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REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

FOR THE YEAR ENDED 31 MARCH 1996
NO. 7 OF 1997

Presented in Lok Sabha on 20 MAR 1997
Laid in Rajya Sabha on 20 MAR 1997

UNION GOVERNMENT - DEFENCE SERVICES (ARMY AND ORDNANCE FACTORIES)

PAC

AUDIT
REPORT

(1997)

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FOR THE YEAR ENDED 31 MARCH 1996
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UNION GOVERNMENT - DEFENCE SERVICES (ARMY AND ORDNANCE FACTORIES)

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PREFATORY REMARKS

This Report for the year ended 31 March 1996 has been prepared for submission to the President under Article 151 of the Constitution. It relates mainly to matters arising from the Appropriation Accounts of the Defence Services for 1995-96 together with other points arising from the test audit of the financial transactions of Ministry of Defence, Army and Ordnance Factories including Defence Research and Development Organisations.

2. The Report includes 80 Paragraphs and three Reviews on (i)Procurement and utilisation of medical stores and equipment (ii) Management of defence land (iii) Infantry combat vehicles. The Draft Paragraphs and Draft Reviews were forwarded to the Ministry of Defence for furnishing their reply within six weeks. However, replies to 51 Draft Paragraphs and 3 Draft Reviews have not been received as of December 1996.

3. The cases mentioned in this Report are among those which came to notice in the course of audit during the year 1995-96 as well as those which came to notice in earlier years but could not be included in the previous Reports.

GLOSSARY OF ABBREVIATIONS

Ammunition Research and Development Establishment	ARDE
Ammunition Factory	AF
Army Base Workshop	ABW
Armoured Recovery Vehicle	ARV
Army Headquarters	Army HQ
Action Taken Notes	ATN
Army Service Corps	ASC
Armed Forces Medical Stores Depots	AFMSD
Advance Medical Stores Depot	AMSD
Authority Holding Sealed Particulars	AHSP
Army Wives Welfare Association	AWWA
Bharat Petroleum Corporation	Bharat Petroleum
Bharat Heavy Electricals Limited	BHEL
Central Armoured Fighting Vehicle Depot	CAFVD
Controllerate of Quality Assurance	CQA
Central Ordnance Depot	COD
Cordite Factory	CF
Court of Inquiry	CI
Comptroller and Auditor General of India	C&AG
Central Ammunition Depot	CAD
Chief Engineer	CE
Central Road Research Institute	CRRI
Central Bureau of Investigation	CBI
Controller of Defence Accounts	CDA
Commander Works Engineer	CWE
Controller General of Defence Accounts	CGDA
Central Vehicle Depot	CVD
Canteen Stores Department	CSD
Department of Defence Production and Supplies	DDPS
Defence Security Corps	DSC
Director General of Ordnance Factories	DGOF
Director General Quality Assurance	DGQA
Department of Telecommunication	DOT

Delhi Electric Supply Undertaking	DESU
Director General Armed Forces Medical Services	DGAFMS
Defence Estates Office	DEO
District Collector	DC
Director General of Ordnance Services	DGOS
Dearness Allowance	DA
Director General Supplies and Disposals	DGSD
Embarkation Headquarters	EHQ
Engine Factory	EF
Explosive Research Development Laboratory	ERDL
Engineer - in - Chief	E-in-C
Electrical and Mechanical Engineers	EME
Foreign Exchange	FE
Fuel,Oil and Lubricants	FOL
Food Corporation of India	FCI
Forward Medical Stores Depot	FMSD
Garrison Engineer	GE
General Officer Commanding	GOC
Grey Iron Foundry	GIF
Gun Carriage Factory	GCF
General Manager	GM
Government of India	Government
Headquarters	HQ
Himachal Pradesh	HP
Hindustan Aeronautics Limited	HAL
High Explosive Factory	HEF
Heavy Vehicle Factory	HVF
Indian Oil Corporation	IOC
Junior Commissioned Officers	JCOs
Kilo Watt	KW
Kilo Metres	Kms
Kilogram	KG
Land Acquisition Collector	LA Collector
Military Engineer Services	MES
Ministry of Home Affairs	MHA
Metal and Steel Factory	MSF

Machine Tool Prototype Factory	MTPF
Member of Legislative Assembly	MLA
Mineral and Metal Trading Corporation of India Limited	MMTC
Ministry of Defence	The Ministry
National Cadet Corps	NCC
Opto Electronic Factory	OLF
Ordnance Factory Board	OFB
Ordnance Factory	OF
Ordnance Clothing Factory	OCF
Ordnance Equipment Factory	OEF
Ordnance Factory Project	OFP
Ordnance Parachute Factory	OPF
Public Accounts Committee	PAC
Public Sector Undertaking	PSU
Quality Assurance Establishment	QAE
Re-inforced Cement Concrete	RCC
Research and Development	R&D
Rifle Factory	RF
Steel Authority of India Limited	SAIL
Senior Quality Assurance Establishment	SQAE
Vehicle Factory	VF

OVERVIEW

Accounts of the Defence Services

The total budget provision for the Defence Services under five Demands for Grants was Rs 28236.57 crore for the year 1995-96 against which the total actual expenditure aggregated to Rs 27946.97 crore. The Ministry obtained Supplementary Grants totalling Rs 1489.17 crore. Savings of Rs 209.02 crore occurred against the total budget provision of Rs 4264.27 crore in the voted section of Grant No. 19-Air Force which calls for an explanatory note to PAC. On the other hand, an excess expenditure of Rs 7 lakh over the approved provision occurred in the voted section of Grant No. 17-Army, which requires regularisation. On the whole, there was an improvement in the overall financial control.

(Chapter I)

Defective mines

Director General Quality Assurance failed to detect defects in the mine bodies procured from trade at a cost of Rs 0.70 crore. These mine bodies were accepted and filled at Ordnance Factory Chanda and Ordnance Factory Khamaria and supplied to Central Ammunition Depot, Pulgaon between May 1993 and October 1994. Joint inspections detected a total of 67363 defective mines valued at Rs 25.94 crore. Since the cost of filling/assembly was more than 36 times the cost of mine bodies, inefficient inspection of mine bodies entailed a wasteful expenditure of over Rs 25 crore.

(Paragraph 19)

Loss due to formation of copper azide in fuzes

Due to improper storage conditions, stock of B-429 fuzes at CAD Pulgaon was affected by dangerous copper azide formation, which caused an explosion in May 1995, ripping apart a store house as well as fuzes valued at Rs 1.19 crore. The balance stock of fuzes at Pulgaon were also affected by copper azide formation. Further, a large number of fuzes held by field units under various commands were also found to be similarly affected. Western Command HQ imposed a ban on the use of all the 1,09,981 fuzes valued at Rs 15.89 crore held by various units under it, till hundred per cent inspection was completed. This had a direct bearing on the Defence

preparedness. As of December 1996, a total number of 29,981 fuzes valued at Rs 4.33 crore had been declared unserviceable in addition to those destroyed in the explosion.

(Paragraph 21)

Non-utilisation of Armoured recovery vehicles for want of spares

Army HQ and CAFVD, Kirkee failed to procure spares for armoured recovery vehicles for about six years. As a result, these vehicles costing Rs 12 crore were non-operational since 1989-90 although the vehicles were procured for towing military hardware during peace time to reduce wear and tear.

(Paragraph 9)

Defective construction of blast pens and taxi track

Despite an expenditure of Rs 6.78 crore upto April 1995 for construction of thirteen blast pens, these could not be made operational due to defective design, sub-standard specifications and poor quality of work. Thus, blast pens which were sanctioned in 1984 for the Air Force are yet to be made operational.

(Paragraph 69)

Management of Defence land

A review of management of defence land disclosed serious shortcomings in utilisation of defence land, unauthorised use, poor lease management, flaws in maintenance of land records and delays in requisition resulting in higher compensation. Test check revealed that the defence authorities were not using 11,391 acre of land while 4,431 acre were misused for purposes other than bonafide defence purposes.

Defence land and buildings were unauthorisedly used for commercial purpose in many cases. In one case, Air Force Station Delhi used an air-conditioned complex named 'Santushti' for commercial leasing and credited the annual revenue of Rs 39.78 lakh unauthorisedly to Regimental Fund rather than to government account. Similarly defence land in Secunderabad, was being used as a golf course but was being shown as used for other bonafide purposes.

Large areas of defence land have suffered encroachment due to inadequate vigilance of estate managers.

Lease of some properties were neither renewed nor were these taken back from the lessees and lease rent was outstanding in many cases.

(Paragraph 18)

Undue favour to a firm

A firm failed to supply 4298 water proof cover out of a total quantity of 5350 ordered in September 1992. Instead of resorting to a risk and cost arrangement, Army HQ purchased at a higher unit rate of Rs 11,593 in place of the earlier rate of Rs 6460 at which the order was placed in September 1994 through DGSD. This resulted in an excess expenditure of Rs 2.21 crore.

(Paragraph 24)

Procurement and Utilisation of medical stores and equipment

Despite decentralisation of purchases from DGSD in December 1991, DGAFMS concluded rate contracts for only 11 items out of 57 identified for central purchase as of March 1996. Delay in conclusion of rate contracts led to local purchase of medicines involving additional expenditure of Rs 27 lakh.

DGAFMS procured orthopaedic systems costing Rs 7.75 crore locally exceeding his financial powers.

Sub-standard medicines costing about Rs 15 lakh consumed by patients were found unfit in subsequent test reports of control samples. Replacement/recovery of cost of prematurely deteriorated drugs was also not being monitored properly; cost of such drugs awaiting replacement noticed in audit was over Rs 30 lakh.

Medical equipment costing Rs 90 lakh became defective within warranty period which affected patient care.

(Paragraph 17)

Loss due to deficient fire prevention measures

A court of inquiry attributed the cause of a fire in Central Ordnance Depot Agra in January 1990, in which telecommunication equipment valued at Rs 3.14 crore were destroyed, to short-circuit and carelessness of officials. No action has been taken against the negligent staff nor has the loss been regularised.

(Paragraph 22)

Unnecessary procurement of engines

Department of Defence Production and Supplies procured 124 diesel engines in December 1992 costing Rs 3.16 crore for overhaul of KRAZ vehicles. While only 42 of these have been used, there is no immediate prospect of the balance number being used till 1998-99. Failure to assess the requirement of engines properly resulted in unnecessary procurement of 82 engines valued at Rs 2.09 crore.

(Paragraph 11)

Loss due to irregular accounting

Irregular accounting of steel and tampering of records fraudulently in the stores accounts of a Garrison Engineer resulted in a loss of Rs 115.26 lakh. Ministry is yet to investigate fully and fix responsibility.

(Paragraph 71)

Procurement of defective steering assembly

Failure of Quality Assurance Establishment (Vehicles) to detect unacceptable "limitation of design" of steering assembly for Shaktiman Vehicle resulted in procuring 3000 defective steering assemblies valued at Rs 1.14 crore.

(Paragraph 26)

Unauthorised expenditure on procurement of cast iron pipes of higher specification

Chief Engineer, Bhatinda Zone procured cast iron pipes of higher specification (600 mm dia) for water supply project in place of approved specification of 450 mm dia. This irregular action of the Chief Engineer resulted in a wasteful expenditure of Rs 1.01 crore.

(Paragraph 75)

Delay in finalisation of contract

In two cases, delay in financial concurrence and finalisation of acceptance of tenders resulted in cost escalation of Rs 2.13 crore.

(Paragraphs 72 and 73)

Excess provisioning of steel cases

Central Ordnance Depot, Dehu Road procured 4506 steel boxes for transportation of spare engines of Willys jeep against its requirement of a maximum number of 1053. This resulted in an avoidable expenditure of Rs 1.49 crore.

(Paragraph 12)

Non-recovery of general damages from defaulting firms

Three firms defaulted in supply of camouflage equipment. Army HQ cancelled the supply order in March-August 1992. Subsequent purchase of the balance quantity not supplied by the three firms in 1995 entailed an additional expenditure of Rs 2.10 crore. The general damages are yet to be recovered from the defaulting firms.

(Paragraph 10)

Injudicious procurement of forklifts

Injudicious purchase and gross under-utilisation of forklifts at Embarkation Headquarters was earlier highlighted in the Audit Report of 1993. Further review of their utilisation disclosed that the forklifts continued to be either grossly under-utilised or non functional for which Rs 97.29 lakh towards hiring charges of forklifts from trade had to be resorted to in one of the EHQs.

(Paragraph 25)

Delay in moving newly raised Platoons

On completion of training newly raised 47 DSC platoons could move out of the training centre after a delay ranging from two to 20 months owing to late receipt of stores, equipment and ammunition. An expenditure of Rs 1.24 crore was incurred on their pay and allowances during the periods of forced idling.

(Paragraph 13)

Avoidable expenditure on demurrage charges

Demurrage charges incurred due to negligence on the part of consignee is to be treated as loss of public money and calls for fixing the responsibility. Central Ordnance

Depot Delhi Cantonment paid airport demurrage charges of Rs 2.22 crore during 1986-87 to 1995-96. The COD paid demurrage in case of 567 out of 892 consignments, received by air during this period.

(Paragraph 23)

Loss due to improper despatch of imported equipment

Embarkation HQ. Mumbai sent 116 imported sets of mine sweeps to COD Agra instead of to the appropriate consignee CAFVD, Kirkee. This necessitated backloading of the equipment to Kirkee by COD Agra, the consignments were damaged. When CAFVD, Kirkee raised a discrepancy claim for Rs 1.09 crore on the supplier for 30 deficient components in 60 equipment more than one year after their receipt, the supplier rejected the claims, resulting in accumulation of unserviceable mine sweeps valued at Rs 1.06 crore.

(Paragraph 14)

ORDNANCE FACTORY ORGANISATION

Performance of Ordnance Factory Organisation

During 1995-96 OF manufactured and supplied arms, ammunition, equipment, components etc. valued at Rs 2115 crore, an increase of Rs 246 crore over 1994-95. Production of 69 items out of 289 was behind schedule. OFB did not fix target for production of 34 items during 1995-96. Target for civil trade during 1995-96 was reduced to Rs 141 crore from Rs 224 crore in the previous year. Overall average stock holding by Ordnance Factories during 1995-96 was of 310 days against 247 during 1994-95. Short closure of indents by the Services and change in design at advanced stages of production by the users contributed to increase in stock of raw material, work-in-progress and finished goods.

(Paragraph 34)

Infantry combat vehicles

745 Infantry Combat Vehicles (ICV BMP-I) were imported during 1976 to 1982 for induction in Army but facility for production of ammunition for ICV BMP-I has not yet been established fully and the combined effort of four ordnance factories

have failed to indigenise the production of ammunition in nine years even after an expenditure of Rs 9.45 crore.

Indigenous production of the improved version of the Infantry Combat Vehicle (ICV BMP-II) has also not materialised fully due to mismatch in the production/availability of different components. The OFs have been able to supply only 395 ICV BMP-II against the scaled down requirement of Army for 600 vehicles during 1992-96. Similarly, against requirement of 11.69 lakh rounds of ammunition OFs have been able to supply only 6.37 lakh rounds, assembling a large portion out of partially or fully imported Completely Knocked Downs. There has been delay in setting up of facility for indigenous production of armament for which an expenditure of Rs 87 crore has been incurred. Only 61 cannon were produced with imported CKDs in four years from 1992-93, which necessitated import of 275 cannon at Rs 31.59 crore. Even after investment of Rs 742 crore in setting up of facility for production of ICVs, armament and ammunition, full potential was yet to be realised which had an adverse impact on the modernisation plan of the Army.

(Paragraph 35)

Idling of inventory

Hasty action by OF Khamaria in provisioning large quantities of projectiles for manufacture of an ammunition even before the ammunition was successfully developed by DRDO resulted in non-utilisation of 4643 projectiles, 671 assembled rounds and other components and raw materials valued at Rs 22.07 crore. The prospect of utilisation of the projectiles and other raw materials is quite uncertain.

(Paragraph 40)

Under utilisation of forging capacity

Mismatch between forging and tooling capacities in OF Kanpur led to under utilisation of forging capacity created at an investment of Rs 8.67 crore between 1988 and 1991 besides procurement of semi-machined bodies from trade at a cost of Rs 3.80 crore.

(Paragraph 39)

Infructuous production of empties

Allotment of production programme to OF Ambajhari by OFB for issue of 10,000 empties of an ammunition each to OF Chanda and OF Khamaria in 1991-92 without any production programme for the ammunition itself led to infructuous manufacture of 18,948 empties valued at Rs 3.66 crore. OF Ambajhari was also holding raw materials worth Rs 2.14 crore since March 1992 in anticipation of fresh order for empties which was not forthcoming as of August 1996.

(Paragraph 37)

Unproductive expenditure on production of fuze

Deletion of a condition in the Supply Order for submission of advance sample of time-mechanism by a firm for proof test, defective inspection of the entire supply by SQAE and clearance for bulk production without successful proof test resulted in assembly of defective fuzes valued at Rs 43.25 lakh. Besides, investment of Rs 5.06 crore on machinery and Rs 15.16 lakh on unused material was unproductive due to delay and uncertainty in production of the fuzes.

(Paragraph 38)

Loss in export order

Ammunition Factory, Kirkee underpriced 2962 million rounds of an ammunition exported and suffered a loss of Rs 2.81 crore. The underpricing was in disregard of the pricing formula approved by the Ministry.

(Paragraph 61)

Injudicious procurement of steel

Engine Factory, Avadi rushed for bulk procurement of 117 tonne of ESR steel at a cost of Rs 1.54 crore even before development of crank shaft forging was successfully established. Since the development of the forgings could not be successfully accomplished, EFA is holding a stock of over 81 tonne of steel costing Rs 1.07 crore. On the other hand, EFA had to import 275 crank shafts at Rs 1.26 crore.

(Paragraph 51)

Premature clearance for bulk production of 5.56 mm rifle

Premature clearance for bulk production of 5.56 mm rifle in Rifle factory, Ishapore on grounds of urgent operational requirements inspite of defects resulted in an additional expenditure of Rs 2.30 crore towards cost of their re-testing. Supply of defective rifles also entailed the risk of adverse effects on operational effectiveness and troop morale.

(Paragraph 41)

Avoidable expenditure due to delay in placement of order

Inability of OF Varangaon to process tenders for purchase of 700 tonne of lead antimony alloy ingot within the validity period and rejection of the offer of the lowest tenderer resulted in extra expenditure of Rs 1.33 crore.

(Paragraph 49)

Financial repercussion

Abrupt suspension of demand of an ammunition by Army in 1992, which was being produced continuously since 1979-80 resulted in an unnecessary stock build up of 69,567 filled and empty fuzes valued at Rs 3.82 crore at OF Khamaria and OF Kanpur. Out of this 17973 fuzes valuing Rs 1.09 crore had already lost their shelf life as of July 1996.

(Paragraph 63)

Unfruitful expenditure due to change in propellant of an ammunition

Before propellant 'X' was successfully developed and tested, OF Khamaria procured the propellant in bulk by 1989. When a decision was taken in 1992 to switch over to propellant 'Y', OF Khamaria had an unutilised stock of over 111 tonne of propellant 'X' valued at Rs 1.43 crore.

(Paragraph 42)

Questionable regularisation of loss of stores

Assuming that physical stock verification was not conducted properly OF Kanpur regularised the shortage of components of an ammunition viz. 12,200 bodies

and 44,450 noses worth Rs 1.09 crore without verifying with reference to original records and documents having authentic evidentiary value, namely, warrants and production ledger cards. When this serious matter was pointed out, both OFB and the Ministry stated "perhaps the physical stock verification was not done"

(Paragraph 66)

Additional expenditure due to violation of guidelines

Rifle Factory Ishapore obtained supply of 26.83 tonne of steel from Metal and Steel Factory Ishapore at Rs 283.58 per kilogram . The cost of steel supplied by MSF was eight times the trade cost. Similarly, AF Kirkee procured 33,635 tail units of a bomb from OF Kanpur at the unit rate of Rs 256.59. This was six times higher than the trade cost during the same period. These procurements by Rifle Factory Ishapore and AF Kirkee were in disregard of the guidelines of the OFB.

(Paragraph 57)

Injudicious placement of demand for steam chests

OF Chanda placed an inter factory demand on GCF Jabalpur for manufacture and supply of 100 steam chests without carrying out any trials regarding their suitability or assessing future requirement. Before OF Chanda shortclosed the inter factory demand, 46 steam chests had already been supplied to them. This resulted in all 46 steam chests valued at Rs 63.66 lakh remaining unutilised, besides accumulation of inventory worth Rs 24.40 lakh in GCF Jabalpur.

(Paragraph 50)

Surplus inventory

Air Force changed the design of a fuze of an ammunition manufactured by OF Khamaria after the OF had already manufactured 33,000 fuzes valued at Rs 65.50 lakh. Besides, it had accumulated semi-finished components valued at Rs 32.47 lakh.

(Paragraph 36)

Injudicious procurement of annealing and pickling plant

OFB procured two continuous annealing and pickling units at an expenditure of Rs 1.63 crore in February 1991 against the requirement of only one. None of the plants was commissioned as of May 1996. The negligence of OFB has rendered the

expenditure of Rs 81.48 lakh on one unit infructuous. The expenditure on the other has also been unfruitful in view of its non-commissioning for over five years.

(Paragraph 54)

Rejection of brass cartridge cases

MSF manufactured 12,500 brass cartridge cases against OF Khamaria's IFD of which 4125 cases valuing Rs 58.89 lakh were rejected over and above the permissible rejection due to dimensional deviation and observance of dezincification and dents.

(Paragraph 46)

Shortage of brass blanks

There was excess consumption of 25,517 brass blanks valued at Rs 80.63 lakh in the manufacture of brass cartridge case by OF Ambernath due to deterioration of plant and machinery besides non-accounting of resulting excess scrap.

(Paragraph 59)

Avoidable expenditure on pigging of aluminium alloy

Delay in disposal of scrap/swarf by OF Ambajhari necessitated its pigging at a cost of Rs 63.44 lakh to make it disposable through auction, since long period of storage had resulted in its oxidation.

(Paragraph 60)

CHAPTER I

Accounts of the Defence Services

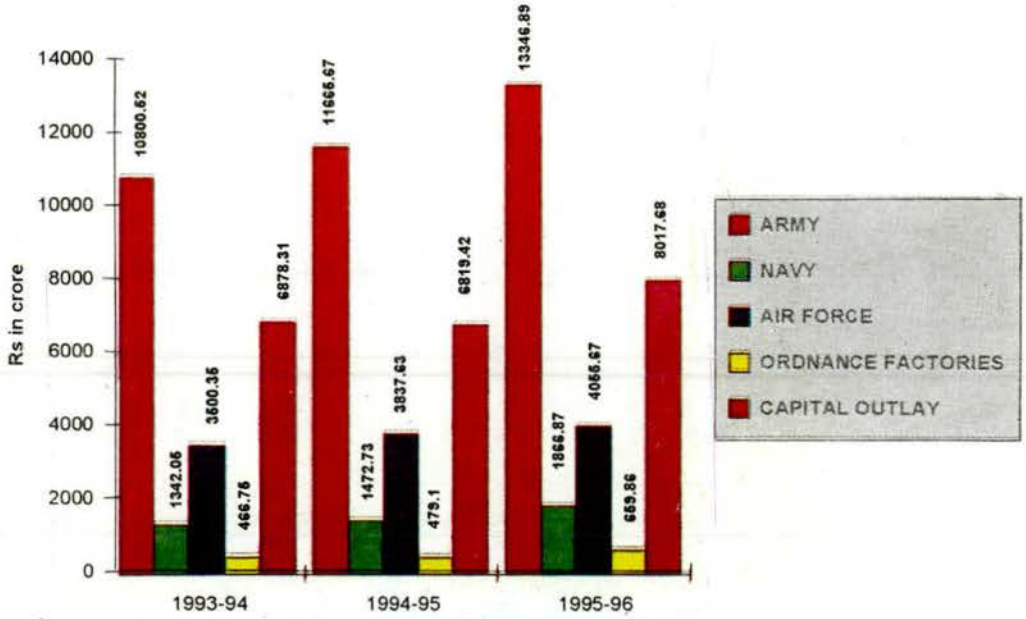
1 Defence expenditure

The expenditure on major components of Defence activities during 1993-96 was as under :-

(Rs in crore)

	1993-94	1994-95	1995-96
Army	10800.52	11665.67	13346.89
Navy	1342.05	1472.73	1866.87
Air Force	3500.35	3837.63	4055.67
Ordnance Factories	466.75	479.10	659.86
Capital Outlay on Defence Services	6878.31	6819.42	8017.68
Total	22987.98	24274.55	27946.97

The expenditure is represented in the bar chart below :



2 Budget and Actuals

(a) The summarised position of expenditure during 1995-96 against Grants/Appropriations was as under :-

(Rs in crore)

			Original Grant/Appropriation	Supplementary Grant	Total	Actual Expenditure	Total Saving(-) Excess(+)
Revenue							
17	Army	Voted	12842.94	499.64	13342.58	13342.65	(+) 0.07
		Charged	5.07	0.07	5.14	4.23	(-) 0.91
18	Navy	Voted	1567.71	300.07	1867.78	1866.59	(-) 1.19
		Charged	2.68	-	2.68	0.28	(-) 2.40
19	Air Force	Voted	4264.27	-	4264.27	4055.25	(-)209.02
		Charged	0.64	-	0.64	0.42	(-) 0.22
20	Ordnance Factories	Voted	708.40	-	708.40	659.81	(-) 48.59
		Charged	1.20	-	1.20	0.06	(-) 1.14
Capital							
21	Capital Outlay on Defence Services	Voted	7347.31	686.28	8033.59	8010.37	(-) 23.22
		Charged	7.18	3.11	10.29	7.31	(-) 2.98

Except for Grant No. 19, there was an improvement in the overall financial control.

(b) Saving

The overall savings in all five grants of Defence Services under voted section aggregated to Rs 281.95 crore, which consisted mainly of savings in the Grants of AF, OF and Capital Outlay on Defence Services. The overall saving of Rs 7.65 crore under

the Charged section against overall provision of Rs 19.95 crore for all Grants constituted 38 *per cent* of the provision.

The savings in Grant No. 19-Air Force were attributed by the Ministry to lower outgo in respect of pay and allowances of MES Establishment and bonus, lower materialisation of supplies, reduced requirement of miscellaneous expenses etc. during the year. It was, however, noticed, that the explanations justify a total of net savings of Rs 2.10 crore under various Minor Heads pertaining to Major Head 2078, while the balance amount of Rs 206.92 crore was surrendered.

(c) Excess

There was a marginal excess expenditure of Rs 0.07 crore in the voted section under Grant No. 17-Army which would require regularisation under article 115(1)(b) of the Constitution

3 Control over expenditure

(a) In the following cases, the entire amount of original Appropriations of more than Rs 10 lakh remained unutilised.

(Rs in lakh)

Grant No.	Minor Head	Sanctioned amount
20 Ordnance Factories	110-Stores	80.00
21 Capital Outlay		
Navy	050-Land	100.00
	202-Construction Works	10.00
Air Force	202-Construction Works	35.00

(b) Savings in excess of Rs 100 crore in Grant

The Public Accounts Committee in paragraph 1.24 of their 60th Report (Tenth Lok Sabha) presented in February 1994 commented on the sharp increase in savings as compared to the sanctioned provisions. The Committee desired that Ministry of

Finance should take appropriate measures to overcome the situation of large savings and desired that a detailed note in respect of savings in a Grant or Appropriation during each year, involving Rs 100 crore and above, be furnished to the Committee along with necessary explanatory notes.

Savings of Rs 209.02 crore against the total budget provision of Rs 4264.27 crore in the voted section of Grant No. 19-Air Force, thus, calls for submission of an explanatory note to the Public Accounts Committee.

4 Injudicious re-appropriation

In the following cases where reappropriation from/to various heads were made, there were savings/excess of more than Rs 5 crore, suggesting that re-appropriations made during the year were not assessed properly.

(a) Re-appropriation to heads without requirement

In the following cases, the original approved provisions were sufficient to meet the requirement and thus there was no necessity for reappropriation of funds to these Minor Heads:

(Rs in crore)

Grant No. and Minor Head	Original sanctioned provisions	Reappropriation	Actual Expenditure
19-Air Force			
101-Pay and Allowances of Civilians	163.63	(+) 3.49	161.82
800-Other Expenditure	62.00	(+) 4.17	59.75

(b) Re-appropriation from heads where expenditure was more than the balance provision

In the following cases the actual expenditure turned out to be more than the balance provision after re-appropriation from these heads.

(Rs in crore)

Grant No.	Sanctioned provision	Re-appro-priation	Final provision	Actual expenditure	Excess with refe-rence to final provision
17-Army					
108-Research and Development Organisation	983.33	(-) 3.63	979.70	998.89	(+) 19.19
109-Inspection Organisation	157.35	(-) 1.76	155.59	163.87	(+) 8.28
21-Capital Outlay on Defence Services					
Sub Major Head - 02 Navy					
205-Naval Dockyard	85.04	(-) 0.20	84.84	92.95	(+) 8.11
Sub Major Head -03 Air Force					
103-Other Equipment	505.82	(-) 54.78	451.04	464.53	(+)13.49

(c) Re-appropriation to heads where expenditure was less than the balance amount

In the following cases the amount of re-appropriation were not utilised fully.

(Rs in crore)

Grant No.	Sanctioned provision	Re-appro-priation	Final provision	Actual expenditure	Saving with refe-rence to final provision
20-Ordnance Factories					
110-Stores	1369.11	(+) 118.27	1487.38	1470.72	(-) 16.66
21-Capital Outlay on Defence Services					
Sub Major Head-04 Ordnance Factories					
799-Suspense	2.00	(+) 28.75	30.75	20.31	(-) 10.44
Sub Major Head-05 Research and Development Organisation					
111-Works	385.32	(+) 23.86	409.18	397.16	(-) 12.02

5 Persistent savings

'Persistent savings' were noticed in Grant No. 19-Air Force-Stores during last three years as indicated below:-

(Rs in crore)

Grant No. Minor Head	1993-94	1994-95	1995-96
19-Air Force			
110-Stores	15.93	65.88	281.72

6 Persistent excess

During the last three years there were persistent excess with reference to approved provision as per details given below :-

(Rs in crore)

Grant No.	1993-94	1994-95	1995-96
21-Capital Outlay Navy			
204-Naval Fleet	53.73	185.69	126.82

7 Losses awaiting regularisation

Despite mention in paragraph 8 of the Report No. 8 of 1995 of the C&AG, for the year ended 31 March 1994 regarding losses awaiting regularisation for more than one year, there is an increasing trend, as indicated below :

(Rs in crore)

Year	No. of cases	Amount
1992-93	1225	117.01
1993-94	1279	169.25
1994-95	1306	175.19
1995-96	1407	200.83

Action to review and settle these cases needs to be taken.

8 Outstanding claims/dues

Mention was being made every year in the CGDA's certificate regarding outstanding claims/dues from Railways/Shipping corporations etc. Review of such cases shows an increasing trend as indicated overleaf :

(i). The amount due for recovery on account of special flights/airlifts provided by the Air Force authorities increased from Rs 61.52 crore to Rs 66.46 crore showing an increase of eight *per cent*.

(ii). The claims outstanding against Railways/shipping corporation/Airways increased from Rs 29.34 crore to Rs 32.47 crore showing an increase of 11 *per cent*. The oldest item relates to 1964-65.

(iii). Dues outstanding for recovery in respect of private individuals and institutions rose from Rs 20.66 crore to Rs 23.86 crore showing an increase of 15 *per cent*. The oldest item relates to 1963-64.

(iv). The amount due for recovery in respect of work done or stores supplied to Civil Departments increased from Rs 14.32 crore to Rs 24.64 crore showing an increase of 72 *per cent*.

CHAPTER II

Ministry of Defence

9 Non-utilisation of armoured recovery vehicles for want of spares

Assets worth Rs 12 crore were lying idle for the last six years which could not be put to use for intended purpose due to delay in procuring its spares.

In order to reduce wear and tear of military hardware, 37 ARVs were procured at a cost of Rs 12 crore during 1985-87 for towing tanks during peace-time. All the ARVs became non-operational from 1989-90 due to non-availability of four types of spares. For procurement of required spares to make the ARVs road worthy, CAFVD, Kirkee had been regularly corresponding with the Army HQ between 1985 and 1993. Finally in February 1995, the Ministry concluded a contract with a foreign firm for procurement of these spares at a cost of Rs 103.56 lakh (US $ 336020.90). The supply was completed in December 1995.

It is, thus, evident that on account of delay in procuring spares, ARVs worth Rs 12 crore were lying idle for six years and could not be utilised for the purpose for which these were acquired. The extent of wear and tear suffered by expensive military hardware for want of ARVs during this period was not known.

The matter was referred to the Ministry in June 1996; their reply was awaited as of December 1996.

10 Non-recovery of general damages from defaulting firms

Delay in computation and recovery of general damages allowed the defaulting firms to enjoy financial advantage of Rs 2.10 crore for a period exceeding one year.

During April 1988 to November 1990, Army HQ had placed orders on three firms for supply of camouflage equipment valued at Rs 2.17 crore. But orders valuing Rs 1.77 crore were cancelled between March and August 1992 at the risk and cost of the defaulting firms because of their failure to supply the equipment.

Risk purchase tender enquiries were received in 1992 and after evaluation, Tender Purchase Committee (TPC) decided to reject all the tenders due to high rates quoted by the firms compared to the last purchase price. TPC instead decided to claim only general damages from the defaulting suppliers after repurchase of the items.

Supply orders were accordingly placed on three firms in October 1993 for supply of the balance requirement at a total cost of Rs 3.87 crore. This involved an extra expenditure of Rs 2.10 crore in respect of the cancelled supply orders, not executed by the defaulting firms.

The procurement of the balance quantity of camouflage equipment was completed between February 1995 and July 1995 but the general damages have not yet (May 1996) been computed and recovered from the defaulting firms, who continue to enjoy a financial advantage of Rs 2.10 crore for the last one year.

The matter was referred to the Ministry in June 1996 ; their reply was awaited as of December 1996.

11 Unnecessary procurement of engines

Failure to assess the requirement of the diesel engines properly resulted in unnecessary expenditure of Rs 2.09 crore.

Pursuant to a supply order placed by DDPS in December 1991, 124 diesel engines at the unit cost of Rs 2.55 lakh were received in an ABW by December 1992 for overhaul of KRAZ vehicles of pre-1969 vintage. It had been found that upto December 1994, 42 of the 124 engines procured could be utilised while 23 were despatched to various Ordnance Depots (ODs) and the balance 59 were lying in stock at ABW. The prospect of further utilisation of these engines was doubtful as there was no programme of overhaul of the vehicles upto 1998-99.

While the prescribed life of the KRAZ vehicles was not known, an amount of Rs 2.09 crore was found to have been extravagantly spent on procurement of 82 engines which were lying unutilised at ABW and ODs. Failure to assess the requirement of the engines properly had, thus, resulted in unnecessary expenditure of Rs 2.09 crore.

The matter was referred to the Ministry in June 1996; their reply was awaited as of December 1996.

12 Excess provisioning of steel cases

Lack of control on procurement of steel packing cases for engines resulted in avoidable expenditure of Rs 1.08 crore upto June 1993 and Rs 38.62 lakh on subsequent order.

Spare Engines for Willy's Jeep, packed in wooden cases were being procured from the manufacturer upto August 1988, when a change of policy was made by CQA (Vehicles) Ahmednagar. It was decided to introduce steel packing cases and cradles, capable of withstanding a minimum of ten transportations. As per policy of Army HQ, the cases were required to be provisioned initially on 10 *per cent* of total vehicles inducted into service and later on the basis of wastages.

COD, Dehu Road informed Army HQ in December 1990 that 2620 steel cases already procured alongwith spare engines upto August 1990 were more than 10 *per cent* of total holding of vehicles and sought for their advice in the matter of further procurement of steel cases. As Army HQ did not respond, COD procured 1140 more steel cases between February 1991 and June 1993 at a cost of Rs 42.58 lakh alongwith engine assemblies.

Eventhough COD was aware that the procurement of steel cases should be limited to 1053, being 10 *per cent* of the total vehicle holding as per policy, they procured a total 3760 numbers upto June 1993. The cost of the excess procurement of 2707 numbers worked out to Rs 1.08 crore. Inspite of such considerable excess holding, COD placed another order for 746 steel cases in December 1994 at a cost of Rs 38.62 lakh. The materialisation of this order was not known (May 1996).

It is, thus, evident that failure to exercise proper control at the time of placement of orders resulted in an avoidable expenditure of Rs 1.08 crore upto June 1993. The amount of avoidable expenditure would go up by Rs 38.62 lakh on materialisation of the supply order of December 1994, unless appropriate action was taken in time.

The matter was referred to the Ministry in June 1996; their reply was awaited as of December 1996.

13 Delay in moving newly raised platoons

Delay in receipt of stores, equipment and arms and ammunition resulted in delay in movement of newly raised 47 DSC platoons for two to twenty months leading to unproductive expenditure of Rs 1.24 crore on their pay and allowances.

DSC Centre, Cannanore (Centre) was designed to train upto ten newly raised platoons at a time. The task of raising new platoons was assigned by Army HQ to the Centre stipulating the dates by which the raising of the platoon should be completed and the locations where they would be deployed. Arms and ammunition required for these platoons were released by the ordnance branch of Army HQ while the Ordnance Depots were directed to meet the demands of these new platoons in respect of scaled items.

Between September 1991 and October 1995, 47 DSC platoons completed their training but could not move out of the Centre to their locations by the stipulated dates owing to delay in receipt of the stores, equipment and ammunition. These platoons had, therefore, to be retained at the Centre for periods ranging from two to twenty months. The expenditure on pay and allowances of the troops alone during the forced idling worked out to Rs 1.24 crore. The Centre stated, in March 1996, that such delays not only caused administrative problems but also had a demoralising effect on an otherwise viable force.

The matter was referred to the Ministry in May 1996 ; their reply was awaited as of December 1996.

14 Loss due to improper despatch of imported equipment

Failure of CAFVD, Kirkee to raise timely discrepancy claim on a foreign supplier for deficient items of an equipment and subsequent inability to procure them resulted in 36 sets of equipment imported at a cost of Rs 1.06 crore lying in an incomplete and unserviceable condition for the past eight years.

Against a contract concluded by the Ministry in March 1987 with a foreign country, 227 sets of Mine Sweeps (equipment) valued at Rs 6.66 crore were received by EHQ, Bombay between November 1987 and April 1988. All these sets were meant

for CAFVD, Kirkee, but EHQ despatched 116 sets wrongly to COD, Agra who backloaded the consignments by rail to CAFVD from February 1988 onwards.

On receipt of the consignments, CAFVD noticed that the crates containing the equipment, were badly damaged and the items scattered inside the wagon; hence checking the correctness and segregating into sets had become difficult and time consuming for them. CAFVD, therefore, requested Army HQ in August 1988 to approach the supplier for relaxing the time limit of 110 days from the date of issue of bill of lading as provided in the contract for preferring discrepancy claims. Army HQ did not agree to the proposal and directed CAFVD in September 1988 to liaise with EHQ to expedite the despatch so that discrepancy reports could be raised within the stipulated time. Ultimately, a time barred discrepancy claim for Rs 1.09 crore raised by CAFVD in March 1989 for 30 deficient components in 60 equipment was rejected by the supplier in May 1989.

A Board of Officers, assembled in October 1993 assessed the cost of 33 deficient items as Rs 1.61 lakh. The reasons for differing number and value of deficient items between the claim preferred in March 1989 and that assessed in October 1993 were not made available.

As the deficient components were yet to be procured (December 1995) at the assessed cost of Rs 1.61 lakh, 36 sets imported at a cost of Rs 1.06 crore were lying in CAFVD for the past eight years in incomplete and unserviceable condition. No CI to find out the reasons for wrong despatch and damage/loss in transit was held.

The matter was referred to the Ministry in April 1996; their reply was awaited as of December 1996.

15 Over-provisioning of seats and cushions for vehicles

Despite a downward revision in requirement and default by the supplier to supply within the stipulated delivery schedule, CAFVD allowed the contractor to complete supplies beyond the scheduled date which resulted in over- provisioning of inventory valued at Rs 77.90 lakh.

On the basis of Provision Review (PR) carried out in April 1988 by CAFVD, Kirkee to assess the requirement of seats and cushions for a special type of vehicle for the next five years, DDPS placed nine supply orders (SOs) in July 1990 for a total amount of Rs 165.66 lakh on a firm. As per terms and conditions, supplies were to be completed by February 1991. While supplies in respect of four of the nine SOs were

completed in time, the firm failed to commence supply in respect of the balance five SOs by February 1991.

Another PR for the aforementioned items carried out in June 1991 to assess the requirement upto March 1996 revealed that items covered by the above mentioned five SOs alongwith the existing stock would result in a very large surplus which would cater for the requirements for the next 28 to 171 years. The details of the items covered by these five SOs as well as the assessed surpluses are shown in the Annexure I.

As the firm had not commenced supply in respect of the aforesaid five SOs even upto the time of PR of June 1991, the obvious course of action was to cancel/foreclose these SOs to prevent unwarranted stockpiling of the items. But on the ground that the firm had purchased raw materials on the basis of all the five SOs, no action to cancel/curtail the orders was taken by DDPS. Instead the delivery period was extended, as a result of which the entire quantity against the aforementioned five SOs valued at Rs 77.90 lakh were supplied and received by CAFVD between August 1991 and November 1993.

CAFVD contended, in December 1995, that the items procured were not perishable and were kept in air-conditioned storage space. Moreover, the surpluses had also been offered to an OF for exploring the possibility of their utilisation. Although such material would have obviously outlasted the life of the vehicles for which these were procured, no action was taken to avoid the totally unwarranted blocking of Rs 77.90 lakh as well as expensive air-conditioned storage space in spite of adequate opportunity to do so.

The matter was referred to the Ministry in May 1996 ; their reply was awaited as of December 1996.

16 Follow up on Audit Report

Despite the directives of PAC, the Ministry failed to furnish remedial/corrective action taken notes on Audit Paragraphs in time.

Lok Sabha Secretariat issued instructions in April 1982 to all Ministries requesting them to furnish notes duly vetted by Audit, indicating remedial/corrective action taken by them to Ministry of Finance (Department of Expenditure) on various paragraphs, contained in the Audit Reports, as soon as these were laid on the Table of the House.

The PAC reviewed the position of submission of ATN during 1995-96 and observed inordinate delays and persisting failure on the part of large number of Ministries in furnishing ATNs on audit paragraphs. The PAC, in their One Hundred Fifth Report of 1995-96 (10th Lok Sabha) viewed it seriously and directed all Ministries to furnish ATNs in the prescribed format in respect of all outstanding audit paragraphs included in the Report of C&AG upto the year ended 31 March 1993 within three months from the date of presentation of their Report irrespective of their selection by the PAC for detailed examination. The PAC further recommended that ATNs in future should be submitted within three months from the date of communication of selection of subjects.

In pursuance of the recommendations of the PAC, Ministry of Finance (Department of Expenditure) issued instructions in September 1995 and March 1996 to all the Ministries to tone up their existing system and evolve effective machinery with a view to timely submission of ATNs to the Committee.

Review of ATNs outstanding for more than three months on paragraphs included in the Report of the C&AG, Union Government, Defence Services (Army and OF) disclosed that the Ministry did not submit ATNs on 105 paragraphs as per table below as of December 1996 despite the instructions of the PAC. The details of the 105 cases are given in Annexure II.

Audit Report No. and Year	No. of paragraphs on which ATNs were awaited	ATNs not received at all	Final ATNs awaited
Audit Report Union Government, Defence Services for the year 1985-86	2	-	2
2 of 1988	3	-	3
2 of 1989	4	1	3
12 of 1990	7	1	6
8 of 1991	10	-	10
8 of 1992	10	2	8
13 of 1992	2 (Part I & II)	1 (Part II)	1 (Part I)
14 of 1992	1	1	-
8 of 1993	17	4	13
8 of 1994	22	1	21
8 of 1995	27	5	22

Further, though the selection of the paragraphs from Report No. 8 of 1996 for detailed examination by the PAC was communicated on 01 October 1996 and ATNs were to be furnished by December 1996, the Ministry has not furnished ATNs in respect of 40 paragraphs as per details in Annexure III.

CHAPTER III

ARMY

17 Procurement and utilisation of medical stores and equipment

17.1 Introduction

The Armed Forces Medical Services are entrusted with the responsibility of providing comprehensive medical care to service personnel as well as ex-servicemen, their families and dependents.

17.2 Scope of audit

In order to address the issues of procurement, issue and utilisation of medical stores and equipment , test check of records was conducted in DGAFMS New Delhi, four AFMSDs at Pune, Bombay, Lucknow and Delhi, two AMSDs, three FMSDs and five military hospitals at Chandigarh, Ambala, Calcutta, Jalandhar and Jammu for the period from 1991-92 to 1995-96 during February-June 1996.

17.3 Organisational set up

Supply of medical stores and equipment is arranged through four AFMSDs, two AMSDs and six FMSDs which function under the control of DGAFMS.

17.4 Highlights

After decentralisation of purchases from DGSD, the Ministry took twenty months to identify the items for rate contracts. Further delay by DGAFMS to conclude rate contracts led to local purchase of medicines at an extra cost of Rs 27 lakh in two depots. Rate contracts for 46 items were also not concluded as of March 1996.

(Paragraph 17.6.2.1)

Incorrect advice of CGDA to book the expenditure on local purchase to central purchase deprived DGAFMS of a vital management information to control local purchase.

(Paragraph 17.6.2.2)

DGAFMS procured orthopaedic systems costing Rs 7.75 crore beyond his financial powers and that too without inspection .

(Paragraph 17.6.3.1)

Delayed action of DGAFMS to intimate the medicines deleted from the approved list resulted in purchase of such medicines costing Rs 48.93 lakh.

(Paragraph 17.6.3.2)

DGAFMS failed to monitor replacement or recovery of cost of prematurely deteriorated drugs. While full details of such drugs were not available with them , cost of such drugs awaiting replacement noticed in test check was over Rs 29.56 lakh.

(Paragraph 17.5.1.1)

Medicines costing Rs 14.55 lakh already consumed, were found unfit on receipt of test report of control samples.

(Paragraph 17.5.2)

Life expired and short life drugs costing Rs 9.19 lakh were issued in violation of Drug and Cosmetics Act. AFMSD Bombay was holding life expired drugs costing Rs 35 lakh.

(Paragraph 17.5.3.1 and 17.5.3.2)

Medical equipment costing Rs 90 lakh became defective within warranty period. DGAFMS failed to enforce the warranty clause on the suppliers. As a result, the equipment were lying in defective state as of November 1996.

(Paragraph 17.5.4)

Surgical items costing Rs 2 crore were awaiting disposal for the last 49 years, in AFMSD Lucknow.

(Paragraph 17.5.5)

17.5 Management of medical supplies

17.5.1 Non -recovery / replacement of medicines unfit for consumption

17.5.1.1 Centrally purchased medicines

Medical stores and equipment which are purchased centrally, are subject to pre-inspection by QAE functioning under overall control of DGQA. Control samples are drawn and sent to CQA for determining the standards of inspection by QAEs and detection of premature deterioration of stores. If premature deterioration is detected, DGAFMS is responsible for obtaining replacement/ recovery of such stores from the supplying firms in terms of supply orders .

Scrutiny of records of DGAFMS disclosed that 76 cases of centrally purchased drugs which were declared unfit mainly due to difference in test reports of QAEs and CQA were awaiting recovery / replacement. Of these, 50 cases were outstanding for more than six years and the oldest case pertained to the year 1972. The cost of 36 consignments was Rs 14.63 lakh. DGAFMS did not furnish the cost of remaining ones. In addition, drugs costing Rs 14.93 lakh were also awaiting replacement in AFMSD Bombay, Lucknow and Delhi.

DGAFMS stated, in September 1996, that delays in recoveries / replacements were on account of lengthy procedures and procrastination by the firms .It added in November 1996 that money had been recovered in seven cases during 1996 but the amount recovered from the firms was not indicated. The argument was not tenable since as per procurement procedure, DGQA had to certify the capacity of the firms as well as the quality of medicine. Thus, in the first place the medicine should not deteriorate if the system of quality inspection was reliable and competent. Further, if the firm failed to replace the defective stock, the DGAFMS could have recovered the cost thereof from their pending or subsequent bills. The matter needs to be investigated, besides streamlining the procedure for recovery/replacement by way of amendment to the terms and conditions of supply order and strengthening the internal control and monitoring mechanism.

17.5.1.2 Locally purchased medicines

Besides the medicines supplied against central purchase, the medical stores depots and hospitals also purchased medicines locally to meet their emergent requirement. These medicines were also subject to Post Laboratory Test (PLT). Test check disclosed that locally purchased medicines costing Rs 2.19 lakh, held in depots

at Bombay, Delhi and Lucknow and toxic medicines costing Rs 3.24 lakh held in military hospitals at Chandigarh, Jalandhar and 55 and 60 FMSDs for the period ranging from November 1976 to January 1996, were declared unfit in PLT. These were awaiting recovery / replacement from the supplying firms as of November 1996.

17.5.2 Consumption of sub-standard medicines

Scrutiny of records further revealed that centrally purchased medicines costing Rs 10.19 lakh which were found unfit in test of control samples, were issued by AFMSD Lucknow and Delhi which were issued to patients prior to receipt of the test reports. Similarly, medicines costing Rs 4.36 lakh locally purchased by AFMSD Lucknow and later declared unfit in PLT, were also found to have been issued. Such instances of consumption of sub-standard medicines evidently entailed health risk. To overcome similar possibility/problems in respect of centrally purchased medicines, it was decided in January 1996 to release the stores only after receipt of reports on control samples. However, since it was not applicable to locally purchased medicines, the risk of consumption of sub-standard medicine in future can not be ruled out. Appropriate system /control to avoid such instances of consumption of locally purchased sub -standard medicines is therefore urgently called for.

17.5.3 Life expired medicines

17.5.3.1 Issue of life expired medicines

Though DGAFMS instructed the depots in September 1989 to issue drugs with sufficient residual life , ten instances of issue of life expired drugs costing Rs 3.35 lakh and fifteen instances of issue of drugs costing Rs 5.84 lakh with very little left over shelf- life ranging from one month to six months were noticed in Bombay depot. The latter included one lakh vials of Streptomycin injection costing Rs 5.20 lakh issued to Military hospital Secunderabad and Command hospital Air Force, Bangalore with left over life of 47 to 107 days. This was in contravention of Drugs and Cosmetics Act. Whether such drugs were actually used on the patients could not be ascertained.

17.5.3.2 Holding of life expired drugs

Test check in 55 FMSD disclosed that two types of drugs valued at Rs 5.28 lakh purchased in 1983 were not issued/utilised within their life of five years. Subsequently , in the loss statement prepared by the depot in July 1994, they cited the reason for loss as being due to reduction in life cycle of the drugs from six- ten years to five years. Since loss of these two drugs was pointed out by Internal Audit in March 1991, it is evident that depots / DGAFMS did not keep watch on the utilisation of drugs within their shelf-life. Similarly , AFMSD Bombay held stock of 109 drugs costing Rs 35 lakh whose life had expired .

17.5.4 Improper maintenance of medical equipment

DGAFMS procures equipment centrally and supplies them to the consignees. The machines were generally procured with a warranty period of two years from the date of their installation in functional state . Test check of records of DGAFMS office revealed that some of the machines became defective within warranty period. These were not repaired / replaced by the suppliers and were lying in defective condition. As the warranty provided by the supplier was not safeguarded by bank guarantee/performance bond, it could not be enforced and the hospitals were deprived of use of such equipment. A few illustrative instances are given below:

(a) DGAFMS procured five sets of imported computerised haemodialysis machine required for dialysis including spares from firm 'A' at a total cost of Rs 18.28 lakh in October 1990 for Command hospital Calcutta, Lucknow, Bangalore, Pune and Naval hospital Asvini, Bombay. All the five machines became defective after being used for two to six months only and were lying in a non-functional state as of September 1996.

DGAFMS did not conduct enquiry into the reasons for failure of the machines, particularly, the failure of the inspecting authority. DGAFMS stated in September 1996, that inability to detect the defects during inspection was being ascertained and that no alternate arrangements existed in these hospitals at present.

DGAFMS procured Platelet Storage System at a cost of Rs 2.93 lakh from the same firm during December 1994 inspite of poor performance of dialysis equipment supplied by them and their failure to respond to request for repair/replacement. Thus, the expenditure of Rs 18.28 lakh incurred on procurement of the machines proved to be unfruitful, besides depriving the patients of important facility. DGAFMS stated , in November 1996, that it was proposed to deploy the machines closer to the

maintenance base of firm 'A' in order to make as many machines functional as possible.

(b) DGAFMS procured six sets of imported Automatic Electrolyte Blood Gas Analyser in March 1991 at a cost of Rs 29.82 lakh from firm 'B' for installation in Command Pathology Laboratory at Pune, Calcutta, Lucknow, Delhi, Command hospital, Bangalore and Naval hospital Asvini, Bombay. Of these, five machines had been lying in non-functional state since their procurement as of November 1996. DGAFMS did not intimate the state of the sixth machine. Firm 'B' had failed to rectify the defects inspite of repeated attempts. Despite this, DGAFMS had not invoked the warranty clause for replacement of the equipment or refund of the amount.

(c) DGAFMS procured five sets of ambulatory cardiac monitoring system at a cost of Rs 25.15 lakh, from firm 'C' in August 1984 and installed at Command hospital Pune, Calcutta, Bangalore, Army hospital Delhi and Naval hospital Asvini, Bombay. Of the five sets, one set installed at Bangalore became unserviceable in August 1992 and was declared beyond economical repairs. DGAFMS stated in November 1996 that equipment installed at Calcutta and Bombay also did not function as per expectations. Thus, three machines costing Rs. 15.09 lakh did not render any useful service.

(d) DGAFMS purchased eight `X' Ray plants in April 1990 at Rs 4.73 lakh each from firm 'D'. Out of these, one plant commissioned in August 1993 at 92 Base hospital developed malfunction after four months which was yet to be rectified as of November 1996. Another plant received in June 1991 and inspected in May 1993 in military hospital Ambala also developed defects in June 1995. The machine was yet to be made operational as of November 1996. Another plant installed in military hospital Jodhpur in May 1991 had not been inspected as of April 1995. However, the machine was also non-functional as of November 1996. The DGAFMS stated in November 1996 that firm 'D' had given an assurance to undertake necessary action.

(e) In command hospital Calcutta , five pieces of medical equipment were lying in defective condition awaiting replacement. Out of these, one blood gas analyser received in 1983 was not even installed as of October 1996, one haemodialysis machine and an optic gastroscope had remained non- functional since its receipt in December 1983 and April 1984 respectively. A cardiac monitoring system and a long term ventilator developed defects within two years of their procurement. The value of these three out of five equipment was Rs 18 lakh. The cost of blood gas analyser and

haemodialysis machine was not known. DGAFMS stated ,in November 1996, that action was being taken to get the machines functional.

17.5.5 Non disposal of surplus items

Over 700 surgical items costing approximately Rs 2.00 crore were held in AFMSD Lucknow since 1947. Orders for their disposal were not forthcoming from DGAFMS despite observations by Internal Audit during 1992.

17.6. Inventory control and management

17.6.1 Central and local purchase procedure

Provisioning for all authorised items was to be done periodically in a planned manner by making annual demand estimation. Powers for purchases based on approved scales and provision review were delegated only to DGAFMS upto Rs 50 lakh at a time. Local purchases were made to cater for stocking upto three months' requirements within available budgetary provisions. The powers of DGAFMS and Commandants of AFMSDs in regard to local purchase of items and equipment within the annual budget allocation was Rs 3.00 lakh and Rs 1.5 lakh respectively at a time.

17.6.2 Central procurement

17.6.2.1 Delay in finalisation of rate contracts

After decentralisation of central purchase by DGSD in December 1991, the Ministry identified 57 items for conclusion of rate contracts in October 1993. Tenders were invited for these items during 1994 but rate contracts for 11 items only were finalised in April- May 1995. Rate contract for others were not finalised as of March 1996.

Non-finalisation of rate contract by DGAFMS necessitated local purchase by the depots and hospitals. Test check revealed that due to delay in conclusion of rate contract, Bombay and Lucknow depots procured medicines locally costing Rs 2.22 crore during January 1992 to March 1995 at rates higher than those finalised in rate contracts, the financial implication of which worked out to Rs 25.80 lakh. Even after conclusion of rate contracts, both these depots continued to resort to local purchase of these items at the higher rates and incurred an extra expenditure of

Rs 0.93 lakh during April 1995 to March 1996. The situation in other depot and hospitals not checked by Audit should, therefore, be ascertained and the extravagant practice of local purchase, if resorted to, stopped.

17.6.2.2 Irregular booking of expenditure

In the budget allotment of DGAFMS, two distinct detailed heads are provided for booking of expenditure on central purchase and local purchase of medicines. However, based on the advice of CGDA in July 1994 ,expenditure on local purchase of centrally purchased items due to emergency or administrative necessity and local purchase of proprietary items were debited to central purchase Head of Account even though they did not have powers for central purchase except under rate contract. DGAFMS started allocation of funds for central purchase to the depots from 1994-95 onwards. This advice of CGDA ,which was inconsistent with the description of expenditure, had resulted in distorting the expenditures on central and local purchase as considerable amounts debitable to local purchase had been booked under central purchase.

The incorrect advice of CGDA had deprived DGAFMS of a vital management information to control local purchase.

17.6.3 Irregularities in local purchase

17.6.3.1 Irregular procurement of new items

DGAFMS procured, between April 1995 and March 1996, 12 new imported orthopaedic systems costing Rs 7.75 crore from three firms during 1995-96 for modernisation of Orthopaedic Centres, although such procurement was beyond his financial powers The systems were not subjected to inspection by AHSP. Instead, DGAFMS entrusted the inspection to the consignees .

As per terms and conditions of supply orders, Customs duty exemption certificate was to be issued on proof of landing. It was, however, observed that exemption certificates were not issued resulting in payment of Customs duty. DGAFMS stated, in September 1996 that the certificates were not issued as these were not asked for by the suppliers. This contention was not tenable since this condition was included in the supply order itself.

DGAFMS further stated, in November 1996, that the items were not inspected by DGQA as value of individual items fell within the inspection powers of DGAFMS.

This contention was also not tenable as the delegated powers of inspection by the purchasing authority was with reference to the total contract value of each contract and had no relation to the cost of individual item.

17.6.3.2 Procurement of obsolete medicines

A Drug Review Committee recommended removal of certain items without substitutes from the vocabulary list in November 1992. However, DGAFMS took more than five months to intimate it to all concerned in April 1993. Despite this, DGAFMS procured obsolete medicines costing Rs. 7.02 lakh. Besides, the depots/units also purchased obsolete medicines worth Rs 41.91 lakh.

DGAFMS while accepting the facts, stated in June 1996, that obsolete items were procured due to lack of communication and remedial steps were being taken to avoid such lapses in future. No action to fix responsibility for the lapse was taken as of November 1996.

17.6.3.3 Local purchase by hospital at different rates

Test check of locally purchased medicines by three hospitals at Chandimandir, Ambala and Jalandhar under Western Command revealed wide variation in rates of the same medicines procured by these hospitals during January-March 1995. This involved an extra expenditure of Rs 4.59 lakh in purchase of 24 items of medicines compared to the lower rates at which these were purchased by other hospitals. As an illustrative example, following four medicines were purchased by Command hospital, Chandigarh military hospital, Ambala and Jalandhar at different rates as indicated against each :

(Rs per unit)

Name of medicine	Rate paid by CH Chandigarh	Rate paid by MH Ambala	Rate paid by MH Jalandhar
Inj.Gentamycin 80 mg vial	8.00	-	5.25
Inj. Omnatax	75.00	97.50	54.00
Gentamycin Eye drop	5.10	10.40	9.55
Syrup Cough Sedative	17.50	30.00	-

Since local purchase details were sent monthly by all the hospitals to DGAFMS, monitoring and feed back by the latter could have prevented this situation. DGAFMS admitted in November 1996 that some uniformity could be achieved on evolving a better /easier system for purchase.

The matter was referred to the Ministry in October 1996, their reply was awaited as of December 1996.

18 Management of defence land

18.1 Introduction and organisational set up

Though the strength of the Defence forces had not significantly increased since early sixties, the land holding of the Defence Services had increased approximately four times from 5.84 lakh acre in January 1960 to 22.24 lakh acre in March 1996. Director General ,Defence Estates (DGDE) assisted by Directors, Defence Estates (DDE) and Defence Estate Officers is responsible for management of above mentioned defence land. Defence Estates Officers are entrusted, *inter alia*, with the management of land in active occupation of Armed Forces, except those which are under the direct control of the military authorities. There are 29 Defence Estates Circles headed by Defence Estate Officers.

Apart from maintaining land records, Defence Estate Officer is also responsible for acquisition and disposal of land, leasing of temporarily surplus land for cultivation and other purposes, and control of encroachments.

18.2 Scope of audit

Test check of records relating to utilisation of defence land, disposal of surplus land, encroachments and upkeep of land records was conducted in 25 Defence Estates Circles during April - June 1996.

18.3 Highlights

Non-utilisation of 11,391 acre of defence land and use of 4431 acre for other than bonafide defence purposes indicates a need for rational use of available land.

(Paragraph 18.4.1.)

Delay in disposal of 17 airfields and 82 camping grounds declared surplus in 1980 led to encroachment on 1826 acre of defence land.

(Paragraph 18.4.2.1.)

Defence land and buildings were unauthorisedly used for commercial/welfare purposes without any revenue to Government. Rent and premium of an air-conditioned shopping complex Santushti at Delhi fetching Rs 39.78 lakh annually, and several shops at other stations were credited irregularly to Regimental Funds. Similarly, revenue from sale proceeds of land under cultivation or dairy farming was not credited to Government account.

(Paragraph 18.5.1)

Failure of Defence Estate Officer to renew/ execute leases for even upto 29 years led to non- recovery of Rs. 470 lakh on account of lease rent and premium.

(Paragraph 18.4.4)

Delay in acquisition of land resulted in cost escalation by Rs 46.52 crore. Besides, Rs 34 lakh paid to DC Jhansi in haste was yet to be recovered.

(Paragraph 18.7 and 18.8)

Army had to pay Rs 187.91 lakh to get their own land relinquished by the Railways. Despite acquisition of land for Air Force at Gandhi Nagar in 1981, an expenditure of Rs 154 lakh was incurred on hiring of accommodation till March 1996.

(Paragraph 18.6.1(a) and (d))

Lack of a proper system for identification of land and management of land records resulted in over-payment of Rs 11.38 lakh on account of recurring compensation for the land not actually taken over.

(Paragraph 18.4.3 (b))

Defence Estate Officers attributed encroachment on 635 acre of land to non-availability of staff for watch and ward and lack of funds for removal of encroachments.

(Paragraph 18. 9)

18.4 Land management

18.4.1 Optimisation of existing land use

The Ministry had decided in 1992 to assess land use by Armed Forces with a view to optimising the existing land holdings. Test check by Audit disclosed that 10,172 acre of land in eight DEO circles was lying unutilised. In addition, 1219 acre of land at two airfields was also lying unused for the last twenty nine and three years respectively. Expenditure of Rs 15.77 lakh *per annum* was incurred on the rental and upkeep of the two unused airfields. Further, 4431 acre of defence land was being used for non-military purposes in seven DEO circles.

Thus, there was an urgent need for rationalising and maximising the use of existing land holdings for bonafide defence purposes.

18.4.2 Surplus land

Defence forces are required to work out their requirement of land at the norms prescribed in the hand book of Cantonment Planning, 1947 for land acquired prior to 1972 and after applying a uniform reduction of 41.8 *per cent* for land acquired and proposed to be acquired after 1972. Test check, however, revealed that the defence forces were not following the guidelines for working out the land requirements uniformly resulting in large scale discrepancy with the figures of requirement of land worked out by DGDE on the basis of approved norms as under.

DEO Circle	Deficiency in acre projected by Army ***Excess (+) Shortfall(-)***	Requirement in acre worked out by DGDE ***Excess (+) Shortfall(-)***
Delhi	(-) 2576.75	(+) 2325.49
Secunderabad	(-) 2365.81	(-) 386.54
Bangalore	(-) 1677.20	(+) 1516.94
Pune	(-) 1942.00	(+) 9448.77

Projection of additional requirement of land inspite of surpluses or requirement in excess of area actually deficient as per the norms underscores the urgent need for enforcement of the revised land holding norms by Army to preclude any distortion in planning and control of land.

18.4.2.1 Delay in disposal of surplus land

The Ministry, in their ATN, on the recommendations of the Estimates Committee presented to the Lok Sabha in December 1993, stated that a study on optimisation of defence land including camping grounds, abandoned airfields, etc. would be finalised shortly. DGDE was requested for a copy of their study report and the action taken thereon in August 1996. DGDE, however, did not furnish the information/copy of the report as of November 1996.

29 abandoned airfields and 190 camping grounds were declared permanently surplus to defence requirements in 1980. Out of these, test check of 17 airfields comprising of 10,512 acre and 82 camping grounds comprising of 1743 acre revealed that none of these had been disposed of (June 1996). 1826 acre of these airfields and camping grounds was under encroachment as of July 1996.

18.4.2.2 Transfer of surplus land to State Governments

In the following cases, delay in transfer of land to State Governments and realisation of transfer value resulted in non-recovery of Rs 590 lakh.

(a) Camping grounds

The Ministry sanctioned transfer of Chopra and Basubati Pankhabari Camping grounds to Government of West Bengal in August 1986 and September 1994 at a transfer value of Rs 18.56 lakh and Rs 12.69 lakh respectively. However, DGDE had not effected transfer of the land as of June 1996. Four camping grounds were sanctioned for transfer to Government of Himachal Pradesh in 1993, but the transfer value of Rs 59.36 lakh was yet to be realised.

(b) Air fields

Test check of disposal of seven airfields in four circles disclosed that the DGDE failed to realise the transfer value of Rs 308 lakh from Government of Andhra

Pradesh and Eastern Coal Fields Limited for airfields at Tadepalligudam and Pandabeswar transferred in August 1987 and July 1990 respectively. Besides, Rs 46.13 lakh was not recovered from Government of West Bengal for transfer of Charra airfield in July 1990.

DGDE allotted two airfields at Chettinad and Ulundurpet to Tamil Nadu Civil Supplies Corporation (TNCSC) in February 1985 for four months only. The airfields continue to be under unauthorised occupation of TNCSC since then. DGDE had neither renewed the agreement nor realised any licence fee/transfer value as of November 1996.

Airfields consisting of 634.79 acre of land at Bishnupur and Bellari valued at Rs 28 lakh and Rs 117 lakh, as per the proposal for disposal initiated in April 1982 and July 1985 respectively, were yet to be transferred to the respective State Governments as of November 1996.

18.4.3 Land records

Defence Estate Offices are responsible for maintaining General Land Register in which all mutations are recorded. Test check disclosed instances of disposal of defence land by private parties, mutations of lesser areas of land in civil revenue records and incorrect identification of defence land as under.

(a) Land Register of DEO, Calcutta indicated an area of 359.50 acre of Mudhaiganj airfields acquired in 1944, whereas the revenue records indicated an area of 301.37 acre only. DEO failed to reconcile the discrepancy. The survey report of 1973 furnished by DEO Calcutta to DDE revealed that the area of land actually available was 315.87 acre. The latter, however, instead of advising DEO to get the remaining 14.50 acre mutated in revenue records, directed in November 1981 that only 301.37 acre of land should be treated as defence land. Thus, not only the difference of 58.13 acre between the land holding shown in defence records have been forgotten, DDE has ignored 14.50 acre of land which is in its actual possession.

(b) Rs 650 lakh was paid towards recurring compensation at the rate of Rs 38.28 lakh *per annum* for 918.2 acre of requisitioned land at Kota for the period between September 1976 and March 1996. While Government decided, in February 1995, to acquire the land rather than to continue with its requisition, a physical survey of the land revealed availability of only 903.323 acre as against 918.26 acre for which recurring compensation was being paid. This had not only resulted in an over payment

of Rs 11.38 lakh on pro-rata basis but also points towards failure of DEO to measure the land correctly before taking possession.

(c) Instead of fencing 23.80 acre of defence land, private land measuring 31.645 acre was erroneously fenced by an Ammunition Depot at Dappar. While 23.80 acre of defence land lying unutilised since 1967 was proposed for disposal in 1994, an assessed amount of Rs 2.78 lakh is to be paid as rent for 31.645 acre of private land erroneously fenced and utilised from 1967 to April 1995.

(d) Defence land measuring 294 bighas and 14 biswas at Patiala was sold by Punjab Government to a co-operative society in 1956. DEO failed to notice it for 12 years until 1968, when an objection was raised. The issue remained under litigation between Punjab Government and the Society till 1973 when an appeal filed by the former was rejected. Despite the opinion of Ministry of Law in 1974 for filing a title suit, DEO failed to take any action as of May 1996.

(e) Mutation of 733 acre of land acquired at Banbassa between 1963 and 1966 was yet to be done as Government sanction for transfer value was awaited as of August 1996. Similarly at Hempur, out of 4015.78 acre of land acquired for Remount Training School and Depot in 1966 at a cost of Rs 28.81 lakh, only 3767.67 acre was mutated in favour of the Ministry in 1995 leaving a deficiency of 248.11 acre as of June 1996. DEO has no clue to the location/title of the remaining land.

18.4.4 Management of leases

Land which is not immediately required for defence use, are given on lease, which promotes better management of defence land, besides raising revenue for Government. The position of demands for rent, term of leases etc. in regard to building sites, agricultural and other land is to be recorded in DEO's Land Revenue Register. DEOs are to send their report to DDE of the commands concerned. Scrutiny by Audit, however, disclosed that Estate Officers did not follow the system uniformly. Several cases came to notice where lease period had expired but defence land continued to be under the possession of the former lessees without renewal of leases/revision of lease rent.

The position with regard to leasing out of land was test checked in nine DEOs. It disclosed that around Rs 470 lakh was outstanding for recovery for 2,932 acre of land as of June 1996. Besides, the details of outstanding rent for 103 acre against 26 expired leases for agricultural purposes was not readily available.

A few instances illustrative of non-renewal/non-conclusion of leases and handing over of defence land to private parties without execution of lease , noticed in test check, are given below:

(a) Non-renewal of lease

Rent for 21.25 acre land leased to Defence Services Officers Institute Delhi (DSOI) had not been recovered after expiry of lease in February 1994. As per the terms and conditions of the lease, the lessee cannot utilise/sublet the premises for commercial use. However, in contravention of the conditions of lease, DSOI had sublet accommodation for commercial use to a bank and shops. This calls not only for realisation of lease rent at the prevailing commercial rate for the premises used for commercial purposes from the DSOI but also a review of lease to this institute.

(b) Similarly, in violation of the lease agreement, Defence Services Club at Kanpur has sublet the premises including 2.47 acre of land to a nursery and for shops and marriages. The lease with the club had not been renewed for the last 15 years. The DEO has failed in his efforts to either renew the lease at prevailing rate or its termination since the club has chosen to ignore his requests. DDE had not responded to repeated suggestions of the Defence Estates Officer to find a solution to the unauthorised occupation and use of the defence property by the club.

Lease for one bank and two private parties operating petrol pumps on 0.83 acre of defence land at Delhi expired in 1985 and 1991.

An outstanding rent of Rs 73.89 lakh as per Standard Table of Rents (STR) from the club and the other three lessees was yet to be recovered.

(c) The leases of land measuring 0.25 acre in possession of IOC at Lucknow and 0.025 acre at IOC Baroda were not renewed since 1978 and 1981 respectively resulting in outstanding rent of Rs 39.34 lakh upto May 1996.

(d) Similarly, 0.025 acre of land at Lucknow was leased to an Ex-Captain in 1976 for running a cooking gas agency and storing gas cylinders for five years. While the annual rent and premium were enhanced during renewal of the lease, the lessee represented to the Ministry and stopped payment from June 1981 onwards. The eviction proceedings against the lessee were stayed by the Ministry in 1985 and the final decision was awaited as of July 1996. The outstanding rent in this case amounts to Rs 12.57 lakh upto July 1996.

(e) Leases in respect of 2987 acre of land leased out for agricultural purposes in Rajasthan, Meerut, Agra, Jabalpur and Lucknow circles have not been renewed. The land continued to be under unauthorised occupation of former lessees and the total

outstanding rent awaiting recovery in four circles was Rs 88.83 lakh, bulk of which was outstanding since 1964. The outstanding rent in respect of Meerut circle was not known.

In Pune circle, an amount of Rs 3.39 lakh was outstanding on account of rentals in respect of lease for agricultural as well as building sites.

(f) In Aurangabad, 456.6 acre of land was occupied by private parties since 1903 without any lease agreements. In Dehu Road cantonment, 914.7 acre of land was allotted to various persons for cultivation during the year 1949-50 but leases were executed during 1960. Leases were due for renewal in 1965 but were not renewed.

(g) 8.36 acre of land was sanctioned to be leased to Sports Authority of Andhra Pradesh (SAAP) and another 15.3 acre to Hyderabad Cricket Association (HCA) in 1992 at a rent of Rs 13.88 lakh *per annum* and premium of Rs 196 lakh. However, no lease agreements were concluded although the land had been in possession of SAAP and HCA resulting in non-recovery of Rs 251.80 lakh from 1992 to 1996. SAAP had, in turn, let out part of the land to private parties for commercial purposes and had reportedly collected an amount of over Rs 7.96 lakh

18.5 Unauthorised use of land

18.5.1 Commercial use of land.

As per orders issued by the Ministry in 1976, the rent of Government land and buildings is to be recovered from the private contractors and credited toGovernment Account. DEOs were asked in 1995 to execute lease for such land at commercial rent and premium.

In the following instances when land was unauthorisedly used for commercial, sports and educational purposes in violation of the existing Government orders, substantial loss of revenue was noticed by Audit, besides breach of agreement by the lessees.

(a) An existing defence building located at race course in Air Force Station, New Delhi was converted into a shopping complex by carrying out special repairs out of the Regimental Funds without authorisation from Government. 26 air-conditioned shops owned by private individuals including a restaurant were functioning in this building now named as ***"Santushti complex"***. As per Regulations for MES, additions/ alterations to public buildings are to be done through the agency responsible for its maintenance i.e. MES. In this case, the unauthorised construction/modification took

place under supervision of Air Force authorities by dismantling Government assets like roads, paths, walls, pavements, etc. including removal of a developed garden on 3500 square metres of land. While Air Force realised Rs 41.02 lakh from the allottees, Rs 39.78 lakh was unauthorisedly appropriated to Regimental Funds and only 1.24 lakh was credited to Government revenue. This was an instance of gross misuse of defence estates for purposes other than bonafide use. It establishes that this property was not required by the Air Force Station and therefore, it should be surrendered to MES. This being one of the most premium spots in New Delhi, the market rent and premium should have been charged from allottees and credited to Government account.

(b) Similarly, despite existence of two authorised markets in Delhi Cantonment, shops run by Engineer Regiment, CVD, ASC, EME workshop are operating near the main station canteen in the area, which itself was located in a defence building. Each of four private parties was paying monthly rent of Rs 10,000 and one party was paying Rs 8500 which was unauthorisedly credited to Regimental Funds.

(c) At Bangalore, a shopping complex comprising of CSD extension counter, ration issue stand, vegetable/fruit shop and a beauty parlour were unauthorisedly established out of Regimental Funds in survey No. 46 at RSI complex without Government sanction. The complex had not been transferred to MES as of July 1996, in spite of observation of Audit in 1993. No rent and premium were being recovered for the complex.

(d) Land measuring 0.25 acre at Shillong was sublet in June 1995 to private parties by an Area HQ for running an open air cafe subject to sharing 25 *per cent* of daily sale and a snacks parlour cum public call office on a monthly rent of Rs 3675. However, no revenue was being credited to Government. The rent of these plots was assessed by DEO at Rs 27,936 in July 1996 and reported to DGDE for advice.

(e) Station HQ Jaipur, Nasirabad and Alwar leased out defence land for shopping centre/shops but no revenue was being credited to Government accounts.

(f) A complex at Bangalore was being used by AWWA since December 1990 for commercial purposes. Instead of commercial rent, a monthly rent of Rs 2.30 per square metre was being recovered. AWWA at Ahmedabad has also been using defence land and buildings for unauthorised commercial purposes without paying rent and premium.

(g) In June 1995, the Ministry accorded ex-post-facto sanction for use of defence land for faujimela by AWWA Ahmedabad during 1991 and 1992 on payment of Rs 1.43 lakh. However, the amount was yet to be realised by the DEO as the local Military Authority was contesting the recovery and the Ministry had failed to ensure compliance to its orders as of November 1996.

(h) Commandant, Infantry School, Mhow, permitted running of a leather factory in the school in April 1990 without Government sanction. Besides, he had not recovered the licence fee aggregating to Rs 26.36 lakh. Licence fee for land in addition to the building had not been fixed during the last six years as of March 1996.

(i) Commandant, Grenadier Regimental Centre Jabalpur (GRC) sought permission in 1992 for opening a vocational training centre under their aegis. However, without waiting for the clearance of Army HQ, Station HQ allotted 2.19 acre land and assets thereon to GRC. The commandant inaugurated the vocational training centre and a restaurant on 21 April 1994, the same day on which Army HQ refused permission and instructed Central Command not to go ahead with the project. The Commandant GRC failed to stop the use of the defence property in disregard of the orders of Army HQ.

18.5.2 Unauthorised use of defence land for golf and other activities.

The following illustrative cases detected in test audit show the extent of unauthorised use of defence land.

(a) In Secunderabad, a golf course measuring more than 100 acre was on a land which was shown to be accommodating parade ground and barracks in their records. No rent had been recovered.

(b) In Delhi, a golf course measuring 49.03 acre was located in the cantonment area. Only Rs 3266 *per annum* was being recovered for the area until February 1989. Thereafter, neither the lease had been renewed and rent revised nor any rent recovered from the golf club. DEO Delhi stated, in July 1996, that an additional area of 37.70 acre had been unauthorisedly appropriated by the Army and added to the golf course.

(c) 23 acre of land which was handed over to DGQA in 1986 at Delhi, was being utilised by a private contractor for stone crushing. Around 300 labourers were living there in huts. DGQA/DEO had not taken any action to evict the encroachers.

(d) At Patiala, 5 fish ponds on defence land were being used by a unit for pisciculture, for commercial sale of fish and an open air cinema with access to general public was also being run unauthorisedly on 2.5 acres of land by an EME battalion for the last eight years. Besides, a bank was also functioning in a Brigade for the last six years. The units were not crediting the rent and premium to Government account.

(e) Another 3.202 acre of land acquired at Jamnagar from a private party during 1959 and 1966 continued to be occupied by them till 1996. The Air Force came to know of it only when the party requested de-acquiring the land.

(f) Ahmednagar College had encroached 18.22 acre of land since 1963 for play ground with the consent of Station HQ without paying any rent.

(g) At Ambala, Army authorities initially permitted 15 Army units cultivation in 316 acre of land in 1988 out of 3517 acre acquired for establishing a new cantonment. The units, however, appropriated additional land measuring 457 acre unauthorisedly for cultivation. An Officer from the DEO during an inspection noticed that nearly 60 *per cent* of the acquired land was under cultivation and that the units had let out land to various private cultivators at the rate of Rs 1200 per acre *per annum*. As per the extant instructions, defence land had to be cultivated by troop labour or security cleared private labour only. In disregard to this, Army had sublet the land unauthorisedly to private cultivators at the rate of Rs 1200 *per annum* per acre. The CDA, Western Command had reported to the Command HQ in September 1995 that no account had been maintained for the land cultivated by units in excess of the areas allotted and the period for which the land was under cultivation. The report added that the entire sale proceeds of the produce cultivated in this land appeared to have been misappropriated. Command HQ had ordered a CI in October 1995, results of which were awaited as of August 1996.

Thus, Government have been denied an assessed amount of Rs 57.76 lakh for cultivation of 733 acre for five years and 316 acre for two years calculated at the rate of Rs 1200 *per annum* per acre.

(h) Bihar Regimental Centre was cultivating 147 acre of land, but it had deposited one-fourth of income from 60 acre only during 1991-92 to August 1994. The sub area HQ. had called for comments of the Centre on "absurdly low returns and incorrect reporting of usage of land" under cultivation in October 1995. The Centre had also unauthorisedly allowed Animal Husbandry Department of Bihar Government to carry out dairy farming on 60 acre of defence land.

(i) In contravention of Government orders , Army authorities have been using defence land for Army schools at Panagarh, Beas and Gauhati without specific Government sanctions.

Army authorities have appropriated 56.66 acre of land unauthorisedly at Panagarh and Beas for the schools. Besides, Army is running seven schools with total land area of 117.97 acre on defence land leased to them in Delhi. In addition, eleven more schools are run at Delhi on defence land without Government sanction.

The Ministry sanctioned use of defence land measuring 3.45 acre at Meerut for a catholic school at an annual rent of Rs 0.52 lakh and a premium of Rs 5.24 lakh which are far below the market rent and premium of Rs 10.49 lakh and Rs 104 lakh respectively as per the STR.

18.6 Acquisition and management of land

18.6.1 The following illustrative cases of transfer of land without settlement of terms, non-implementation of terms of transfer, lack of co-ordination among users, DEO and the Ministry highlight the shortcomings in the management of defence land.

(a) Defence land measuring 446.64 acre along with structures was handed over to Rajasthan Government in 1955. The State Government was asked to pay Rs 18.07 lakh for this land in 1969, which was not paid by them. Meanwhile in 1960, the State Government unauthorisedly transferred 32.29 acre land to Western Railway at a cost of Rs 0.96 lakh. The Army authorities subsequently required 17.4 acre of land in 1966 for raising a garrison The land required by Army included 3.62 acre which had been sold unauthorisedly by the State Government to the Railways. This piece of land was considered necessary for the security of defence installations. The Army authorities had to pay Rs 3.42 lakh as rent to the Railways from February 1966 to March 1988 for **the use of its own land**. In 1989, the Railways demanded Rs 187.91 lakh for relinquishing its right on this plot. Based on the cost of land demanded by the Railways, State Government now owed a liability of Rs 221.70 crore to the Ministry.

(b) In 1977, a major portion of a cantonment was excised and formed into a notified local self Government area. The arrangement with the State Government was that they would transfer 150 acre of its land to the Ministry and that the State Government would share 50 *per cent* of income derived by them from disposal of defence land. However, 150 acre of land was still to be transferred to the Ministry by the State Government. Besides, an amount of Rs 32.98 lakh which represented 50 *per cent* share of the income derived by the State Government from disposal of land, was yet to be retrieved.

(c) Government accorded sanction in January 1990 for acquisition of 1586.37 acre of private land in Thanjavur at an estimated cost of Rs 235.30 lakh, revised to Rs 480.82 lakh in May 1994. Coast Guard was to utilise 117.40 acre of this land. Southern Air Command intimated the DEO in August 1994 to restrict the acquisition to 1163 acre since review by Air Force had disclosed reduction in land requirement. But possession of 1540 acre had been taken upto June 1995 resulting in excess acquisition of 377 acre costing Rs 97 lakh.

(d) Despite acquisition of 70 acre of State Government land for Air Force at Gandhinagar in 1981 for construction of buildings for domestic and technical purposes, accommodation in MLA's hostel and some bungalows continue to be hired even after

a lapse of 15 years. An expenditure of Rs 154 lakh had been incurred on hiring from June 1981 to March 1996.

18.7 Delay in acquisition of land.

Test Audit of records in DEOs disclosed several instances of delay in acquisition of land for defence use. Such delays had contributed significantly to increase the cost of the land that was finally acquired. Delay of 12 to 14 years in issue of sanctions for acquisition of land as noticed in three cases at Bombay and Vishakhapatnam resulted in payment of Rs 38.43 crore as cost escalation. In another case non-acceptance of debit of Rs 3.60 lakh paid as on account payment by Assam Government for acquisition of 475.17 acre of land at Kamrup in December 1971 resulted in increase in cost of acquisition from Rs 4.76 lakh to Rs 814 lakh.

18.8 The Defence Estate Officer, Agra circle unilaterally placed Rs 114 lakh at the disposal of the DC Jhansi in March 1991 for acquisition of land without approval of the Ministry. The DEO placed funds at the disposal of the DC unauthorisedly apparently to avoid lapse of funds. The Ministry, however, did not approve acquisition of the land. The State Government has retained Rs 34 lakh towards acquisition charges which is a waste directly attributable to the hasty and unauthorised action of the Defence Estates Officer.

18.9 Encroachments

Test check of encroachments in five DEO circles viz. Madras, Allahabad, Meerut, Lucknow and Hyderabad revealed that an aggregate of 635 acre of defence land are under encroachment.

DEO stated that the organisation was not provided with manpower for watch and ward and they had no budget for removal of encroachments.

18.10 The matter was referred to the Ministry in October 1996; their reply was awaited as of December 1996.

19 Defective mines

Acceptance of defective mine bodies valuing Rs 0.70 crore from trade by CQA, Kirkee led to sentencing 67,218 mines valuing Rs 25.94 crore as unserviceable. No investigation had been done for fixing responsibility.

Against two indents placed by Army HQ in August 1986 and September 1992 for supply of 1,16,891 bar mines (mines) OF, Chanda and OF, Khamaria procured mine bodies from trade duly inspected and accepted by CQA, Kirkee. OF, Chanda and OF, Khamaria, after filling/assembly, supplied 1,13,699 mines to CAD, Pulgaon, duly cleared by CQA between May 1993 and October 1994.

Army HQ informed OF, Chanda in October 1993 that excessive body cracks were noticed in some of the mines. A joint survey was, therefore, carried out in June 1994, as a result of which 16,760 mines were declared defective. Another joint survey carried out in December 1994, found other defects apart from the already noticed excessive body cracks, as a result of which 50,603 more mines were sentenced as defective.

In a joint meeting held in December 1995, the representatives of the Army urged OF, Chanda to undertake repair of the mines. But OF, Chanda pointed out that since the mines were issued on inspection notes, a decision was required to be taken as to who would bear the cost of repairs. As of August 1996, the question of repair of the defective mines had remained unresolved, as a result of which (after issuing 145 mines to inspectorates) 67,218 defective mines valuing Rs 25.94 crore were lying in stock of CAD.

OFB corroborated the above facts in October 1996 but disowned any responsibility in manufacture of defective mines which arose from acceptance of defective mine bodies by CQA. It is, thus, evident that for failure of CQA, 67,218 defective mine bodies valued at Rs 0.70 crore were accepted and filled by OF, Chanda and OF, Khamaria at a cost of Rs 25.24 crore. This rendered all the 67,218 filled mines valuing Rs 25.94 crore unserviceable. Since cost of filling/assembly of the mines was more than 36 times the cost of its bodies, it was incumbent upon CQA to carry out fool-proof inspection/testing before accepting them for filling/assembly to rule out any chance of mines becoming defective due to sub-standard bodies. It calls for a high level investigation and fixation of responsibility to avoid recurrence of such lapses.

The matter was referred to the Ministry in June 1996 ; their reply was awaited as of December 1996.

20 Irregular payment to IOC to avoid lapse of fund

To avoid surrender of funds Station HQ, Chandimandir paid Rs 21.30 crore to IOC violating the provisions of Financial Regulations.

A test check of utilisation of budget allotments for 1994-95 by Chandimandir Station HQ revealed that the provisions of rule 104 and 105 of Financial Regulations, Defence Services, Part-I were grossly flouted. The above provisions state:

"It is irregular to draw a sum of money for any purpose during the currency of one financial year and expend or bring into account in a subsequent year. It is contrary to the interest of the State that money should be spent hastily or in ill-considered manner, merely to avoid the lapse of a grant."

Against budget allotment of Rs 98.71 crore of a Command HQ for purchase of FOL during 1994-95, Station HQ rejected proposals for surrender and directed its units on 16 March 1995 to "complete all paper transactions regarding drawal of FOL from supply depot, Chandimandir to the extent of full funds allotment". In gross violation of above mentioned provisions, it further instructed the units that FOL which could not be physically consumed by 31 March 1995, could be drawn and consumed in the next financial year.

Following these instructions, the concerned units liaised with IOC who, in turn, requested the depots on 31 March 1995 to complete transactions for 1994-95 but effecting the actual deliveries in the next financial year. The total expenditure upto the date of issue of instructions of 16 March 1995, was not available and as such the quantum involved in this irregularity cannot be definitely stated except for the fact that surrender proposals received by the Station HQ amounted to Rs 21.30 crore. It was a fit case for fixation of responsibility.

The matter was referred to the Ministry in April 1996 , their reply was awaited as of December 1996.

21 Loss due to formation of copper azide in fuzes

Due to improper storage conditions and inadequate design of containers of fuze B-429, 29981 fuzes valued at Rs 4.33 crore were affected by dangerous copper azide formation and had to be declared unserviceable/destroyed. In addition, fuzes valued at Rs 1.19 crore were lost due to explosion .

High explosives are classified, according to their sensitivity, as primary or secondary. Primary high explosives are relatively sensitive to detonation by shock, heat or friction, but are generally inferior in strength and brisance (shattering effect) to secondary explosives. Because their detonation is easily initiated, primary explosives are used in small quantities to detonate the more powerful but less sensitive secondary explosives. Some commonly used primary explosives are mercury fulminate, lead azide, and lead styphnate. Copper azide, which is also a sensitive primary explosive, sometimes forms as a result of corrosion in objects such as fuze components made of copper/brass, containing lead azide. Under extreme atmospheric condition (i.e. high temperature and humidity) lead azide emits hydrazoic acid fumes. This in turn reacts with the copper to form copper azide.

The B-429 fuze comprises among other components, an outer detonator cup and an inner cup with lead azide filling. The inner cup was made of aluminium in the original design whereas the outer cup was made of cupronickel alloy upto 1992. The hermetically sealed fuze bodies which have rubber sealing rings were then packed into containers 67-A. To prevent ingress of moisture, which may give rise to copper azide formation, the containers 67- A were also made airtight with a rubber disk. The fuzes, thus, packed were supplied to CAD, Pulgaon for further issue to the field users/units.

During issue inspection of the fuzes at Pulgaon in August 1993, the following defects were noticed in certain lots:-

(a) "Safety caps of fuzes found corroded"

(b) "Rubber disk fitted in container melted due to heat"

The last defect allowed ingress of moisture into the containers and subject to deterioration of the rubber sealing ring in the fuze body, created conditions for formation of copper azide.

A joint inspection of 11 lots of B-429. fuzes held at CAD Pulgaon was carried out by OF Chanda and SQAE (A) in November 1993 / March 1994 , which revealed the following defects in addition to those already noticed during issue inspection of August 1993:-

(a) Rubber ring of the fuze cap getting de-shaped/ loose.

(b) The fuze body and adapter was found rusty and fungus affected.

(c) The plastic container 67-A sheared off near the screw threaded portion.

In due course, remaining four lots at Pulgaon were found to have exhibited similar defects. The inspection of November 1993, thus, revealed that ingress of moisture into the fuze itself was a dire reality but little was known at that time that a disaster was looming large on account of such conditions.

Certain sample fuzes were sent to CQA Kirkee and SQA, Chanda for further examination. CQA, Kirkee confirmed in June 1995 the formation of copper azide in all the 15 lots. But before receipt of this confirmation , an explosion took place in May 1995 at CAD Pulgaon, which destroyed four lots valued at Rs 1.19 crore. The store house was also destroyed but the value thereof could not be ascertained

Copper azide formation was suspected to be the cause of the explosion. CAD Pulgaon , immediately after the explosion, found that one lot valued at Rs 29.98 lakh posed imminent danger and ,therefore, destroyed it in June 1995. In respect of the balance 10 lots valued at Rs 2.77 crore, DGQA declared in January 1996 that seven lots valued at Rs 1.87 crore were affected by copper azide formation. The remaining three lots containing 6205 fuzes were inspected by OF Chanda and SQAE Chanda after which 850 fuzes valued at Rs 12.28 lakh were declared unserviceable.

After the explosion, the CAD Pulgaon asked all the Command HQ in June 1995 to ban the use of B-429 fuzes held by the field units under their respective jurisdiction, on the ground that possibility of copper azide formation on ageing could not be ruled out. The CAD further advised the Command HQ to carry out hundred *per cent* inspection of the fuzes with a view to segregate defective ones completely.

In response, Western Command HQ imposed a ban on the use of B-429 fuzes, till completion of inspection. The total number of B-429 fuzes held by the units under the Western Command was 1,09,981 valued at Rs 15.89 crore. As of January 1996 , inspection was completed in respect of only 47,364 fuzes, out of which 6283 valued at Rs 90.79 lakh were found to be defective / unserviceable. It is significant to note that till completion of inspection, substantial quantity of these fuzes can not be cleared for use, which has a direct bearing on the defence preparedness.

The Central Command and Eastern Command have reported nil holding of this fuze. In respect of the Northern Command, the total holding as of February 1996, was 8035 fuzes and after inspection , 7440 fuzes valued at Rs 1.07 crore were found unserviceable. In the Southern Command, out of a total holding of 26,974 fuzes as of October 1995, 386 fuzes valued at Rs 5.58 lakh were found defective after inspection.

DGQA stated, in November 1996, that due to deterioration in the rubber disk of the container 67-A on account of high temperature, acidic/humid atmosphere was created inside the container This lead to the corrosion of the fuze body thereby disturbing the sealing arrangement of the fuze permitting the ingress of the moisture into the fuze and helping copper azide formation. However, even after detecting the cause of the explosion at Pulgaon in May 1995, there was no indication as to whether container 67-A was being redesigned or whether storage condition of B-429 fuzes was being improved as of November 1996.

The total value of 29,981 fuzes declared unserviceable upto November 1996 due to copper azide formation brought out in the foregoing, aggregated to Rs 4.33 crore. In addition 8,280 fuzes valued at Rs 1.19 crore were lost due to explosion in May 1995. Moreover, the ban which had to be imposed in June 1995 on the use of all B-429 fuzes (valued at Rs 15.89 crore in respect of the fuzes held by Western Command only) had a direct bearing on the defence preparedness.

22 Loss due to deficient fire prevention measures

Lack of fire prevention measures resulted in loss of telecommunication equipment valuing Rs 3.14 crore

A major fire broke out in a storage shed of COD, Agra in January 1990, which destroyed telecommunication equipment valued at Rs 3.14 crore. A CI, held in February 1990, diagnosed the cause of fire as "probably due to short circuit and carelessness of the concerned persons". The CI noted that electrical switches were not provided between the pole and each shed as directed by the GOC, Uttar Pradesh Area in September 1989. The CI further noted that detection of fire was delayed beyond acceptable time limit due to the lackadaisical attitude and identified certain officials for dereliction of their duty. Previously, six minor incidents of fire in the same area occurred during the period of six months. Despite these obvious hazards, adequate preventive measures were not taken.

As of October 1996 the loss of Rs 3.14 crore had not been regularised. It is not known whether recommended measures had since been introduced to prevent further loss from similar causes. No information was also made available regarding action taken against the functionaries responsible for the lapses.

The matter was referred to the Ministry in June 1996 , their reply was awaited as of December 1996.

23 Avoidable expenditure on demurrage charges

Delayed receipt of documents from Army HQ and other consignee units by COD, Delhi Cantonment resulted in payment of demurrage charges amounting to Rs 2.22 crore.

A review of air consignments collected by COD, Delhi Cantonment during 1986-87 to 1995-96 revealed that out of a total of 892 consignments, 567 (64 *per cent*) were collected long after the permissible period of seven days, as a result of which demurrage charges amounting to Rs 2.22 crore had to be paid to the airport authorities. A test check of 52 consignments revealed that the period of delay ranged from one month to over one year. The main reason for delay in clearance of consignments, as reported by COD to Army HQ in September 1986, was delayed receipt of document from Army HQ or other consignee units. Audit has not come across any action by Army HQ to remedy the situation. According to Rule 164 of Financial Regulations Part I, demurrage charges incurred due to negligence on the part of consignor/consignee is to be treated as loss of public money and called for regularisation after fixing responsibility for the same. It was noticed that no action in this regard was taken as of May 1996.

The matter was referred to the Ministry in June 1996 ; their reply was awaited as of December 1996.

24 Undue favour to a firm

DGSD covered the failure of a firm in supplying the entire ordered quantity of water proof covers by amending the supply order without invoking risk and cost purchase clause which resulted in an extra expenditure of Rs 2.21 crore.

Against Army HQ indent of May 1991, DGSD accepted the offer of a firm and placed order in September 1992 for supply of 5,350 water proof covers at the rate of Rs 6,460 each (total cost of Rs 3.46 crore), 50 *per cent* of which was to be supplied by June 1993 and the balance by August 1993. As the firm failed to commence delivery in time, extension was granted upto March 1994 for supplying the entire quantity.

The firm delivered only 1,052 water proof covers by January 1994 but no further supply was effected despite extensions granted from time to time. Although it was clearly stipulated in the grant of extensions that non-supply would attract risk and cost purchase, no such action was taken. Finally in June 1995, the supply order was amended by reducing the ordered quantity from 5350 to the number already supplied i.e. 1,052 and no risk and cost purchase was resorted to by DGSD. At whose instance amendment of the supply order was made was not known.

In the meantime, the work of DGSD was decentralised and Army HQ arranged to procure their urgent requirement of water proof covers in May 1994 from DGOF. Against an indent for supply of 21,040 covers, DGOF supplied 15,719 by December 1995 at a unit cost of Rs 11,593.

Had the risk and cost purchase been effected to procure the balance quantity of 4,298 water proof covers, an extra expenditure of Rs 2.21 crore, being the difference between the rate of the defaulting firm and the rate at which subsequent purchase was made from OF, could have been avoided. Thus, by amending the supply order without resorting to risk and cost purchase, an undue favour was shown to the firm.

The matter was referred to the Ministry in June 1996; their reply was awaited as of December 1996.

25 Injudicious procurement of forklifts

Despite the assurance given by the Ministry in September 1993 to utilise all the ten forklifts procured injudiciously in March 1988 at a cost of Rs 60.10 lakh, these continued to remain either under-utilised or in unserviceable state. An expenditure of Rs 97.29 lakh was incurred on hiring forklifts from the trade while the departmental forklifts remained underutilised/defective.

Paragraph 21 of Report No. 8 of 1993 of the C&AG, Union Government, Defence Services (Army and OF) highlighted injudicious procurement of ten forklifts in March 1988 by EHQ and their gross under-utilisation. The Ministry, in their ATN of September 1993, stated that five forklifts had been transferred to EHQ, Calcutta and Chennai while the other five idle forklifts at EHQ, Mumbai were being planned for induction into Services. It was also stated that "procurement and utilisation of the forklifts was most cost effective".

Further examination revealed that the Ministry reversed its decision to induct forklifts into Services in July 1994 on the ground that the number was too small, a fact

known to the Ministry at the time of finalising the ATN of September 1993. As regards the most cost-effective utilisation, it was seen that between April 1992 and December 1993, three out of five forklifts were utilised for a total of 576 hours and the remaining two were not utilised at all. All the five forklifts were non-functional since November 1993 for want of repair and maintenance for which no contract was finalised. As a result, EHQ, Mumbai had to resort to hiring of forklifts from trade and the total amount spent on such hiring from the date of procurement (March 1988) till March 1996 worked out to Rs 97.29 lakh. The forklifts transferred to EHQ, Calcutta and Chennai were utilised only for 457 hours and 700 hours respectively during 1992-93 to 1995-96 against 41,600 hours available with each EHQ.

Apart from the total hiring charges of Rs 97.29 lakh, the loss of interest at the rate of 10 *per cent* on the capital deployed in procurement of the ten virtually idle forklifts valuing Rs 60.10 lakh from March 1988 to October 1996 worked out to Rs 52.08 lakh. In this backdrop, stand of the Ministry taken in the ATN of September 1993 regarding most cost effective utilisation becomes questionable.

The matter was referred to the Ministry in May 1996 ; their reply was awaited as of December 1996.

26 Procurement of defective steering assembly

An expenditure of Rs 1.14 crore had been incurred for procurement of 3,000 sets of steering assembly suffering from unacceptable limitation of design which escaped detection during pre-despatch inspection.

DDPS placed an order in July 1991 on a Pune based firm for supply of 3,000 sets of steering gear assembly GD-68 with matching parts for Shaktiman vehicles to VF, Jabalpur at a cost of Rs 1.14 crore. Terms and condition of the order provided for pre-despatch inspection and acceptance by QAE (Vehicles) of the assemblies which carried a warranty of 12 months from date of receipt at VF, Jabalpur.

After such inspection and acceptance, the entire quantity was received in VF, Jabalpur between April 1992 and January 1994 and 1582 sets were utilised by July 1994. During vehicle trials carried out at the test track during May-June 1994, some serious deficiencies were noticed such as hard steering, poor self-centering and locking of steering in extreme turning points. These were attributed to manufacturing defects which escaped detection during pre-despatch inspection stage. As such, further utilisation of remaining 1418 sets were stopped.

The matter was, thereafter, taken up with the firm for rectification of the deficiency. An unsuccessful attempt was made by the firm in July 1994 by replacement of a component in 12 sets whereupon VF, Jabalpur decided to backload the balance stock of 1418 sets to the firm for replacement, but this decision had not been implemented for reasons not disclosed and the same were still lying in VF, Jabalpur as of April 1996. DGQA (Vehicle) intimated in May 1996 that a decision had been taken to convene a technical committee to study the inconsistent behaviour of the assembly and to suggest remedial measures. No information was, however, available as to whether the committee had been convened to complete its task.

Quality Assurance Officer stated, in July 1995, that the "problem was only of limitation of design and not a defect" They argued that there were no complaints about the performance of the vehicles already fitted with the aforementioned assemblies. If that was the case, there was no explanation as to why the balance 1418 sets had not so far been utilised and decided to be backloaded to the supplier. Exfacie, therefore, an expenditure of Rs 1.14 crore had been incurred for procurement of 3,000 sets of assemblies suffering from unacceptable "limitation of design" which escaped detection during pre-despatch inspection, the responsibility for which has not yet been fixed (April 1996).

The matter was referred to the Ministry in May 1996; their reply was awaited as of December 1996.

27 Non-realisation of claims from the Railways

Seventeen claims aggregating Rs 73.00 lakh lodged with the Railways remained unrealised for periods ranging from one to five years.

In the matter of supply of FOL to the Defence Services by Bharat Petroleum and IOC, instances had come to notice where FOL consignments meant for ASC depots were mis-delivered to the depots of Bharat Petroleum and IOC. As the payment had been made to Bharat Petroleum and IOC on proof of despatch of consignments by rail, ASC depots had to realise claims against the Railways for non-delivery of the consignments.

Twenty one such claims aggregating to Rs 106.62 lakh were lodged between 1990-95 by ASC depots under Western Command. Out of these, six could be verified to have been lodged within time, while no such verification was possible in respect of the balance 15 claims. Out of the total claims lodged with the Railways, an amount of Rs 33.62 lakh pertaining to four claims had been realised but the balance amount of

Rs 73.00 lakh pertaining to periods ranging from one to five years remained outstanding.

There had been no evidence of proper monitoring and pursuance by the ASC depots, as a result of which Rs 73.00 lakh remained unrealised for the afore-mentioned periods.

The matter was referred to the Ministry in May 1996 ; their reply was awaited as of December 1996.

28 Under-utilisation of manpower in an Army Base Workshop

Injudicious withdrawal of body building of vehicles from an ABW during 1993 to 1995 resulted in wastage of capacity and manpower to the extent of Rs 67.15 lakh.

As the standards of fabrication of one ton and three ton vehicle bodies by the trade during 1989-91 was not found to be satisfactory, the programme for building 559 vehicle bodies during 1992-95 was assigned in May 1992 to an ABW. Although the ABW satisfactorily completed 200 bodies during 1992-93, Army HQ withdrew the assignment from ABW in January 1993 with the intention to off-load the task to trade, primarily on the grounds that the lead time was less and that inventory holding in the ABW would be reduced. As a result thereof, ABW was unable to utilise 50 *per cent* of their capacity from March 1993.

No contract was, however, finalised with the trade for fabrication of bodies between March 1993 and March 1995 and the task of body building was re-assigned to ABW from 1994-95. The financial implication arising from idle staff and overheads during 1993 to 1995 worked out to Rs 67.15 lakh on the basis of man-hour rate costing prevalent in ABW. This wastage of capacity and manpower could have been avoided if the assigned programme of body building was continued with ABW without break.

The matter was referred to the Ministry in June 1996 ; their reply was awaited as of December 1996.

29 Delay in procurement of bin steel portable

Due to inordinate delay in processing the case for procurement of portable steel bin, 70 *per cent* of requirement could not be met in the last six years even after incurring an additional liability of Rs 42.93 lakh.

To meet the operational requirements of units located in forward areas, COD, Delhi Cantonment placed an indent on DGSD in July 1990 for procurement of 6,212 portable steel bins (bin) at an estimated unit rate of Rs 1,450 by March 1991. In March 1991, DGSD informed COD that the lowest unit rate obtained was Rs 1,894, valid upto April 1991 and requested them to confirm acceptance of the rate before expiry of the validity of offer. As COD failed to respond, the indent was cancelled by DGSD in September 1991.

In June 1992, tenders were floated by COD for procurement at their level but as the lowest unit rate of Rs 2,150 was beyond the financial powers of COD, the case was forwarded to Army HQ in October 1992 for necessary action. In March 1995, Army HQ placed three supply orders on three different firms `A', `B' & 'C' for supply of a total 5,000 bins at a total cost of Rs 1.38 crore (3,000 at the rate of Rs 2,793 each, 500 at the rate of Rs 2,756 each and 1,500 at the rate of Rs 2,671 each) to be supplied within four months, nine months and three months respectively after bulk production clearance. Firm `C' had supplied full quantity of 1,500 bins in time but firms `A' and `B' had not even tendered pilot sample for approval even after the delivery period. Army HQ was yet (May 1996) to act on COD's suggestion of April 1996 to effect purchase at the risk and cost of firms `A' and `B'.

Thus, due to inordinate delay in processing the case at various stages about 70 *per cent* of the item required to meet operational requirements of the units could not be met in the last six years despite incurring an additional liability of Rs 42.93 lakh.

The matter was referred to the Ministry in May 1996 ; their reply was awaited as of December 1996.

30 Infructuous expenditure on re-rubberisation of road wheels

An expenditure of Rs 37.60 lakh incurred on 2,400 re-rubberised road wheels for a tank became infructuous due to their prolonged storage and improper handling.

DDPS placed two orders on a private firm for re-rubberisation of 5,985 road wheels for a certain type of tank, one in April 1985 and the second in February 1988. Re-rubberisation of road wheels against both the orders was completed between March 1987 and June 1988 and payment of Rs 96.75 lakh was made to the firm during 1987-88 and 1988-89 on completion of the job. CAFVD issued 2,400 re-rubberised road wheels in March 1994 to an ABW which, however, found that the internal diameter of the entire quantity was excessive and the curvature beyond specified limits and as such could not be used.

On investigation of defects, CQA attributed long storage and improper handling as the reasons for the aforesaid defects. CQA further opined in December 1994 that it would not be prudent to approach the firm for rectification of defects/free replacement as the rims were originally supplied by CAFVD and there was no defect in re-rubberised portion.

It would, thus, be seen that an expenditure of Rs 37.60 lakh incurred on re-rubberisation of 2,400 road wheels of a certain type of tank became infructuous on account of prolonged storage and improper handling. The defects were found when 2,400 re-rubberised wheels were issued to an ABW for use, while the condition of the balance quantity of 3,585 wheels re-rubberised at a cost of Rs 59.15 lakh, remained unknown. Such infructuous expenditure could have been avoided, if the rims were inspected properly before issue for re-rubberisation.

The matter was referred to the Ministry in April 1996 ; their reply was awaited as of December 1996.

31 Non-utilisation of an imported machine

A machine imported in July 1989 at a cost of Rs 19.77 lakh remained functional only upto July 1990 and had been lying idle/defective thereafter.

Mention was made in sub-paragraph 9 (iv) of Report No. 14 of 1992 of the C&AG, Union Government, Defence Services (ABW) for the year ended 31 March

1991 regarding procurement of a copy milling machine (machine) in July 1989 for 510 ABW, at a cost of Rs 19.77 lakh. The machine developed defects in July 1990 but was rectified in November 1990. In the meantime, 510 ABW was asked in October 1990 by Technical Group Electrical and Mechanical Engineers (TGEME) to transfer the machine to 515 ABW, Bangalore which was considered to be a viable load centre.

Further examination of the case revealed that TGEME decision earmarked the machine for the forging and foundry shop to be established at 515 ABW by January 1991. The machine, though packed in December 1991, was transferred in February 1995 while despatch of its spares and accessories preceded it in March 1992. On receipt of the machine in 515 ABW, it was inspected in February 1995 by a Technical Board (Board) which found it to be in need of repairs as an imported critical component namely, transducer was damaged. The machine was therefore, not taken on charge as of April 1996 by 515 ABW There was, however, no finding of the Board as to whether the damage was due to defective packing at the consignor's end. Moreover, no arrangement to import the transducer for rectification of the machine had yet (April 1996) been finalised.

Thus, the machine imported in July 1989 at a cost of Rs 19.77 lakh, remained functional only upto July 1990 and no serious efforts were thereafter made to make it functional as would be evident firstly from delay in despatch of the machine and secondly in finalising arrangements to procure the transducer for rectification and eventual utilisation of the machine.

The matter was referred to the Ministry in May 1996 ; their reply was awaited as of December 1996.

32 Irregular payment of charges

Army supply depots paid octroi and handling charges amounting to Rs 13.78 lakh to FCI for supply of wheat and rice though these were not payable.

For supply of pre-paid quantities of wheat and rice procured by FCI for troops, a total amount of Rs 13.78 lakh towards octroi and handling charges were paid by ASC supply depots under the Southern Command (SC) between 1993 and 1995. SC HQ requested Army HQ in January 1996 that the matter should be taken up with FCI for refund of this amount paid wrongly in contravention of the provisions of Defence Service Regulations as well as a clarification given by FCI in September 1993. The aforesaid amount was awaiting refund as of May 1996.

The matter was referred to the Ministry in June 1996; their reply was awaited as of December 1996.

33 Infructuous expenditure due to erroneous despatch of vehicles

Failure of EHQ to observe Air HQ instructions for despatch of vehicles resulted in an infructuous expenditure of Rs 12.45 lakh.

Instructions were issued in advance by Air HQ in April 1988 to EHQ, Bombay for despatch of 20 specialist vehicles each to Air Force unit `A' located at Barrackpore and `B' located at Baroda on receipt from a foreign country against a contract concluded in December 1987. Despite the clear despatch instructions, EHQ despatched 37 specialist vehicles to unit `A' and three to unit `B'. Consequently, on instructions from Air HQ, unit `A' had to despatch 17 surplus vehicles to unit `B' in January 1989 resulting in an avoidable expenditure of Rs 12.45 lakh on railway freight which was yet to be regularised as of January 1996.

EHQ informed in May 1995 that erroneous despatch had taken place due to error in instructions received from Air HQ and certain omissions and clerical errors at EHQ. The exact error in the instructions of Air HQ was, however, not spelt out by EHQ. Thus, erroneous despatch of vehicles resulted in an infructuous expenditure of Rs 12.45 lakh.

The matter was referred to the Ministry in April 1996 ; their reply was awaited as of December 1996.

CHAPTER IV

Ordnance Factory Organisation

34 Performance of Ordnance Factory Organisation

34.1 Introduction

Thirty nine Ordnance Factories, with a manpower of 1.63 lakhs are engaged in production of about 1,450 items of arms, ammunition, equipment clothing, etc primarily for the Armed Forces of the country. Most of the items manufactured by the factories are meant to be solely used by the Armed Forces. But, in order to utilise available spare capacities, OFB had started manufacturing items for civil trade as a measure of diversification. At the apex level, OFB is responsible for policy formulation, supervision and control. DGOF is the ex-officio Chairman of OFB, and is assisted by nine Members/Additional DGOFs who are in charge of various staff and line functions.

The broad distribution of the divisions with reference to their production is as under:

	Divisions	No. of factories
(i)	Materials and Components	10
(ii)	Weapons, Vehicles and Equipment	10
(iii)	Ammunition and Explosives	10
(iv)	Armoured Vehicle	4
(v)	Ordnance Equipment Factories	5
	Total	39

The factories are also classified as Metallurgical (6), Engineering (17), Filling (5), Chemical (4), Ordnance Equipment (6).One factory sanctioned in October 1984 has not yet started production.

34.2 Revenue Expenditure

The expenditure under revenue head for the period 1991-92 to 1995-96 is given in the table below :

(Rs in crore)

Year	Initial expenditure incurred by OFs	Value of products supplied to Armed Forces as adjusted by CGDA	Gross expenditure booked by CGDA	Receipts and Recoveries	Net expenditure of OFs
1991-92	1919.70	1565.95	353.75	306.80	(+)46.95
1992-93	1983.99	1631.49	352.50	409.49	(-)56.99
1993-94	2279.84	1813.11	466.73	560.15	(-)93.42
1994-95	2347.94	1868.85	479.09	473.74	(+) 5.35
1995-96	2775.90	2114.82	661.08	484.98	(+)176.10

34.3 Performance of OFB

34.3.1 General

In 1995-96, OF, Chanda's turnover was highest at Rs 358.25 crore with 87 *per cent* material components, while that of Ordnance Cable Factory, Chandigarh was the lowest at Rs 16.50 crore with material components at 60 *per cent*.

34.3.1.1 The following table indicates cost element-wise value of production for the last five years:

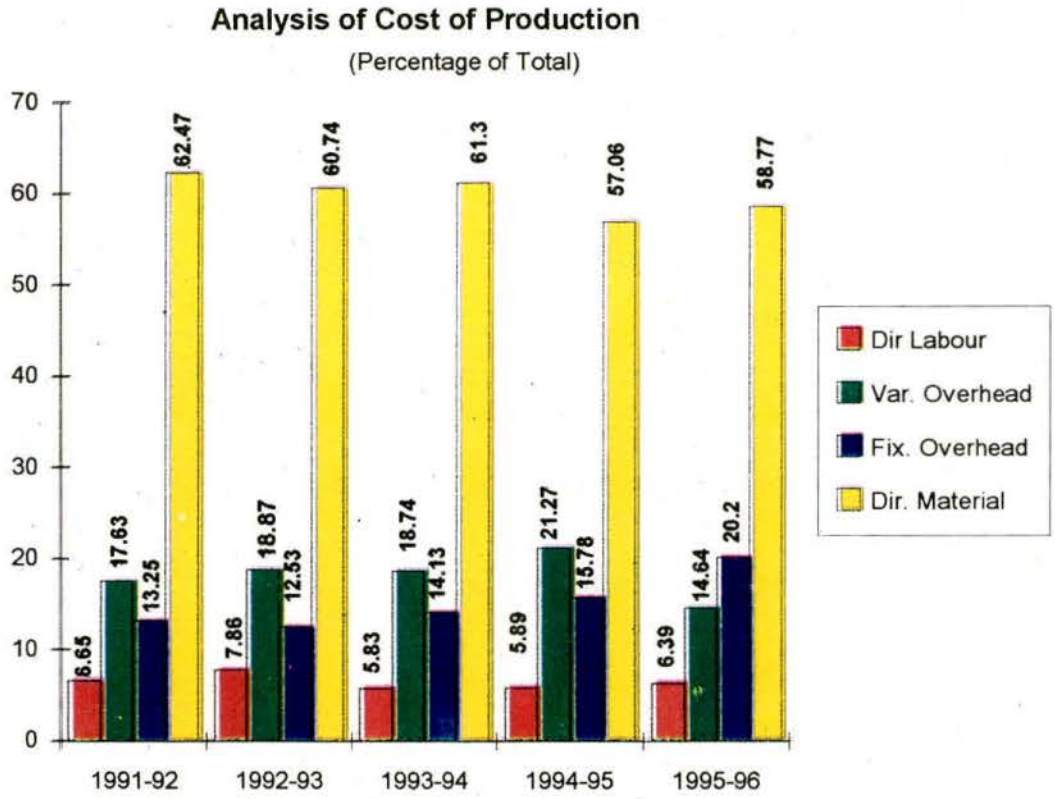
(Rs in crore)

Element	Value of production				
	1991-92	1992-93	1993-94	1994-95	1995-96
Direct Material	1438.12	1556.87	1725.87	1630.43	1962.48
Direct labour*	153.13	157.16	164.18	168.16	213.26
Variable Overhead Charges Levied	405.73	471.40	527.83	607.85	488.78
Fixed Overhead Charges levied	305.12	313.03	397.76	450.99	674.46
Total	2302.10	2498.46	2815.52	2857.43	3338.98

* relates to completed items

Elements of overhead in the total cost of production varied widely from factory to factory, being 80.80 per cent in OLF, Dehra Dun and 8.27 per cent in HEF, Kirkee.

34.3.1.2 The bar chart below indicates the contribution of each unit of cost to the value of production (as percentages) for the five years upto 31 March 1996 :



When production of new items is undertaken as a result of foreign collaboration, complete knocked down (CKD) assemblies are initially used. As this requires much less labour than regular production, the inclusion of the values of CKD assembled products distorts the overall production cost by increasing the direct

material component while suppressing the direct labour component on total cost. The cost of CKD assemblies during the last five years i.e. 1991-92 , 1992-93, 1993-94, 1994-95 and 1995-96 were Rs. 124.04 crore, Rs 93.93 crore, Rs 141.65 crore, Rs 49.64 crore and Rs 35.54 crore respectively.

34.3.2 Issue to users

The indentor wise value of issues for last five years were as under :

(Rs in crore)

	1991-92	1992-93	1993-94	1994-95	1995-96
Army	1299.30	1339.09	1406.40	1492.58	1690.97
Navy	18.43	16.88	28.80	28.02	37.41
Air Force	35.81	48.06	58.70	54.12	98.89
MES, R&D, etc.	48.55	34.27	28.95	39.55	54.16
Civil Trade	174.25	271.25	392.83	371.88	404.33
Other Factories	587.08	608.86	694.48	749.41	1047.36
Own Stock	15.84	23.36	31.22	29.74	26.46
Capital Work	1.33	2.54	2.38	2.02	2.24
Total	2180.59	2344.31	2643.76	2767.32	3361.82

34.3.3 Production planning and performance

34.3.3.1 Production programme vis-a-vis progress

It was noticed that achievement in respect of production of several items remained well behind targets fixed by OFB. During the year 1995-96, OFB did not fix targets for 34 items though supply orders were pending.

34.3.4 Capacity utilisation

OFB assesses capacity utilisation of a factory in terms of standard man hours (SMH) and machine hours. The tables overleaf indicate the extent to which the capacity had been utilised, based on the above two parameters during the last five years:

Capacity utilisation in terms of SMH

Year	De-rated capacity in SMH	Capacity utilisation in SMH	Percentage of capacity utilisation
1991-92	2257	1722	76.30
1992-93	2139	1461	68.11
1993-94	2051	1387	67.64
1994-95	2040	1359	66.65
1995-96	1914	1485	77.58

Capacity utilisation in terms of machine hours

Year	Machine hours available	Machine hours utilised	Percentage utilisation
1991-92	1187.36	941.87	79.32
1992-93	1114.68	871.70	78.20
1993-94	1141.29	846.58	74.18
1994-95	1198.87	894.03	74,57
1995-96	1234.53	946.89	76.70

The manpower available with OFB was depleting because of natural wastages, without replacement. Machine hour utilisation was also dependent on the work load to be discharged during a year. To neutralise the effect of the drastic load reduction, OFB has started diversifying into Civil trade and exports.

34.3.4.1 Export and civil trade

The capacity created in ordnance factories was not being utilised to the full extent because of diminishing orders from Armed Forces. The Ministry decided in July 1986 to diversify and enter the civil market within the country and tap the export potential of ordnance factories to utilise the capacity. The actual achievement was, however, insignificant in export as well as in civil trade.

(a) Export

The following table shows that the percentage of achievement with reference to target in export declined significantly for 1992-93 to 1994-95 but registered a sharp increase in 1995-96.

Year	No. of Factories involved	Target (Rs in crore)	Achievement (Rs in crore)	Percentage of achievement
1992-93	10	15.00	5.84	38.97
1993-94	15	34.00	9.48	27.89
1994-95	14	35.00	7.15	20.42
1995-96	11	25.00	18.94	75.76

The Ministry stated, in February 1996, that targets were fixed optimistically to induce the factories to attain a reasonable degree of performance. Obviously, ambitious fixing of targets had no impact on export.

(b) Civil trade

The turn over from civil trade other than supplies to Ministry of Home Affairs during 1992-96 were as under :

Year	No. of Factories involved	Target (Rs in crore)	Achievement (Rs in crore)	Percentage of achievement
1992-93	37	83.12	70.02	84.24
1993-94	38	174.57	108.13	61.94
1994-95	38	224.30	112.03	49.45
1995-96	38	141.49	140.45	99.26

While in absolute terms the realisation from civil trade has increased during the last four years, achievements with reference to target have been fluctuating, touching a low of 49 *per cent* during 1994-95. Besides, the target itself was reduced from Rs 224.30 crore during 1994-95 to Rs 141.49 crore during 1995-96. The Ministry stated, in February 1996, that the target were decided optimistically to give an impetus to the factories.

34.3.5 Utilisation of manpower

34.3.5.1 Employees of the Ordnance Factory Organisation are classified as (i) "Officers", who man senior supervisory levels, (ii)"Non-Gazetted" (NGO) or "Non-Industrial" employees (NIEs) who man junior supervisory levels and clerical establishment and (iii) "Industrial Employees" (IEs), who are engaged in the production and maintenance operations. The number of employees of various categories during the last five years as per the table below reveal that the strength of

the supervisory level has registered a sharp increase in 1994-95 and 1995-96, while number of IEs has declined.

(in number)

Category of Employees	1991-92	1992-93	1993-94	1994-95	1995-96
Officers	1681	1672	1672	2856	3286
NGO/NIEs	44285	44190	44548	43167	45641
IEs	126188	123583	118488	115702	113865
Total	172154	169445	164708	161725	162792

34.3.5.2 In ordnance factories, there are two types of industrial workers viz. "Piece Workers" who are directly engaged in production and paid for the work turned out by them and "Day Workers" who are engaged in maintenance jobs and paid for the actual number of days and hours they work without reference to their output. Day workers are also called General Shop Labour (GSL).

34.3.5.3 The expenditure on GSL has been rising compared to the expenditure on indirect and direct labour for the last five years are shown below :

(Rs in crore)

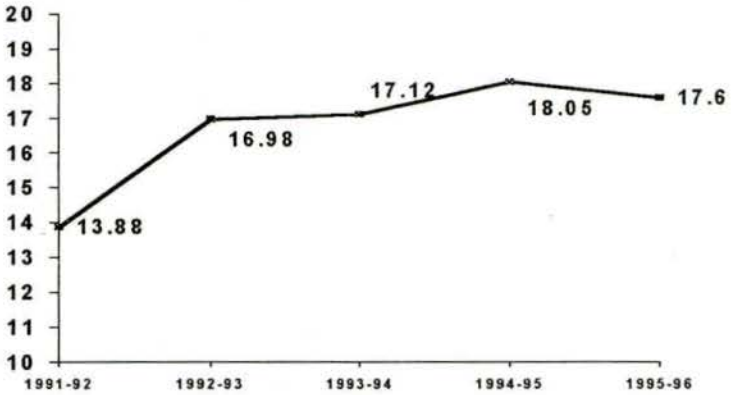
	1991-92	1992-93	1993-94	1994-95	1995-96
General Shop Labour	31.77	43.70	49.03	57.17	68.31
Total Indirect Labour	228.86	257.38	286.40	316.73	387.29
Total Direct Labour*	168.24	172.91	180.06	183.23	228.13
Percentage of GSL to Total Indirect Labour	13.88	16.98	17.12	18.05	17.64

* relates to completed and semi-finished items

The expenditure on GSL, indirect labour and direct labour increased over the years broadly due to normal inflation, grant of Dearness Allowance etc. and was also because of deployment of more number of workers as GSL due to inadequate workload. Percentage of GSL to total indirect labour over the last five years is represented in the graph overleaf :

GENERAL SHOP LABOUR

AS A PERCENTAGE OF
TOTAL INDIRECT LABOUR



34.3.5.4 There has been a gradual decline of the number of employees on piece work as the following table would show :

(Rs in crore)

Year	Average no. of piece workers	Piece work earning	Incentive bonus paid to maintenance workers	Total cost of production
1991-92	71101	91.00	4.09	2178.06
1992-93	69520	86.45	4.30	2404.53
1993-94	67500	85.86	4.41	2673.88
1994-95	64815	81.09	4.45	2807.79
1995-96	63069	91.16	5.89	3338.98

34.3.6 Inventory management

34.3.6.1 Stock holdings in excess of authorised requirement

As per provisioning procedure stipulated in March 1975, ordnance factories are authorised to hold stock of different types of stores as shown below :

Sl. No.	Types of stores	Authorised quantity to be held in stock
1	Imported items	12 months requirement
2	Special indigenous items	9 months requirement
3	Other indigenous items	6 months requirement

Examination of closing stock of all the ordnance and ordnance clothing factories as on 31 March 1996, revealed that average stock holding in five Factories as per table below ranged between 12.30 months and 17.10 months requirements, contrary to the policy of OFB.

(Rs in crore)

Sl. No.	Name of Factory	Opening Balance as on 01 April 1995	Closing Balance as on 31 March 1996	Average holding of stock	Average monthly consumption	Holding of stores in terms of months
1	AF, Kirkee	67.40	91.59	79.50	5.90	13.50
2	OF, Kanpur	44.01	51.20	47.61	3.19	14.90
3	HVF, Avadi	163.03	236.07	199.55	11.65	17.10
4	OLF, Dehradun	8.13	11.88	10.00	0.77	13.10
5	EF, Avadi	29.21	25.62	27.41	2.22	12.30

34.3.6.2 Surplus found in stock-taking

An amount of Rs 11.04 crore was shown as surplus during stock-taking in 1995-96 out of which Rs 10.15 crore of stores were found surplus at the two factories as shown overleaf :

(Rs in crore)

Sl. No.	Factory	Surplus at stock taking
1	VF Jabalpur	5.88
2	OF Chanda	4.27

Stores found surplus in stock-taking is indicative of unsatisfactory maintenance of stores accounts.

34.3.6.3 It was, noticed that while there was reduction in utilisation of capacity of the ordnance factories, there was increase in inventory holdings. The average holdings in terms of number of days exceeded the prescribed norm of 180 days during each year. There was considerable increase in the holding of non-moving, slow -moving and maintenance stores over the years as would be revealed by the table below :

(Rs in crores)

Sl. No.	Particulars	1991-92	1992-93	1993-94	1994-95	1995-96
1.	Working stock					
a.	Active	905.25	773.01	702.65	736.51	1020.59
b.	Non-moving	55.30	76.36	81.26	103.75	109.21
c.	Slow moving	95.00	134.86	138.10	126.08	122.10
2	Waste & Obsolete	17.79	23.59	16.44	13.12	8.47
3.	Surplus/ scrap	41.58	41.95	38.40	35.29	33.34
4.	Mainte-nance stores	93.78	96.27	99.13	93.84	76.00
	Total	**1208.70**	**1146.04**	**1075.98**	**1108.59**	**1369.71**

As on 31 March 1996, the following factories accounted for major holding of slow-moving and non-moving items as shown overleaf :

(Rs in crore)

Sl. No	Factory	Total working stock as on 31 March 1996**	Stock Slow-moving**	Non-moving**	Total	Percentage of slow-moving and non-moving stores to total working stock
1	OF, Dum Dum	2.36	0.50	1.37	1.87	79.23
2	MTPF, Ambernath	3.73	1.39	1.02	2.41	64.61
3	GCF, Jabalpur	20.91	4.90	4.01	8.91	42.61
4	GSF, Cossipore	41.16	7.90	8.12	16.02	38.92
5	OF, Ambernath	13.19	1.44	2.95	4.39	33.28
6	OLF, Dehradun	11.47	1.27	2.54	3.81	33.21
7	OEF, Hazratpur	1.50	0.34	0.14	0.48	32.00
8	HVF, Avadi	216.71	30.68	33.59	64.27	29.65
9	OF, Dehradun	2.76	0.02	0.72	0.74	26.81
10	OF, Kanpur	46.44	4.99	6.93	11.92	25.66
11	OF, Khamaria	154.60	14.50	19.46	33.96	21.96

***** Figures are provisional***

34.3.6.4 Finished stock

There was a steady increase in the total holdings of finished stock and components since 1992-93 as indicated below :

(Rs in crore)

	1991-92	1992-93	1993-94	1994-95	1995-96
Finished stock Holding in crores of rupees	44.52	40.42	55.42	73.27	93.42
Holding in terms of no. of days' consumption	7	6	8	10	10
Finished components Holding in crores of rupees	201.23	208.87	195.13	197.85	249.28
Holding in terms of no. of days' consumption	134	130	123	96	91

34.3.6.5 Work-in-progress

There was increase in the value of work-in-progress, as the following details would show :

(Rs in crore)

As on 31 March	Value of work in progress
1992	715.55
1993	703.89
1994	717.84
1995	714.24
1996	855.00

A substantial amount of raw material, work in progress and finished goods holdings were blocked in various factories due to :

i) Sudden withdrawal/foreclosure of orders and suspension of Indents;

ii) Change in design of the end product by AHSP at advance stage of production.

34.3.7 Manufacture

34.3.7.1 Rejections in manufacturing processes

Total value of production (including permissible rejections) vis-a-vis value of rejections beyond permissible limits (excluded from the total value of production) during the last five years was as under :

(Rs in crore)

Year	Total value of production (including permissible rejection)	Value of rejection (beyond permissible limit)
1991-92	2178.06	8.09
1992-93	2404.53	6.47
1993-94	2673.88	9.41
1994-95	2807.79	11.41
1995-96	3338.99	7.63

The amount kept out of production being abnormal losses which occurred during manufacture is over and above the permissible limit of rejection. Such losses above Rs one crore were in respect of following factories .

Sl.No.	Name of the factory	Amount (Rs in crore)
1	AF, Kirkee	2.52
2	VF, Jabalpur	1.14
3	MSF, Ishapore	1.14

34.3.7.2 Losses written off

The table below depicts losses written off by competent financial authorities.

(Rs in lakh)

Sl. No.	Particulars	1991-92	1992-93	1993-94	1994-95	1995-96
1	Over issues of pay and allowances and claims abandoned	8.25	5.71	7.74	12.66	3.45
2	Losses due to theft, fraud or neglect	0.11	7.69	0.92	0.20	0.52
3	Losses due to deficiencies in actual balance not caused by theft, fraud or neglect	1.92	1.31	7.91	0.40	3.97
4	Losses in transit	25.43	41.91	11.81	16.80	21.18
5	Other causes (e.g conditioning of stores not caused by defective storage, stores scrapped due to Obsolescence etc.)	1.12	1.55	14.26	19.75	17.01
6	Manufacturing Losses	199.03	288.25	739.10	377.77	394.07
7	Loss not pertaining to stock	-	-	-	-	7.85
	Total	**235.86**	**346.42**	**781.74**	**427.58**	**448.05**

It was observed that avoidable rejections continue over the years in the following factories :

(Rs in lakh)

Name of factory	1991-92	1992-93	1993-94	1994-95	1995-96
AF, Kirkee	423.90	148.04	341.63	307.80	251.85
VF, Jabalpur	127.77	184.63	166.14	416.30	114.02
HVF, Avadi	47.82	174.84	160.93	101.20	49.36

35 Infantry combat vehicles

35.1 Introduction

In their search for a suitable armoured personnel carrier, the Army HQ carried out extensive trials of a number of vehicles from different countries and selected Infantry Combat Vehicles (ICV) BMP I of a foreign origin. Later, an improved version of the vehicle viz. ICV-BMP II was decided to be manufactured indigenously and capacity for indigenous manufacture of improved ICV-BMP II was created in three OFs.

This review, besides examining the achievement of overall ICV project objectives, addresses serious shortcomings and delays in indigenous production of ammunition for ICV-BMP-I and armament for its improved version, BMP-II.

35.2. Indigenous production of ammunition for ICV-BMP I

35.2.1 Creation of facility

The Ministry imported in all 745 ICVs-BMP I over a period of six years during 1976 to 1982 at a total cost of Rs 171.11 crore. As the ICVs have a useful life of 10 to 15 years, the imported vehicles would outlive their useful life during 1991 to 1997.

The Army met the requirement of ammunition for guns of these ICVs also through import. With a view to indigenising the production of ammunition, the Ministry sanctioned two projects viz. filling and hardware, for indigenous production of two versions of ammunition (18,750 and 15,940 rounds of HE and HEAT ammunition *per annum* respectively) in May 1988 and September 1988 at an estimated cost of Rs 7.54 crore and Rs 7.07 crore respectively. The projects were due for completion by September 1991. Considering the useful life span of the ICVs, it may be observed that even if the projects were completed in time by September 1991, some of the BMP Is would have outlived their useful life and the facility for providing ammunition support for the remaining BMP I vehicles was likely to be suboptimally utilised for six more years only. The production of components of the ammunition and its filling was entrusted to four OFs as shown overleaf :

Name of OF	Items to be produced	Estimated cost (Rs in crore)	Due date of completion
OF, Ambajhari	HE shell including tail assembly, HE & HEAT primer, HE and HEAT cartridge case	2.59	September 1991
OF, Dum Dum	HEAT Fin. Stabilizer	1.02	September 1991
GSF, Cossipore	HEAT Shell	3.46	September 1991
AF, Kirkee	Filling of HE & HEAT ammunition	7.54	January 1991

35.2.2 Delay in setting up of facility

The composite project was completed by March 1993 against the expected date of completion of September 1991. The delay was mainly attributable to civil works in AF, Kirkee, which was the end point of the production of ammunition. The air-conditioning of the building was yet to be tested as of March 1996 while the contractor abandoned the work.

35.2.3 Production of ammunition

35.2.3.1 Delay in production

Though the facilities for production of ammunition were created by March 1993 at an expenditure of Rs 9.45 crore, OFs failed to accomplish indigenous production of ammunition as of March 1996 due to the reasons attributed to the defects in production and development as under :-

(i) Development of shell body - Shell body of HEAT ammunition comprised of five components, of which four were produced by GSF, Cossipore and one by OF, Dum Dum. The shell body was developed during 1988-91 and the complete shells produced failed in proof. Subsequent production upto 1992-93 also failed in proof due to peripheral grain growth and cracks. These defects were rectified in February/March 1995 using aluminium alloy bar through forging route. Thus, the OFs overshot the expected date of successful development of shell body by four years.

(ii) Defective fuze - The fuze for HE version was to be produced by OF, Ambajhari and the top and bottom for HEAT version by GSF, Cossipore. Out of 6935 fuzes for HE version, 2177 fuzes valuing Rs 3.23 lakh were found defective. The

fuzes for HEAT version were also not passed in proof due to failure of the self destructive element. Hence, 39695 top and bottom of fuzes (HEAT) valuing Rs 2.21 crore could not be utilised and were lying at AF, Kirkee. In view of the poor status of indigenous fuzes, AF, Kirkee utilised imported fuzes upto 1994-95 and import of filled fuzes was under consideration as of March 1996.

35.2.3.2 Consequences

(i) Though the facilities for indigenous production of both the versions of ammunition were set up by March 1993, indigenous production of ammunition could not be established as of June 1996. 71,460 rounds (HE-46,672 and HEAT-24,788 rounds) were produced during 1988-89 to 1995-96 only with Complete Knocked Downs (CKDs) imported at a cost of Rs 21.23 crore against annual production capacity of 18,750 (HE) and 15,940 (HEAT) respectively. Had the capacity of the project been successfully utilised, the OFs should have indigenously produced about 56,000 rounds of ammunition of HE version, and 48,000 rounds of HEAT version between 1993 and 1996. Against this, they produced only 12,727 rounds of HE and 4,000 rounds of HEAT ammunition during this period with imported CKDs.

(ii) Even with imported CKDs, supply of ammunition could not meet the requirement of Army against their indent for 64,700 rounds placed in September 1987 for early delivery and another indent for supply of 82,000 rounds placed in November 1994.

(iii) CKDs valuing Rs 23.66 crore were imported during 1986-91. Out of this, 38,984 CKDs valuing Rs 2.43 crore were lying in stock at AF, Kirkee as of March 1996, of which 27,995 CKDs were in hermetically sealed condition having a useful life of ten years. Seven to eight years of such useful life are already over. As a result, the ammunition produced after March 1996 with these CKDs would have to be released with restricted shelf life.

35.2.4 Quality control

Various components produced by OFs were subject to proof test by the inspecting agency before their bulk production. Out of 12,700 complete shell bodies (HEAT) manufactured and supplied during 1991-92 to 1994-95 for filling by AF, Kirkee, 10,825 shell bodies valuing Rs 8 crore failed in proof. Similarly, 2177 fuzes

valuing Rs 3.23 lakh and 2035 cartridge cases valuing Rs 6.58 lakh were found defective. This was indicative of serious shortcomings in the manufacturing process.

35.3 Indigenous production of armament of ICV-BMP II

35.3.1 Creation of facility

The projects for indigenous production of ICV-BMP I, its engines and opto-electrical devices imported at a cost of Rs 16.50 crore, were sanctioned in June 1984. While the planning work was in progress, the Army decided on indigenous production of its improved version, i.e. ICV-BMP II and its technology was obtained at a cost of Rs 57.17 crore under an agreement of February 1985. However, the Ministry revised the earlier sanctions for setting up of composite facility for indigenous production of improved version i.e ICV-BMP II only in February-August 1987 as shown below :

Sl. No.	Items to be produced	Date of sanction	Amount of sanction (Rs in crore)	Name of OF
1	Vehicle	June 1984 revised in August 1987	468.25	OF, Medak
2	Engine	June 1984 and revised in April 1987	166.44	EF, Avadi
3	Opto electrical devices for vehicles and tank	June 1984 revised in February 1987	117.00	OLF, Dehradun
4	Armament	June 1988	142.75	i)OF Trichy ii)GCF, Jabalpur iii)MTPF, Ambernath

Delay in completion of projects, cost overrun and gross under-utilisation of installed capacities for indigenous production of vehicles, engines and opto electrical devices of the first three projects were highlighted in paragraphs 36, 35 and 27 of Report No. 8 of 1993 and of 1994 of the C&AG, Union Government, Defence Services (Army and OF).

The project for setting up of facility for indigenous production of 500 sets of armament *per annum* was due for completion by May 1992. The production of components of armament was entrusted to three OFs as shown overleaf :

Name of OF	Components to be produced	Estimated Cost (Rs in crore)
OF, Trichy	Cannon	89.62
GCF, Cossipore	Gun Mounting, Smoke Grenade Launching System	26.97
MTPF, Ambernath	Elevating Mechanism, Turret Traversing Mechanism	26.16

35.3.2 Delay in setting up of facility

The project for production of armament due for completion in May 1992 had not been completed as of June 1996 even after a lapse of four years and an expenditure of Rs 87.01 crore. The civil works planned for completion by April 1991, were actually completed between August 1991 and January 1992. There has, however, been abnormal delay in procurement and commissioning of plant and machinery. While the scheduled date of completion of the project was May 1992, orders for only 186 equipment could be placed by October 1992 out of the total requirement of 250 plant and machinery. The delay was attributable to reduction in production capacity from 500 sets to 200 sets in June 1990, foreign exchange constraints since the third quarter of 1990, imposition of embargo by German Government on supply of German machine to Indian OF and decentralisation of procurement procedure from DGSD from January 1992.

35.3.3 Production of armament

(i) Vehicles and Cannon : Since the ICV-BMP II is composite project, it is imperative that production of each component is synchronized to facilitate the production programme of the complete unit. Against the reduced annual target of 150 vehicles, the actual production ranged between 70 and 125 resulting in cumulative shortfall of 205 vehicles in four years from 1992-93. The indigenous production of vehicles was much behind the target and the production of cannon with imported CKDs valuing Rs 10.56 crore (upto March 1996) was also dismal. Moreover, as each vehicle was to be fitted with one cannon, the production of one should have matched the other. The OFs could produce only 61 cannon with imported CKDs in four years from 1992-93 against 395 vehicles produced by other OFs resulting in serious mismatch of vehicles and cannon as shown in the table overleaf :

Year	Production of Vehicles			Production of Cannon	
	Planned	Actual	Progressive	Actual	Progressive
1992-93	150	100	100	Nil	Nil
1993-94	150	100	200	10	10
1994-95	150	125	325	11	21
1995-96	150	70	395	40	61

The Ministry was, therefore, compelled to import 275 cannon at a total cost of Rs 31.59 crore during 1992-94 to July 1995 and the requirement of the remaining 59 cannon was met from the existing stock of CKDs available at OFP, Medak.

(ii) Gun mounting, smoke grenade launching system, elevating and turret traversing mechanism : The production of these systems /mechanism was also required to be synchronized with the production of vehicles and cannon. There was a shortfall in their production indigenously even with imported CKDs/Semi Knocked Downs (SKDs) valuing Rs 1.27 crore (upto March 1996) as under :

Year	Gun mounting	Smoke grenade launching system	Elevating mechanism	Turret traversing mechanism
1992-93	Nil	20	150	81
1993-94	5	125	115	100
1994-95	75	4	85	56
1995-96	152	Nil	130	85
Total	**232**	**149**	**480**	**322**

(iii) In spite of investing Rs 87.01 crore on the armament project upto March 1996, the indigenous production of armament unit has not been accomplished as of June 1996 and the requirement was met through imported CKDs.

35.3.4 Other points of interest

(i) Avoidable payment of Customs duty : Customs duty of Rs 1.20 crore was paid on import of two machines which were exempt from levy of Customs duty. The refund of the duty claimed subsequently was awaited as of April 1996.

(ii) Defects in machinery : Three machines valuing Rs 1.96 crore commissioned at MTPF, Ambernath during April 1992 to November 1993 became defective immediately after their commissioning. Though MTPF, Ambernath took up the matter with the suppliers, the defects were awaiting rectification as of April 1996.

(iii) Civil works : The annual capacity of armament project was reduced to 200 sets from 500 sets in June 1990. However, the scope of civil works were not reduced on the ground that contracts were finalised and 30 *per cent* progress had already been made.

(iv) Optical instruments (devices) : OFP, Medak imported 28,285 devices valuing Rs 118.18 crore between July 1987 and February 1992. The devices were to be fitted on infantry combat vehicles. Due to non-procurement of testing instruments, the devices could not be inspected and tested within the guarantee period after receipt. After fitment in the vehicles, 838 devices were found defective during performance trials of the vehicles. As the warranty for the devices lapsed, the supplier refused to repair/replace them. Of these 838 defective devices, 264 were repaired at an additional expenditure of Rs 1.46 crore, 419 valuing Rs 0.60 crore were declared beyond economical repairs. The balance 155 devices were lying in defective condition as of November 1996. Since the production of the vehicles was behind the target, there was also a mis-match between import of the devices and production of vehicles.

35.4 Mis-match of ICV composite production

Capacity was created with the objective of manufacturing vehicles and cannon as per Army's requirement. The ammunition for vehicles was to be manufactured with the existing resources of OF and no separate project was sanctioned. The following table gives the position of supply of complete vehicles and its ammunition :

Year	Composite Vehicles (in nos.)		Ammunition (in lakh rounds)	
	Army's requirement	Actual Issue	Army's requirement	Actual Issue
1992-93	150	100	3.90	0.22
1993-94	150	100	4.01	1.65
1994-95	150	125	3.40	0.95
1995-96	150	70	0.38	3.55
Total	600	395	11.69	6.37

Thus, the production of complete vehicles ready for operation was much behind the requirement of Army since 1992-93. The supply of ammunition was also 46 *per cent* less than the requirement. The original capacity for supply of complete vehicles and spares was created for 500 units per year. This was reduced to 150 units from 1991-92 due to financial constraints. A total amount of Rs 742.11 crore was spent on ICV project as of March 1996.

35.5 Summing up

Ammunition of ICV-BMP I

Even after a total expenditure of Rs 9.45 crore and combined efforts of four OFs for over nine years, indigenous production of ammunition for ICV has not been established. Meanwhile, the useful life of ICV-BMP I is already nearing its end by 1997. The inefficient execution of the project, thus, did not meet the basic objective of indigenous production of ammunition.

Armament for ICV-BMP II

The indigenous production of armament had not been accomplished even after combined efforts of three OFs for over eight years and an expenditure of Rs 87.01 crore. In spite of manufacturing the cannon with imported CKDs valuing Rs 10.56 crore and components of armament with CKDs/SKDs valuing Rs 1.27 crore (upto March 1996), there was a shortfall in their production leading to import of cannon costing Rs 31.59 crore during 1992-95.

Composite ICV production

Although assets worth Rs 742.11 crore were created upto March 1996, only 66 *per cent* of Army's reduced requirement for complete vehicles could be met during last four years since 1992-93. What effect the delay in meeting the Army's demand had on modernising plan could not be assessed.

The matter was referred to the Ministry in August 1996; their reply was awaited as of December 1996.

Planning

36 Surplus inventory

Change in the design of fuze of an ammunition by Air Force led to holding of the fuze and its components worth Rs 97.97 lakh without any prospect of their utilisation.

Air Force placed an indent in September 1980 on OFB for supply of four lakh rounds of an ammunition by 1984-85 at the rate of one lakh rounds *per annum* starting

from 1981-82. OFB, in turn, placed an extract on OF, Khamaria in March 1981 for production and supply of four lakh rounds of the ammunition to the Air Force. OF, Khamaria manufactured 33,000 empty fuzes for the ammunition valued at Rs 65.50 lakh upto March 1987 against two warrants of March 1984 and April 1986. Before the fuze could be utilised in the assembly of the ammunition, the Air Force intimated OFB in February 1989 and July 1992 that the existing fuzes were not acceptable and asked OFB to use all weather fuze. As a result, 33,000 fuzes valued at Rs 65.50 lakh and semi-finished components valued at Rs 32.47 lakh became surplus and were lying in stock of OF, Khamaria.

OFB stated, in August 1996, that the Air Force had been approached to accept 50,000 fuze to utilise the surplus stock. Thus, change in the type of fuze for the ammunition by the Air Force led to surplus inventory of Rs 97.97 lakh without any prospect of their utilisation.

The matter was referred to the Ministry in May 1996; their reply was awaited as of December 1996.

37 Infructuous production of empties

Allotment of production programme without ascertaining the actual requirement led to infructuous manufacture of empties valuing Rs 3.66 crore, besides surplus raw materials worth Rs 2.14 crore.

OF, Ambajhari was holding in March 1991 an outstanding order for 40,948 empty shells (empty) of an ammunition against two inter factory demands (IFD) placed by OF, Dehu Road in November 1989 and February 1990. In view of considerable stock holding of the empties by OF, Dehu Road against the production programme of the ammunition, OFB allocated a production programme of 20,000 empties for 1991-92 to OF, Ambajhari in April 1991 for issue of 10,000 empties each to OF, Chanda and OF, Khamaria against the outstanding IFDs of OF, Dehu Road.

Out of 20,160 empties produced, OF, Ambajhari issued 10,080 empties each to OF, Chanda and OF, Khamaria between October 1991 and March 1992 without any IFD from them as no production programme of ammunition was allocated by OFB to OF, Ambajhari. However, OF, Chanda placed IFD in January 1992 for 1200 empties required for existing orders for the ammunition and intimated OF, Ambajhari in May 1992 that of the 10,080 empties issued in anticipation of IFD, 8868 empties were not required.

In the absence of programme for production of ammunition and empties, 18,948 empties valuing Rs 3.66 crore remained unutilised at OF, Chanda and OF, Khamaria, besides raw material worth Rs 2.14 crore at OF, Ambajhari for the last four years. Utilisation of the aforesaid empties and raw materials was remote in the absence of any production programme.

OFB stated, in August 1996, that production of empties was planned at OF, Ambajhari in anticipation of higher production target. However, OFB did not explain the reasons of allocating production of empties at OF, Ambajhari when OF, Dehu Road was already holding considerable stock of the same.

Thus, allocation of the programme for production of empties by OFB without proper planning led to infructuous production of empties at a cost of Rs 3.66 crore, besides non-utilisation of raw material valuing Rs 2.14 crore.

The matter was referred to the Ministry in April 1996; their reply was awaited as of December 1996.

38 Unproductive expenditure on production of fuze

Failure of OF, Ambajhari to insist on advance sample on the advice of CQA coupled with flawed inspection of time mechanism by SQAE and subsequent bulk production of fuzes without successful proof test resulted in production of defective fuzes valuing Rs 43.25 lakh, besides rendering the investment of Rs 5.06 crore on machinery and Rs 15.16 lakh on un-used material unproductive.

Against the demand of August 1987 projected by AF, Kirkee for supply of 10,000 fuzes of an ammunition, OF, Ambajhari procured five machines valued at Rs 5.06 crore between October 1989 and May 1990 with a view to establishing the required facility. It also placed an order in December 1989 on a firm for supply of 5,000 time mechanism at a cost of Rs 18 lakh indicating that advance samples should be submitted to SQAE , Delhi Cantonment for approval before commencement of bulk production. OF, Ambajhari deleted this clause in February 1990 on the advice of CQA, Kirkee. The firm supplied the entire quantity in March 1990 duly inspected and accepted by SQAE.

CQA conducted proof test in March 1991 of the first batch of 240 fuzes produced by OF, Ambajhari during November 1990. The proof test disclosed defects

in the fuze on account of excessive corrected mean time (CMT) which were attributed to defects in the time mechanism procured from the trade.

Proof test of second batch of 240 fuzes of advance sample carried out in December 1991 also disclosed defects arising from low CMT. However, CQA instead of further proof test, gave clearance for bulk production in January 1992 to OF, Ambajhari on condition that the defect should be eliminated during bulk production.

OF, Ambajhari assembled 2000 fuzes in March 1992. The proof samples failed in test conducted by CQA in March 1992 due to failure in sealing proof. Notwithstanding this failure, OF, Ambajhari went ahead with bulk assembly of another lot of 2000 fuzes in July 1992. The proof sample of second batch also failed in heavy proof. Joint inspection by a team of experts from SQAE and OF, Ambajhari in June 1993 traced the defects to rusty spring in the time mechanism which were procured by OF, Ambajhari from the trade. The firm refused to entertain the request of OF, Ambajhari in October 1994 to rectify the time mechanism free of cost since the guarantee period had expired in March 1991 itself. As per Board of Inquiry's report of September 1995, the estimated cost of rectification of the springs was around Rs 11 lakh. Meanwhile, AF, Kirkee short closed their demand in January 1992.

Thus, for deletion of the condition in the supply order for test of advance sample of the time mechanism by OF, Ambajhari on the advice of CQA coupled with flawed inspection of the entire supply by SQAE and clearance for bulk production without successful proof test resulted in assembly of 4000 defective fuzes, produced at a cost of Rs 43.25 lakh. Besides, due to delay and uncertainty in production of fuzes, the investment of Rs 5.06 crore on machinery and Rs 15.16 lakh on un-used material is yet to prove productive.

The matter was referred to OFB/the Ministry in July 1996; their reply was awaited as of December 1996.

39 Under-utilisation of forging capacity

Creation of capacity of shell forgings at OF, Kanpur without tooling facility led to procurement of semi-machined shell forgings worth Rs 3.80 crore from trade.

OF, Kanpur invested Rs 8.67 crore (FE Rs 4.62 crore) upto February 1988 to create an annual production capacity of 6.3 lakh shell forgings. OF, Kanpur, however, did not simultaneously establish tooling facility for the body of the shells. The required

facility was created only in 1991 after a delay of four years. As a result , the forging capacity available from 1988, remained grossly under-utilised. OF, Kanpur had to procure 47,000 semi-machined bodies at a cost of Rs 3.80 crore from the trade to effect supply to the indentor urgently.

OFB, while admitting the above facts in November 1996, stated the obvious that tooling facility for the forging plant was not established at OF, Kanpur and hence it was decided to procure semi-machined bodies from the trade. This mis-match was instrumental in under-utilisation of forging capacity, the financial impact of which cannot be assessed in the absence of required cost analysis.

The matter was referred to the Ministry in March 1996; their reply was awaited as of December 1996.

40 Idling of inventory

Hasty action of OFB/OF, Khamaria in procurement of components of an ammunition pending its successful development resulted in idling of inventory worth Rs 22.07 crore.

ARDE and ERDL were to develop ammunition for a tank by July 1988. However, in anticipation of its successful development, ARDE placed an indent in January 1985 on OFB for supply of 6500 rounds of the ammunition by July 1989.

OF, Khamaria placed an order in January 1987 on OF, Kanpur for immediate supply of 6500 projectiles required for assembly of the ammunition. OF, Khamaria placed another order in January 1989 on OF, Kanpur for supply of 20,000 projectiles amended to 15,000 in February 1991. OF, Kanpur supplied 6734 projectiles between February 1989 and July 1992.

OF, Khamaria issued 665 projectiles to ARDE and Proof and Experimental Establishment for development purposes between July 1989 and March 1991 and utilised 1426 projectiles in assembly of the ammunition rounds during August 1990 to June 1992. OF, Khamaria issued 755 assembled rounds to ARDE between March 1991 and July 1994 for development and users trial.

Despite several modifications in the design, the ammunition could not be productionised till mid of 1995 when the designers developed its improved version. As a result, further assembly and issue of the ammunition rounds was stopped from June 1992 which led to non-utilisation of 4643 projectiles, 671 assembled rounds, other components and raw material valued at Rs 22.07 crore.

The Ministry stated, in November 1996, that plan for alternative utilisation of the materials in stock was being examined in association with ARDE/CQA.

As OFB/OF, Khamaria did not wait for successful development of the ammunition by ARDE before procuring projectiles and components, it resulted in avoidable idling of inventory worth Rs 22.07 crore.

Manufacturing

41 Premature clearance for bulk production of 5.56 mm rifle

Commencement of regular production of a rifle before removal of defects is fraught with risk of affecting operational performance. Besides, it resulted in excess consumption of ammunition valuing Rs 2.30 crore in proof of rifles after re-working.

In paragraph 40.5.1 of Report No. 8 of 1995 of the C&AG for the year 1993-94, it was mentioned that in view of the urgency in replacing the existing small arms system, bulk production clearance was given in July 1992 for the 5.56 mm rifle, subject to removal of defects experienced during trials. The rifles incorporating modification/improvements were found acceptable during users' trials in November/December 1993.

Subsequent scrutiny of records of RF, Ishapore revealed that in spite of regular production of rifles from 1993-94 after these were cleared for bulk production, a number of problems/defects continued to occur and final specifications for the rifles were still in the process of completion as brought out by SQAE in February 1996.

The prescribed procedure for the production of new items in OFs stipulates that the manufacture of such items should be undertaken through a development extract, to which cost of production may be booked, to be absorbed under the subsequent extracts for regular production. This procedure ensures that production of new items is undertaken first as a trial or development production and bulk production is undertaken only when problems noticed during trial production are solved. In the instant case, the findings of SQAE clearly establishes that the clearance for bulk production was premature, leading to an additional expenditure of Rs 2.30 crore by way of the cost of ammunition consumed in testing the same, besides the cost of re-working the rifles by RF, Ishapore.

The Ministry stated, in November 1996, that even though regular production of rifle commenced from 1993-94 after users' trials, a number of problems/defects were encountered in bulk production due to design limitations and as such final specification for the rifle was still under close observation.

Thus, the decision to proceed with bulk production of the rifles on the grounds of urgent operational requirements notwithstanding the shortcomings, does not appear to be a prudent step as supply of such rifles is fraught with the risk of affecting operational performance and troop morale.

42 Unfruitful expenditure due to change in propellant of an ammunition

Switchover from one propellant to another for filling of an ammunition resulted in unfruitful expenditure of Rs 1.43 crore.

OF, Khamaria placed four inter factory demands on CF, Aruvankadu between September 1982 and February 1987 for supply of 477.40 tonne of propellant 'X' required for filling of an ammunition. CF, Aruvankadu produced and supplied 182.15 tonne of propellant 'X' to OF, Khamaria by January 1989. OF, Khamaria utilised 45.44 tonne of propellant 'X' upto August 1989 for filling of the ammunition, when ARDE decided to switch over to a newly developed propellant 'Y'. This switchover was decided by ARDE in view of the failure of the ammunition filled with propellant 'X', suspected to be due to pressure phenomenon.

As a result, 111.38 tonne of propellant 'X' valued at Rs 1.43 crore lying at OF, Khamaria since August 1989 was declared obsolete in March 1992.

The Ministry stated, in August 1996, that trials were going on to convert the propellant for use in other ammunition.

Thus, before establishing satisfactory performance of propellant 'X', its procurement led to unfruitful expenditure of Rs 1.43 crore.

43 Rejection of ammunition due to use of deficient explosive

The decision of OF, Khamaria to continue production of an ammunition with indigenous explosive in spite of its shortcomings resulted in rejection of 10,768 rounds of ammunition valuing Rs 88.43 lakh.

OF, Khamaria used an imported explosive for filling imported shells of an ammunition till September 1990. The explosive was indigenously developed in

September 1990 specifying hundred *per cent* X-ray examination in single orientation. After extensive trials, OF, Khamaria filled 49,790 rounds of the ammunition using the indigenous explosive and issued 15,330 rounds to the Army between March 1990 and March 1993. OF, Khamaria filled 37,941 more rounds valuing Rs 311.58 lakh in 24 lots between March 1993 and December 1995 using the same explosive , but these were not issued as an accident involving the ammunition supplied earlier occurred in April 1994 at Infantry School, Mhow.

After carrying out the investigation by AHSP, the decision of DGQA, New Delhi was intimated to OF, Khamaria in December 1994 to the effect that hundred *per cent* X-ray in two orientations was to be undertaken for detection of cavitation and defective ones weeded out. In this process, 10,768 rounds of the ammunition, not issued, valuing Rs 88.43 lakh were rejected.

OF, Khamaria stated, in January 1996, that pourability of indigenous explosive being less and the imported shell filling unit being specifically designed for filling by imported explosive, the rejection of the ammunition due to cavitation detected at hundred *per cent* X-ray even in single orientation had increased but in order to save foreign exchange , a deliberate decision was taken to continue production with indigenous explosive. It further stated that with the introduction of X-ray examination in two orientations , the percentage of rejection had gone up for which a Board of Enquiry (BE) had also been constituted in October 1995. The BE in its report of February 1996 stated that the rejection was due to non-established parameters of filling of the shell with indigenous explosive. OFB stated, in August 1996, that all the 10,768 rejected rounds manufactured with indigenous explosive between March 1990 and March 1993 were broken down and 98 *per cent* material was gainfully utilised. OFB, however, could not give the dismantling cost, the cost of stores/components finally rejected after dismantling and the actual utilisation of explosive valuing Rs 17.66 lakh used in the filling of the 10,768 rejected ammunition.

Thus, the decision of OF, Khamaria to continue production with indigenous explosive in spite of its shortcomings resulted in rejection of 10,768 rounds of ammunition produced between March 1993 and December 1995, valuing Rs 88.43 lakh.

The matter was referred to the Ministry in May 1996; their reply was awaited as of December 1996.

44 Loss due to defective manufacture

OF, Bhandara suffered a loss of Rs 53.19 lakh in manufacture of propellant for export since 80 *per cent* of manufactured quantity was rejected by the foreign Government.

OF, Bhandara manufactured 15 tonne subcharge (propellant) at a cost of Rs 69.13 lakh during January - April 1992 for supply to a foreign Government against an export order of May 1991. Twelve tonne of this propellant out of fifteen failed in inspection by the foreign Government. As a result, OF, Bhandara could supply only three tonne propellant in February 1992 at the contract price of Rs 2.86 lakh per tonne against the production cost of Rs 4.61 lakh per tonne conceding a loss of Rs 5.25 lakh. 1.6 tonne of the rejected propellant was put to alternate use. The remaining 10.4 tonne of rejected propellant produced at a cost of Rs 47.94 lakh was lying un-utilised at OF, Bhandara as of September 1996.

OFB stated, in September 1996, that the propellant was not in their regular production range, and therefore, full dimensional parameters could not be achieved. It added that the propellant did not have any direct utility in their system of ammunition and that they were yet to decide its alternative use.

Thus, failure of OF, Bhandara to manufacture the propellant as per contracted specifications entailed a total loss of Rs 53.19 lakh of which Rs 47.94 lakh arose from non-utilisation of 10.4 tonne rejected propellant. Besides, such instances of sub-standard manufacture carry a risk of damage to the reputation of OFB, jeopardizing the prospect of further orders for export.

The matter was referred to the Ministry in July 1996; their reply was awaited as of December 1996.

45 Abnormal rejection of castings

OF, Muradnagar utilised castings much in excess of permissible rejection limit without approval of competent authority causing a loss of Rs 11.93 crore.

Against a warrant of September 1993 to supply 60,000 castings, OF, Muradnagar processed 1,81,290 castings of an ammunition body, of which 1,21,290 castings were rejected. This constituted 202.15 *per cent* of the supply order as against

70.66 *per cent* permissible. This resulted in excess utilisation of 78,894 castings valuing Rs 11.93 crore.

OF, Muradnagar claimed that the rejections in excess of permissible limit were due to process limitations which could not be overcome. If the process limitations are such that the rejections are bound to be much higher the permissible limit, then steps should have been taken with the approval of competent authority to raise the permissible rejection limit itself. Since the rejection limit has not been raised in spite of process limitation, responsibility for the aforementioned loss of Rs 11.93 crore rests with the factory management.

OFB stated, in October 1996, that various methods were tried to reduce the rejection by improving the controls of the process and technology but these yielded no significant result. It added that rejection percentage was within the permissible limit as it worked out to 69.56 *per cent* on the basis of total casting processed and rejected. This contention is not tenable as the rejection percentage is to be worked out with reference to the ordered quantity and not on processed quantity in terms of OFB's own instructions of September 1990.

The matter was referred to the Ministry in June 1996; their reply was awaited as of December 1996.

46 Rejection of brass cartridge cases

Out of 12,500 brass cartridge cases processed by MSF, Ishapore, 5042 brass cartridge cases valuing Rs 72.33 lakh were rejected in excess of norms due to manufacturing limitation, dimensional deviation, dents and dezincification .

Limitations in manufacturing process of brass cartridge cases of a Naval ammunition in MSF, Ishapore led to their rejection far in excess of the permissible limit. As a result, only 4500 cases out of 12,500 processed by MSF were accepted for assembly of the ammunition by OF, Khamaria. As per the norms of permissible rejection, out of 12,500 processed cartridge cases, 9542 cases should have been accepted. The value of the rejection of 5042 cases in excess of the norm was Rs 72.33 lakh. The reasons for such excessive rejection were attributable to non-adherence of technological parameters, dimensional deviations, dents and dezincification.

The matter was referred to OFB/the Ministry in May 1996 ; their reply was awaited as of December 1996.

Provisioning of stores and machinery

Stores

47 Unwarranted procurement of tachometers

Lack of co-ordination between HVF, Avadi and EF, Avadi led to erroneous procurement of tachometers by EF, Avadi which had been saddled with a stock of 664 tachometers valuing Rs 37.26 lakh for which there are no immediate requirement.

HVF, Avadi manufactures tanks using engines manufactured and supplied by EF, Avadi. Assembly tachometer generator (tachometer) is a vehicle item required for Drivers Instrument Panel of tanks and is not used in production of the engine of the tank. Notwithstanding this, EF, Avadi procured 1118 tachometers at a cost of Rs 62.74 lakh during November 1990 to July 1995 as spares for engines indicated in design documents of collaborator. Since EF, Avadi manufactured engines mainly out of complete knocked down components and had no use of the tachometers, it was left with no option except to approach HVF in February 1995 for their utilisation. However, HVF, placed demand on EF, Avadi in March 1995 for only 454 tachometers, which were sufficient to meet their requirement upto 1997-98.

Thus, lack of co-ordination between HVF and EF, Avadi resulted in unwarranted procurement of 1,118 tachometers valued at Rs 62.74 lakh by EF, Avadi. Even after transfer of 454 tachometers to HVF, EF, Avadi is holding a stock of 664 tachometers valuing Rs 37.26 lakh, for which the ordnance factories have no immediate requirement. This calls for fixing of responsibility for the questionable procurement of tachometers.

The matter was referred to the Ministry /OFB in June 1996; their reply was awaited as of December 1996.

48 Surplus inventory due to non-finalisation of specifications

OF, Dehu Road failed to finalise the specification of parachutes which resulted in accumulation of stores worth Rs 15.69 lakh.

Test check of records in March 1995 in OPF, Kanpur revealed that in the following case raw material valued at Rs 15.69 lakh was lying un-utilised for over five

years due to failure of OF, Dehu road to finalise specifications of certain type of parachutes.

OPF, Kanpur had procured raw material worth Rs 15.69 lakh during June 1990 to March 1991 for manufacture of 18,240 parachute of a certain type against an order placed by OF, Dehu Road in February 1990. However, OPF, Kanpur suspended manufacture in April 1991 on the advice of OF, Dehu Road given in February 1991 as defects noticed during 1989-90 in earlier lots manufactured by OPF, Kanpur were yet to be resolved and revised specifications finalised.

OF, Dehu Road, however, failed to finalise the specifications for the last five years for which further use of the balance material valued at Rs 15.14 lakh is in doubt..

The matter was referred to the Ministry in July 1996; their reply was awaited as of December 1996.

49 Avoidable expenditure due to delay in placement of order

Failure of OF, Varangaon/OFB to process tenders within validity period and place supply order on the lowest tenderer led to extra expenditure of Rs 133.34 lakh.

OF, Varangaon invited limited tenders in May 1994 for procurement of 700 tonne lead antimony alloy ingot (ingot) with the stipulation that offers would remain valid for 60 days from the date of opening. Out of the three firms who responded, the offer of firm 'A' at Rs 26.40 per Kg inclusive of excise duty was the lowest. As the bids were opened on 31 May 1994, the offers were valid upto 31 July 1994. The Tender Purchase Committee (TPC) recommended acceptance of the offer of firm 'A' on 26 July 1994 and OF, Varangaon forwarded the recommendations on 02 August 1994 to OFB for approval after the validity period expired.

The inability of OF, Varangaon to process the tenders within the validity period necessitated asking for extension. As further events show, two such extensions were asked for during which firm 'A' first increased his basic rate from Rs 26.40 per Kg to Rs 28 per Kg and again reduced the same to Rs 27 per Kg. Both rates were, however, exclusive of excise duty. During the second extension, firm 'B' who had earlier quoted Rs 27.70 per Kg and maintained the same price during the first extension, reduced their rate to the same as that of firm 'A' i.e. Rs 27 per Kg. It may also be mentioned that out of the three firms, firm 'A' was exempt from levy of sales tax.

After evaluating the offers obtained during the second extension, OF, Varangaon approved placement of supply order on firm 'B' for 700 tonne of ingot.

Firm 'B' supplied the ingots during December 1994 to March 1995 at a cost of Rs 318.14 lakh.

OFB stated, in August 1996, that the offer of firm 'A' was not considered due to frequent revisions made by them and non-production of valid clearance for manufacture of the ingot from the Pollution Control Board (PCB). OFB also stated that firm 'A' would not have been in a position to execute the order even if it was placed by 31 July 1994 due to fluctuating market of lead.

OFB, however, failed to clarify the basis on which the Tender Purchase Committee initially approved the rate of Rs 26.40 per kg inclusive of excise duty quoted by firm `A'. Moreover, there was also no clarification as to why extensions were sought from all firms including firm `A', if their ability to supply the material was in doubt and they did not possess necessary clearance from PCB .

Had the OF, Varangaon/OFB processed tenders within the validity period of the initial offer expiring on 31 July 1994 and placed the supply order on the lowest tenderer, an extra expenditure of Rs 133.34 lakh would not have been incurred on procurement of the ingots.

The matter was referred to the Ministry in July 1996; their reply was awaited as of December 1996.

50 Injudicious placement of demand for steam chests

Injudicious placement of inter factory demand by OF, Chanda on GCF, Jabalpur has resulted in accumulation of inventory worth Rs 24.40 lakh at GCF, besides avoidable manufacture of 46 steam chests valuing Rs 63.66 lakh.

OF, Chanda placed an inter factory demand (IFD) in October 1989 on GCF, Jabalpur for immediate manufacture and supply of 100 steam chests (chests) for filling of an ammunition.

GCF, Jabalpur supplied only four chests valued at Rs 5.54 lakh upto October 1991. OF, Chanda short closed the IFD in October 1991 on grounds of delay in supplies. When GCF took up the issue in October 1991, OF, Chanda stated, in November 1991, that due to lack of foresight the IFD was placed without carrying out any trials regarding its suitability or even assessing future requirements. OF, Chanda also indicated that the four chests supplied were lying unused as conventional method of pouring had since been established. GCF intimated OF, Chanda in December 1991 that after taking into consideration the position of fabricated items in pipeline, the IFD

could only be short closed after supply of a minimum of 46 chests. Materials procured and components manufactured, valued at Rs 24.40 lakh would, thereafter, remain un-utilised at GCF. The remaining 42 chests valued at Rs 58.12 lakh were, therefore, manufactured and supplied to OF, Chanda in January 1992 although, as per their own admission, there was no utility for even a single chest at OF, Chanda.

OFB stated, in September 1996, that 21 of 46 chests were already utilised by OF, Chanda and the remaining 25 chests valuing Rs 34.60 lakh would be utilised by December 1996. OFB, however, did not indicate the purpose for which the chests were utilised/expected to be utilised. The Ministry stated, in November 1996 , that a Board of Inquiry was ordered in August 1996 to go into the various aspects of the case including fixation of responsibility.

Thus, a thoughtlessly placed IFD by OF, Chanda on GCF was instrumental in unwarranted accumulation of material valued at Rs 24.40 lakh at GCF. Further an avoidable expenditure of Rs 63.66 lakh was incurred in manufacture of 46 chests.

51 Injudicious procurement of steel

Premature procurement of steel valuing Rs 1.07 crore by EF, Avadi for forgings resulted in its non-utilisation due to failure of the contractor and the sister factory to develop and supply them, besides import of finished crank shafts valued at Rs 1.26 crore.

EF, Avadi procured during January 1992 to February 1994, 116.865 tonne of ESR steel at a cost of Rs 1.54 crore required for development and manufacture of 367 crank shaft forgings (forgings) by a contractor. EF, Avadi issued 35.505 tonne of steel to the contractor and HVF, Avadi till March 1996. The contractor submitted samples of forgings in May 1994, which failed in test, but ten samples submitted in January 1996, were found acceptable and clearance for bulk production was given. The contractor could , however, supply another 23 forgings upto July 1996. HVF which was also asked to develop the forgings, expressed their inability due to development of cracks in the stamping dies. As a result, 81.360 tonne of steel costing Rs 1.07 crore was held in stock as of October 1996. Under the circumstances, EF, Avadi had to resort to importation of 275 finished crank shafts valued at Rs 1.26 crore in July 1994 and June 1995.

OFB stated, in November 1996, that the steel held in stock would be consumed in two years on commencement of full scale production.

Thus, action of EF, Avadi to procure large quantity of steel for forgings before its successful development resulted in a premature investment of Rs 1.07 crore as the utilisation of the special steel is subject to development of production facility in future.

The matter was referred to the Ministry in June 1996 ; their reply was awaited as of December 1996.

52 Extra expenditure due to piece-meal procurement of nickel

Procurement of nickel by MSF, Ishapore in piece-meal resulted in extra expenditure of Rs 19.39 lakh

Nickel being an imported store, MSF, Ishapore was authorised to hold 60 and 36 tonnes of it at stock pile and working stock respectively.

MSF initiated action in November 1992 for procurement of nickel when it was holding 41 tonne at stock pile and 10 tonne at working stock. Although MSF was required to procure a total quantity of 45 tonne of nickel, the supply order placed in December 1993 on MMTC was for 35 tonne only. MSF received the ordered quantity of 35 tonne in March 1994 at a cost of Rs 52.73 lakh (unit rate being Rs 1,50,658 per tonne).

Necessity of further procurement of nickel was felt immediately and in December 1993 MSF initiated action for procurement of another 22 tonne and an order for 20 tonne at the rate of Rs 1,10,854 per tonne was placed on MMTC in May 1994. The procurement, however, did not materialise due to enhancement of rate to Rs 2,12,000 per tonne in June 1994 by MMTC. Subsequently, in June 1995 MSF placed an order on MMTC for procurement of 10 tonne of nickel and received 9,970 tonne in July 1995 at a total cost of Rs 34.40 lakh at the rate of Rs 3,45,100 per tonne.

OFB, while accepting the above facts, stated, in November 1996 that the procurement was made as per actual requirement and also to control the level of inventory to avoid blockage of capital for l[illegible] period. OFB's contention is not tenable in view of the fact that MSF after placing the first order in March 1994 for 35 tonne of nickel, placed another order for 20 tonne which did not materialise due to enhancement of rate and MSF managed the situation by bringing down the level of stock pile holding from 60 tonne to 25 tonne *per annum*.

Thus, incorrect assessment of requirement of material resulted in subsequent additional procurement of 9,970 tonne of nickel at a higher cost leading to extra expenditure of Rs 19.39 lakh.

The matter was referred to the Ministry in June 1996, their reply was awaited as of December 1996.

53 Procurement of defective steel bars

Procurement of defective steel bars by HVF, Avadi resulted in non-utilisation of 22.97 tonne of steel bars valuing Rs 29.13 lakh.

HVF, Avadi procured 29.92 tonne of steel bars valuing Rs 37.95 lakh from a between October 1990 and January 1992 for manufacture of forgings for tanks. In May 1991, HVF placed an inter factory demand on MSF, Ishapore and issued 16.83 tonne of steel bars to MSF for manufacture of 300 forgings.

Although MSF noticed surface cracks in some of the bars during inspection in September/October 1991, they utilised 11.79 tonne of steel bars to manufacture 190 forgings. These forgings were issued to HVF between December 1991 and August 1993, out of which 112 could be proof machined completely, while the balance forgings were rejected/consumed in test.

It will, thus, be seen that out of the total quantity of 29.92 tonne of steel bars procured by HVF, only 6.95 tonne (calculated on pro-rata basis) could be successfully utilised for manufacture of 112 forgings. In other words, 22.97 tonne of steel bars valuing Rs 29.13 lakh could not be used for the purpose for which this was procured on account of defect.

The matter was referred to OFB/the Ministry in July 1996 ; their reply was awaited as of December 1996.

Machinery

54 Injudicious procurement of annealing and pickling plant

Procurement of two plants at a cost of Rs 1.63 crore by OFB for OF, Katni in February 1991 against their actual requirement of only one plant resulted in an infructuous expenditure of Rs 81.48 lakh. None of the plants was commissioned as of May 1996.

OFB placed an indent on DGSD in October 1985 for the procurement of a continuous annealing and pickling unit (plant) for OF, Katni against a project sanctioned in February 1983. Without consulting OF, Katni ,OFB asked DGSD , in

May 1988 to procure two plants instead of one , to which OF, Katni immediately reacted by indicating that they required only one plant and asked for a provision of slitting line instead of a second plant.

However , OFB did not take measures to rectify the mistake on the ground that procurement of two plants was in advanced stage, although this assertion was not supported by the action of DGSD who concluded a contract for supply of two plants at a total cost of Rs 1.63 crore only in September 1988. Both the plants were received at OF, Katni in February 1991.

As there was no space available to install the second plant, OF, Katni sought approval of OFB in April 1990 for dismantling/disposing of an un-utilised degreasing plant. In view of projection of future load pattern, OFB observed in December 1990 that OF, Katni would not be in a position to utilise both the plants and approached two ordnance factories for transfer of one plant. Since none of the factories responded, OFB directed in April 1991 that both the plants be installed at OF Katni.

Foundation works for both plants were completed in February/December 1993 at a cost of Rs 8.61 lakh. The plants were yet to be commissioned due to defects in temperature controllers. The firm's erection team was on the job of rectification of defects as of November 1996.

Thus, a second plant procured and delivered at OF, Katni resulted in an infructuous expenditure of Rs 81.48 lakh, since by OFB's own admission, the projected pattern of future load at OF, Katni did not justify the procurement of a second plant. In addition, none of the plants had so far been commissioned as of November 1996. As the project sanctioned in 1983 is yet to take off for non-installation of plants, it is not known as to how the requirement of annealing etc. have been met.

The matter was referred to the Ministry/OFB in May 1996; their reply was awaited as of December 1996.

55 Machine testing without requisite material

Failure of DGSD and MTPF to properly test a machine led to unfruitful investment of Rs 54.52 lakh.

OFB placed an indent in February 1990 on DGSD for procurement of a machine required at MTPF, Ambernath for production of an ammunition which was under development. DGSD concluded a contract with an Indian agent of a foreign firm

in January 1991 for supply of the machine at a cost of Rs 54.52 lakh including Customs duty of Rs 21.30 lakh by October 1991.

DGSD inspectors tested the machine in November 1991 before shipment using flat wire without notches supplied by MTPF and issued the acceptance certificate although testing by notched wire was required. On its receipt at MTPF in March 1992, the machine was accepted after joint testing by MTPF, supplier and the inspector of DGSD in July 1992 with the same type of flat wire as the notched wire was not available.

When MTPF commenced production, it noticed in June 1994 erratic performance of the machine leading to defects in the items produced. The defective functioning was brought to the notice of the supplier who could not rectify the defect. The service engineers of the foreign firm on their visit to India, could not attend to the machine. Finally, on their advice (December 1995), the machine was sent to the foreign manufacturer in June 1996 for trial and establishing the component free of cost. As a result , MTPF could not establish fool proof production of the items necessitating their procurement from trade to meet its requirement.

OFB stated, in November 1996, that proper facilities were not available for supplying the notched wire for pre-despatch inspection as it was in the developmental stage. It also added that the machine would be set right for regular production before the end of the year without any extra expenditure.

Thus , the expenditure of Rs 54.52 lakh on procurement of the machine had remained unfruitful since March 1992 on account of failure of DGSD and MTPF to test it properly.

The matter was referred to the Ministry in July 1996; their reply was awaited as of December 1996.

56 Non-utilisation of a diesel shunter

Failure of OCF, Shahjahanpur to ensure timely completion of railway siding work and procurement of a diesel shunter before creation of infrastructure led to idle investment of Rs 50.81 lakh besides shunting and demurrage charges of Rs 5.25 lakh.

OCF, Sahahjahanpur procured a diesel shunter at a cost of Rs 30.88 lakh in April 1990. The shunter, however, remained idle as of July 1996 due to non-completion of renovation work by the Railways for which they were paid a sum of

Rs 2.72 lakh in July 1990. Meanwhile, OCF paid Rs 5.25 lakh to the Railways towards shunting and demurrage charges during 1990-91 to 1995-96.

OFB stated, in July 1996, that the Railways submitted their estimate for assisted siding work in June 1988 and the amount of Rs 2.72 lakh was deposited in July 1990. OFB further stated that there were discrepancies in the estimate for renovation of railway track work and the Railways were asked to submit revised estimate in April 1989. Railways submitted their revised estimate for the work in October 1993 for Rs 19.93 lakh and the balance amount of Rs 17.21 lakh was paid to them in October 1994. Two years' delay in depositing the amount after submission of estimate by Railways goes to show lack of discipline on the part of OCF to get the work done expeditiously.

Thus, failure of OCF to ensure timely completion of work despite depositing Rs 2.72 lakh for assisted siding work coupled with procurement of the shunter before creating necessary infrastructure for its use resulted in an avoidable idle investment of Rs 50.81 lakh and payment of shunting and demurrage charges amounting to Rs 5.25 lakh to the Railways for the last six years.

The matter was referred to the Ministry in March 1996 ; their reply was awaited as of December 1996.

Other cases

57 Additional expenditure due to violation of guidelines

RF, Ishapore and AF, Kirkee procured raw materials/sub-assemblies from sister factories in violation of OFB's guidelines at a higher cost leading to additional expenditure of Rs 1.41 crore, besides rejection of departmental product valuing Rs 7.81 lakh due to its poor machinability and dimensional deviation.

Mention was made in paragraph 46 of Report No. 8 of 1994 of the C&AG of India, Union Government-Defence Services (Army and Ordnance Factories) for the period ended 31 March 1993 regarding uneconomical procurement of alloy steel from a sister factory instead of from the trade involving an extra expenditure of Rs 40.76 lakh. In their Action Note, the Ministry stated, in October 1994, that OFB had issued general policy guidelines in this regard in August 1992. The policy, inter alia, envisaged that if the additional cash expenditure in departmental manufacture

(cost of material plus 50 *per cent* labour and 30 *per cent* variable overheads) is more than the trade cost, order should be placed on trade. In case of purchase value exceeding Rs 10 lakh *per annum* per item, clearance from OFB for purchase from trade was also required.

A gross violation of the above policy was noticed in the following two cases wherein additional expenditure of Rs 1.41 crore was incurred, in addition to rejection of departmental product valuing Rs 7.81 lakh due to poor machinability and dimensional deviations.

Case-1

RF, Ishapore placed an inter factory demand (IFD), in November 1993 , on MSF, Ishapore for supply of 50 tonne of steel flats (steel) required for production of pistols without comparing the departmental cost with that of the trade.

MSF supplied only 26.83 tonne of steel between May 1994 and March 1995 at the rate of Rs 283.58 per kg which as per OFB's guidelines worked out to Rs 255.83 per kg. The departmental cost was about eight times higher than the trade cost as, for the same job, RF, Ishapore procured 39.599 tonne of steel at the rate of Rs 32.96 per kg from a public sector undertaking during January-March 1995. Had the policy been correctly followed and the steel obtained from trade, an additional expenditure of Rs 67.24 lakh could have been avoided. Further, out of the 26.83 tonne of steel so supplied by MSF, 2.755 tonne valued at Rs 7.81 lakh was rejected by RF, Ishapore due to poor machinability and dimensional deviations and was lying unutilised .

OFB stated, in November 1996, that as per their guidelines of August 1992, the cost of production of steel at MSF would compute to Rs 104.19 per kg. The contention is not tenable in view of the fact that as per printed Annual Accounts for the year 1994-95, the cost of material itself for production of one kg steel was Rs 245.64. Secondly, as per OFB's own faulty computation, the departmental cost was 316 *per cent* more than the trade cost, which violates the afore-mentioned policy.

Case-II

AF, Kirkee procured 33,635 tail units of a bomb during 1993-94 from OF, Kanpur at the unit rate of Rs 256.59 , which worked out to Rs 119.74 as per OFB's guidelines. The departmental cost was six times higher than the trade cost as AF, Kirkee procured 1.11 lakh tail units of the same bomb at the unit rate of Rs 35.95 from various firms during May-June 1993. Failure to abide by the policy guidelines resulted in additional expenditure of Rs 74.21 lakh in this case.

OFB stated, in October 1996, that though supply order was placed on trade in 1993-94, no guaranteed delivery was forthcoming resulting in reverting back to OFs

supply to maintain the targeted commitment. This justification is hardly tenable as the trade had supplied 1.11 lakh tail units at a cheaper rate during May-June 1993.

The matter was referred to the Ministry in April/June 1996; their reply was awaited as of December 1996.

58 Non-observance of receipt procedure

VF, Jabalpur failed to observe proper procedure resulting in loss of stores valuing Rs 33.86 lakh

VF, Jabalpur observed discrepancies in respect of 51 items valuing Rs 24.58 lakh due to their non-delivery/part supply against certain issue vouchers of GIF, Jabalpur between August 1986 and March 1991 and intimated the matter to GIF during May 1992/May 1993. GIF sent photocopy of the gate passes in August 1993 against which the 51 items were delivered to VF, Jabalpur through link gate between the two factories. But proper procedure for bringing the store inside VF, Jabalpur i.e. entries of the items and gate passes in the register maintained by security personnel, was not followed at the link gate.

VF, Jabalpur constituted a one man preliminary Board of Enquiry (BE) in October 1993 to investigate the circumstances leading to non-settlement of the issue. The BE concluded in February 1994 that except for two items valued at Rs 0.15 lakh, GIF could not produce any documentary evidence for supply of the remaining 49 items valued at Rs 24.43 lakh and their receipt by VF, Jabalpur . As a remedy, the BE suggested that there should be greater security at the link gate as was obtaining at other gates of VF, Jabalpur for incoming material. VF, Jabalpur referred the matter to OFB in September 1994 for constituting a regular BE since the amount involved was beyond General Manager's financial powers for write off. OFB constituted a BE in February 1995; their findings were awaited as of November 1996.

While the discrepancies of 49 items valuing Rs 24.43 lakh remained unsettled, VF, Jabalpur observed further discrepancies of 14 items valued at Rs 9.43 lakh in May 1994.

Thus, failure of VF, Jabalpur to observe proper procedure for receipt of stores through their link gate against gate passes of GIF resulted in the loss of stores valued at Rs 33.86 lakh, the regularisation of which has been referred to OFB but there is no indication as to whether any disciplinary action has been initiated against the staff responsible for the loss.

The matter was referred to the Ministry/OFB in April 1996; their reply was awaited as of December 1996.

59 Shortage of brass blanks

OF, Ambernath failed to detect excess utilisation of brass blanks due to higher rejection for over five years until the shortage of 25,517 brass blanks valuing Rs 80.63 lakh was disclosed in their physical verification in January 1995.

In OF, Ambernath, the number of blanks authorised for manufacturing 1,000 brass cartridge cases was fixed at 1,500 during 1985-86. With improvement in production technique, this was brought down to 1,200 during 1989-90 which provided for rejection rate of 16.67 *per cent*.

Scrutiny of documents in OF, Ambernath during January 1996 revealed that OF, Ambernath failed to achieve the above norm between 1991-92 and 1994-95 during which 1300 blanks were utilised on an average on production of 1000 cartridge cases, as against the norm of 1200. OF, Ambernath, thus, drew 25,517 blanks valued at Rs 80.63 lakh in excess of the norm during 1990-91 to 1994-95. This excess rejection, however, did not come to light until physical verification of blanks in January 1995 disclosed a shortage of 25,517 blanks.

The management of OF, Ambernath reviewed the matter in March 1995 concluding that the high rate of rejection was due to deterioration of plant and machinery. A fact finding committee was also appointed to go into the details of higher rejection.

Thus , failure of OF, Ambernath to review the higher rejection concurrently led to excess consumption of 25,517 brass blanks valued at Rs 80.63 lakh.

The matter was referred to the Ministry/OFB in June 1996; their reply was awaited as of December 1996.

60 Avoidable expenditure on pigging of aluminium alloy

Delay in disposal of scrap/swarf on the part of OF, Ambajhari resulted in avoidable expenditure of Rs 63.44 lakh on pigging the scrap for its disposal.

OF, Ambajhari generated 1376.33 tonne of aluminium alloy scrap and swarf between April 1991 and March 1993 but till April 1993 it could not be disposed of due to lower rate offered by the intended purchasers. When the scrap was auctioned in April 1993, it was found that only 138 tonne could be sold at the rate of Rs 42.14 per kg , while the balance quantity of 1238.33 tonne was found to have been oxidised due to long storage and was not acceptable to purchasers/traders. OF, Ambajhari, therefore, converted 1238.33 tonne of scrap/swarf into pigged form (1179.36 tonne) at a cost of Rs 5379.26 per tonne, incurring a total expenditure of Rs 63.44 lakh during September 1993 to June 1994. Out of 1179.36 tonne of pigged aluminium alloy, 783.38 tonne was disposed of at an average rate of Rs 39.14 per kg during September 1993 to June 1994 and the remaining 395.98 tonne was sold at an average rate of Rs 48.46 per kg between August 1994 and September 1996.

On being enquired in audit as to why such considerable quantity of scrap/swarf were allowed to be accumulated , OFB stated in September 1996 that accumulation was due to break down of plant; besides certain quantities were kept for internal consumption.

Thus, failure of OF, Ambajhari to take timely action for disposal of scrap/swarf resulted in avoidable expenditure of Rs 63.44 lakh on pigging the alloy scrap.

The matter was referred to the Ministry in June 1996; their reply was awaited as of December 1996.

61 Loss in export order

Under-pricing by OFB resulted in a loss of Rs 2.81 crore in the export of ammunition.

Against a contract of November 1992, AF, Kirkee sold 2.962 million rounds of an ammunition to a foreign Government for US $ 399870 (Rs 1.23 crore) . Scrutiny of the documents in AF, Kirkee disclosed that the cost of production of 2.962 million rounds of the ammunition was Rs 3.48 crore. In addition, cost of packing and belting at OF, Varangaon, for its despatch to the port of destination was Rs 0.56 crore. The

percentage of realisation vis-à-vis the elements of cost of production and packing were seen to be grossly at variance with the pricing formula approved by the Ministry, as a result of which AF, Kirkee suffered a total loss of Rs 2.81 crore in this deal.

Before deviating from the aforesaid pricing formula and charging much less than the cost of production, OFB obtained special dispensation from the Ministry. The reasons advanced by OFB for this under-pricing was that they expected to secure more such export orders in future.

The stand of OFB does not appear to be a prudent since, on one hand, the realisation was only about 30 *per cent* of the cost of production and on the other, it could not expect to increase the prices abruptly if export orders materialised in future.

The matter was referred to OFB/the Ministry in July 1996; their reply was awaited as of December 1996.

62 Reduction of bin card balance of stock without consumption

Steel costing Rs 25.68 lakh struck off from stock accounting cards without its actual consumption.

MSF, Ishapore procured 189.87 tonne of steel bloom (steel) costing Rs 28.75 lakh from Steel Authority of India Limited , Calcutta during February-April 1989 for production of 92,000 forgings against the demand of GSF, Cossipore. However, MSF utilised its existing stock of steel billets and that received from other sister factories in manufacturing 85,698 forgings which were supplied to GSF between October 1988 and March 1991. As a result, the entire quantity of 189.87 tonne of steel so procured, became surplus and was offered to sister factories in January 1992. As there were no takers, MSF sought, in January 1993, the advice of DGOS for its disposal.

When, on 22 March 1993, Audit pointed out the over-provisioning of steel, MSF struck off 169.6 tonne of steel from bin card balances by preparing seven Demand Notes on 31 March 1993 against two warrants, one closed in December 1990 and the other in January 1992. It stated, in May 1993, that the store had been utilised against the intended purpose but there happened to be some delay in posting of Demand Notes in the bin card.

OFB stated, in June 1996, that the steel was physically drawn and rolled during April-August 1989 but Demand Notes were prepared in March 1993. OFB added that due to clerical error, the warrants were closed without placing Demand Notes. After noticing this lapse belatedly, Demand Notes were prepared to regularise the material transaction. This contention does not hold good as the stock of steel was physically checked/verified by the departmental stock verification team in November/December 1990 and December 1991 and no discrepancy between ground and bin card balances was revealed. Besides, the surplus material was offered to sister factories in January 1992 and advice of DGOS sought for its disposal in January 1993.

OFB further stated, in October 1996, that a fact finding board had been ordered in May/June 1996 to find out the circumstances leading to lapses and advisory note was issued by MSF to the concerned section as well as in-charge of stock verification group to avoid recurrence of such incidence in future.

It is, thus, evident that 189.87 tonne of steel valuing Rs 28.75 lakh was procured injudiciously, of which 169.6 tonne valuing Rs 25.68 lakh was struck off from the bin card balance without its actual consumption. No responsibility for the lapse has been fixed as of October 1996.

The matter was referred to the Ministry in March 1996 ; their reply was awaited as of December 1996.

63 Financial repercussion

Suspension of requirement of an ammunition by the Army resulted in financial repercussion of Rs 3.84 crore on account of non-utilisation of empty/filled fuzes at OFs, Khamaria and Chanda.

OF, Khamaria had been manufacturing/supplying empty fuze required for an ammunition to OF, Chanda since 1979-80. Consequent upon suspension of requirement of the ammunition by the Army, OFB did not fix any production programme of the ammunition during 1992-96. As a result, OF, Chanda intimated OF, Khamaria in March 1992 to stop further manufacture and supply of empty fuzes.

When OF, Khamaria received the stop order in March 1992, it was already holding a large stock of 18,495 empty fuzes valuing Rs 1.05 crore. OF, Chanda was also having in its stock 51,072 filled/empty fuzes valuing Rs 2.79 crore, of which, 17,973 fuzes valuing Rs 1.09 crore had already lost their shelf life as of July 1996. Since the Army did not indicate any requirement for this ammunition so far, its

utilisation had become uncertain. However, OFB allocated a programme for manufacture of 1000 fuzes to OF, Chanda for the year 1996-97.

The Ministry stated, in September 1996, that the available stock of fuzes could be utilised only on projection of requirement of the ammunition by the Army.

Thus, due to suspension of requirement of the ammunition by the Army, a large stock of empty and filled fuzes valuing Rs 3.84 crore remained un-utilised at OF, Khamaria and OF, Chanda since March 1992 and prospect of their utilisation was remote.

64 Loss in civil trade

Failure of OF, Ambajhari to assess the market trend of basic materials for aluminium alloy products resulted in loss of Rs 60.66 lakh.

In order to utilise the spare capacity in OFs, OFB authorised OFs to accept civil trade orders at the sale price of prime cost plus 30 *per cent* of total variable and fixed overhead charges.

OF, Ambajhari manufactured aluminium alloy products during 1992-93 at a cost of Rs 189.42 lakh against 28 supply orders of PSUs and sold them at a cost of Rs 128.76 lakh conceding a loss of Rs 60.66 lakh. The sale value of the finished products fell short of the material cost itself by Rs 16.76 lakh. .OF, Ambajhari stated that the loss was due to increase in cost of basic materials during the development of aluminium alloy products.

OFB stated, in October 1996 , that "the market fluctuation of the basic materials could not be predicted and as OF, Ambajhari was trying to enter into civil trade market for sale of products, the main idea/policy was to enter into the contracts with the price under the GM's power prevailing at the time of quotation." It further added that a Board of Enquiry constituted in December 1995, was in progress and action to regularise the loss would be taken.

Thus, a loss of Rs 60.66 lakh arose from the failure of OF, Ambajhari to assess the market trend of basic materials required for manufacture of aluminium alloy products and to make provision for price escalation of basic materials.

The matter was referred to the Ministry in July 1996; their reply was awaited as of December 1996.

65 Non-recovery of arbitrator's award

Delay in preferring risk purchase claim from the defaulting firm and failure to make award of the arbitrator a rule of the court by OFB resulted in non-recovery of Rs 17.73 lakh.

OFB placed an order in July 1991 on a firm for supply of 10 million charger clips (clips) of an ammunition to OF, Varangaon by January 1983 at a cost of Rs 25.27 lakh. The firm supplied 49 lakh clips upto July 1985 and requested OFB in January 1987 to cancel the order without imposing any penalties due to labour problem in their factory. OFB cancelled the order in March 1987 at the risk and cost of the firm. The remaining 51 lakh clips were procured by OFB from another firm by September 1989 at a cost of Rs 30.39 lakh.

Although OFB worked out an extra-expenditure of Rs 17.30 lakh towards the risk purchase order in August 1987, they preferred the claim only in March 1990. In May 1990, the defaulting firm refused to pay the amount of risk purchase on the ground that they had never been advised of such recovery in the past.

In order to resolve the impasse, OFB appointed in February 1992 an arbitrator, who awarded the payment of Rs 17.73 lakh in favour of OFB in July 1992. The same, however, could not be made a rule of the court as of October 1996 as the required stamp duty was belatedly deposited with penalty only in May 1995.

The Ministry stated , in November 1996, that the matter was under constant pursuance with Ministry of Law for taking necessary steps to move the matter before the appropriate authority.

66 Questionable regularisation of loss of stores

Shortages of components worth Rs 1.09 crore were regularised without going into original records and documents as they were weeded out due to expiry of their retention period.

After becoming aware of reported anomalies in the manufacture and consumption of body and nose of an ammunition, the General Manager, OF, Kanpur constituted on 12 March 1992/18 March 1992, a Board of Enquiry (Board) to investigate the matter. The Board, in its report of June 1992, observed that certain entries exhibiting similar quantities appeared twice on bin cards and concluded

therefrom that 12,200 bodies and 44,450 noses were accounted for twice against the same production run, once in 1982 and again in 1985, without going into the question of the actual quantities in stock as per physical verification reports. The Board, therefore, recommended deletion of these quantities, valued at Rs 1.09 crore, from the bin cards and the General Manager accepted this highly questionable recommendations in June 1992.

While the departmental stock verification was carried out every year from 1973 to 1992 except during 1989 to 1991, no discrepancy between the ground and bin cards balances was revealed. The stock verification certificate of 25 March 1992 also showed that the ground balances of 2,117 bodies and 40,752 noses were in agreement with the balances in the bin cards, before striking off the putative duplicate entries as per recommendations of the Board.

It is pertinent to note that the implementation of Board's recommendations was not straightaway possible without adjusting fresh receipts of 9,995 bodies and 4,600 noses in January 1993 as sufficient balances of the impugned items were not available in the bin cards. It is also significant to mention that the putative duplicate entries of stores valued at Rs 1.09 crore were struck off from the bin cards in March 1993 without the concurrence of the finance.

A new General Manager who took charge on 2 November 1994, was not satisfied with the findings of the Board. He, therefore, constituted in December 1994, a fresh Board which upheld the findings of the previous Board, based on the available connected records of Planning and Works sections and not on the basis of documents having authentic evidentiary value, namely warrants and production ledger cards, which were reported to have been weeded out.

The Ministry admitted in February 1995, that no discrepancy was revealed in stock verification conducted upto 1988. It further added that although the next stock verification was conducted in March 1992, "the verifier has possibly not verified the quantity by physical checking/counting."

The Ministry's contention is presumptuous and is a conjecture, unsupported by the glossed over facts of loss of stores worth Rs 1.09 crore as indicated by records.

In November 1996, OFB stated, that "though authentic documents (warrant, cost card) were not available due to expiry of retaining period, Board had come to the conclusion of waving off the excess posting of body and nose from bin card due to duplicate posting of CS vouchers and arrived at this after examining critically all aspects in different angles such as overpayment, total output quantity vis-a-vis quantity of warrants and statement of issue year wise. In fact, this discrepancy arose due to negligence of department stock verifiers who have not performed their responsibility

religiously. Had it been done with proper care i.e. reconciling bin card balance with physical balance regularly, these could have immediately come to the notice of the higher authority for rectifying the wrong posting in bin card. Such negligence of duty on the part of concerned staff had been viewed seriously by the then senior General Manager and initiated disciplinary action against two individuals. This will be pursued to finality."

This contention of OFB is a virtual repetition of the Ministry's reply of February 1995 and is not tenable as stock verification conducted in March 1992 (which have not been impugned) should have revealed a shortage in case duplicate entries in the bin cards had, in fact, been made erroneously. Moreover, the putative duplicate entries of March 1985 should also have revealed corresponding deficits in successive stock verifications from 1986 to 1988 which are now being doubted to support the theory of duplicate posting. Although, this was a fit case for handing over to the CBI for investigation, this aspect appears to have been ignored.

The matter was referred to the Ministry in July 1996, their reply was awaited as of December 1996.

67 Rejected ammunition classified as work-in-progress

Shifting of the cost of rejected ammunition by OF, Chanda to a new warrant as work-in-progress resulted in deflation of rejection loss of Rs 1.38 crore.

Mention was made in Paragraph 61 of Report No. 8 of 1993 of the C&AG of India, Union Government, Defence Services (Army and Ordnance Factories) for the year ended 31 March 1992 about shifting of the cost of rejected ammunition as work-in-progress from closed warrants to new warrants by OF, Dehu Road, resulting in deflation of loss statement. The Ministry, in their ATN, stated in September 1993 that OFB had issued instructions in June 1993 ɔ ordnance factories to follow the prescribed rules to avoid recurrence of such instances in future. As per OFB's instructions the rejected items should be accounted for warrant-wise for the purpose of regularisation with no provision for transfer of rejected items to another warrant.

Notwithstanding these instructions, OF, Chanda transferred 3685 rounds of an ammunition valued at Rs 1.38 crore rejected in proof out of 4000 rounds manufactured in four lots between March 1989 and March 1993 from four closed warrants to a warrant issued in February 1994. CQA had, however, upheld in July 1994 the rejection of all the four lots of the ammunition which failed in proof between August

1989 and July 1993 due to unsatisfactory consistency proof and eccentricity in sample shells.

OFB stated, in August 1996, that the case was related to the period prior to the issue of their instructions in June 1993. This contention is not tenable as the rejected ammunition was transferred to a warrant issued in February 1994. OFB added that loss statement would be prepared after completion of technical investigation by a Board of Enquiry constituted in January 1996.

Thus, in violation of OFB's instructions, OF, Chanda continued to show the rejection loss of Rs 1.38 crore as work-in-progress in their accounts, thus, deflating rejection loss figures for 1994-95. No loss statement has been prepared as of August 1996.

The matter was referred to the Ministry in March 1996 ; their reply was awaited as of December 1996.

68 Follow up on Audit Reports

Despite the directives of PAC, the Ministry failed to furnish remedial/corrective action taken notes on Audit paragraphs in time.

Lok Sabha Secretariat issued instructions in April 1982 to all Ministries requesting them to furnish notes indicating remedial/corrective action taken by them to Ministry of Finance (Department of Expenditure) on various paragraphs, contained in the Audit Reports, as soon as they were laid on the Table of the House, duly vetted by Audit.

The PAC reviewed the position of submission of ATNs during 1995-96 and observed inordinate delays and persisting failure on the part of large number of Ministries in reporting ATNs on audit paragraphs. The Committee in their one Hundred Fifth Report of 1995-96 (10th Lok Sabha) viewed it seriously and directed all Ministries to furnish ATNs in the prescribed format in respect of all outstanding audit paragraphs included in the Report of C&AG up to the year ended 31st March 1993 within three months from the date of presentation of their Report irrespective of their selection by the Committee for detailed examination. The committee further recommended that ATNs in future should be submitted within three months from the date of communication of selection of subjects.

In pursuance of the recommendations of the Committee, Ministry of Finance (Department of Expenditure) issued instructions in September 1995 and March 1996

to all the Ministries to tone up their existing system and evolve effective machinery with a view to timely submission of ATNs to the Committee.

Review of ATNs outstanding for more than three months on paragraphs included in the Report of the C&AG, Union Government, Defence Services (OF) disclosed that the Ministry did not submit ATNs on 52 paragraphs as per details in Annexure IV as of December 1996 despite the instructions of the Committee as shown below:

Audit Report No. and Year	No. of paragraphs on which ATNs were awaited	ATNs not received at all	Final ATNs awaited
12 of 1990	7	2	5
8 of 1991	13	0	13
8 of 1992	2	0	2
8 of 1993	2	0	2
8 of 1994	11	0	11
8 of 1995	17	2	15

Further, though the selection of the paragraphs from Report No. 8 of 1996 for detailed examination by the Committee was communicated on 01 October 1996 and ATNs were to be furnished by December 1996, the Ministry has not furnished ATNs in respect of 30 paragraphs as per Annexure V

CHAPTER V

Works and Military Engineer Services

69 Defective construction of blast pens and taxi track

Sub-standard work in the construction of six blast pens and incorporating revised design and specification for additional seven blast pens after conclusion of contract led to cancellation of contracts. As a result, thirteen blast pens could not be made operational even after incurring an expenditure of Rs 6.78 crore.

In August 1984, the Ministry sanctioned construction of six RCC blast pens alongwith requisite taxi track and other services at an estimated cost of Rs 248.15 lakh.

A contract was, thereafter, concluded by Zonal CE in March 1985 for Rs 247.60 lakh. When the work was complete (except for the floor of one blast pen and its link taxi track) by October 1988, cracks were noticed in the quality concrete pavements. A Technical Board, held in December 1988, found the engineers responsible for the sub-standard work, while the CRRI, New Delhi found (February 1989) the work falling short of the required technical specifications. The contract was cancelled in July 1993 and a risk and cost contract was concluded in August 1995 for Rs 68.15 lakh.

While no action was taken to remedy the defects noticed in the six blast pens already constructed, a contract was concluded in March 1988 for Rs 239.47 lakh for construction of seven RCC blast pens and related services pursuant to sanction of the Ministry accorded in February 1987 at an estimated cost of Rs 310.82 lakh. At the instance of CRRI, who investigated the defective construction of six blast pens mentioned earlier, the design and specification of the pavements were revised after conclusion of the contract in March 1988 but the contractor refused to carry out the pavement construction as per revised specification. Therefore, after 79 *per cent* of the seven above mentioned blast pens was completed, the contract was cancelled in April 1993 and a risk and cost contract for an amount of Rs 164.20 lakh awarded in July 1993.

As of April 1995, a total amount of Rs 6.78 crore had been spent in the construction of thirteen blast pens and related services which remained incomplete as of August 1996 and could not be made operational for Indian Air Force.

The above case was withdrawn in November 1990 from the CI convened in November 1989 for examination by CBI. CBI closed the case in August 1992 on the ground that the concerned Officers had retired, although the CE subsequently claimed in April 1994 that all the 22 Officers were still in service.

The Ministry, while accepting the facts, stated in August 1996 that the work of the six blast pens was expected to be completed by March 1997 and for seven blast pens by August 1996. No confirmation had, however, been received regarding the completion of seven blast pens as of December, 1996. The Ministry also did not elaborate why action against Officers responsible for the lapse had not been initiated.

70 Unfruitful expenditure due to delay in completion of work

Failure of the contractor to complete the work even after allowing additional time of six years led to cancellation of contract. As a result, no benefit had accrued from the investment of Rs 146.08 lakh.

A contract was concluded by a Zonal CE in November 1985 for Rs 63.54 lakh for construction of other than married accommodation for a signal regiment on 31 different sites at a station `A'. Although the work was to be completed by June 1987, extension upto December 1988 was allowed on the ground of delay in handing over of some of the sites. Despite further extensions, only 80 *per cent* of the work could be completed by March 1994, when the contract was cancelled at the risk and cost of the contractor. As of May 1996, a total amount of Rs 146.08 lakh stood booked against the work inclusive of Rs 2.50 lakh overpaid to the contractor as well as Rs 32.58 lakh of stores issued in excess.

A Technical Board of Officers held in May 1995, observed certain defects arising from poor workmanship and needing immediate repairs. Although the CE decided to include the rectification of defects in the risk and cost contract, no risk and cost contract had been concluded as of October 1996. As a result, no benefit had accrued from the investment of Rs 146.08 lakh. No action had also been taken to recover the stores valued at Rs 32.58 lakh issued in excess to the contractor.

While accepting the facts, the Ministry stated, in October 1996, that after vacating court injunction order, action to invite tenders was being taken. The Ministry added that action to recover Rs 35.08 lakh on account of over issue of stores and

overpayment to the contractor would be initiated after the acceptance of risk and cost contract. They further stated that action was in hand to fix responsibility.

71 Loss due to irregular accounting

Perpetration of irregular accounting and tampering of records fraudulently in the store accounts of a GE resulted in loss of Rs 115.26 lakh.

According to the instructions issued by E-in-C in April 1970 as amended from time to time, all items of straight steel bars on receipt in a MES Division were to be accounted for by weight conversion factors and all subsequent transactions would be made in converted weight. Test audit of the records of a GE conducted in October 1988 revealed that although steel was accounted for by weight conversion, subsequent issues to contractors were made by adopting different conversion factors which resulted in short recovery from the contractors. In addition, fraudulent issue of 136 bags of cement was also pointed out. The GE was, therefore, requested in December 1988, to get the transactions for the last five years investigated by a Board of Officers to find out the actual loss of stores.

The entire stock of steel and cement was thereafter checked by a stock taking Board in May 1990, who pointed out a discrepancy of stores valuing Rs 3.79 lakh. Another Board, held in August 1990, discovered discrepancies of stores valuing Rs 6.64 lakh.

Subsequently, a special audit conducted by CDA reported in February 1993/May 1994 a loss of Rs 115.26 lakh. The loss was on account of irregular accounting of steel between 1985 and 1992, tampering of ledgers, charging off stores in excess of the quantity shown in the vouchers, taking on charge less quantity and charging off stores shown as transfer to other divisions without supporting issue/receipt vouchers of recipients.

The Ministry stated in October 1996 that the actual loss could not be arrived at correctly since a large number of indents, receipt/transfer vouchers etc. were not readily available. They added that the case was under investigation by CBI and final outcome of the case was awaited.

Thus, perpetration of irregular accounting and tampering of records fraudulently had resulted in loss of Rs 115.26 lakh which was yet to be finalised and responsibility fixed.

72 Escalation in cost due to delay in according financial concurrence

Delay of about two years in according financial concurrence for main work and consequential delayed execution of other allied works resulted in cost escalation of the project by Rs 1.08 crore.

The Ministry in June 1986, accorded sanction for construction of married accommodation for JCOs and Other Ranks of NCC units at Calcutta at an estimated cost of Rs 2.75 crore to be completed by July 1991. Of this, the amount sanctioned for construction of building and external services was Rs 1.65 crore and that for procurement of furniture, provision of lifts, generating sets and fire fighting appliances was Rs 0.71 crore.

The lowest tender received in September 1988 and valid upto May 1990 for the building and other works could not be accepted without financial concurrence (FC) as the tender amount of Rs 2.05 crore exceeded the sanctioned amount of Rs 1.65 crore. The requisite concurrence was sought in October 1988 and accorded in September 1990 after expiry of the validity of the offer. There was, however, no evidence on record to show that the matter was pursued vigorously to obtain FC before expiry of the offer. Tenders were, therefore, reinvited in April 1991 and a contract was concluded in March 1992 for Rs 2.64 crore after obtaining FC. The work was completed in April 1994. Thus, abnormal delay of about two years in according FC resulted in retendering and avoidable cost escalation of Rs 0.59 crore.

As a consequence of delay in completion of aforementioned works, other allied works namely, procurement of furniture, provision of lifts, generating sets, and fire fighting appliances sanctioned for Rs 0.71 crore were actually contracted for at a total cost of Rs 1.20 crore between March 1993 and November 1993 after obtaining FC. This work was completed between March 1994 and June 1995 except the fire fighting appliances which was in progress as of January 1996. The cost escalation on this account worked out to Rs 0.49 crore.

Thus, delay of about two years in according FC for main works and consequential delayed execution of other allied works resulted in a total avoidable cost escalation of the project by Rs 1.08 crore.

The matter was referred to the Ministry in June 1996 ; their reply was awaited as of December 1996.

73 Extra expenditure due to abnormal delay

Abnormal delay in finalising lowest offer resulted in steep escalation of cost of the project involving an extra expenditure of Rs 104.67 lakh.

HQ Southern Command, Pune accorded sanction in September/November 1986 for provision of married accommodation for 54 MES Key personnel at Wellington at a total cost of Rs 74.69 lakh, the building component of which was Rs 48.56 lakh

Tenders were issued by CE , Cochin Zone (CECZ) for buildings portion of the work in September 1987. As the lowest tendered amount of Rs 72.38 lakh was in excess of the sanctioned amount, financial concurrence (FC) to accept the contract was sought in December 1987.

No FC was, however, forthcoming as between January 1988 and September 1993, there was exchange of correspondence between E-in-C and CECZ about pruning of estimates without reaching any finality till September 1993 when the project was transferred to CE, Madras Zone (CEMZ). The work was put to fresh tender in April 1994, FC obtained and a contract was concluded in November 1994 at a cost of Rs 155.06 lakh. The cost of the project was further revised to Rs 179.36 lakh in February 1995.

The Ministry stated in October 1996 that the lowest offer of September 1987 was not progressed as E-in-C turned down FC in May 1988 and the planning of work had to be taken up ab-initio due to transfer of project from CECZ to CEMZ. This contention was not tenable because the project was transferred to CEMZ in September 1993, i.e. after six years of receipt of the lowest tender.

It was, therefore, evident that abnormal delay in finalising lowest offer of September 1987 resulted in steep escalation of cost of the project involving an extra expenditure of Rs 104.67 lakh being the difference between the original and revised sanction.

74 Avoidable construction of perimeter wall

Non observance of the directions of Army Commander led to construction of superfluous perimeter wall incurring an avoidable expenditure of more than one crore.

In March 1992, the Ministry sanctioned construction of perimeter wall around an Ammunition Depot (AD) at an estimated cost of Rs 127.60 lakh, where double security fencing was already existing.

Zonal CE concluded a contract with a firm in December 1992 for Rs 101.40 lakh for the construction of the aforesaid wall. For default of the firm, CE cancelled the contract in July 1994 when the work had progressed upto three *per cent* and expenditure incurred was Rs 12.20 lakh. A risk and cost contract for Rs 92.56 lakh was, thereafter, concluded in November 1994.

Before the issue of tenders for the risk and cost contract in October 1994, however, Army Commander, in September 1994, directed that boundary walls around ADs should be provided only where double security fencing did not exist. Concerned branches of Command HQ were asked in November 1994 to examine all such ongoing works/works at planning stage in all ADs of the command and to forward recommendations for foreclosure of affected works.

In November 1994, Engineer Branch of Command HQ forwarded these directions to CE seeking comments on foreclosure of the aforesaid work. In reply, CE stated, in December 1994, that the work was already in progress and foreclosure at that stage would lead to contractual complications. An expenditure of Rs 124.78 lakh had been incurred as of June 1996 on the construction of a perimeter wall.

Since the Accepting Officer was empowered to foreclose the work at any stage without payment of any compensation to the firm except payment for executed work and reasonable payment for any related expenses under the general conditions of the contract, CE's contention to continue the work had no acceptable basis.

No action had been taken to examine why directions of Army Commander were not observed and why an avoidable expenditure of more than one crore was incurred on the construction of the perimeter wall.

While accepting the facts, the Ministry stated, in October 1996, that the work was authorised as per scales of accommodation. The contention of the Ministry was not tenable as the scales of accommodation did not provide for construction of perimeter wall where double fencing already existed.

75 Unauthorised expenditure on procurement of cast iron pipes of higher specification

CE Bhatinda Zone incurred an extra expenditure of Rs 1.01 crore unauthorisedly on procurement of over-specified cast iron pipes.

In June 1993, the Ministry sanctioned provision of water supply at Bikaner at an estimated cost of Rs 789.50 lakh indicating that Cast Iron (CI) pipes of 450 mm dia were to be used for carrying raw water. For the second phase of the work sanctioned in October 1994 at an estimated cost of Rs 415.56 lakh, the same specification of CI pipes was maintained.

In November 1993, Zonal CE, Bhatinda decided to use 600 mm dia CI pipes instead of 450 mm dia without obtaining any approval for this change. After placing supply order in December 1993 on a firm for supply of 4000 metres of over specified pipes at DGSD approved rates, CE referred the matter to E-in-C only in March 1994 for obtaining approval for change of specification but without waiting for the reaction of E-in-C, he placed a further order for supply of 4188 metres at the prevailing DGSD rates in January 1995.

As the approval of E-in-C for use of higher specification CI pipes was not forthcoming, the CE asked the firm in March 1995 to stop supply of CI pipes against the supply order of January 1995. Subsequently, E-in-C specifically communicated his disagreement in May 1995 to the proposal of CE to use CI pipes of 600 mm dia. By that time, the entire ordered quantity of 8188 metres had been despatched by the firm and as a result, the entire quantity of 8188 metres of over-specified CI pipes were un-necessarily and unauthorisedly procured, incurring an additional expenditure of Rs 1.01 crore in the process. Had the CE referred the matter to E-in-C before placement of orders and waited for the outcome, the extra expenditure of Rs 1.01 crore could have been averted.

The matter was referred to the Ministry in May 1996 ; their reply was awaited as of December 1996.

76. Non-recovery of excess issue of departmental stores from contractors

Failure of engineers to exercise control on issue of departmental stores to the contractors led to their excess issue. Rs 73.74 lakh was recoverable from the contractors.

General conditions of the contract and Regulations for MES stipulate that stores issued to the contractors should be used only on the works executed under the contract. On completion of the work, stores issued but not utilised in the works should be returned, failing which recovery for such stores was to be effected at double the market rate from the contractor.

Test check disclosed that in the undermentioned three cases due to failure of engineers to exercise control, stores were issued in excess of the requirement to the contractors. These were neither returned by them nor any recovery effected, for which Rs 73.74 lakh was recoverable from the contractors.

Case I

Pursuant to a contract for construction of single accommodation for junior Sailors at a Naval station, the contractor completed the work in December 1992 but did not submit his final bill. Consequently, the GE prepared it in May 1994 and noticed that certain stores issued in excess of the requirement, had not been returned by the contractor. The GE addressed the contractor only in June 1994 after 18 months from the date of completion of work. As the contractor did not return the excess stores as of September 1996, an amount of Rs 18.73 lakh at double the market rate stood recoverable from him.

The matter was referred to the Ministry in June 1996; their reply was awaited as of December 1996.

Case II

The work for construction of other than married (OTM) accommodation for troops at another station was completed in October 1990 but the contractor did not submit his final bill which was prepared by the GE. A Technical board of Officers noticed in August 1994 excess issue of stores to the contractor, which had not been returned by him. An amount of Rs 14.37 lakh at double the market rate was awaiting recovery from the contractor as of November 1996.

The CE stated, in September 1995, that excess issue of stores was attributable to the failure of the GE and other supervisory staff. CI ordered in December 1995 to fix responsibility, had not finalised its proceedings as of November 1996.

The Ministry stated, in December 1996, that an arbitrator had been appointed in April 1996 as requested by the contractor. It also added that bank guarantee for Rs 1.50 lakh had been encashed.

Case III

The work for construction of OTM accommodation for a signal regiment at a station scheduled to be completed by June 1987 was not completed by the contractor despite extensions. The contract was cancelled in September 1994.

A Board of Officers held in March/April 1994 detected excess issue of stores to the contractor, which were returnable by him immediately after cancellation of the contract in September 1994. An amount of Rs 40.64 lakh at double the market rate was yet to be recovered.

The Ministry stated, in December 1996, that findings of staff CI ordered in September 1994 to fix responsibility, were awaited.

77 Non-utilisation of swimming pool

A swimming pool constructed for imparting training to recruits could not be made fully functional even after its repairs for the last 15 yearsof its construction for which special repair had now been assessed at Rs 60 lakh.

Paragraph 65 of Report No. 2 of 1989 of the C&AG of India, Union Government, Defence Services (Army and OF) for the year ended 31 March 1988, highlighted defective construction of a swimming pool which suffered from considerable leakage, for the repairs of which additional expenditure was incurred. The Ministry, in their ATN of January 1991, stated that the swimming pool was in use and no loss of water noticed ; a CI was also ordered in September 1990 to ensure that the persons responsible were brought to book.

Upon examining the utilisation of the swimming pool since 1991, it was found that water proofing treatment to the swimming pool completed in May 1985 by a firm carried a guarantee for ten years(upto May 1995).

Despite the said repairs, heavy leakage to the extent of 60 thousand gallons per day against permissible 15 thousand gallons continued. The GE asked the firm in October 1990 and March 1991 to rectify the defect, but the firm failed. The Engineers,

therefore, decided in December 1993 to carry out repairs at the risk and cost of the firm. But, till date (October 1996), no risk and cost contract had been concluded.

The pool was earmarked for HQ Artillery Centre for imparting training to troops but as the said pool could not become fully functional even after 15 years of its construction, the users pressed area HQ for taking up on a priority basis the requisite special repairs which had now been estimated to cost Rs 60 lakh.

The Ministry while accepting the facts stated in October 1996 that in the absence of the swimming pool, no swimming and watermanship training was being imparted to recruits.

78 Non-recovery of extra expenditure from a defaulting contractor

An amount of Rs 48.74 lakh was yet to be recovered from the defaulting contractor.

CE, Lucknow Zone concluded in February 1989 a contract with a firm for construction of 64 MES Key personnel quarters at cost of Rs 55.69 lakh to be completed by September 1990. The contractor failed to complete the work even after extensions from time to time and as such the contract was cancelled in February 1992. The progress of the work at the time of cancellation was 80.64 *per cent* and a sum of Rs 30.67 lakh was paid to the contractor.

In order to complete the left over work at the risk and cost of the firm, CWE concluded in January 1993, another contract and got the work completed in February 1994 at a cost of Rs 35.97 lakh.

In the meantime, in July 1993 the defaulting contractor was asked to deposit Rs 35.92 lakh as tentative recovery for getting the work executed at his risk and cost but the contractor did not deposit any amount. The amount of final recovery including value of excess stores issued (Rs 7.41 lakh) as worked out by the GE in September 1995 was Rs 48.74 lakh. The recovery is yet to be effected from the defaulting contractor as of September 1996.

The Ministry stated, in September 1996, that the appointment of arbitrator had been proposed to E-in-C branch of Army HQ to finalise recovery.

79 Non-utilisation of assets due to faulty planning

A new building constructed in 1991 at a cost of Rs 37.97 lakh was lying un-utilised due to faulty planning.

It was noticed during August 1978 that the old existing signal centre buildings at Kota required large maintenance effort as it suffered from considerable leakage/seepage during monsoons. These were evidently ill-suited to house modern communication equipment for a new signal exchange, the work for which was sanctioned in February 1984. The new building was completed at a cost of Rs 37.97 lakh and handed over to the users in 1991.

Over a period of time, a network of underground cables relating to existing PABX exchange housed in the old building was developed in the Kota Cantonment by DOT under Rent and Guarantee (R&G) terms, which expired in May 1993. The outdoor plant for this exchange consisted of underground cables and permanent line routes, laying of which under R&G terms had to take into account the location of the old building, formation and other units at Kota. But no steps were taken to provide a conveniently located outdoor plant for the signal system to be housed in the new building.

In order to instal the new outdoor plant, complete renovation of local trunks and civil lines/underground cables to the new location at a distance of 1.5 km from the old one was required. The requirement of installing the new Army owned outdoor plant was identified only in September 1994 and as such requirement of funds was not projected earlier. The estimated cost of the outdoor plant for the modern signal system worked out to Rs 99.57 lakh and was likely to take six years to complete after sanction. While this work was yet to be approved, annual rent of Rs 6 lakh was being paid to DOT for the existing outdoor plant lines after expiry of the R&G terms.

Thus, due to faulty planning, a new building constructed at a cost of Rs 37.97 lakh could not be used for the purpose for which it was built for more than five years with no immediate prospect of its being used. Besides, as of May 1996, a total amount of Rs 18 lakh had already been paid to DOT as annual rent for the use of the old outdoor plant.

The matter was referred to Ministry in May 1996; their reply was awaited as of December 1996.

80 Avoidable payment of load violation charges

GE, Palam had paid load violation charges of Rs 36.29 lakh to DESU due to his failure to deposit with DESU Rs 22.73 lakh for load enhancement.

GE, Palam approached DESU in March 1988 to enhance the electric load for local units to 750 KW which was reduced to 425 KW in June 1993. DESU demanded Rs 22.73 lakh as the party's share for providing additional load. DESU did not enhance the load due to failure of the GE to deposit the amount. As a result, GE had to pay load violation charges amounting to Rs 36.29 lakh to DESU from April 1993 to December 1995 for consumption of power in excess of the load contracted for.

The Ministry stated, in August 1996, that load violation charges were wrongly claimed by DESU and they were being asked to refund the same. The Ministry added that the amount of Rs 22.73 lakh demanded by DESU was for a duplicate feeder and not related to enhancement of load. This contention was not tenable as DESU specifically intimated the GE in April/July 1994 that as per their policy, the additional load could be released through duplicate feeder which would be installed only after the required amount was deposited.

Thus, failure of GE in depositing the amount of Rs 22.73 lakh for enhancement of load resulted in avoidable payment of load violation charges of Rs 36.29 lakh to DESU for the period April 1993 to December 1995. Such charges would continue till enhancement of load by DESU.

81 Execution of substandard work

Due to poor workmanship and delayed action for rectification of defects, the assets created at a cost of Rs 22.57 lakh had been lying un-utilised since April 1987.

Water supply works at Bakloh was sanctioned in January 1983 and completed in April 1987 at a total cost of Rs 22.57 lakh but could not be made functional on account of defects like cracks in the sedimentation and filtration tanks, etc.

A Board of Officers (Board) assembled in December 1990 and recommended construction of four inch RCC walls inside the above mentioned tanks but no action was taken in that regard till another Board assembled in May 1994 and recommended addition and alteration to the filtration tank on priority basis at an estimated cost of

Rs 3.63 lakh. The recommendation of the latter Board was sanctioned in June 1994 but the work was yet to be completed. However, no action was taken to fix responsibility for the substandard work for which cracks developed in the sedimentation and filtration tanks.

Thus, due to poor initial workmanship and thereafter due to delayed actions, the assets created at a cost of Rs 22.57 lakh had been lying un-utilised since April 1987, thereby defeating the very purpose of the project. It was not known how the requirement of water at Bakloh was being met in the absence of the project.

The matter was referred to the Ministry in June 1996 ; their reply was awaited as of December 1996.

CHAPTER VI

Research and Development Organisation

82 Non-commissioning of a heating system

Defence Science Centre failed to assess the specifications of a heating system before its procurement. As a result, the system was awaiting commissioning for the last three years inspite of an investment of Rs 35.40 lakh.

Defence Science Centre (DSC) concluded a contract with BHEL in February 1992 for supply of one pebble bed heating system (system) for an R&D project at a cost of Rs 65 lakh for delivery and commissioning by April 1993. DSC paid an amount of Rs 35.40 lakh, being 60 *per cent* of cost of equipment, in two equal instalments in August 1992 and November 1993 as per terms and conditions of the contract. BHEL supplied material and parts in September 1993 for its assembly subsequently. The system was yet to be commissioned since a Board of Officers ordered in September 1994 for inspection and acceptance of the equipment did not finalise its findings as of September 1996.

The Ministry stated, in September 1996, that the system had been integrated into hypersonic test facility and additional enhancement in performance was still to be established for which studies were in progress.

Thus, DSC failed to commission the equipment even after expiry of a period of three years since receipt of the material and parts in September 1993 and investing Rs 35.40 lakh.

CHAPTER VII

Border Roads Organisation

83 Avoidable expenditure on acquisition of land

Failure of CE (Project) in taking a decision for acquisition of land as per award of October 1988 resulted in avoidable expenditure of Rs 33.55 lakh.

For accommodating the troops of a HQ CE (Project) and its allied units, acquisition of 7.215 acre of land at Shimla at an estimated cost of Rs 21.96 lakh was sanctioned by Government in December 1985. After following the usual procedure, the LA Collector gave his award in October 1988 for Rs 137.91 lakh.

In December 1988, the matter was taken up with the LA Collector for cancellation of the award mainly on two inconsistent grounds namely, that the cost of acquisition was exorbitant and that the project HQ was planned to be shifted to Chandigarh. Himachal Pradesh (HP) Government accordingly published a notification for cancellation in December 1989. But the land owners had, in September 1989, filed a suit before HP High Court asking for compensation under section 48(2) of the Land Acquisition Act. High Court ordered in March 1990 that irrespective of the quantum of the award, the land owners were entitled to the compensation as per the Act determined by LA Collector. The amount of compensation payable was determined at Rs 114 lakh.

Since non-acquisition of land was proving to be too expensive, a fresh case for acquisition of the land had to be initiated, as the original acquisition proceedings were notified for cancellation. Accordingly, fresh proceedings were started in November 1990 and the proposal for shifting of the Project HQ to Chandigarh was dropped. In September 1991, a revised sanction for Rs 171.46 lakh was issued. In July 1992, LA Collector published his award equal to the sanctioned amount. The payment was made to the land owners in October 1991 and the possession of land taken over in July 1992 by the Project HQ.

Had a decision been taken to acquire the land as per the award of LA Collector in October 1988 without asking for cancellation of the award, an extra expenditure of Rs 33.55 lakh could have been avoided. It was, further, observed that

after acquisition of the land in July 1992, no steps had been taken to commence construction of the accommodation for the troops for whom the land was acquired.

The matter was referred to Ministry of Surface Transport in April 1996; their reply was awaited as of December 1996.

(V.SRIKANTAN)
Additional Deputy Comptroller and Auditor General

NEW DELHI
Dated

13 MAR 1997

Countersigned

(V.K.SHUNGLU)
Comptroller and Auditor General of India

NEW DELHI
Dated

13 MAR 1997

Annexure-I

(Referred to in Para 15)

Sl. No.	S.O.	Item	Qty Ordered (Numbers)	Requirement for the period April 1991 to March 1996 (Numbers)	Surplus (Numbers)
1.	CPO(VG) 429	Operators Seat	285	41	244
2.	CPO(VG) 431	Commander's Seat	285	106	179
3.	CPO(VG) 432	Cushion	2785	143	2642
		Spring	2785	690	2095
		Lock	285	43	242
		Lock retainer	285	64	221
		Belt	2785	820	1965
		Buckle	2785	732	2053
		Half Ring	560	195.	365
4.	CPO(VG) 435	Cushion	2785	173	2612
5.	CPO(VG) 436	Cushion	2785	185	2600

Annexure II

(Referred to in Paragraph 16)

Position of outstanding ATNs

Sl. No.	Report No. and year	Para No.	Subject
1.	Audit Report Union Government (Defence Services) for the year 1985-86	34*	Loss due to delay in pointing out short/defective supply
2.		69*	Failure to recover charges for use of Defence siding
3.	No.2 of 1988	9*	Purchase of Combat dress from trade
4.		33*	Working of Military Farms
5.		41*	Loss in procurement of wax special
6.	No.2 of 1989	11	Purchase and licence production of 155 mm towed gun system and ammunition
7.		18*	Undue delay in rectification of defects in guns
8.		29*	Procurement of substandard oars
9.		81*	Review on utilisation of equipment in Defence Research and Development Organisation
10.	No.12 of 1990	9	Contracts with Bofors for (a) purchase and licence production of 155 mm gun system and (b) counter trade
11.		15*	Repair facilities for a weapon system
12.		17*	Import of fire control system for tank
13.		19*	Import of ammunition of old vintage
14.		46*	Ration article - Dal
15.		98* Case I	Delay in according financial concurrence
16.		113*	Payment of electricity duty/tax
17.	No.8 of 1991	1.7*	Non-verification of credits for stores
18.		2*	Procurement of crash fire tenders
19.		5*	Delay in modernisation of a tank

20.		10*	Procurement of stores in excess of requirement
21.		13*	Central Ordnance Depot, Agra
22.		15*	Extra expenditure due to wrong termination of a meat contract
23.		17*	Infructuous expenditure on procurement of dal chana
24.		45*	Duplication of research due to lack of co-ordination
25.		90*	Faulty construction of overhead tanks
26.		94*	Premature closure of a research project
27.	No.8 of 1992	7*	Extra expenditure on the procurement of sheet ground light weight OG
28.		12	Procurement of computer
29.		18*	Supply of sub-standard timber soft wood
30.		20*	Procurement of sub-standard goods in an Ordnance Depot
31.		28*	Avoidable payment of maintenance charges for Defence tracks not in use
32.		58	Procurement of stores in excess of requirement
33.		67*	Delay in construction of BPIs
34.		72*	Delay in construction of storage accommodation
35.		81*	Redundant payment of service charges to a Cantonment Board
36.		91*	Delay in investigation into untraceable/missing items of furniture
37.	No.13 of 1992	Part I*	Recruitment of ORs
38.		Part II	Training of Other Ranks
39.	No.14 of 1992	Entire Report	Army Base Workshops
40.	No.8 of 1993	7	Extra expenditure due to delay in issue of allotment letters
41.		13*	Infructuous expenditure on development of radar
42.		15*	Non-utilisation of assets
43.		16	Procurement of rubber bushes
44.		19*	Court of Inquiry proceedings
45.		20*	Loss due to manufacturing defects
46.		23*	Procurement of sub-standard goods
47.		25*	Holding of surplus target sleeves

48.		29*	Import of mountaineering equipment and sports items
49.		31*	Avoidable payment of detention charges
50.		33*	Additional expenditure due to rental of an exchange
51.		68*	Civil works for a Naval Air station
52.		69	Non-utilisation of assets created for a computer centre
53.		71* Case II	Irregular provision of compound walls
54.		74 Case II	Provision of training sheds
55.		75*	Extra expenditure due to delay in according financial concurrence
56.		80*	Construction of an Officers' Institute/Non-gazetted Officers' Club
57.	No.8 of 1994	10*	Establishment of a National War Museum
58.		17*	Import of defective equipment
59.		18*	Non-commissioning of a plant
60.		23*	Avoidable payment of customs duty
61.		63* Cases I II &IV	Conclusion of contracts at extra cost due to delay in obtaining financial concurrence
62.		64*	Infructuous expenditure due to inadequacies in design and execution of works
63.		65*	Non-utilisation of assets due to improper plannning and their sub-standard execution
64.		66*	Unfruitful expenditure on swimming pool
65.		67*	Construction of married accommodation and its re-appropriation
66.		68*	Extra expenditure due to delay in finalisation of a water supply scheme
67.		70*	Non-utilisation of stores purchased without sanction
68.		71*	Avoidable payments made to CPWD
69.		72*	Procurement of an item at higher rate
70.		73*	Extra expenditure due to failure in timely submission of revised estimates
71.		75*	Avoidable expenditure due to wrong selection of site

72.		76	Establishment of an Army Public School
73.		78*	Short recovery of electricity charges
74.		79*	Acceptance of sub-standard furniture
75.		80*	Non-utilisation of assets due to defective construction
76.		82*	Loss of revenue due to non-completion of works of external electrification and water supply
77.		84*	Blocking of funds due to poor planning
78.		85*	Provision of defective gravent ventilation system
79.	No.8 of 1995	9*	Unadjusted amounts of security deposits lying with the courts
80.		12*	Working of the Department of Defence Supplies
81.		13*	Delay in repair of defective imported ammunition
82.		16*	Unauthorised payment of Daily Allowance to Service Officers
83.		17*	Import of radar
84.		18*	Loss on account of non-permissible wastage of wheat in grinding
85.		22 Case II	Recovery at the instance of Audit
86.		23*	Issue, repair and utilisation of `B' vehicles
87.		24*	Import of defective barrels
88.		26*	Abnormal delay in the repair of an imported equipment
89.		27*	Non-utilisation of an imported equipment
90.		29	Manufacture of defective parachutes
91.		30	Non-utilisation of parachutes
92.		34*	Avoidable extra expenditure on procurement of roof trough
93.		35*	Extra expenditure on acquisition of land
94.		36*	Blocking of funds
95.		75*	Non-refund of energy charges paid in excess
96.		77*	Extra expenditure due to delay in execution of contract
97.		79*	Avoidable extra expenditure due to delay in construction
98.		80*	Execution and payment for defective work
99.		81*	Under-utilisation of assets

100.	83 Case II	Avoidable payment of load violation charges/penalty surcharges
101.	84*	Avoidable extra expenditure due to defective construction
102.	85*	Avoidable hiring of accommodation due to delay in completion of married accommodation
103.	86*	Non-commissioning of automatic fire fighting system
104.	87	Collapse of an overhead water tank
105.	88*	Review on equipment, manpower and material management in six Research and Development Establishments

* Final ATN awaited

Annexure-III

(Referred to in Para 16)

Position of outstanding ATNs

Sl. No.	Report No. and year	Para No.	Subject
1.	No. 8 of 1996	2*	Budget and Actuals
2.		3*	Control over expenditure
3.		4*	Injudicious expenditure
4.		5*	Persistent savings
5.		6	Expenditure incurred without Government sanction
6.		7	Non-settlement of Audit objections
7.		8	Non-verification of credit of imported stores
8.		9	Outstanding claims/dues
9.		10	Cash loss
10.		11*	Delay in procurement of simulators
11.		13*	Non-utilisation of radio equipment sets
12.		14*	Additional expenditure due to non-acceptance of offer within validity
13.		17*	Recoveries at the instance of audit
14.		18	Extra expenditure due to delay in placing orders
15.		19*	Injudicious import of tensile tester
16.		20	Follow up on Audit Reports
17.		21	Recruitment and Training of Army officers
18.		22	Hiring of vehicles
19.		23*	Short recovery of air lifting charges
20.		24*	Wasteful expenditure on injudicious procurement of tyres
21.		25	Avoidable procurement of mounting tripods
22.		26	Loss on account of procedural lapse
23.		27*	Non-utilisation of diesal hydraulic locomotive shunter
24.		28*	Loss from life expired oil
25.		29*	Non-utilisation of an imported equipment
26.		63	Nugatory expenditure due to lack of planning
27.		64*	Avoidable payment of electricity charges

28.	65*	Loss of stores due to fraud and neglect
29.	66*	Irregular sanctioning of work and its execution
30.	67*	Savings at the instance of audit
31.	68	Delay in construction of married accommodation for sailors
32.	69	Irregular expenditure on a public school
33.	70	Supply of sub-standard high strength cement
34.	71*	Construction of sub-standard roads
35.	72	Irregular and fraudulent stores transactions resulting in loss
36.	73*	Overpayments to a firm
37.	74*	Avoidable expenditure due to excess provision of single accommodation
38.	75	Unauthorised construction of squash courts
39.	76*	Infructuous expenditure on design and development of half track multirole vehicle
40.	77	Blockage of funds and delay in implementation of a project

* Final ATN awaited.

Annexure IV

(Referred to para 68)

Position of outstanding ATNs

Sl. No.	Report No. And Year	Para No.	Subject	Remarks
1	No. 12 of 1990	51	Material Management in Ordnance & Ordnance Equipment Factories	ATN not at all received
2	-do-	58	Productionisation of aviation gun and its ammunition	-do-
3	-do-	50	General Performance of Ordnance & Clothing Factory	Final ATN awaited
4	-do-	60	Expansion of capacity without prospective need	-do-
5		63	Wasteful production of empty bodies	-do-
6		66	Production of field gun ammunition	-do-
7		89	Supply of bogie type furnace	-do-
8	No. 8 of 1991	24	Indigenous production of an ammunition	Final ATN awaited
9	-do-	25	Working of the Gray IronFoundry, Jabalpur	-do-
10	-do-	32	Production action without formal indent	-do-
11	-do-	36	Rectification of cartridge cases	-do-
12	-do-	49	Unnecessary procurement of tracts	-do-
13	-do-	51	Purchase at inflated price	-do-
14	-do-	53	Purchase without buyer's option clause and consequent loss of rate advantage	-do-
15	-do-	59	Violation of operating instructions	-do-
16	-do-	65	Premature failure of acid storage tanks	-do-
17	-do-	68	Loss due to condemnation	-do-
18	-do-	69	Claim foregone due to lack of evidence	-do-
19	-do-	70	Overpayment of customs duty	-do-
20	-do-	72	Loss of revenue	-do-
21	No. 8 of 1992	48	Rejection of forging	Final ATN awaited
22	-do-	94	Development and production of Bridge Layer Tanks	-do-
23	No. 8 of 1993	52	Procurement of containers for a phased out ammunition	Final ATN awaited

24	-do-	54	Non-Utilisation of stores due to non-procurement of a correct instrument	-do-
25	No. 8 of 1994	27	Opto-Electronic Project - Review	Final ATN awaited
26	-do-	30	Short-closure of an order for empty bodies of a bomb	-do-
27	-do-	31	Short-closure of an order	-do-
28	-do-	33	Unplanned reduction in production programme-blocking of funds	-do-
29	-do-	38	Infructuous expenditure due to placement of orders without approval of an item	-do
30	-do-	49	Procurement of a robotic welding station	-do-
31	-do-	50	Infructuous expenditure on procurement of a defective testing machine	-do-
32	-do-	54	Acceptance of defective core and funnel assemblies in inspection	-do-
33	-do-	55	Procurement of defective fuzes	-do-
34	-do-	56	Inadequate testing parameters resulting in inappropriate procurement and blockage of fund	-do-
35	-do-	60	Excess payment of sales tax	-do-
36	No. 8 of 1995	40	Indian Small Arms System (INSAS)- review	Final ATN awaited
37		41	Heavy Alloy Penetrator Factory, Trichy - Review	-do-
38		43	Loss due to transfer of production and rejection	-do-
39		47	Blocking of capital due to short-closure of orders	-do-
40		50	Abnormal rejection during proof	-do-
41		52	Manufacture of defective blanks	-do-
42		55	Suppression of loss in production	-do-
43		56	Imported stores lying rejected	-do-
44		57	Delay in procurement leading to loss of productivity	-do-
45		59	Rejection of stores procured from sister factory due to long storage	-do-
46		62	Unproductive investment on commissioning of a machine	-do-
47		66	Loss of stores due to fire	-do-
48	No. 8 of 1995	67	Unintended benefit given to a foreign firm	Final ATN awaited

49		68	Huge deficiency of empty grenades in stock	-do-
50		69	Shortage of jerricans	-do-
51		43	Loss due to failure in production of a rifle	ATN not at all received
52		61	Defective equipment lying without any use	-do-

Annexure V

(Referred to in para 68)

Position of outstanding ATNs

Sl.o No.	Audit Report No. And Year	Para No.	Subject	Remarks
1.	No. 8 of 1996	30	Performance of Ordnance Factory Organisation	ATN not received even for the first time
2		31	Production of artillery training ammunition	-do-
3		32	Computerisation in Ordnance Factory Organisation	-do-
4		33	Surplus inventory due to cancellation of orders	-do-
5		34	Questionable expenditure	-do-
6		35	Financial repercussion due to change in user's requirment	-do-
7		36	Loss due to indigenous steel sheet	-do-
8		37	Loss due to defective forging	-do-
9		38	Bulk production of detonators before issue of development extract	-do-
10		39	Production of defective ammunition	-do-
11		40	Loss due to rejection of barrel forgings	-do-
12		41	Rejection of bombs	-do-
13		42	Production in anticipation of formal order	-do-
14		43	Defective production of grenades	-do-
15		44	Avoidable rejection	-do-
16		45	Injudicious import of copper crusher cylinder	-do-
17		46	Excess provisioning of bomb components	-do-
18		47	Idling of an ammunition assembly	-do-
19		48	Extra expenditure on rectification of defects	-do-
20		49	Sub-optimal utilisation of plant	-do-
21	No. 8 of 1996	50	Unproductive Investment	ATN not received even for the first time

22		51	Non-commissioning of imported testing device	-do-
23		53	Non-utilisation of an imported machine	-do-
24		54	Rejection of empty shots	-do-
25		55	Loss of stores in stock	-do-
26		56	Excess consumption of an ammunition in proof	-do-
27		57	Shortage of pig iron	-do-
28		58	Avoidable payment of energy tax	-do-
29		59	Avoidable construction of a swimming pool	-do-
30		62	Follow up on Audit Report	-do-