

**PUBLIC ACCOUNTS COMMITTEE  
(1972-73)**

**(FIFTH LOK SABHA)**

**EIGHTIETH REPORT**

**[Chapter II of Report of the Comptroller and Auditor General of India for the year 1970-71 — Central Government (Civil) — Revenue Receipts relating to Customs]**



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Eighteenth

CORRIGENDA TO EIGHTEENTH REPORT (1971-72) OF  
P.A.C. PRESENTED TO THE LOK SABHA ON 22.11.71.

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**PUBLIC ACCOUNTS COMMITTEE (1971-72)**

**CHAIRMAN**

Shri Era Sezhiyan

**MEMBERS**

2. Shri Bhagwat Azad
3. Shrimati Mukul Banerji
4. Shri C. C. Desai
5. Shri K. G. Deshmukh
6. Chaudhari Tayyab Husain Khan
7. Shri Debendra Nath Mahata
8. Shri Mohammad Yusuf
9. Shri B. S. Murthy
10. Dr. Laxminarain Pandey
11. Shri Ramsahai Pandey
12. Shrimati Savitri Shyam
13. Shri Vijay Pal Singh
14. Shri G. Venkatswamy
15. Shri Ram Chandra Vikal
16. Shri S. B., Bobdey
17. Shri B. K. Kaul
18. Shrimati Vidyawati Chaturvedi
- \*19. Shri Jagdish Prasad Mathur
20. Shri Thillai Villalan
21. Shri Shyam Lal Yadav
22. Shri Sheel Bhadra Yajee

**SECRETARIAT**

Shri B. B. Tewari—*Deputy Secretary.*

Shri T. R. Krishnamachari—*Under Secretary.*

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\*Declared elected to the Committee on 3-8-1971 vide Shri Niranjan Varma, resigned.

## INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Eighteenth Report on the Action Taken by Government on this recommendations of the Public Accounts Committee contained in their Hundred and Third Report (Fourth Lok Sabha) relating to —Medical Stores Depots (Ministry of Health, Family Planning Works, Housing and Urban Development—Department of Health).

2. On the 8th July, 1971, an "Action Taken" Sub-Committee was appointed to scrutinise the replies received from Government in pursuance of the recommendations made by the Committee in their earlier Reports. The Sub-Committee was constituted with the following Members:

1. Shri B. S. Murthy	} Convener } Members
2. Shri Bhagwat Jha Azad	
3. Shri Ram Sahai Pandey	
4. Shri C. C. Desai	
5. Shri Thillai Villalan	
6. Shri Shyama Lal Yadav	

3. The Action Notes furnished by the Government were considered by the Action Taken Sub-Committee of the Public Accounts Committee (1970-71) at their sitting held on the 17th November, 1970. Consequent on the dissolution of the Lok Sabha on the 27th December, 1970, the Public Accounts Committee ceased to exist from that date. The Action Taken Sub-Committee of the Public Accounts Committee (1971-72) considered and adopted this Report at their sitting held on the 4th August, 1971 based on the suggestions of the Sub-Committee of PAC (1970-71). The Report was finally adopted by the Public Accounts Committee on the 31st August, 1971.

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

(vi)

5. The Committee place on record their appreciation of the commendable work done by the Convener and the Members of the Action Taken Sub-Committee (1970-71) in considering the Action Taken notes and offering suggestions for this Report which could not be finalised by them because of the sudden dissolution of the Fourth Lok Sabha.

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

ERA SEZHIYAN,  
*Chairman,*  
*Public Accounts Committee.*

NEW DELHI;  
August 31, 1971  
Bhadra 9, 1893 (S).

## CHAPTER I

### REPORT

1.1. This Report deals with action taken by Government on the recommendations contained in the Hundred and Third Report of the Public Accounts Committee (Fourth Lok Sabha) on Audit Report (Civil), 1969 relating to Medical Stores Depots (Ministry of Health, Family Planning, Works, Housing and Urban Development—Department of Health), which was presented to the House on 24th March, 1970.

1.2. Replies to all the 13 recommendations contained in the Report have been received from Government.

1.3. The Action Taken Notes|Statements on the recommendations|observations of the Committee contained in the Report have been categorised under the following heads:—

- (i) Recommendations|observations that have been accepted by Government.  
S. Nos. 1, 2, 3, 4, 7, 8, 9, 10 and 11.
- (ii) Recommendations|observations which the Committee do not desire to pursue in view of the replies of Government.  
Nil.
- (iii) Recommendations|observations replies to which have not been accepted by the Committee and which require reiteration.  
S. Nos. 6, 12 and 13.
- (iv) Recommendations|observations in respect of which Government have furnished interim replies.  
S. No. 5.

1.4. The Committee hope that final reply in regard to the recommendation/observation to which interim reply has been furnished will be submitted to them expeditiously after getting it vetted by Audit.

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

Financial Results of the Working of Medical Stores Depots—Paragraphs 1.13, 1.60, 1.61 (S. Nos. 2, 12 and 13).

1.6. In paragraphs 1.13, 1.60 and 1.61 of their 103rd Report, the Public Accounts Committee had made the following observations regarding the working of the Medical Stores Depots and the question of their continuance:

“1.13. Analysis of the working of the Depots managed by the Organisation suggests that the Depots at Madras and Calcutta were primarily responsible for the set back. The following factors in particular contributed to the deteriorating finances of the Organisation:—

- (i) The mounting cost of establishment, particularly at Calcutta and Madras Government have themselves admitted that “there may be room for reviewing this expenditure at Calcutta”, considering the turnover of the Depot. As regards the Depot at Madras, Government have not found it “possible to account for the higher salary bill”; the fact that labour in the factory attached to the depot was utilised to the extent of only 72 per cent in 1967-68 and 47 per cent in 1968-69 indicates that the establishment in the depot is substantially under-employed.
- (ii) The issue of medicines and other items at less than cost price—This would appear to be due to the present system of quarterly revision of issue prices which interposes as “time-lag of two to five months” in giving effect to increase in rates caused by rise in prices of items procured by the Depots. How substantially this affects the working results of the Depots would be evident from the fact that the Madras Depot sustained a loss of Rs. 4.05 lakhs on this account during 1967-68.
- (iii) Uneconomic manufacture—The two pharmaceutical factories attached to the Depots at Bombay and Madras are manufacturing 250 items like tinctures, tablets, ointments and bandages which are ordinarily available in market. Their cost compares unfavourably with market prices in certain cases. The Depots have shortage of technical staff but excess of factory labour.”

“1.60. The Medical Stores Organisation was set up as a centralised supply agency to hospitals, dispensaries etc. at a time when other sources of supply had not developed adequately. The pharmaceutical industry in the country has since developed to a great extent, with Government

undertakings like Indian Drugs and Pharmaceuticals Ltd. also entering the field. Over the years, the tendency has also been to entrust the work of procurement to bulk procuring agencies like Director General, Supplies and Disposals, as experience has indicated that such bulk purchase is generally more economical. The data furnished to the Committee which is reproduced at pages 21-23 of this report would also show that hospitals are becoming less and less dependent on Medical Stores Depots as a supplying agency and that the Depots themselves have at best been able to meet 50 per cent-60 per cent of the demands raised on them by the indentors. There are no doubt a number of small indentors in the States in whose case it might not be possible to resort to bulk procurement against rate and running contracts concluded by the Director General, Supplies and Disposals, but this has to be weighed against the fact that 'the States have become a little more autonomous and many, of them want to make their own purchases'."

"1.61. The Committee note that Government themselves are cognisant of all these factors which have a bearing on the future of the Central Medical Stores Depots and are considering "the whole question of the future of the Depot and the form in which it should continue, if at all it has to be continued." The Committee would like Government to complete examination of this question speedily and come to a quick decision."

1.7. In their reply dated 17-2-1971 the Department of Health have stated as follows:

- "(i) (a) The S. I. Unit of the Ministry of Finance shall be undertaking a workstudy of the Medical Stores Depots very shortly and in the light of their recommendations the staff composition will be refixed.
- (b) The Administrative Staff College, Hyderabad has been asked to examine the working of the Depots with a view to introduce modern practices of inventory control, financial accounting and other administrative reforms.
- (c) The assistance of National Industrial Development Corporation and World Health Organisation has also been sought with a view to modernize the existing factories in order

to achieve greater productivity and to study the range of products which could be taken up for manufacture consistent with modern trends in medical practice.

- (ii) The P.A.C. has itself commented upon in para 1.13 (ii) of the report. The question of evolving an equitable formula for the fixation of rates is receiving the attention of this Department in consultation with the Depots. In the meantime, interim instructions have been issued to the Depots that whenever an article is purchased at a higher rate, issue price should be forthwith raised to avoid such losses.
- (iii) The shortage of technical staff i.e. analytical chemists is being made good by recruiting extra posts commensurate with the analytical work load, for which the sanction has already been issued. Simultaneously instructions have been issued not to fill vacancies which arise in labour category on the Factory side."

"The question of continuance or otherwise of the Medical Store Depots has been thoroughly considered by this Department and we are firmly of the view that the Depots have a definite place in the National set up and must continue. Their utility is unquestionable particularly as far as the implementation of National Health Programmes and the Civil Defence activities are concerned. Some of the Union Territories and newly created States in the eastern sector situated in the vulnerable areas have no source of supply close at hand. Also for 16,000 odd clients of the M. S. Organisation of which 96 per cent are small hospitals/ dispensaries, dotted all over the country in far flung areas, the Depots provide the most ideal place for buying their requirements as the benefit of the bulk buying is passed on to these Institutions and quality control is assured. Two comparative studies, one carried out in 1963 and the other very recently of the cost of medicines which a small indentor had to pay in the State of Maharashtra when buying from multiple sources and the prices charged by the M. S. Depot revealed that only in a few odd cases the prices charged by the M.S. Depot were higher. On the whole 1963 study showed that the cost of drawal from M. S. Depot as against the Maharashtra Govt. contracts was 72.2: 100 for a unit pack of each item; the cost actually

charged on some indents picked up at random from M. S. Depot and compared as against the Maharashtra rate contract revealed a ratio of 64.2:100. The recent study shows these figures to be 78.1:100 and 68.1:100 respectively. This Department fully realises that the working of the Depots has to be streamlined to render efficient service to the client and to supply his requirements at economical prices. Accordingly, the question of setting up of a High-powered Board to bring about necessary improvements in the existing organisational set up of the Depots is under active consideration of the Government. Also range of items to be stocked by Medical Store Depots is being re-examined in consultation with the State Governments in order to ensure that the demand of a common indentor are met to the extent of 90 to 100 per cent."

"The question of continuance or otherwise of the Medical Store Depots has been critically examined and decision taken at the Minister's level to continue the Organisation. Steps have been taken to streamline the working of the Medical Stores Organisation by constituting a High Powered Managerial Board in the Ministry headed by the Minister of State. The Board will provide overall guidelines on all important matters of policy, procedure and speedy clearance of all proposals. The Administrative Staff College, Hyderabad has been asked to carry out preliminary survey with a view to introduce modern practices of inventory control, financial accounting and other administrative reforms. Similarly the assistance of NIDC and WHO has been sought with a view to modernize the existing factories in order to achieve greater productivity and to study the range of products which could be taken up for manufacture consistent with modern trends of medical practices."

**108. The Committee understand from Audit that the accounts of the Medical Stores Depots for the years 1967-68, 1968-69 and 1969-70 have not yet been sent to them. The latest financial results of the working of the Depots are, therefore, not known. Their non-submission for 3 years is an indicator of all not being well with the Depots. The Committee deprecate the delay and would urge Government to spot the causes of the delay and finalise the accounts expeditiously. They would also like to emphasise the need for timely submission of accounts to Audit in future.**

**1.9. The Committee note that after a critical examination Government are inclined to continue the Medical Stores Organisation.**

and that they propose to take steps to streamline its working. It appears to the Committee that the main advantage of organisation will, if at all, accrue only to the large number of small consumers. It is, however, not quite clear whether even for them the cost would necessarily be favourable in comparison with other sources of supply including local purchase especially as the bulk of the supplies of the Medical Stores Organisation are purchases resold. The Committee would, therefore, like to have another opportunity to go into the question of the advantage of continuing this organisation and would, therefore, like Government to send the review of the working of the organisation after one year from the date it has been reorganised. The review should be sent through Audit.

Local purchases—Paragraph 1.25 (S. No. 4)

1.10. The Committee had made the following comments regarding local purchases of medicines made by the Depots in paragraph 1.25 of the Report:

"The Committee observe that notwithstanding steps taken by Government to bring down the quantum of local purchases by the depots, the value of such purchases has gone up from Rs. 139 lakhs in 1964-65 to Rs. 200 lakhs in 1966-67. The experience of the Madras Depot, which incurred an extra expenditure of Rs. 25,000 in making local purchases to the tune of Rs. 1.76 lakhs during the period September, 1966—August, 1968 suggest that purchases by a centralised agency like the Director General, Supplies and Disposals could be cheaper. The representatives of Government also admitted that, notwithstanding some instances to the contrary, "generally speaking, supply through the DGS&D would be cheaper". The Committee appreciate the fact that the enhanced powers given to the depots, coupled with the delay that sometimes occurs in supplies against contracts arranged by the Director General, Supplies & Disposals would tend to push up local purchases by the Depots. It may not also be possible to meet the requirements of small indentors individually through rate or running contracts, due to problems that will arise in the inspection and despatch of small consignments. Nevertheless the efforts should be to scale down local purchases to the minimum, by advance indenting on the Director General, Supplies and Disposals and bulking of indents. Local purchases being generally costlier, would unnecessarily push up the cost of health services."

1.11. The Department of Health have furnished the following reply in their note dated 17-2-1971:

"As general rule major purchases are made through the DGS-&D as per Government orders. It may be mentioned that large scale local purchases are also necessary in a trading institution like Medical Store Depots on account of failure of supplies against the DGS&D contracts. A trading institution can ill afford to lose business and render indifferent service to the clients, when a part of the demand can be met by local purchases under the powers as delegated to the Depots|D.G.H.S. It will be appreciated that M. S. Depots being trading institutions have a unique position as compare with other Central|Departments who buy stores for their own consumption. Another reason for local purchases is that DGS&D do not entertain indents for amounts less than Rs. 25,000. Despite above mentioned limitations, every possible effort will be made to place bulk indents on the DGS&D sufficiently in advance with a view to bring down the figures of local purchases in all Medical Store Depots."

1.12. The Committee desire that concerted efforts should be taken to bring down the local purchase of about Rs. 200 lakhs per annum of medical Stores. The Committee understand that under the existing procedure indents can be placed on the DGS&D even in advance of the budget allocation. They would, therefore, emphasise the need for timely indenting of the stores and proper follow-up action to ensure prompt supplies, so as to reduce local purchases by the depots.

Delay in procurement of stores by DGS&D—Paragraph 1.26 (S. No. 5).

1.13. Commenting on the delay in procurement of certain stores by the Director General of Supplies and Disposals, the Committee had made the following observations in paragraph 1.26 of the Report:

"The Committee are also unhappy over the delay in procurement of some of the stores by the Directorate General of Supplies and Disposals. In the case of the Madras Depot it is noticed that non-supply of 629 sets of dispensing scales by the DGS&D resulted in their local purchase at an excess cost of Rs. 5,279/- while failure to procure knife Bard Parker Blades in time led to local procurement of one third of the quantity at an additional cost of Rs. 9,278/-. The Committee would like the DGS&D to look into these cases so as to plug the loopholes in procurement procedure."

1.14. The Ministry of Supply, in their note dated 15-12-1970 have given the following reply:

"The two cases have been examined. It has been observed that the handling of these cases was delayed at various stages, and there were also some irregularities. Responsibility for such delays|irregularities is being fixed. The Public Accounts Committee will be apprised of the position in due course."

1.15. The Committee note that the two cases of delay referred to by them have been examined by Government and responsibility for the delays|irregularities is being fixed.

1.16. The Committee would like the Directorate General of Supplies and Disposals to take necessary steps to plug loopholes in the procurement procedure to avoid delay in procurement of stores in future.

Delay in discontinuance of manufacture of certain items—Paragraph 1.34 (S. No. 6).

1.17. In paragraph 1.34 of the Report, the Committee had made the following observations:—

"The Committee notice that it took Government over three years to come to a final decision about the discontinuance of manufacture of certain items which were being produced by the Medical Stores Depot, Madras at rates higher than the market prices. Continuance of production of these items might have been justified to the extent the Depot had stocks of raw materials which could not be put to more gainful alternative uses, but there was no justification to have continued their manufacture by procuring fresh stocks of raw materials. In fact, items worth Rs. 10.07 lakhs were produced in this manner during the period 1966-67 to 1968-69, which resulted in extra expenditure of Rs. 3.00 lakhs. It was stated that the manufacture of these items was not restricted as "it was then thought that demands from indentors should be met". These demands could equally well have been met from the market, where these items were available at cheaper rates."

1.18. In their note dated 17th February, 1971, the Department of Health stated as follows:—

"It is agreed that manufacture of bandages continued for a long time in the factory of M. S. Depot, Madras as

pointed by the PAC though the factory's manufacturing cost of this item was more than its market rate but due care will be taken in future to guard against recurrence of such like instances.

However, in this connection, it is submitted that the bulk of the raw materials have to be procured through the DGS&D under the Government procedure. DGS&D normally take six months or so to process the demands to which may be added another three months for the raw materials to actually arrive. The actual manufacture may be taken up still later depending upon the availability of the machinery/equipment etc. and or the manufacturing programme. Thus there is a time lag of almost a year when the programme is initially planned and the actual manufacture is taken up in our Factories. The cycle of purchases through the Governmental procedure is so long that the comparison of rates has necessarily to be done almost a year in advance of the actual production in our own factories. Once indents have been placed on the DGS&D and firm commitments entered into there is no going back on the production programme. If the comparison is instituted at the actual time of manufacture on the basis of raw materials already received through the DGS&D and manufacture is found to be uneconomical, the raw materials will have to be disposed of leading to greater losses to the State. The periodical comparison with market rates has been found impracticable in view of the peculiarity of procurement of raw materials through the DGS&D which necessitates maintenance of huge inventories.

In the case of many drugs the protocols of use for the finished products can be satisfied according to the pharmacopoeal standards even by using inferior quality raw materials. Unlike the State Excise under which check of all the incomings usage and outgoing of alcohol, by an inspector permanently attached to a factory there is no such control during the manufacture of drugs. Checks by the Drug Inspectors are only random during their rather infrequent visits to the factories, the number of Drug inspectors and the testing Labs. in the country is woefully inadequate as determined by the experts.

In the circumstances a comparison of rates with the private manufacture is, rather invidious for such products, since

in M.S.D. factories only standard quality raw materials will be used.

In the case of Bandages, regardless of what quotations are received from the market and the claim made the quality is generally 'suspect' both in the matter of cloth and dimensional particulars. No hospital/dispensary or even a Medical Store Depot can possibly institute hundred per cent inspection of the quality of cloth used and the dimensional particulars since the quantities purchased at a time run into lacs of numbers and the testing of cloth and measurement of individual bandage or even a substantial percentage check is a highly time consuming and expensive business. This is particularly so as the bandages are made from handloom cloth which is cut and rolled by and large through processes which are essentially manual further the rolling of bandages is an activity of highly strategic importance. If we give up this activity on account of marginal price variations in our factories, the Government will have no means of direct production under its control in times of emergencies when bandages are required in huge quantities and the private sector is unable to cope with the demand. It will not be out of place to mention here that during the Indo-Pak conflict our factories were running two shifts and produced the badly needed bandages in enormous quantities. It is felt that bandage making activity must continue regardless of marginal price variations both from the strategic point of view and also on account of quality considerations.

The Department fully realises that where products of comparable quality are available at cheaper rates in the market, purchases of such products should be made from the market in preference to manufacture in our own factories. However, in view of the fact that our factories work under circumstances vastly different from the private sector and the term 'market rate' is valid only at a given point of time and for 'comparable quality' products, we have taken up the overall question with the Audit to arrive at an equitable and rational system of comparing the costs."

**1.19. The Committee find no justification for continuance by the Medical Stores Depots manufacture of certain uneconomic items**

which are ordinarily available at cheaper rates from the trade. The Committee note that the assistance of National Industrial Development Corporation and World Health Organisation has been sought with a view to modernising the existing factories and to study the range of products which could be taken up for manufacture consistent with modern trends in medical practice. The Committee suggest that Government should examine the economics of manufacture of all the items under production at present after comparing the cost of manufacture with the prevailing market prices.

## CHAPTER II

### RECOMMENDATIONS|OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

#### Recommendation

The Committee are concerned about the progressive deterioration in the working results of the Medical Stores Organisation. The Organisation made a profit of Rs. 23.43 lakhs in 1964-65 which was reduced in 1965-66 to Rs. 13.11 lakhs. In the subsequent year it ran up a deficit of Rs. 4.78 lakhs. The deterioration in performance occurred despite an increase in the turnover of the Organisation during this period by over a fifth i.e., from Rs. 538 lakhs in 1964-65 to Rs. 664 lakhs in 1966-67.

[S. No. 1 of Appendix (Paragraph 1.12) of 103rd Report—4th Lok Sabha].

#### Action Taken

It is agreed that there had been loss of Rs. 4.78 lakhs in 1966-67 inspite of progressive increase in the turnover during the period from 1964-65 to 1966-67.

However, the salient factors which contributed to this loss were as follows:

(i) *Over-heads:*—

There had been periodical increase in allowances granted to the employees if the Medical Stores Depots during the period 1964-65 to 1966-67. Besides there had been a steady rise of prices of consumable items, cost of maintaining the depot fleet/hired transport to carry the stores and other miscellaneous items.

(ii) *Quarterly fixation of Issue rates:*—

The P.A.C. has itself commented upon in Para 1.13(ii) of the report. The question of evolving an equitable formula for the fixation of rates is receiving the attention of this Department in consultation with the Depots. In the meantime interim instructions have been issued to the Depots that whenever an article is purchased at a higher rate, issue prices should be forthwith raised to avoid such losses.

*(iii) Non-recovery of indirect expenses pertaining to non-commercial scheme handled by the Organisation:*

There are certain incidental expenses incurred by the Depots in connection with the handling of stores received and distributed under the different National Health Programmes. This expenditure relates to the space occupied by the stores within the Depot precincts,.....watch and ward arrangements, cost of proportionate time spent by the Officers and the Establishment personnel of the main Depot incidental to these programmes. These indirect expenses were borne from the Capital Head of Accounts pertaining to the Commercial Activities of the Depots instead of from the National Scheme. Now with a view to ensure that the proforma accounts exhibit a true and fair state of affairs, it has been decided that with effect from 1967-68 accounts, in respect of non-commercial activities, proforma recoveries for the services rendered by the Depots would be adjusted in the Profit and Loss Accounts. On account of the above measured being taken the working picture of the Depots is expected to register a substantial improvement".

(Department of Health O.M. No. F.15-5|70-D dated 17-2-1971).

#### **Recommendation**

An analysis of the working of the Depots managed by the Organisation suggests that the Depots at Madras and Calcutta were primarily responsible for the set-back. The following factors in particular contributed to the deteriorating finances of the Organisation:—

- (i) The mounting cost of establishment, particularly at Calcutta and Madras Government have themselves admitted that "there may be room for reviewing this expenditure at Calcutta", considering the turnover of the Depot. As regards the depot at Madras Government have not found it "possible to account for the Higher Salary bill" the fact that labour in the factory attached to the depot was utilised to the extent of only 72 percent in 1967-68 and 47 per cent in 1968-69 indicates that the establishment in the depot is substantially underemployed.
- (ii) The issue of medicines and other items at less than post price. This would appear to be due to the present system of quarterly revision of issue prices which interposes a "time-lag of two to five months" in giving effect to increase in rates caused by rise in prices of items procured by the

Depots. How substantially this effects the working results of the Depots would be evident from the fact that the Madras Depot sustained a loss of Rs. 4.05 lakhs on this account during 1967-68.

(iii) Uneconomic manufacture—The Two Pharmaceutical factories attached to the Depots at Bombay and Madras are manufacturing 250 items like tinctures, tablets, ointments and bandages which are ordinarily available in market. Their cost compares unfavourably with market prices in certain cases. The Depots have shortage of technical staff but excess of factory labour.

[S. No. 2 of Appendix (Paragraph 1.13) of 103rd Report—4th Lok Sabha].

#### Action Taken

(i) (a) The S. I. Unit of the Ministry of Finance shall be undertaking a workstudy of the Medical Store Depots very shortly and in the light of their recommendations the staff composition will be refixed.

(b) The Administrative Staff College, Hyderabad has been asked to examine the working of the Depots with a view to introduce modern practices of inventory control, financial accounting and other administrative reforms.

(c) The assistance of National Industrial Development Corporation and World Health Organisation has also been sought with a view to modernize the existing factories in order to achieve greater productivity and to study the range of products which could be taken up for manufacture consistent with modern trends in medical practice.

(ii) The P. A. C. has itself commented up on in para 1.13 (ii) of the report. The question of evolving an equitable formula for the fixation of rates is receiving the attention of this Department in consultation with the Depots. In the meantime, interim instructions have been issued to the Depots that whenever an article is purchased at a higher rate, issue price should be forthwith raised to avoid such losses.

(iii) The shortage of technical staff i.e. analytical chemists is being made good by recruiting extra posts commensurate with the analytical work load, for which the sanction has already been issued. Simultaneously instructions have been issued not to fill vacancies which arise in labour category on the Factory side.

(Department of Health O.M. No. F 15—5/70-D dated 17-2-1971).

### Recommendation

The Committee note that Government are at present considering the future of the Medical Store Organisation as a whole and "the form in which it has to continue if it has to continue". Pending a decision on this major issue, the Committee would like Government to consider if the establishment employed in the Depots could be rationalised. A more rational system of pricing of issues from the Depots will have also to be evolved, so that there may not be delays in giving effect to increase in prices procured by the Depots and losses on this account may be minimised.

[S. No. 3 of Appendix (Paragraph 1.14) of 103rd Report—4th Lok Sabha].

### Action Taken

The question of continuance or otherwise of the Medical Store Depots has been thoroughly considered by this Department and we are firmly of the view that the Depots have a definite place in the National set up and must continue. Their utility is unquestionable particularly as far as the implementation of National Health Programmes, the Civil Defence activities are concerned. The main beneficiaries are however the small hospitals/dispensaries situated in the rural and semi-rural areas which are run on very small budgets and constitute nearly 96 per cent of the clientele of M.S. Depots. Their purchases are essentially of a retail character comprising of a large assortment of common drugs and other medical requisites in small quantities. Their value of purchase per item is extremely low and so is the total value per indent. In dealing with M.S. Depots they get the advantages of buying from a single source their varied requirements of assured quality with the benefit of bulk prices as the depots charge very nominal departmental charges—10 per cent against 25 per cent or so which is the common margin—retail sales in Medical establishments. Accordingly Government has taken a decision to set up a High Powered Managerial Board with a view to streamline the working of the Depots on proper commercial lines, and necessary details thereof are being worked out.

As already stated against Para 1.12 interim instructions have already been issued to Depots to revise the issue rate forthwith as soon as fresh stocks are purchased at higher rates to avoid loss on this account in future.

Simultaneously details of a regular revised formula for fixation of P.V. Rates on an equitable basis are being worked out and necessary instructions to this effect will be issued soon to all concerned.

[Department of Health O.M. No. F. 15-5/70-D dated 17-2-1971].

### **Recommendation**

The Committee observed that notwithstanding steps taken by Government to bring down the quantum of local purchases by the depots, the value of such purchases has gone up from Rs. 139 lakhs in 1964-65 to Rs. 200 lakhs in 1966-67. The experience of the Madras Depot, which incurred an extra expenditure of Rs. 25,000 in making local purchases to the tune of Rs. 1.76 lakhs during the period September, 1966—August, 1968 suggests that purchases by a centralised agency like the Director General, Supplies and Disposals would be cheaper. The representatives of Government also admitted that, notwithstanding some instances to the contrary, "generally speaking, supply through the D.G.S.&D. would be cheaper". The Committee appreciate the fact that the enhanced powers given to the depots, coupled with the delay that sometimes occurs in supplies against contracts arranged by the Director General, Supplies & Disposals would tend to push up local purchases by the Depots. It may not also be possible to meet the requirements of small indentors individually through rate or running contracts, due to problems that will arise in the inspection and despatch of small consignments. Nevertheless the effort should be to scale down local purchases to the minimum, by advance indenting on the Director General, Supplies and Disposals and bulking of indents. Local purchases being generally costlier, would unnecessarily push up the cost of health services.

[S. No. 4 of Appendix (Paragraph 1.25) of 103rd Report—4th Lok Sabha].

### **Action Taken**

As a general rule major purchases are made through the D.G.S. & D. as per Government orders. It may be mentioned that large scale local purchases are also necessary in a trading institution like Medical Store Depots on account of failure of supplies against the D.G.S.&D. contracts. A trading institution can ill afford to lose business and render indifferent service to the clients, when a part of the demand can be met by local purchases under the powers as delegated to the Depots[D.G.H.S. It will be appreciated that M.S.

Depots being trading Institutions have a unique position as compared with other Central Government Departments who buy stores for own consumption. Another reason for local purchases is that D.G.S.&D. do not entertain indents for amounts less than Rs. 25,000. Despite above mentioned limitations, every possible effort will be made to place bulk indents on the D.G.S.&D. sufficiently in advance with a view to bring down the figures of local purchases in all Medical Store Depots.

[Department of Health O.M. No. F. 15-5/70-D dated 17-2-1971]

### **Recommendation**

In para 2.141 of their Forty-second Report (1965-66) the Public Accounts Committee had desired that periodic reviews should be undertaken to ensure that depots do not continue to produce items which can be more economically procured from the market. The Committee note that, pursuant to this recommendation, Government initiate rate enquiries once every year while provisioning for items manufactured in the Depot. The experience in the present case, however, suggests that follow-up action on such enquiries is not prompt and effective enough. It might be considered whether the periodicity of such enquiries could be increased, so that the period for which Depots continue uneconomic manufacture of items is restricted to the minimum.

[S. No. 7 of Appendix (Paragraph 1.35) of 103rd Report—4th Lok Sabha].

### **Action Taken**

Due care will be taken in future to guard against recurrence of such instances. However, in view of fact that our factories work under circumstances vastly different from the private sector and the term 'market rate' is valid only at a given point of time and for 'comparable quality' products, we have taken up the overall question with the Audit to arrive at an equitable and rational system of comparing the costs.

[Department of Health O.M. No. F. 15-5/70-D dated 17-2-1971]

### **Recommendation**

While the Committee note that the dues awaiting realisation by Medical Stores Depots have come down from Rs. 233 lakhs as on 31st March, 1967 to Rs. 204 lakhs as on 31st March, 1968, they cannot help feeling that the pending dues are still large. The bulk of the

dues as on 31st March, 1968, i.e. as much as Rs. 169 lakhs, was on account of supplies to Government Institutions, a sum of Rs. 9.12 lakhs out of these pertaining to supplies made in 1965-66 and even earlier years. The Committee would like expeditious action to be taken to realise these dues, as also dues amounting to Rs. 3.48 lakhs pertaining to non-Government Institutions.

[S. No. 8 of Appendix (Paragraph 1.40) of 103rd Report—4th Lok Sabha].

### Action Taken

The latest position of the outstanding dues as on 31st March, 1970 (pertaining to the year 1966-67) is as under:—

Government	Rs. 18,43,541.14	or	Rs. 18.44 lakhs
Non-Government	Rs. 2,18,063.11		Rs. 2.18 lakhs
Others	Rs. 14,79,773.93		Rs. 14.80 lakhs

The above figures are, however, unaudited.

(i) Out of Rs. 18.44 lakhs due from Government Institutions. Rs. 16.85 lakhs is due on account of Anti-T.B. Stores and the Accountant General, West Bengal, Calcutta has been advised in May, 1970 to afford credit to Medical Store Depot, Calcutta and Rs. 1.55 lakhs represents Stores supplied to Bihar State on Draught Relief, sanction to grants-in-aid is awaited from the Government of India.

(ii) Out of Rs. 2.18 lakhs due from Non-Government Institutions. Rs. 1.90 lakhs is due from Panchayats, Zile Parishad, Municipalities. These institutions are being reminded to expedite settlement.

(iii) Out of Rs. 14.80 lakhs due from others, Rs. 14.59 lakhs relates to overhead allocated to quinine account and represents Pro-forma adjustments in accounts and no recovery is due from any party.

It will be seen from the figures mentioned above that strenuous efforts have been made to realise the outstanding dues and balance left are almost normal as compared with the figures of past years.

### Recommendation

The Committee note that due to a 'mistake' on the part of the Medical Store Depot, Calcutta, in fixing issue rate of certain medicine, there was a loss of Rs. 1.81 lakhs. The Committee hope that

Government will take action to guard against the recurrence of such a default.

[S. No. 9 of Appendix (Paragraph 1.54) of 103rd Report—4th Lok Sabha]

### **Action Taken**

With a view to guard against the recurrence of such instances of losses interim instructions have been issued to all the Medical Store Depots to revise the issue price forthwith whenever a fresh stock of stores is purchased at a higher price. A regular formula is being evolved.

[Department of Health O.M. No.-F. 15.5/70—Dated 17-2-1971]

### **Recommendation**

There was also a case where it took over 8 months for Government to come to a decision on the acceptance of a tender for encapsulation of powder. Consequently Government could not avail itself of the offer which was open for 90 days and had to entrust the work to another tenderer, who had quoted a higher rate, at an extra cost of Rs. 0.95 lakhs. As it has been indicated that the lower rate received in this case might not have been workable, the Committee do not wish to pursue the case further. The Committee however, trust that Government would ensure that delays of this kind in acceptance of tenders do not recur.

[S. No. 10 of Appendix (Paragraph 1.55) of 103rd Report—4th Lok Sabha]

### **Action Taken**

Noted for future guidance.

### **Recommendation**

The Committee note that there is a doubt whether supply orders placed by the Depot constitute binding contracts and that the matter is under examination. The Committee would like Government to take appropriate legal advice in the matter and suitably revise the procedure so that the supply orders become enforceable contracts in law.

[S. No. 11 of Appendix (Paragraph 1.56) of 103rd Report—4th Lok Sabha]

**Action Taken**

At present the supply orders placed by the Depots are not binding contracts. However, instructions have been issued to the Depots (except Gauhati and Karnal Depots where DADGs are not in position) to change their forms and DADGs instructed to sign for and on behalf on the President of India as per notification issued by the Ministry of Law dated 1st February, 1966. As regards Gauhati and Karnal Depots, Ministry of Law is being approached for issue of similar notification in favour of junior officers who are holding charge of these Depots till regular DADGs are posted.

[Department of Health O.M. No. F. 15.5/70—Dated 17-2-1971]

### **CHAPTER III**

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

**NIL**

## CHAPTER IV

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

#### Recommendation

The Committee note that it took Government over three years to come to a final decision about the discontinuance of manufacture of certain items which were being produced by the Medical Stores Depot, Madras at rates higher than the market prices. Continuance of production of these items might have been justified to the extent the Depot had stocks of raw materials which could not be put to more gainful alternative uses, but there was no justification to have continued their manufacture by procuring fresh stocks of raw materials. In fact, items worth Rs. 10.07 lakhs were produced in this manner during the period 1966-67 to 1968-69, which resulted in extra expenditure of Rs. 3.00 lakhs. It was stated that the manufacture of these items was not restricted as "it was then thought that demands from indentors should be met". These demands could equally well have been met from the market, where these items were available at cheaper rates.

[S. No. 6 of Appendix (Paragraph 1.34) of 103rd Report—4th Lok Sabha].

#### Action Taken

It is agreed that manufacture of bandages continued for a long time in the factory of M.S. Depot, Madras as pointed by the P.A.C. though the factory's manufacturing cost of this item was more than its market rate but due care will be taken in future to guard against recurrence of such like instances.

However, in this connection it is submitted that the bulk of the raw-materials have to be procured through the DGS&D under the Government procedure. DGS&D normally take six months or so to process the demands to which may be added another three months for the raw-materials to actually arrive. The actual manufacture may be taken up still later depending upon the availability of the

machinery/equipment etc., and or the manufacturing programme. Thus there is a time lag of almost a year when the programme is initially planned and the actual manufacure is taken up on our Factories. The cycle of purchases through the Governmental procedure is so long that comparison of rates has necessarily to be done almost a year in advance of the actual production in our own factories. Once indents have been placed on the DGS&D and firm commitments entered into there is no going back on the production programme. If the comparison is instituted at the actual time of manufacture on the basis of raw materials already received through the DGS&D and manufacture is found to be uneconomical, the raw-materials will have to be disposed of leading to greater losses to the State. The periodical comparison with market rates has been found impracticable in view of the peculiarity of procurement of raw-materials through the D.G.S. D., which necessitates maintenance of huge inventories.

In the case of many drugs the protocols of use for the finished products can be satisfied according to the pharmacopoeal standards even by using inferior quality raw-materials. Unlike the State, Excise under which check of all the incomings usage and outgoing of alcohol, by an inspector permanently attached to a factory there is no such control during the manufacture of drugs. Checks by the Drug Inspectors are only random during their rather infrequent visits to the factories, the No. of Drug Inspectors and the testing Labs in the country is woefully inadequate as determined by the experts.

In the circumstances a comparison of rates with the private manufactures is, rather invidious for such products, since in M.S.D. factories only standard quality raw-materials will be used.

In the case of Bandages, regardless of what quotations are received from the market and the claim made the quality is generally 'suspect' both in the matter of cloth and dimensional particulars. No hospitals, dispensaries or even a Medical Store Depot can possibly institute hundred per cent. inspection of the quality of cloth used and the dimensional particulars since the quantities purchased at a time run into lacs of numbers and the testing of cloth and measurement of individual bandage or even a substantial percentage check is a highly time consuming and expensive business. This is particularly so as the bandages are made from handloom cloth which is cut and rolled by and large through processes which are essentially manual. Further the rolling of bandages is an activity of highly

strategic importance. If we give up this activity on account of marginal price variations in our factories, the Government will have no means of direct production under its control in times of emergencies when bandages are required in huge quantities and the private sector is unable to cope with the demand. It will not be out of place to mention here that during the Indo-Pak conflict our factories were running two shifts and produced the badly needed bandages in enormous quantities. It is felt that bandages making activity must continue regardless of marginal price variations both from the strategic point of view and also on account of quality consideration.

The Department fully realises that where products of comparable quality are available at cheaper rates in the market, purchases of such products should be made from the market in preference to manufacture in our own factories. However, in view of the fact that our factories work under circumstances vastly different from the private sector and the term market rate is valid only at a given point of time and for 'comparable quality' products, we have taken up the overall question with the Audit to arrive at an equitable and rational system of comparing the costs.

[Department of Health O.M. No. F. 15-5/70—D dated 17-2-1971].

### **Recommendation**

The Medical Stores Organisation was set up as a centralised supply agency to hospitals, dispensaries etc., at a time when other sources of supply had not developed adequately. The pharmaceutical industry in the country has since developed to a great extent, with Government undertakings like Indian Drugs and Pharmaceuticals Ltd., also entering the field. Over the years, the tendency has also been to entrust the work of procurement to bulk procuring agencies like Director General, Supplies and Disposals, as experience has indicated that such bulk purchase is generally more economical. The date furnished to the Committee which is reproduced at pages 21-23 of this report would also show that hospitals are becoming less and less dependent on Medical Stores Depots as a supplying agency and that the Depots themselves have at best been able to meet 50 per cent to 60 per cent of the demands raised on them by the indentors. There are no doubt a number of small indentors in the States in whose case it might not be possible to resort to bulk procurement against rate and running contracts concluded by the Director General, Supplies and Disposals, but this has to be weighed against the fact

that 'the States have become a little more autonomous and many of them want to make their own purchases.'

[S. No. 2 of Appendix (Paragraph 1.60) of 103rd Report—4th Lok Sabha].

### Action Taken

The question of continuance or otherwise of the Medical Store Depots has been thoroughly considered by this Department and we are firmly of the view that the Depots have a definite place in the National set up and must continue. Their utility is unquestionable particularly as far as the implementation of National Health Programmes and the Civil Defence activities are concerned. Some of the Union Territories and newly created States in the eastern sector situated in the vulnerable areas have no source of supply close at hand. Also for 16,000 odd clients of the M.S. Organisation of which 96 per cent are small hospitals/dispensaries dotted all over the country in far flung areas, the Depots provide the most ideal place for buying their requirements as the benefit of the bulk buying is passed on to these Institutions and quality control is assured. Two comparative studies, one carried out in 1963 and the other very recently of the cost of medicines which a small indentor had to pay in the State of Maharashtra when buying from multiple sources and the prices charged by the M.S. Depot revealed that only in a few odd cases the prices charged by the M.S. Depot were higher. On the whole 1963 study showed that the cost of drawal from M.S. Depot as against the Maharashtra Government contracts was 72.2 : 100 for a unit pack of each item : the cost actually charged on some indents picked up at random from M.S. Depot and compared as against the Maharashtra rate contract revealed a ratio of 64.2:100. The recent study shows these figures to be 78.1:100 and 68.1:100 respectively. This Department fully realises that the working of the Depots has to be streamlined to render efficient service to the client and to supply his requirements at economic prices. Accordingly, the question of setting up of a High-Powered Board to bring about necessary improvements in the existing organisational set up of the Depots is under active consideration of the Government. Also range of items to be stocked by Medical Store Depots is being re-examined in consultation with the State Governments in order to ensure that the demand of a common indentors are met to the extent of 90 to 100 per cent.

[Department of Health O.M. No. F. 15-5/70—D dated 17-2-1971].

**Recommendation**

The Committee note that Government themselves are cognisent of all these factors which have a bearing on the future of the Central of the future of the Depot and the form in which it should continue, of the future of the Depot and the form in which it should continue, if at all it has to be continued.' The Committee would like Government to complete examination of this question speedily and come to a quick decision.

[S. No. 13 of Appendix (Paragraph 1.61) of 103rd Report—4th Lok Sabha.]

**Action Taken**

The question of continuance or otherwise of the Medical Stores Depots has been critically examined and decision taken at the Minister's level to continue the Organisation. Steps have been taken to streamline the working of the Medical Stores Organisation by constituting a High-Powered Managerial Board in the Ministry headed by the Minister of State. The Board will provide overall guidelines on all important matters of policy, procedure and speedy clearance of all problems. The Administrative Staff College, Hyderabad has been asked to carry out preliminary survey with a view to introduce modern practices of inventory control, financial accounting and other administrative reforms. Similarly the assistance of NRDC and WHO has been sought with a view to modernize the existing factories in order to achieve greater productivity and to study the range of products which could be taken up for manufacture consistent with modern trends of medical practices.

[Department of Health O.M. No. F. 15-5/70—D dated 17-2-1971].

## CHAPTER V

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

#### Recommendation

The Committee are also unhappy over the delay in procurement of some of the stores by the Directorate General of Supplies and Disposals. In the case of the Madras Depot it is noticed that non-supply of 629 sets of dispensing scales by the DGS&D resulted in their local purchase at an excess cost of Rs. 5,279/- while failure to procure Knife Bard Parker Blades in time led to local procurement of one third of the quantity at an additional cost of Rs. 9,379/-. The Committee would like the DGS&D to look into these cases so as to plug the loop-holes in procurement procedure.

[S. No. 5 of Appendix (Paragraph 1.26) of 103rd Report—4th Lok Sabha.]

#### Action Taken

The two cases have been examined. It has been observed that the handling of these cases was delayed at various stages, and there were also some irregularities. Responsibility for such delays/irregularities is being fixed. The Public Accounts Committee will be apprised of the position in due course.

[Ministry of Supply, O.M. No. PIII-21(10)/70, dated 15-12-1970.]

ERA SEZHIYAN,

*Chairman,*

NEW DELHI;

*Public Accounts Committee.*

August 31, 1971.

Bhadra 9, 1893 (S.).

## APPENDIX

### *Summary of main Conclusions|Recommendations*

S. No.	Para No. of Report	Ministry/Department Concerned	Conclusions/Recommendations
1	2	3	4
1	1.4	Ministry of Supply	The Committee hope that final reply in regard to the recommendation observation to which interim reply has been furnished will be submitted to them expeditiously after getting it vetted by Audit.
2	1.8	Department of Health	The Committee understand from Audit that the accounts of the Medical Stores Depots for the years 1967-68, 1968-69 and 1969-70 have not yet been sent to them. The latest financial results of the working of the Depots are, therefore, not known. Their non-submission for 3 years is an indicator of all not being well with the Depots. The Committee deprecate the delay and would urge Government to spot the causes of the delay and finalise the accounts expeditiously. They would also like to emphasise the need for timely submission of accounts to Audit in future.
3	1.9	-Do-	The Committee note that after a critical examination Government are inclined to continue the Medical Stores Organisation and that they propose to take steps to streamline its working. It appears to the Committee that the main advantage of this organisation

will, if at all, accrue only to the large number of small consumers. It is, however, not quite clear whether even for them the cost would necessarily be favourable in comparison with other sources of supply including local purchase especially as the bulk of the supplies of the Medical Stores Organisation are purchases resold. The Committee would, therefore, like to have another opportunity to go into the question of the advantage of continuing this organisation and would, therefore, like Government to send the review of the working of the organisation after one year from the date it has been re-organised. The review should be sent through Audit.

4 1.12 -Do-

The Committee desire that concerted efforts should be taken to bring down the local purchase of about Rs. 200 lakhs per annum of medical stores. The Committee understand that under the existing procedure indents can be placed on the DGSSD even in advance of the budget allocation. They would, therefore, emphasise the need for timely indenting of the stores and proper follow-up action to ensure prompt supplies, so as to reduce local purchases by the depots.

5 1.15 -Do-

The Committee note that the two cases of delay referred to by them have been examined by Government and responsibility for the delays/irregularities is being fixed.

6 1.16 Ministry of Supply (Directorate General of Supplies and Disposals)

The Committee would like the Directorate General of Supplies and Disposals to take necessary steps to plug loopholes in the procurement procedure to avoid delay in procurement of stores in future.

1 2 3  
7 1.19 Department of Supply

The Committee find no justification for continuance by the Medical Stores Depots manufacture of certain uneconomic items which are ordinarily available at cheaper rates from the trade. The Committee note that the assistance of National Industrial Development Corporation and World Health Organisation has been sought with a view to modernising the existing factories and to study the range of products which could be taken up for manufacture consistent with modern trends in medical practice. The Committee suggest that Government should examine the economics of manufacture of all the items under production at present after comparing the cost of manufacture with the prevailing market prices.

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