevant rules and procedures to forestall such eventualities in future.

40. The Committee note that a sum of Rs. 2,44,199.85 representing 90 per cent of the cost of main equipment and 95 per cent of the cost of

spares and tools has been paid to M/s. Bombay Ammonia Pvt. Ltd. against seven bills between 8 September, 1975 and 3 November, 1977. It has also been observed that in March 1975 the Director of the firm promised at a coordinating meeting that he would start the work of installation in March 1975 itself and would complete the work within 2 months. It appears that after receipt of 90 per cent of cost of the main plant after delivery in February 1975, the firm awarded the work of erection to a sub-contractor with whom they later involved themselves in some litigation for which the work remained suspended and Government money got blocked without any return. In this connection, the Department of Supply have stated that there was penalty clause in the agreement which is governed by DGS&D-68 (Revised) and contains provisions for levy of liquidated damages for delay in supplies. Pending final claim, a tentative claim for Rs. 1,85,662.00 prepared on the basis of extra expenditure likely to be incurred on account of failure of the firm as intimated by the indentor is stated to have been served on the firm. The Ministry of Law advised the DGS&D on 27 February 1986 to obtain the details regarding actual loss suffered in completion of the balance work and refer the case to arbitrator within 2 months for recovery. The Committee desire that there should not be any further delay in framing the final claim and recovering money from the firm.

41. The Committee also observe that levy of liquidity damage amounting to the expenditure to be incurred in getting the work completed will not work as deterrent punishment to the ill-reputed contractors indulging in unethical contracting of the jobs as the amount of damage so levied will be much less than the interest of the amount already received by the supplier firm (90 per cent of the A/T or even 80 per cent as per the revised DGS&D schedule) just on completion of the supply of the equipment. They would like Government to work out a formula to suitably enhance the damage in relation to the period of delay and also devise other concomitant checks throughout the course of the execution of the contracts to forestall any scope for manipulations or mischief on the part of the contractor.

42. The Committee are informed that in accordance with the procedure followed by the DGS&D, 80 per cent of the contract price is paid on initial inspection and proof of despatch, followed by further payments in stages of 10 per cent, 5 per cent and 5 per cent. The Committee observe that under the contract of the present nature after supply of the plant very little incentive is left for commissioning the same as major portion of the payments are already made to the supplier and therefore he can afford to lose his interest in the deal unless the contracting firm is a firm of repute and any default on their part may adversely affect their reputation. The Committee have also come across a number of cases where after initial on-account payment the plant and equipment contracted have not been found to be in good condition. The Committee, therefore, recommend that the system of payment and inspection should be reviewed and inspection procedure radically changed so as to compel the firm to complete the job on time.

43. The Committee would also like to know whether M/s. **Bombay Ammonia Pvt. Ltd.** have been awarded any contract after their name was deleted from the DGS&D list of approved suppliers.

NEW DELHI ;
October 28, 1986
Kartika 6, 1908 (Saka)

ERASU AYYAPU REDDY,
Chairman,
Public Accounts Committee.

APPENDIX I

Statement of Observations and Recommendations

Sr. No.	Para No.	Ministry concerned	Observations/Recommendations
1	2	3	4
1	31-32	Ministry of Communications (Department of Telecommunications) & Ministry of Industry (Department of Supply)	Kidwai Bhavan has a major manual trunk exchange where a large number of Telephone Operators work. Operators, released from duty at odd hours in the night are provided lodging accommodation in the dormitories provided for the purpose. As a measure of economy the dormitories were not airconditioned. However, with the increase in number of operators caused by expansion of the trunk exchange in Delhi, two tier beds, were introduced in the ladies dormitory for more accommodation more beds. With the introduction of two-tier system, it was found that air-circulation was not adequate. At this stage in early 1970s it was decided to air-condition the ladies dormitory. The subject requirement was advertised by the DGSS&D and only three tenders were received (November, 1971). After scrutiny, offers of two firms were rejected—one on the basis of adverse report given by the Director of Inspection, Northern India Circle and the second on the basis of technical evaluation and subsequent discussion by P&T Department, leaving only M/s. Bombay Ammonia Pvt. Ltd. in the field. The work of

supply and installation of air-conditioning plant was awarded by the DGSS&D to this firm in consultation with the P&T Department in January 1973 at an estimated cost of Rs. 2.69 lakhs for completion of supply of the plant and its erection by March 1973 and June 1973 respectively. Load bearing capacity of the dormitory floor was not considered at the time of placing orders for the plant despite the fact that the Civil Engineering Wing had already intimated the same in November, 1971. Finding that the floor of the dormitory was not strong enough to take the load of the equipment, in September 1973, the type of equipment to be installed was changed and original tender was revised and the new cost fixed was Rs. 2.86 lakhs with a schedule for delivery and installation as 20 March and 20 June, 1974 respectively. Even though the schedule of delivery and installation was changed a number of times on the request of the firm, M/s. **Bombay Ammonia Pvt. Ltd.**, they failed to execute the job and the contract was ultimately rescinded in January 1981.

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The Department of Supply has furnished to the Committee a list of 13 cases of non-satisfactory working of installations of Central air-conditioning plants in Central Government Departments between 1964 and 1975. The Committee note that seven of these plants were supplied by M/s. **Bombay Ammonia Pvt. Ltd.** Of these seven cases, five related to installation of air-conditioning plants in P&T Exchange buildings. Out of these five contracts, two were awarded during the period prior to the present contract. As such performance of this firm in atleast two cases relating to 1964 and 1965 was known to the Department and accordingly the Committee see no reason for the department not exercising due caution in awarding further contract to this firm. Further, the delay in delivery of the equipment, subsequent erection of the plant through a sub-contractor, delay in trial runs

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and dismal performance of the plant have convinced the Committee that selection of M/s. Bombay Ammonia Pvt. Ltd. for air-conditioning of ladies dormitory in Kidwai Bhavan was not a prudent decision. Being fully aware of the reputation of the firm and keeping in view the past experience of the Department of Supply (DGSD) and the P&T Department in regard to the capabilities of this firm, the Department should have entrusted the job to a better firm, if necessary, by inviting fresh tenders. The Committee are also inclined to conclude that the DGSD&D, a technical organisation under Department of Supply, have also failed to offer suitable guidance to P&T in their selection.

2 33
Industry
(Department of
Supply)

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The Committee were informed that the registration of M/s. Bombay Ammonia Pvt. Ltd. in the approved list of suppliers was valid with the DGSD&D upto 10.6.75. However, information regarding removal of their name from DGSD list of approved suppliers was communicated to the firm only on 3.8.76, i.e., after one year and 3 months. Further, the relevant registration records pertaining to this firm were destroyed by DGSD&D in February, 1982. The Committee thus observe that registration records of M/s. Bombay Ammonia Pvt. Ltd. were destroyed by DGSD&D even before their contract terms were completed. This appears to the Committee highly objectionable. A complete record of performance of approved suppliers are necessary to ascertain the background of the firms before awarding them any such contract.

3 34
Communication
(Department of
Telecommunications)

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The Committee find that P&T Department awarded the contract for installation of an air-conditioning plant on the floor of the dormitory of

**&
Industry
(Department of
Supply)**

Kidwai Bhavan knowing fully well that load bearing capacity of the floor was only 200 lbs per sq. ft. whereas the indented A/C plant required load bearing capacity of 300 lbs, per sq. ft. Surprisingly no attempt was made to have this vital factor examined. This initial lapse on the part of the P&T Department necessitated change in the design of the equipment and supply schedule. Initially the contract was for supply of one air handling unit. Subsequently it was required to supply two air-handling units. Revised drawing for installation of air handling units submitted by the firm could not be cleared by the Department till November 1974 which forced the Department to extend the delivery period up to 15 February 1975. The Committee fail to appreciate the haste for supply of one air-handling unit when the Department were aware as early as in November 1971 that the floor strength was not adequate to take the load of the unit. All this resulted in revision of the contract, design of the plant and its commissioning period. Surprisingly no effort was made to enter into a contract by floating fresh tenders in the changed circumstances.

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As per the revised schedule the company supplied the consignment after getting it inspected by DGS&D at the site in February 1975 and installation was to be completed within 2/3 months from then. However, installation of the plants and inspection of the working of the plant for summer, monsoon and winter tests were put off time and again on frivolous and extraneous grounds. The contractor successfully evaded the issue of completion of the job by bringing in small points until the contract was recinded on 9 January 1981 and it was decided to get the balance work completed at the expense of the firm. The Committee are astonished to find that though the contract was recinded in January 1981, decision to take possession of the plant was taken 14 months later in May, 1982, and the

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possession of the equipment was taken after further delay of six months in November, 1982. This course events indicates gross negligence in dealing with this firm and excessive indulgence shown to this firm.

5 36 Communication (Department of Tele-communications) & Industry (Department of Supply)

6 3738 —do—

Installation of the Plant remained incomplete due to unsatisfactory performance of the firm (August, 1986). The Committee are astonished to observe that M/s. Bombay Ammonia Pvt. Ltd. were given opportunities and extensions for the last 12 years for a job which was required to be completed within a period of 6 months to one year for reasons which are not justified.

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Payment for Rs. 2.55 lakhs being 90 per cent of the cost of the plant was made to the firm as early as September 1975 on receipt of the consignment (of the plant) contents of which could not be proved genuine even after 12 years. It has further been observed that in November 1979 when the Ministry of Law advised the DGS&D that the consignee could terminate the contract, the P&T Department tried to persuade the firm to complete the job within the extended period and also with reduced capacity.

The Committee observe that after the arbitration was sought for by the firm in June 1984 the case was referred to the Ministry of Law by the DGS&D as late as in February 1986 and further action on the settlement of the case is still pending. The Committee regret to observe that approach to the whole issue has been lackadaisical even after it has been proved to be a bad deal.

7 39 Communications
 (Department of Tele-
 communications
 &
 Industry
 (Department of Supply)

In the foregoing paragraphs the Committee have brought out a number of lapses on the part of P&T Department in the case of awarding of and subsequent follow-up of the contract for installation of an air-conditioning plant in the ladies dormitory of the Kidwai Bhavan Trunk Exchange. In the opinion of the Committee the whole deal was shady and calls for a detailed investigation into all these lapses spelt out below :

- (i) The circumstances that led to the selection of this firm viz. M/s. Bombay Ammonia Pvt. Ltd. for the award of this contract when it was well known that the past performance of the firm had not been satisfactory.
- (ii) The reasons why the information regarding removal of the firm from the DGSS&D list of approved suppliers was not passed on to the suppliers immediately and was delayed for over an year and why the records pertaining to this firm were destroyed even before the contract terms of the firm were completed, and whether there is need to revise the procedures in this regard.
- (iii) Awarding of the contract when it was known that the floor strength of the dormitory was not adequate.
- (iv) Gross negligence and excessive indulgence shown to the firm by granting them extensions for 12 years for a job which should have been completed within 6 to 12 months.
- (v) Excessive delay in making a reference to the Ministry of Law for arbitration in February 1936 when the arbitration had been sought by the firm in June 1984.

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While the Committee would like these lapses to be investigated and responsibility fixed therefor, they would at the same time like P&T Department to review the relevant rules and procedures to forestall such eventualities in future.

3 40 Communications
(Department of Tele-
communications)
&
Industry
(Department of Supply)

The Committee note that a sum of Rs. 2,44,199.85 representing 90 per cent of the cost of main equipment and 95 per cent of the cost of spares and tools has been paid to M/s. Bombay Ammonia Pvt. Ltd. against seven bills between 8 September, 1975 and 3 November, 1977. It has also been observed that in March 1975 the Director of the firm promised at a coordinating meeting that he would start the work of installation in March 1975 itself and would complete the work within 2 months. It appears that after receipt of 90 per cent of cost of the main plant after delivery in February 1975, the firm awarded the work of erection to a sub-contractor with whom they later involved themselves in some litigation for which the work remained suspended and Government money got blocked without any return. In this connection, the Department of Supply have stated that there was penalty clause in the agreement which is governed by DGS&D-68 (Revised) and contains provisions for levy of liquidated damages for delay in supplies. Pending final claim, a tentative claim for Rs. 1,85,662.00 prepared on the basis of extra expenditure likely to be incurred on account of failure of the firm as intimated by the indentor is stated to have been served on the firm. The Ministry of Law advised the DGS&D on 27 February 1986 to obtain the details regarding actual loss suffered in completion of the balance work and refer the case to

arbitrator within 2 months for recovery. The Committee desire that there should not be any further delay in framing the final claim and recovering money from the firm.

9 41 Industry (Department of Supply)

The Committee also observe that levy of liquidity damage amounting to the expenditure to be incurred in getting the work completed will not work as deterrent punishment to the ill-reputed contractors indulging in unethical contracting of the jobs as the amount of damage so levied will be much less than the interest of the amount already received by the supplier firm (90 per cent of the A/T or even 80 per cent as per the revised DGS&D schedule) just on completion of the supply of the equipment. They would like Government to work out a formula to suitably enhance the damage in relation to the period of delay and also devise other concomitant checks throughout the course of the execution of the contracts to forestall any scope for manipulations or mischief on the part of the contractor.

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The Committee are informed that in accordance with the procedure followed by the DGS&D, 80 per cent of the contract price is paid on initial inspection and proof of despatch, followed by further payments in stages of 10 per cent, 5 per cent and 5 per cent. The Committee observe that under the contract of the present nature after supply of the plant very little incentive is left for commissioning the same as major portion of the payments are already made to the supplier and therefore he can afford to lose his interest in the deal unless the contracting firm is a firm of repute and any default on their part may adversely affect their reputation. The Committee have also come across a number of cases where after initial on-account payment the plant and equipment contracted have not been found to be in good condition. The Committee, therefore, recommend that the system of payment and

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inspection should be reviewed and inspection procedure radically changed so as to compel the firm to complete the job on time.

11 43 Industry (Department of Supply) The Committee would also like to know whether M/s. Bombay Ammonia Pvt. Ltd. have been awarded any contract after their name was deleted from the DGS&D list of approved suppliers.

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