REPORT OF THE

COMPTROLLER AND AUDITOR GENERAL

OF INDIA

FOR

THE YEAR 1984-85

UNION GOVERNMENT (DEFENCE SERVICES)

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TABLE OF CONTENTS

PREFATORY REMARKS

This Report 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 1984-85 together with other points arising from audit of the financial transactions of the Defence Services.

The cases mentioned in the Report are among those which came to notice in the course of test audit during the year 1984-85 as well as those which had come to notice in earlier years but could not be dealt with in previous Reports; matters relating to the period subsequent to 1984-85 have also been included, wherever considered necessary.

CHAPTER 1

BUDGETARY CONTROL

1. Budget and Actuals

The table below compares the expenditure incurred by the Defence Services in the year ended March 1985 with the amount of original and supplementary appropriations and grants for the year :—

(i) *Charged Appropriations*

(Rs. in crores)

Original	40.71
Supplementary	4.39
Total	45.10
Actual Expenditure	38.60
Saving	(—)6.50
	(*per cent*)
Saving as percentage of the total provision . .	14.41

(ii) *Voted Grants*

(Rs. in crores)

Original	7106.04
Supplementary	495.85
Total	7601.89
Actual Expenditure	7440.01
Saving	(—)161.88
	(*per cent*)
Saving as percentage of the total provision .	2.13

2. Supplementary grants/appropriations

(a) *Supplementary grants.*—Supplementary grants (voted) aggregating Rs. 495.85 crores were obtained in 3 Grants in March 1985 as indicated below :—

(Rs. in crores)

Grant No.	Amount of Grant			Actual Expenditure	Excess (+) Saving (—)
	Original	Supplementary	Total		
19—Army.	3892.09	393.64	4285.73	4265.76	(—)19.97
21—Air Force	1426.85	62.61	1489.46	1474.95	(—)14.51
23—Capital Outlay on Defence Services	719.57	39.60	759.17	733.87	(—)25.30
TOTAL	6038.51..	495.85	6534.36	6474.58	(—)59.78

The supplementary grants obtained under all the 3 grants could not be utilised to the extent of Rs. 59.78 crores (Rs. 19.97 crores under Army, Rs. 14.51 crores under Air Force and Rs. 25.30 crores under Capital Outlay on Defence Services).

(b) *Supplementary Appropriation (Charged)*

Supplementary appropriation (Charged) aggregating Rs. 4.39 crores (Air Force : Rs. 0.02 crore and Capital Outlay on Defence Services : Rs. 4.37 crores) were obtained in March 1985 to meet decretal payments. The entire supplementary appropriation could not be utilised, reasons for which are awaited (January 1986).

3. Excess over Voted Grant

Excess aggregating Rs. 17,15,38,252 over voted portion of Grant No. 20-Defence Services-Navy, as given below, requires regularisation under Article 115 of the Constitution :—

Total Grant Rs.	Actual Expenditure Rs.	Excess Rs.
503,68,90,000	520,84,28,252	17,15,38,252

The excess was mainly under "Pay and Allowances of Navy" (Rs. 3.72 crores) and "Stores" (Rs. 17.07 crores) which was partly offset by saving under "Other Expenditure".

Naval Headquarters (HQ) explained (26th December 1985) the excess as follows :

(a) Pay and Allowances : Though the provision was increased by reappropriation on the basis of actual requirement of Additional Dearness Allowance, Bonus and Interim Relief, there had been unusually high bookings in the month of January and

March 1985 resulting in excess expenditure of Rs. 3.72 crores.

(b) Stores : In anticipation of closing down of India Supply Wing, London, the suppliers were pressed for materialisation of supplies. There was more materialisation of stores (both Naval equipment and yard craft). The excess was also (i) due to devaluation of Rupee as against Pound Sterling and (ii) under Oil Fuel-due tc movements of ships on other than planned exercises.

In respect of the explanations given by Naval HQ it may be stated that the High Level Official Committee set up in pursuance of the recommendations of Public Accounts Committee in its 166th Report (7th Lok Sabha) to review the financial systems in Railways, Defence and Post and Telegraphs observed, *inter alia,* that the excess was due to lack of proper implementation of the existing systems and that usually sufficient time was available to provide additional funds in the budget through supplementary grants and there was no reason why there should be any excess.

Further, it may be mentioned that no Supplementary provision was obtained during 1984-85 under Grant No. 20-Defence Services-Navy. In the previous year 1983-84, inspite of obtaining a supplementary grant of Rs. 47.40 crores, there was an excess of Rs. 15.88 crores under this Grant which was mainly attributed to price escalation and more materialisation of supplies.

4. **Excess over Charged Appropriation**

Excess aggregating Rs. 27,53,727 over Charged portion of Grant No. 22-Defence Services-Pensions, as given below, requires regularisation under Article 115 of the Constitution :—

Total Appropriation Rs.	Actual Expenditure Rs.	Excess Rs.
35,01,00,000	35,28,53,727	27,53,727

The excess was under 'Army'—"Arrears payable due to Supreme Court Judgement" due to receipt of more claims than anticipated for revision of Pensions on the basis of the judgement of the Supreme Court.

5. **Control Over Expenditure**

The following are some instances of defective budgeting relating to Voted Grants :

(a) Instances in which Supplementary Grants remained wholly or partially (over 20 *per cent*) unutilised :—

(Rs. in crores)

Grant No. / Sub-Head	Original Grant	Supplementary Grant	Amount Reappropriated	Total Grant	Actual Expenditure	Saving (—)
19—*Army*	11.37	1.49	(—)0.41	12.45	12.13	(—)0.32
A.2—Pay and Allowances and Miscellaneous Expenses of Auxiliary Forces						
A.10—Works	225.46	23.51	(+)35.09	284.06	278.99	(—)5.07
A.11—Other Expenditure	77.32	17.44	(+)3.25	98.01	91.16	(—)6.85
21—*Air Force*						
A.4—Transportation	13.45	2.00	(+)3.00	18.45	17.69	(—)0.76
A.5—Stores	1055.20	3.68	(—)3.43	1055.45	1033.27	(—)22.18
A.8—Other Expenditure	22.00	0.45	..	22.45	21.75	(—)0.70
23—*Capital Outlay on Defence Services*						
A.1—Army						
A.1(1)—Land	19.00	1.00	(+)18.02	38.02	37.70	(—)0.32
A.1(2)—Construction Works	178.50	18.66	(+)10.64	207.80	197.55	(—)10.25
A.3—Air Force						
A.3(2)—Construction Works	50.40	11.89	(+)0.55	62.84	59.25	(—)3.59

(b) Instances in which re-appropriations made were wholly or partially (over 20 *per cent*) unnecessary :—

(Rupees in crores)

Grant No. / Sub-Head	Sanctioned Grant	Amount Re-appropriated/ Surrendered	Final Grant	Actual Expenditure	Excess (+) Saving (—)
19—*Army*					
A.11—Other Expenditure	94.75	(+)3.25	98.00	91.16	(—)6.84
20—*Navy*					
A.5—Stores	305.56	(—)21.86	283.70	300.76	(+)17.06
A.7—Other Expenditure	31.50	(+)4.84	36.34	30.09	(—)6.25
21—*Air Force*					
A.1—Pay and Allowances of Air Force	228.68	(—)5.68	223.00	224.57	(+)1.57
A.4—Transportation	15.45	(+)3.00	18.45	17.69	(—)0.76
22—*Pensions*					
A.1—Army					
A.1(2)—Rewards	0.46	(—)0.21	0.25.	0.56	(+)0.31
23—*Capital Outlay on Defence Services*					
A.1—Army					
A.1(2)—Construction Works	197.16	(+)10.64	207.80	197.55	(—)10.25
A.2—*Navy*					
A.2(2)—Construction Works	57.35	(+)7.65	65.00	62.20	(—)2.80
A.2(3)—Naval Fleet	220.99	(—)15.99	205.00	210.31	(+)5.31
A.2(4)—Naval Dock Yards.	26.78	(+)3.72	30.50	28.33	(—)2.17
A.3—*Air Force*					
A.3(2)—Construction Works	62.29	(+)0.55	62.84	59.25	(—)3.59

6. Savings in voted grants

(i) Out of five grants, there was a saving of Rs. 179.05 crores under four voted grants as shown below :—

(Rs. in crores)

Grant No.	Total Grant	Actual Expenditure	Saving		Surrender
			Amount	*Per cent*	
19—Army	4,285.73	4,265.75	19.98	0.47	1.76
21—Air Force	1,489.46	1,474.94	14.52	0.97	.
22—Pensions	563.84	444.59	119.25	21.15	119.50
23—Capital Outlay on Defence Services	759.17	733.87	25.30	3.33	..

(ii) Against savings of Rs. 14.52 crores and Rs. 25.30 crores in Grant Nos. 21 and 23 respectively no amount was surrendered.

(iii) Based on the original provision of Rs. 563.84 crores obtained under Grant No. 22—Defence Services—Pensions, the proportionate provision for 9 months (April to December 1984) works out to Rs. 422.88 crores. Against this the actual expenditure (including charged expenditure) appearing in the Consolidated Compilation of Defence Services Receipts and Charges for the period April to December 1984 (notified by the EDP Centre, Controller of Defence Accounts (Other Ranks) North on 17th January 1985) amounted to Rs. 226.64 crores only. There was saving under all the sub-heads of this Grant. This was brought to the notice of Ministry of Defence (Finance/Budget) on 2nd March 1985. A sum of Rs. 119.50 crores was surrendered on 18th March 1985.

7. **Persistent saving**

(a) A mention was made in paragraph 6 of the Report of the Comptroller and Auditor General of India, 1983-84, Union Government (Defence Services) of persistent saving in the case of 'Air Force' under sub-head A.5—Stores during the years 1980-81, 1981-82, 1982-83 and 1983-84.

During the year 1984-85 also there was saving under this sub-head as shown below :—

(Rupees in crores)

Original Grant	Supplementary	Reappropriation	Total Grant	Actual Expenditure	Saving
1055.20	3.68	(—)3.43	1055.45	1033.27	22.18

The saving was attributed *inter alia* to lesser payments than anticipated and non-materialisation of certain items.

(b) There had been persistent saving during the past three years under Sub-Head "A.6—Ordnance Factories" of Army, in spite of minus re-appropriation/surrender, as shown below :—

(Rs. in crores)

Year	Original Grant	Supplementary Grant	Re-appropriation/ Surrender	Total Grant	Actual Expenditure	Saving	
						Amount	Per cent
1982–83	693.94	84.08	(—)1.00	777.02	749.00	28.02	4
1983–84	832.87	24.32	(—)10.69	846.50	797.42	49.08	6
1984–85	937.92	..	(—)51.85	886.07	853.34	32.73	4

The saving was mainly under "Purchase of Material".

8. **Injudicious surrender of funds**

Mention was made in paragraph 5(a) of the Report of the Comptroller and Auditor General of India for the year 1983-84, Union Government, (Defence Services) about injudicious surrender of funds in March 1984 in the case of 'Grant No. 22-A.1—Army—Pensions and other Retirement Benefits' though the actual expenditure exceeded the final grant. This year also a surrender of Rs. 56.08 crores was notified on 18th March 1985 under the same Sub-Head but the actual expenditure exceeded the final grant as shown below :—

(Rs. in crores)

Grant No. / Sub-Head	Original Grant	Surrender/ Re-appropriation	Final Grant	Actual Expenditure	Excess
Grant No. 22					
Defence Services—Pensions					
A.1—Army					
A1.(1)—Pensions and other Retirement Benefits	469.09	(—)56.08	413.01	418.27	(+)5.26

9. Store losses

Mention was made in paragraph 7 of the Report of the Comptroller and Auditor General of India for the year 1983-84, Union Government (Defence Services) of store losses, *inter alia* due to theft, fraud or gross neglect. The loss on this account which was written off increased from Rs. 140.50 lakhs in 1982-83 to Rs. 512.75 lakhs in 1983-84 and to Rs. 717.70 lakhs in 1984-85. Total store losses due to all reasons written off during 1984-85 amounted to Rs. 1110.01 lakhs. Details of individual losses exceeding Rs. 0.75 lakh due to theft, fraud or gross neglect and exceeding Rs. 2 lakhs due to other causes are given in the Appropriation Accounts of the Defence Services for the year 1984-85.

CHAPTER 2

MINISTRY OF DEFENCE

10. Delay in development of an equipment for Air Force

In March 1967, the Air Force projected an operational requirement for equipment 'X' to function as an early warning station for air defence. In December 1974 a project was submitted to the Ministry of Defence (Ministry) by a Research and Development Establishment (R&D Estt.) for development of this equipment. The development project was sanctioned by the Ministry in July 1976 at a cost of Rs. 142.50 lakhs (including foreign exchange Rs. 84 lakhs). In November 1976, a Public Sector Undertaking (undertaking) was nominated to produce 41 numbers of the equipment as required by the Air Force. The Air Force was to accept a model of the equipment for user trials in September 1982 and supply of the equipment was to commence from September 1984.

For the purpose of development of equipment 'X' sub-systems 'XW', 'XX', 'XY' and 'XZ' were originally contemplated to be imported. A team of officers was deputed abroad during October/November 1978, with the main purpose of acquiring technology for these crucial sub-systems. The team recommended that only sub-systems 'XX' and 'XZ' be imported and sub-systems 'XW' and 'XY' be developed indigenously.

Import of sub-system 'XX'

Based on the report of the team the R&D Estt. recommended the offer of foreign firm 'B' in February 1979 for supply of sub-system 'XX'. The Ministry accorded the sanction in April 1979. A contract was concluded with firm 'B' on 20th June 1979 on cost plus fixed fee basis with a ceiling FOB cost of $ 7,75,000. The original date of completion of the contract was 15th October 1981. However, the contract agreement did not stipulate any penalty clause for delay or failure of supplies. By April 1981, a sum of $ 7,36,250 (Rs. 58.90 lakhs) being 95 *per cent* of contract value was drawn by firm 'B'. In August 1981, the firm stated that they had exceeded the expenses on this contract and that they would not be able to progress further without additional funds. Accordingly, 'Amendment No. 1' to the contract was issued (January 1982) by the Ministry wherein the delivery date for the prototype was extended up to 17th August 1982 and payment of a sum of $ 1,70,000 was agreed to as an addition to the contract value provided the FOB delivery of the prototype was advanced to 17th April 1982 or earlier. The firm could not deliver the equipment even by 17th August 1982. By Amendment No. 2 issued in September 1982 the delivery date was further extended up to 1st November 1982. There was no progress of work after August 1982. As a result in June 1983, Amendment No. 3 was issued agreeing to pay the earlier increased amount of $ 1,70,000 subject to completion of delivery within 120 days of the revival of contract.

As per the contract agreement, a letter of credit in lieu of Bank Guarantee was required to be furnished by firm 'B' against the payments made to it. The original letter of credit furnished by the firm was valid till 15th November 1982 but the firm did not agree to extend the same pending negotiations. As a result, the Ministry was left with no security against the payments already made to the firm. Amendment No. 3 also called for submission of Insurance Bond within 15 days for the full amount, *i.e.* $ 7,36,250 (Rs. 58.90 lakhs) already paid to the firm. However, in July 1983, firm 'B' agreed to provide a letter of credit for an amount of $ 2,20,029 only covering the cost of materials reimbursed by the Government ($ 1,51,170) and the total fee element of $ 68,859 charged by the firm. In August 1983, based on legal opinion, the Ministry agreed to accept the letter of credit. Accordingly, Amendment No. 4 was issued on 27th September 1983 according to which firm 'B' was to provide within 15 days of signing the amendment an irrevocable letter of credit for an amount of $ 2,25,000. The amendment was signed by firm 'B' on 7th October 1983. The letter of credit had not been received from firm 'B' till September 1985. The notice about the "Breach of terms of the contract" was issued to firm 'B' on 24th September 1984. It was followed by institution of arbitration proceedings on 1st May 1985.

Due to the uncertainty in the progress of this contract, equipments costing Rs. 12.08 lakhs procured for sub-system 'XX' which were lying abroad in the warehouse since January 1983 have been shipped to India on 24th June 1985 after obtaining export licence.

Further, a scientist of the R&D Estt. who was deputed abroad in January 1980 to participate in the design, development and test of sub-system 'XX' under development by the foreign firm 'B' for acquiring the technology and transfer of knowhow for future use in India was called back and reported to the R&D Estt. in January 1983. The scientist took leave for 11 days in August 1983 and has since then not reported for duty. The scientist, it is stated, has left unauthorisedly for the foreign country where firm 'B' is located, although as per the bond executed by him, he had agreed to serve for 4 years after return from deputation. The Ministry incurred an expenditure of Rs. 6.43 lakhs on the Scientist's deputation. Ministry intimated (September 1985) that action has been instituted against the Scientist and extradition proceedings have been initiated.

Repair Charges

In the meantime, in July/August 1982, two tubes (one intended for incorporation in sub-system 'XX' and the second to be kept as spare), supplied by a vendor (another foreign firm) at a total cost of $ 1,84,159 became defective due to prolonged storage in the premises of firm 'B'. One of the tubes was repaired at a cost of $ 1,000, which was not borne by Government of India, the other tube was not repaired uptil September 1985. The repair of the second tube was estimated to cost $ 56,000. The Ministry stated that the supplier did not expressly indicate the shelf life limitation of the tube and due to slippage in delivery the tubes had to be stored for a long period.

Procurement of sub-system 'XZ'

A contract was concluded in October 1979 with foreign firm 'C' by the R&D Estt. for the development and supply of sub-system 'XZ' at a cost of $ 5,08,000. As the firm expressed its inability to comply with the contractual conditions after signing the contract, it was terminated in September 1980. Another development contract was concluded in October-November 1981 with foreign firm 'D' for $ 12,47,000. In May 1983, firm 'D' submitted revised price of $ 12,90,132 due to escalation in wages etc. and this was accepted through Amendment No. 1 issued in July 1983 increasing the contract cost to $ 12,90,000. Advance payment of $ 2,58,000 was made to the firm on 20th July 1983 and the contract was completed by July 1985.

In order to meet eventualities like failure of firm 'B' at a later date, or sub-system 'XX' not meeting specifications, in addition to slippages in the probable date of completion of sub-system 'XZ', it was decided in September 1980 to go in for indigenous development of both 'XX' and 'XZ' sub-systems by the Undertaking. In December 1981 development orders were placed on the Undertaking at a total cost of Rs. 114.27 lakhs (including FE Rs. 51.08 lakhs). These development orders, although expected to be completed by February 1983—February 1984 for XZ and XX respectively have not been completed till December 1984. The Ministry stated (September 1985) that the indigenous development of sub-system 'XX' was completed and delivered to the R&D Estt. in May 1985, and this was being integrated in the main equipment. As regards indigenous development of sub-system 'XZ' the Ministry further added that an indigenous interim solution developed by the undertaking and accepted by the users was received in March 1985; the total equipment 'X' was in the final stage of integration and evaluation (September 1985) before offering to the Air Force for trials.

The original estimated cost of Rs. 142.50 lakhs (including Rs. 84 lakhs in FE) was increased by the Ministry to Rs. 578.76 lakhs (including Rs. 383.88 lakhs in FE) in July 1983.

The R&D Estt. stated in December 1984 that indigenous development and fabrication of sub-systems 'XW' and 'XY' was completed in September 1983.

Ministry stated (September 1985) that :

- For indigenous development of sub-system 'XZ' (long term solution) contracts have been placed on a private company and the Undertaking on 21st March 1985.
- A model of equipment 'X' was expected to be offered for user trials by October 1985; the supply of productionised equipment would be taken up after completion of trials.
- There were no further developments in respect of sub-system 'XX' by firm 'B'.
- No import of equipment 'X' was made. However, a contract was signed with a foreign country for import of 8 numbers of a certain equipment (unit cost : Rs. 5.7 crores); its delivery was likely over the period 1985 to 1988.
- The right to terminate the contract and enforce recovery from firm 'B' by the buyer was covered under the contract to safeguard Government interest. [In this connection it may be mentioned that amendment to the

contract signed by firm 'B' on 7th October 1983 called for it to provide within 15 days of signing the amendment an irrevocable letter of credit (instead of a Bank Guarantee) for $ 2,25,000 which the firm did not furnish. Further the letter of credit furnished earlier by the firm was valid only till 15th November 1982. The notice about breach of contract was issued to firm 'B' only on 24th September 1984. It is thus felt that enforcement of recovery by the buyer was not covered by the contract].

The following are the main points that emerge :

(i) Equipment 'X' was to have been made available for user's trials by September 1982 and the supply of productionised equipment 'X' by the Undertaking was to have commenced from September 1984. But firm 'B' could not develop sub-system 'XX' till September 1985 while firm 'D' completed the contract for sub-system 'XZ' only in July 1985.

(ii) Though an amount of Rs. 58.90 lakhs ($ 7,36,250) in Foreign Exchange was paid to firm 'B', the delivery of the sub-system 'XX' is uncertain. There is no standing security to safeguard the Government interest and the payments already made to the firm.

(iii) The cost of two tubes (required for sub-system 'XX') paid by the Government was $ 1,84,159. Due to long storage in firm 'B''s premises two tubes became defective, one tube was repaired at a cost of $ 1,000 which was not borne by the Government of India. The repair of the second tube is estimated to cost $ 56,000.

(iv) The Ministry incurred an expenditure of Rs. 6.43 lakhs on the deputation of a Scientist abroad. Within a few months of his recall from deputation, the Scientist left India despite having executed a bond to serve for 4 years after the deputation.

(v) As a result of the delays in executing the contract by foreign firm 'B', equipments worth Rs. 12 lakhs, procured by the R&D Estt. were lying unused till June 1985.

(vi) Though the contract with foreign firm 'D' was signed on 25th November 1981, the work on the contract was commenced in August 1983 only for completion by April 1985. Government accepted an increase in cost of the contract amounting to $ 43,000 on the ground of escalation in wages.

(vii) Due to delay and slow progress of the contracts with the foreign firms the R&D Estt. resorted to indigenous development of sub-systems 'XX' and 'XZ' by an Undertaking at a cost of Rs. 114.27 lakhs (including FE Rs. 51.08 lakhs).

(viii) Against the original estimated cost of the project which was Rs. 142.50 lakhs (including FE Rs. 84 lakhs) in July 1976 the revised cost for which sanction was accorded by the Ministry in July 1983 was Rs. 578.76 lakhs (including FE Rs. 383.88 lakhs).

(ix) Though the requirement was projected as operational by the Air Force as early as in March 1967, the equipment could not be provided to the service even after a lapse of 18 years. Although no import of equipment 'X' was made, a contract was signed with a foreign country for import of 8 numbers of similar equipment at a total cost of Rs. 45.6 crores; its delivery was expected over the period 1985 to 1988.

11. **Purchase of diving boats for the Navy**

Sanction of the Government was accorded in September 1977 for the procurement of 4 numbers 45′ steel diving boats required for training and diving operations at an estimated cost of Rs. 28 lakhs along with Base and Depot Spares at a cost of Rs. 4.20 lakhs.

However, the first tender enquiry was issued by the Directorate of Naval Construction (DNC) in December 1981 after revision of Government sanction to Rs. 34.5 lakhs for boats and Rs. 4.30 lakhs for spares in May 1981. The quotations were opened in March 1982. As the offers ranged between Rs. 69.68 lakhs and Rs. 79.60 lakhs against the sanction of Rs. 34.5 lakhs, it was decided to obtain revised Government sanction once the prices and the terms of orders were finalised. A Tender Purchase Committee (TPC) was also constituted to finalise the terms. However, as per existing orders, award of contract for purchase of stores exceeding Rs. 50 lakhs in value required the approval of the Department of Defence Supplies (DDS).

At a meeting held in June 1982, the TPC, discussed terms and conditions of supply with four selected builders and they agreed to submit their lowest fixed price quotations. When the revised offers were received in July 1982, the DNC carried out an evaluation and recommended placing orders on firm 'A' for 2 boats at Rs. 17.80 lakhs each and on firm 'B' for 2 boats at Rs. 18 lakhs each. In addition transportation charges were to be paid at actuals subject to a ceiling of Rs. 2 lakhs per boat. The offers were valid upto March 1983. On 14th December 1982 Government accorded a revised sanction at an estimated cost of Rs 87 lakhs for the procurement of 4 boats and Rs. 12.15 lakhs for spares.

Since the total value of the 4 boats was Rs. 87 lakhs, the case was submitted (18th December 1982) to the DDS for their early concurrence. The DDS proposed *de novo* negotiations and obtaining of revised quotations from all the ten tenderers, since there were procedural irregularities in the earlier negotiations of DNC and since the tender documents and the proposals were totally unacceptable being in violation of the prescribed norms and procedures.

After negotiations with firms, the DDS placed supply orders in March 1984 on firm 'A' for 1 number boat at Rs. 23.06 lakhs for delivery within eleven to twelve months from the date of order, firm 'B' for 2 boats at Rs. 22.40 lakhs each for delivery within nineteen months from the date of order and on firm 'D' for 1 boat at Rs. 20.80 lakhs for delivery within nine months from the date of order. The order placed on firm 'D' was, however, cancelled in November 1984 at its own request. The quantity ordered on firm 'A' was increased (November 1984) by 1 number and for the increased quantity the delivery period was to be intimated later. The price of the additional boat was Rs. 20.80 lakhs, the rate at which firm 'D' was to have executed their order.

The user directorate intimated in November 1984 that in the absence of steel diving boats "Piecemeal measures using inflatable boats were resorted to which was a handicap". It further added in August 1985 that the non-availability of the boats had affected the conduct of training and diving operations.

The action of DDS in renegotiating and obtaining fresh quotations necessitated by the incorrect procedure followed by the DNC resulted in extra expenditure of Rs. 17.06 lakhs as under :—

Name of firm	Qty.	Rate for each boat as obtained by DDS (Rs. in lakhs)	Rate for each boat as obtained by DNC (Rs. in lakhs)	Extra expenditure (Rs. in lakhs)
Firm 'A'	1	23.06	17.80	5.26
	1	20.80	17.80	3.00
Firm 'B'	2	22.40	18.00	8.80
				17.06

The Ministry of Defence stated in August 1985 that though the rates obtained by the DNC were lower than those obtained by the DDS, the terms and conditions in the first instance, especially the payment terms which involved giving of advance to the extent of 20 *per cent* of the contract value without covering guarantee, were unfavourable to Government.

It may be mentioned here that the loss of interest to Government on account of 20 *per cent* advance payment of Rs. 14.32 lakhs for a period of 9 to 12 months at the rate of 18 *per cent* would have been Rs. 2.26 lakhs approximately against the extra expenditure of Rs. 17.06 lakhs.

The case reveals that :

- Action towards the procurement of 4 numbers diving boats though sanctioned in September 1977 was initiated only in December 1981.
- The estimated cost of diving boats in 1977 was Rs. 7.00 lakhs each against which the price contracted in 1984 ranged between Rs. 20.80 lakhs and Rs. 23.06 lakhs.
- Compared to the quotations opened by the DNC in March 1982 there was an extra expenditure of Rs. 14.80 lakhs on the supply orders ultimately placed on the same firms *viz*. 'A' and 'B' in March—November 1984.
- The non-availability of the boats affected the conduct of training and diving operations.

12. Non-utilisation of retromodified aircraft

Mention was made in paragraph 6(4) of the Report of the Comptroller and Auditor General of India for the year 1978-79, Union Government (Defence Services) about the delay in retromodification of a certain aircraft and the reduction in the number of aircraft to be retromodified. According to paragraph 1.73 of 33rd Report of the Public Accounts Committee (PAC) 1980-81 (7th Lok Sabha) (April 1981), the Department of Defence Production confirmed to the PAC that all components required for retromodification of the reduced number of 10 aircraft had been received and that 9 aircraft had been test-flown and accepted after retromodification and the remaining 1 aircraft after retromodification was in the final stage of acceptance

In December 1979, when the necessary retromodification work on these 10 aircraft was almost complete, the Air Headquarters (HQ) approached a Public Sector Undertaking (undertaking) to fit these aircraft with certain indigenously manufactured instruments in replacement of the foreign instruments already fitted so as to bring these aircraft at par with the standard aircraft. Continuance of a different type of instruments on the 10 retromodified aircraft was considered a flight safety hazard.

The undertaking, however, expressed inability to undertake the job as this was not included in the original plan and as the indigenous instruments had not been procured and were in short supply. The undertaking suggested that the plan to replace the foreign instruments be postponed till these 10 aircraft were due for their first major servicing. Subsequently the Air HQ agreed in February 1980 to accept these aircraft with the original instruments (of foreign make). The aircraft were received by Air Force after retromodification between November 1980 and January 1982. A certain equipment in 9 out of 10 aircraft returned to the undertaking for a special check at the instance of the Air HQ was received back in June 1982. The 10 aircraft, on the retromodification of which Rs. 277.79 lakhs were spent remained unused in the Air Force depot pending replacement of foreign instruments by indigenous ones.

Meanwhile, in May 1980, the Government accorded sanction for fitment by the undertaking of indigenous instruments on the 10 aircraft at an estimated cost of Rs. 48.80 lakhs. An order to this effect was placed by the Air HQ on the undertaking in September 1980. The job was required to be completed by March 1981. This time frame was not acceptable to the undertaking which, however, agreed to supply 3 sets of instruments per quarter from January 1984 and complete the fitment on all the 10 aircraft by March 1985. The work has, however, not been executed so far (May 1985).

The Ministry of Defence stated (October 1985) that the aircraft remained unused, since in the interest of flight safety, it was necessary to have all these aircraft fitted with indigenous instruments which were in short supply and involved long lead time of 2 to 3 years in their procurement. The Ministry further added that 5 aircrafts have already been fitted with indigenous instruments and the balance were expected to be completed by November 1985.

It needs to be mentioned here that the Air Staff Requirement, as amended in May 1977, required the fitment of indigenous instruments on retromodified aircraft also. Though the Air HQ as well as the undertaking were well aware of this requirement formal orders were placed on the undertaking only in September 1980 as the formal Government sanction to this effect was accorded only in May 1980 after a lapse of about three years.

Thus, the aircraft whose retromodification was undertaken at a cost of Rs. 277.79 lakhs have remained unused since November 1980/January 1982 due to non-replacement of foreign instruments by indigenous ones, though this requirement was known, when the Air Staff Requirement was amended in May 1977.

CHAPTER 3

ORDNANCE AND CLOTHING FACTORIES

13. **General**

1. *Introduction*

Groupwise classification of existing 35 Ordnance and Clothing Factories in the country which are run as departmental undertakings producing various items for Defence Services, Para military forces and Civil Police are :—

Metallurgical	6
Engineering	13
Filling	5
Chemical	4
Ordnance Equipment	5
Miscellaneous	2*
	35

*Not yet started production.

The overall management of these factories rests with the Ordnance Factory Board (OFB). The OFB is headed by Director General Ordnance Factories, as Chairman and seven other full time Members. 4 Members are responsible for management of 30 factories and Additional Director General Ordnance Factories is responsible for 5 Ordnance Equipment Factories (OEF). There are 3 functional Members for finance, planning and material management, personnel and technical development and services. The overall statistical data on the activities of the Organisation for the period 1981-82 to 1983-84 is shown in Annexure I.

2. *Capacity Targets and Achievements*

The project capacity and installed capacity of most of the old established factories are not known. There are, however, eleven factories (7 new and 4 old) whose project capacity and installed capacity are available. During 1983-84, out of these, eleven factories, one factory utilised project capacity from 80 to 90 *per cent*, 2 factories from 60 to 80 *per cent*, 7 factories from 20 to 40 *per cent* and one below 20 *per cent*. Similarly, installed capacity was utilised from 80 to 90 *per cent* by 2 factories, 60 to 80 *per cent* by 3 factories, 40 to 60 *per cent* by one factory and 20 to 40 *per cent* by five factories. An analysis of the production performance in the manufacture of critical items for the three services during 1984-85 revealed that the performance was 100 *per cent* and more for 180 items, 90 *per cent* and above but below 100 *per cent* for 11 items and below 90 *per cent* for 39 items.

3. *Budget and actuals*

Budget grant and actual expenditure for 1981-82 to 1983-84 in respect of Revenue and Capital for Ordnance and Clothing Factories were as under :—

Year	Revenue		Capital	
	Budget grant	Actual	Budget grant	Actual
	(In crores of rupees)			
1981–82 . .	682.34	724.77	73.01	63.56
1982–83 . .	777.02	749.05	69.83	59.79
1983–84 . .	857.20	797.42	89.99	81.70

4. *Work-in-progress*

As on 1st April 1983, 56,862 manufacturing warrants valuing Rs. 304.52 crores issued upto 1982-83 were outstanding. Of them, about 48 *per cent* (27,259 warrants) were cleared during 1983-84 and balance (29,603 warrants valuing Rs. 100.45 crores) were awaiting completion at the end of March 1984. Together with the fresh manufacturing warrants issued during 1983-84 but not completed, 54,060 manufacturing warrants (valued at Rs. 341.90 crores) were outstanding at the end of the year under review (March 1984). The normal life of a manufacturing warrant is only six months.

5. *Overtime*

All the factories worked systematic overtime throughout the year 1983-84. The details of overtime work for the last three years were as under :—

Year	Man-hours (in lakhs)	Value (Rs. in crores)
1981–82	811.11	30.09
1982–83	822.47	36.56
1983–84	841.76	42.55

6. *Productivity linked bonus*

A scheme for payment of productivity linked bonus to the employees of Ordnance Factories was introduced in 1979-80, the bonus being payable during the relevant year with reference to 1977-78 as the base year. The payments made during the years 1981-82 to 1983-84 were as follows :—

Year	Amount in crores
1981–82	Rs. 7.25
1982–83	Rs. 8.30
1983–84	Rs. 9.56

7. *Inventory*

As against the total value of Rs. 583.53 crores and Rs. 664.56 crores in respect of inventories held in the factories as on 31st March 1982 and 31st March 1983 respectively, the total value thereof held as on 31st March 1984 was Rs. 713.31 crores as detailed below :—

Value in crores of rupees

Particulars	31-3-1982	31-3-1983	31-3-1984
1. Working stock :			
(A) Active	448.80	512.00	556.16
(B) Non-moving	26.85	40.03	37.55
(C) Slow-moving	30.69	37.49	38.83
2. Waste and obsolete.	24.40	18.63	21.61
Surplus stores	6.72	7.05	5.44
4. Maintenance stores	46.07	49.36	53.72
Total	583.53	664.56	713.31

The stock holding in terms of average monthly consumption of direct and indirect stores worked out to 10.89 months against 9 months requirements on average in terms of all varieties of stores. An amount of Rs. 8 crores worth of inventory was held in one factory as fire-affected stores (mentioned in the Report of the Comptroller and Auditor General of India, Union Government (Defence Services) for the year 1983-84 also) and the loss was yet to be regularised (October 1985).

The total number of items of non-moving (stores not drawn for a continuous period of three years or more) and slow-moving (stores not drawn for a continuous period of one year) stores during the years 1981-82 to 1983-84 were as under :—

Year	Non-moving		Slow-moving	
	Items	Value (Rs. in crores)	Items	Value (Rs. in crores)
1981–82	1,23,389	26.85	41,915	30.69
1982–83	1,31,434	40.03	41,794	37.49
1983–84	1,18,057	37.55	40,306	38.83

8. *Stock Verification*

Cases of deficiencies and surpluses are increasing in the ordnance factories. Annual stock verification carried out by an independent group under the control of OFB/OEF Headquarters found the following deficiencies and surpluses in the factories :—

Year	Deficiencies	Surpluses
	(In lakhs of rupees)	
1981–82	18.94	10.87
1982–83	23.93	33.21
1983–84	28.83	68.12

The total number of items for which stock was not verified during 1983-84 was 10,227 in 6 factories.

ANNEXURE I

(Referred to in Sub-para 1)

Overall Statistical Data

		1981-82	1982-83	1983-84
1	2	3	4	5
1.	Average value of fixed capital assets (Rupees in crores)	402.45	431.92	467.80
2.	Man-power (No. in lakhs)	1.76	1.79	1.78
3.	Net cost of production (excluding inter-factory demands (Rs. in crores)	621.01	697.75	803.93
4.	Capital output ratio	1 : 1.54	1 : 1.62	1 : 1.72
5.	Factory cost analysis in terms of percentage of gross value of production :			
	Material	68.80	67.68	67.40
	Labour	6.45	6.44	6.80
	Others	24.75	25.88	25.80
6.	Gross contribution value (value of production less materials and outside supplies and services (Rs. in crores)	245.65	281.11	331.60
7.	Wages (Rs. in crores)	50.80	55.99	69.10
8.	Net contributed value (gross contributed value Less wages (Rs. in crores)	194.85	225.12	262.50
9.	Net contributed value per Rs. 1 crore of fixed capital assets (Rs. in crores)	0.48	0.52	0.56
10.	Average earnings per employee (Rs.)	10,504	12,149	14,122
11.	Net contributed value per employee (Rs.)	11,071	12,606	14,714
12.	Value of abnormal rejection (Rs. in crores)	4.15	5.05	4.12
13.	Percentage of abnormal rejection on gross value of production	0.53	0.58	0.40
14.	Customer composition (percentage of total issues net of inter-factory demands) Army	90.48	88.86	87.90
	Navy, Air Force and others	3.54	3.64	3.85
	Civil Trade	4.36	5.12	5.30
	Own stock and capital works	1.62	2.38	2.95

1	2	3	4	5
15.	Extent of requirement of stores (Armament, Ordnance, Clothing, Mechanical Transport) met by Ordnance Factories in terms of percentage :			
	Army	62.53	55.08	54.94
	Navy, Air Force and others	46.98	37.69	30.27
16.	Value of inventories (Rs. in crores)	583.53	664.56	713.31
17.	Surplus, obsolete, slow-moving and non-moving inventories (Rs. in crores)	88.66	103.20	103.43
18.	Norms of general inventory holdings in terms of months requirements	6 months	6 months	6 months
19.	Inventories in terms of months consumption	11.08 months	11.11 months	10.89 months
20.	No. of warrants pendency			
	(*i*) Total No. of warrants on 31st March 1982/1983/1984	54,728	56,862	54.060
	(*ii*) No. of warrants more than one year old on 31st March 1982/1983/1984	28,158	32,079	29,603
21.	Normal manufacturing cycle/normal life of manufacturing warrants	6 months	6 months	6 months
22.	Value of components and products in stock (Rs. in crores)	100.09	131.41	135.78
23.	Components and products holding in terms of months production	1.53 months	1.81 months	1.61 months

14. Injudicious/unnecessary purchases of equipment

(i) *Unnecessary procurement of costly imported plant*

In paragraph 17 of the Report of the Comptroller and Auditor General of India, Union Government (Defence Services) for 1975-76, mention was made of the delay in commissioning of an imported vacuum degassing plant procured in May 1974 for a factory (factory 'A'). The plant was commissioned in March 1976. The total investment on the procurement, erection and commissioning of the plant was Rs. 57.23 lakhs.

Against an order (August 1977) of the Director General Ordnance Factories another vacuum degassing plant (cost : Rs. 49.28 lakhs including customs duty and freight charges) was received in factory 'B' in October 1978 from a foreign firm. When according to the order the Indian agent of the firm was to supply certain indigenous items of the plant *viz.* tapping ladle, pony ladle, measuring instrument, barometric condensors, etc. by December 1978, these items were received in the factory only during October 1979 to November 1980. The belated supply of indigenous items was stated to be due to critical power crisis faced by the Indian agent to manufacture them. The foundation work for the plant was completed in April 1981 (cost : Rs. one lakh). The plant was erected and commissioned (cost : Rs. 3.80 lakhs) under the supervision of the foreign firm in December 1981 and put to regular use in April 1982. The factory stated (February 1982) that due to delay in commissioning of the plant the factory had not suffered any inconvenience or production loss.

Since commissioning, the two plants have been used only intermittently. In factory 'A' the plant was used for only 12 treatments till February 1982 due to non-availability of high quality refractories indigenously. The number of hours involved in the treatments were not recorded. The records show that in factory 'B', the plant has been used for about 30 treatments (300 hours) till January 1984. Factory 'B' stated (December 1983 and December 1984) that the plant had been used intermittently owing to various limitations viz. required temperature (1680°C to 1700°C) for vacuum treatment was not always available for one reason or the other; indigenous refractories were not of the quality to withstand the high temperature; after each vacuum heat there had been damage to the banks; bottom and furnace lining required frequent repairs etc.

In February 1982, the plant at factory 'A' met with an accident and was damaged. On 1st February 1984, the plant at factory 'B' also exploded. The explosion resulted in 12 lives being lost and a number of people injured. An amount of Rs. 10.77 lakhs was paid (February to July 1984) to the bereaved families and injured personnel on account of compensation. The steel melting shop also remained closed for two months during February and March 1984. The Ministry of Defence (Ministry) stated (December 1985) that the loss of production during these months was made up and the annual production target was maintained.

A Board of Inquiry (BI) constituted in February 1984 to investigate the causes of the explosion at factory 'B' observed that there was no evidence of gross negligence or major failure that led to the accident and since there was no record of similar accident elsewhere, apparently there was no gross design defects in the plant. The BI further opined that "a chain of minor deficiencies led to a situation where this catastrophic accident was triggered off. While there can be many lessons learnt and improvements suggested there is little cause for blaming operations or design. A basic reason for this can be traced to the highly intermittent operation of the vacuum degasser in contrast with practically continuous operation at other steel melt shops". According to the Ministry (December 1985) continuous running of the plant was not possible due to initial teething problems, limited requirements of high quality steel, non-availability of quality refractories, etc. The plant is yet to be rectified and recommissioned (October 1985). After repair, the plant at factory 'A' had also not been recommissioned as the question of safety in the operation of the plant came up due to the explosion at factory 'B'.

When the plant for factory 'A' was procured, it was claimed that vacuum degassing was inescapable and that economy would result due to less rejections during manufacture and there would be improvement in the quality of gun barrels manufactured. It was also claimed that with the use of the equipment it would be possible to cut short the prolonged annealing cycle to only a few hours. Without taking proper consideration of the various requirements like maintenance of temperature, availability of suitable refractories, and the very limited requirement for the use of such sophisticated machines the two factories went ahead with the procurement of these machines. Consequently due to the delay in initial commissioning of the plants and their intermittent use and non-use after the accident/explosion, the investment of Rs. 111.31 lakhs has not been fruitful.

14.(ii) *Blockade of capital*

In paragraph 7 of the Report of the Comptroller and Auditor General of India, Union Government (Defence Services) for 1977-78, it was mentioned that while planning the establishment of factory 'F' in 1964, it was decided to include facilities for manufacture of brass strips for production of brass blanks required for a cartridge case for an ammunition but the facilities were not subsequently sanctioned and the brass blanks were being obtained from factory 'G'.

Despite non-provision of facilities for manufacture of brass strips, the Director General Ordnance Factories placed an order (December 1969) on a public sector enterprise (PSE) for supply of an imported hydraulic press to factory 'F' along with two sets of tools at a total cost of Rs. 27.19 lakhs for blanking of strips for the cartridge case. The Ministry of Defence (Ministry) stated (December 1985) that though strip making facilities were not provided, procurement of strips from trade and blanking thereof at factory 'F' was planned when the factory was set up and that as the factory was already having a large number of presses and other ancillary plant and machinery for the cartridge case, it was considered essential to have the blanking press also in order to make production of cartridge case self sufficient.

The press was received in January 1971 and commissioned in March 1974 (erection cost : Rs. 0.64 lakh). It was, however, lying idle in the factory till 1983 as brass blanks continued to be received from factory 'G'. In April 1983 the factory imported 50 metric tons of strips (cost : Rs. 16.32 lakhs) and of this only 22.03 metric tons were blanked in the press during March 1984 to April 1985. According to Ministry the slow utilisation of the imported strips was due to the availability of blanks from factory 'G'.

As factory 'F' was meeting its requirements out of the supplies from factory 'G', the procurement and commissioning of the machine (total cost : Rs. 27.83 lakhs) was unnecessary. The Ministry stated (December 1985) that as trade facilities for melting and rolling of brass strips were available near factory 'G', that factory was meeting the requirements of blanks for factory 'F'. The Ministry added that the press at factory 'F' was being considered for blanking of aluminium strips for another type of cartridge case for which indigenous source was under development.

14. (iii) *Unfruitful expenditure in procurement of dolomite kilns*

Against an indent of factory 'A' (February 1970), the Director General Supplies and Disposals placed an order (October 1970) on a firm for supply and erection of two dolomite burning kilns (capacity : 22 tons per 24 hours each) at a cost of Rs. 6.92 lakhs. The kilns were required to replace two old kilns procured in 1945/1946 for calcination of dolomite.

The kilns were to be supplied by July 1971. The date of delivery was extended from time to time and the factory received the kilns in March 1973. The foundation work for one kiln was completed in April 1973 and that of the other in December 1973 (total cost : Rs. 3.27 lakhs). The Director General Ordnance Factories accorded sanction in June 1974 for construction of a shed for the kilns at a cost of Rs. 5.27 lakhs. The scope of the work was finalised (April 1973) by a Recce-*cum*-costing Board (with General Manager of factory 'A' as Presiding Officer and representatives from the factory and the Military Engineer Services (MES) as members) after considering that the foundation work for the kilns might be completed and the kilns erected, before the MES could take up the construction of the shed. Yet, the MES pointed out subsequently (October 1974) certain difficulties to execute the civil works in view of the completion of the foundation work earlier. The scope of the civil works was therefore modified to increase the overall size of the shed to avoid fouling of foundations, to readjust the external services etc. and a revised sanction was issued after 4 years in November 1978 for construction of the shed at an estimated cost of Rs. 7.36 lakhs. According to Ordnance Factory Board (December 1985), due to unavoidable procedural delay, the issue of revised sanction was delayed. When the revised sanction was issued, the shed and the kilns were not required any more, as meanwhile, the open hearth furnace was permanently shut down (October 1978) and there was no requirement of calcined dolomites. The shut down of the open hearth furnance and installation of an electric arc furnace in lieu was planned in 1975/1976.

Against the stipulated period of 18 months *i.e.* by April 1980, the MES completed the construction of the shed was taken over in January 1985. The provided at the roof, the factory did not take over the shed initially from the MES. In the administrative approval for the shed, the required space at the roof was not provided. After necessary rectification the shed was taken over in January 1985. The construction cost of the shed was Rs. 8.25 lakhs.

Meanwhile, the firm took up erection of one kiln in April 1973 and completed the trial run of the kiln in July 1978. The erection of the second kiln was taken up in September 1978. During erection of this kiln the firm intimated (December 1978) that almost all the steel portion of the kiln was heavily corroded due to contact with moisture and rain and required rectification. According to the Ministry of Defence (Ministry) (January 1986) the materials were under the custody of the firm. The firm rectified the damages without any cost and commissioned the kiln in January 1981.

Due to delayed completion of construction of the shed in July 1982, both kilns remained exposed to weather for a long time after their commissioning in July 1978 and January 1981. Even after their commissioning, the kilns were not used at all due to change in requirements. The Ministry stated (January 1986) that it was proposed to sell the kilns by auction and to use the shed for factory's maintenance purpose.

An investment of Rs. 18.44 lakhs in procurement and commissioning of the kilns thus became infructuous. Of this, an amount of Rs. 8.25 lakhs could have been saved if the requirements of kilns were reviewed in 1975/1976 and further action on the construction of the shed stopped.

14. (iv) *Procurement of an unsuitable press due to wrong specification*

In June 1976 factory 'A' placed an indent on the Director General Supplies and Disposals (DGS&D) for procurement of a hydraulic press of 500 tonne capacity in replacement of an old press in use since 1964. Although the press was to be used for 'off centre loading' this aspect was not stipulated in the specification.

Out of 9 offers forwarded by the DGS&D (November 1976) factory 'A' recommended (December 1976 and February 1977) the offer of a public sector enterprise (PSE) for acceptance and accordingly, the DGS&D placed an order in February 1977 for supply of the press at a total cost of Rs. 17.57 lakhs. The spares for the press were ordered in August 1978 at a total cost of Rs. 0.52 lakh.

The press was received in the factory in October 1978. When it was commissioned (January 1979) the factory noticed that the press could not be used for 'off centre loading' and the required work (straightening of plates) could not be done. The PSE stated (May 1979 and June 1981) that the press was built exactly as per specification in the order in which off centre loading was not mentioned and that off centre loading was prohibited for this press. After the PSE had carried out certain modifications, the press was commissioned in January 1983 but since the off centre loading was not provided, it was recommended to take only 25 tonnes at one metre radius with 10 *per cent* variation in distance and load against 100 tonnes required by the factory. The press was, therefore, partially utilised and the condemned old press was also being utilised to meet production requirements (December 1984). In reply to the draft paragraph, the Ministry of Defence (Ministry) stated (September 1985) that the off centre loading problem has not yet been solved fully and the rectification of the defects was under correspondence with the DGS&D and the PSE. Simultaneously, the Ministry stated that the new press had been put into effective use barring a small quantum which had been loaded on the old press. The Ministry also added that the maintenance cost of the old press during June 1979 to May 1982 was Rs. 0.18 lakh and that they were working out the maintenance cost for the period upto 1984. The extra expenditure in production due to the use of the old press and loss in production due to receipt of the defective press are awaited.

Thus, due to the wrong and incomplete specification, the press procured and erected at a total cost of Rs. 18.61 lakhs (inclusive of taxes, freight charges and cost of erection) was not serving the intended purpose fully since its procurement in October 1978.

15. **Injudicious purchases of stores**

(i) *Extra expenditure in purchase of a store*

In response to an advertisement of an Ordnance Factory in May 1979 for supply of 6,100 metres of seamless steel tubes, seven offers ranging from Rs. 260 to Rs. 387 per metre were received (June 1979). Firm 'A', a stockist of the tube offered the lowest price of Rs. 260 per metre. Firm 'B' was a manufacturer of the tube and they were also an established source of supply. Their offer at Rs. 326.87 per metre was the fourth lowest.

In August 1979 the factory placed an order on firm 'A' for 200 metres of tube at Rs. 260 per metre to be supplied by 31st August 1979 or earlier. It was stipulated that the quantity might be increased to 6,100 metres on satisfactory performance by the firm. After acceptance by the Inspectorate at the firm's premises, 200.13 metres were supplied by November 1979. Before the suitability of the material was tested, the factory increased the ordered quantity (November 1979) to 4,700 metres for supply by 31st December 1979 or earlier. The Ministry of Defence (Ministry) stated (October 1985) that since the material was duly accepted by the inspecting authority the ordered quantity was increased and that as the factory was already producing the end component from tubes procured, the question of testing suitability of the material did not arise. The fact, however, remains that the factory had no previous experience of the supplies of firm 'A'.

The firm requested the Inspectorate in November 1979 for inspection of the increased quantity but as the Inspector could not complete the inspection, the delivery period was extended (April 1980) up to May 1980. Meanwhile, in January 1980. when the first consignment of 200.13 metres was put to use, dimensional discrepancies and cracks were noticed after machining. Yet the Inspectorate accepted (August 1980) another consignment of 398 metres and these tubes also showed cracks during use (October/November 1980). The firm did not supply the balance quantity (4,102 metres). The Ministry stated (October 1985) that the order on the firm had not yet been cancelled since the supplied materials were under dispute and that after retesting, the Chief Inspector (Metal) had permitted (May 1985) their use.

As the stock and dues position of the tubes was unsatisfactory due to the failure of firm 'A' to supply, the factory invited fresh tenders in March 1981 for procurement of 5,288 metres of tubes. The offer of firm 'C' (Rs. 330 per metre) was the lowest and that of firm 'B' (Rs. 364.39 per metre) was the second lowest. Firm 'C' was a stockist and they failed to convince the factory in regard to their capacity till 15th May 1981. Although the offer of firm 'B' was valid up to 28th May 1981 the order was not finalised expeditiously and the factory procured (November 1981) 4,325.88 metres from them at increased cost of Rs. 396.13 per metre by placing an order on 3rd August 1981. The late placing of the order on firm 'B' involved an extra expenditure of Rs. 1.37 lakhs.

The entire transaction revealed that :

(i) Orders on firm 'A' were placed (August 1979 and November 1979) for 4,700 metres of the tube without proper assessment of their capability, capacity and quality of initial supply.

(ii) Firm 'A' supplied only 598.13 metres duly accepted by the Inspectorate. These were found to have cracks during machining but after a lapse of five years the material has been permitted for use.

(iii) Due to the failure of firm 'A' the factory procured 4,325.88 metres of seamless tube from firm 'B'; this order was not placed within the validity period of offer of firm 'B' and extra expenditure of Rs. 1.37 lakhs was incurred.

(iv) If an order of 4,325.88 metres of tube had been placed on firm 'B', an established source of supply in August 1979 leaving only the balance for firm 'A' as an experimental order, an extra expenditure of Rs. 3.00 lakhs could have been avoided.

15. (ii) *Extra expenditure in procurement of components*

Ammunition 'K' was a regular item of production in factory 'A' till 1966-67. For its production factory 'B' supplied brass stamp forgings for components 'P', 'Q' and 'R'. There was no order for the ammunition on factory 'A' during 1967-68 to August 1980.

In September 1980 and November 1981 the Ordnance Factory Board placed two orders on factory 'A' for 4,000 numbers of ammunition 'K'. The production programmes given to the factory were 450 numbers during 1982-83 and 900 numbers per year from 1983-84. Only during September 1981 to May 1982 the factory placed demands on factory 'B' for supply of brass stamp forgings for components 'P', 'Q' and 'R'. Machining of the forgings was planned to be done at factory 'A'. The estimated labour charges for machining were Rs. 3.94 each for component 'P', Rs. 1.37 each for component 'Q' and Rs. 6.88 each for component 'R' (According to the factory the estimates were not updated). Factory 'A' stated (July 1985) that the demands on factory 'B' were delayed as before placing the demands the possible left over of materials/semis from the earlier orders completed 10/12 years ago were checked and the estimates were rechecked/updated.

Before placing the demands, factory 'A' did not ascertain from factory 'B' whether they could supply the forgings for the present demands. According to Ministry of Defence (Ministry) (December 1985) since supplies were made by factory 'B' earlier, the necessity to ascertain their capacity was not felt. In September 1982, *i.e.*, after one year of placement of the first demand, factory 'B' expressed their inability to supply the forgings due to non-availability of dies and overload of work.

Even prior to final reply from factory 'B' for supply of forgings only, factory 'A' initiated action (June 1982) to procure machined components from trade. The Ministry stated (December 1985) that as there was no identified definite capacity at factory 'A' the machining of the forgings was accommodated earlier within the existing capacity with make shift arrangements and that after 1966-67 the capacity got eroded in course of time. It was, however, observed in audit that besides placing of a demand on factory 'B' for forging in May 1982, factory 'A' intimated Audit (July 1985) that trade procurement of machined components would have been dropped if factory 'B' had agreed to supply the forgings.

Offers for both machined components and forgings were received from trade. However, orders for the machined components only were placed on firm 'X' (April 1983 and July 1983) for 1,840 numbers of 'P', 2,000 numbers of 'Q' and 2,020 numbers of 'R' at Rs. 188.00, Rs. 97.50 and Rs. 310.00 each respectively. Procurement of forgings from trade and their machining at factory 'A' would have resulted in a saving of Rs. 9.05 lakhs.

Firm 'X' supplied component 'P' during October 1983 to February 1984, component 'Q' during July/August 1983 and component 'R' during July to October 1983. Against the targets of 450 numbers in 1982-83 and 900 numbers in 1983-84, there was no production of the ammunition during these two years and the components were taken into use only from November/December 1984. According to factory 'A' (July 1985) production of the ammunition could not be planned/commenced earlier due to non-availability of various other components from trade.

15. (iii) *Delayed relaxation of specification of a store involving loss*

Since 1977 firm 'J' was the only established indigenous source of supply of paper for base wads (for paper cartridge cases) to a factory. The specification provided that the chloride content in the paper should not exceed 0.05 *per cent* but supplies upto 0.07 *per cent* chloride content were being accepted under deviation when the firm had failed to supply the store conforming to the specification.

Against an indent (May 1977) of the factory, the Director General Supplies and Disposals (DGSD) concluded a contract (November 1977) with firm 'J' for supply of 54,200 kgs. of paper to the factory at Rs. 4.10 per kg. in 3 lots (17,500 kgs by 31st December 1977, 22,400 kgs. by 30th June 1978 and 14,300 kgs. by 30th November 1978). The firm did neither supply the first lot by December 1977 nor did it apply for extension of delivery date. The DGSD, on his own, extended (March 1978) the delivery period of the first lot upto 15th April 1978 by way of performance notice.

Though the firm had specifically confirmed in August/October 1977 that chloride content would be maintained at 0.05 *per cent*, on 25th April 1978 they stated that they were not able to manufacture the store to this specification and the relaxation upto 0.07 *per cent* chloride content should be allowed together with extension of delivery period for the first lot upto 30th June 1978. However, the inspecting authority and the authority holding sealed particulars, advised the DGSD (June 1978) that since the paper was to be used in cartridge cases which come into contact with brass components, it was necessary to maintain the chloride content percentage within the specified limits and that if supplies were found not conforming to the specification limits for chloride content, the matter might be taken up at that stage for acceptance under deviation, only in case the stores were urgently required by the factory. For want of an amendment to the contract relaxing the chloride content, the firm requested (November 1978) the DGSD to treat the contract as cancelled.

After the firm's request for cancellation of the contract was communicated (December 1978) the factory in consultation with the Inspection authority intimated (February 1979) the DGSD that against the contracted quantity of 54,200 kgs. at least 10,000 kgs. of paper should be supplied with chloride content of 0.05 *per cent* and for the balance, the firm should make all efforts to bring down the chloride content to the minimum, though relaxation upto 0.07 *per cent* would be permisible. As the decision was taken in February 1979 after the contract period was over the DGSD could not enforce the contract. The firm wanted (July 1979) placement of a fresh contract for supply of the store with 0.07 *per cent* chloride content at an enhanced price of Rs. 6.25 per kg. The contract was, therefore, cancelled (September 1979) at the risk and cost of the firm. Subsequently, the DGSD procured (March 1981 to April 1983) the cancelled quantity of 54,200 kgs. alongwith an additional 94,800 kgs. against a further demand of the factory (June 1979) from the same firm at higher prices of which 25,000 kgs. were having chloride content of 0.05 *per cent* (cost : Rs. 7.10 per kg.) and the balance

(1,24,000 kgs.) of 0.07 *per cent* (cost : Rs. 6.90 per kg.). The delay by the factory/inspection authority in deciding the issue of acceptance of stores in relaxation of the specification involved an extra expenditure of Rs. 1.53 lakhs (excluding taxes) in the repurchase of 54,200 kgs. of paper.

The Department of Supply stated (August 1984) that the delay was entirely on the part of the indentor, who took 9 to 10 months in communicating the decision. The indentor, however, stated (September 1984) that there was no delay on their part and the DGSD should have progressed the procurement action and located alternative sources in the light of Inspection authority's initial advice (June 1978) regarding chloride content.

The case revealed that :

— The DGSD failed to enforce the terms of the contract in spite of the firm's commitment to supply as per specification. Subsequently the same firm supplied according to specification but against a fresh order at enhanced rate.

— The repurchase of 54,200 kgs. of paper due to delayed decision by the factory/inspectorate on the acceptance of stores with 0.07 *per cent* chloride content involved extra expenditure of Rs. 1.53 lakhs and this could not be recovered from the firm through risk purchase due to delay in cancellation of the contract.

— General damages on account of breach of contract had also not been recovered (December 1985) from the firm.

16. Infructuous expenditure

(i) *Injudicious handling of receipts and consequent loss*

In February 1982, the Ordnance Factory Board (OFB) placed a consolidated indent on the Defence Coal Cell (DCC) covering the requirements of coal/coke for 21 Ordnance Factories during 1982-83. For Factory 'A' the requirement was 2,838 MT to be supplied at the monthly rate of 242 MT from April 1982.

The DCC placed an order on a colliery in February 1982 for supply of the coal to factory 'A' with staggered schedule of delivery. Despite the schedule for staggering the delivery, the colliery supplied 4,372.50 MT in 183 wagons during April and May 1982. The excess supplies were, however, not returned to the colliery at their cost, though the factory's capacity to handle railway wagons was limited. Instead 67 wagons containing 1,714.50 MT of coal were diverted to factories 'B', 'C', 'D' and 'E' in June and July 1982 involving freight charges of Rs. 1.22 lakhs. The Ministry of Defence (Ministry) stated (January 1986) that since the sister factories responded to accept the coal wagons to be diverted to them, the question of returning excess coal to the supplier did not arise. The Ministry added that returning of the excess wagons also involved rebooking and demurrage charges. The contention is not valid since coal was also expected to be received by the sister factories from the collieries against the OFB's indent and the freight and demurrage charges involved in returning the excess coal were recoverable from the supplier.

Although factory 'A' despatched the coal to the sister factories after obtaining their consent due to receipt of coal direct from the collieries against their own quota, factories 'B' and 'C' divered back 2,752.60 MT to factory 'A' (factory B : 1,895 MT from supplies from the collieries; factory 'C' : 857.60 MT received from factory A) during June to September 1982. Factory 'A' cleared the wagons by October 1982. The freight charges involved was Rs. 2.30 lakhs. The Ministry stated (January 1986) that as factories 'B' and 'C' had no space to accommodate all the coals received at a time, they diverted the supplies to factory 'A'. According to factory 'A' (June 1985) the clearance of the wagons at their end was delayed for want of despatch details and other particulars, shortage of accommodation, etc.

Due to the detention of coal wagons for a long period at factory 'A', the Railways claimed demurrage charges of Rs. 19.72 lakhs. Subsequently an amount of Rs. 3.83 lakhs was waived off by the Railways. Rs. 7.55 lakhs have been paid and Rs. 8.34 lakhs are yet to be paid (September 1985).

The factory 'A' incurred a loss of Rs. 19.41 lakhs (Rs. 3.52 lakhs as freight charges and Rs. 15.89 lakhs as demurrage). The Ministry stated (January 1986) that the Railway Board had been requested (February 1985) for waiver of the entire amount of demurrage charges.

16. (ii) *Loss in the purchase of stores*

Failure to purchase stores at the risk and cost of the firms defaulting against contracts concluded with them involved a total loss of Rs. 27.55 lakhs in the following cases :

I. Against an advertised tender, the Ordnance Factory Board (OFB) received (March 1979) only one quotation from firm 'X' and placed an order on the firm in July 1979 for 1,25,000 numbers of item 'P' at Rs. 4.50 each and 45,500 numbers of item 'Q' at Rs. 2.10 each plus 4 *per cent* central sales tax. Supply of item 'P' was to be completed by October 1980 or earlier and that of item 'Q' by September 1979. The delivery period was extended several times till 11th May 1981 by amendments and performance notices. The firm submitted 16,000 numbers of item 'P' and the entire quantity of item 'Q' for inspection at its premises. These were accepted under deviation (October 1980 to May 1981) with 4 to 7 *per cent* price reduction.

Even though the firm failed to execute the order despite issue of performance notices the order was not cancelled. The firm was given further extension of time up to 15th July 1981 and then again up to 31st August 1981 without any request therefor. The firm did not also acknowledge the receipt of the extension letters. The Ministry of Defence (Ministry) stated (November 1985) that as the firm kept the contract alive by accepting the price reduction and thereafter by delivering the stores accepted under deviation, the extensions were allowed through performance notices.

As further supply of item 'P' was not received from the firm, the OFB requested the Ministry of Law (MOL) in September 1981 to advise if the contract could be cancelled at the risk and cost of the firm taking date of breach as 2nd May 1981 (date of acceptance of price reduction by the firm). After certain clarifications by the OFB, the MOL confirmed (January 1982) the cancellation with the date of breach as 11th May 1981. The order on firm 'X' was accordingly cancelled in March 1982 at the risk and cost of the firm.

Meanwhile, in view of urgent requirement, the OFB floated a standby tender enquiry in August 1981 for purchase of outstanding 1,09,000 numbers of item 'P' at the risk and cost of firm 'X'. Although the breach of contract with firm 'X' occurred on 11th May 1981 and according to existing rules, risk purchase order was to be placed within six months *i.e.* by 11th November 1981, the quotations received from the two firms in September 1981 were considered only in March 1982 and an order was placed on firm 'Y' in April 1982 for 1,09,000 numbers of item 'P' at Rs. 9.80 each (plus central sales tax at 4 *per cent*) The firm completed the supplies in June 1983. In reply to the audit paragraph the Ministry stated (October 1984), that till advice of the MOL was received (January 1982), the department had no idea about the date of breach and they could not cancel the order and effect valid risk purchase. Subsequently, the Ministry, however, added (November 1985) that the late receipt of advice from the MOL on the date of breach of contract seemed to indicate that risk purchase was ineffective and that this view was not beyond doubt and further legal advice was being sought thereon.

The extra expenditure incurred in the repurchase of 1,09,000 numbers of item 'P' was Rs. 6.01 lakhs. The OFB had withheld a payment of Rs. 1.39 lakhs to firm 'X' against another order but further recovery is doubtful as the firm has since been permanently closed down.

II. In April 1979, the OFB concluded a contract with firm 'A' for supply of 6,000 carriers to factory 'M' and 35,000 carriers to factroy 'N' (cost : Rs. 32.70 each plus packing charge of Re. 0.50 each and sales tax at 4 *per cent*) with the following delivery schedules :

Factory 'M'—During April to September 1979 at the rate of 1,000 numbers per month.

Factory 'N'—During May to December 1979 at the rate of 5,000 numbers per month.

The firm supplied only 1,100 carriers to factory 'N' in November 1979. Though the firm failed to supply the balance quantity, action for cancellation of the contract immediately after its failure and action for purchase of the carriers within a reasonable period, at its risk and cost, was not taken. On the other hand the firm was periodically granted extensions to the delivery period till November 1980, and the ordered quantity was increased to 46,000 in December 1979 and again to 52,000 in March 1980. The OFB stated (September 1984) that since the response from the firm to the reminders was encouraging and it agreed to supply the store at the same rate, the delivery period was extended and the ordered quantity was increased.

The firm did not make any further supply during the extended period *i.e.* after November 1979 and the contract was cancelled in January 1981 at its risk and cost. According to OFB (August 1985) firm's failure to supply was due to sharp price increase for raw materials (mainly steel). In March 1981 the OFB advertised tenders for supply of the balance 50,900 carriers. Firm 'A' was also invited to quote, informing it simultaneously that the carriers were being procured at its risk and cost. Amongst the eleven offers received, the offer of firm 'A' was the fifth lowest. The lowest four offers (Rs. 47.00 to Rs. 56.25 each) were rejected as the firms were new and their capacity was not known. The Ministry stated (November 1985) that as per the procedure in the Directorate General

Supplies and Disposals, offers of unregistered and untried firms against risk purchase should normally be ignored.

Though the performance of firm 'A' against the earlier contract of April 1979 was unsatisfactory, a contract was concluded with it in August 1981 for supply of 50,900 carriers at Rs. 58.15 each (plus excise duty at 8 *per cent*, packing charge at Re. 0.75 each and Sales Tax at 4 *per cent*) as its offer was the lowest amongst the established suppliers. Again the firm failed to make supplies within the stipulated period (August 1982) and the delivery period was extended upto October 1982 with performance notice. The firm supplied 29,950 carriers during the period. The OFB stated (September 1984) that the balance quantity was under cancellation and the consignees were being asked to obtain the carriers from a sister factory.

The extra expenditure involved in the purchase of 29,950 carriers from firm 'A' against the contract of August 1981 was Rs. 9.74 lakhs. In addition, extra expenditure of Rs. 11.80 lakhs is likely to be involved in getting the balance quantity (20,950 numbers) from the sister factory. The Ministry stated (November 1985) that since the lower offers against the repurchase tender were ignored, a general damage of Rs. 5.85 lakhs was being claimed from the firm. As regards loss involved in obtaining supplies from the sister factory the Ministry stated that the concerned factories were getting the supplies from it against earlier orders and not due to non-supply by the firm. The fact, however, remains that if the supplies from the firm had materialised, procurement at higher cost from the sister factory could have been avoided.

16. (iii) *Loss due to inadequate safety measures*

In the following cases, loss of Rs. 47.68 lakhs due to inadequate safety measure occurred in two ordnance factories.

I. Factory 'A' despatched a consignment of 10,185 numbers of propellant 'X' and 2,720 kgs. of propellant 'Y' to factory 'B' during June to August 1980. The propellants were packed in wooden boxes lined with waterproof parafin packed paper. Propellant 'Y' was in addition filled in calico bags before packing in the boxes. The boxes were loaded in 4 Railway Wagons of which two were loaded at the nearest Railway station in the presence of factory's store section staff. The other 2 wagons were leaded in the same station by the Railway authorities by transhipment from the wagons which were loaded at factory 'A'. During the transhipment factory 'A's representative was not present. The Ministry of Defence (Ministry) stated (January 1986) that as the transhipment was the responsibility of the Railway authority, no factory staff was detailed.

The wagons reached factory 'B' in July/August 1980 and were unloaded after 34 to 56 days of arrival. According to the Ministry (January 1986) due to non-availability of space in the magazines the unloading could not be done earlier. On unloading the wagons the packages were found in wet condition and mud was noticed on the floor of the wagons. After segregation, 1,845 numbers of propellant 'X' (cost : Rs. 4.16 lakhs) and 1,000 kgs. of propellant 'Y' (cost : Rs. 1.03 lakhs) were rejected and sentenced for destruction (April 1982) by the Controllerate of Inspection (Ammunition) and Chief Inspector of Military Explosives.

As seals on the side doors of the wagons were intact when they were received at factory 'B', claims for the loss were not made against the Railways. A Board of Inquiry (BI) set up by factory 'A' in November 1980 observed (December 1980) that in the wagons loaded by the Railway Authority in transhipment possibly some water had entered in through the gaps of doors as they were not airtight or leakproof and that in the other two wagons loaded by the factory staff cracks and holes were found in the roof and side walls which could not be noticed during visual inspection. The BI also opined that the detention of the wagons at fatcory 'B' for long periods before unloading had made worse the condition of the propellant inside. To avoid recurrence of such losses the BI recommended (December 1980) observance of safety regulations. The loss of Rs. 5.19 lakhs is yet to be regularised (September 1985).

II. In factory 'C' the average arisings of magnesium alloy swarf during manufacture of an ammunition out of imported magnesium alloy billets were 10 tonnes per month. After a fire in the swarf took place in 1976 which involved a loss of about Rs. 0.18 lakh, a godown sufficient to accommodate 100 tonnes of swarf was constructed in 1977 at a cost of Rs. 0.90 lakh and fire preventive measures were provided in 1978 at Rs. 0.47 lakh.

Till 1979, the factory disposed of the swarf by auctions at regular intervals. In pursuance of a policy to create a bank of raw material for future indigenous manufacture of magnesium alloy billets, a contract was concluded with a firm in June 1980 for producing 50 tonnes of solid pigs from the swarf on payment of conversion/melting/processing charges at Rs. 7,500 per tonne. The firm converted 21 tonnes of swarf to about 51 tonnes of pigs till June 1981. As the indigenous facilities to convert the pigs into billets for use by the factory have not yet been developed, the contract was short closed (August 1985) and the 15 tonnes of converted pigs were lying in the factory unused (September 1985) having been declared surplus. An infructuous expenditure of Rs. 1.12 lakhs was involved in the conversion.

Magnesium swarf is highly inflammable and its storage accommodation in the factory was limited (100 tonnes). Although during 1979 to 1981 the swarf was accumulating and the conversion was not adequate to bring down the stock, it was not disposed of. According to the Ministry (January 1986) effort was made for the disposal of the swarf but contract could not be concluded due to low bids. When the stock reached a level of 333.20 tonnes in November 1982 the factory resumed the disposal but the pace of disposal was also inadequate and only 127 tonnes were disposed of during November 1982 to December 1983. To provide additional accommodation for the accumulated swarf the General Manager of the factory accorded sanction in January 1984 for construction of another godown at a cost of Rs. 4.87 lakhs.

On 1st June 1984 there was a ground balance of 398.96 tonnes of swarf of which about 335 tonnes were lying outside the godown although the godown had the capacity to accommodate 100 tonnes. That day a fire broke out in the stock and it was brought under control only on 5th June 1984. The godown and 380 tonnes of swarf were gutted in the fire and the loss was about Rs. 26.16 lakhs with reference to the book value of the swarf. A BI set up by the Ordnance Factory Board (OFB) in June 1984 to investigate the causes of the fire observed that as the swarf was stacked in gunny bags under open sky since 1981, it was very likely that some quantity in the bottom bags would have got converted into powder which was prone to fire/self ignition. The BI did not, however, make anybody responsible for the fire. Considering the deterioration in the condition of the swarf which took place as a result of stacking outside, the BI had assessed the loss to be Rs. 12.91 lakhs. The Ministry stated (January 1986) that OFB had accepted the findings of the BI and remedial measures suggested for prevention of such fire.

III. From 1965 to 1976 factory 'C' despatched guns produced by them to factory 'D' by rail in open wagons. There was a fire accident in an open wagon in 1976 and it was decided (December 1976) that in future, the guns would be despatched in closed wagons. Despite the decision, 5 guns were despatched in January 1977 in an open wagon. On receipt, the guns were found damaged due to a fire enroute and factory 'D' returned them to factory 'C' (July 1977). An expenditure of Rs. 0.17 lakh was incurred in their rectification and to and fro transportation. Again, in May 1979 another lot of 6 guns packed in wooden boxes and covered by tarpaulins was despatched to factory 'D' in an open wagon. The Ministry stated (January 1986) that as closed wagons were not available from the Railways, the guns were sent in an open wagon with proper and adequate safety measures to keep continuity in production and avoid production loss.

The wagon caught fire enroute (June 1979) and the guns became unsuitable for use due to the fire. The net loss was assessed at Rs. 16.33 lakhs. A BI set up by the OFB observed (December 1979) that the wagon apparently caught fire due to burning cinder etc. from the engine and that the fire gathered intensity as the train was speeding up and the wooden boxes and the tarpaulins were inflammable.

16. (iv) *Deterioration of propellants in storage*

On completion of firing tests and acceptance by the Air Force (AF) factory 'A' took up manufacture of a rocket in 1970. 729 rockets were supplied during 1970-71 but as they failed during firing (August 1971), further production in the factory was suspended (October 1971). The failure of the rockets was attributed (June 1972) to the propellant charges produced by factory 'B'. After further development of the propellant the production of the rocket recommenced in 1976.

Meanwhile AF placed an indent (May 1972) on an India Supply Mission abroad for import of 2,000 propellants. The propellant (cost : Rs. 15.38 lakhs) was received by factory 'A' in October 1975. It was issued for proof test only in September 1976 and cleared in test by the Air Armament Inspection Wing (AAIW) in February 1977. In May 1978 the Director General, Ordnance Factories (DGOF) instructed the factory to maintain the imported stock for trials of another variety of rocket to be manufactured indigenously, provided, the shelf life of the propellant permitted such retention. According to the AAIW (February 1985) the shelf life was7 years if the propellant was stored in airconditioned storage.

After recommencement of production factory 'A' produced 14,784 rockets during 1976-77 to 1979-80. In view of DGOF's instructions only 850 imported propellants were used (March 1977) in the production. The balance was kept in reserve though the factory had no airconditioning storage facilities and bulk requirements of propellants during the period were met from the supplies of factory 'B'. The Ministry of Defence (Ministry) stated (November 1985) that the imported propellants were kept in proper storage condition in practice at that time.

In November 1979 it was decided to off load the production of the rocket to factory 'C' from April 1980 (i.e. from 1980-81). Accordingly, 1,043 imported propellants were transferred to factory 'C' (August 1981) after AAIW getting tested samples regarding their serviceability. When the imported propellants were taken for assembly (January 1982) at factory 'C' they were found to be in deteriorated condition. After trial of 34 propellants the AAIW sentenced (December 1982) the balance 1,009 of them (cost : Rs. 7.76 lakhs) as unfit for use.

According to the AAIW (February 1985) "the defect investigation conducted in respect of the above rejections revealed that the deterioration could be attributed to the storage condition". No investigation about the loss of Rs. 7.76 lakhs was made by the Ordnance Factory Board or the concerned factories to fix responsibility. The Ministry stated (November 1985) that the cause of rejection of the imported propellant was *post facto* inferred as deterioration but the cause of it as improper storage was not established. The Ministry added that after the life of 7 years was known, further investigation by the factory was not necessary.

17. Production Loss

(i) *Shortfall in production of an equipment and its ammunition*

Mention was made in paragraph 7 of the Report of the Comptroller and Auditor General of India, Union Government (Defence Services) for 1977-78 about the delay in development of a new equipment taken up in 1965 to replace the existing equipment having limited capacities. It was stated therein that :

— model 'P' of the new equipment which did not meet fully the requirement of the Services was developed (cost : Rs 3.18 crores) and accepted for introduction into service in limited quantities in 1971 pending development of model 'Q' of the equipment;

— owing to the delay in completion of the project sanctioned in October 1971 (cost : Rs. 77.69 crores as amended in April 1977) for manufacture of model 'P' only 14 *per cent* of the requirement of the Services for the new equipment was met till March 1978 and

— of the three varieties of ammunition for the equipment cleared for introduction in 1972, bulk production of two varieties was yet to be taken up and the capacity created for manufacture of the ammunition remained largely unutilised.

Further progress made in the manufacture of the equipment and the ammunition was as follows :

Equipment

The development of parts 'X' and 'Y' of model 'Q' at a cost of Rs. 4.29 crores was sanctioned in April 1976. The development work was planned for completion by April 1980. It has not yet been completed (October 1985) and the sanctioned amount has been increased (October 1984) to Rs. 9.35 crores. The Ordnance Factory Board (OFB) stated (November 1985) that due to various design changes at different times, the work was delayed, but model 'Q' was accepted in August 1982 for introduction into service with modifications in design as suggested by the user.

An imported computerised numerically controlled horizontal boring machine (cost : Rs. 1.28 crores) procured by factory 'A' from a public sector enterprise (PSE) in 1979 for development of part 'Y' remained unused due to various defects in the machine as mentioned in paragraph 15 of the Report of the Comptroller and Auditor General of India, Union Government (Defence Services) for 1982-83. According to the Ministry of Defence (Ministry) (October 1984) the PSE had been requested to expedite rectification and commissioning of the machine.

For establishment of facilities in factories 'A', 'B' and 'C' for production of model 'Q' at the rate of 20 numbers per month together with 25 *per cent* spares Government sanctioned a project (cost : Rs. 14.23 crores) in September 1982. A separate capacity for production of spare barrel in factory 'C' at the rate of 4 numbers per month was also provided in the project. The project was planned to be completed in September 1986. Orders for 270 nos. of model 'Q' were placed on the Director General Ordnance Factories (DGOF) in October 1978 and September 1982. A programme for manufacture of 10 numbers of model 'Q' during 1983-84 and 30 numbers during 1984-85 was drawn up. Only 10 numbers have been supplied till March 1985.

Meanwhile, the Army's requirements have continued to be met by model 'P' though it was not fully meeting their requirements. Orders for 1,150 model 'P' were placed on the DGOF during June 1971 to September 1979 and against these orders 1,083 were supplied (March 1985). Although factory 'A' had capacity, with a view to establish alternative sources of manufacture 75 numbers each of two assemblies for model 'P' were ordered on a PSE in 1979/1980 (total cost : Rs. 1.18 crores) and 10 numbers of part 'X' for model 'Q' were ordered on trade in March 1984 (total cost : Rs. 1.48 crores). The order on the PSE was short-closed at 21 numbers of each assembly. The procurement of these assemblies involved an extra expenditure of Rs. 0.12 crore compared to the ordnance factory cost. From trade the supplies of part 'X' for model 'Q' are yet to materialise (March 1985).

Ammunition

The capacities created in factory 'F' for production of components I, II and III were 4.80 lakhs, 4.80 lakhs and 7.20 lakhs respectively per year in two shifts of ten hours each. However, achievable capacity for components I and II was only 3.5 lakhs per annum of each as the factory was working in two eight hour shifts and the forging line obtained from a East European Country (cost : Rs. 1.33 crores) was not giving the required output both from qualitative and quantitative aspects. To achieve the original capacity for production of 4.8 lakhs each of components I and II Government accorded sanction in August 1981 for an investment of Rs. 10.55 crores (as amended in November 1983) in factories 'F' and 'K'. Subsequently, to augment the capacity further for production of additional 0.88 lakh each of components I and II, another sanction was issued in October 1983 for investment of Rs. 13.47 crores in factories 'F' and 'G'. The projects were planned to be completed in August 1985 and February 1987 but the present anticipated dates of completion of the projects are March 1986 and May 1987 respectively.

The available capacities for production of the three components are remaining largely unutilised. The production during 1977-78 to 1984-85 and average production per year during the period were as follows :

Component	Total production	Average production per year
	(In lakhs)	
I	13.01	1.63
II	20.63	2.58
III	1.69	0.21

The OFB stated (November 1985) that due to various constraints in the working of the forging line and frequent breakdown of the presses, the actual production of components I and II was less. The OFB added that component III had not yet been cleared for use with component I and it was being produced for another ammunition.

Due to shortfall in production, orders for 1.84 lakh forgings for component I were placed on trade during 1978 to 1983 at cost ranging from Rs. 324 to Rs. 565 each (total cost : Rs. 9 crores). This involved an extra expenditure of Rs. 3.99 crores as compared to the cost of production of the forging at factory 'F'. Besides, Government approved in November 1984 import of 50,000 forgings for the same component at a total cost of Rs. 1.54 crores.

Filled Components

In February 1979, the Ministry stated that the available capacity at factory 'E' for filling of components I and II was 12,500 numbers and 15,000 numbers respectively per month in one ten hour shift. The capacities in factories 'E' and 'F' for production of the components and their filling thus remained unmatched.

Out of the three varieties of ammunition for the equipment, production of one variety has not yet been taken up. Trickle production of another variety (14,750 component I and 22,000 component II) was made during 1978-79 to 1984-85 against orders for 82,900 numbers of each placed during 1978 to 1983. The orders placed on the factory for the third variety and production achieved till March 1985 were as follows :

	Quantity ordered	Production achieved
	(In lakhs)	(In lakhs)
Component I	22.36	11.56 (From 1973-74)
Component II	26.73	14.98 (From 1974-75)

While the requirements of the Services for this variety of ammunition were 4.8 lakhs per annum from 1982-83, the actual supplies during 1982-83 to 1984-85 were only 4.95 lakhs of component I and 6.85 lakhs of component II. The OFB stated (November 1985) that the supplies of various varieties of ammunition made were commensurate with annual targets and availability of components from other factories.

The case reveals the following :

(i) Production of model 'Q' has not yet been fully geared up and the requirements of the Services have continued to be met with model 'P' having inherent limitations.

(ii) Due to unsatisfactory performance of an imported forging line (cost : Rs. 1.33 crores) additional investment of Rs. 10.65 crores had been sanctioned (August 1981/ November 1983) to achieve the original capacity for production of components I and II.

(iii) Due to shortfall in production, components for the equipment and the ammunition worth Rs. 13.20 crores were arranged to be procured/imported involving extra expenditure of Rs. 4.11 crores in the purchase of two assemblies of model 'P' for the equipment and forgings for the ammunition.

(iv) Out of the three varieties of ammunition, production has been confined to one variety only; trickle production of another variety was made during 1978-79 to 1984-85 despite substantial orders and production of another variety has not yet been taken up.

The case was referred to the Ministry in July 1985 and their comments are still awaited (January 1986).

17. (ii) *Extra expenditure in production due to use of non-standard material*

In paragraph 17 of the Report of the Comptroller and Auditor General of India, Union Government (Defence Services) for 1983-84 mention was made about extra contractual benefit to firm 'X' against an order (May 1980) for supply of 2,400 tonnes of brass strips (size 280 mm wide × 18.67 mm thick in length of 2.5 to 3 metres) to factory 'A'.

For manufacturing blanks for a cartridge case different from the one in production in factory 'A', the Ordnance Factory Board (OFB) directed the firm (July 1982) to supply 1,200 tonnes of strips out of 2,400 tonnes to factory 'B'. Factory 'B' was using strips of different size (266.7 mm wide × 17.78 mm thick) since 1965-66 for these blanks but the OFB did not revise the specification. Neither factory 'B' asked the OFB for the revision. The Ministry of Defence (Ministry) stated (December 1985) that the revision was not made as it meant fixing up of production parameters afresh by the firm and delay in supply. The Ministry simultaneously added that the requirements of the strips by factory 'B' were urgent to meet production commitments.

Firm 'X' supplied 1,208 tonnes of strips to factory 'B' during July 1982 to March 1983. As the strips were of different size, the estimate for manufacture of blanks from these strips was finalised in August 1983 providing 15,833 kgs. of strips per 1,000 blanks against 12,935 kgs. per 1,000 blanks in the original estimate. The factory manufactured 76,110 blanks from the strips during August 1982 to December 1983.

The average cost of strips supplied by firm 'X' was Rs. 37.32 per kg. against Rs. 28.32 per kg. (on average during 1982-83 and 1983-84) for the strips in use in factory 'B'. In the manufacture of 76,110 blanks factory 'B' incurred an extra expenditure of about Rs. 97.02 lakhs (after deducting the cost of recovered scraps) on account of higher cost and use of more material. The Ministry stated (December 1985) that if the diversion of strips to factory 'B' was not made, the programme for a vital important store would have failed and for such contingencies cost equation was not relevant.

Summing up :

(i) Against the order for 2,400 tonnes of brass strips for factory 'A', the OFB asked firm 'X' to divert 1,200 tonnes to factory 'B' without revising the specification of the strips to meet the requirements of factory 'B'.

(ii) In the manufacture of the cartridge cases from the strips of firm 'X' an extra expenditure of Rs. 97.02 lakhs was involved on account of higher cost and use of more material due to non-revision of the specification.

18. Unproductive investment

Mention was made in annexure III to para 14 of the Appropriation Accounts of the Defence Services 1973-74 about the delay in completion of a project sanctioned in September 1968 for creating versatile capacity at factory 'X' (estimated cost : Rs. 251.85 lakhs revised to Rs. 288.65 lakhs in August 1974) for production of 3 types of ammunition 'A' (13,700 numbers per month) or alternatively ammunition 'B' (16,000 numbers per month) after the requirements of ammunition 'A' had abated. Due to delay, orders for all types ammunition 'A' on the Director General, Ordnance Factories (DGOF) were cancelled (October 1972) by the Army and imports were continued till 1974. The cancellation of the orders on the DGOF involved a financial repercussion of Rs. 3.83 lakhs on account of unusable materials.

The gun using ammunition 'A' was expected (September 1967) to be retained upto 1977. The Ministry of Defence advised (December 1967) the DGOF that there being great urgency for setting up capacity for indigenous production of ammunition 'A', the project should be implemented urgently and the project was accordingly planned (June 1968) to be completed within 54 months of sanction (September 1968) i.e. by March 1973. The Project was actually completed in March 1981, after 150 months at a total cost of Rs. 2.33 crores. The created facility could not be used as the Army did not place any further order on the DGOF for ammunition 'A'. The versatile facility could not be put to use for manufacturing ammunition 'B' either as the existing facility (16,000 to 18,000 numbers per month) which had been created earlier was fully catering to the demands. Also, the gun using ammunition 'B' was to be phased out of service. The actual production of ammunition 'B' during 1981-82, 1982-83, 1983-84 and 1984-85 was 2,00,598 numbers, 1,65,866 numbers, 1,23,715 numbers and 80,000 numbers respectively. According to the Ordnance Factory Board (October 1984) the production of the ammunition would continue upto 1987-88 at the annual rate of only 80,000 numbers to 1,10,000 numbers.

Thus, the total investment of Rs. 2.33 crores under the versatile project proved to be infructuous.

The case was referred to the Ministry in April 1984 and their comments are still awaited (December 1985).

19. Non-recovery of an advance paid to a firm

Mention was made in paragraph 24 of the Report of the Comptroller and Auditor General of India, Union Government (Defence Services) for 1980-81 about non-recovery of advances paid to a firm (November 1973 to July 1975) for supply of a forging for a vehicle component to a factory. The outstanding amount (Rs. 24.78 lakhs) was recovered during March 1982 to September 1983.

During November 1976 to February 1984 the factory placed several orders on the same firm for various components and forgings valuing Rs. 427.39 lakhs. Till February 1984 the firm supplied stores worth Rs. 160.88 lakhs. As the firm was in financial crisis the Government authorised (March 1984) an advance of Rs. 30 lakhs (with an interest of 16.5 per cent per annum) to be revolved four times subject to a limit of Rs. 45 lakhs at any time. The advance was intended for purchase of raw materials against the orders. The following conditions were *inter alia* stipulated (March/May 1984) :

— The advance would be recovered from the bills of the firm in 8 monthly instalments of Rs. 15 lakhs each starting from 90th day of the first advance.

— The advance would be paid against an indemnity bond if the firm was unable to furnish a bank guarantee.

— The raw materials purchased by the firm out of the advance would be held in bond within the premises of the firm under the control of the factory.

— The firm should maintain an average supply of Rs. 25.30 lakhs worth of components and forgings to the factory every month according to the delivery schedule indicated in the orders.

The advance (Rs. 30 lakhs) was paid to the firm in May 1984 against an indemnity bond. Out of the advance the firm purchased raw materials worth Rs. 18.18 lakhs only. The factory did not exercise sufficient control over the stock of the materials despite Government's instruction and also did not ensure how the balance amount of advance was utilised by the firm. The Ministry of Defence (Ministry) stated (November 1985) that the intimation of receipts of materials was received from the firm in June 1984 and before the factory's representative could reach the firm's premises, the materials were used in production. The firm stopped functioning before the next visit of the factory's representative in July 1984.

Despite financial assistance and stipulation for a minimum supply of stores worth Rs. 25.30 lakhs per month, the firm supplied stores worth Rs. 36.10 lakhs in three months during May to July 1984. Further supplies were not made thereafter.

Out of Rs. 15 lakhs recoverable in August 1984 and another Rs. 15 lakhs in September 1984, only Rs. 15.82 lakhs could be recovered till September 1985 from the bills submitted by the firm. The firm was yet to refund Rs. 14.18 lakhs plus interest of Rs. 4.49 lakhs on the advance (September 1985). Besides, an amount of Rs. 16.24 lakhs was due from them for supplies rejected by the factory. The Ministry stated (November 1985) that an application had been filed before the official 'Court Receiver' for recovery of the dues.

CHAPTER 4

WORKS AND MILITARY ENGINEER SERVICES

20 Military Engineer Services

INTRODUCTORY

1. *Role of MES*

1.1 The Military Engineer Services (MES) are responsible for carrying out all engineer services for the Defence Forces such as construction and maintenance of all types of accommodation, roads, airfields and ordnance factories, hiring and payment of rent, rates and taxes of buildings, assessment of rent for quarters, furniture, electricity and water.

2. A study of the working of MES in general and a test check of constructional activities in 25 MES divisions in 5 Commands was carried out by Audit in 1984-85. In what follows, the comments pertain not only to the activities of the MES but also, in some cases, to roles played by the user departments and the Ministry of Defence (Ministry).

This Review was issued to the Ministry in June 1985. However, in its reply (November 1985) the Ministry has sent no comments on the observations relating to the Air Force, Navy, Defence Research and Development Organisation and Department of Defence Production.

3. *Rush of Expenditure*

According to Rules, allotments are to be economically spent and expenditure has to be spread evenly during work in progress to avoid rush of expenditure at the end of the year. This was emphasised by the Public Accounts Committee (PAC) also in their 17th Report (Second Lok Sabha). In their 29th Report (Second Lok Sabha) the PAC again observed that the Ministry should devise specific remedies to remove the bottlenecks resulting in uneven flow of expenditure during the year.

A scrutiny of the flow of expenditure during the years 1979-80 to 1983-84 revealed that the expenditure incurred during the closing month (March) of the financial years was invariably two to three times the average monthly expenditure incurred during the first eleven months. Details are given in Appendix-I.

The Ministry has repeatedly been attributing this to payment of final bills, "on account" payments and accelerated progress of work during March.

In reply to an audit observation as to how there could be more payment of final bills in March when 75/90 *per cent* "on account" payments would have invariably been made during various stages of progress of works relating to these final bills, the Ministry stated (April 1984) that, besides final bills, payment of final Running Account Receipts (RARs) "just before a short spell of the submission of final bills in March" was also being made "with a view to avoiding lapse of funds at the end of the financial year".

The Ministry stated (November 1985) that "some degree of unevenness in the spread of expenditure takes place on account of pending bills for clearance and large budget provisions at Revised Estimates stage *i.e.* in February/March. However, instructions have been issued (August 1984) to lower formations to spread out the expenditure as far as possible".

4. *Administrative Approvals to Works*

4.1 *Commencement of Works without Administrative Approval*

Rules provide that no works services shall be executed without administrative approval and technical sanction having first been obtained from the appropriate authority.

Works, other than those referred to in paragraphs 4.21 below, of a total value of Rs. 4.70 crores were taken up for execution without prior sanction of the competent authority during the years 1979-80 to 1983-84.

4.2 *Commencement of Works under Paras* 10 *and* 11 *of the Revised Works Procedure* (*RWP*)

In the following exceptional circumstances works can be executed without waiting for administrative approval :

(i) Urgent military reasons (Para 10).

(ii) Operational military necessity or urgent medical grounds (Para 11).

However, even these works are required to be regularised by formal sanction expeditiously.

4.21 *Para* 10 *Works*

Works of a total value of Rs. 1.39 crores executed upto 1978-79 under para 10 of RWP were awaiting formal sanction on 31st March 1981. The same position continued till 31st March 1984.

4.22 *Para* 11 *Works*

The outstanding amount of expenditure on works executed under Para 11 of RWP awaiting formal sanctions, for the years 1978-79 to 1983-84 was as under :—

Year	Opening Balance	Value of cases which arose during the year	Value of cases regularised during the year		Closing Balance
			Pertaining to previous years	Pertaining to the year	
		(Rupees in crores)			
1	2	3	4(a)	4(b)	5
1978-79	3.50	0.64	1.14	..	3.00
1979-80	3.00	1.47	0.99	0.11	3.37
1980-81	3.37	1.03	0.48	0.04	3.88
1981-82	3.88	2.56	1.61	..	4.83
1982-83	4.83	4.71	1.10	2.33	6.11
1983-84	6.11	0.58	3.47	..	3.22

In two cases mentioned below in paragraphs 4.23 and 4.24 pertaining to works executed under Para 11 of RWP, it was observed that taking recourse to Para 11 of RWP was not justified.

CASE-A

4.23 In September 1980, Local Naval Authorities (LNA) accorded sanction for augmentation of class rooms and allied facilities (not falling within the purview of operational works) at Station 'A'. A contract for the work was concluded only in March 1981 and the work could be commenced only in November 1981 and completed at a cost of Rs. 34.99 lakhs in September 1982. The formal sanction was issued in May 1985.

In the reply received from the Ministry (November 1985) no remarks were offered on this observation.

CASE-B

4.24 Based on the assessment of the concerned Garrison Engineer (GE) that only 13.5 lakh gallons of water per day (LGPD) were available at Station 'B' against the Key Location Plan (KLP) requirement of 22.15 LGPD, a Sub-Area Commander sanctioned (December 1981) execution of trial bore tube wells.

In January 1984, the General Officer Commanding-in-Chief of the Command issued sanction of Rs. 48.64 lakhs for the provision of 2 trial bore tube wells and one dug well and one diesel generating set for the dug well. Two more diesel generating sets for two tube wells were sanctioned by the Sub-Area Commander in February 1984 for Rs. 8.12 lakhs, later revised to one set for Rs. 4.79 lakhs.

In February 1983, the GE concluded contract 'X' for Rs. 5.53 lakhs for one dug well and in June 1983 another contract 'Y' for Rs. 14.30 lakhs for two trial bore-wells. The latter work was completed in March 1985. The generating sets for the tube wells/dug well had not been procured so far (March 1985).

The work under contract 'X' was commenced in February 1983, but excavation became difficult as the site was at the foot of a hillock. Protective works valuing Rs. 1.14 lakhs were executed through a separate contract. As slippage continued, the matter was referred in March 1984 to the University of Roorkee who advised in November 1984 that the site was unsuitable. Further work was stopped during November 1984.

The yield of one of the tube wells constructed under contract 'Y' at a cost of Rs. 5.50 lakhs was very low and in April 1985 Central Ground Water Board recommended abandonment of the well. The expenditure of Rs. 5.31 lakhs (including Rs. 1.14 lakhs on protective works) incurred on the dug well thus proved to be entirely infructuous.

The Ministry stated (November 1985) that the work was taken up on trial basis.

4.3 *Commencement of works under Emergency Works Procedure*

A special works procedure called Emergency Works Procedure was introduced in 1962 to meet emergency requirements. This procedure was withdrawn with effect from 1st April 1969.

The total value of such works which were awaiting regularisation even after 10 years of withdrawal of the procedure was Rs. 389.61 lakhs as on 31st March 1979 and after 15 years it was Rs. 18.04 lakhs on 31st March 1984

The Ministry stated (November 1985) that the progress in regularisation of these cases was being regularly watched by the E-in-C's Branch.

5. *Delay in issue of acceptance of necessity/ administrative approval to works and consequences thereof*

5.1 Administrative control in respect of original works is exercised in two stages *viz.* :

(a) Acceptance of necessity.

(b) Administrative approval.

In 17 Projects included in the "Works Plan Programmes" for the years 1977-78 to 1982-83 and sanctioned between November 1978 and March 1983, delay in accepting the necessity and according administrative approval ranged between 1 and 4 years due to late submission of estimates by MES, changes in the scope of work by users and delay in issuing sanction by the Ministry as detailed below :—

Extent of delay	No. of cases
Over 1 year	12
Over 2 years	4
Over 4 years	1
	17

Some illustrative cases are mentioned in paragraphs 5.11 to 5.14.

The Ministry stated (November 1985) that acceptance of necessity of works was guided by *inter-se* priorities, availability of funds and consideration of time and situation prevailing at a particular point of time.

CASE-C

5.11 An Ordnance Factory was proposed to be set up during June 1976 at Station 'C' on a very high priority basis in two Phases—Phase I intended to transfer production of some of the items of ammunition from an existing factory to the proposed factory and Phase II to productionise new items of ammunition under development.

A Board of Officers recommended in June 1976 that the project be so planned as to commence production by January 1979. Phase I of the Project was sanctioned in July 1977 at Rs. 2.94 crores but Phase II could not be sanctioned due to non-availability of technical details of imported equipments and processes.

The proposal for Phase II was submitted to the Ministry in December 1978 after considering certain changes in the scope of the project. The estimate of the project amounting to Rs. 9.35 crores could be finalised only in September 1980 due to the users seeking relocation of the buildings in June 1980 so as to retain certain assets existing at the site. The estimate was revised in January 1981 at the instance of users to Rs. 6.29 crores by eliminating such items as could be deferred. Phase II of the project was sanctioned in April 1981 at Rs. 6.28 crores. The project was eventually completed in May 1984 at a cost of Rs. 7.83 crores.

Thus, Phase II of the project, planned to productionise new items of ammunition by January 1979, accepted in July 1980, took another nine months for issue of sanction in April 1981 and was completed in May 1984.

In the reply received from the Ministry (November 1985) no remarks were offered on this observation.

CASE-D

5.12 Based on the recommendations of a Board, the LNA sanctioned in March 1978 provision of an Intensive Care Unit (ICU) and a Radio Isotope Centre (RIC) in a Hospital at Station 'D' at a cost of Rs. 19.80 lakhs (including provisional amount of Rs. 1.5 lakhs for airconditioners). As a result of the recommendations, *inter alia*, for central airconditioning by another Board, the LNA sanctioned in October 1978 extension of the existing operation theatre and laboratories but without airconditioning at Rs. 12.38 lakhs. The sanction of March 1978 and October 1978, were revised in October 1979 and July 1979 to Rs. 35.27 lakhs and Rs. 32.26 lakhs respectively by also providing items like airconditioning, electric supply and gas pipe connections. While submitting the revised estimates the Zonal Chief Engineer (CE), however, had pointed out that airconditioning and gas pipe connections were special items of works and required sanction of the Government. The Government sanction covering both the works sanctioned by the LNA in 1978 was issued in December 1981 for Rs. 96.90 lakhs. The work was not commenced till January 1985. The users stated in January 1985 that though window type airconditioning was provided, in the absence of central airconditioning and controlled Ventilations, there were breakdowns of sophisticated electronic equipments which gave rise to fallacious results/ readings which was detrimental to the patients' recovery besides exposing them to the risk of hospital cross infection.

In the reply received from the Ministry (November 1985) no remarks were offered on this observation.

CASE-E

5.13 A Board of Officers recommended in April 1979 the augmentation of technical accommodation and allied facilities for a Research and Development (R&D) establishment (users) at Station 'E'. The users gave their approval in June 1979. Due to frequent changes made by the users, the engineers submitted the estimates after 11 months in April 1980. As the estimates included certain items of work that had not been recommended by the Master Plan Board in 1972, a revised estimate was prepared in April 1981 and administrative approval was accorded in October 1981 *i.e.*, after a lapse of thirty months from the date when the work was recommended by the Board. The work had progressed only upto 75 *per cent* till July 1985.

In the reply, the Ministry (November 1985) offered no remarks on this observation.

CASE-F

5.14 A Board of officers recommended in March 1979 works for augmenting certain technical accommodation at station 'E'. The estimate (*i.e.* for Rs. 82.09 lakhs) of the project was finalised by the engineers in January 1981 after a delay of 22 months due to inadequate information regarding requirement of power points and airconditioning of certain buildings recommended by the Board. Thereafter, it took another year to resolve certain issues raised by the Finance as to the justification for the floor area, etc. of the accommodation required for the project; administrative approval for the project was accorded by the Ministry in April 1982 for Rs. 82.82 lakhs, more than three years after the recommendation of the Board.

In the reply received from the Ministry (November 1985) no remarks were offered on this observation.

6. *Delay in execution of works*

6.1 In 15 projects pertaining to 3 commands, sanctioned by the Government between December 1971 and April 1982, delay in executing works ranged from over 1 year to over 5 years as detailed below :—

Extent of delay	No. of Projects
Over one year	3
Over 2 years	1
Over 3 years	6*
Over 4 years	1
Over 6 to 9 years	4*

*2 out of 6 and 1 out of 4 were yet to be taken up for execution as on March 1985.

6.2 Illustrative cases are given below :

CASE-J

Due to increase in the fleet strength at the Naval Base at Station 'G' a Board of Officers recommended in December 1970 the construction of a 1,200 ft. wharf. In April 1972, the cost of this work was estimated at Rs. 798.55 lakhs by the Zonal CE. The CE, Dry Dock entrusted with the execution of the work, however, opined (16th January 1974) that construction of the wharf at the site was neither technically feasible nor economical. Later on in July 1976, he considered 4 alternatives-3 for construction of wharf with different specifications/designs and one for construction of jetty in lieu and recommended construction of a wharf at an estimated cost of Rs. 746.58 lakhs in preference to a jetty estimated at Rs. 755.95 lakhs. In December 1976, the CE (Project) informed the Naval Area Authorities that construction of a jetty in lieu of a wharf was considered by the Naval Headquarters (HQ)/E-in-C's Branch.

Administrative approval for the construction of a 1,200 ft jetty at Rs. 761.31 lakhs, inclusive of Rs. 15.68 lakhs for the preliminary works sanctioned in November 1975, as amended, was issued by the Government in February 1978. As per the sanction, the work (excluding "Capital dredging") was to be completed within 36 months from the issue of sanction *i.e.* by February 1981.

The main contract was concluded in February 1979 with firm 'AX' for a lump-sum of Rs. 3 crores for completion of work by 21st February 1981. By 1st February 1982 when the progress registered was assessed to be worth Rs. 1 crore, the work came to a stop due to labour problems in the firm resulting in cancellation of the contract in October 1982. However, the firm challenged the cancellation in a Court of Law in November 1982 resulting in withdrawal of cancellation in January 1983 but the work was not resumed. The contract was again cancelled on 2nd September 1983.

A fresh contract (except for supply of rubber Fenders) for the remaining works was concluded in March 1984 with firm 'BX' at the risk and cost of the defaulting firm for Rs. 2.98 crores for completion by 6th September 1985.

Due to the delay in completion of the main work, contracts for allied services totalling Rs. 144.31 lakhs, concluded in 1979-80 also got extended and were still in progress in March 1985. Delay in completion also led to an additional expenditure of Rs. 2.01 lakhs (February 1981 to March 1983) by way of hiring commercial berths.

In the reply received from the Ministry (November 1985) no remarks were offered on this observation.

CASE-L

6.3 A siting-*cum*-costing Board convened in February 1965 to plan accommodation for a Central Base Post Office at Station 'H' recommended the construction on land requisitioned for this purpose in 1965. The work could not, however, be commenced and was abandoned as the land owners offered resistance and brought an embargo through the State Government.

In July 1967, the State Government suggested to the Ministry that suitability of alternative site could be examined by holding a joint inspection. The alternative site was recommended by a fresh siting Board in December 1968 and its acquisition was sanctioned in February 1969 at a cost of Rs. 11.52 lakhs. Sanction for the provision of the accommodation at the new site was accorded by the Government in February 1971 at Rs. 68.39 lakhs. The work was released for execution in 1971-72 with specific instructions for completion by January 1974.

The Zonal CE concluded the main contract in August 1972 for Rs. 60.96 lakhs. In view of financial stringency, Army HQ ordered in March 1974 foreclosure of the work once plinth level was completed.

The work was again released for execution during 1975-76. After financial concurrence of the Government in September 1976, the Zonal CE concluded a new contract in September 1976 for Rs. 67.33 lakhs for execution of works above the plinth level. The work was completed in September 1980 at a total cost of Rs. 128.16 lakhs. *Ex-post-facto* sanction of the Government was issued in March 1981.

Due to non-establishment of clear title on the first site and the need for selection and acquisition of a second site as also due to non-completion of the works by January 1974 stipulated at the time of release of work, the project as planned could not be completed before enforcement of financial stringency by Army HQ in March 1974. This resulted in increase in the cost to the tune of Rs. 59.77 lakhs which could have been avoided.

The Ministry stated (November 1985) that the Financial stringency and difficult situation prevailing between 1965 and 1971 contributed to the delay and resultant excess cost to a large extent.

However, the foreclosure of the work due to financial stringency was ordered in March 1974 only, and the foreclosure could, therefore, have been avoided if the work had been completed within the stipulated time of January 1974.

CASE-M

6.4 In January 1971, a Board of Officers recommended construction of domestic accommodation on Defence land for civilian Staff of an establishment at Station 'J'. The land was handed over to the MES in November 1971 and sanction for the work was accorded by the Government in September 1972 at Rs. 59.80 lakhs indicating the time required for completion of the work as 3½ years from the date of release of work. The work was released for execution only in February 1976 due to imposition of general ban on construction of non-functional buildings during the years 1972-73 to 1974-75. In December 1976, the sanctioned amount was revised to Rs. 60.50 lakhs. The work was commenced in June 1980 after a lapse of over 4 years due to revision in the authorisation/entitlement of the officers, change of approach road to the site and invitation of tenders thrice due to high tendered cost and obtaining financial concurrence from the Government. The project was completed in March 1983. The State Electricity Board supplied electricity to the accommodation in January 1984. The final cost of the project was Rs. 87.93 lakhs.

Thus, the work that was released for execution in February 1976 could be completed only in March 1983 and made ready for occupation in January 1984.

7. *Schedule of Rates*

7.1 The Standard Scheduled of Rates (SSR) is the basis for pricing most forms of contract (Lump sum, item rate, term) and for determining the reasonableness of contractors' quotations. In the MES, there are six sets of rates applicable to six different geographical zones of the country.

During 1962 to 1985, the CPWD revised their Schedules eight times, the last occasion being in 1983, in order to be abreast of the market trends. The MES, however, could during this period, revise their Schedules only four times in 1962, 1970, 1975 and 1980. The SSR for 1970 published by the MES in 1972 was made operative from 1st November 1972 and the SSR 1975 from 15th November 1975. The SSR 1980 was introduced from December 1983 but contracts continued to be executed based on the SSR 1975 even in 1983-84.

7.2 An examination of the working of SSR 1975, with reference to contracts concluded during 1979-80 to 1983-84 in five commands revealed that out of a total of 5,911 contracts of Rs. 1 lakh and above priced on the basis of SSR 1975, in 2,266 (38 *per cent*) cases the lowest rates quoted by contractors were 21 to 50 *per cent* above the SSR, in 1,579 (27 *per cent*) cases 51 to 100 *per cent* above the SSR, and in 420 (7 *per cent*) cases more than 100 *per cent* above the SSR. Commandwise position is given in Appendix II.

The Ministry stated (November 1985) that efforts were being made to reduce the periodicity of publishing SSR to 3 years and that delay in implementation of SSR did not materially affect the overall pricing of contracts as SSR formed only a guide.

Adoption of outdated Schedule of Rates did not form an effective guide either for estimates or for accepting tendered rates.

8. *Administration/Execution of contracts*

8.1 *Non submission of contract agreements to Controllers of Defence Accounts for scrutiny before payment*

As per E-in-C's instructions of May 1976 comparative statement of tenders, notice of tenders and the original documents are to be forwarded to the Controllers of Defence Accounts (CsDA) within 4 weeks in respect of normal works and 10 weeks in respect of specialist works.

6,719 contract agreements concluded during the years 1980-81 to 1983-84 in 5 commands were not submitted within the stipulated period to the CsDA. for scrutiny. As a result, advance payments were made to contractors without scrutiny. The year-wise details are as under :

Year	COMMAND					
	SC	NC	WC	EC	CC	Total
	(No. of contract agreements)					
1980-81	818	213	261	109	498	1,899
1981-82	616	200	204	108	486	1,614
1982-83	598	360	163	76	318	1,515
1983-84	779	269	258	95	290	1,691
	2,811	1,042	886	388	1,592	6,719

Reasons for not submitting the contract agreements within the stipulated period to the CsDA and the number of cases in which advances so paid to contractors resulted in irrecoverable over-payments were called for from the Ministry in November 1984.

Ministry stated (November 1985) that delay in submitting the contract documents was generally due to delay in signing contract documents by contractors and suitable instructions in this regard were issued by the E-in-C's Branch. The Ministry also stated that there was no possibility of overpayments of advances as these were adjustable in the final bills.

8.2 *Non-observance of prescribed period to be given to contractors for quoting their rates*

Contractors are allowed 4 to 5 weeks time to quote their rates. In 3,362 cases, in respect of five commands, the prescribed period was not allowed to contractors during the years 1980-81 to 1983-84. Details are as under :

Year	Command					
	SC	NC	WC	EC	CC	Total
	(No. of contract agreements)					
1980-81	664	30	16	154	273	1,137
1981-82	458	17	5	86	213	779
1982-83	523	20	16	95	220	874
1983-84	382	23	12	34	121	572
	2,027	90	49	369	827	3,362

The Ministry stated (November 1985) that cases where prescribed period had not been allowed to contractors were on decline and such cases had occurred in "simple contracts" as also "urgent works".

8.3 *Extension of time granted to contractors*

Contract agreements specifically state the time allowed for completion of works. The accepting authority can, however, grant extension of time on account of bad weather, break out of fire, civil commotion and non-availability of stores to be supplied by the department.

In 3,178 cases pertaining to 5 commands, extensions of time were granted to contractors during the year 1983-84. Out of these, in 2,143 cases (67 *per cent*) the periods of extensions granted were disproportionately large as compared to the periods originally fixed for completion. In 1,226 cases (39 *per cent*), the extensions of time granted were more than the original period and in 917 cases (28 *per cent*) half or more than half of the original period. The position in the years 1980-81 to 1983-84 was as under :

Year	Total No. of cases	More than the original period	Percentage	Half or more than of the original period	Percentage
1980–81	3,010	1,201	40	840	28
1981–82	3,144	1,079	34	863	27
1982–83	3,124	1,142	37	913	29
1983–84	3,178	1,226	39	917	28

The reasons adduced for granting extensions year after year were non-availability of stores, non-availability of site/buildings, bad weather and change in the scope of works.

The Ministry stated (November 1985) that in many cases extensions of time granted to contractors were unavoidable but a Committee was formed to look into the time over-run and package of measures required to ensure timely completion of the projects.

9. *Overpayments to contractors*

9.1 According to the Rules, before making payment of advances to contractors, the GEs have to personally assess the cost of work done and materials collected by the contractors with a view to verifying the reasonableness of the items. If the final account of a contractor shows a debit balance, recovery is made either in cash or from other bills of the contractor or from his security deposits.

Notwithstanding these safeguards, the total amount outstanding in 5 commands on account of overpayments to contractors or short recoveries from them was Rs. 2.59 crores at the end of March 1984. The amounts outstanding in the preceding three years *i.e.* 1980-81, 1981-82 and 1982-83 were Rs. 2.15 crores, Rs. 2.03 crores and Rs. 2.15 crores. The Commandwise position at the end of 31st March 1984 was as under :

Command	Outstanding as on 1st April 1983	Over payments/ short recoveries pointed out during the year	Settled during the year		Outstanding as on 31st March 1984
			Pertaining to previous years	Pertaining to the year	
	(Rupees in lakhs)				
Central	42.34	10.53	2.52	..	50.35
Western	55.89	3.80	2.55	0.34	56.80
Northern	14.77	1.95	0.66	0.14	15.92
Eastern	43.53	8.92	1.18	1.57	49.70
Southern	58.86	29.32	0.64	1.02	86.52
	215.39	54.52	7.55	3.07	259.29

Of Rs. 2.59 crores outstanding at the end of 1983-84, overpayments of Rs. 54.52 lakhs were detected that year by the Chief Technical Examiner (CTE) of works (Defence) as a result of site examination and technical examination of final bills of the value of Rs. 253.54 crores representing 48 *per cent* of the total work load *i.e.* Rs. 526.30 crores. The expenditure on his establishment during the year was Rs. 19.89 lakhs.

9.2 The CTE is required to carry out technical examination during the currency of the work or after the work has been completed. After technical examination of 4 completed works, the CTE pointed out recoveries totalling Rs. 49.59 lakhs on account of defective workmanship during the period February 1976 to September 1976.

9.3 In two contracts 'AB' and 'AC' concluded by a CE in respect of two works with firms 'AD' and 'AE', Government claimed on 8th May 1979 in arbitration, Rs. 25.13 lakhs and Rs. 21.02 lakhs respectively from the firms on account of replacement of defective concrete slabs as pointed out in the post-technical examination by Technical Examiner (TE) on 6th September 1976 and 13th February 1976. The claims were rejected by the Arbitrator in a non-speaking award.

9.4 In respect of two other contracts pertaining to two works, the Arbitrators rejected in September 1980 the claims of the Government for recovery of amounts totalling Rs. 3.44 lakhs representing cost of defects in works pointed out in the post-technical examination by TE.

The Ministry stated (November 1985) that the awards were "non-speaking" and were accepted based on the legal opinion obtained from the Ministry of Law.

10. *Losses of stores and cash*

10.1 In 5 Commands, cases of stores and cash losses totalling Rs. 7.00 crores awaited regularisation as on 31st March 1984. Details are given below :

Year	Outstanding at the beginning of the year	Losses occurring during the year	Total	Losses regularised during the year		Total	Outstanding at the end of the year
				Pertaining to the previous years	Pertaining to the year		
1	2	3	4	5	6	7	8
			(2 + 3)			(5 + 6)	(4 — 7)
				(Rupees in crores)			
1980-81	5.28	1.58	6.86	0.63	0.07	0.70	6.16
1981-82	6.16	0.89	7.05	0.99	0.02	1.01	6.04
1982-83	6.04	1.32	7.36	0.87	0.02	0.89	6.47
1983-84	6.47	1.43	7.90	0.88	0.02	0.90	7.00

The Ministry attributed (November 1985) delay in regularisation of losses to examination of the losses by different Defence authorities as also by Police, Judiciary and Vigilance.

11. *Revenue*

11.1 *Outstanding rent and allied charges*

The occupation returns as prepared by units/formations form the basis of recovery of rent and allied charges by the MES. When no occupation return is received, the rent bill is prepared by the MES on the basis of the corresponding entries for the previous month.

Rent bills in respect of Defence and Civil officers are prepared by the Unit Accountants attached to the GEs and sent to the Accounts Officers *i.e.* CsDA or Civil Authorities, as the case may be with copies to the formation/office for recovery. Rent bills in respect of persons other than Defence Personnel are sent through the concerned MES office, either to the allotting authority or to the individuals, and in the case of pensioners and private individuals rent is recoverable every month in advance. Monthly review of recoveries is required to be conducted by the MES in conjunction with the Unit Accountant, and, arrears on account of rent and allied charges are then brought to the notice of the Station Commander for further action.

In addition to the above procedure, various instructions were issued by the Ministry and the Army HQ from time to time to contain arrears of rent and allied charges. Despite these safeguards, the outstanding rent and allied charges showed an increasing trend and the total outstanding as on 30th June 1983 in respect of 5 commands (excluding accommodation under the Ordnance Factories) was Rs. 2.88 crores as per details given in Appendix III.

The Appendix reveals that :

— Dues outstanding against private parties (category 7) represented 25 *per cent* of the total outstanding.

— 10 *per cent* of the total outstanding represented the dues against retired/released officers (category 4).

— Dues outstanding against the other Union Ministries and State Governments (Categories 2 and 3) represented 42 *per cent* of the total outstanding.

— Dues outstanding for more than 10 years amounted to 21 *per cent* of all outstandings.

The total outstanding of rent and allied charges as on 30th June 1984 stood at Rs. 3.38 crores registering an overall increase of Rs. 0.50 crore over the outstanding of the previous year.

The Ministry stated (November 1985) that, it was decided in July 1985 to accord top priority to realise rent and allied charges due from private parties, and, to continue efforts to persuade the concerned Ministries and State Governments to settle the dues from them urgently.

11.12 Some of the interesting cases are given in succeeding paragraphs.

11.2 Certain Service Officers were in continued occupation of Government accommodation in Western Command even after their release/retirement. A sum of Rs. 5.81 lakhs was recoverable from those officers. The reasons for outstanding dues were attributed to non-recovery from pensions payable to them by the CDA (Pensions).

11.3 A sum of Rs. 12.56 lakhs towards rent and allied charges was due against certain private parties (including MES contractors) in Western Command. The dues could not be recovered as the whereabouts of some of them were not known. The remaining cases were pending in a Court.

11.4 A private firm in Eastern Command occupied Defence land from 1956 to 1983. A sum of Rs. 5.86 lakhs towards rent of the land was recoverable from the firm. The case was pending in a Court.

11.5 A private firm was in occupation of certain Defence buildings at a station in Eastern Command during 1974-75. A sum of Rs. 3.29 lakhs towards rent and allied charges was recoverable from the firm. Recovery could not be effected as handing/taking over of the buildings was not done through the MES and no occupation/vacation returns in respect of the buildings were rendered by the Army Authorities to the MES.

11.6 A Central School was in occupation of certain Defence buildings at a station in Western Command from September 1970 to February 1982. A sum of Rs. 7.85 lakhs towards rent and allied charges was recoverable from the school. The matter was pending with the Station HQ.

The Ministry stated (November 1985) that the information was being collected for issuing specific instructions and general guidelines to contain the problem.

11.7 *Outstanding Barrack Damages*

Damages to buildings, fittings, fixtures and furniture caused wilfully or by negligence are called Barrack Damages.

Barrack damages do not form part of the rent bill. Separate vouchers are prepared for the charges and sent to the units/formations concerned for payment.

The total amount outstanding on account of non-recovery of barrack damages at the end of 1983-84 stood at Rs. 29.14 lakhs. The table below indicates an increasing trend in barrack damages.

Command	Outstanding at the end of the financial year (Rupees in lakhs)			
	1980-81	1981-82	1982-83	1983-84
Western . .	3.92	4.08	5.51	5.90
Central . .	7.76	8.73	8.76	7.60
Northern . .	1.70	2.55	3.10	3.22
Southern . .	6.11	8.09	8.30	7.06
Eastern . .	4.61	4.36	4.60	5.36
	24.10	27.81	30.27	29.14

The Ministry stated (November 1985) that instructions were being issued to Service Headquarters to take immediate measures to liquidate barrack damages.

12. *Stores Management*

12.1 Regulations provide that the provision of stores for projects should be realistic and as per actual requirements. The E-in-C clarified (1971) that procurement of steel and cement should be on the basis of quarterly requirements. Excess procurement results in avoidable expenditure in transferring surpluses to other projects or places.

12.2 A review of the pattern of procurement of cement and steel for 8 projects (details given in Appendix IV) executed by 5 GEs revealed that :

— In 8 projects, for every 75 tonnes of cement and 54 tonnes of steel used, 100 tonnes of each were procured resulting in total surplus procurement of 6,732 tonnes of cement (cost : Rs. 50.51 lakhs) and 2,635 tonnes of steel (cost : Rs. 92.85 lakhs).

— In projects 'C' and 'F' the quantity of steel planned was 775 MT (138 + 637 MT respectively), whereas the quantity actually utilised was 778 MT (112 + 666 MT) being almost equal. However, the quantity procured was 1,344 MT (426 + 918 MT). The excess quantity of steel procured was 566 MT *i.e.* 73 *per cent* above the planned requirement, and costing Rs. 14.38 lakhs.

The Ministry stated (November 1985) that "Steel and Cement are scarce stores in spite of statutory control and are not available for even Government works............procurement takes long to materialise" and "at zonal levels there are always deficiencies".

12.3 *Procurement of Steel for a project*

Based on the recommendations of a Board of Officers for re-erection of two "Igloo type" hangars at Station 'K', Government issued in March 1979 "Go-ahead" sanction pending issue of regular administrative approval, for Rs. 7.50 lakhs for procurement of stores. Due to non-availability of the designs and drawings of "Igloo type" hangars, the engineers assessed in November 1979 that 1,097 MT of steel would be required for construction of alternative ONGC type hangars.

Though the Ministry approved ONGC type hangars in March 1980, indents for supply of only 201 MT of steel, as against 1097 MT required, were placed in March 1980 as the amount sanctioned in the Go-ahead sanction was Rs. 7.50 lakhs as against Rs. 30 lakhs (approximately) required.

Government accorded administrative approval to the work in January 1981 and 201 MT of steel were received in batches between September 1980 and April 1981.

In April 1981, tenders for the work, inclusive of supply of steel, were issued. In June 1981, the engineers attributed the reasons for deviating from the normal practice of supply of steel by the department to the likely delay of 8—12 months in procurement which was not acceptable to the users in view of the urgency of the work.

In July 1981, a contract was concluded with firm 'DX' for Rs. 1.31 crores. The department was to assist the firm in getting steel from the Steel Authority of India Limited (SAIL) on priority basis. The price analysis of the tender indicated that the cost of steel to be procured by the contractor for the work was Rs. 73.07 lakhs inclusive of profit and overhead.

In November 1981, the GE concerned requested SAIL; the balance 224 MT of certain other sections tor procured 873 MT of certain sections of steel from SAIL; the balance 224 MT of certain other sections of steel were procured by him from the market. The work was completed in December 1982.

201 MT of steel procured earlier by the department was not issued to the contractor and was utilised on other works.

In August 1984, the Ministry stated that the total cost of procurement of steel for the two hangars, if procured by the department, would have been Rs. 42.90 lakhs against Rs. 73.07 lakhs paid to the contractor.

The Ministry further stated (November 1985) that since the users wanted the entire work to be completed in 52 weeks, the department had no choice but to make the contractor responsible for supply of steel and procurement and issue by the department would have involved delay.

The question of procurement of steel by the contractor would not have arisen if the department had arranged in March 1980 itself to obtain funds required for the procurement of entire quantity (1,097 MT) of steel for the project, especially so when cost of stores for construction of ONGC type hangars mainly consisted of steel.

12.4 *Excess Procurement of Bitumen*

According to Rules, prior approval of the authority competent to accord administrative approval has to be obtained if it becomes necessary to collect materials in advance of the issue of administrative approval.

Between September 1979 and May 1981 a Zonal CE and a Commander Works Engineer (CWE) placed, without obtaining prior approval, 7 supply orders for a total quantity of 2,100 MT of bitumen for a project.

In July 1981, the GE assessed that 925 MT of bitumen were required for the work and requested the CWE to divert the excess quantity to other MES formations. The CWE instead, ordered transfer of 129.95 MT of bitumen to the work from another station. In August 1981 and September 1981, the CE placed two more supply orders for a total quantity of 600 MT of bitumen for Rs. 16.67 lakhs.

2,806.06 MT of bitumen valuing Rs. 80.71 lakhs materialised between July 1981 and December 1981, against the above 9 supply orders including 129.95 MT transferred from the other station. Of this, 1,648 MT bitumen was transported by road instead of normal practice of transportation by rail at an additional expenditure of Rs. 1.67 lakhs.

Only 1,175.89 MT of bitumen were utilised during November 1981—May 1982 on the project. Out of the unutilised balance of 1,630.17 MT valuing Rs. 46.89 lakhs, 1,342.803 MT valuing Rs. 38.62 lakhs were transferred during July 1981—July 1983 to other formations at a cost of Rs. 4.67 lakhs.

13. *Arbitration Awards*

13.1 The Arbitration Act 1940 stipulates that awards shall be made within 4 months of entering on the reference. General Conditions of MES contracts, however, provide that an Arbitrator shall give his award within six months from the date of his entering on the reference or within the extended time.

In their 210th Report (5th Lok Sabha) the PAC had, while discussing Paragraph 11 of the Report of the Comptroller and Auditor General of India, Union Government (Defence Services) for the year 1973-74, observed that "adequate steps had certainly not been taken to ensure that the arbitration proceedings were not unnecessarily protracted."

A review of the cases referred to Arbitrators in Western, Eastern, Central and Southern Commands between 1978-79 and 1980-81, (details given in Appendix V) revealed that out of 286 cases referred to Arbitrators, 116 cases were pending with Arbitrators as on 1st January 1982, and, that of 170 cases decided by the Arbitrators between 1978-79 and 1981-82 (upto December 1981), 103 cases went in favour of contractors.

In a large number of cases, the awards went against the department due to lack of proper supervision of works, delay in giving decision by the engineers and defective drafting of contracts. Some illustrative cases are brought out below :

13.2 A contractor after signing the final bill with "no further claim certificate" claimed additional amount of doing certain additional works whereas the department contended those to be non-contractual. The arbitrator awarded Rs. 1.42 lakhs in favour of this contractor in January 1981. Of the amount awarded, Rs. 1.32 lakhs was on account of non-availability of site for filling on re-excavation and re-handling of earth.

13.3 In a contract for Central Sewage which *inter alia* provided pumping out of sub-soil water if met with by the contractor, the Arbitrator awarded (February 1981) Rs. 13.10 lakhs in favour of the contractor for pumping out sub-soil water by electrically operated machines. The Ministry of Law advised (March 1981) against contesting the award mainly because the award was "non-speaking".

The provision in the contract was not clear whether the pumping out of sub-soil water was to be done manually or mechanically.

The Ministry stated (November 1985) that the question of speaking *versus* non-speaking awards was under review.

13.4 Rs. 1.75 lakhs was awarded in December 1979 by an Arbitrator in favour of a contractor for his claim on account of suspension of the work for a period, arising due to prevention of work and breach of contract. The Ministry of Law stated (March 1980) that the suspension order did not specify the reasons for suspension.

14. *Other Interesting points*

Case 'N'

14.1 A sanction accorded in October 1981 by Government, for resurfacing of a runway included provision for 7 MES constructional staff quarters to temporary specifications at Rs. 1.67 lakhs. This was objected to by Audit in March 1982/November 1982 on the ground that resurfacing did not signify a new project to justify construction of these quarters. These quarters were deleted from the sanction in July 1983. Meanwhile, the GE who had issued tenders in September 1982 concluded a contract on 18th January 1983 for the quarters with permanent specification at Rs. 2.92 lakhs after he was ordered telegraphically by the Zonal CE on 17th January 1983. Thus, 7 unauthorised quarters came to be constructed due to lack of co-ordination between the Administrative authorities and the engineers.

In the reply received from the Ministry (November 1985) no remarks were offered on this observation.

Case 'P'

14.2 Regulations provide that where a number of services in a station or area are necessitated by a change of plan or policy or location of units, provisioning thereof will be considered as for one project and all projects beyond the powers of approval of the authorities lower than the Government will be submitted for its acceptance of the necessity. Once the necessity for such project has been accepted by Government, phases of the project can be sanctioned by the lower competent authority separately but no project can be split-up merely to bring it within the powers of sanctioning authority.

Naval HQ accepted the necessity and accorded sanction in parts, during March 1984—June 1984 for provision of married accommodation (30 quarters each) for Naval personnel of six Naval Establishments located at Station 'M' at an estimated cost of Rs. 78.82 lakhs each.

Since these works were similar in nature, and were to be located at one and the same station, the works should have been treated as one work and submitted to the Ministry for acceptance of necessity. Instead, the works services were split-up to bring these within the powers of the Naval HQ.

In the reply received from the Ministry (November 1985), no remarks were offered on this observation.

Case 'Q'

14.3 In July 1980, a CE concluded a contract agreement with firm 'CX' for construction of 3 RCC overhead tanks 'A', 'B' and 'C' of 5.67 lakh, 2.27 lakh and 6.81 lakh litres capacity respectively as per design and specifications of the firm.

Tanks 'A' and 'B' were completed in March 1981 but were taken up for testing in February 1984.

Tank 'C' which was completed in June 1981 collapsed on 9th September 1981 when water was being filled in it for preliminary test. A technical Board of Officers instituted under the orders (May 1982) of the E-in-C investigated the case. Their report could not be made available to Audit as it was stated by the CE that it was with the Central Bureau of Investigation (CBI).

In September 1981, the CE concerned asked the firm to construct a new tank at its expense. The work on the new tank was commenced in December 1981 and completed in May 1984 without adequate supervision by the engineers who did not even have authenticated/approved copies of the Drawings with them. Shuttering of the shaft was removed on 25th January 1983 by the contractor within 24 hours of casting as against 72 hours provided in the contract and the mix of the concrete for cube was kept lower than provided.

The new tank was filled with water in May 1984 and July 1984 for preliminary tests. The re-built tank collapsed on 4th August 1984. The Ministry stated (November 1985) that this case was also likely to be handed over to the CBI.

15. *Statutory Audit Objections*

15.1 Audit observations on financial irregularities and defects in the accounts noticed during local audit of units and formations and not settled on the spot are included in Local Test Audit Reports (LTARs) and are communicated to the CsDA for examination and reply. LTARs are drawn up in two parts. Important objections requiring action on the part of administrative/executive authorities to set right the irregularities immediately are included in Part I; other objections are included in Part II. While replies to Part I LTARs are to be given by the CsDA immediately, replies to Part II LTARs are to be furnished within 2 months.

1,020 LTARs comprising of 23 items of Part I and 1,862 items of Part II were issued between 1981-82 and 1983-84. Of these, 20 Part I items and 1,138 Part II items remained outstanding as on 30th September 1984; even first reply in respect of 5 Part I items and 451 Part II items were not received by the end of September 1984. The position is shown below :

Year	No. of LTARs issued upto 31st March of the year	No. of items in LTARs		No. of items of LTARs by end of September 1984		No. of items of LTARs where first reply had not been received by end of September 1984	
		Pt. I	Pt. II	Pt. I	Pt. II	Pt. I	Pt. II
1	2	3	4	5	6	7	8
1981–82	292	8	577	7	283	2	108
1982–83	358	6	595	6	394	..	112
1983–84	370	9	690	7	461	3	231
Total	1,020	23	1,862	20	1,138	5	451

The Ministry stated (November 1985) that the E-in-C's Branch was being directed to undertake a special drive for speedy clearance of LTARs with particular reference to the cases where even the first reply to LTARs had not been furnished.

16. To sum up :

1. The Review carried out by Audit covered 25 MES divisions in 5 Commands.

2. The review was issued to the Ministry in June 1985. The Ministry in their reply sent in November 1985 offered no comments to observations relating to Air Force, Navy, Defence Research and Development Organisation and Department of Defence Production.

3. Expenditure during the closing month (March) for the period 1979-80 to 1983-84 was 2 to 3 times the average monthly expenditure incurred during the first eleven months.

4. Works valuing Rs. 4.70 crores were taken up for execution during the years 1979-80 to 1983-84 without obtaining prior sanction of the competent authority.

5. Works valuing Rs. 1.39 crores executed upto 1978-79 on urgent Military grounds were awaiting formal sanction till 31st March 1984.

6. Works valuing Rs. 13.91 crores were executed upto 1982-83 on operational military necessity, of which works valuing Rs. 6.11 crores were awaiting formal sanction till 31st March 1984. In certain cases, taking up of works as operational military necessity was not justified.

7. Works valuing Rs. 3.90 crores commenced prior to 1st April 1969 under Emergency Works Procedure were awaiting regularisation even after 10 years of withdrawal of the procedure and after 15 years the value of works not regularised was Rs. 0.18 crore as on 31st March 1984.

8. In 17 Projects sanctioned by the Ministry between November 1978 and March 1983, the delay in accepting the necessity and according administrative approval ranged between 1 and 4 years.

9. In 15 projects sanctioned by the Ministry between December 1971 and April 1982, delay in execution of works ranged from over 1 year to 5 years; in fact 3 of these works had not been taken for execution till March 1985.

10. While the CPWD revised their Schedules of Rates (SSR) 8 times during the period 1962 to 1985, the MES could revise their SSR only 4 times. Adoption of out-dated Schedules of Rates in MES could not be an effective guide either for preparing estimates or for accepting tendered rates.

11. 6,719 contract agreements concluded in 5 Commands during 1980-81 to 1983-84 were not submitted within the prescribed period to the CsDA thereby resulting in payment of advances to contractors without scrutiny.

12. In 3,362 cases, during 1980-81 to 1983-84, the prescribed period was not allowed to contractors for quoting their rates.

13. Extensions of time granted to contractors during 1980-81 to 1983-84 were more than the original period fixed for completion in 39 *per cent* of the cases and half or more than half of the original period in 28 *per cent* of the cases.

14(a) The total amount outstanding on account of over-payments to and short recoveries from contractors detected by the CTE (Works) was Rs. 2.59 crores at the end of 31st March 1984. Of this, Rs. 54.52 lakhs was detected during 1983 as a result of site and technical examination of final bills valuing Rs. 253.54 crores representing 48 *per cent* of the total work load of Rs. 526.30 crores.

(b) Claims for Rs. 49.59 lakhs on account of defective workmanship pointed out for recovery by the CTE during the period February 1976—September 1976 in respect of 4 completed works were rejected by the Arbitrators in non-speaking awards.

15. Cases of loss of stores and cash totalling Rs. 7.00 crores were awaiting regularisation as on 31st March 1984.

16(a) The oustanding rent and allied charges showed an increasing trend over the years and stood at Rs. 3.38 crores as on

30th June 1984. Dues outstanding for more than 10 years amounted to 21 *per cent* of the total outstanding and dues outstanding against private parties and retired/released officers represented 25 *per cent* and 10 *per cent* respectively.

(b) The total amount outstanding against units/formations on account of non-recovery of barrack damages at the end of 1983-84 stood at Rs. 29.14 lakhs.

17(a) In 8 projects in a Command there was excess procurement of cement valuing Rs. 50.51 lakhs and steel valuing Rs. 92.85 lakhs resulting in surplus. In another project, bitumen procured in excess, valuing Rs. 38.62 lakhs, was transferred to other formations at a cost of Rs. 4.67 lakhs.

(b) In one project, procurement of steel through contractor, as against normal practice of supply of steel by the department, on grounds of urgency resulted in an additional expenditure of Rs. 30.17 lakhs.

18. In 4 commands, out of 286 cases referred to Arbitrators during 1978-79 to 1980-81, 116 cases were pending with the Arbitrators as on 1st January 1982 and 103 out of 170 cases decided by the Arbitrators between 1978-79 and 1981-82 (upto December 1981) went in favour of contractors. All awards were non-speaking.

19(a) Sanction for construction of 7 quarters for MES Staff costing Rs. 1.67 lakhs was not justified.

(b) For a project for residential accommodation for 6 Naval Establishments at Station 'M' (cost : Rs. 472.92 lakhs) sanctions were accorded by the Naval HQ in parts so as to bring these within its powers.

(c) Due to inadequate supervision by the engineers and in the absence of authenticated copies of drawings an overhead reservoir tank collapsed during test trials. The contractor rebuilt it at his own cost but the tank collapsed again during test trials.

20. Out of 23 Part I items and 1,862 Part II items contained in 1,020 LTARs that were issued between 1981-82 and 1983-84, 20 Part I items and 1,138 Part II items remained outstanding as on 30th September 1984. Even first reply to 5 Part I items and 451 Part II items had not been received by that date.

APPENDIX I

(Rush of Expenditure in March compared to the first 11 *months of the financial years—referred to in the paragraph* 3)

Year	Expenditure incurred during 1st 11 months	Average expenditure during 1st 11 months	Expenditure incurred during March	Percentage of expenditure incurred during March over the Average expenditure during 1st 11 months
		(Rs. in crores)		
1979-80	182.59	16.60	48.00	289
1980-81	216.27	19.66	50.87	259
1981-82	259.81	23.62	61.46	260
1982-83	321.63	29.24	69.20	237
1983-84	402.61	30.60	80.49	220

APPENDIX II

[*Details of working of standard schedule of Rates* (1975) *referred to in Paragraph* 7.2]

Command	Year	Total No. of contracts concluded during the year	Cases where the lowest rates quoted were					
			21 to 50% over the SSR		51 to 100% over the SSR		100% or more over the SSR	
			No. of contracts	Percentage to total No. of contracts	No. of contracts	Percentage to total No. of contracts	No. of contracts	Percentage to total No. of contracts
1	2	3	4(a)	4(b)	5(a)	5(b)	6(a)	6(b)
SC	1979–80	540	261		48		1	
	1980–81	673	354		124		14	
	1981–82	607	262		217		18	
	1982–83	620	205		228		83	
	1983–84	458	108		208		94	
NC	1979–80	116	46		11		3	
	1980–81	93	47		10		2	
	1981–82	108	40		48		6	
	1982–83	139	45		58		18	
	1983–84	242	70		82		38	
WC	1979–80	143	54		12		2	
	1980–81	180	99		19		2	
	1981–82	177	89		35		4	
	1982–83	197	76		56		8	
	1983–84	207	64		72		8	
EC	1979–80	164	35		5		..	
	1980–81	90	37		13		2	
	1981–82	161	40		64		5	
	1982–83	91	28		26		19	
	1983–84	180	42		44		53	
CC	1979–80	92	49		5		1	
	1980–81	161	89		12		1	
	1981–82	139	34		56		11	
	1982–83	185	50		59		10	
	1983–84	148	42		67		17	
	Total	5,911	2,266	38	1,579	27	420	7

APPENDIX III

(Details of outstanding rent and allied charges of different categories—referred to in Para 11.1)

COMMAND (Rupees in lakhs)

S. No.	Category	CC	WC	SC	NC	EC	Total
1.	Displaced persons—Ministry of Rehabilitation, Deptt. of State Government	0.85	..	..	..	9.13	9.98
2.	Other State Government Department	48.17	0.94	24.45	..	0.92	74.48
3.	Other Central Government Department	7.57	14.35	9.03	2.99	12.90	46.84
4.	Released/Retired Officers	1.95	5.81	20.32	..	1.50	29.58
5.	Departmental officers in service	2.48	7.60	13.94	0.22	0.87	25.11
6.	Departmental mess/clubs	1.99	2.61	2.24	2.11	1.86	10.81
7.	Private parties including MES contractors	19.09	12.57	19.54	4.57	14.34	70.11
8.	Cantonment Boards/Municipalities	1.62	..	7.11	6.61	5.85	21.19
							288.10

CATEGORY

Period over which outstanding	1	2	3	4	5	6	7	8	Total	% age
1—3 years	0.92	27.24	20.62	13.46	20.12	8.68	38.84	13.20	143.08	50
4—6 years	2.08	16.64	3.89	7.48	2.90	1.12	17.11	2.50	53.72	19
7—10 years	1.75	4.53	9.51	5.45	0.93	0.47	5.90	0.58	29.12	10
Over 10 years	5.23	26.07	12.82	3.19	1.16	0.54	8.26	4.91	62.18	21
	9.98	74.48	46.84	29.58	25.11	10.81	70.11	21.19	288.10	100

APPENDIX IV

(*Planning/procurement and utilisation of Steel and Cement in respect of* 8 *Projects — Referred to in Paragraph* 12.2)

Quantity in Tonnes

Value in lakhs of Rupees

	Cement									Steel								
	Project								Total	Project								Total
	A	B	C	D	E	F	G	H		A	B	C	D	E	F	G	H	
Planned for the project . .	2,201	2,400	2,350	24,500	2,900	3,473	2,218	615	40,657	748	243	138	1,165	192	637	873	213	4,209
Procured against the project .	2,201	1,864	1,751	13,217	1,678	3,473	2,218	615	27,017	748	387	426	1,922	267	918	862	221	5,751
Value . . .	7.92	6.71	6.30	111.00	15.71	12.85	11.56	3.15	175.20	22.16	10.08	12.62	92.44	13.11	20.08	26.00	6.76	203.25
Utilised . .	1,714	1,483	1,634	8,492	1,259	3,338	1,804	561	20,285	426	161	112	974	222	666	497	58	3,116
Value . . .	6.17	4.54	5.88	71.70	11.79	12.35	9.39	2.87	124.69	12.62	4.08	3.47	47.92	10.94	14.85	14.66	1.86	110.40
Excess procurement	487	381	117	4,725	419	135	414	54	6,732	322	226	314	948	45	252	365	163	2,635
Value . . .	1.75	2.17	0.42	39.30	3.92	0.50	2.17	0.28	50.51	9.54	6.00	9.15	44.52	2.17	5.23	11.34	4.90	92.85

APPENDIX V

(*Cases referred to Arbitration — Referred to in Para* 13.1)

Year in which referred to Arbitration	No. of cases referred to Arbitration				Total	No. of cases decided upto 1st January 1982				Total	No. of cases pending with Arbitrator				Total	No. of cases which went in favour of contractor				Total
	WC	SC	EC	CC		WC	SC	EC	CC		WC	SC	EC	CC		WC	SC	EC	CC	
1978–79.	28	23	31	12	94	24	15	23	9	71	4	8	8	3	23	12	7	15	8	42
1979–80.	34	14	28	21	97	25	11	19	11	66	9	3	9	10	31	12	7	12	10	41
1980–81.	41	7	37	10	95	15	2	15	1	33	26	5	22	9	62	9	..	10	1	20
	103	44	96	43	286	64	28	57	21	170	39	16	39	22	116	33	14	37	19	103

21. Extra cost due to delay in obtaining financial concurrence

In December 1978 Government accorded sanction for the execution of works for extension/repairs of runways and taxi tracks at an Air Force Station 'A' at a cost of Rs. 80.47 lakhs (increased to Rs. 87.20 lakhs in June 1980). The sanction provided *inter alia* for the provision of soft ground arrestor with river bed gravel at an estimated cost of Rs. 8 lakhs.

Tenders for the supply and spreading of gravel were issued by Commander Works Engineer in March 1981 and again in April 1981. They were, however, not considered on the first occasion because the amount quoted was high and not followed up on the second occasion because the financial concurrence could not be obtained even within the extended validity period of the offer upto 15th November 1981. According to the Ministry of Defence (August 1985), though the lowest tendered amount received on the second occasion was considered reasonable, the same could not be accepted as another proposal was being considered by the Air Headquarters for changing the specification of gravel arrestors to bring down the cost since the amount available in the sanction was insufficient.

Fresh tenders were issued for the third time in February 1982. Out of the two tenders received on 8th April 1982 the offer of Rs. 14.48 lakhs of firm 'X' was found to be lower. A case for acceptance/financial concurrence of tender was forwarded to Engineer-in-Chief's (E-in C) Branch on 11th May 1982 *i.e.* after 33 days indicating that tender was open for acceptance up to 7th June 1982. Firm 'X' agreed to extend the validity of tender upto 15th July 1982.

The financial concurrence for accepting the offer was accorded by the Ministry of Defence (Finance) on 15th July 1982 and conveyed by the E-in-C's Branch on the same date but was received by the contract accepting authority on 17th July 1982 *i.e.* after 67 days of initiating the case. The firm 'X' refused to extend the validity beyond the due date but agreed to keep its offer open till 16th August 1982 on the condition that it be allowed an increase of 40 *per cent* over the original offer of Rs. 14.48 lakhs. Fresh tenders were then invited for the fourth time in August 1982.

Out of the 4 tenders received in September 1982 the offer of firm 'Y' for Rs. 18.43 lakhs was accepted in January 1983, after obtaining necessary financial concurrence. This has resulted in extra expenditure of Rs. 3.95 lakhs as compared to the lowest offer of Rs. 14.48 lakhs received in the 3rd call.

The Ministry of Defence stated in August 1985 that :

— though the requisite financial concurrence was obtained by the 15th July 1982, it could not, however, be conveyed to the tender accepting authority by that date. The tenderer refused to unconditionally extend the validity of the tender beyond 15th July 1982. Had the lowest tender of 3rd call with 40 *per cent* enhancement as demanded by the tenderer been accepted, an expenditure of Rs. 20.27 lakhs would have been incurred whereas by reinviting the tenders the expenditure was restricted to Rs. 18.43 lakhs.

The contention of the Ministry is not acceptable as the tender which in the first instance was open for acceptance upto 7th June 1982 was later extended by firm 'X' upto 15th July 1982 without any condition. Failure to accept the lowest tender in 3rd call within the validity period of over 3 months resulted in an extra expenditure of Rs. 3.95 lakhs.

22. Non-utilisation of Bulk Petroleum Tanks at a Station

In November 1971, an Air Command accorded sanction on emergency basis for the provision of a Bulk Petroleum Installation (BPI) consisting of 28 tanks in an airfield at an estimated cost of Rs. 4.84 lakhs to be set up by a Public Sector Undertaking (Undertaking) on agency basis. The Garrison Engineer (GE) at Station 'A' made advance payment of Rs. 4.84 lakhs in December 1971 and March 1972 to the Undertaking for the work which was executed during February 1972 to January 1973. In April 1973, the Air Force authorities while checking the BPI pointed out certain deficiencies which were not noticed by the GE at the time of taking over the installation in January 1973. The GE asked the Undertaking (April 1973) to supply the deficient items, but the Undertaking made good the deficiencies only in July 1978 after a delay of more than 5 years. The completion cost of the work was Rs. 3.76 lakhs and the balance amount was refunded by the Undertaking in May 1984 (*i.e.* after 11 years of completion of work). In July 1978, a Board of Officers (Board) ordered by the Station Headquarters assembled for taking over the installation on behalf of the Air Force. The Board could not complete the task due to high growth of grass in the area. Taking over by the Air Force lingered on till another Board assembled in February 1980 (after 19 months) to *inter alia* carry out functional check of the installation. This Board recommended in April 1980, that the Military Engineer Services (MES) might be requested to arrange for cleaning and epicoating of the tanks and that for this purpose the Undertaking might be approached to suggest the firm, for doing such a specialised job. This was, however, not done by the GE. Without consulting the Undertaking, the GE prepared the estimate and the Air Force sanctioned the work in August 1980 for a sum of Rs. 0.99 lakh for cleaning and epicoating of the tanks, and a contract was concluded in March 1981 with Firm 'B' for the work at a cost of Rs. 1.00 lakh. The contract provided for the cleaning operation by manual process. Firm 'B' started work in March 1981 and while the work was in progress, the Air Force pointed out in September 1981, that the cleaning of the tanks by manual process was not as per specification of the Undertaking which stipulated sandblasting. In May 1982, the GE informed the Air Force authorities, that cleaning of the tanks by sandblasting process would involve an estimated expenditure of Rs. 2.80 lakhs and requested revision of the sanction. Pending revision of the sanction, the work remained suspended. Since no decision was received from the Air Force, the Commander Works Engineer finally foreclosed the contract in March 1983. Meanwhile an amount of Rs. 0.47 lakh including cost of paints brought for the work was paid to Firm 'B'. The paints were being used for maintenance works. The GE stated in May 1984 that prior to estimating and tendering, they were not aware of the requirement of sandblasting and that cleaning operation by manual process provided in the contract was based on instruction/literature of the firm. Earlier in June 1983, the Air Command had ordered the assembly of another Board to assess the requirements of epicoating of the tanks. That Board which assembled in August 1983, while finalising its proceedings in early 1984 observed that due to non use and inadequate maintenance, many mechanical components and machines had become unserviceable over the years and would require replacement or repair at a cost of Rs. 0.54 lakh. The Board indicated that a total amount of Rs. 10 lakhs would be required for the integrated work consisting of repairs to the installation and allied civil works including Rs. 8.08 lakhs for sandblasting and epicoating of 28 tanks. Sanction for Rs. 9.98 lakhs for the work was accorded by the Air Command in September 1984. Contract for the work was accepted on 2nd April 1985 and probable date of completion was indicated as 14th October 1985. All the 28 tanks (except 7 which were used only once in March 1982 for an exercise) constructed at a cost of Rs. 3.76 lakhs in January 1973 were lying unutilised till December 1985.

The Zonal Chief Engineer stated in May 1985 that "the details of work involved or to be executed by the Undertaking were not known to Engineers, as such in absence of the same whatever they (Undertaking) had handed over was taken over by MES which in turn was further handed over to the users".

The case reveals the following:

— Though the work costing Rs. 3.76 lakhs was completed and taken over by the MES in January 1973, it took the MES/Air Force 5 years till July 1978 to get the Undertaking to make good the deficiencies pointed out as early as in April 1973.

— Taking over of the installation thereafter was further delayed due to non-implementation of the Board's recommendation to seek the advice of the Undertaking regarding specialised firms for proper cleaning of the tanks. Instead, a contract was entered into with a firm for cleaning the tanks by manual process. This contract had to be foreclosed because of decision on the proper method of cleaning.

— Due to prolonged non-use and inadequate maintenance, many mechanical components and machine became unserviceable requiring replacement or repair at a cost of Rs. 0.54 lakh. To make the installation usable, a work for Rs. 9.98 lakhs was sanctioned by the Air Command in September 1984.

— The purpose for which the work was sanctioned on emergency basis in November 1971 could not be fulfilled even till December 1985.

The Ministry of Defence stated in January 1986 that:

— The work of Rs. 9.98 lakhs was sanctioned by the Air Command in September 1984 for epicoating/sandblasting and other allied civil works because the users did not clearly bring out their actual requirements which delayed taking over of tanks. Items of short life span costing Rs. 0.54 lakh for 28 tanks required replacement. Cost increase had been due to inclusion of certain additional civil works which were not included in the first sanction.

— In the absence of the BPI, alternate arrangement was made for carrying fuel from another base located at a distance of about 200 kms.

— The airfield had been used occasionally since 1981 as per operational requirements. It is planned to be used regularly after various facilities including functional BPI are available.

23. **Avoidable expenditure on transfer of cement**

In the quarterly forecasts for the period from April 1983 to December 1983 filed in November 1982, February 1983 and May 1983 a Garrison Engineer (GE) at Station 'X' projected requirement totalling 4,500 MT cement. Against these forecasts the Engineer-in-Chief's Branch, Army Headquarters, however, allocated a quantity of 4,200 MT cement for the said period. Supply orders were placed on the Regional Cement Controller by the Commander Works Engineer (CWE) in June 1983 (2,000 MT), August 1983 (1,700 MT) and December 1983 (500 MT). The GE received a total quantity of 4,099.150 MT cement between November 1983 and April 1984 against these supply orders.

Due to limited storage accommodation (700 MT), the GE requested the CWE in March 1984 to order transfer of the cement to other Military Engineer Services (MES) Divisions. Based on orders issued by the CWE/Chief Engineer in March 1984, April 1984 and May 1984, 3,001 MT of cement were transferred to three MES Divisions at Station 'Y' which was received by the consignees between May 1984 and September 1984, involving an expenditure of Rs. 5.75 lakhs on handling/conveyance charges.

In August 1984, the GE at Station 'X' requested the CWE to order retransfer of 250 MT of cement for progressing works in his Division even though while seeking transfer of cement in March 1984 he had indicated nil requirement upto September 1984. The CWE ordered in September 1984 the retransfer of 200 MT of cement from Station 'Y' to 'X' involving a further avoidable expenditure of Rs. 0.25 lakh on handling/conveyance. Again in December 1984 another 200 MT of cement were retransferred from Station 'Y' involving a further avoidable expenditure of Rs. 0.25 lakh.

The GE informed Audit that due to unforeseen reasons, the works could not be progressed as planned resulting in storage of large quantity of cement for which suitable storage accommodation was not available necessitating transfer of cement to MES Divisions at Station 'Y'.

The CWE stated in March 1985 that works planned to be executed could not be progressed as scheduled and as such cement was transferred to other Divisions. Two major projects costing about Rs. 2.48 crores were to commence during the same period and these could not be commenced as planned, due to change in user's requirement in one case and delay in sanction of work by Government in the other case.

During the period April 1983 to December 1983, the total cement consumed by the GE was 1,475.40 MT against his projected requirement of 4,500 MT.

Ministry of Defence stated in October 1985 *inter alia* that at the time of forecast projections, it was contemplated that the works would proceed as envisaged and when the same got delayed, the GE in order to save the cement from deterioration due to prolonged storage, sought the transfer of cement to other Divisions. The Ministry further added that retransfer of 400 MT cement was ordered due to accelerated progress of on-going works by the contractors.

The case revealed that :

— Despite the fact that the Division had only limited storage accommodation for 700 MT and supplies against orders placed for 2,000 MT in June 1983 were awaited, a further order for 1,700 MT was placed in August 1983. Further despite the works planned not being progressed, still another order for supply of 500 MT was placed in December 1983.

— The placing of supply orders for 4,200 MT of cement without taking into account the limited storage accommodation at Station 'X' and the progress of the projects necessitated the transfer of 3,001 MT cement from Station 'X' to Station 'Y' involving avoidable expenditure of Rs. 5.75 lakhs on handling/conveyance.

— After the transfer of 3,001 MT cement from Station 'X' to 'Y' a quantity of 400 MT cement had been re-transferred from Station 'Y' to 'X' to meet the requirement at Station 'X'. This resulted in a further avoidable expenditure of Rs. 0.50 lakh on retransfer.

— Such excessive stocking resulted in storage cost also, in addition to handling costs.

CHAPTER 5

PROCUREMENT OF STORES AND EQUIPMENT

24. Unnecessary purchase of gun mountings

In November 1977 Government sanctioned the manufacture of 3 ships of project 'X'. These were planned for induction into Naval service in 1983, 1984 and 1985 respectively. Four gun mountings were to be fitted on each ship. Each gun mounting has 2 guns 'Y'. For meeting the reserve requirements of guns for project 'X' ships, the Naval Headquarters (HQ) raised an indent in December 1980 for 4 nos. of guns 'Y' (value : Rs. 7.76 lakhs) on a foreign supplier. However, the supplier offered (January 1982) 4 nos. gun mountings 'A' valued at Rs. 75.84 lakhs against the requirement of 4 nos. gun 'Y' which based on earlier contracted rates should have cost Rs. 7.76 lakhs only. This discrepancy on being pointed out by the Naval HQ in February 1982, was investigated by the Indian Embassy and the Naval Attache reported to Naval HQ in June 1982 that the discrepancy occurred "...........because of incorrect translation in our original indent. Instead of asking for gun 'Y', which forms part of installation gun mounting 'A', the foreign supplier version indented for the installation gun mounting 'A'." The suppiier who was approached, was, however, not prepared to accept any change as the mountings had already been manufactured. The matter was discussed with the supplier by a Technical Delegation which visited the supplier's country in July-August 1982, when it was given to understand by the supplier that they had restricted the production of guns 'Y' and if the Indian Navy wanted the gun mountings they should indicate their acceptance as quickly as possible during the delegation's visit. Thereupon, the Technical Delegation decided (August 1982) to accept the complete gun mountings 'A' against the requirement of guns 'Y' only. An agreement for the same was concluded on 26th August 1982 without obtaining prior Government approval. The mountings were received in India in December 1982.

The contract for gun mountings required for the first two project 'X' ships had already been concluded separately by May 1982. The Indian Naval Attache in the supplier's country suggested that the 4 mountings procured against the indent of December 1980 might be utilised towards the requirement of the third ship still under construction and the reserve requirements of guns be met by raising urgent indents. The Naval HQ, however, did not agree to this and approached the Government in August 1982 for according *post facto* sanction for the purchase of 4 nos. of complete gun mountings 'A' for Rs. 75.84 lakhs. It was stated that Navy's latest overall reserve requirement for guns was 8 nos. which could be met from the 4 complete gun mountings 'A' and the mountings proper be kept as reserve to meet any contingency. Though the Indian Navy was already holding 6 nos. of the mountings in stock which had been removed from decommissioned ships and boats during 1980-81 and there was no known reserve requirement for the item, the Government accorded their approval in April 1984 to the purchase of 4 mountings as a *"fait accompli"* subject to assurance from the Naval HQ that such cases would not recur. The Ministry of Defence (Ministry) stated in November 1985 that the Naval HQ did not accept these mountings for new ships as the foreign supplier was "averse to accepting stores already in India for fitment on the ships and that the ultimate system responsibility, in that case, would not rest with the foreign supplier."

After receipt of the mountings the Government concluded in May 1983 another agreement for the purchase of 1 gun 'Y' for Rs. 2.93 lakhs for meeting urgent requirement. Another contract was also concluded in June 1984 for the purchase of 4 mountings 'A' at a cost of Rs. 81.91 lakhs for fitment on the third ship of project 'X'. While the first ship was commissioned in December 1983, the second and third ships are due for commissioning in November 1985 and December 1986 respectively.

The Ministry while accepting that the expenditure on the 4 mountings was infructuous and that in the case of mountings the provision of any reserve is not considered necessary stated in November 1985 that the presumption of the Naval Attache to the Indian Embassy that there was a translation error was not correct. The Ministry, however, did not elaborate the circumstances which led to the procurement of gun mountings 'A' against their requirement of guns 'Y'. However, the Naval HQ earlier intimated Audit in November 1984 that "for the reasons not known to Naval HQ, the foreign supplier had kept the mountings ready for despatch against our indent for guns."

The case reveals the following :

- 4 gun mountings 'A' were purchased for Rs. 75.84 lakhs against the indented requirement of 4 nos. guns 'Y', which even on the basis of contracted price stipulated in supply order placed in May 1983 would have cost the Government Rs. 11.73 lakhs only.
- The 4 gun mountings received in December 1982 are lying in stock alongwith 6 other mountings retrieved from decommissioned ships and boats.
- While the 4 gun mountings received in December 1982 against the indent of December 1980 were lying in stock, orders have been placed for the supply of 4 gun mountings at a cost Rs. 81.91 lakhs for the third ship.

25. Loss due to non-insurance of imported Defence stores

Claims for shortlanding/damaged cargo against Shipping Companies, who are signatories to the Gold Clause Agreement, were being settled on percentage basis subject to maximum liability being limited to a maximum of £ 400 per package irrespective of the cost of consignment in the package. With a view to avoid heavy losses to the Defence Department and to secure full compensation for costly equipment short landed/damaged, Government had directed Defence agencies in October 1983 to resort to either of the following courses, whichever is economical :

(i) Stores substantially more than £ 400 be insured with the Indian Insurance Companies which are Public Sector Undertakings.

(ii) If Insurance charges for stores/package valued at more than £ 400 are more than 3 *per cent ad-valorem*, the nature and value of stores be declared on the Bill of Lading.

In February 1983, Ministry of Defence entered into a contract for import of 45 numbers of a particular type of vehicle alongwith spares and special maintenance tools, which were shipped in 5 consignments during January—April 1984. Out of the first consignment of 10 vehicles shipped in January 1984, one vehicle was lost at sea and the remaining 9 vehicles were received in February 1984. However, the consignment was not insured as per Government directions. Originally a claim for Rs. 25 lakhs was preferred by the Embarkation Headquarters on the shipping company. When the exact amount of damage was known a claim for Rs. 30.94 lakhs towards the cost of the vehicle and freight was preferred by the Embarkation Headquarters on the shipping company in May 1984 but was admitted by the latter in March 1985 for only Rs. 0.06 lakh on the plea that, as a signatory to the Gold Clause Agreement, their maximum liability per package was restricted to only £ 400.

The Ministry of Defence (Ministry) stated (September 1985) that :

- The claim for Rs. 0.06 lakh admitted by the shipping company was under dispute and was not accepted on the ground that goods were wrongly loaded on the deck instead of under the deck, which was a "deliberate fraud" by the Shipping Company and that the Ministry of Shipping and Transport had been requested to initiate appropriate action against the shipping company.
- At the time of shipment of the lot, the instructions of the Ministry with regard to insuring of imported Defence stores were under review.

It may be mentioned here that Ministry's instructions of October 1983 were operative at the time of shipment of the consignment and that the liability of the shipping company as per Gold Clause Agreement was limited to a maximum of £ 400 per package. Further the nature and value of the stores was not indicated in the Bill of Lading.

As the shipment of the consignment took place only in January 1984 the goods should have been insured in the manner indicated in the Ministry's instruction issued in October 1983 to cover full risk of any loss enroute. Due to non observance of the procedure outlined in the Government instructions of October 1983, there was an avoidable loss of over Rs. 30 lakhs.

26. Infructuous expenditure on procurement of unsuitable test benches and blockade of capital on Specialist Vehicles

Specialist bodies were built by an Army Base Workshop during December 1975 to February 1976 at a cost of Rs. 4.98 lakhs on 23 chassis received from firm 'A' at a total cost of Rs. 18.20 lakhs between November 1973 and February 1974. The fitted vehicles were received by a Vehicle Sub Depot for fitment of fuel injection equipment test benches (12 element/ 8 element).

Earlier in November 1971, the Department of Defence Supplies (DDS) had placed a supply order on firm 'B' for indigenous manufacture of test benches (12 elements) required for fitment on the specialist vehicles. Due to non-delivery as per contractual stipulations, the supply order was cancelled in June 1974. Thereafter the DDS placed three fresh supply orders on firm 'C' for 22 test benches between June 1974 and July 1979 and subsequently granted price increase on the first two supply orders as under :

Date of supply order	Item	Quantity	Total cost (Rs. in lakhs)	
			Original	Increased
14th June 1974	Test benches— 12 Elements	11	2.92	3.87
16th December 1977	Test benches— 8 Elements	7	1.56	2.02
27th July 1979	Test benches— 12 Elements	4	1.69	1.69
			6.17	7.58

The firm submitted the first pilot sample (12 elements) in June 1975, but the users trials were completed only in June 1978 and bulk production clearance was given in November 1978. However, firm 'C' also could not adhere to the delivery schedule and could start supplies only in May 1980 and by November 1980 two test benches were received against the order of June 1974. Certain deficiencies which needed rectification and adjustments which had to be made on these 2 test benches were reported by the consignee to the firm on 18th April 1981. In spite of the inordinate delay and piecemeal supplies and discrepencies noticed in the products supplied upto November 1980 by firm 'C', the DDS placed two more supply orders on it in October 1982 and April 1983 for the supply of 9 test benches (12 elements) at a cost of Rs. 4.91 lakhs and 2 test benches (8 elements) at a cost of Rs. 0.74 lakh respectively.

The firm could supply only 19 test benches by December 1983, the balance 3 pertaining to the supply order of July 1979 were not received till May 1985. Discrepancies/deficiencies were found in all the 19 test benches and these were reported to the firm by the Central Ordnance Depot (COD). The Ministry of Defence (Ministry) stated in October 1985 that these test benches were repaired by the firm and accepted by the consignee between September 1984 and May 1985.

In a meeting held in the Army HQ on 30th March 1984, the Electrical and Mechanical Engineering (EME) authorities stated that the test benches supplied by firm 'C' were not suitable for the intended purpose and suggested that test benches of 12 elements should be imported and test benches of 8 elements should be obtained from another indigenous firm.

The Ministry stated (October 1985 and January 1986) that :

(i) Due to improvements in technology over the years and since the users wanted to have the equipment conforming to current state of technology these test benches were considered unsuitable by them.

(ii) Against 22 test benches received orders have been issued for issuing 17 nos. to various units.

(iii) The firm has now offered 2 more test benches and their trial reports are awaited. Orders for the balance 9 test benches were short closed as per decision taken during Technical Committee meeting held on 21st November 1985.

The case reveals that :

As the test benches supplied by firm 'C' at a cost of Rs. 7.59 lakhs were not found suitable by the EME authorities, 23 chasis costing Rs. 18.20 lakhs procured during 1973-74 on which specialist bodies were built by the Army Base Workshop during December 1975 to February 1976 at a total cost of Rs. 4.98 lakhs have been lying unutilised for over 8 to 9 years.

27. Purchase of sub-standard cotton waste coloured due to failure to enforce warranty clause

0.1 Against an indent placed by Army Headquarters (HQ) in March 1981 for procurement of cotton waste coloured the Director of Supplies and Disposals (DS&D) concluded 6 contracts in June 1982 with 6 private firms, of which part of the supplies received from 4 firms viz. 'A', 'B', 'C' and 'D' located at

Station 'X' were found by the consignee to be substandard. The quantities contracted, cost of supply and stipulated dates of delivery in respect of the 4 contracts are given below :

Name of Firm	Quantity contracted (in kgs.)	Total cost (Rs. in lakhs)	Date of delivery
'A'	2,50,000	8.80	30th November 1982 or earlier.
'B'	2,50,000	8.80	30th November 1982 or earlier.
'C'	2,25,000	7.92	31st December 1982 or earlier.
'D'	1,25,000	4.40	31st August 1982 or earlier.

0.2 As per the terms of the contracts, the Inspectorate of General Stores (CI) was the 'Inspecting Officer' whereas the Chief Inspector of Textiles and Clothing (CIT&C) was the 'Inspecting Authority'. Ninety five *per cent* advance payment was to be made to the firms on proof of despatch of stores after approval by the Inspecting Officer and the balance 5 *per cent* after the receipt of stores in full and in good condition. The contracts also stipulated that, stores or any part thereof could be rejected by the consignee and replacement asked for within 45 days of actual delivery at destination.

0.3 Against the contracted quantities referred to in sub para 0.1 above, the following quantities were received by the consignee Central Ordnance Depot (COD) which were duly pre-inspected and passed for acceptance by the Defence Inspecting Officer with price reduction for deviation and accepted by the DS&D as shown below :

Firm	Quantity supplied (Kgs.)	Period during which supplies were received by the consignee	Price reduction effected
'A' . .	1,19,945	30th August 1982 to 13th January 1983.	2 to 5 per cent
'B' . .	1,76,565	2nd September 1982 to 6th January 1983.	4 to 5 per cent
C' . .	77,485	30th October 1982 to 12th February 1983.	3 to 4 per cent
'D' . .	1,24,940	6th September 1982 to 26th November 1982.	0.5 to 3.5 percent.

On percentage check by the COD, the stores received between October 1982—February 1983 against seven consignments (69,975 kgs.) from firm 'A', 13 consignments (1,33,105 Kgs.) from firm 'B', 4 consignments (52,500 Kgs.) from firm 'C' and 2 consignments (20,000 Kgs.) from firm 'D' were found to be sub-standard. Accordingly, CIT&C was asked during October 1982—February 1983 to carry out a 'standard check' of the stores received against these twenty six consignments. In the test, the stores supplied by firms 'A' and 'B' were found to be substandard.

0.4 The CIT&C advised the COD between December 1982—April 1983 after a lapse of periods varying from 62 to 102 days of the receipt of these twenty consignments, to reject these stores under the warranty clause. Accordingly, between January—April 1983 *i.e.* after 87 to 155 days from the date of receipt of these stores in the Depot as against the stipulated 45 days provided in the contracts, the COD asked firms 'A' and 'B' to replace the stores. In regard to substandard stores supplied by firm 'C' (52,500 Kgs.) and 'D' (20,000 Kgs.) the CIT&C recommended its rejection between January 1983 and May 1983 under warranty clause by using consignee's right of rejection. Between March 1983 and June 1983 the COD asked firms 'C' and 'D' to replace the stores.

0.5 Firms 'A' and 'B' had been paid Rs. 2.37 lakhs and Rs. 4.44 lakhs respectively as 95 *per cent* advance payment for these rejected stores.

0.6 Since the firms did not agree to the rejection of the sub-standard stores, a meeting was arranged on 26th April 1983 in the office of the Director General Supplies and Disposals (DGS&D), when it was decided that :

- Out of the rejected stores lying at COD the firms would themselves segregate lots for CIT&C to draw samples for reconsideration and acceptance with a maximum price reduction of 10 *per cent*.
- The segregated lots would be tested by CIT&C in the presence of the representatives of firms; and
- The DGS&D would seek legal opinion about the validity of the rejection under the warranty clause stipulated in the contracts.

0.7 The stores were reinspected during June 1983 by a Board of Officers after segregation of the lots by the firms representatives. The Board of Officers opined that no useful purpose would be achieved by drawing and testing further samples since the stores were one of the same in appearance. Thereafter, DS&D asked firms 'A' and 'B' in October 1983/September 1983 to replace the entire quantity of 69,975 Kgs. and 1,33,105 Kgs. of stores. The firms have not yet (December 1985) replaced the rejected stores.

0.8 In the meantime, the DS&D informed Army HQ and COD in June 1983 that :

> "As per legal opinion, since the rejection made by the consignee has not been communicated to the contractor within 45 days from its receipt as required under the conditions of the contract, the consignee forfeits his rights under the warranty clause and is obliged to pay at full A/T rates for the rejected material."

0.9 Firms 'A' and 'B' failed to supply the balance quantity of stores viz. 1,30,055 Kgs. and 73,435 Kgs. by the extended date viz. 30th November 1983, and their contracts were cancelled at their risk and cost in May 1984 and March 1984 respectively. Risk purchase tender enquiry floated against the quantity cancelled at the risk and cost of the defaulting firm 'A' did not evoke any response from the trade. Meanwhile business dealings with all the four defaulting firms were banned and therefore no risk purchase was possible. The offer received against the quantity cancelled at the risk and cost of firm 'B' could not be accepted as the firm whose offer was acceptable was found to be sister concern of defaulting firm 'B'.

0.10 In regard to the sub-standard supply of 52,500 kgs. costing Rs. 1.85 lakhs made by firm 'C' and received by the COD between 17th November 1982 to 12th February 1983, the rejection of the stores was not intimated by the consignee to the firm within the stipulated 45 days. The DS&D, therefore, issued an amendment to contract in October 1983 accepting the stores with price reduction ranging from 8.5 to 21.5 *per cent*. The balance quantity of 1,47,515 kgs. has not so far been supplied by firm 'C' (December 1985).

0.11 In respect of sub-standard supplies made by firm 'D', the consignee informed the firm about the rejection of stores after 111—113 days of receipt. Out of 20,000 kgs. of sub-standard stores costing Rs. 0.70 lakh received by the COD during 24th—26th November 1982, 9,250 kgs. was accepted by the DS&D with a price reduction of 18.5 *per cent* through amendment to contract issued in September 1983 and the remaining quantity of 10,750 kgs. was rejected. The Army HQ, however, instructed the DGS&D in November 1983 that cotton waste supplied by various firms should not be accepted under price reduction ranging from 5.5 *per cent* to 21.5 *per cent*.. Sub-standard stores costing Rs. 9.70 lakhs in all (Rs. 7.53 lakhs worth of rejected stores and Rs. 2.17 lakhs worth of stores recommended for acceptance with price reduction) are lying in storage since November 1982/February 1983.

Ministry of Defence stated (December 1985) that :

- The dispute regarding rejection in case of contract with firm 'A' for 69,975 kgs. (cost : Rs. 2.46 lakhs) was referred to arbitration which rejected the Government's claim.
- The rejection of sub-standard quantity of 1,33,105 kgs. (Rs. 4.69 lakhs) supplied by firm 'B' was under arbitration.
- Rejection of sub-standard quantity of 10,750 kgs. (cost : Rs. 0.38 lakh) supplied by firm 'D' was under examination with Ministry of Law for cancellation at firm's risk and cost.
- It was decided to set up a committee regarding acceptance or otherwise of sub-standard stores supplied by firms 'C' and 'D' with price reduction.
- No contract at the risk and cost of firm 'C' had been concluded so far.
- No responsibility has been fixed for not intimating rejection of stores within the time limit of 45 days as the Army HQ were under the mistaken notion that they could reject the consignment under the warranty clause whereas the goods should have been rejected under consignee's right of rejection within the time stipulated.

0.12 The case reveals the following :

- As a result of failure on the part of the consignee to inform firms about the rejection of the stores within the stipulated period of 45 days of the date of delivery, 2.76 lakh kgs. of sub-standard stores costing Rs. 9.70 lakhs are lying in stock for about 3 years (December 1985).

28. Extra expenditure due to issue of a defective proprietary article certificate

The Air Headquarters (Indentor) placed (July 1983) an indent for procurement of 59 items of certain spares on the Supply Wing of an Indian Mission abroad (Supply Wing). The indent was accompanied by a proprietary article certificate (PAC) in favour of firm 'A'. The Supply Wing obtained a quotation from firm 'A' and placed an order on it (November 1983) for supply of the spares. Eight of the items covered by the contract pertained to 'bearings' of different specifications.

In a subsequent indent (April 1984), the Indentor requisitioned, *inter alia,* the same 8 items of 'bearings' with the same description and part numbers. This indent, too, was accompanied by a PAC in favour of firm 'A'. On the recommendation of its Inspection Directorate in respect of these items, the Supply Wing issued (May 1984) tender enquiries to six firms including firm 'A'. Two of the firms ('A' & 'B') responded (June 1984) and as the prices offered by firm 'B' were substantially lower than those of firm 'A' in respect of 6 of the items, a contract was concluded in August 1984 with firm 'B' for supply of these 6 items at a total cost of £ 10,779.

A comparison by Audit of the prices for the 6 items of bearings in the two contracts revealed that the earlier purchase from firm 'A' was costlier by £ 16,225.72 (Rs. 2.44 lakhs) even as compared to firm B's quotation of June 1984 by which date the Index Numbers of producer prices had actually gone up by more than 2.5 *per cent.*

It was also noticed that the Inspection Directorate held in May 1984 that the spares required were AGS (Aircraft General Standards) parts. The Assistant Director of Purchase also observed in July 1984 that firm 'A' did not make the 'bearings' themselves but bought them from other manufacturers. As such, the PACs stating that the stores were manufactured by firm 'A' and that to ensure correct supply, no other make was acceptable, issued by the Indentor were defective. This deprived the Government of the advantage of more competitive prices and resulted in an avoidable extra expenditure of £ 16,225.72 (Rs. 2.44 lakhs).

The Government stated (June 1985) that since firm 'A' had not indicated in their parts catalogue any, in lieu vendor part numbers or any indication to the effect that any of the items were manufactured by any other party, the PAC was correctly issued in favour of that firm. The reply is not tenable as the Supply Wing could locate alternative sources of supply for these items from the description of the parts as given by firm 'A'.

29. Procurement of spares for an aircraft from abroad

For procurement of 4 items of spares for an aircraft, Air Headquarters (Indentor) raised an indent on the Supply Wing of an Indian Mission abroad (Supply Wing) in March 1984. The estimated cost of item 1 (Man Mounted Regulator with part number 'X') was indicated in the indent as £ 85,000 (25 numbers at a unit cost of £ 3,400) without reference to any previous purchase order. The indentor, however, mentioned that while inviting quotations, offer of firm 'D' (through their Indian agent) at £ 2,900 per unit might also be kept in view; the offer dated 17th May 1983 from the Indian agent of the firm mentioned, *inter alia,* that the regulator (part number 'X') offered by them was inter-changeable with the existing regulator on the aircraft.

The Supply Wing issued (June 1984) a limited tender enquiry to four firms A, B, C and D. In response, firms 'A' and 'B' quoted (July—August 1984), *inter alia* for this item (with part number as 'Y') a unit price of £ 2459 and £ 4733.66 respectively; 'C' did not quote for the item and 'D''s offer was received only in October 1984. In their offer of 26th July 1984 and their telex of 27th July 1984, 'A' also stated that the part offered by them was the equipment specified for use on the aircraft by the aircraft manufacturers and was previously supplied by them against contract of 22nd July 1982. They added that the inter-changeability of part number 'X' with part number 'Y' was, as per their knowledge, still being evaluated by the aircraft manufacturers on a request by the indentor.

As neither of the two offers conformed to the description of the item as per the indent, the Supply Wing forwarded on 27th September 1984, offer dated 26th July 1984 and telex dated 27th July 1984 of 'A' to the indentor for consideration. The indentor replied (11th October 1984) that 'D' had agreed to supply the item under part number 'X' as indicated and may be approached. 'D's offer was received on 1st October 1984 pricing the item at £ 2,900 per unit (as was quoted by their Indian agent in May 1983). Based on this offer, a contract valuing £ 72,500 was awarded to 'D' on 31st October 1984 for part number 'X' (25 numbers).

In this connection, the following points were noticed :

(i) Against an indent of 20th October 1981 from the indentor, the Supply Wing had placed an order on 22nd July 1982 on firm 'A' for supply of 25 numbers of the same item (part number 'Y') at a unit price of £ 3,400. Obviously, this contract was the basis of the estimated cost indicated in the latter indent though the indentor had failed to mention this fact in the indent. The indentor also did not, apparently, consider that the supply of the same item was previously made by firm 'A' even when it was pointed out by the firm in their offer and telex of July 1984—copies of which were forwarded by the Supply Wing with their letter of 27th September 1984.

(ii) Supply Wing also failed to ascertain from the indentor the basis on which estimated cost of £ 3,400 per unit was indicated in the indent especially when the Indian agent mentioned in the indent had quoted a unit price of £ 2,900.

(iii) Procurement of an inter-changeable part from 'D' at a higher price of £ 2,900 each and rejecting the offer of firm 'A' for supply of the original part at a lower price of £ 2,459 each resulted in avoidable extra expenditure of £ 11,025 (Rs. 1.66 lakhs). Besides, the inter-changeability of the item obtained was reportedly still (July 1984) under evaluation.

The Supply Wing, while agreeing that the Audit observation was valid, stated (April 1985) that they had finalised the purchase order for the particular part number only on the insistence of the indentor, who is the best authority to know whether a particular item had been procured in the past. The Supply Wing further intimated that the indentor had requested them to examine the possibility of cancellation of the contract with 'D' and placing it on 'A' or in the alternative getting the contract price reduced but the firm was being "difficult".

The Government stated (September 1985) that, in consultation with the legal Adviser (Defence Services), they have given some guidelines to the Supply Wing to retrieve the position and to prevent loss to Government. The Supply Wing, however, stated (October 1985) that according to their Legal Adviser the guidelines given by Government could not be acted upon.

30. Repairs of control indicator computers

An indent for repair of four control indicator computers (already air freighted to firm 'X' in February 1982) was raised by Director of Naval Air Material (Indentor) on the supply wing of an Indian Mission abroad (Supply Wing) in March 1982 indicating estimated repair cost as £ 4,000 per unit.

After an initial mechanical survey of the computers, the firm 'X' quoted (March 1982) to the Supply Wing estimated repair cost as £ 10,000 per unit. The firm also suggested that a technical representative could be sent to inspect the state of the equipment prior to repair/modification.

The estimated cost of repairs being 150 *per cent* more than the indent, the Supply Wing referred (April 1982) the matter to the indentor. The indentor did not accept the offer stating (May 1982) that the quotation was exorbitant since the firm had only charged £ 4,000 each (approximately) for similar repairs in May 1981. When the Supply Wing requested the firm (June 1982) to reduce their quotation to the level charged previously, the firm stated (June 1982) that the quotation of £ 10,000 per unit was tentative and the final cost could be below or above that rate.

As the foreign exchange sanction was not enough to cover the repair cost of all the four units, at the quoted rate, contract for repair of only two units was placed with the firm in October 1982 after obtaining clearance from the indentor. For remaining two units, the firm intimated (8th March 1983) a firm repair cost of £ 5,000 per unit. A formal contract was placed on the firm in August 1983 for repair of these two units also. In this connection, the following points were noticed :

(i) Details of repair intimated by the firm (on 24th March 1982) after 'initial mechanical survey' as also the estimated repair cost of £ 10,000 per unit were common to all the units. There was no indication that the first two units involved more extensive repairs than the other two.

(ii) Although the firm had clearly indicated that the amount of £ 10,000 was only an estimate and the actual cost could be less or more, the contract concluded in October 1982 indicated £ 10,000 per unit as the firm price.

(iii) No action was taken on the firm's suggestion to send a technical representative to "Inspect the state of equipment prior to the repair/modification taking place."

Since the nature as well as the cost of repair was the same in the (firm's) quotation made after the initial mechanical survey of all the (four) units the failure on the part of the Supply Wing to take adequate action led to an extra payment of £ 10,000 (Rs. 1.50 lakhs) in respect of the first two units.

The Supply Wing stated (February 1985) that (i) they had no machinery to evaluate the repair status, and (ii) the repair charge of £ 10,000 per unit was final as agreed upon in a telephonic conversation with the firm on 11th October 1982. There was no contemporary record of any such telephonic conversation. In fact, the notes recorded by the dealing officers on that date referred to the repair cost of £ 10,000 per unit only as an estimate. Government while endorsing the view of the Supply Wing that wear and tear in different units could vary stated (August 1985) that they had no comments to offer on acceptance of the firm's quotation as relevant records were not maintained at the Naval Headquarters.

31. **Procurement of spares for an aircraft**

Air Headquarters (indentor) placed (May 1979) an indent on the Supply Wing of an Indian Mission abroad (SW) for procurement of 530 items of spares for an aircraft. The spares were the proprietary products of a foreign firm from whom tender was invited by the SW in June 1979. The firm's quotation of 31st August 1979 for 500 items was referred by SW to the indentor on 24th September 1979 for enhanced cost sanction in respect of 84 items and for concurrence in regard to the minimum order quantities quoted by the firm. The firm did not quote for the remaining 30 items on grounds of inability to manufacture/identify the items or the items being obsolete. SW placed contract for the supply of 416 items of spares on the firm on 24th October 1979 (Total value : £ 1,11,863.86).

The indentor in his telex message of 17th November 1979, received in SW on 19th November 1979, advised SW to 'withhold contractual action for other than enhanced cost items also' and added ' heavy cancellation/reduction coming up............' SW replied on 21st November 1979 that 416 items had already been contracted.

Subsequently, the indentor sought on 19th January 1980 cancellation of 237 items and reduction in quantities of 99 items included in the original indent. The contract already placed on the firm included 208 out of 237 items advised for cancellation and all the 99 items whose quantities were sought to be reduced. Based on the indentor's request, SW requested the firm on 1st February 1980 to confirm cancellation/reduction in quantities without financial liability. The firm intimated (12th February 1980) that many of the items were packed and that 100 *per cent* liability would be incurred if the cancellation/reduction was insisted upon. On this being intimated by the SW (February 1980), the indentor agreed (February 1980) to the procurement of the quantities originally contracted for. Also, 49 items pertaining to the increased cost case were sought to be deleted and the remaining 35 items were required to be procured in reduced quantities for which the SW placed a supplementary order on the firm (February 1980) enhancing the value of the contract to £ 1,54,433.

In his letter of 3rd May 1982 to the SW, the indentor pointed out that though the prescribed delivery schedule in respect of all the items in the contract had already expired, 25 items were still outstanding and requested that these items be cancelled as they were not required. Thereupon SW in their letter of 1st June 1982 took up the matter with the firm. The firm in its letter of 21st June 1982 intimated SW that 17 items had already been despatched, 5 items were ready for despatch and the remaining 3 items were being investigated. No further action was taken by the SW and the cancellation sought by the indentor did not thus materialise.

The surplus items procured in the process and paid for between March 1980 and November 1983 entailed an avoidable extra expenditure of £ 39,413 (Rs. 7.19 lakhs). In this connection, the following points were noticed.

(i) As per procedure prescribed (September 1954, September 1965 and August 1966) for the procurement of Defence Stores, cases exceeding by 50 *per cent* the rates shown on the indent are required to be referred back to the indentor by the SW to enable the indentor to obtain sanction for enhanced prices and additional funds or to review and cancel/reduce the requirements suitably to be within the funds already provided. In the present case, though the firm's quotation was referred to the indentor, the action of the SW in placing the order for 416 items before receipt of the indentor's advice rendered the implementation of his subsequent proposals for cancellation and reduction in quantities of the items difficult. On this, the indentor in his letter of 15th November 1980 to audit stated : "SW letter dated 24th September 1979 was received at this Headquarters on 11th October 1979. Immediately, the user unit was asked to re-examine their requirements for 84 enhanced cost items as well as other items on the indent. SW was also requested vide telex dated 15th October 1979 to extend the validity date upto 30th December 1979 as release of additional FFE was not possible by due date. SW, however, without waiting for our comments/advice concluded contract dated 24th October 1979".

(ii) Though the decision to procure 416 items of spares was taken on 22nd October 1979, the telex message dated 24th/25th October 1979 in this regard was actually issued to the firm only on 5th November 1979 as evidenced from the firm's telex message of 6th Nocember 1979 calling for clarification regarding quantities accepted against each item. SW's reply (telex message) dated 8th November 1979 to the firm was again issued only on 12th November 1979 as indicated in the firm's telex reply of 14th November 1979 wherein it was stated "ackn is made of yr tlx 12th November 1979 and contents noted—will now proceed with order". Though the indentor's telex message of 17th November 1979, received in SW on 19th November 1979, requesting the SW *inter alia*, to withhold contractual action for other than enhanced cost items also as heavy cancellation/reduction was coming up, was received within 5 days of the firm's telex message that it would proceed with the order, SW failed to bring the indentor's request to the notice of the competent authority and to cancel the order placed on the firm or to request the firm to withhold action on the order in which case the firm could not have raised the question of financial liability.

Formal contract bearing the date 24th October 1979 was received by the firm only on 20th November 1979, as indicated in the firm's letter of 30th November 1979, apparently due to its belated completion and despatch by SW. As such, there was adequate time for cancelling the contract if it were so decided on receipt of the indentor's telex on 19th November 1979.

(iii) The indentor's letter of 19th January 1980 seeking cancellation of 208 items and reduction in quantities of 99 items already contracted for as also his letter of 3rd May 1982 proposing cancellation of outstanding items/quantities of which the prescribed delivery schedule had already expired also did not receive the attention of the competent authority in the SW which approved the placing of the contract.

(iv) Even though the delivery period of 3—20 months prescribed in the contract for the various items of spares expired by June 1982, the delivery and despatch of stores continued piece-meal upto November 1983 involving delay of over 18 months. However, SW could neither cancel the procurement of unwanted items nor could, in the absence of liquidated damages clause in the contract, recover any liquidated damages for belated delivery of stores.

In reply to a query made by audit (October 1980) regarding reasons for such large scale cancellation/reduction in quantities of items indented, the indentor stated (November 1980) that 'a special review was undertaken on receipt of enhanced cost quotation when large scale surpluses were observed'. This indicated that the quantities of various spares initially projected were out of all proportion to the actual requirements which was indicative of the unrealistic procedure adopted by the user units for assessment of their requirements.

On being inquired whether the surplus stores, could be utilised and if so over what period, the indentor stated (March 1984) that the spares were expected to be consumed within the shelf life of 15 years. According to the contract, the warranty on the items expired 15 months after their delivery by the firm or 12 months after their arrival at the ultimate destination whichever was earlier. Accordingly, the warranty on items supplied in March 1980—November 1983 expired in March 1981—November 1984.

The faulty procurement planning on the part of the indentor coupled with the failure on the part of the SW to obtain the indentor's advice before placing the order and also to take appropriate and prompt/timely action on the indentor's communications resulted in the procurement of surplus stores worth £ 39,413 (Rs. 7.19 lakhs) and blocking of funds to this extent upto 15 years and loss of the benefit of warranty.

The Ministry of Defence stated (August 1984) *inter alia*, that the cancellation/reduction in quantities of the spares originally indented was warranted by enforcement of revised instructions on repair task framed by the Ministry of Finance (Defence) wherein guide lines were given for the first time for a realistic assessment of arisings, also eliminating computation of unrealistic/fictitious arisings during the forward planning period.

Verification by audit of the indentor's records (July—September 1984) revealed that though the decision regarding reduction in the repair tasks was taken as early as in August 1978, the indentor failed to make corresponding reduction in the requirements of spares worked out on the basis of the earlier assessment of repair tasks made in July 1977, despite the fact that the relevant indent was placed on the SW only in May 1979.

CHAPTER 6

UTILISATION OF EQUIPMENT AND FACILITIES

32. Non-utilisation of Lathe Machines

In order to facilitate the repairs of vehicles in Mechanical Transport Repairs and Services Sections (MTRS) of Air Force units, to improve their serviceability and to save manhours spent in sending the repairable items to workshops, the Air Headquarters (HQ) approached the Army HQ in December 1965 for the supply of 25 lathe machines by including them in their revised forecast of requirements for the year 1967—69. The requirements were modified to 32 machines in the forecast of requirements for 1971-72 to 1973-74 sent in November 1970 and again in the forecast of requirements for 1975—79 sent in September 1974. In February 1976, the Army HQ was reminded about the great urgency for these machines as the Air Force units were experiencing great difficulties in the absence of these machines.

On the basis of indent placed by the Army HQ in July 1976, the Director General of Supplies and Disposals (DGSD) concluded in September 1976 a contract with firm 'A' for the supply of 18 lathe machines at a unit price of Rs. 14,530. On receipt of the copies of the supply order the Army HQ pointed out in October 1976 to the DGSD that the performance of 34 lathes earlier supplied by firm 'A' during 1970-71 was found to be far from satisfactory as the lathes were of sub-standard material and design, were totally unreliable and were not acceptable to the users and that most of the lathes were lying idle with the Army Base Workshops/Depots. Thereupon the supply order was cancelled by DGSD in May 1977.

After calling fresh quotations, in May 1979 a contract was concluded with the same firm for the supply of 49 lathe machines of a different model (17 for the Army and 32 for the Air Force) at a cost of Rs. 25.76 lakhs. These lathes were subjected to exhaustive field trials by the users/technical authority before placing supply order. Forty nine machines were received by a Central Ordnance Depot (COD) at Station 'X' during December 1979 to March 1981, out of which 28 machines were despatched to Air Force units during August 1981 to April 1982.

Out of 28 Air Force units to which lathes were sent, 9 units pointed out during March 1983 to December 1984 to the Air HQ that they did not have any specific requirement for the machine and sought disposal instructions. The Air HQ, however, issued instructions on 8th February 1983 to Command HQ to ensure installation of the machines by 28th February 1983. The instructions were reiterated in February 1984 and October 1984.

The Air HQ stated in April 1985 that :

- As against 32 machines indented by them only 28 machines were supplied by the COD and 18 machines out of 28 have been installed and put to use.
- Nine machines could not be installed and put to use because units had stated that these were not required by them. Of these, four machines had been re-allotted to 4 units but confirmation about their installation by the new allottees was awaited. The Ministry of Defence (Ministry) intimated in October 1985 that Command HQ had been asked to reallot the remaining 5 machines as well.
- One machine was received deficient of certain items. After prolonged correspondence with the Railways, the consignee unit was now to service the lathe resorting to purchase of the items required.

The Ministry also stated (October 1985) that the actual utilisation of machines depends on the volume of repair arising, of which no precise forecast could be given and yet the wherewithal to attend to such repairs had to be provided for efficient functioning of units. The Ministry further stated that the Air HQ is being instructed to review the scales for providing machines and modify the same, if necessary.

The case revealed that :

- Of the 28 Air Force units, to which the lathes were sent, 9 units intimated that they did not have specific requirement for the machine because of certain deficient items machine because of certain deficient items found in the machine. Thus 10 machines costing about Rs. 5.26 lakhs remained idle/uninstalled even after 4 years of their procurement.

- Of the 18 machines stated to have been installed users information was available in October 1985 only for 10 machines; of these the total hours logged by the machines were less than 30 hours in 2 cases, between 183 hours to 307 hours in 3 cases, around 1,000 hours in 3 cases and around 2,000 hours in 2 cases.

- Though the requirement of these machines was projected in 1965 specifically to save manhours spent in sending repairable items to workshops and to reduce prolonged unserviceability of vehicles, due to delay in receipt and installation of these machines, the jobs required to be done by these machines in the MTRS of Stations/Wings had to be got done from the Station Workshops.

33. Procurement of Target Towing System

Anti-aircraft gun firing practices to the Army and Navy personnel were being imparted on target system 'A' towed by aircraft 'P' and air to air gunnery practices to the Air Force personnel on target system 'B' towed by aircraft 'Q' and 'R'. It was considered operationally necessary by the Air Force to replace them with an aircraft and target system that would provide higher speeds of towing, realistic target behaviour and modern methods of assessment of firing results.

The Air Headquarters (HQ) submitted (July 1972) to the Chiefs of Staff Committee proposals for the modernisation of target towing flights by replacing aircraft 'P' by aircraft 'S' and acquisition of target system 'C' from a foreign supplier. It was proposed to acquire 'Y' number of aircraft 'S' on "as is where is" basis from country 'X'; these were to be refurbished and modified for target system 'C' by a Public Sector Undertaking (Undertaking). The system 'C' was capable of providing surface to air as well as air to air firing practices. The flying hours to be provided by all the aircraft 'S' (1,800 hours per annum) were to be shared by Army, Air Force and Navy and the deficiency in hours was to be made up by retaining flights of aircraft 'Q'.

The proposals of the Air HQ were approved by the Chiefs of Staff Committee in November 1972 and the sanction of the Government was accorded in December 1974 for the purchase of 'Y' number of used aircraft 'S' from country 'X' on "as is where is basis" and their refurbishing by the Undertaking at a cost not exceeding Rs. 80 lakhs [including foreign exchange (FE) : Rs. 45.80 lakhs]. This was revised to Rs. 155.34 lakhs (FE Rs. 60.93 lakhs) in June 1975 and again to Rs. 198.21 lakhs (FE Rs. 99 lakhs) in May 1978 to include the cost of modification to the aircraft and cost of spares respectively. In April 1975 the purchase of target system 'C' at a cost of Rs. 284.90 lakhs (including FE Rs. 284.35 lakhs) was also sanctioned by the Government which was later (May 1978) revised to Rs. 346.79 lakhs (FE Rs. 337 lakhs) to provide for certain additional equipment not envisaged earlier.

The aircraft were received in India by the Undertaking between June 1975 and September 1975. Target system 'C' comprising 521 items were indented on different dates between August 1975 and March 1979. The Ministry of Defence (Ministry) stated (January 1986) that the target towing system 'C' was entirely new to the Air Force and needed very close scrutiny and vetting before indents could be placed. Besides, in many cases, clarifications were required from the firm. Thus, the indent for all these items could not be placed at the same time and the items were finally received only in 1979.

The programme for repair/modification by the Undertaking envisaged the delivery of 33 per cent of aircraft in 1976-77, 50 *per cent* in 1977-78 and the balance in 1978-79. The delivery of the aircraft commenced only in October 1979 with 33 per cent of the aircraft followed by 17 per cent each in January 1980, March 1980 and September 1981. The balance was delivered in November 1981. The Ministry stated (January 1986) that the modification of the aircraft was not possible till all the items of the target system 'C' were finally received *i.e.* 1979.

The Government authorised in July 1979 the induction of these aircraft into squadron service for the target towing role with authorised 1800 flying hours per annum. All these aircraft except the one held in reserve were inducted into squadron service as and when they were received from the Undertaking. The aircraft delivered in March 1980 was grounded in the squadron as it was received without two vital assemblies and it could fly only in 1982.

Aircraft 'S' suffered from certain maintenance problems arising out of their vintage and the difficulty in procurement of spare parts. For these reasons, their serviceability could be maintained only at 41 per cent on an average and the aircraft could not be utilised to the authorised extent of 1,800 hours per annum.

The shortfall in the actual utilisation was as below :—

Year	Percentage of shortfall in flying hours of aircraft 'S'
1981	80.50
1982	76.00
1983	60.00

The Ministry stated (January 1986) that the authorised rate of utilisation was fixed in 1972 when the present difficulties regarding product support for maintaining this aircraft could not be envisaged.

On the induction of aircraft 'S' for target towing tasks, aircraft 'P' was expected to be phased out. However, target towing flights were continued with aircraft 'P'. In fact, major part of the target towing tasks was conducted with aircraft 'P' as indicated below for 1981 to 1983 :—

Year	Percentage of total flying hours done by	
	Aircraft 'P'	Aircraft 'S'
1981	76	24
1982	71	29
1983	54.95	45.05

The Ministry stated (January 1986) that the continued use of aircraft 'P' even after induction of aircraft 'S' was found essential because of the limited serviceability of aircraft 'S' and partly because the ranges made available by Army and Navy for training were fit for aircraft 'P' only. The Ministry also stated that in order to take over the task of aircraft 'P' the required number of suitable ranges for Army and Navy have since been cleared and utilisation of aircraft 'P' has since been discontinued.

At the time of procurement of aircraft 'S' and the system 'C', the Air HQ had stated that the target system 'C' provided an integrated system for a variety of targets including air to air gunnery. However, aircraft 'S' was not used for air to air gunnery practice. The Ministry stated (January 1986) that the system 'C' was the best offered at that time and was initially designed for both air to air and ground to air applications. However, an analysis during trials showed that air to air firing posed problem of safety to the towing aircraft and thus was not capable of providing air to air firing practice.

The modification of aircraft 'S' for target towing system 'B' at a cost of Rs. 17.23 lakhs including Rs. 13.50 lakhs in foreign exchange was, therefore, sanctioned in February 1982. However, no aircraft has been released for modification till July 1985. The Air HQ stated in February 1985 that suitable aircraft which have been phased out in operational squadrons would be released shortly.

The case reveals that :

— Due to the time lag of over three years in the procurement of target towing system and the consequent delay in refurbishing and modification of aircraft 'S', these aircraft acquired between June 1975 and September 1975 could be inducted into squadron service only in 1979 *i.e.* after a period of over four years of their purchase.

— Due to the vintage of aircraft 'S' and the difficulties regarding product support for the aircraft, the serviceability rate of the aircraft that could be maintained was as low as 41 per cent. Consequently, the shortfall in utilisation of the aircraft was as high as 60 to 80.5 *per cent* of the authorised hours.

— Due partly to the limited serviceability of the aircraft and partly because the Army and Navy ranges made available were not suitable for aircraft 'S', aircraft 'P' was continued to be used for target towing training even after the induction of aircraft 'S'. According to the Ministry (January 1986) suitable ranges for Army and Navy have since been cleared and the use of aircraft 'P' has been discontinued.

— The target system 'C' though stated to provide an integrated system both for surface to air practice and air to air gunnery, it was being used only for surface to air practice as air to air practice presented problem of safety to the towing aircraft. The modification to aircraft 'S' sanctioned in February 1982 for this purpose was yet to be taken up (July 1985).

34. Avoidable recurring expenditure due to delay in assessing and providing adequate requirements

In 1976 two hydraulic test rigs and a speedivac vaccum pump required by a Base Repair Depot (BRD) were imported at a total cost of Rs. 5 lakhs. Installed at the BRD during September 1976 and January 1977, the equipments were required to be provided with electrical connections and also special arrangements for cooling of the hydraulic fluid in their system to bring down the temperature to the values specified by the manufacturers. A Board of Officers (Board) assembled in December 1976 recommended provision as an urgent operational necessity of the requisite electric supply requirements and a cooling system similar to the one in the overhaul division of a Public Sector Undertaking. In January 1977 sanction was accorded for the work at an estimated cost of Rs. 0.83 lakh for completion within 24 weeks from the date of order for commencement. In the meantime the plants were kept operative with an improvised ice cooling system. The work relating to external electrification was completed in July 1977 at a cost of Rs. 0.45 lakh. Though the work was sanctioned in January 1977, the Garrison Engineer reported to the Zonal Chief Engineer in October 1977 that the remaining part of the work, relating to the cooling system could not proceed due to lack of response from the tenderers, and, requested that a suitable design be given for water cooling system. The matter did not progress further the following two years, after which users (BRD) reported in September 1979, that, for execution of the work, the actual quantum of water cooling requirement should be assessed by a Board.

Another Board which assembled in October 1979/April 1980, recommended provision of another cooling system, to be undertaken as an urgent operational necessity, indicating that the provision of the type of cooling system envisaged in the earlier sanction of January 1977 was not technically suitable in view of the inherent limitations in the system. The Board also indicated that the existing improvised arrangements of cooling water by ice had not provided adequate cooling and was resulting in shut-downs for cooling of rigs with consequent delays in production. Sanction was accorded by Headquarters Maintenance Command in September 1981 for the work at an estimated cost of Rs. 3.16 lakhs, later revised to Rs. 3.15 lakhs in April 1982. The work was eventually taken up for execution at a contracted sum of Rs. 3.48 lakhs in August 1983 for completion by September 1984 but was later expected to be completed in June 1985.

Due to the delay in assessing requirements and pending completion of the work, improvised method of cooling by ice was resorted to at an annual recurring expenditure of Rs. 1.33 lakhs. During 1977 to May 1985 an expenditure of Rs. 11.19 lakhs was incurred against an estimated annual operational expenditure of Rs. 0.30 lakh on correct cooling system resulting in avoidable expenditure of Rs. 8.66 lakhs.

Headquarters of the concerned command stated in December 1984 that the delay in completion of the cooling facilities was due to the delay in finalisation of work requirement by the users on account of the peculiarity of the technical expertise involved in providing the specified cooling system for the imported items within indigenous sources and that the production commitment was met by working in shifts and on holidays. It was further added that under normal circumstances a work of this nature would have taken a period of minimum two years for completion and that the extra expenditure be reckoned from 1979 onwards only.

The case reveals the following :

(i) Due to delay in assessing and providing adequate facilities for the equipments worth Rs. 5 lakhs imported in June 1976, an appropriate cooling system for their efficient working could not be provided till May 1985.

(ii) The improvised cooling system by adding ice resulted in extra expenditure of Rs. 8.66 lakhs, besides causing delays in production due to shut-down of rigs.

Ministry of Defence stated (January 1986) that the special technical expertise involved in providing specified cooling system for imported items within indigenous resources was responsible for delay in finalisation of works requirements.

CHAPTER 7

ARMY

35. Avoidable expenditure on acquisition of land and care and maintenance of vacant buildings

Mention was made in paragraph 31(b) of the Audit Report, Defence Services 1968 about non-utilisation of 614 acres of land (out of 1576.23 acres actually requisitioned and taken over in 1964) at Station 'A'. A further examination of the case in Audit has revealed the following:

In April 1968, the Army Headquarters considered that the ultimate location of the units at Station 'A' should be restricted and on this basis an area of 892.92 acres was de-requisitioned in June 1968. The remaining area *viz.* 683.31 acres on which certain building works including open plinths and fencing had been completed earlier in 1966 at a cost of Rs. 3.82 lakhs was in occupation of an Ammunition Depot which was to remain there until the accommodation for it was constructed at its permanent location.

On the basis of revised plans finalised in September 1968, the land requirement at Station 'A' was worked out as 15 acres. The Public Accounts Committee (PAC) (1968-69) (Fourth Lok Sabha) in para 3.114 of Sixty-Ninth Report observed in April 1969 that "the committee note that the ultimate requirement of land in this case is not likely to be for various reasons more than 15 acres as against 684 now under requisition. The Committee trust that the authorities will take speedy steps to de-requisition the remaining land as soon as it becomes surplus". The Ministry of Defence (Ministry) confirmed (September 1969) that "as and when any portion of land becomes surplus to defence requirements, steps would be taken to de-requisition the same."

With a view to locate the Ammunition Depot at Station 'A' on operational considerations, the Ministry accorded sanction in July 1971 for the acquisition of 683.31 acres of land which was acquired in September 1972 at a cost of Rs. 16.56 lakhs.

The Defence requirement/plan in the region changed after 1971 operations rendering location of Ammunition Depot at Station 'A' redundant. The Ammunition Depot located at Station 'A' moved to Station 'B' in February 1974 and the assets left over by the Depot were taken over by a Defence Security Corps (DSC) platoon. These assets which were constructed in accordance with temporary specifications in 1966 had already out-lived their life. In 1977, the security responsibility for these assets was taken over by the Military Engineer Services (MES) and security chowkidars were appointed for the purpose. The assets (book value : Rs. 3.82 lakhs) were disposed of through auction in January 1983 at a cost of Rs. 17,825. Pending disposal of the assets an expenditure of Rs. 2.51 lakhs was incurred by MES on pay and allowances of security chowkidars during 1977-78 to August 1983. The land was placed under the authority of the Defence Estates Officer in 1981.

The Ministry of Defence stated in November 1985 that the present Government policy is to give up surplus Defence lands only on exchange basis and that efforts were being made with the State Government for exchange of this land against the deficiencies in other stations in the State.

The case reveals that:

— The land acquired in September 1972 at a cost of Rs. 16.56 lakhs remained unutilised after 1974. Had this land not been acquired but de-requisitioned after 1974 a major portion of the expenditure of Rs. 16.56 lakhs on its acquisition could have been avoided.

— Temporary assets (book value : Rs. 3.82 lakhs) constructed in 1966 were finally disposed of for Rs. 17,825 in 1983, long after they had outlived their useful life, whereas an expenditure of Rs. 2.51 lakhs was incurred during 1977-78 to August 1983 on pay and allowances of the chowkidars employed on their care and custody. The delay in disposal of these assets resulted in avoidable expenditure of Rs. 2.51 lakhs besides the expenditure incurred on the pay and allowances of the DSC platoon deployed during 1974-75 to 1976-77 to guard the said area.

36. Purchase of sub-standard soap woollen

According to the standing order for Defence Inspection Organisation, 'Control Samples' from the accepted portion of stores for delivery are submitted to the Authority Holding Sealed Particulars (AHSP) by the Inspecting officer for monitoring proper standards and to check the standard of bulk inspection. Such testing and reporting of 'Control Samples' are to be done most expeditiously to enable the AHSP to keep a watch, control and guide the standard of inspection. In serious cases where it is apparent to AHSP that sub-standard stores have been accepted which should not be allowed to be issued to the services, action is taken to freeze quantities represented by the control samples and balance payment is withheld against the Inspection Note. There are no instructions to the consignees to suspend the issue of lots subjected to control check till such time as the results are known. However, the instructions relating to issue of stores contemplate that old stocks should be issued first.

The Master General of Ordnance (MGO) Branch placed an indent in March 1981 on the Director General Supplies and Disposals (DGSD) for the procurement of 4,03,000 kgs. of soap woollen powder/flakes. Out of the three acceptance of tenders (A/Ts) placed by the DGSD, an order was placed in July 1981 on firm 'A' for the supply of 2,01,500 kgs. soap woollen powder/flakes at a total cost of Rs. 24,07,925. The entire quantity was accepted and released in several lots after inspection by 14th January 1982.

The first lot of 39,000 kg. soap woollen powder/flakes was inspected and accepted on 29th October 1981, based on a test carried out by Inspecting Officer, the control samples were forwarded to the AHSP on 29th October 1981 by the Inspecting Officer. The AHSP communicated the results after four months, in March 1982, indicating that the samples were heterogeneous and sub-standard. The AHSP also instructed the consignee Depot 'X' to forward samples for check test, to segregate the lot and stop issues till further instructions. After four months, Depot 'X' intimated the AHSP in July 1982 that the store had been issued by it on 4th March 1982 and received by Depot 'Y' on 31st March 1982 and samples may be obtained from Depot 'Y'. At the time when Depot 'X' issued the store to Depot 'Y', it had 4.60 lakh kgs. of older stocks of the same item out of which the issue should have been made. The check samples were then demanded in August 1982 from Depot 'Y' who intimated in October 1982 that the entire stock of store had already been issued to dependent units and directed the dependent units to send the required samples to the AHSP for examination.

The MGO requested the DGSD in November 1982 to advise the firm to replace the quantity declared sub-standard immediately. Controller of Accounts was also requested through this communication to withhold payment to the firm till the replacement of rejected stores was made by it. In December 1982 the DGSD informed the MGO that the firm wanted to jointly verify the quantity of stocks to facilitate replacement of the rejected store. The MGO then asked Depot 'Y' in January 1983 to segregate the stores under intimation to the DGSD. Depot 'Y' informed (January 1983) that no balance of stock was held as the entire stock had been issued to dependent units. Samples of stocks issued by Depot 'Y' were received by the AHSP from four units. All the samples were found defective and a communication was sent to the Director of Inspection (Stores) in January 1983. The MGO intimated DGSD in September 1983 that 7,215 kgs. of defective soap woollen powder/flakes were lying with units. The DGSD asked the firm in October 1983 to arrange verification of the above stock and allowed extension of delivery period upto 30th December 1983 for replacement. Subsequently the defective stock lying with the units was found to be 10,017 kgs.

The DGSD sought the advice of the Ministry of Law regarding replacement of the entire quantity supplied. The Ministry of Law opined that there was no store "to be shown or produced to have unmerchantable quality and therefore the question of forcing the firm for payment of loss would not arise", since the purchaser had accepted the stores supplied and had hence waived the right of cancelling the unmerchantable stores.

The Ministry of Defence stated (September 1985) that :

— The AHSP recommended 7 per cent price reduction for the entire quantity viz. 39,000 kgs. (including 10,017 kgs. which was available for replacement) and the firm expressed its willingness to accept this proposal provided they were granted extension of delivery period in another contract of 14th December 1984. Extension of delivery period was accepted by the Army and the DGSD was advised to accept the proposal. An inquiry was being conducted by DGI to investigate the delay of 4 months in reporting on the control samples.

— MGO was asked to institute an inquiry to find out the reasons for issuing the fresh stores while old stock were lying with Depot 'X'.

— Testing of control samples has been dispensed with and standard check at consignee's end had been introduced.

The case reveals that :

In spite of inspection carried out by the Inspecting Officer at the initial stages before acceptance, the entire lot of 39,000 kgs. was found to be sub-standard within four months. Further the delay in communicating the sample results expeditiously by the AHSP prevented freezing of the stock. The absence of instructions for consignees to suspend the issue of lots subjected to control check till the results were known and failure, in contravention of the prescribed procedure, to issue the old stock first resulted in consumption of 28,983 kgs. of sub-standard stock costing Rs. 3.46 lakhs for which no scope was left for obtaining replacement.

37. Payment of damages for breach of contract

A contract, for the supply of 9.23 lakh Kgs. of meat dressed to a supply Group, at Station 'X' for the period 1st May 1975 to 31st March 1976 was awarded by the Quarter Master General (QMG) in favour of contractor 'A' on 20th April 1975. Of the 9.23 lakh kgs. contracted, 6.81 lakh kgs. of meat was intended for local consumption at Station 'X' in Command 'A' during 1st April 1975 to 31st March 1976 and the remaining quantity of 2.42 lakh kgs was intended to meet the requirement of meat for the period April 1975 to May 1975 and November 1975 to March 1976 of Garrison 'Y' located in Command 'B'. The Headquarters (HQ) Command 'B' concluded a separate contract in June 1975 with contractor 'B' for supply of meat on hoof for that Garrison, for road-open period viz. 16th June 1975 to 31st October 1975. Contractor 'A', however, objected in May 1975, to the floating of a separate tender by the HQ Command 'B', on the plea that the entire meat requirement for Garrison 'Y' stood included in the scheduled quantity of the contract awarded by the QMG in April 1975 and that conclusion of separate contract for the already contracted quantity for the similar period amounted to breach of their contract.

HQ Command 'B' stated on 23rd May 1975 that it was enjoined on them to conclude a separate contract for supply of meat for Garrison 'Y' for the period from June 1975 to 31st October 1975, and, the demand of meat for that Garrison for the balance period viz. April 1975 to May 1975 and November 1975 to March 1976 was intimated by them to the HQ Command 'A'. Contractor 'A', however, filed an application in the Court in September 1975 seeking arbitration in the dispute for compensation for the breach of contract.

The Court in its judgement dated 20th September 1976 appointed the then Director of Supplies and Transport (DST) to act as arbitrator who, however, expressed his inability due to preoccupation and exigency of service. Hence on 20th April 1979, the Court authorised QMG to nominate any person to act as arbitrator. The QMG appointed another arbitrator on 8th April 1980.

Though hearings were conducted by the arbitrator on 20th and 27th August 1980, and, again on 28th November 1980 and 24th March 1981, the proceedings could not be finalised within the statutory period of four months nor was any extension of time sought from the Court. The QMG then appointed another arbitrator on 2nd July 1982, who gave his award on 2nd August 1983.

The arbitrator awarded a sum of Rs. 3.40 lakhs to the contractor by way of damages for the breach of the contract, and, also awarded interest on the above amount at 10 per cent per annum from the date the arbitration proceedings remained pending till the decree was passed by the Court. The award was filed by the arbitrator on 2nd/11th August 1983 in the Court. On the advice of Ministry of Law, the award was not contested and was made a rule of the court on 2nd April 1984.

Government accorded sanction on 16th August 1984 for the payment of arbitral amount of Rs. 3.40 lakhs and Rs. 2.49 lakhs towards interest thereon from 26th November 1976 to 2nd April 1984 totalling to Rs. 5.89 lakhs. The amount was paid to the contractor on 6th October 1984. The quantity of meat dressed catered for the contract at Station 'X' and that actually drawn was as under :

	Quantity catered for	Quantity drawn	Quantity less drawn
	Kgs.	Kgs.	Kgs.
For Station 'X' (excluding requirement for Garrison 'Y'.)	6,80,600	2,85,460	3,95,140
For Garrison 'Y' at Station 'X'	2,42,000	1,99,930	42,070
TOTAL	9,22,600	4,85,390	4,37,210

After the finalisation of award and its payment in October 1984, the QMG's Branch directed the HQ Command 'A' to investigate how underdrawals to the extent of 50 per cent of the contracted quantity occurred. The HQ Command 'A' were of the opinion that the underdrawals of meat from the quantity scheduled in the contract occurred due to incorrect forecast and planning by the Depot/Contract concluding authority.

The case reveals that :

—The actual operation period of the contract was 11 months (May 1975 to March 1976) though it catered for 12 months requirements (April 1975 to March 1976) resulting in underdrawals by about 1 lakh kgs. of meat.

— Against 6.81 lakh kgs. of meat catered for local consumption at Station 'X', the actual quantity drawn was 2.85 lakh kgs. resulting in 58 per cent underdrawals partly due to inaccuracy in forecasting.

— Thus mainly due to incorrect forecasting and planning by the Supply Depot/Contract concluding authority Government had to pay damages amounting to Rs. 5.89 lakhs.

38. **Extra expenditure on local purchase of meat**

Pursuant to the mention made in para 43 II(b) of the Report of the Comptroller and Auditor General of India for the year 1976-77, Union Government (Defence Services) of the delay in conclusion of the contracts for the supply of meat, the Public Accounts Committee (PAC) in paragraph 1.185 of their 137th Report (Sixth Lok Sabha) 1978-79 interalia observed that the Committee were deeply concerned to note that due to delay in finalisation of tenders for supply of meat Government had to incur quite a substantial amount of additional expenditure in effecting local purchase of meat at higher rates during the intervening 'no contract' period. As a result of the recommendations made by the PAC, mention was made in para 1.8 of their 59th Report (Seventh Lok Sabha) that the Ministry of Defence issued instructions in September 1978 for ensuring timely conclusion of contracts at most economical rates. Despite this, cases of delay in conclusion of contracts for supply of meat involving avoidable extra expenditure on local purchase during 'no contract' period were observed as under :

Tenders were invited by an Area Headquarters (HQ) in January 1982 for the supply of meat for the period 1st April 1982 to 31st March 1983 for six stations under it. The rates quoted by the lowest tenderers at each station were higher than the then current contract rates. After two calls including one additional call and five negotiations the final rates obtained were considered reasonable and recommended by the Tender Committee as well as Area HQ for acceptance during 29th April 1982 to 4th May 1982. For better competition and to break the continuous hold of contractors, the Army HQ ordered retendering in June 1982. After retendering in June 1982 and further negotiations in July 1982, rates were got approved by the Army HQ and separate contracts were concluded in August 1982 for the six stations. At one station, the approved rate was higher than the rate recommended on 4th May 1982. The period of operation of the existing contracts had already expired on 31st March 1982. Pending conclusion of the contracts, local purchases of meat were made by all the six stations at a total cost of Rs. 82.07 lakhs from 1st April 1982 till the conclusion of the contracts in August 1982.

The extra expenditure on the local purchases made during the period from 1st April 1982 to August 1982 was Rs. 9.85 lakhs being the difference between the rates recommended by Area HQ and the rates at which meat was procured locally. Besides, in one station for which the approved rate was higher than the rate recommended on 4th May 1982, the extra expenditure was Rs. 0.78 lakh on procurement of meat after conclusion of the contract in August 1982. In the case of the other stations, procurement of meat at the approved rates resulted in saving of Rs. 0.58 lakh only for the period 31st August 1982 to 31st March 1983 which was offset by the total extra expenditure of Rs. 10.63 lakhs resulting in net avoidable expenditure of Rs. 10.05 lakhs.

The Ministry of Defence stated (September 1985) that though there was a delay in finalisation of the contracts, the rates obtained after retendering in June 1982 were lower at all but one station and that refinement in contract procedure to reduce the time taken in finalisation was currently under review.

In this connection it may be mentioned that as a result of retendering ordered in June 1982 against which contracts could be concluded only in August 1982 there was, besides extra expenditure of Rs. 9.85 lakhs on account of higher rates paid on local purchases made due to delay in conclusion of the contracts, a net extra expenditure of Rs. 0.20 lakh as compared to the rates considered reasonable and recommended for acceptance by the Tender Committee during 29th April 1982 to 4th May 1982.

The case revealed that :

— Despite the recommendations of the PAC that delay in conclusion of meat contract should be avoided so as to prevent additional expenditure during 'no contract period', there was a delay of four months and ten days to five months in finalising the contracts for the period April 1982 to March 1983.

— In spite of the fact that rates for the year 1982-83 obtained as a result of retendering/negotiations were considered reasonable by the Tender Committee as well as the Area HQ and recommended for acceptance during 29th April 1982 to 4th May 1982, the Army HQ did not approve the recommended rates and ordered retendering in June 1982 and the contracts were concluded as late as in August 1982.

— Pending conclusion of regular contracts, local purchases of meat were made at higher rates involving an extra expenditure of Rs. 10.05 lakhs. In one case, the contract was concluded at a rate even higher than the rate recommended for acceptance on 4th May 1982.

39. Infructuous expenditure on construction of certain ranges

I—Long rifle range

The Headquarters (HQ) of a Sub Area ordered (December 1975) a recce-*cum-siting* Board for selecting a site in a hilly area for construction of a long rifle range required by a training centre (users). The Board assembled in March 1976 recommended a site in the area. According to the Commander Works Engineer (CWE) actual siting and ground layout was not done; even the ground details necessary at that stage were not obtained by the Board. However, in December 1976, based on the Approximate Estimates prepared by the Engineers, the Area HQ accorded Administrative Approval for executing the work at an estimated cost of Rs. 5.13 lakhs. In March 1977 the Garrison Engineer (GE) concluded a percentage rate contract for Rs. 5.72 lakhs with contractor 'A', for completion by July 1977 (extended upto September 1977). While preparing the Approximate Estimates the impact of a nearby grenade range constructed between July—December 1976 was not considered. In fact, even after conclusion of the contract, the actual scope of work was not known. The GE, however, commenced the work in March 1977 in consultation with the users. During execution of the work, the users changed the locations of the firing points resulting in upward revision of the estimated cost to Rs. 9.80 lakhs. In September 1977, after only site clearance was completed, the contract was closed after incurring an expenditure of Rs. 4.90 lakhs. The balance work was proposed to be executed through a separate contract. The Area HQ accorded in January 1978 revised Administrative Approval for Rs. 9.80 lakhs for execution of the whole project including the completed work. The Sub Area HQ thereafter convened (April 1978) a Technical Board (Board) to review the work; the Board recommended certain safety works for the ranges.

In January 1979, the CWE concluded an item rate contract with Contractor 'A' for Rs. 4.55 lakhs. The work commenced in February 1979 and was to be completed by November 1979. Due to bad weather and delay in supply of cement and design of the safety wall to the contractor, the date of completion was extended several times, finally upto May 1981.

Meanwhile in September 1980 when the work had progressed upto 85 per cent the General Staff Officer (Training) of the Command HQ while inspecting the range observed serious technical deficiencies in the construction. The CWE, however, contended in January 1981 that the users were associated with the work at different stages, but no shortcomings were pointed out nor were requirements about the danger area behind 'Stop Butt' intimated by them. He also stated that the safety wall above the butt was of slightly convex shape (instead of concave) as the Technical Board of June 1978 did not specify the extent of concavity and the wall was constructed negotiating the structural requirements at site. In May 1981, due to heavy land slides, the target assembly system collapsed at places. In July 1981, due to heavy rainfall, a portion of the safety wall collapsed. In June 1982 the CWE determined the contract. The total expenditure on the construction of the long range worked out to Rs. 15.37 lakhs.

II—Grenade range

During the process of sanction of the long rifle range, Area HQ also sanctioned in March 1976 construction of a grenade range in the same vicinity at a total cost of Rs. 1.60 lakhs. The work was commenced in July 1976 and completed in December

1976. However, the range was not found fit for use as large portion of civil area fell within the danger zone. The CWE admitted in June 1981 that "no siting board seems to have been ordered to consider the various safety points and its effect/impact on a long range construction.................................. sanction of grenade range and long range have been processed in isolation, not in totality though being in the same vicinity".

The Sub Area HQ admitted in September 1981 that, "It is evident that the present shortcomings in the ranges are due to cumulative effect of errors of boards and the Construction agency (MES). To apportion the blame a Court of Inquiry would, therefore, be necessary. This will be time consuming and not cost effective". The Sub Area HQ further recommended (i) that the long rifle range was not fit for use even at 100 yards and suggested conversion of the same into a short range and (ii) that the grenade range be given up as it was unusable. The ranges remained unused and are not likely to be used as the training centre for which the same were constructed moved out of the location during July/August 1983. The long range is lying in damaged condition (November 1984). The Command HQ stated in November 1985 that "no board has yet been convened to convert long range into short range...... .... and no work has been sanctioned or carried out in this respect".

The case reveals the following :

— The site for the long rifle range was selected by the recce-*cum*-siting Board in March 1976 without proper survey, siting and layout on grounds, even ground details necessary at Board stage were not obtained. The original Approximate Estimate was not prepared realistically by GE.

— The actual scope of the work was not known either to the users or to the MES.

— The improper site survey, ground layout and pre-planning, led not only to an increase in the cost, but also to faulty construction which ultimately rendered the range unfit for use, thereby making the entire expenditure of Rs. 15.37 lakhs infructuous.

— Construction of the grenade range (sanctioned cost Rs. 1.60 lakhs) also proved infructuous as it became unfit for use since large portion of civil area fell within the danger-zone.

— Sanction of the grenade range and the long rifle range had been processed in isolation and not in totality even though both were sited in the same locality.

— No Court of Inquiry was appointed to investigate the case to apportion responsibility as it was thought to be time consuming and not cost effective.

The Ministry of Defence stated in January 1986 that :

— Army HQ have issued instructions to all Commands to ensure that users requirements/specifications are obtained in full before issue of Administrative Approval so as to avoid recurrence of such cases in future.

— Perhaps since a siting board has already been done for the classification range and the proximity of grenade range to the classification range was not regarded unsafe in the event of one range being used at a time no separate board was felt necessary for the grenade range to be constructed for the same unit in that area. However, instructions have since been issued to ensure that even for a small grenade range siting board should be held.

CHAPTER 8

NAVY

40. Review on the setting up and working of a Naval Dockyard

In September 1968, Government approved a project estimated to cost Rs. 95.90 crores for establishing facilities at a Naval station for the repair and maintenance of vessels 'A' and 'B'. The project which was based on the report prepared by specialists of a foreign country from which the ships were being acquired envisaged the establishment of a naval base, dockyard with repair shops, training facilities and living accommodation and was expected to be completed in a period of ten years. The vessels themselves were acquired between December 1967 and December 1974.

Revision of the Project cost

During the execution of the project difficult and unusual sub-soil conditions were encountered necessitating changes in the scope of work. Further, the cost of civil and marine works was found to have been under-estimated due to inadequate data. The estimated cost of the project was revised to Rs. 211 crores in June 1975, the increase being mainly due to changes in the scope of works (Rs. 6.61 crores), new items of work (Rs. 9.44 crores), underestimation of cost of civil and marine works (Rs. 37.01 crores), general escalation in price (Rs. 5.83 crores) and additional services and works (Rs. 22.12 crores). It was also decided to complete certain works estimated to cost Rs. 11.31 crores as immediate Phase IA by 1978-79 which included among other things the construction of South dry dock and certain essential workshop facilities. The balance works as Phases IB and II of the project were estimated to cost Rs. 33.47 crores and Rs. 66.05 crores respectively.

Mention was made in paragraph 20 of the Report of the Comptroller and Auditor General of India, Union Government (Defence Services) for the year 1975-76 about the partial collapse of the dock head wall and coffer dam constructed under Phase I of the project. The dock head wall had, therefore, to be reconstructed and strengthened at a cost of Rs. 105.98 lakhs. Phases IB and II of the project were also reassessed and the project cost was revised in July 1978 to Rs. 217.77 crores (Phase IA : Rs. 112.92 crores and Phases IB and II merged as Phase II : Rs. 104.85 crores).

The Director General, Naval Projects (DGNP) who sent proposals in August 1983 for further revision of the estimates stated that even though the very poor soil conditions inside the Naval Dockyard area required suspended flooring to be provided for the technical and other important buildings, only ordinary flooring was provided to the buildings under Phase I of the project, which had subsequently sunk abnormally at many places affecting production in these buildings. The Steering Committee for the project had also directed in February 1982 that suspended floors be provided in all important buildings in Phase II and a programme be evolved for special repairs to all the buildings completed under Phase I. The revision of the project cost of Phase II to Rs. 249.27 crores, which included an amount of Rs. 10.17 crores for suspended flooring to all important buildings in Phase II (Rs. 1.37 crores) and for carrying out special repairs to all buildings earlier completed under Phase I (Rs. 8.80 crores), was awaiting sanction of the Government (February 1986).

Consequent on the acquisition of Type 'C' vessels in February 1981, the Cabinet Committee on Political Affairs approved in December 1981 the creation of additional facilities for the repair and overhaul of Type 'C' vessels as Phase III of the project at an estimated cost of Rs. 59.58 crores.

Progress of the project

Major part of Phase I of the project was completed by 1983. Phase II of the project was in progress and was expected to be completed by December 1986. Some of the important facilities yet to be completed were the North dry dock, forge and heat treatment shop, wood working shop, the ammunition berth, degausing basin and the slipway. Phase III of the project was expected to be completed by June 1986. Equipment worth Rs. 11.13 crores meant for Phase III and received between 1979 and 1982 were lying in stock (October 1985).

The expenditure on the project up to March 1985 was as shown below :—

(Rs. in crores)

Phase	Civil works	Equip-ments	Total
I	81.30	16.66	97.96
II.	73.40	14.27	87.67
III.	5.17	2.05	7.22
Total	159.87	32.98	192.85

Delay in execution of works services

Some instances of abnormal delay noticed in the execution of Phase I and Phase II of the project are briefly mentioned below :

(i) The South dry dock was to be completed by June 1976 but was actually completed by October 1978. The delay in the completion of the South dry dock was mentioned in paragraph 20(V) of the Report of the Comptroller and Auditor General of India, Union Government (Defence Services) for the year 1975-76. The South dry dock could not, however, be put to optimum use till May 1979 as the flap gate for the dry dock was completed only in May 1979. As a result, the dry dock facilities of a public sector undertaking had to be utilised for the urgent refit of naval ships for which rental charges amounting to Rs. 28.92 lakhs were paid.

(ii) As per the contract for the construction of electro-plating block (completion cost : Rs. 2.08 crores) the buildings were to be completed by September 1978. However, these facilities were completed only in December 1982 and could be handed over to the Navy in March 1983 only. Due to non-availability of these facilities the electro-plating jobs that arose during 1978—83 were got done through trade at a cost of Rs. 3.72 lakhs.

(iii) The Gas Turbine repair facilities which were scheduled to be completed by November 1976 were handed over only in March 1982. The delay in the availability of the complete facilities necessitated the sending of 10 gas turbines to the foreign country for repair and overhaul involving an expenditure of Rs. 2.75 crores. The Ministry stated in February 1986 that the unfavourable soil conditions led to a total change in the design of foundation etc. and thus the time overrun for the civil works became inevitable. Apart from that an essential component for the facility had to be developed indigenously for which a development order was placed on firm 'P' in 1977. The component could be developed and delivered only in January 1981 and then only the installation work could start. Further, at the time of installation of the system and equipment, an item of foreign supply was found to be of old design and incompatible with the gas turbine supplied which led to further delay in testing the facility and commissioning it.

The dockyard had commenced repair/overhaul of gas turbines since April 1982 but could repair only one gas turbine upto September 1985 out of ten received for repairs. The Ministry stated (February 1986) that there was delay in the transfer of technology by the foreign country. Further, while the Indian specialists were not associated with the repair of these gas turbines in the foreign country, no repair training was also imparted to Indian personnel in the repair technology contributing to a chain reaction of delay in the repair of gas turbines at the Naval Dockyard.

(iv) Mention was made in Paragraph 2 of the Report of the Comptroller and Auditor General of India for the year 1977-78, Union Government (Defence Services) about infructuous expenditure of Rs. 50 lakhs on dredging due to shifting of the site for the degausing basin because of the existence of rock in the site selected. The work on the same had not commenced yet. In the absence of the degausing basin, the vessels refitted in the Dockyard were not being demagnetised and are exposed to risks of accidents due to induced or permanent magnetisation. The Ministry stated in February 1986 that with the frequent changes in sites of jetty and dredging depth, the measurements of magnetic field which were taken first in 1974 had to be continued till 1979. The design of the Ammunition berth was also modified to take a class of ships acquired later. This changed the earlier parameters of magnetic measurements. However, the clearance in this regard had been obtained from the foreign country mid 1985 and it had been decided by Navy to go ahead with it. Meanwhile, equipment costing Rs. 30.05 lakhs procured for the degausing basin and received in 1972 were kept in a preserved state by competent store house staff.

(v) The construction of 500 Ton slipway included in the project had been deferred as it was felt that with the creation of the two dry docks adequate docking capacity would be generated. The equipment procured for the slipway at a cost of Rs. 21.11 lakhs during January 1972 to August 1974 were lying in stock.

(vi) The project also included provision for an oxygen gas plant for the Dockyard, the gassification plant itself being an item of foreign supply. The buildings estimated to cost Rs. 3.49 lakhs for the installation of gas plant were sanctioned by the Government in January 1972. Mention was made in Paragraph 23 of the Report of the Comptroller and Auditor General of India, Union Government (Defence Services) 1977-78 about the commencement of work on the buildings in 1976 notwithstanding the decision taken in September 1974 to defer installation of the oxygen plant till 1979. The building was completed in 1979 at a cost of Rs. 8.86 lakhs. Meanwhile, in November 1976, the Naval HQ approved the installation in place of gassification plant of foreign supply a Vacuum Insulated Evaporator (VIE) offered by firm 'X' in September 1976 on free loan basis. No action was, however, taken to conclude the contract with the firm as the facilities for the gas plant were not ready then. The firm 'X', however, modified in April 1979, their offer for erection of a Cold Evaporator (CE) plant and again in December 1980 to a VIE plant on rental basis. In view of this tenders for the provision of CE/VIE plant were floated by the DGNP in December 1981 and out of the two offers received, the offer of firm 'X' for the supply of CE/VIE plant on rental basis was proposed to be accepted. But the contract with the firm had not been finalised till February 1986. Meanwhile, the following works relating to gas distribution facilities were taken up and completed :

Name of the work	Sanctioned during	Cost (Rs. in lakhs)	Completed in
1. Provision of oxygen and acetylene service outlets.	June 1974 & December 1975	1.53	February 1979 & April 1980
2. Provision of oxygen and acetylene distribution manifolds.	April 1975	1.34	December 1981
3. *Provision of oxygen and acetylene pipe lines (ENW)	August 1978	27.91	February 1981

*This work was executed by firm 'X'.

Pending conclusion of the contract for the supply and erection of the oxygen plant, civil works estimated to cost Rs. 2.84 lakhs for the installation of the VIE plant were sanctioned by the DGNP in July 1982. The firm 'X' whose offer for supply of the plant is under consideration meanwhile inspected (August 1982) the pipelines and manifolds already provided and based on their recommendation certain modifications/rectifications estimated to cost Rs. 10.28 lakhs were sanctioned in August 1984. A contract for Rs. 6.62 lakhs was concluded on a single tender basis with firm 'X' in February 1985 for certain modification/rectification work which were yet to be completed (February 1986). The civil works for the installation of the plant had also not been taken up as details of foundation had not been supplied by the firm yet. In the absence of a gas plant, the requirement of oxygen and acetylene for the dockyard was being met by supplies made in cylinders against rate contracts entered into by the Director General of Supplies and Disposals and the Dockyard has not been able to avail of the cost economies of bulk supply

Performance of the Dockyard

(i) The South dry dock can berth 6 vessels at a time. An analysis of the performance, however, showed that the average number of vessels berthed at a time in the dry dock during 1978-83 was only 3.8.

(ii) The project report for the Dockyard had indicated the average time likely to be taken for medium refit and current repairs of different types of vessels. The plans for refits/repairs approved by the Naval HQ also indicated the time to be taken for each refit/repair. The average time taken for refit/repairs as compared to the project estimates and the plans approved by the Naval HQ was as follows :—

Type of vessels	Medium refit			Current repairs		
	Time recommended in the project report (months)	Time approved in Naval HQ plan (months & days)	Average time actually taken (months & days)	Time recommended in the project report (months)	Time approved in Naval HQ plan (months & days)	Average time actually taken (months & days)
A	18	29—07	54—01	9	12—11	20—01
B	15	15—15	43—17	8	11—12	19—28
D	10	10—00	39—00	5	9—06	9—17
E	—	—	—	2	7—07	17—15
F	—	—	—	6	10—00	25—15

In no case could the refits/repairs be completed within the time envisaged in the project report. The time taken was also considerably more than the plan approved by the Naval HQ in majority of cases and in many cases even more than double the planned time as would be evident from the following details :

Nature of refit/ repair	Number/repaired refitted	Time taken in excess of planned time			
		Less than 50%	50% to 100%	100% to 200%	Over 200%
Medium refit	5	1	NIL	1	3
Current repairs	17	9	5	2	1
Navigational repairs	56	37	9	8	2

In the case of one vessel, the Dockyard took up the refit in February 1977 to be completed as per the approved plan in 18 months. The refit could not, however, be completed due to lack of dock facilities and non-availability of spares. The refit was suspended in October 1980 (after 45 months) and the incomplete vessel was withdrawn from the dry dock. The vessel was again brought to the Dockyard for refit in March 1985 when there was an anticipation of improved supply of spares. The medium refit of another vessel took 70 months as against the planned 22.5 months.

(iii) The project report envisaged 10.5 units of medium refits, 23.5 units of current repair and 31 units of navigational repairs to be undertaken by South dry dock annually. The actual performance was much below the capacity actually created and also the workload planned by the Naval HQ as will be seen from the details given below :—

	Medium refit		Current repairs		Navigational repairs	
	Workload		Workload		Workload	
	Planned	Achieved	Planned	Achieved	Planned	Achieved
1980	1.382	0.725	5.45	2.797	9.00	8.04
1981	2.872	0.802	2.995	3.473	15.20	6.22
1982	0.976	0.570	4.318	2.091	12.875	10.22
1983	1.084	0.720	7.240	2.433	11.254	12.59
1984	1.277	1.009	4.471	3.213	17.451	13.14
Average	1.518	0.765	4.895	2.80	13.156	10.04

Due to delay in commissioning of the dockyard and the shortfall in its performance, the medium refit of 5 type 'A' vessels had to be got done abroad during January 1976 to July 1983 at a cost of Rs. 39.16 crores.

The Ministry stated in February 1986 that the delay in the completion of the dry dock facilities, the non-availability of spares and stores from the foreign country, inadequate supply of documentation and delay in their translation resulted in the shortfall in performance.

Further, the medium refits of 16 vessels which were due had not been undertaken, the delays already exceeding 3 to 13 years. In 4 cases the delay in undertaking medium refit had already exceeded 13 years.

The Ministry stated that in view of large backlog of refits and unsatisfactory availability of spares necessitating cannibalisation, the medium refits of five ships were delayed. In the case of four vessels it has been decided not to undertake medium refits due to their poor material state and the need to concentrate on maintenance of frontline ships. These vessels were transferred to Coast Guards for exploitation till they were phased out. In respect of four other ships extended current repairs have been carried out to ensure their sea worthiness. By modifying the refit cum operating cycle the medium refit routine in respect of two vessels was combined with current repairs. The medium repairs were not possible in the case of one vessel as the foreign country expressed its inability to supply the spares, the vessel being of old vintage.

The project report also envisaged the main and auxiliary machinery and other equipment to be repaired and refitted in the same vessel at the time of refit/repair of the vessel. However, in actual practice this was not being followed by the Dockyard and the repairable equipments were being replaced by new ones without any planned programme for their repairs. Thus till August 1984, 86 major items and 3,790 small and medium items of machinery and equipment were held in repairable condition with no prospects of early repair and reuse. The details of major items were as follows :—

Particulars of machinery	Total	Held unrepaired for		
		More than 5 years	Between 3 to 5 years	Less than 3 years
1. Generator/Prime Mover	33	11	11	11
2. Compressors all types .	28	16	4	8
3. Super charger . .	8	8	. .	. .
4. Gas Analyser . .	17	17	. .	. .
Total . . .	86	52	15	19

The Ministry stated that the replacement of defective equipment became necessary due to inability of the foreign country to supply spares required for repair and offering instead supply of the complete assembly/sub-assembly.

Procurement of spares

For the spares required for the refit/repair programmes at the Dockyard, indents are raised by the Naval HQ on the Naval attache in the Indian Mission in the foreign country for entering into necessary agreements with the country for the supply of spares. While contracts remained to be arranged for more than 50 *per cent* of the items indented for as early as 1977-78 and 1978-79, the supplies of spares against contracts already concluded were also inordinately delayed. The number of items indented each year, contracts concluded and the items supplied were as indicated below :

Year	Number of items indented for	Number of items covered by contracts	Number of items received
1977–78 . . .	25,029	10,251	6,559
1978–79 . . .	30,823	7,579	7,256
1979–80 . . .	9,442	4,151	3,183
1980–81 . . .	6,303	2,515	2,330
1981–82 . . .	10,665	3,921	2,911
1982–83 . . .	6,024	1,083	501
1983–84 . . .	9,094	33	9
1984–85 . . .	12,341	. .	. .
Total . .	1,09,721	29,533	22,749

It will be seen that supplies had dwindled and were nil during 1984-85. The uncertainty about the supply of spares was a major constraint in the refit/repair programmes of the Dockyard. The Ministry stated (February 1986) that all possible efforts were being made to obtain the requirement of spares as indented and though there had been some improvement, the position was still far from satisfactory.

Control systems

A private consultancy firm engaged in August 1978 at a cost of Rs. 8.5 lakhs to advise on the organisation and staffing, production, material and finance management and project monitoring systems, had *inter alia* recommended the installation of an effective cost accounting system for cost control and an EDP system for monitoring. While the EDP system was still to be installed no cost accounts were being maintained for the Dockyard though a Cost Accountancy cell was formed for the Dockyard in June 1982 and the cost accountancy system for dockyards already stands prescribed by the Naval HQ in September 1974.

The Ministry stated in February 1986 that the staff complement for EDP system was sanctioned only in 1983 but due to ban on recruitment the recommendation of the consultancy firm could not be implemented. The Ministry also stated that a steady progress was being made in the creation of records for establishing the cost accounting system.

Some of the more important aspects brought out in the review are summed up below :

— There was a steep increase in the cost of Phase I and Phase II of the project from the estimated cost of Rs. 95.90 crores in 1968 to Rs. 362.19 crores in 1985.

— Due to poor soil conditions encountered at site the ordinary floors provided in certain buildings constructed under Phase I had sunk abnormally at many places affecting production. Consequently, in certain buildings under construction under Phase II suspended floors had to be provided at an additional estimated cost of Rs. 1.37 crores instead of ordinary flooring specified earlier and suspended floors were to be provided at an estimated cost of Rs. 8.80 crores in buildings already completed under Phase I.

— Due to delay in setting up the Dockyard the medium refit of 5 type 'A' vessels had to be got done abroad at a cost of Rs. 39.16 crores.

— The project approved in 1968 envisaged the completion of the Dockyard in 10 years but only Phase I of the project consisting of some important works was completed by 1983. Some important facilities like North dry dock, forge and heat treatment shop, wood working shop, ammunition berth and degausing basin were yet to be completed. The 500 ton slipway included in the project has been deferred. Equipments costing Rs. 21.11 lakhs procured during January 1972 to August 1974 for the slipway and costing Rs. 30.05 lakhs for the degausing basin were lying in stock.

— The building for the gas plant for the dockyard was sanctioned in 1972 and completed in 1979. Though expenditure totalling Rs. 38.74 lakhs had been incurred for the building for the gas plant, distribution network, manifolds and service outlets, a contract for the supply and erection of the gas plant was yet to be concluded. Modification and rectification works on pipelines and manifolds already provided had to be undertaken at an estimated cost of Rs. 10.08 lakhs. Meanwhile requirement of gas for the dockyard was being met from supplies in cylinders and the dockyard has not been able to avail of the cost economies of bulk supply.

— The delay in the completion of the dry dock facilities, inadequate supply of documents and delay in their translation and the non-availability of spares resulted in shortfall in the performance of repair at the dockyard.

— Against the annual target of 10.5 units of medium refit, 23.5 units of current repairs and 31 units of navigational repairs envisaged in the project, the average achievement for the years 1980 to 1984 was only 0.765 units of medium refits, 2.80 units of current repairs and 10.04 units of navigational repairs. The actual performance was much below the plans fixed by the Naval HQ also.

— 16 vessels had become overdue for medium refit by three to thirteen years out of which four ships were proposed to be exploited without medium refit by Coast Guards till they were phased out.

— The average time taken for repair of each type of vessel was much more than what was contemplated in the project report and in the plan approved by the Naval HQ. The average time taken for medium refit was almost 3 times the project estimates for types 'A', 'B' and 'D' vessels. The time taken for current and navigational repairs was also considerably more than the project estimates and the Naval HQ plans.

— The refit of one vessel which was programmed to be completed in 18 months could not be completed even after 45 months for lack of dock facilities and spares and the vessel was withdrawn from the dockyard in November 1980 and brought to the dockyard again in March 1985. Another vessel took 70 months for medium refit against 22.5 months approved in the plan.

— Major repairable items of machinery numbering 86 and small and medium repairable items of machinery numbering 3,790 were awaiting repairs and in many cases for more than 5 years.

— The supply of spares against the demands placed was inordinately delayed affecting the repair/refit programme of the Dockyard.
— The cost accounting system laid down was yet to be implemented in the Dockyard.

41. **Purchase of defective spares for an aircraft**

Based on 5 indents raised by Naval Headquarters (HQ) between March 1973 and October 1975, Supply Wing of an Indian Mission abroad (Supply Wing) concluded three contracts, one each in June 1974, May 1975 and November 1975 with a foreign firm for supply of 22 units of item 'A' and 12 units of item 'B' used in an aircraft.

The contracts envisaged that the stores would be accepted against submission of release notes as required by the Supply Mission's specification. The contracts further provided that the supply should be free from all defects and faults in material workmanship and manufacture and should be of highest grade consistent with the established practice and generally accepted standards for material of the type ordered and in full conformity with the specifications and drawings. As per the contract for the supply of item 'A' the foreign firm was to give a performance guarantee of 300 operating hours against failures, and in the event of a failure, would replace the defective items free of charge. Further, the supply Mission/Naval representatives had the right to inspect item 'A' during acceptance trials.

Item 'A'

The supplies of item 'A' were received in two batches in a Naval Stores Depot (NSD). Of the 15 units received in the first batch between June 1976 and November 1976, 6 units were found defective and were returned to the firm in August/December 1976 for replacement. The firm replaced the defective units between June 1977 and May 1978. However, out of the replaced units, 2 units were found defective. In the second batch of 7 units received between June and July 1977, one unit was found defective. The matter regarding replacement of the 3 defective units costing Rs. 3.70 lakhs was taken up by the Naval HQ with the Supply Wing in November 1979. In May 1980, the Supply Wing requested the foreign firm to accept the contractual obligation and to make good the loss by replacement/rectification, as the defects were attributable to manufacturing process and not to transit damage. The Supply Wing intimated in November 1980 that the firm did not accept liability and the matter was referred to the legal adviser at Indian High Commission.

Item 'B'

The supplies of item 'B' were received in the NSD during April 1975 to February 1976. Of the 12 units received, 4 units pertaining to the first lot and 2 to the second lot costing Rs. 3.67 lakhs were found defective in January 1977 by the Naval Aircraft Inspecting Organisation and returned to the foreign firm in March 1979 after a period of over 3 years. The firm did not accept the liability on the ground that the damage had occurred after the units left the firm's premises *i.e.* at the consignee's end. The defective units were lying with the firm (October 1985). In this connection it may be mentioned that of these 6 defective units lying with the firm, one was a unit received in replacement of a unit found defective in January 1976.

Meanwhile, on 18th February 1982 Naval HQ directed all units to discontinue further flying of the aircraft. Orders for the phasing out of the aircraft from service were issued on 10th December 1984.

Earlier in December 1981, the Naval HQ proposed an out of court settlement for items 'A' and 'B' on the ground that the Supply Wing had opined that a prolonged and expensive legal action would not yield the desired results and had advised an 'out of court settlement'. The matter was referred by Naval HQ in August 1982 to the Judge Advocate General who also recommended an out of court settlement rather than fighting a prolonged and expensive legal battle. The Naval HQ sought in August 1982 the approval of the Government which was awaited (October 1985).

As regards item 'A' the Ministry of Defence (Ministry) stated in August 1985 that the product did not live upto the performance guaranteed. With regard to item 'B' the Ministry stated in October 1985 that the firm had supplied units with protective coating over the canopy which as per aeronautical engineering practice was not removed until it was required for use. There being no apparent external mark of damage, the defects in canopies remained unnoticed and it came to notice when the protective coating of the units were removed prior to their use during January 1977; the defects were reported to the firm in September 1977. The Ministry added that since the defects were noticed after the expiry of the warranty, it was necessary to obtain the firm's willingness before the units could be despatched for replacement. It was also stated that the case for an out of the court settlement with the firm for items 'A' and 'B' was pending finalisation as certain information asked for by the Integrated Finance Division was awaited from Naval HQ.

Thus the defective units costing Rs. 7.37 lakhs in foreign exchange could neither be got repaired and used nor could a claim for recovery of their cost be enforced for over 8/9 years. Meanwhile, the aircraft for which the units were purchased had been phased out of service in December 1984 and as such there was no prospect of the units being put to use.

42. **Infructuous|Avoidable extra expenditure on import of an indigenously available item**

In August 1978 a Naval Dockyard worked out the total requirement of item 'X'—a spare part intended to prevent water entering the ship as 47 Nos. With 34 Nos. in stock (including 28 Nos. procured from indigenous sources from 1976 onwards) the deficiency was worked out as 13 Nos. As the indigenous stock was stated to be "not upto the entire satisfaction of users", Naval Headquarters (HQ) decided to import 13 Nos. of the item to meet one year's requirements. While calculating the requirements, 12 Nos. of the item (cost : Rs. 1,08,700) outstanding against a development order placed in June 1977 on indigenous sources were not taken into account. The supplies against the development order were received in December 1978.

Naval HQ placed necessary indent in January 1979 on the Supply Wing of an Indian Mission abroad (Supply Wing) for 13 Nos. of item 'X' alongwith other items of spares. Item 'X' contracted with firm 'A' at a cost of £ 18,044 was inspected in January 1981 and was reported to have been despatched in May 1981. Full payment therefor was made by the Supply Wing in July 1981. The item was, however, not received by the consignee and a discrepancy report was raised in September 1981. Meanwhile, the indigenous stock was issued to ships and in December 1981 an order for 6 Nos. of item 'X' was placed on an indigenous source, supply against which was received in October 1982.

In January 1982 firm 'A' intimated the Supply Wing that the item 'X' (contracted quantity : 13 Nos.) was outstanding for despatch. In order to meet urgent requirements for the refit of certain Naval ships, Naval Dockyard placed six separate supply orders on 15th February 1982 on ship's chandlers, for purchase of 6 Nos. of item 'X' @ Rs. 35,370 each against the last indigenous purchase rate of Rs. 7,600 and imported cost of £ 1,388 each. Six separate supply orders were placed on 15th February 1982 so as to bring the value of individual supply order within the delegated powers of the lower financial authority. Three Nos. of item 'X' were received in April 1982 and the balance three in January 1983. As the refit of the ships was completed by August 1982 by using indigenous stock as well as 3 Nos. procured from the ship's chandlers, the balance 3 Nos. purchased from ship's chandlers at exorbitant cost did not serve the intended purpose.

After the non-receipt of 13 Nos. of item 'X' from abroad was taken up in Audit in November 1982, the whole matter was investigated by the Supply Wing. Thereupon firm 'A' despatched the item by air in April 1983. An amount of £ 1,190.38 was recovered from firm 'A' in February 1984 towards liquidated damages and the difference between air and sea freight charges.

The Ministry of Defence (Ministry) stated (November 1985) that :

(i) Indigenous supply was not upto full confidence level as such 13 Nos. of item 'X' were imported keeping in view the operational requirements of the ships. Non-receipt of 13 Nos. ex-import necessitated use of items held in stock which were repaired and made suitable for emergency use.

(ii) Quantity 12 outstanding against the order of June 1977 was not taken into account as firm's 'dues in' as supply against the development order was considered uncertain/indefinite.

(iii) As regards splitting up of the requirement into 6 supply orders on 15th February 1982, action was being initiated by the Naval HQ for regularisation of the case.

As regards Ministry's contention at (i) and (ii) above it may be stated that the indigenous supply which materialised during 1976, was accepted after inspection. Moreover the supply of 12 Nos. outstanding against development order of June 1977, which was ignored while working out net deficiency of 13 Nos., had already been received in December 1978 even before the indent for import of 13 Nos. was placed in January 1979. Further the refit of the ships was actually completed in August 1982 by using the indigenous stock and 3 numbers procured from ship's chandlers in April 1982 whereas supplies against import were received only in April 1983.

The case reveals the following unusual features :

(i) The urgent requirements of the Naval Ships, including their refit, were actually met by using the indigenously procured item and 3 numbers procured from ship's chandlers in April 1982; procurement of 13 numbers from abroad (cost : £ 18,044 or Rs. 3.25 lakhs) and 3 numbers from Ship's chandlers (cost : Rs. 1.06 lakhs) at exorbitant rates was avoidable.

(ii) Extra expenditure of Rs. 2.26 lakhs in Free Foreign Exchange was involved on account of difference between indigenous rates and contract rate accepted with firm 'A'.

(iii) Payment of £ 18,044 in July 1981 to firm 'A' resulted in unintended financial aid to the firm as the item was actually despatched by the firm in April 1983. At the rate of 10 *per cent* per annum the total amount of interest would work out to £ 3,110.00 (Rs. 0.50 lakh).

(iv) The action of Naval Dockyard of splitting up of demand into six supply orders to bring the value of individual supply order within the delegated powers has not yet been regularised (November 1985).

(v) The purchase of 3 Nos. of item 'X' from ship's chandlers at about 5 times of last purchase rate has caused avoidable extra expenditure of Rs. 0.83 lakh.

43. Extra expenditure in procurement of power supply equipment for a Naval ship

In August 1975, the Naval Headquarters (HQ) placed an indent for two units of power supply equipment (Equipment 'A') on the Supply Wing of an Indian Mission abroad (Supply Wing) to meet the requirement of Naval Ship 'X'. The Supply Wing concluded a contract with firm 'Y' in August 1976 for supply of two units of equipment 'A' at a cost of £ 59,744 including £ 1,422 payable as commission to the Indian agents for local services such as joint receipt inspection and assistance during installation and commissioning of equipment. The contract stipulated inspection by the Supply Wing prior to packing and delivery within 18 months i.e. by February 1978. The equipment was actually received in India in December 1979 but could not be commissioned by the Naval Dockyard 'XX' as the motor alternators were not building up necessary frequency and voltage.

In July 1979 the Naval HQ placed another indent for six units of power supply equipment (equipment 'B') on the Supply Wing to meet the additional requirements of Naval Ship 'X'. The Supply Wing concluded a contract with the same firm 'Y' in September 1979 for the supply of 6 units of equipment 'B' alongwith spares drawings and hand books at a cost of £ 4,01,878. This included £ 13,686 as commission payable to the Indian agents for after sales service and erection and commissioning of the equipment. The contract stipulated inspection by the Supply Wing prior to packing and delivery within 18 months *i.e.* by March 1981. On instructions given by the user's representative that inspection by the Supply Wing prior to despatch might be waived in view of delay involved in inspection and the reputation of the firm, the Supply Wing amended the contract in March 1980 providing for acceptance of the equipment on the firm's warranty and quality control certificate without inspection by the Supply Wing. The mode of despatch of the equipment was also changed in December 1980 from sea to civil air due to urgency as the equipment 'B' was stated to be required in India by April 1981. Two units each of equipment 'B' were received in February 1981, March 1981 and July 1981. The expenditure on airfreight was Rs. 3.74 lakhs against the normal sea freight of Rs. 1.20 lakhs. However, the drawings and the handbooks were not received along with the equipment and certain defects observed (May 1981) in the system necessitated the presence of the firm's representative to commission the equipment.

In July 1981 the services of two engineers of firm 'Y' were requisitioned for commissioning the two units of equipment 'A' and the six units of equipment 'B'. The report (August 1981) on the commissioning of the equipment brought out that :

(i) The equipments 'A' & 'B' had not undergone extensive load trial and testing in the factory prior to their despatch from abroad.

(ii) The equipment was not of proven design since many design modifications had to be undertaken by the engineers to commission the sets in India.

(iii) The technical manual for equipment 'A' supplied by the firm lacked many important details that were required by the maintainer.

(iv) The components used in the sets were not reliable.

The contract had a Warranty Clause for a period of 15 months from the date of delivery or 12 months from the date of arrival at the ultimate destination in India, whichever was sooner. Despite these provisions and also the payment of the agency commission of £ 15,108 for after sales service, erection and commissioning of the equipment, the Government sanctioned a payment of Rs. 1.85 lakhs for the services of the two engineers of firm 'Y' who had carried out necessary repairs/modifications to the defective equipment and commissioned them. The Navy also spent Rs. 4,500 on airlifting some of the critical items required during the commissioning of the equipment.

The equipment received during February-March 1981 (4 Nos.) and July 1981 (2 Nos.) was ultimately installed in July—September 1981. The extra expenditure of Rs. 2.54 lakhs incurred in airlifting the equipment 'B' for their early receipt in India did not, thus, serve the intended purpose largely because 4 of the six sets were installed/commissioned only in July—September 1981 four to five months after their receipt in February-March 1981.

The Ministry of Defence stated (December 1985) that:

— The waiver of inspection by the Supply Wing abroad prior to despatch of the equipment was given by a Team of Naval Officers which was specifically deputed to the foreign country for the purpose of expediting supply of equipment and ships modernisation.

— The equipment was rendered fully operational in time for ship's subsequent activities.

The case thus reveals that:

— The equipment 'A' & 'B' purchased from firm 'Y' at a cost of £ 4,61,622 (Rs. 81.30 lakhs) besides being of unproven design had a number of defects. A sum of Rs. 1.85 lakhs was paid to the firm beyond the provisions of the contracts for services rendered by their engineers for repairing and commissioning the equipment.

— Airlifting of equipment 'B' involving an extra expenditure of Rs. 2.54 lakhs did not serve the intended purpose largely as the same could not be commissioned immediately on receipt as they had some defects in the system and the drawings and handbooks were not received alongwith the equipment.

CHAPTER 9

AIR FORCE

44. Non-utilisation of assets created for blast pens in an airfield

Air Headquarters (HQ), convened a Board of Officers in July 1977 and subsequently in April 1978, to assess the requirement of works services for provision of four covered blast pens in an airfield. The Board assembled in May 1978 recommended that "the requirement of four blast pens was operationally urgent". The Board proceedings were approved by Air HQ in June 1979. In October 1979 the Ministry of Defence (Ministry) accorded go-ahead sanction for Rs. 6.50 lakhs for the commencement of the work. Administrative approval was accorded in January 1980 at an estimated cost of Rs. 54.59 lakhs.

A Zonal Chief Engineer (CE) concluded a contract with a firm on 4th October 1980 for a lump sum of Rs. 29.39 lakhs for execution of the work covering *inter alia* the four blast pens, a static water tank, roads, dispersal and link taxi track, hardstanding, etc. The size of the blast pens to be built under the contract was 70′ × 50′. On 16th October 1980 the Garrison Engineer placed a work order for commencement of work by 28th October 1980 and completion by 22nd November 1982 The layout and site for the work was approved on 22nd December 1980 i.e. after 2 months of the issue of work order.

On 26th December 1980 an Air Force Command informed the Zonal CE, the Commander Works Engineer (CWE) and the Garrison Engineer that due to change in operational requirements the construction of the blast pens as per the existing drawings should not be proceeded with. On 20th January 1981 the Garrison Engineer directed the firm to stop all works till further orders. On 2nd February 1981, the firm made a request for the layout of the full work or alternatively cancellation of the contract.

On 9th February 1981 the Air Force Command informed the Garrison Engineer that the size of the blast pens should be 70′ × 60′. The Garrison Engineer informed the Air Force Command on 24th March 1981 that there would not be any infructuous expenditure if four blast pens and links were deleted from the contract and the work on loop taxi track was not stopped. The Garrison Engineer added that the firm had by then established a workshop and dumped materials worth Rs. 1.70 lakhs. The Air Force Command informed Air HQ on 31st March 1981 that the loop taxi track to be constructed would fit into future construction of additional blast pens. The CWE issued a letter to the firm on 16th May 1981 foreclosing works worth Rs. 15.54 lakhs from the contract. The amendment to the contract reducing the contract amount to Rs. 13.85 lakhs was issued by the CE on 2nd September 1982. The work under the contract was completed on 24th January 1983. However, the amount of the contract was increased to Rs. 18.30 lakhs through an amendment dated 28th March 1984.

Meanwhile further changes in the design of the blast pens were under consideration by the Air HQ. Ultimately, on 12th February 1982 the Air Force command conveyed the decision of Air HQ to construct blast pens of size 90′×60′×23′. The revised estimates together with the statement of case for according revised administrative approval were sent to the Engineer-in-Chief by the Zonal CE on 11th August 1983 *i.e.* after 1½ years. The estimates included provision of 4 blast pens of size 90′×60′×23′. By then works amounting to Rs. 33.12 lakhs approximately, including taxi track worth Rs. 25.57 lakhs had been constructed on the airfield. The revised administrative approval was accorded by the Ministry on 4th June 1984 at an estimated cost of Rs. 115.45 lakhs. The contract for the work has not been concluded so far (August 1985). The time required for completion of work is stated to be 229 weeks (4.4 years). However, the E-in-C stated in January 1985 that the contract action for the balance work was in hand and the work of blast pens was expected to be completed by June 1987. The new design of the blast pens required two separate link taxi tracks. As such the loop taxi track which was earlier intended to connect all the four blast pens to the runway would connect only two of them and for the 3rd and 4th blast pens, additional length of loop taxi track has been provided in the revised approval.

Blocking up of funds to the extent of Rs. 33.12 lakhs on assets created during 1979-80 to December 1982 not likely to be utilised till June 1987 could have been avoided if the work had been undertaken after determination of requirements or even if the contract had been cancelled as requested by the contractor in February 1981. Air HQ stated (February 1985) that though the loop taxi-track would not be used for sometime for the blast pens which were yet to be constructed, this would, however be used for manoeuvring the aircraft for other operational requirement.

The Ministry stated in September 1985 that :

— The loop taxi-track and other ancillary work already executed are being fully utilised for meeting day-to-day operational requirement even though construction of the blast pens will be completed in June 1987. A delay in completion of these works would have resulted in increased costs by two and three times.

— Tender action for the balance work was in hand.

— When the Board proceedings were under progress during 1978-79, the aircraft under negotiation was of a size which required blast pens of 70′ × 50′ but due to change in the type of aircraft finally negotiated the change in the size of blast pens was unavoidable.

The fact remains that assets worth Rs. 33.12 lakhs created during 1979-80 to December 1982 for the blast pens are not likely to be put to the intended use till the blast pens come up; the contract for blast pens is yet to be concluded (August 1985). The blast pens whose requirement was projected as operational are not expected to be available till June 1987.

45. Procurement of old stock of ammunition

In August 1979 Government accorded sanction for the procurement from a foreign country of 500 numbers of certain types of bombs for operational use by a newly inducted aircraft. Against the Air Headquarters (HQ) indent of November 1979, the Supply Wing of the Indian Mission abroad (Supply Wing) placed a supply order on a foreign supplier on 28th December 1979 for the supply of 500 bombs at £ 7,500 each to be supplied ex-stock from the new production.

On receipt in India in September 1980-January 1981 almost the entire quantity of 500 bombs procured at a cost of £ 37,50,000 was found to have been manufactured between 1972-75.

On receipt of the bombs from the old stock, the Air HQ pointed out (October 1980 and December 1980) to the Supply Wing that as per para 5 of the supply order the bombs were required to be from the "latest production" and that the unit price of the bombs of 1977 manufacture supplied as per an earlier contract of 26th May 1976 was £ 5,035 only. (Unit price of supplies of 1980-81 manufacture, received during September 1980 to February 1982 against an order of November 1978 was £ 6,995). The Air HQ felt that in view of this, there was a strong case for price reduction of bombs supplied from old stock in the following manner :

— Proportionate reduction in price of the bombs as these were of old stock of 1972-1975 manufacture.

— Free replacement of primary and secondary cartridges by the supplier (if price reduction was not acceptable).

The supplier when addressed by the Supply Wing about the stock of bombs being very old stated in November 1980 and April 1981 that :

— Their revised offer (made on 10th August 1979) indicated that the bombs had been manufactured in 1973/1974. However, some bombs of earlier manufacture might also have been released for being supplied to the Indian Air Force.

— The provisional life of 5 years of the primary and secondary cartridges of the bombs had been extended (April 1981) to 8 years and is reviewed annually.

— Should at any time replacement of the primary and secondary cartridges become necessary, the supplier would expect the Indian Air Force to replace the cartridges at its own expense.

The supplier not agreeing to any price reduction or for any free replacement of the cartridges, the Air HQ had to accept the supply of old stock of 500 bombs at £ 7,500 each as a *fait accompli*.

The Indian Air Force did not possess the facilities of proof testing of bombs of foreign make. The supplier, therefore, was requested to intimate if they had carried out the necessary tests so as to determine the life/the state of serviceability of the old bombs supplied. The supplier intimated in January 1982 that its annual surveillance programme for checking the bombs was based on extremely small samples of the weapon because of budgetary restrictions. As such, possible downgradation of the reliability and performance of the weapons due to age, offered the best assessment.

Thereupon, Air HQ invited quotations and placed indent in December 1982 on the Supply Wing for procurement of 500 new sets of the primary and secondary cartridges at a cost of Rs. 4.33 lakhs to replace the old ones already fitted in the bombs. While obtaining approval the Air HQ stated (November 1982) that "500 bombs procured were an old stock of 1972, 1973 and 1974 manufacture hence their cartridges needed replacement." Though the indent indicated immediate delivery, the cartridges were still awaited (September 1985).

Ministry of Defence (Ministry) stated (October 1985) that considering the urgent operational requirement for the aircraft already inducted in the service in July 1979 a decision to accept bombs ex-stock was consciously taken and in a meeting (between the indentor and supplier) held on 30th May 1979 it was agreed that all 500 bombs could be released from ex-stock held by the supplier. Consequently the supplier in their offer of 10th August 1979 indicated that the bombs offered for immediate delivery from stock were manufactured in 1973/1974. The Ministry further stated that mention in the supply order that supply would be from new production, seemed to be an oversight on the part of the Supply Wing. Regarding life of bombs and primary and secondary cartridges the Ministry added that these had no finite life but as a measure of abundant caution to meet any contingency, procurement of quantity 500 each of the primary and secondary cartridges was arranged, the shipment of which was awaited.

In this connection it may be mentioned that the indent for 500 bombs placed by the indentor on Supply Wing on 3rd November 1979 stipulated that 250 bombs were to be delivered ex-stock and the remaining 250 bombs were to be supplied from new production.

The case reveals that :

— Though the supply order stipulated that supply will be from new production, the bombs received in September 1980—January 1981 were found to be of 1972—1975 manufacture (over 5 to 8 years old). The price paid for bombs of 1977 and 1980-81 manufacture received in 1978 and 1980—82 was £ 5,035 and £ 6,995 per bomb respectively while the price paid for old bombs of 1972—1975 manufacture received in September 1980—January 1981 was £ 7,500 per bomb. Even at the time of receipt the provisional life of cartridges of old bombs of 1972—1975 manufacture which was stated to be five years, was already over.

— The cartridges in the bombs being old 500 new sets of cartridges (cost : Rs. 4.33 lakhs) had to be indented in December 1982 to meet any contingency for replacing the old cartridges in all the 500 bombs valuing £ 37,50,000 (Rs. 6.75 crores) (received in September 1980—January 1981), the supplies of new cartridges was still awaited (September 1985).

46. Delay in standardisation of an equipment resulting in extra expenditure

For lifting and loading of bombs in aircraft, two items of ground equipment 'A' and 'B' received with the aircraft or manufactured by a Public Sector Undertaking (Undertaking) were being used by the Air Force. These equipments were specific to type of aircraft. In 1969 the Air Headquarters (HQ) proposed indigenous development of 'A' and 'B'. In July 1973, the Directorate of Technical Development and Production (Air) (DTDP) was asked to take up the project on a priority basis. In 1974 the Committee for standardisation of Ground Equipment in the Air HQ recommended standardisation of the equipment 'A' and 'B'. The DTDP placed an order in July 1974 on a firm for the development of one unit each of equipment 'AA' and 'BB' which were to replace equipment 'A' and 'B'. The development and extensive field trials in respect of the equipment 'AA' and 'BB' were carried out from 1974 to 1977 and the standardisation of the equipment which was to be used for various types of aircraft was finalised in 1977.

The DTDP advised the Air HQ in March 1978 to ensure production of the standardised equipment by the Undertaking conforming to the drawings finalised for the two items 'AA' and 'BB'. In the meantime, instructions were also issued in December 1977 and February 1978 by the Directorate of Engineering Support (Technical)—to the provisioning cells in the Air HQ to take future provisioning action in respect of the standardised items 'AA' and 'BB' only and to declare the existing equipment 'A' and 'B' as obsolescent. Corresponding scales for the equipments were also to be amended suitably.

In February 1978 the Directorate of Engineering Support (Q) carried out a special review of the requirements of the various provisioning cells and placed an indent in April 1978 for procurement of 43 numbers of equipment 'AA' and 77 numbers of equipment 'BB' from trade sources. The Department of Defence Supplies (DDS) placed two supply orders in November 1978 and March 1979/November 1979 on firms 'C' and 'D'. The prototypes produced by firm 'D' were cleared by DTDP for bulk production in December 1980. However, both the firms failed to honour their commitments and the supply orders were cancelled by the DDS in September 1982 and April 1983 at the risk and cost of the firms. Meanwhile, fresh supply orders were placed by the DDS in December 1982 on firms 'E' and 'F' at unit prices of Rs. 12,050 and Rs. 11,360 for equipment 'AA' and 'BB' respectively. The quantities of equipment 'AA' and equipment 'BB' on order were increased to 47 numbers and 87 numbers respectively in January/March 1984. The entire quantity of equipment 'AA' and 'BB' was supplied by the firms during January 1984 to March 1985 out of which 33 numbers of equipment 'AA' and 54 numbers of equipment 'BB' had been issued to the user formations upto June 1985. The balance quantity (14 equipment 'AA' and 33 equipment 'BB') was lying (June 1985) in stock. The performance of the items supplied by the two firms had been found satisfactory by the Air HQ.

Without regard to the standardisation of equipment 'AA' and 'BB' and the specific instructions issued in December 1977 and February 1978 about the future provisioning being only in respect of standardised equipment 'AA' and 'BB', the two provisioning cells in the Air HQ placed 4 orders between October 1979 and April 1983 on the Undertaking for supply of 62 numbers of equipment 'A' (October 1979 : 6, April 1980 : 30, June 1981 : 19 and April 1983 : 7) and 183 numbers of equipment 'B' (April 1980 : 148, June 1981 : 16 and April 1983 : 19. Against the price of Rs. 12,050 for equipment 'AA' and Rs. 11,360 for equipment 'BB' paid to the two firms, the unit fixed cost quotation submitted by the Undertaking for equipment 'A' varied from Rs. 1,48,630 to Rs. 2,08,980 and for equipment 'B' from Rs. 1,58,250 to Rs. 2,03,410. The Air HQ had also called for quotations from another Division of the Undertaking in July 1982 for the standardised equipment 'AA' and 'BB'. The Undertaking promised (August 1982) to indicate cost estimate and delivery schedule by end of September 1982. However, keeping in view the high rates quoted by the Undertaking against the orders placed in April 1980 and June 1981 for the old equipment, Air HQ did not pursue the case for procurement of standardised equipment from the Undertaking.

After Audit pointed out (July 1983) the abnormal difference between the prices of standardised equipment 'AA' and 'BB' purchased from the private firms and equipment 'A' and 'B' purchased from the Undertaking, the Air HQ cancelled (December 1984) their order placed in April 1983 on the Undertaking for 7 numbers of equipment 'A' and 19 numbers of equipment 'B'. Against the remaining three orders placed during October 1979 to June 1981 for 55 numbers of equipment 'A' and 164 numbers of equipment 'B', the Undertaking supplied 2 numbers of equipment 'A' in May 1982 and 49 numbers of equipment 'A' and 123 numbers of equipment 'B' during November 1982 to June 1985. The Undertaking was yet (June 1985) to supply 34 numbers of equipment 'A' and 41 numbers of equipment 'B'. Out of the stock received from the Undertaking, 44 numbers of equipment 'A' and 98 numbers of equipment 'B' had been issued to the user units upto June 1985 and 7 numbers of equipment 'A' and 25 numbers of equipment 'B' were still (June 1985) lying in stock.

The Ministry stated (October 1984) that indents were placed on the Undertaking to meet operational/urgent requirements primarily for raising squadrons of aircraft type 'P'. The Ministry also added that during the period 1979-80 to 1982-83, 'X' numbers of squadrons were raised and 'Y' numbers were to be raised during 1983-84 and 1984-85. But for the action of placing orders for equipment 'A' and 'B' on the Undertaking, the squadrons of aircraft 'P' would have been without these items.

It was, however, noticed that during the period October 1980 to August 1982 when 'X' numbers of squadrons were raised, the Undertaking had supplied only two numbers of equipment 'A' (which could suffice for seven *per cent* of the requirement of 'X' numbers of squadrons of aircraft type 'P') and no equipment 'B' had been supplied. 'Y' numbers of squadrons of aircraft 'P' were raised during January 1985 to March 1985 *i.e.* long after the supplies of standardised equipment 'AA' and 'BB' from trade sources commenced in January 1984.

In September 1985, the Undertaking revised their fixed cost quotation in respect of two orders placed in April 1980 and June 1981 to Rs. 37,250 per unit for equipment 'A' and Rs. 39,495 per unit for equipment 'B'. The quotation was awaiting the acceptance of the Government (October 1985). Computed with reference to the prices ('AA' : 12,050 per unit; 'BB' : Rs. 11,360 per unit) paid to firms 'E' and 'F' for the standardised equipment, the purchase of the existing equipment 'A' and 'B' from the Undertaking would involve an extra expenditure of Rs. 66.79 lakhs to the State in respect of the three orders placed during October 1979 to June 1981. The Ministry stated (December 1985) that the fixed cost quotation given by the Undertaking is still under examination with the concerned authorities.

The case reveals the following :

— The idea of developing the standardised equipment for lifting and loading of bombs initiated in 1969 took concrete shape in 1973 but the product was developed and tried out only by 1977. Thereafter lack of serious effort in developing sources for bulk production for standardised equipment resulted in delay in procurement of the standardised items and purchase of the non-standardised equipment at considerably higher cost from the Undertaking.

— The placement of orders on the Undertaking for the existing equipment on the ground of urgency of requirement did not serve the purpose as the supplies from the Undertaking did not materialise in time. The procurement of 55 numbers of equipment 'A' and 164 numbers of equipment 'B' from the Undertaking conforming to old designs is now likely to result in extra expenditure of Rs. 66.79 lakhs to the State. This could have been avoided had the instructions issued in December 1977 and February 1978 for the introduction of the standardised equipment been implemented.

— The equipment procured from the Undertaking from 1979 onwards was specific to type of aircraft, whereas the standardised version which cost less could be used for aircraft of various types.

47 Recovery of charges for airlifts provided by Air Force

The Air Force provides, on recovery of charges, facilities for airlift to Central and State Government Departments, Public sector undertakings and other parties against *ad-hoc* and standing sanctions issued by the Ministry of Defence (Ministry). Air assistance is also rendered to Central and State Government Departments for relief/rescue operations during floods and other natural calamities.

The Air Force units rendering these services furnish 'Flight Returns' to the Service Headquarters (HQ) for initiating action for recovery of dues.

Mention was made in paragraph 48 of the Report of the Comptroller and Auditor General of India for the year 1976-77, Union Government (Defence Services) about the considerable delays in computing/recovering the amounts due from the users for airlifts provided by Air Force. The amount outstanding as on 30th September 1977 was Rs. 3.95 crores. The Ministry had *inter alia* stated (December 1977) that procedural delays inherent in the existing system were being examined by the Air HQ with a view to streamlining it and reducing delays.

The Institute of Work Study (Institute) was requested by the Air HQ in June 1979 to undertake an indepth study of the system for suggesting ways and means for streamlining the procedure so as to reduce/eliminate delays in the realisation of airlift bills.

The Institute concluded their study in July 1979 mainly with the following recommendations :

(i) all 'Special Flight Returns' (SFR) should be given consecutive serial numbers for each year by the units responsible for preparing the returns;

(ii) time based schedule—7 days for raising SFR (except in case of Communication Squadrons and units providing transport support for supply dropping etc.) and 18 days for preferring the bill—should be adopted;

(iii) preparation of monthly returns for outstanding bills/progress thereof; and

(iv) immediate pursuance of the missing Flight Returns by the Billing Agency with the concerned Directorate.

It was observed in November 1985 that there were 78 cases for which bills had not been computed. In respect of the airlifts for which bills had been issued upto 31st March 1984 Rs. 10.83 crores were outstanding in November 1985 for recovery in 1953 cases pertaining to the years 1959-60 to 1983-84.

The Ministry stated (November 1985) that :

— Instructions have been issued to the units to allot consecutive serial numbers year-wise.

— A system has been evolved to locate the missing SFR and then to obtain these.

— It has not been found possible to raise the bills as per the time schedule recommended by the Institute. However, a note has been made to ensure reduction in the time taken in preparation of bills.

— The recommendations of Institute have been once again examined and it has been observed that the preparation of monthly list of outstandings against user agency would not help in realising the amount from the agencies. Instead a list of outstanding dues on quarterly basis would be sent to the agencies requesting them for early payment if not already done.

The fact remains that in spite of detailed study by an Institute and implementation of some of its recommendations the amount of outstanding recoveries on account of airlifts provided by Air Force has gone up from Rs. 3.95 crores in 1977 to Rs. 10.83 crores in November 1985. In addition there were 78 cases for which amount recoverable was yet to be worked out.

48. Redundant/avoidable expenditure on fitment of an equipment without trial on an aircraft

Aircraft 'A' were initially purchased from a foreign country in June 1976 and inducted into the Air Force in 1977. These were fitted with an equipment 'X'. The manufacture and supply of 'Q' number of the aircraft 'A' by a Public Sector Undertaking (Undertaking) was sanctioned by the Ministry of Defence (Ministry) between December 1976 and April 1981. The delivery was to be made during 1978-79 to 1986-87.

Earlier in October 1976/February 1977 the Air Headquarters (HQ) had informed the Undertaking that 23 per cent of aircraft were to be fitted with equipment 'X' and remaining with an alternate equipment 'Y' to be manufactured by the Undertaking on licence with a foreign firm. Final decision on fitment of equipment 'Y' was, however, to be based on the flight trials to be conducted on aircraft 'A' for which the Undertaking was to undertake trial installation of equipment 'Y' on one aircraft 'A'. In December 1979 the Undertaking asked the Air HQ to indicate firm commitment regarding fitment of equipment 'Y' as standard fitment since the Undertaking was unable to place firm order for manufacture and supply for line compliance. The Air HQ conveyed in December 1979 the decision to the Undertaking for fitment of equipment 'X' on 32 per cent of aircraft 'A' and equipment 'Y' on 45.5 per cent of aircraft 'A', which was increased to 68 per cent in August 1981. The go-ahead was, however, given by the Air HQ without flight trials on aircraft 'A' fitted with equipment 'Y' being conducted and technical clearance being given for change as required under the prescribed procedure. It was only in July 1980 that sanction was obtained from the Ministry for the development of the modification on aircraft 'A' for fitment of equipment 'Y' on it at an estimated cost of Rs. 12.85 lakhs. An order for this job was placed by the Air HQ on the Undertaking in October 1980 and task directive for user evaluation trials of equipment 'Y' on aircraft 'A' was also issued by the Air HQ in August 1981. Evaluation trials conducted during March—July 1982 revealed that the equipment 'Y' was not fully compatible with the role of aircraft 'A', was inferior to equipment 'X' in certain critical areas and the installation thereof on aircraft 'A' would have serious limitations on the performance of the aircraft restricting the exploitation of the air operational capability for its assigned role. As such, the fitment of equipment 'Y' on aircraft 'A' was considered a retrograde step and was not acceptable to the Air HQ. Consequently, the Air HQ informed the Undertaking in July 1982 of their decision as follows :

— All aircraft 'A' on order with the Undertaking be fitted with equipment 'X' only.

— Order for installation of equipment 'Y' on aircraft 'A' be cancelled.

— The Undertaking may initiate action on priority basis for procurement of equipment 'X' from the foreign country.

— The equipment 'Y' procured earlier may not become surplus to requirement and be used for other projects.

In October 1982, the Undertaking informed the Air HQ that on the basis of clearance given by them in December 1979 and August 1981, commitment had already been made for the procurement of material for equipment 'Y' and in case installation of equipment 'Y' was shelved there would be redundancy of material of the order of Rs. 175 lakhs. Besides, the Undertaking had almost completed installation of equipment 'Y' on 7 per cent of the aircraft 'A' (the estimated cost of these aircraft : Rs. 22.50 crores). In December 1982 the Undertaking further intimated that after taking into account the anticipated orders of aircraft 'B' and aircraft 'C' in which equipment 'Y' could be utilised, the cost of redundancy worked out to Rs. 87.68 lakhs. Thereupon the Air

HQ sought in January 1983 the approval of the Ministry to the following :

— Fitment of equipment 'X' on aircraft 'A' instead of equipment 'Y' as proposed earlier.

— Placement of order on the Undertaking for retrofitment of 7 per cent of aircraft 'A' with equipment 'X' which had been fitted with equipment 'Y'.

— The net redundancy of Rs. 87.68 lakhs be accepted and written off as charge against the State.

After discussion among officials of the Ministry, the Air HQ and the Undertaking in June 1983 and November 1983, it was decided to instal equipment 'X' on aircraft 'A' already fitted with equipment 'Y' and to undertake a joint study to avoid redundancy to the maximum. As a sequel, a formal order was placed in April 1985 by the Air HQ on the Undertaking for retrofitment with equipment 'X' of the aircraft 'A' fitted with equipment 'Y' at a total cost of Rs. 16.45 lakhs. Modification work on 73.33 per cent of aircraft had been completed and remaining 26.67 per cent of aircraft were still (December 1985) to be modified. Equipment 'Y' retrieved from these aircraft 'A' was issued to the Undertaking for use on aircraft 'D' after necessary conversion. The cost of conversion would be about Rs. 4.90 lakhs.

Besides, the Undertaking had not procured equipment 'X' for 68 per cent of aircraft 'A' in view of the decision of December 1979/August 1981 to fit equipment 'Y' on these aircraft. However, after it was decided to fit equipment 'X' on these aircraft order was placed on the foreign supplier for the supply of 'R' number of equipment 'X'. In the absence of individual prices in the contracts with foreign supplier extra expenditure, if any, on procurement of additional equipment 'X' (being the difference in cost of equipment 'X' paid in 1977, 1978 and 1979 to the supplier and now payable by the Undertaking) could not be computed.

When the matter was taken up by Audit, the Air HQ stated (May 1985) that the go ahead for the fitment of equipment 'Y' on aircraft 'A' was given to the Undertaking explicitly with the aim of helping it to plan the production. They also stated that the final figures for net redundancy could not be worked out till the production programmes of aircraft 'B' & 'C' were finalised.

On the basis of the firm orders for aircraft 'B' on which equipment 'Y' would be used, the redundancy worked out to Rs. 110.70 lakhs. Further 7 per cent of aircraft 'A' fitted with equipment 'Y' were in storage since February 1983 and had not been put into squadron service (April 1985) as they had to be refitted with equipment 'X'.

The case revealed the following :

— Before giving the go-ahead for fitment of equipment 'Y' on aircraft 'A' no flight trials of aircraft 'A' fitted with equipment 'Y' were conducted as required under the prescribed procedure and no flight evaluation was available before the change was made.

— Flight trials of aircraft 'A' fitted with equipment 'Y' showed that equipment 'Y' was not compatible with the role of aircraft 'A' and inferior to equipment 'X' in critical areas.

— Procurement of materials relating to equipment 'Y' by the Undertaking before the suitability of equipment 'Y' for aircraft 'A' was established resulted in redundancy to the tune of Rs. 110.70 lakhs which could have been avoided. There was further avoidable extra expenditure of Rs. 16.45 lakhs on the modification of aircraft 'A' for fitment of equipment 'X' in place of equipment 'Y' and Rs. 4.90 lakhs for the conversion of equipment 'Y' for use on aircraft 'D'.

— 7 per cent of aircraft 'A' manufactured by the Undertaking at a cost of more than Rs. 22.50 crores were lying in storage since February 1983 and were not put to squadron service (April 1985) as they had to be refitted with equipment 'X'.

— In the absence of individual prices in the contracts extra expenditure due to delayed procurement of equipment 'X' from the foreign country could not be computed.

The draft paragraph was issued to the Ministry in August 1985 and their comments were awaited (January 1986).

CHAPTER 10

OTHER TOPICS

49. Nugatory expenditure on ill-planned acquisition of land

In August 1969 the Government accorded sanction for the provision of certain firing ranges in a Centre at an estimated cost of Rs. 2.76 lakhs, which *inter alia* included requisitioning of 115 acres of land on payment of annual compensation of Rs. 1.11 lakhs. 105.4 acres of requisitioned land and 9.6 acres of State Government land were taken over between September 1971 and March 1972. The Military Estates Officer (MEO) reported to the Command Military Lands and Cantonments Directorate in March 1973 that some huts occupied by private individuals existed on this land and the occupants had represented for alternative site to enable them to vacate the huts. The need for eviction of these hutment dwellers was emphasised by the MEO to the civil authorities as early as in November 1971.

In June 1973, the Military Lands and Cantonments Directorate indicated that the acquisition of the requisitioned lands was under consideration and pending a final decision action for derequisition be held in abeyance. In September 1974 the users stressed the need for early acquisition of these lands due to their proximity to the Centre. Government accorded sanction in July 1979 for the acquisition of the requisitioned lands at a cost of Rs. 38.17 lakhs which was earlier estimated at Rs. 22.81 lakhs in March 1972 and Rs. 39.36 lakhs in March 1973. However, actual notification for acquisition of land was published in State Government Gazette only in September 1980—August 1981.

Based on the valuation made by the civil authorities in March 1982, Government accorded revised sanction in June 1982 for acquisition of the same land at a cost of Rs. 127.55 lakhs.

While an amount of Rs. 124.27 lakhs was paid during 1982-83 for the acquisition of 105.4 acres of private land, balance payment of Rs. 3.28 lakhs for acquiring 9.6 acres of State Government land was not made till June 1983 as a formal transfer order had not been issued by then. In July/August 1983 the users declined to take over the formal possession of 105.4 acres of acquired land on the plea that about half an acre of the said land was under encroachment by certain private persons and emphasised that they should be evicted first and then the entire land be handed over.

The Ministry of Defence stated (November 1985) that :

— The cost of 105.4 acres of land in May 1974 was about Rs. 37.11 lakhs and that Director General, Defence Lands and Cantonments appears to have mis-judged the cost of land (*viz.* Rs. 34.90 lakhs) in 1979.

— Area under unauthorised occupation of hutment dwellers was not taken over.

— Recurring compensation at Rs. 0.444 lakh per annum for a period of 11 years amounting to Rs. 4.88 lakhs was paid to the land owners.

— In the absence of the ranges, firing practice was being carried out at another range located on the Centre's land measuring 7.13 acres. The requisitioned land had been under active use by local Military authorities for conducting training (*viz.* Rifle Training, Field Craft, Obstacle courses, Battle Physical Efficiency Tests and and Night Training).

— The delay in acquisition of land had been procedural but inevitable.

The case reveals the following :

— 115 acres of land was taken over in 1971-72 for provision of firing ranges.

— In spite of payment of compensation of Rs. 4.88 lakhs for a period of about 11 years the lands could not be put to intended use.

— The estimated cost of the land in March 1972 was Rs. 22.81 lakhs. However, by the time (June 1982) acquisition proceedings were completed, the cost had gone upto Rs. 127.55 lakhs.

50. Procurement of an equipment for a quality control laboratory

In August 1978 a Research and Development establishment (Establishment) placed an indent on the Director General Supplies and Disposals (DGSD) for the procurement of a measuring machine and its accessories, estimated to cost Rs. 14.30 lakhs from a proprietary firm 'A' in a foreign country, for build-up of a quality control laboratory. The indentor wanted the stores to be despatched under insurance cover of an Indian Insurance Company from the supplier's warehouse to the ultimate consignee in India. The DGSD concluded (January 1979) a contract with firm 'B', the Indian Agents of firm 'A' for the supply of the equipment at a cost of DM 3,80,541.60 (Rs. 15.45 lakhs). The delivery, FOB port of shipment was to be made by April 1980 which was later extended to October 1980. The shipping arrangements were to be made by the Ministry of Shipping and Transport through their forwarding agents 'C'. The equipment was to be inspected by the Supply Wing of an Indian Mission abroad (Supply Wing) prior to despatch. The contract did not provide for insurance of the stores but the indentor was asked to arrange for own insurance on receipt of the shipping documents. The warranty of equipment was to expire in 15 months from the date of despatch or 12 months from the date of commissioning, whichever was sooner, except in respect of complaint, differences and or claim notified to the sellers/contractor within 2/3 months of such date.

After issue of certificate of inspection by the Supply Wing in November 1980, firm 'A' handed over (December 1980) the consignment in 8 cases to the forwarding agents 'C'. All the 8 cases were manifested for shipment under a bill of lading of December 1980. However, no insurance of the stores was done by the consignee. On arrival of the consignment in April 1981 at the port of entry it was noticed that one case containing a part of the equipment valuing DM 1,00,000 was missing. After a considerable period of time, in May 1982 the missing case was traced at the port in the country of origin. The contents of this case were re-inspected jointly by the Supply Wing and firm 'A' in December 1982 when it was found that this part of the equipment had been corroded and rusted and was unsuitable for use on the equipment.

Even-though the supplier estimated the cost of repair of the part at DM 54,000 as against its then (February 1983) prevailing price of DM 1,01,000 they advised its replacement by a new piece as performance of complete system could not be guaranteed by using the repaired part. The DGSD asked the Ministry of Shipping & Transport in February 1983 and again in November 1983 to take necessary action for realisation of DM 1,01,000 either from the shipping company or shipping agents. Progress made in effecting recovery is not known.

Meanwhile, the remaining parts of the equipment valuing Rs. 11.39 lakhs received in April 1981 were kept duly packed. On the advice of the DGSD the Establishment raised a fresh indent in February 1984 for the supply of the unshipped part. After release of necessary foreign exchange a contract was concluded in June 1985 by the DGSD with the firm 'B' for procurement of the part from their principals (firm 'A') at a cost of DM 1,58,000 equivalent to Rs. 6.41 lakhs with due date of delivery by December 1985.

The damaged part of the equipment is still (June 1985) lying with firm 'A' in the foreign country and the DGSD has been requested (June 1985) to dispose of the same *in situ*.

A claim for Rs. 4,12,778 representing the cost of the deficient equipment including freight and departmental charges was preferred against the steamer Agents in October-November 1981, which was settled by the latter to the extent of their maximum liability viz. £ 400 (Rs. 7,334) resulting in loss of Rs. 4,05,344.

Ministry of Defence stated (November 1985) that :

- Ordinarily Government property, movable or immovable, except delicate/fragile nature has not to be insured under the existing orders; as the items in question were not of delicate/fragile nature the transit insurance of the consignment was not considered necessary.

- The delay in the availability of the equipment did not materially affect or cause any inconvenience.

The case thus reveals :

- That machinery imported at a cost of Rs. 15.45 lakhs and received in India in April 1981 is lying unutilised for want of a part of the equipment left behind in the country of origin by the forwarding agents/ shipping company; the warranty of the equipment expired in 1982.

— Responsibility for leaving behind a part of the equipment valued at DM 1,00,000 (Rs. 4.06 lakhs) in the country of origin which resulted in its virtual loss due to deterioration is still to be fixed.

— There was extra expenditure to the exchequer to the tune of DM 1,58,000 (Rs. 6.41 lakhs) by way of fresh purchase of the misplaced part of the equipment. A considerable part of this extra expenditure could have been avoided had the stores been insured as originally required by the indentor.

— There was unusual delay in locating the whereabouts of the missing part and in ordering a replacement for the same.

Consequently, the quality control laboratory is without the measuring machine even after more than 4 years of the receipt of the remaining parts.

NEW DELHI
Dated the 24 APR 1986

(M. PARTHASARATHY)
Director of Audit, Defence Services.

Countersigned

T. N. Chaturvedi

NEW DELHI
Dated the 26 APR 1986

(T. N. CHATURVEDI)
Comptroller and Auditor General of India.