REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

FOR THE YEAR ENDED 31 MARCH 1987

No. 10 OF 1988

UNION GOVERNMENT (CIVIL)

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Public Debt

System of Purchases in the Directorate General of Supplies and Disposals

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(Department of Economic Affairs)

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PREFATORY REMARKS

This Report of the Comptroller and Auditor General of India for the year ended 31 March 1987 containing reviews on 'Public Debt' and 'System of Purchases in the Directorate General of Supplies and Disposals' has been prepared for submission to the President under Article 151 of the Constitution. The points mentioned in the reviews are those which came to the notice in the course of test Audit.

CHAPTER I

Ministry of Finance

(Department of Economic Affairs)

1. Public Debt

1.1 *Introduction*

Public borrowing is a recognised source of public finance. Article 292 of the Constitution of India empowers the Union Government to borrow upon the security of the Consolidated Fund of India within such limits, if any, as may be fixed by Parliament by law. Fixing of such limits on the borrowing power of Government under this Article was recommended by the Public Accounts Committee in para 15 of their Ninth Report (1962-63-Third Lok Sabha), in para 5 of their Thirty-Sixth Report (1964-65-Third Lok Sabha) and in para 2.13 of their Fifty-Second Report (1965-66-Third Lok Sabha). The Ministry of Finance in a note to the Public Accounts Committee had stated that the provisions embodied in Article 292 of the Constitution are permissive and not mandatory. They further stated in February 1966 that "no real advantage would be secured by prescribing statutory limits on Government's borrowings and that such limits, if imposed, would not only not result in greater control, but might on the other hand, hamper the flexibility at present available." No ceiling on public debt has been prescribed so far.

1.2 *Scope of Audit*

This is a review of the Public Debt of the Government of India by Audit for 1981-82 to 1986-87 based on the data available in the Union Government Finance Accounts, Reports of the Reserve Bank of India, Economic Surveys, budget documents and Long Term Fiscal Policy (LTFP) of the Government of India.

1.3 *Organisational set up*

Under the Public Debt Act, 1944, as amended from time to time, the responsibility of management, of the public debts of the Central and State Governments rests with the Reserve Bank of India. In the Government of India, the Department of Economic Affairs, Ministry of Finance, deals with Public Debt, market loans, interest on Central Government's borrowings and lending, etc.

1.4 *Highlights*

The review brings out, *inter alia*,

- **The revenue account deficit increased sharply from Rs.293 crores in 1981-82 to a projected Rs.9,842 crores in 1988-89 resulting in borrowings and deficit financing on a much larger scale.**
- **Non-plan expenditure has grown faster than revenue receipts; with interest payments, defence and subsidies constituting an estimated 56.6 *per cent* in 1988-89.**
- **The continuous growth of Treasury Bills indicates that they are, in effect, being used as long term financing instrument by the Government.**
- **The estimated borrowings of Rs.7,000 crores during 1988-89 would be barely sufficient to meet the interest payments of Rs.7,027 crores on internal debt alone.**
- **Also, poor resource generation by public sector undertakings and mounting tax arrears have made the management of Government's internal debt extremely difficult.**
- **The external debt increased by 80 *per cent* over a six year period and stood at Rs.20,299 crores at the end of 1986-87. The servicing and the repayments of the debt will cast an additional burden on account of the declining value of the rupee.**
- **Substantial commitment charges have been paid on external assistance authorised but not utilised although no details are readily available for such charges arising out of avoidable delays in loan and credit utilisation.**
- **The increasing size of the external debt and its servicing have put considerable pressure on the balance of payments.**

1.5 *Growing debt and other liabilities*

The Public Debt of the Government of India consists of internal debt and external debt. Internal Debt comprises loans raised in the open market, special securities issued to Reserve Bank, Compensation and other bonds and 15-year Annuity Certificates. It also includes borrowings of the temporary nature, viz. Treasury bills issued to Reserve Bank etc. and non-interest bearing securities issued to international financial institutions etc. External Debt comprises loans and credits made available on concessional, semi-concessional or commercial terms by multilateral development banks, donor countries, bi-lateral arrangements, specialist United Nation's (U N) agencies, such as the Food and Agricultural Organisation (FAO), United Nations Development Programme (UNDP), etc. and by commercial banks either directly or through syndicated arrangements. Besides, the Government have other liabilities on account of funds raised through Small Savings Schemes, 5-year Time Deposits, Provident Funds (including non-Government Provident Funds) Reserve Funds and Deposits.

The total liabilities of the Government of India have increased considerably during the period 1981-82 to 1986-87 as indicated below:

(In crores of rupees)

Year	Internal Debt	External Debt	Total Public Debt (2+3)	Other Liabilities	Total Liabilities (4+5)	Gross National Product (GNP) at current prices	Percentage of total liabilities to GNP
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1950–51	2022	32	2054	811	2865		
1980–81	30864	11298	42162	17587	59749	122571	48.7
1981–82	35653	12328	47981	20205	68186	142916	47.7
1982–83	46939	13682	60621	24250	84871	158217	53.6
1983–84	50264	15120	65384	29878	95262	185462	51.4
1984–85	58537	16637	75174	38268	113442	205308	55.3
1985–86	71039	18153	89192	48292	137484	231876	59.3
1986–87	86312	20299	106611	59935	166546	259155	64.3
1987–88 (Revised Estimates)	99520	22518	122038	71613	193651	—	—
1988–89 (Budget Estimates)	114405	25539	139944	84236	224180	—	—

It will be seen from the table above that the total liabilities of the Government of India had increased from Rs.59,749 crores in 1980-81 to Rs.1,66,546 crores in 1986-87 registering an increase of 179 *per cent* over a period of six years. The total liabilities stood at more than 64 *per cent* of GNP at the end of 1986-87. The growing liabilities were due to increasing expenditure leading to overall budgetary deficits.

1.6 *Increasing Deficit in Revenue Account*

The Revenue deflicit has increased from Rs.293 crores in 1981-82 to Rs.7,579 crores in 1986-87 (Annexure I). The projected deficit is Rs.8,496 crores for 1987-88 and Rs. 9,842 crores for 1988-89. The trend since 1980-81 indicates that such sharp increases in the size of the deficit are invariably associated with a corresponding increase in public borrowings and deficit financing. While receipts have grown at an average of 17.2 *per cent* since 1980-81, the expenditure has grown at an average rate of 18.3 *per cent* over the same period. A significant factor in the comparatively low growth of revenue has been the sharp increase in tax arrears (details in Annexure II) which had risen from Rs. 4,155 crores at the end of 1985-86 to Rs. 5,033 crores at the end of 1986-87.

The deterioration in the finances of the Government of India stems essentially from the steep increase in revenue expenditure by a margin that is considerably in excess over the rate of increase in revenue receipts. Principally, interest payments, defence and subsidies have constituted the major elements of non-plan expenditure. While the total expenditure on the three major elements was Rs. 9,512 crores in 1981-82, it is expected to reach Rs. 30,932 crores in 1988-89. The percentage to non-plan expenditure was 54.8 during 1981-82 while it is estimated to be 56.6 *per cent* during 1988-89. Details of rate of growth of these constituents as a percentage of overall expenditure as well as non-plan expenditure over the period 1981-82 to 1988-89 (Budget) are at Annexure III.

A second factor responsible for the increasing differential between receipts and expenditure is the absence of an adequate return on investments in the public sector. Generation of internal resources has not grown as anticipated as will be seen from the table at Annexure IV. The shortfall rose from Rs.793 crores in 1980-81 to Rs.2,586 crores in 1986-87. On the other hand, budgetary support continues to be provided at significantly high levels to most Central undertakings with few exceptions. To a considerable extent, pricing policies and implicit subsidies have depressed the actual return on investments. Although the LTFP had stated that a measure of restraint in respect of subsidies was unavoidable, such restraint is not perceptible.

The LTFP had indicated, as an objective, the attainment of a surplus in the revenue budget from 1988-89 onwards chiefly by achieving a better alignment between receipt and expenditure. This has also not happened.

1.7 *Rising Overall Deficit*

The budgetary deficits on both the Revenue and the Capital Accounts taken together increased to Rs. 8,261 crores in 1986-87 as compared to Rs. 3,745 crores in 1984-85. The Government's overall deficit has been computed after taking credit for full range of Government's borrowings including market loans, external loans and credits small savings schemes, provident funds and other sundry liabilites. If the credit for these elements is not taken into account, the picture emerges as follows:

(In crores of rupees)

Year	Overall deficit	Internal Debt	External Debt	Treasury Bills (Net)	Total (Col. 2 to 5)	Total Expenditure (Excluding Treasury Bills)	Percentage of gap to total expenditure (Col. 6 to 7)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1980–81	2576	4449	1727	2555	11307	31693	35.7
1981–82	1392	7898	1451	(–)2578*	8163	35496	23.0
1982–83	3399	4596	1792	7159	16946	44347	38.2
1983–84	1816	5460	1892	(–)1675*	7493	49927	15.0
1984–85	3745	5221	2003	3696	14665	58881	24.9
1985–86	6943	6617	2145	6562	22267	73044	30.5
1986–87	8261	22753(a)	3040	(–)6038*	28016	84667	33.1
1987–88 (Revised)	6080	8874	3387	5425	23766	93972	25.3
1988–89 (Budget)	7484	7661	4357	7484	26986	103158	26.2

(i) Col. 2:Figures as per CAG's Reports-Union Government (Civil).

(ii) Col.3 to 5 and 7: As per Union Government Finance Accounts for 1980-81 to 1986-87.

(iii) Figures for 1987-88 and 1988-89 as per Annual Financial Statements for 1988-89.

(a) Includes Rs. 15000 crores on account of Treasury Bills converted as securities.

* Minus figure is due to more discharge during the year than additions.

There has been a quantum jump in the Government of India's total expenditure which is expected to treble from Rs. 31,693 crores in 1980–81 to Rs. 103,158 crores in 1988–89. The spurt in non-plan expenditure has been particularly sharp as stated earlier. Among the major items responsible for this increase have been interest payments which have been rising steeply from year to year on account of Government's mounting borrowings. Since 1985–86, interest payments have been increasing at an annual rate of 23 to 24 *per cent*. From Rs. 9,246 crores in 1986–87 they are expected to be Rs. 14,100 crores in 1988–89. Interest rates on Government bonds have more than doubled over the past two decades from 4.5 *per cent* to 11.5 *per cent* with a longer maturity period. In addition, public sector undertakings are now being allowed to borrow directly from the market. Although this has reduced the Central Government's budgetary support for public sector undertakings and the magnitude of its total borrowings, it has added significantly to the level of guarantees given by the Central Government.

1.8 *Capital Receipts*

Capital receipts consist of market borrowings, external assistance, recovery of loans, small savings, provident funds, etc. Market borrowings have been resorted to on a large scale as will be seen from the table at Annexure V.

Net of repayments market borrowings during 1988–89 have been estimated at Rs. 7,000 crores, 11.1 *per cent* more than the budgeted net borrowings of Rs. 6,300 crores for 1987–88. However, estimates of net borrowings for 1987–88 have been revised upward to Rs. 7,000 crores. Compared to the revised estimates for 1987–88, the budgeted borrowings for the year 1988–89 show no change. The total during the first four years of the Seventh Five Year Plan would amount to Rs. 24,415 crores against the target of Rs. 30,562 crores for the entire Plan. In other words, within the first four years of the Seventh Five Year Plan period, the Government would have tapped almost the entire resources targeted for market borrowings.

1.9 *Treasury Bills*

The treasury bills are financial instruments issued by Reserve Bank of India for raising short term loans with maturity of 91/182 days to fill in resources gap temporarily. However, the total gross receipts from treasury bills including treasury bills converted into securities (Rs. 15,000 crores) during 1986–87 were Rs. 1,57,509 crores while the gross discharges were Rs. 1,48,547 crores resulting in a net increase in borrowings of Rs. 8,962 crores at the end of 1986–87. The cumulative balance worked out to Rs. 19,976 crores at the end of 1986–87.

Though treasury bills are acknowledged instrument for meeting short term needs of the Government, their continuous growth indicates that they are, in effect, being used as long term financing instrument by the Government.

1.10 *Guarantees given by the Union Government*

Under Article 292 of the Constitution, the Union Government may give guarantees within such limits, if any, as may be fixed by Parliament by law. The Public Accounts Committee in paragraph 1.11 of their Sixty-Fourth Report (Fourth Lok Sabha 1968–69) had recommended to the Government to work out with a reasonable degree of approximation a workable limit on borrowings for purpose of incorporation in a statute as contemplated in Article 292 of the Constituion. The Commitee in their Fifty-Fith Report (1968–69) had earlier recommended that in order to enable Government to act quickly when the situation so requires, the law to be made by Parliament may itself have an appropriate built-in flexibility. No law prescirbing the limit has, so far, been enacted. The maximum amount of guarantees for which Government have entered into agreement and sums guaranteed outstanding as on 31st March 1987 were Rs. 32,358 crores and Rs. 26,646 crores (approximate) respectively.

1.11 *Loans given to State Governments, etc.*

The Government of India have been advancing loans to States/Union Territories for developmental and non-developmental activities. The total loans recoverable from various States/Union Territories and others, at the end of March 1987, amounted to Rs. 43,706 crores and Rs. 27,313 crores respectively.

1.12 *Cumulative Position*

The high level of borrowings had led to a situation in which liabilities of the Government of India had exceeded the assets (capital investments and loans by the Central Government). This excess has shown an increasing trend since 1980–81 (except in 1983–84) as shown below:

Year	Amount (In crores of rupees)
1980–81	79
1981–82	154
1982–83	5584
1983–84	4441
1984–85	8322
1985–86	13654
1986–87	22477
1987–88 (Revised)	29988
1988–89 (Budget)	40079

1.13 ***Need for improvement***

The resort to increased borrowings for financing the rising expenditure would only lead to growing non-plan expenditure in the form of amortisation of debt and interest payments on loans. But because interest liabilities are high the Government is required to borrow. That means the debt is increasing, and therefore obligations for repayments and interest payments are increasing, compelling the Government to borrow even more. It is estimated that during 1988–89 the market borrowings of Rs. 7,000 crores would barely be sufficient to meet the interest payments of Rs. 7,027 crores on internal debt alone. If the present rate of borrowing continues Government will be required to manage an extremely difficult internal debt situation. Borrowings *per se* are not bad if they are productive. From the beginning of the Sixth Plan till 1986–87, however, non-developmental expenditure has been growing at 19.2 *per cent* per annum against 17.4 *per cent* for developmental expenditure.

The scope for rigorously pruning wasteful expenditure, both developmental and non-developmental, especially the latter, should be explored. There is also need to take steps to make the investments in public enterprises more productive. The two main components of non-plan expenditure namely, subsidies and defence have almost become committed expenditure and the scope for reducing them needs to be seriously examined. According to the LTFP"…….fiscal policy can play a crucial role by restricting monetary impact of the Government's financial operations. In particular, non-inflationary financing will require progressively more reliance on surpluses generated by the budget and public sector undertakings and correspondingly diminished recourse to borrowed funds." The need for improving the tax collection by better administration should also be considered.

1.14 ***External Debt***

There is a fundamental difference between internal and external debt. Inernal debt involves transfers from one sector to another within the country. External debt supplements domestic resources. This distinction is meaningful from the point of view of repayment also. The servicing of external debt necessitates the export of goods and services involving transfer of resources outside the country.

1.15 ***Growth of External Debt***

India's external debt has been rising substantially from 1980–81. As compared to Rs. 11,298 crores at the end of 1980–81, the external debt had increased to Rs. 20,299 crores by the end of 1986–87, i.e. almost 80 *per cent* increase over a period of six years, as indicated below:

Year	Amount (In crores of rupees)
1980–81	11298
1981–82	12328
1982–83	13682
1983–84	15120
1984–85	16637
1985–86	18153
1986–87	20299
1987–88 (Revised)	22518
1988–89 (Budget)	25539

The figures mentioned above are based on exchange rates on the date of drawal of external assistance. The actual debt, in terms of rupees, will be higher to the exent the value of rupee has fallen in terms of foreign currencies.

Some of the financial institutions and countries to which the outstanding external debt pertains are as follows :

(In crores of rupees)

Institution/Country	*Outstanding at the end of*		
	1984–85	*1985–86*	*1986–87*
International Development Association (IDA)	7430	8253	9220
International Bank for Reconstruction and Development (IBRD)	1321	1625	2232
Agency for International Development, USA(USAID)	1607	1554	1514
Federal Republic of Germany (FRG)	1129	1204	1336
Japan	736	830	1114
France	485	630	826
USSR	345	484	630

1.16. ***Authorisation and drawal of external debt***

Between 1981–82 and 1986–87, the total authorisation of external loans amounted to Rs. 21,532 crores while the drawals were Rs. 13,028 crores leaving an unutilised cumulative balance of Rs. 13,840 crores by the end of March 1987, as indicated below:

(In crores of rupees)

Year	Opening Balance	Authori-sation	Total	Actual drawals	Budgeted drawals
1981–82	5336.8	2633.0	7969.8	1519.3	1421
1982–83	6450.5	2525.5	8976.0	1910.4	1926
1983–84	7065.6	1692.2	8757.8	1964.2	2057
1984–85	6793.6	4221.3	11014.9	1963.3	2263
1985–86	9051.6	5085.5	14137.1	2495.2	2676
1986–87	11641.9	5374.2	17016.1	3175.9	3378
1987–88	13840.2	—	—	—	—
		21531.7		13028.3	13721

1.17. ***Payment of Commitment Charges***

The unutilised balance included loans from the Federal Republic of Germany, France, IBRD and IDA on which commitment charges were being paid as per the terms and conditions applicable to such loans (0.25 to 0.75 *per cent* of unutilised amounts).

The amount paid on account of commitment charges during 1981–82 to 1985–86 could not be verified in Audit as full information was not available with the Ministry. Further, commitment charges paid were not classified separately under a distinct sub-head under the relevant major head of account but wre generally classified under the sub-head 'Interest Payments'.

The Controller of Aid Accounts and Audit, Ministry of Finance, however, intimated that commitment charges paid during 1985–86 were as under:

(a) IBRD	Rs. 35.26 crores
(b) FRG	Rs. 65.12 ~~crores~~ lakhs
(c) IDA	US $ 86,27,226 (Rs. 10.62 crores approximately)
(d) France	FF 35,29,104 (Rs. 0.53 crore approximately).

The quantum of normal commitment charges payable on unutilised authorisation of external loans and charges payable due to failure or delays in the drawal of amounts due were not available separately.

The Public Accounts Committe (Fourth Lok Sabha 1968–69), while commenting on the slow pace of utilisation of external credit and payment of commitment charges as a direct consequence thereto, had stated in para 2.35 of the Fifty-Fifth Report that "While the Committee appreciate that such charges could not possibly be totally avoided, they would like to reiterate their recommendations in para 1.25 of their Fifty-Fourth Report (Third Lok Sabha) that the payments on this account should be minimised."

1.18. ***Amortisation of External Debt***

The amortisation payments on external debt constituted 41.4 to 54.6 *per cent* of the external loans received during the year as indicated below:

(In crores of rupees)

Year	Repayments Principal	Repayments Interest	Total	Loans received during the year	Percentage of repayments to external loans
1981–82	421.78	258.13	679.91	1451.19	46.9
1982–83	437.66	304.28	741.94	1792.06	41.4
1983–84	454.73	355.80	810.53	1892.40	42.8
1984–85	486.52	460.15	946.67	2003.35	47.3
1985–86	629.72	537.61	1167.33	2144.96	54.4
1986–87	894.88	765.96	1660.84	3040.27	54.6

The external loans raised in 1986–87 amounted to Rs. 3,040.27 crores, out of which Rs. 1,660.84 crores (about 55 *per cent*) were utilised for amortisation including interest on external debt. Thus, the net assistance was below 50 *per cent* in 1985–86 and 1986–87.

Ministry stated that while loan repayments were met out of capital account Interest payments were from current account.

1.19. ***Servicing the External Debt***

The debt service ratio, i.e. the ratio of interest payments and amortisation of foreign loans by Government of India, as a percentage of exports and invisibles, was 8.7 *per cent* in 1981–82 and 13.2 *per cent* in 1986–87 as given below:

(In crores of rupees)

Year	Total external debt repayments including interest	Exports	Debt servicing as a percentage to exports	Foreign Exchange Reserves	Debt Servicing as a percentage of foreign exchange reserves
1981–82	679.91	7806	8.7	4024	16.9
1982–83	741.94	8803	8.4	4782	15.5
1983–84	810.53	9771	8.3	5972	13.6
1984–85	946.67	11744	8.0	7243	13.1
1985–86	1167.33	10985	10.6	7820	14.9
1986–87	1660.84	12567	13.2	8151	20.4

According to the Economic Survey, 1987–88, the debt service on external debts on Government account, non-Government account, Internatinal Monetary Fund (IMF) drawals and commercial borrowings (including suppliers' credits) is likely to increase to 23 to 24 *per cent* in 1987–88 because of higher IMF repayments and debt service on commercial borrowings contracted in earlier years. The Seventh Plan document had, however, forecast that the country's total borrowing programme during the plan period would not exceed 'safe limits' with the debt service ratio remaining below 20 *per cent.*

To offset the increasing debt service, it is essential to attain a rapid increase in exports through a diversified export structure. The decline in the external value of the rupee has increased the debt service burden. The debt servicing will be less taxing if the country can earn sufficent foreign exchange through trade surplus. While the exports had gone up from Rs. 7,806 crores in 1981–82 to Rs. 12,567 crores in 1986–87, the value of imports had also gone up from Rs. 13,608 crores to Rs. 20,084 crores during the same period. Thus, the trade deficit has increased from Rs. 5,802 crores in 1981–82 to Rs. 7,517 crores in 1986–87.

The debt servicing charges expressed as a percentage of foreign exchange reserves including gold and Special Drawing Rights (SDR) have increased sharply from 13.1 *per cent* in 1984–85 to 20.4 *per cent* in 1986-87. According to Economic Survey—1987–88, trends in reserve movements point to continued pressure on the balance of payments. In SDR terms, total foreign exchange reserves stood at SDR 5,113 million at the end of March 1987 as compared to SDR 5,728 million at the end of March 1986, indicating a decline of SDR 615 million during 1986–87.

While the need for borrowed resources for a developing country is accepted to accelerate the Process of development, servicing of the external debt may pose a serious problem if resources are not effectively utilised for productive investments. This will be necessary alongwith a substantial and sustained growth of exports, effective import substitution and better fiscal management including a sound budgeting system, improved accounting methods, internal control and performance evaluation.

The draft review on Public Debt was initally issued to the Ministry in October 1987; the modified version was issued in March 1988. The Ministry in its interim reply (April 1988) had stated that increase in debt receipt or interest payment is not a question of isolated receipt or expenditure. It is the result of numerous policy decisions taken by Government over the past many years. Some of the decisions are based on the recommendations of statutory bodies like Finance Commission or Pay Commission or the policies enunciated in Five Year Plan as approved by the National Development Council. Some are related to external and internal threats faced by the country. The expenditures are all duly authorised by Parliament. In such a situation the Report will appear to be a report on policies of Government as distinct from report on implementation of policies or programmes brought out by Audit in the past. If this be correct it will be useful if the Report also outlines alternative workable policies to solve the problem of increase in Public Debt."

Audit does not dispute the contention of the Ministry that the fiscal policy of the Government is guided by a number of considerations including the recommendations of the Finance Commission or Pay Commission and also the policies enunciated by the Planning Commission and the National Development Council. An analysis of this nature presented in a number of different ways can help Parliament and Government to take such corrective action as may be required. The availability of timely and understandable information concerning the management of public debt should therefore be of use to the policy makers. The aim of this review in Audit is only to highlight whether the debt management process has been carried out with due regard to economy and efficiency. It is not for Audit to outline the "alternative workable policies."

Annexure I

Revenue Receipts and Expenditure

(In crores of rupees)

Year	Receipts	Increase over the preceding year (percentage)	Expenditure	Increase over the preceding year (percentage)	Revenue deficit
1980–81	19394		21096		1702
1981–82	23703	22.2	23996	13.7	293
1982–83	27558	16.2	28812	20.0	1254
1983–84	31333	13.6	33730	17.0	2398
1984–85	36261	15.9	39758	17.8	3498
1985–86	43468	19.8	49032	23.3	5565
1986–87	50332	15.7	57911	18.1	7579
1987–88 (Revised)	58070	15.3	66566	14.9	8496
1988–89 (Budget)	65167	12.2	75009	12.7	9842

Source: Union Government Finance Accounts for the years 1980–81 to 1986–87 and Annual Financial Statement for the year 1988–89.

Annexure II

Arrears of uncollected Tax Revenue

(In crores of rupees)

As on	31.3.1982	31.3.1983	31.3.1984	31.3.1985	31.3.1986	31.3.1987
A. Direct Taxes						
(i) Corporation-tax and Income-tax	1,239.33	1,469.94	1,810.03	2,519.40	2,625.79	3,475.32
(ii) Wealth-tax	208.92	180.33	197.29	211.25	237.42	204.42
(iii) Gift tax	31.16	21.80	27.21	26.62	36.33	19.46
(iv) Estate Duty	30.73	33.91	34.45	41.12	42.47	33.95
Total Direct Taxes	1,510.14	1,705.98	2,068.98	2,798.39	2,942.01	3,733.15
B. Indirect Taxes						
(i) Central Excise	250.25	113.69	695.11	1,307.73	1,200.62	1,275.79
(ii) Customs	17.50	6.91	9.79	9.78	12.82	24.25
Total Indirect Taxes	267.75	120.60	704.90	1,317.51	1,213.44	1,300.04
Total Tax Arrears(A+B)	1,777.89	1,826.58	2,773.88	4,115.90	4,155.45	5,033.19

Source: The above statement is based on the information furnished by the Ministry of Finance for incorporation in the Audit Reports on Revenue Receipts.

Annexure III

Non-Plan expenditure (Revenue) (excluding Railways)

(In crores of rupees)

Items	1980–81	1981–82	1982–83	1983–84	1984–85	1985–86	1986–87	1987–88 (R.E.)	1988–89 (B.E)	Percentage of non-plan expenditure 1981–82	1986–87
Total Non-Plan Expenditure	15675	17356	20514	24010	28571	35496	41965	47844	54642	100	100
(i) Interest	2604	3195	3938	4795	5975	7512	9246	11450	14100	18.4	22.0
(ii) Defence	3716	4357	5084	5898	6646	7278	9481	9245	9516	25.1	22.6
(iii) Subsidies	1691	1960	2031	2483	3460	4319	4952	6279	7316	11.3	11.8
(iv) Others	7664	7844	9461	10834	12490	16387	18286	20870	23710	45.2	43.6
Plan Expenditure	2717	3012	3816	4631	5718	6945	8263	10013	10704		
Total Revenue Expenditure	18392	20368	24330	28641	34289	42441	50228	57857	65346		
Percentage of (i) to (iii) to total Revenue Expenditure	43.6	46.7	45.4	46.0	46.9	45.0	47.1	46.7	47.3		

Source: (i) Union Government Finance Accounts for 1980–81 to 1986–87
(ii) Expenditure Budget for 1988–89.
(iii) Subsidies as per Chapter I of Audit Report
(iv) Total Defence expenditure (including Capital Account) had risen from Rs. 4,042 crores in 1980–81 to Rs. 10,780 crores in 1986–87; it is estimated to rise to Rs. 13,388 crores in 1988–89.

Annexure IV

Generation of Internal resources (Gross) by Public Sector Undertakings

(In crores of rupees)

Year	Budget Estimates (Z)	Actual generation (XX)	Shortfall
1980–81	2018	1225	793
1981–82	2310	2261	49
1982–83	3657	2753	904
1983–84	5480	3695	1785
1984–85	5931	4251	1680
1985–86	6753	5068	1685
1986–87	8683	6097*	2586
1987–88	9699		
1988–89	12715		

* Provisional

(Z) Source : Budget at a glance

(XX) Economic Survey 1987–88.

Note: Ministry stated that the 'budget estimates' include public deposits, bonds, etc. while the 'actual generation' excludes these. Details were not made available.

Annexure V

Capital receipts of the Government of India

(In crores of rupees)

	1980–81	1981–82	1982–83	1983–84	1984–85	1985–86	1986–87	1987–88 (Revised)	1988–89 (Budget)
Total Capital receipt	5512	6587	8434	9464	11443	13577	15771	17597	19400
1. Market borrowings(net)	2679	2914	3771	4038	4096	4884	5531	7000	7000
2. External loans(net)	1336	1029	1354	1438	1517	1515	2145	2218	3021
3. Small Savings(net)	1121	1399	1723	2409	3650	4292	3276	3300	3700
4. Other Accounts (including Special Deposits)	102	947	1090	1252	1768	2391	3917	4179	4679
5. Provident Funds	274	298	496	327	412	495	902	900	1000

Source: Union Government Finance Accounts for 1980–81 to 1986–87
(ii) 1987–88 and 1988–89 figures as per Annual Financial Statement 1988–89.

CHAPTER II

Ministry of Commerce
(Department of Supply)

2. System of Purchases in the Directorate General of Supplies and Disposals

2.1. ***Introduction***

The Directorate General of Supplies and Disposals (DGSD)is the central purchase organisation of the Government of India. The services of this organisation, besides the Central Government, are utilised by State Governments, local bodies, quasi-public bodies like municipalities, district boards, statutory corporations and public sector undertakings. Procurement of stores by Government departments, is to be generally made through the DGSD if the value of stores exceeds Rupees one lakh. Scientific Departments/Organisations are, however, exempted from the scope of the DGSD.

2.2 ***Scope of Audit***

An attempt has been made in the succeeding paragraphs to review the system of purchases in the DGSD and other related activities. The activities reviewed by Audit generally cover the period from 1980-81 to 1986-87 and include the transactions at Headquarters and regional offices.

A glossary of technical terms used in the review is appended at the end of this chapter.

2.3 ***Organisational set up***

The DGSD has its head office at Delhi with regional offices at Bombay, Calcutta, Madras and Kanpur. The organisation works under the administrative control of the Department of Supply.

2.4 ***Highlights***

— **Although as a central purchase organisation, the DGSD is arranging purchases valued at about Rs. 3,000 crores annually, the real effort of the DGSD in establishing sources of supply at competitive rates is confined to about 50 *per cent* of the total purchases since a large volume and value of purchases are made from public sector units and from departments of the Central and State Governments.**

— **The time taken from the receipt of an indent till acceptance of a tender, termed as coverage of indents, was more than over 3 months in about 70 *per cent* of the cases. A large percentage of cases were covered after 6 months of the receipt of the indent, and, some cases even after a year. Of 2992 indents outstanding, as on 31st March 1986, 888 were pending for more than 6 months.**

— **As against the maximum period of 12 working days allowed between the date of receipt of the indent and date of issue of tender enquiry, in a sample of 586 cases reviewed by Audit, there were delays ranging between 21 days and above 3 months in 212 cases.**

— **Although the date of delivery of stores, stipulated originally in the contract, is deemed to be the essence of the contract, in only about one third of the contracts, supply had materialised within that date.**

— **In the event of default of breach of contract, Government is entitled to cancel the contract at the risk and cost of the defaulting firm, place a risk purchase Acceptance of Tender (A/T) and recover the additional cost incurred in repurchase (representing the difference between the value of the defaulted contract and that of the risk purchase contract). The additional expenditure could not, however, be recovered due to one or more of the following reasons which invalidated a risk purchase:**

(a) failure to complete risk purchase formalities within six months of the date of breach of the defaulted contract;

(b) change in the terms of the purchase of the risk purchase A/T vis-a-vis, the original A/T; and

(c) ignoring of lower offers received in response to the tender enquiries for repurchase from unsolicited/ untried/ unregistered firms. Specific cases mentioned in the review are illustrative of the reasons why risk purchase could not be effected.

— **There was inadequate follow up action and delay in recovering risk purchase losses or general damages as a result of which a large number of cases awaited finalisation. The number of cases so outstanding, as on 31st March 1987, was 1428 valued at Rs. 3288.11 lakhs.**

— **Although action for renewal or placement of fresh rate contracts is to be initiated six months before the date of expiry of the existing rate contract so as to facilitate finalisation of new contracts on time, Audit came across instances of delay ranging from 1 to 23 months between the expiry of old rate contract and the placement of fresh contract.**

— **No performance levels had been prescribed for judging the performance of rate-contract holders. In some cases contracts were placed where level of performance ranged from 70 to 90 *per cent*; in others, contracts were placed regardless of the level of performance.**

— **Although Purchase Officers are required to keep themselves abreast of the rise and fall in market prices so that fall in prices could be taken advantage of by Government, the institutional mechanism for monitoring prices was inadequate.**

— **There were delays in finalising arbitration cases. The number of cases outstanding, as on 1st April 1987, was 511. Notwithstanding the provision that the arbitration cases should be finalised within four months, a large number of arbitration cases were pending finalisation and the number of cases with two arbitrators, as on 31st March 1987, was 315 of which 94 were more than 3 years old.**

— **Recoveries amounting to Rs. 424.25 lakhs decreed in favour of Government remained to be effected.**

— **A large number of purchase files requisitioned by Audit had not been made available.**

2.5 ***Quantum of Purchases***

Purchases made by the DGSD during the last seven years were as under:—

	Contracts	Value
	(Numbers)	(Rupees in crores)
1980-81	12,388	1490.73
1981-82	10,660	1835.50
1982-83	9,561	1872.09
1983-84	9,879	2294.28
1984-85	10,050	2497.13
1985-86	10,036	2734.62
1986-87	9,243	3151.59

A large volume and value of purchases made by DGSD are from Public Sector (including Departments of the Central and State Governments). The major portion of these relate to petroleum products and cement. Other important items in this regard are textiles including jute bags and khadi items, contraceptives, timber, drugs, cast iron pipes, machine tools, electronic equipment and scientific stores. The value of purchases made during the last four years was :—

	1983-84	1984-85	1985-86	1986-87
	(Rupees in crores)			
A. Total Purchases	2294.28	2497.13	2734.62	3151.59
B. Purchases from Public Sector	1032.35	1193.15	1210.48	1634.48
C. Other Purchases	1261.93	1303.98	1524.14	1517.11
D. Percentage of C to A	55.00	52.22	55.73	48.14

The real effort of the DGSD to establish sources of supplies at competitive rates and cover the indents to cater to the requirements of Government departments is mainly in respect of purchases mentioned at (C) above which formed 48 to 56 *per cent* of the total purchases.

2.6 *Coverage of indents*

The demand which an indentor places on the central purchase organisation in a prescribed form is known as an 'indent', which is classified as 'ordinary', 'technical' and 'operational' by the indentor depending on the nature and urgency of requirement.

The minimum period allowed for tender opening ranges from 4 to 10 weeks of tender enquiry depending upon the method of purchase. The period allowed for placement of formal contracts from the date of opening of tenders is 23,30 and 17 working days for ordinary, technical and operational indents respectively.

According to the DGSD, the average time taken for coverage of indents by placement of contracts ranged between 72 and 124 days during 1980-81 to 1985-86. 2992 indents were outstanding as on 31st March 1986 out of which 888 (30 *per cent)* were pending for over six months.

A review of 586 indents covered by the DGSD, New Delhi, by placement of Acceptances of Tender (As/T) in July 1986 (271) and March 1987 (315) revealed that time taken for coverage of an indent during these two months was as under:—

Upto 3 months:	171 cases
3 to 6 months:	216 cases
Over six months but less than 12 months:	145 cases
	54 cases

A scrutiny of these cases revealed that the delay in coverage of indents was generally due to one or more of the following reasons :—

- Mis-allocation of the indents or disputed cases and delay in preparation of comparative statement;
- negotiations with the firms for removal of unacceptable terms, for lowering of prices etc;
- correspondence with the indentor for technical evaluation of the offers, for additional funds etc;
- calling for capacity reports, and clearance by Department of Electronics, Directorate General of Technical Development (DGTD), release of foreign exchange, etc.

It was seen in Audit that there were delays even before the tender enquires were floated. As against the maximum period of 12 working days between the date of receipt of the indent and the date of issue of the tender enquiry allowed to the Purchase Directorate, in 212 cases (out of 586), there were delays in floating the tender enquiries as under:—

Cases where delay was between 21 and 29 days — 56

Cases where delay was between 1 and 3 months — 117

Cases where delay was for more than 3 months — 39

2.7 *Extension of deliverry period*

According to the General Conditions of Contract, the time for and the date of delivery of the stores stipulated in the contract shall be deemed to be the essence of the contract. The percentage of supplies which materialised within the stipulated delivery date, during the last few years was as under—

Year		*Percentage*
1981-82	:	38
1982-83	:	36
1983-84		36
1984-85	:	37
1985-86	:	38
1986-87	:	40 (provisional)

It will thus be seen that the basic condition of time being the essence of contract had not been adhered to in about two-thirds of the contracts.

A review in Audit of 100 cases involving extension revealed that extensions in delivery period were granted generally for one or more of the following reasons:—

firms' failure to deliver the stores in time, delays in sending samples for inspection, approval of samples by Inspection Wing and in conducting inspection; and

Conduct of the indentors in entering into correspondence with the firm thereby keeping the contracts alive.

2.8. ***Risk purchase***

According to the General conditions of Contract, if the contractor fails to deliver the stores or any instalment thereof within the period fixed for such delivery or at any time repudiates the contract before the expiry of such period, the Government is entitled to cancel the contract and to repurchase the stores not delivered at the risk and cost of the defaulting contractor and claim risk purchase loss from the supplier. Where the risk purchase cannot be effected or where one or more of the prescribed conditions are not fulfilled, only general damages recoverable. General damages represent the sum equal to the difference between the contract rate and the market rate on or around the date of breach of the contract.

In order to ensure that risk purchase is effected within the time limit prescribed and the recovery of extra expenditure on repurchase is made and not lost sight of, a register in a prescribed proforma, which gives, inter-alia, details of risk purchase contract, the amount recoverable from the defaulting firm and the progress in recovery, is required to be maintained by all purchase sections. This register is required to be reviewed weekly by the Section Officer/Assistant Director concerned and put up to the Purchase Officer to keep him posted with the position of the case.

The Internal Work Study Unit is also required to examine the registers maintained by the sections at Headquarters and Assistant Director (Administration) in case of Regional Offices, at regular intervals, with a view to ensuring that these are maintained properly and to report defects, if any.

In September 1985, and December 1986, Audit had pointed out to the DGSD the fact of non-maintenance of risk purchase registers. Although the DGSD had issued instructions belatedly (March 1987) 18 months after the matter was raised in Audit, impressing all Directorates to comply with the instructions to maintain the risk purchase registers, DGSD had observed in August 1987, that the instructions were not being followed. Non-maintenance of registers resulted in failure to take follow-up action and non-recovery of the amounts from the defaulting contractors.

Items relating to cancellation of contracts at the risk and cost of the defaulting firm are noted in a Register of objection book items maintained by the Controller of Accounts. As on 31st March 1987, 3334 items noted up to the end of March 1986 were outstanding; of which 1575 items pertained to the period prior to March 1980.

In DGSD, no record was maintained to keep a watch on cancelled contracts so as to ensure that the extra cost involved was recovered from the defaulting firm. The complaints and Public Relation Directorate only maintained a Master register, which was based on the half-yearly information received from the Controller of Accounts. As per this, the number of outstanding items of recovery were on the increase — against 3159 items outstanding, as on Ist January 1984, there were 3527 items, as on Ist September 1987. In so far as the Directorate at Delhi and Kanpur were concerned, bulk of the relevant files were missing. Out of 1771 cases and 481 cases (as on 30th September 1986) relating to these Directorates, the number of missing files was 1142 and 304 respectively.

In order to make valid risk purchase and recover the difference between the value of the risk purchase contracts and the value of the cancelled contract from the defaulting party, the following essential conditions are to be fulfilled; the intention being that the terms of the risk purchase contract are neither more onerous nor more liberal than those of the original contract:—

(a) **The risk purchase should be made within six months from the date of breach of the original contract;**

(b) **The risk purchase should be on the same terms as the original contract; and**

(c) Offers received from unregistered or untried firms if ignored only general damages are recoverable.

2.8.1 In the following cases, the repurchase of the cancelled stores was made after six months thereby frustrating a valid risk purchase :—

(i) Purchase of galvanised stay wire: An A/T for 50 tonnes of galvanised stay wire, valued at Rs.3.98 lakhs was placed by the DGSD on firm 'S' in August 1984 with the date of delivery as 15th September 1984. In October 1984, the firm asked for extension of delivery by 3 months from the date of issue of the amendment letter. However, the DGSD on 21st November 1984, granted extension up to 31st December 1984, only, instead of three months from the date of issue of the amendment letter as desired by the firm. The firm did neither acknowledge this letter nor supplied the stores and the A/T was cancelled at its risk and cost. The Ministry of Law to whom the case was referred opined that the date of breach was 15th September 1984. Fresh A/T was concluded in June 1986, involving an extra expenditure of Rs. 1.27 lakhs.

(ii) Purchase of water tanks: The date of delivery of an A/T valued at Rs. 1.99 lakhs, placed in February 1981, by the DGSD for the supply of two water tanks was extended from 31st March 1984 to 20th September 1984 as the inspector, while inspecting the stores submitted by the firm on 14th March 1984, failed to issue the fag-end notice. The firm did not tender any fresh samples for inspection even within the extended date of delivery and the A/T was cancelled in August 1986 in consultation with the Ministry of Law with the date of breach as 31st March 1984. Risk purchase A/T valuing Rs. 3.02 lakhs was concluded in December 1986. Although several firms were addressed in January 1987 to intimate the market rate on the date of breach, final action for recovery of general damages is yet to be finalised.

(iii) Purchase of blanket barracks: After the acceptance of 2810 blankets against an A/T, placed on firm 'SC' in June 1984, for the supply of 3800 blankets, the firm offered for inspection 1050 blankets on 12th April 1985. The samples drawn on 15th April 1985 by Director of Inspection could not be tested immediately by the Chief Inspector of Textiles and Clothing, Kanpur. the date of delivery (15th April 1985) was extended upto 30th September 1985.

The stores tendered for inspection on 12th April 1985, were rejected in August 1985 with a franking clause as per inspection note of August 1985. The Ministry of Law, to whom the case was referred in October 1985/January 1986 opined that the A/T could be cancelled at the risk and cost of firm 'SC' with the date of breach as 15th April 1985. Re-purchase of the unsupplied quantity of 990 blankets in May 1986 from firm 'W' involved an extra cost of Rs. 0.49 lakh.

(iv) Purchase of wire stay galvanised: The delivery period of an A/T placed on firm 'B' in May 1984 to cover an operational indent for supply of wire stay galvanised (value Rs.3.62 lakhs) was refixed as 15th February 1985 after approval of the advance sample. The stores submitted by the firm on 5th February 1985 after approval were inspected by Defence Inspector on 4th March and 29th March 1985 i.e. after the expiry of the delivery period. The firm was, however, reported to have withdrawn the stores subsequently. The Ministry of Law opined on 27th May 1985 that the action of Defence Inspector had the effect of keeping the contract alive and hence a performance notice was a legal necessity. The firm neither supplied the stores nor acknowledged the performance notice extending the delivery period up to 30th July 1985. The A/T was cancelled at the risk and cost of firm 'B' with the date of breach as 15th February 1985, as per Ministry of Law's advice dated 8th August 1985.

The risk purchase A/T was placed in September 1985 (value: Rs.4.67 lakhs) on firm 'M' with extended date for submission of sample as 15th January 1986. The advance sample submitted by the firm on 9th December 1985 was rejected by the inspection authorities on 28th July 1986 which was communicated to the firm in September 1986. The firm was given another chance to submit a sample by 7th October 1986. The firm neither acknowledged the amendment letter nor submitted the sample. The A/T was cancelled (February 1987) in consultation with the Ministry of Law with the date of breach as 15th January, 1986. The risk purchase A/T in this case was placed in September 1987 (value Rs. 7.13 lakhs). Supplies are yet to completed.

(v) Purchase of 85,320 kgs of rivets: An A/T was placed in March 1984 by the Director of Supplies and Disposals, Calcutta [DSD (C)] on firm 'HE' for the supply of 85,320 kgs. of rivets at Rs.4.70 lakhs (excluding sales-tax). As the firm could supply only 5000 kgs of rivets, the A/T for the balance quantity of 80,320 kgs was cancelled on 31st May 1985 and repurchased through two risk purchase As/T placed in June and July, 1985 involving an extra expenditure of Rs. 1.92 lakhs. A provisional demand notice for Rs. 1.56 lakhs was issued to the defaulting firm 'HE' in February 1986. Even though the supplies were completed in March 1986, no formal demand notice was issued to the defaulting firm by the DSD (C). No action was taken to ascertain the general damages (September 1987). The Ministry of Law held the view that as the original contract was a severable contract and the risk purchase contracts were placed beyond the original delivery period of the last instalment, the risk purchase As/T were not valid and only general damages were enforceable.

(vi) Purchase of swaged tubular steel poles: An A/T was placed by DGSD on firm 'A' in March 1984 for the supply of 300 numbers of swaged tubular steel poles at the rate of Rs. 778 each to be supplied by 15th June 1984. In May 1984, the quantity was increased under optional clause by 58 numbers and the increased quantity was to be supplied by 15th July 1984. The prices were firm and fixed except that the quoted rates were subject to the price variation based on the Joint Plant Committee (JPC) price of steel with 30 days time lag.

The DGSD received a letter dated 22nd June 1984 from firm 'A' drawing attention to the increase in the price of steel notified by the JPC by about 15 *per cent* with effect from 21st June 1984 and stating that as per DGSD standard price variation clause, they were entitled to claim price variation over the steel prices.

As the price variation was applicable with 30 days time lag, the increase in price of steel was applicable from 21st July 1984 by which time the delivery period for both the original as well as the additional quantity had expired. In other words, no price variation was admissible in this case. The Ministry of Law, to whom the case was referred, advised on 29th Novembr 1984 that since the firm had not supplied the stores within the stipulated time, it would be open to the DGSD to cancel the contract at the risk and cost of the firm treating 15th June 1984 as the date of breach for the original quantity and 5th July 1984 as the date of breach for the additional quantity. The DGSD received back the case from Ministry of Law on 7th December 1984 by which date a valid risk purchase was not possible because hardly a period of one month was left for concluding a risk purchase A/T.

After getting indentor's confirmation that the stores were still required, the DGSD extended the date of delivery from 15th July 1984 to 28th February 1985 adding that price increase was not admissiobe as per the terms of the contract. The indentor/consignee entered into correspondence with the firm necessitating further extension of delivery period up to 30th December 1985. No supplies were made and finally, the A/T was cancelled on 19th March 1986 with the dates of breach as advised earlier by the Ministry of Law.

Repurchase A/T was placed on firm 'B' on 26th November 1986 at Rs. 1375 each plus transportation charges and sales tax involving additional expense of Rs. 2.59 lakhs.

(vii) Purchase of shelter barrel type: An advance A/T was placed on 21st July 1984 on firm 'A' by the DGSD for the supply of 400 sets of shelter barrel type for Rs. 19.20 lakhs. The formal A/T was issued on 4th August 1984. The firm represented on Ist September 1984 that the A/T should be amended to incorporate the price variation/essentiality certificate clause. The firm objected to the inclusion of transit insurance clause and sought exemption from depositing security of Rs.0.96 lakh.

The DGSD contended that the letter of the firm dated 17th July 1984 was received only on 14th August 1984 i.e. after the placement of the A/T and also held that the quotation of the firm did not contain either the price variation clause or the essentiality certificate clause.

The Ministry of Law to whom the case was referred on 27th October 1984 in their note of 15th November 1984 sought certain additional information and desired that the case should be discussed with them. The case was discussed with the Ministry of Law only on 9th July 1985 i.e. after about 7 months of the receipt of file from them. It was opined by the Ministry of Law that the A/T could be cancelled at the risk and cost of the firm 'A'.

No valid risk purchase could be made as already a period of about 11 months has elapsed. Out of these 11 months, the file remained untraceable in the DGSD for nearly 5 months.

The re-purchase of 400 sets of shelter barrel type was made at an extra expenditure of Rs.4.36 lakhs plus taxes.

(viii) Purchase of galvanised steel barbed wire: In July 1979, the Director of Supplies and Disposals, Calcutta placed an A/T on firm 'A' for the supply of 531 tonnes of galvanised steel barbed wire at Rs. 5,050 per tonne (f.o.r. destination) to units of the Director General, Border Security Force stationed at different places in the country. The firm was asked to pay a security deposit of Rs.26,815 within 21 days from the date of issue of the A/T.

On 31st January 1980, the firm wrote to the Director of Supplies and Disposals, Calcutta, that it would furnish the security deposit as soon as its funds held up by the Pay and Accounts Officer against certain recoveries of risk purchases were released and also sought extension in the delivery period. Although no delivery had been effected till then, the DSD(C) extended the delivery period upto 2nd August 1980 by way of a performance-cum-extension notice dated 27th June 1980 after consulting the Ministry of Law.

Firm 'A' did not acknowledge the notice. It neither suplied the stores nor did it furnish the requisite security deposit. The DSD(C), therefore, in consultation with the Ministry of Law (10th September 1980), cancelled the A/T on 17th September 1980 at the risk an expense of the firm treating 30th March 1980 as the date of breach.

To procure the cancelled quantity of 531 tonnes of barbed wire DSD(C) placed a risk purchase A/T on firm 'B' on 30th September/8th October 1980 at Rs. 6,525 per tonne (f.o.r. Calcutta). The firm completed the supplies by November/December 1982. The extra expenditure was Rs. 9 lakhs.

As the risk purchase was not made within the prescribed period of six months, the defaulting firm 'A' was liable to pay only general damages instead of the extra expenditure of Rs. 9 lakhs. A risk purchase claim for Rs.9 lakhs was preferred against the defaulting firm on 22nd December 1981 but the firm did not acknowledge it.

Though relevant departmental instructions stipulate that if recovery of extra expenditure cannot be effected within three months, institution of legal/arbitration proceedings should be considered, the DSD(C) requested for arbitration in the matter i.e. after a period of more than 4 years and that too after the matter was brought to the notice of DSD(C) by Audit in January 1987. Sole Arbitrator is stated to have been appointed in June 1987.

2.8.2 It will be seen that a valid risk purchase during six months of the date of breach of the original contract was frustrated either because of delay or due to one of the following reasons:—

— failure to issue fag end notice at the time of inspection.	Item No. (ii) above.
— delay in testing samples —	Item No. (iii) above.
— consignee entering into correspondence with the firm necessitating further extension of delivery period —	Item No. (vi) above.
— delay in holding discussion with the Law Ministry —	Item No. (vii) above

2.8.3 In the following case, the terms of the re-purchase were different from those of the initial A/T with the result that the extra expenditure involved was not recoverable from the defaulting firm.

Purchase of lines bedding: In response to tenders received against an advertised tender enquiry, the DSD(C) placed in May 1983, an A/T on firm 'A' for the supply of 1,24,650 lines bedding (rate Re.0.92 each) to the Director, Ordnance Services, New Delhi, by 31st March 1984.

After supply of 25,000 numbers, firm 'A' intimated DSD(C) on 28th March 1984 that due to a prolonged strike in the jute mills, their raw-material supply had been affected and that the remaining quantity could not be supplied. Later on 14th/16th May 1984, the firm requested DSD(C) to extend the delivery period by 150 days from the date of issue of the amendment letter.

A performance-cum-extension notice was isued to the firm on19th June 1984 extending the delivery period up to 20th November 1984.

The firm's request, made on 12th November 1984 for further extension was agreed to and the delivery date extended to 28th February 1985. On the firm's failure to supply the stores by the date, the A/T in respect of the oustanding quantity of 99,650 numbers was cancelled on 15th February 1985 at the risk and expense of firm 'A' taking 20th November 1984 as the date of breach.

For the procurement of the cancelled quantity of 99,650 numbers, a risk purchase A/T (rate:Rs.2.65 each almost three times the original rate) was placed on firm 'B' on 18th/21st May 1985 on the basis of a limited tender enquiry and further negotiations. The extra expenditure of Rs. 1.79 lakhs on repurchase was not recoverable from firm 'A' as it could not be held responsible for the risk purchase eventually effected because the mode of risk purchase was different from that of the original A/T and only the general damages were recoverable. The supply against risk purchase was completed by October 1985. Claim for recovery of Rs. 1.79 lakhs as risk purchase loss was preferred on 7th April 1987 i.e. after about 17 months and at the instance of Audit. There was however no response from the firm.

2.8.4 In the following cases, though risk purchase action was initiated within six months from date of breach of the initial contract, the difference between the price paid in the risk purchase and the value of initial contract could not be recovered since lower offer received in response to risk purchase enquiry was not accepted :—

(*i*) *Purchase of ECAD boxes* : An A/T placed by the DGSD on firm 'E' for supply of 48,310 nos. of ECAD boxes (Equipment Cargo Aerial Delivery) to the Commandant, Central Ordnance Depot, Kanpur, at Rs.39.90 less 7.5 *per cent* discount (A/T value: Rs. 17.83 lakhs), 23,110 boxes were required to be delivered by 15th November 1984 and the remaining 25,200 by 30th April 1985. The firm failed to make the supplies.

An A/T was placed on this firm even though the user had cautioned the DGSD about the unsatisfactory performance of the firm.

The firm was required to furnish security deposit by 30th September 1984 but failed to do so. The DGSD kept the contract alive by issuing a letter to the firm on 19th October 1984 asking it to furnish the security deposit within seven days thereof thus losing the opportunity to cancel the A/T at firm's risk and cost for failure to deposit security.

The firm failed to supply both the instalements due by 15th November 1984 and 30th April 1985. The A/T was cancelled at the risk and cost of firm "E" with the dates of delivery as dates of breach after obtaining the advice of the Ministry of Law.

Risk purchase As/T for the defaulted quantitites were placed on firms "A" and "B" at Rs. 22.29 lakhs ignoring the lower offers of firms "C" and "D", which led to the frustration of valid risk purchase.

The indentor had advised the DGSD about the unsatisfactory past performance of firm "E", which failed to make supplies.

(*ii*) *Purchase of chappals*: An A/T was placed in May 1986 on firm "N" for supply of 2225 pairs of chappals by 15th November 1986. The quantity was increased in August 1986 by 555 pairs with delivery period upto 30th November 1986. Total value of the A/T was Rs. 1.10 lakhs.

The firm was required to submit advance sample within 21 days which it did not do. The Ministry of Law advised on 11th December 1986 that the A/T could be cancelled at the risk and cost of the firm "N" with the date of breach as 30th November 1986. The A/T was cancelled in December 1986.

Risk purchase A/T was placed on firm "B" in June 1987 (value Rs. 2.08 lakhs). There was no valid risk purchase as lower offer of firm Q was rejected this being from unregistered/untried firm. General damages were recoverable. No provisional demand notice was issued to the defaulting firm "N".

(*iii*) *Purchase of 66,240 blankets*: Three As/T were placed on firm 'S', 'U' and 'A' in May/June 1984 for a total of 66,240 blankets. The firms pointed out non-inclusion of provisions in the As/T for payment of excise duty, if levied at a later date and a force majeure clause. The DGSD issued amendment letters accepting excise duty variation and granting extension in delivery date. The firms, however, desired withdrawal of As/T without financial repurcussions as amendment letters were issued after expiry of the validity of the tender.

The DGSD in consultation with the Ministry of Law cancelled the As/T on firm 'U' and 'A' on 4th January 1985 at their risk and cost treating 15th July 1984 i.e. the date by which they were required to pay the Security Deposits, as the date of breach. The A/T on firm 'S' was, similarly, cancelled on the 28th March 1985 treating 15th October 1984 which was the date stipulated for making deliveries, as the date of breach.

To effect purchases at the risk and cost of the firm 'U', 'A' and 'S', DGSD issued limited tender enquiries in January 1985 in response to which quotations from unsolicited, untried/unregistered firms were received which had to be ignored. As no valid risk purchase was possible in these circumstances and as there was revision in specification, the indents were returned.

The coverage was done to revised specifications after bulking of other indents. The extra cost on procurement of 66,240 blankets was Rs. 39.31 lakhs. Information regarding action taken to recover general damages from the defaulting firms was called for from DGSD in January 1988 but no reply has been received (April 1988).

2.9. ***Recovery action in respect of risk purchase***

There was inadequate follow-up action and delay in recovering risk purchase loss/general damages as a result of which a large number of cases awaited finalisation. The number of cases outstanding as on 31st March 1987 was 1428 valued at Rs. 3288.11 lakhs. A study of 15 cases involving recovery of Rs. 26.15 lakhs revealed the following position:—

Provisional demand notices not issued	Rs. 2.51 lakhs
Follow-up action not taken by DGSD	Rs. 8.42 lakhs
Referred to arbitration	Rs. 10.78 lakhs
Referred to the Ministry of Law	Rs. 0.89 lakh
Supplies against risk purchase not completed	Rs. 3.55 lakhs

In the following cases, although a valid risk purchase was made, action for recovery of the extra cost involved as a result of default was either not taken or was delayed.

(*i*) *Purchase of nails steel wire round*: An A/T was placed on 9th February 1978 on firm 'H' for the supply of 1,96,200 kgs of nails steel wire round of various sizes (value: Rs. 6.10 lakhs). The quantity and value were later increased to 2,41,130 kgs and Rs. 7.44 lakhs respectively through an amendment letter issued on 6th May 1978. The supplies were to be completed by 20th April 1981 as extended. The firm supplied part of the quantity by the extended date of delivery and for the unsupplied quantity (1,86,647 kgs), the A/T was cancelled in September 1981 at the risk and cost of the firm in consultation with the Ministry of Law with the date of breach as 29th April 1981.

The risk purchase tender enquiry was floated in September 1981 and four As/T were placed on four firms on 19th October 1981, for a total quantity of 1,86,647 kgs.

The risk purchase involved an extra expenditure of Rs. 7.70 lakhs. The DGSD did not issue a provisional demand notice immediately after issue of risk purchase As/T in October 1981. In February 1983, Audit pointed out the laxity on the part of the DGSD to recover the amount and it was only thereafter that a demand notice for Rs. 7.70 lakhs was issued on 11th March 1983 to the defaulting firm. No follow-up action was taken thereafter. The firm having failed to pay the amount, an arbitrator was appointed in December 1985. The claim of the Government amounting to Rs. 7.70 lakhs besides interest and cost of the proceedings was still pending after over four years of completion of the supplies.

(*ii*) *Purchase of wheel chairs*: An A/T for the supply of 883 wheel chairs (value Rs. 3.93 lakhs excluding sales tax) was placed on firm 'GT' in April 1979. The original date of delivery, which was 15th December 1979, was extended from time to time up to 30th October 1980. As the stores tendered for inspection were rejected, and no fresh supplies had materialised, the A/T was cancelled in April 1981, in consultation with the Ministry of Law with the date of breach as 30th October 1980, at the risk and cost of the firm 'GT'. Risk purchase was made from firm 'D' (27th April 1981) at an extra cost of Rs. 1.74 lakhs. Demand notice to the defaulting firm for recovery of Rs. 1.74 lakhs was issued in May 1981 and in June 1981. The firm refused to pay the amount. The matter was not pursued by the DGSD for two years and in June 1983, the firm was again addressed to deposit the amount.

Although the firm approached the DGSD in July 1983 to refer the matter to a court of law or an arbitrator necessary action was yet to be taken (January 1987).

2.10. ***Rate contracts***

Rate contracts are entered into for items of common use. The DGSD is responsible for timely conclusion/renewal of rate contracts without break in the continuity of these arrangements. It has also to keep in view the performance of the existing rate contract holders before entering into fresh agreements with them. Instructions of the DGSD require that the prospective tenderers append a statement of past performance so that the DGSD could know that the rate contract holders had not slackened in executing the orders received against the previous rate contract and had taken due care for performing the existing contract. No performance levels had been prescribed for judging the performance of previous rate contract holders. It was seen in audit that in some cases contracts were placed regardless of the level of performance, and in others the DGSD had laid down a level of performance renging from 70 to 90 *per cent*. It was also seen that where Direct Demanding Officers had not placed any orders on current rate contract holders, they were treated as non-performers and their offers were ignored for fresh contracts.

Although action for renewal or/placement of fresh rate contracts is to be initiated six months before the date of expiry of the existing rate contracts so that new rate contracts are finalised on time, an analysis by Audit revealed that there were uncovered gaps ranging from one month to twenty three months from the date of expiry of the previous contracts to the finalisation of fresh rate contracts as indicated below:—

	Date of expiry of previous rate contract (1)	Date of commencement of fresh rate contract (2)	Uncovered gap Year (3)	Month (4)	Day (5)
Spares for cater pillar earth moving machine.	31.3.1985	23.2.1987	1	10	22
Aluminium ferric	31.8.1986	1.5.1987	—	8	—
Spare part for earth moving machinery.	30.6.1986	1.3.1987	—	8	—
Conduit pipes	31.7.1985	3.3.1986	—	7	2
Electric fittings and accessories.	28.2.1986	1.9.1986	—	6	—
AC sheets	31.5.1986	18.11.1986	—	5	17
Fire fighting hose	30.9.1986	27.2.1987	—	4	26
Room air conditioners	14.1.1987	3.6.1987	—	4	19
Fans	30.6.1986	20.10.1986	—	3	19
Flourescent tubes	31.8.1986	24.11.1986	—	2	23
Platform trucks	31.1.1987	1.4.1987	—	2	—
Room air coolers	31.1.1987	17.3.1987	—	1	16
Water Cooler	14.1.1986	28.2.1986	—	1	13

It will be seen that some of the items where these gaps existed included room-water coolers, air-conditioners, air coolers, fans, flourescent tubes. During the peak summer season in 1987, no rate contract was available for room air-conditioners. Such delays, apart from causing likely extra expenditure to the Direct Demanding Officers who have to resort to local purchase also cause administrative inconvenience and frustrate attempts for advance planning in procuring such items.

2.11. ***Price intelligence***

Purchase officers are required to keep themselves abreast of the rise and fall in market prices so that fall in prices, if any, can be taken advantage of. The Directorate of Management Information Services issue a monthly bulletin of market prices. This bulletin is intended to apprise purchase officers of the broad trends in the respective markets. It is enjoined that the individual purchase officers have to have an intimate knowledge of price trends.

It was observed in Audit that these bulletins were issued after a time lag of two-three months i.e. the bulletins for June 1987 and July 1987 were issued only in September 1987 and October 1987 respectively. The bulletin for August 1987 was issued on 30th October 1987.

As per fall clause incorporated in the Rate Contracts the contractor, if at any time reduces the sale price, sells or offers to sell such stores to any person/organisation including the purchaser or department of the Central Government or State Government or any statutory undertaking at a price lower than the price chargeable under the contract, he should forthwith notify the reduction or sale or offer of sale to the DGSD and the price payable under the contract for the stores supplied after the date of coming into force of such reduction or sale or offer of sale shall stand correspondingly reduced. In the absence of an institutionalised mechanism, the DGSD came to know of downward trend only when tenders for fresh rate contracts were received.

In cases where lower rates are quoted by the existing rate contract holders themselves for the fresh rate contracts, they are asked if they are prepared to reduce the rate against the existing rate contracts. In case these contract holders do not agree to this or quotations have been received at lower rates from new firms, who are likely to be brought on rate contracts, the purchase officers are required to advise direct demanding officers of the lower trend in prices and ask them to consider whether they can postpone placement of supply order against existing rate contracts and wait for finalisation of fresh rate contracts. Audit came across the following instances where action to intimate direct demanding officers of fall in price was either not taken or was delayed.

(*i*) *Supply of aluminium cables*: The tenders received for placement of rate contracts for Ist, March 1981 to 28th February 1982, opened on the 25th October 1980, showed a lower price trend when compared to the existing rate contracts expiring on 28th February 1981. The DGSD, however, advised the direct demanding officers in this regard on 15th December 1980 only i.e. 50 days after the opening of new tenders and after about a month after preparing (14th November 1980) the comparative/ranking statements.

(*ii*) *Purchase of tablets multivitamin*: The tender received against a limited tender enquiry for entering into contract for tablets multivitamin for Ist March 1987 to 28th February 1988 were opened on 19th December 1986. The rates received from the existing rate contract holders showed lower trends of prices compared to the existing rate contract expiring on 28th February 1987.

The DGSD did neither adress the firms to reduce the prices against the existing rate contracts nor did it advise the direct demanding officers to postpone their requirements, if possible, till the new rate contract became operative from Ist March 1987.

(iii) Purchase of cream-wove white paper: Against an advertised tender enquiry tenders were opened on 15th April 1981 and contracts were finalised on 9th June 1981 for cream wove paper. Advance rate contracts were issued on thirty-six firms on rates ranging from Rs. 8,365.52 per tonne to Rs. 9,438 per tonne.

On 27th August 1981, ninety nine offers received from the trade in response to tender inquiry issued in July 1981 were opened and for cream wove white paper 60 gsm, the lowest rate was Rs. 7923.56 per tonne (all inclusive) which was counter offered to the other quoting firms. Some firms responded by offering still lower rate and rate contracts on 14 firms were approved (December 1981) at rates ranging from Rs. 7819 and Rs. 7923.56 (all inclusive) per tonne for 18,413 tonnes. Although the downward trend was noticed on opening of tender on 27th August 1981, the DGSD issued only on 12th October 1981, a general circular to all the indentors, direct demanding officers not to place any further supply orders against the contracts concluded against tenders opened on 15th April 1981 till proposals against fresh tenders opened on 27th August 1981 were finalised and to intimate the quantity purchased by them. It was intimated by two indentors in July 1981, that they had purchased 800 tonnes of cream wove white paper 60 gsm from firm 'V' at Rs. 9,100 per tonne inclusive of all levies and taxes. Delay on the part of DGSD in sending intimation regarding fall in prices thus resulted in an extra expenditure of Rs. 9.41 lakhs vis-a-vis the highest rate of Rs. 7,923,56 per tonne (all inclusive) accepted against tenders opened on 27th August 1981.

(iv) Purchase of timber: Price agreements are entered into on a year to year basis of supply of timber to the Railways. While processing an indent of the Northern Railway for procurement of timber deodar sleeper Gr.I for a quantity of 9,780 cubic meters for supply during 1986-87 (5,100 cubic meters) and 1987-88 (4,680 cubic meters) as revised, the DGSD sent the purchase file to the Railway Liaison Officer (RLO) stationed in his office for getting indentor's confirmation for coverage of the additional quantity of 4680 cubic meters (earmarked for next year) also against the existing price agreement valid upto 31st October 1986. This proposal was initiated as it was expected that the prices after October 1986 would go up by 40 *per cent.* The RLO spoke to the Deputy Controller of

Stores, over the telephone and recorded "Spoke to Dy. Controller of Stores. They do not need any more coverage for 1986-87." The matter was not pursued further either by the DGSD or the RLO and the economics of procurement against the existing price agreement, the validity of which was later extended upto December 1986, was not spelt out. The stores (4680 cubic meters) were procured in April 1987 at Rs. 7,000 per cubic meter as against the rate of Rs. 5,384.60 per cubic meter thus involving an extra expenditure of Rs. 75.60 lakhs to the indentor.

2.12. ***Agency commission***

Under the existing practice, agency commission to the Indian Agents of foreign suppliers is payable, but no uniform guidelines/graded scales for such payments have been laid down.

The Ministry of Defence formulated guidelines in April 1984 and fixed graded rates of payment of agency commission for Defence stores as under:—

upto Rs. 5 lakhs	10 *per cent*
Rs. 5 lakhs to 10 lakhs	7 1/2 *per cent*
Rs. 10 lakhs to 25 lakhs	5 *per cent*
Over Rs. 25 lakhs	2 *per cent*

In addition where the commission payable in absolute terms does not exceed Rs. 1,000, it may be accepted provided it does not exceed 20 *per cent* of the purchase value.

A sample study of 50 cases in Audit revealed that commission paid to Indian Agents ranged from 2 to 21.25 *per cent.*

The Department stated in April 1986 that with the number of imported items declining and keeping in view the variety and the range of product, it was not possible to lay down any specific set of guidelines for determining the agency commission, but each case would require to be examined fully on merits.

2.13 **Arbitration cases**

The Arbitration Act, 1940, stipulates that awards should be made within four months of entering on the references.

Out of 101 awards given during May 1986 to December 1986, the date of reference to Arbiration had not been noted in 6 cases. Out of the remaining 95, only 8 awards were given within the stipulated period of 4 months. The position of the remaining 87 cases was as under:-

more than 4 months but less than 12 months	– 55
more than 12 months but less than 24 months	– 31
more than 24 months	– 1

Cases referred to arbitration during the years 1984-85 to 1986-87 were as follows:

Year	No. of the cases pending at the beginning of the year.	No. of cases instituted during the year.	No. of awards during the year.	No. of cases pending at the end of year.
1984-85	461	111	109	463
1985-86	463	189	119	533
1986-87	533	114	136*	511

*includes one compromised case.

Year-wise break-up of the cases outstanding on 31st March 1987 was called for from the DGSD but the information was not received. Reports prepared by the two arbitrators and received in DGSD, however, showed that some cases referred to them as early in 1976 were still outstanding. A year-wise break-up (as on 31st March 1987) of 315 cases pending finalisation with the two arbitrators for over four months is given below:-

	No. of cases
1976-81	17
1982	25
1983	22
1984	30
1985	85
1986	136

A study of 363 cases finalised during 1984-85 to 1986-87, revealed that the arbitrators made 65 speaking awards (16 in favour of the DGSD and 49 against) and 298 non-speaking awards (of which 119 were in favour of the DGSD and 179 were against it).

As to the speaking arbitration awards made during 1984-85 to 1986-86 in respect of claims involving rupees one lakh and above, the position was as under:-

Year	DGSD		Accepted Claims		Rejected Claims		Contractor	
				Contractors		DGSD		
	No.	Amount (Rs. in lakhs).	No.	Amount (Rs. in lakhs).	No.	Amount (Rs. in lakhs).	No.	Amount (Rs. in lakhs).
1984-85	2	4.00	5	15.72	4	28.13	1	5.33
1985-86	1	2.61	3	10.95	7	27.79	4	6.63
1986-87	5	102.01	6	12.12	7	18.52	2	3.12
Total	8	108.62	14	38.79	18	74.44	7	15.08

The reasons for rejection of 18 DGSD claims were as follows:—

	No. of items	*Amount in lakhs of rupees.*
Failure to establish market rate	6	19.46
Failure to make valid risk purchase.	3	4.74
Not following prescribed procedure/ non-adherence to the conditions of contract.	5	24.62
Failure to prove loss.	3	7.59
Not getting the licence issued within reasonable time.	1	18.03
	18	74.44

There was no appreciable progress in the recovery of decretal amounts awarded by the courts. The pendency of the amounts due for recovery had gone up from Rs. 172.42 lakhs on 31st March 1986 to Rs. 424.25 lakhs as on 31st March 1987.

2.14 ***Production of files***

Resident Audit Parties are stationed in the Office of the DGSD both at Headquarters and branches for conducting Concurrent Audit of purchase cases finalised by DGSD. Requisitions of purchase files are made from time to time which, after Audit scrutiny, are returned to the respective purchase Directorates. It is implied in the Concurrent Audit arrangements that observations made by Audit on purchase files should be conveyed timely so that, wherever possible, remedial action could also be taken. A large number of requisitions for files have not been complied with in spite of several reminders. The number of requisitions pending, as on 31st July 1987, was 7413. The purchase value in respect of 4610 requisitions was not known. Some of these requisitions (2956) pertained to the period 1970-81 and 3899 requisitions were pending for more than five years. DGSD, in a communication in March 1988 stated that all out efforts had been made to make available the files requisitioned by Audit, yet it had not been possible to clear the back log. One of the reasons for non-availability of files was stated to be the difficulty in locating the files due to the major reshuffle in the portfolios of the various directorates that took place in 1983-84. Further, with the passage of time, it had become much more difficult to get hold of these files.

The matter was reported to the Department of Supply in October 1987; reply has not been received (March 1988).

(S.S. ROY CHOUDHURY)
Director of Audit-I, Central Revenues.

New Delhi
The -7 MAY 1988

Countersigned

T.N. Chaturvedi

(T.N. CHATURVEDI)
Comptroller and Auditor General of India.

New Delhi
The 11 MAY 1988

Glossary of technical terms used in the review on 'System of Purchases in the DGSD.'

1. ***Fag end notice***

In cases where the contractor submits the stores for inspection at a very late stage and if it is not possible to conclude/commence the inspection before the expiry of delivery period, the Inspector should immediately on receipt of the intimation or request for inspection of the stores, bring to the notice of the contractor orally as well as in writing that the stores have been submitted for inspection at a very late stage and that it is not possible to conclude/commence the inspection before the expiry of the delivery period.

2. ***Fall Clause***

In order to safeguard against firms holding rate contracts selling stores on contract with them, at cheaper rates than those included in the contract, to other parties, price fall clause is included in the rate contracts and Invitations to Tender for Rate Contracts providing that if at any time during the currency of the rate contract, the contractor reduces the sale price of such stores or sells such stores to any other person at a price lower than the price chargeable under the contract, he shall forthwith notify such reduction or sale to the DGSD and the price payable under the contract for stores supplied after the date of coming into force of such reduction or sale shall stand correspondingly reduced.

3. ***Franking clause***

The DGSD inspectors are not empowered to inspect stores tendered for inspection after the expiry of the stipulated period. Where the stores are tendered for inspection within the delivery period, the inspector can continue to inspect the stores even after the expiry of the delivery date, subject to his franking the inspection notes issues in such cases to this effect.

4. ***General damages***

Where re-purchase is made deviating from the prescribed conditions only general damages can be recovered from the defaulting contractor. General damges represent the sum equal to the difference between the contract rate and the market rate on or around the date of breach of the contract.

5. ***Optional clause/tolerance clause***

Under the clause, the purchaser reserves the right to place an order up to 25 *per cent* for an additional quantity on the same terms and conditions of the contract during its currency.

6. ***Performance notice***

A performance notice is required to be issued before the actual cancellation of the contract whenever the defaulted contract is not cancelled on expiry of the delivery date and it is kept alive by the conduct of parties to the contract (i.e. by the parties reminding the supplier for delivery). Where this notice is accepted but the firm fails to perform the contract, the date of delivery fixed indicated in such notice is treated as the date of breach of the contract. Otherwise, the date of delivery stipulated in the A/T is to be treated as the date of breach.

ERRATA

Page	Column	Line	For	Read
3	2	6	the revenue budget	balance from current revenue
4	1	2 from bottom	by	by Government of India through
16	1	15 from bottom	54 cases	Over 12 months : 54 cases
17	1	20	damages	damages are
25	2	last	1986-86	1985-86