# REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

FOR

THE YEAR 1983-84

UNION GOVERNMENT (DEFENCE SERVICES)

## ERRATA

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## 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 1983-84 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 1983-84 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 1983-84 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 1984 with the amount of original and supplementary appropriations and grants for the year :

(i) *Charged Appropriations*

| | (Rs. in crores) |
|---|---|
| Original | 4.58 |
| Supplementary | 59.52 |
| Total | 64.10 |
| Actual Expenditure | 24.10 |
| Saving | (—)40.00 |
| | (*per cent*) |
| Saving as percentage of the total provision | 62.40 |

It may be mentioned here that during 1982-83 and 1981-82 the total savings under the Charged appropriations amounted to Rs. 2.16 crores and Rs. 1.66 crores representing 51.67 *per cent* and 32.74 *per cent* of the total appropriation during these years respectively.

(ii) *Voted Grants*

| | (Rs. in crores) |
|---|---|
| Original | 6250.00 |
| Supplementary | 375.01 |
| Total | 6625.01 |
| Actual Expenditure | 6594.51 |
| Saving | (—)30.50 |
| | (*per cent*) |
| Saving as percentage of the total provision | 0.46 |

### 2. Supplementary grants/appropriations

(a) *Supplementary grants* : Supplementary grants (voted) aggregating Rs. 375.01 crores were obtained in 4 Grants in March 1984 as indicated below :—

(Rs. in crores)

| Grant No. | Amount of Grant | | | Actual Expenditure | Excess (+) Saving (—) |
|---|---|---|---|---|---|
| | Original | Supplementary | Total | | |
| 19—Army | 3428.81 | 275.25 | 3704.06 | 3648.35 | (—)55.71 |
| 20—Navy | 451.72 | 47.40 | 499.12 | 514.99 | (+)15.87 |
| 21—Air Force | 1325.67 | 35.58 | 1361.25 | 1327.26 | (—)33.99 |
| 22—Pensions | 440.26 | 16.78 | 457.04 | 472.30 | (+)15.26 |
| TOTAL | 5646.46 | 375.01 | 6021.47 | 5962.90 | (—)58.57 |

The supplementary grant of Rs. 275.25 crores obtained under 'Army' and Rs. 35.58 crores under 'Air Force' could not be utilised to the extent of Rs. 55.71 crores (20 per cent) and Rs. 33.99 crores (96 *per cent*) respectively.

In view of the excess of Rs. 15.26 crores in the case of 'Pensions' the supplementary provision of Rs. 16.78 crores obtained in March 1984 proved inadequate and the surrender of Rs. 5 crores in March 1984 proved injudicious.

In the case of 'Navy' in spite of the supplementary grant of Rs. 47.40 crores expenditure of Rs. 15.87 crores remained uncovered.

(b) *Supplementary appropriations (Charged)*

Supplementary appropriations (Charged) aggregating Rs. 59.52 crores ('Army' : Rs. 0.23 crore, 'Air Force' : Rs. 0.02 crore, 'Pensions' : Rs. 50.02 crores, 'Capital Outlay on Defence Services' : Rs. 9.25 crores) were obtained in December 1983 and March 1984 to meet the decretal payments.

In the case of 'Army' the Original appropriation of Rs. 0.51 crore was increased to Rs. 0.74 crore by obtaining a supplementary appropriation of Rs. 0.23 crore. Against this the total expenditure came to Rs. 0.47 crore leaving an unexpended provision of Rs. 0.27 crore. Thus the whole of the supplementary appropriation proved unnecessary.

In the case of 'Pensions', the original appropriation of Rs. 0.01 crore was increased to Rs. 50.03 crores by obtaining a supplementary appropriation of Rs. 50.02 crores mainly for meeting payments of arrears of pension and enhanced pension in satisfaction of Supreme Court Judgment. Against this the total expenditure came to Rs. 12.47 crores leaving an unexpended provision of Rs. 37.56 crores; surrender of Rs. 9 crores was notified on 31st March 1984 due to disturbed conditions in North-West areas and lesser claims received than anticipated from the pensioners for the revision of pension on the basis of Supreme Court Judgment. Thus a major portion of the supplementary appropriation proved unnecessary. Reasons for saving are awaited (November 1984).

As regards 'Capital Outlay on Defence Services' the original appropriation of Rs. 4 crores was increased to Rs. 13.25 crores by obtaining a supplementary appropriation of Rs. 9.25 crores. Against this the total expenditure came to Rs. 11.12 crores leaving an unexpended provision of Rs. 2.13 crores. Surrender of Rs. 1 crore was notified on 31st March 1984.

### 3. Excess over Voted Grants

Excess aggregating Rs. 59,20,93,411 over voted portion of 3 Grants, as indicated below, requires regularisation under Article 115 of the Constitution :

| Grant No. | Total Grant Rs. | Actual Expenditure Rs. | Excess Rs. |
|---|---|---|---|
| 20—Navy | 499,11,87,000 | 514,99,44,204 | (+)15,87,57,204 |

The excess was mainly under Sub-Head A.5 Stores : Oil Fuel (Rs. 21.78 crores), Naval Stores (Rs. 1.76 crores), Armament Stores (Rs. 1.44 crores) and Gun-Mounting Stores (Rs. 1.36 crores) due to price escalation and more materialisation than anticipated partly offset by savings under (i) Aircraft (Rs. 9.99 crores) due to non-settlement/acceptance of certain claims and (ii) Petrol and Lubricants (Rs. 1.24 crores) due to slippages in supply of lubricants.

The Naval Headquarters stated (October 1984) that an un-expectedly large amount was booked under 'Oil Fuel' at the close of the accounts raising the total to Rs. 53.78 crores against Rs. 33.21 crores booked upto March (Preliminary) 1984 and that this unprecedented high booking at the end of the financial year was due to a sum of Rs. 10.58 crores having been erroneously booked under the head 'Oil Fuel' instead of under 'Aircraft'.

| | | | |
|---|---|---|---|
| 22—Pensions | 457,03,45,000 | 472,29,89,781 | (+)15,26,44,781 |

The excess occurred mainly under "Pensions and Other Retirement Benefits" of Army (Rs. 17.86 crores) and Air Force (Rs. 2.76 crores) partly offset by saving under Navy. Reasons/explanation for variations are awaited (November 1984).

| | | | |
|---|---|---|---|
| 23—Capital Outlay on Defence Services | 603,54,00,000 | 631,60,91,426 | (+)28,06,91,426 |

The excess occurred mainly under 'Land' (Army—Rs. 14.88 crores), 'Naval Fleet' (Navy—Rs. 14.55 crores) and 'Machinery and Equipment' (Ordnance Factories—Rs. 13.17 crores) partly offset by saving under other heads.

The excess of Rs. 14.55 crores under 'Naval Fleet' (Navy) was due to contractual obligatory payments made for procurement of equipment/material for completion of various stages of works and additional expenditure on ship construction because of the slippage/delays in deliveries in the past which materialised this year.

Reasons for variations in respect of the other sub-heads are awaited (November 1984).

### 4. 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 unutilised :

(Rs. in crores)

| Grant No. / Sub-Head | Original Grant | Supplementary Grant | Amount re-appropriated | Total Grant (after re-appropriation) | Actual Expenditure | Savings (—) |
|---|---|---|---|---|---|---|
| 19—*Army* | | | | | | |
| A.4—Transportation | 71.89 | 4.90 | .. | 76.79 | 73.10 | (—)3.69 |
| A.6—Ordnance Factories | 832.87 | 24.32 | (—)10.69 | 846.50 | 797.42 | (—)49.08 |
| A.9—Stores | 890.37 | 23.02 | (—)4.21 | 909.18 | 886.09 | (—)23.09 |
| 22—*Pensions* | | | | | | |
| A.2—Navy | | | | | | |
| (*i*) Pensions and other Retirement Benefits. | 12.00 | 0.57 | (—)2.00 | 10.57 | 10.40 | (—)0.17 |

(b) Instances in which re-appropriations made were wholly or partially unnecessary :

(Rs. in crores)

| Grant No. Sub-Head | Sanctioned Grant | Amount re-appropriated | Final Grant | Actual Expenditure | Excess (+) Saving (—) |
|---|---|---|---|---|---|
| 19—*Army* | | | | | |
| A.2—Pay and Allowances and Misc. Expenses of Auxiliary Forces | 11.12 | (—)0.73 | 10.39 | 12.17 | (+)1.78 |
| A.3—Pay and Allowances of Civilians | 187.12 | (+)8.47 | 195.59 | 194.17 | (—)1.42 |
| 20—*Navy* | | | | | |
| A.1—Pay and Allowances of Navy | 64.20 | (—)1.50 | 62.70 | 63.30 | (+)0.60 |
| A.4—Transportation | 19.68 | (—)1.88 | 17.80 | 18.01 | (+)0.21 |
| A.6—Works | 31.50 | (—)2.04 | 29.46 | 30.63 | (+)1.17 |
| A.7—Other Expenditure | 40.13 | (—)3.22 | 36.91 | 37.97 | (+)1.06 |
| 21—*Air Force* | | | | | |
| A.1—Pay and Allowances of Air Force | 196.75 | (+)1.25 | 198.00 | 195.93 | (—)2.07 |
| A.3—Pay and Allowances of Civilians | 27.58 | (+)7.47 | 35.05 | 34.66 | (—)0.39 |
| A.8—Other Expenditure | 12.97 | (+)4.43 | 17.40 | 16.89 | (—)0.51 |
| 22—*Pensions* | | | | | |
| A.1—Army | | | | | |
| (1) Pensions and other Retirement Benefits | 421.03 | (—)0.71 | 420.32 | 438.17 | (+)17.85 |
| A.3—Air Force | | | | | |
| (1) Pensions and other Retirement Benefits | 22.99 | (—)2.29 | 20.70 | 23.46 | (+)2.76 |
| 23—*Capital Outlay on Defence Services* | | | | | |
| A.1—Army | | | | | |
| A.1(1)—Land | 24.40 | (—)4.90 | 19.50 | 34.38 | (+)14.88 |
| A.2—Navy | | | | | |
| A.2(1)—Land | 2.20 | (—)1.16 | 1.04 | 1.35 | (+)0.31 |
| A.2(3)—Naval Fleet | 165.42 | (—)15.02 | 150.40 | 164.95 | (+)14.55 |
| A.2(4)—Naval Dockyards | 27.67 | (—)1.77 | 25.90 | 27.28 | (+)1.38 |
| A.4—Ordnance Factories | | | | | |
| A.4(2)—Machinery and Equipment (*) Includes surrender of Rs. 20.28 crores. | 70.00 | (—)30.50* | 39.50 | 52.67 | (+)13.17 |
| A.5—R&D Organisation | 15.00 | (+)7.95 | 22.95 | 21.55 | (—)1.40 |

(c) Original provision under '21-Air Force' sub-head A-2 'Pay and Allowances of Reserve and Auxiliary Services' was Rs. one thousand only. A supplementary grant for Rs. 7.23 crores for making payment of additional instalments of dearness allowance, interim-relief and bonus was obtained in March 1984 under this sub-head. As there was no requirement under this sub-head, the entire amount was transferred by re-appropriation in March 1984 itself to sub-head A.3 'Pay and Allowances of Civilians'. It was stated by the Ministry of Defence (Finance) that Supplementary Demand was inadvertently obtained under sub-head A.2 instead of sub-head A.3

5. **Injudicious surrender of funds**

(a) In the following case a supplementary grant was obtained in the month of March 1984 and a portion of it was surrendered in March itself though the actual expenditure exceeded the final grant. Thus the surrender proved injudicious as shown below :

(Rs. in crores)

| Grant No. Sub-Head | Original Grant | Supplementary Grant | Surrender | Total Grant | Actual Expenditure | Excess |
|---|---|---|---|---|---|---|
| *22—Pensions* | | | | | | |
| A.1—Army | | | | | | |
| A.1(1)—Pensions and other Retirement Benefits | 404.83 | 16.20 | 0.71 | 420.32 | 438.17 | 17.85 |

(b) In the following cases surrenders were notified in March 1984 but the actual expenditure exceeded the final grant. Thus the surrenders were injudicious :

(Rs. in crores)

| Grant No. Sub-Head | Original Grant | Surrender | Re-appropriation | Total Grant | Actual Expenditure | Excess |
|---|---|---|---|---|---|---|
| 22—*Pensions* | | | | | | |
| A.3—Air Force | | | | | | |
| A.3(1)—Pensions and other Retirement Benefits | 22.99 | 2.29 | .. | 20.70 | 23.46 | 2.76 |
| 23—*Capital Outlay on Defence Services* | | | | | | |
| A.4—Ordnance Factories | | | | | | |
| A.4(2)—Machinery and Equipment | 70.00 | 20.28 | (—)10.22 | 39.50 | 52.67 | 13.17 |

6. Persistent savings

In the case of 'Air Force' sub-head A.5 Stores, there has been persistent saving during the past four years as shown below :—

(Rs. in crores)

| Year | Original Grant | Supple-mentary Grant | Re-appro-priation | Total Grant | Actual Expenditure | Savings |
|---|---|---|---|---|---|---|
| 1980–81 | 649.74 | 68.13 | (—)2.98 | 714.89 | 710.85 | 4.04 |
| 1981–82 | 745.21 | 61.25 | (+)1.42 | 807.88 | 759.96 | 47.92 |
| 1982–83 | 875.04 | 79.58 | (+)4.00 | 958.62 | 948.24 | 10.38 |
| 1983–84 | 1018.22 | .. | (—)18.92 | 999.30 | 959.55 | 39.75 |

The savings were attributed, *inter alia*, to less expenditure on Air Frames/Engines, Aviation/Maintenance stores, etc.

7. Store losses

Store losses aggregating Rs. 1071.77 lakhs (including Rs. 512.75 lakhs on account of losses due to theft, fraud or gross neglect) were written off during the year 1983-84. 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 1983-84. The Store losses written off during the preceding year *viz.* 1982-83 amounted to Rs. 529.45 lakhs (including Rs. 140.50 lakhs due to theft, fraud or gross neglect).

# CHAPTER 2

## MINISTRY OF DEFENCE

### 8. Development of a trainer aircraft

0.1 Mention was made in paragraph 6 of the Report of the Comptroller and Auditor General of India, Union Government (Defence Services) 1978-79 that a public sector undertaking which was entrusted with the development and manufacture of 'A', an improved version of an existing aircraft 'X' (also manufactured by the undertaking), could not develop it to the standard acceptable to the Air Force. According to Air Headquarters (Air HQ), aircraft 'A' was not capable of meeting the changed operational requirements of the Air Force in 1980s. The orders placed for the aircraft were, therefore, substantially curtailed resulting in large redundancies.

0.2 The undertaking was also entrusted with the development of a trainer version 'AA' of aircraft 'A', which also could not be developed so far (October 1984). The salient features of the trainer aircraft development project are given below :—

0.3 Specific to type trainer aircraft are included in the establishment of the squadrons of the Air Force for providing suitable step by step training to the pilots in combat aircraft. Combat aircraft 'A' under development since 1972 was intended to be inducted into squadron service from 1976-77, built up to a sizeable strength by 1981-82 and remain in service for 10 to 15 years. In the then existing aircraft 'X' squadrons aircraft 'Y' acquired in 1972 was being used as a trainer aircraft. The use of aircraft 'Y' in this role, though not suitable, was resorted to due to non-availability of a suitable trainer version of aircraft 'X'. The serviceability rate of aircraft 'Y' was also showing downward trend and these were planned to be phased out between 1976-77 and 1982-83. The continued use of aircraft 'Y' as trainer for aircraft 'A' was not considered suitable firstly due to the poor serviceability of the aircraft and secondly because it was not considered a sound practice from flight safety point of view that the pilots with no operational flying experience be made to cope with two different types of aircraft 'Y' and 'A'.

0.4 The undertaking had submitted (June 1975) a feasibility study for the development of aircraft 'AA', a trainer version of aircraft 'A' within a time-frame of 54 months at an estimated cost of Rs. 4.16 crores (including FE element of Rs. 40 lakhs). The proposal of the undertaking was submitted in July 1975 by Air HQ to the Ministry of Defence (Ministry) for approval. It was also stated that once aircraft 'AA' was indigenously produced, apart from the savings in foreign exchange and the development serving as impetus to the undertaking, there were possibilities of acquiring export market for this aircraft. Based on the number of aircraft required, the cost of each aircraft at 1975-76 price level was estimated at Rs. 50 lakhs. The Ministry of Finance (Defence) had doubts whether it was worthwhile to invest such a large sum (expected to reach Rs. 6.5 crores) on the development of a trainer for which the Air Force had a limited requirement. The project was, however, approved (January 1976) on the grounds that there was a need for a specific to type trainer and while it was not cost effective to replace the ageing aircraft 'Y' by import, the other trainer aircraft 'M' with the Air Force were also not suitable. Also a production run even for the limited number would enable the undertaking to deliver the aircraft at a reasonable cost. The development of aircraft 'AA' by the undertaking at an estimated cost not exceeding Rs. 4.16 crores (including FE Rs. 40 lakhs) was sanctioned in February 1976. The reimbursement to the undertaking of the actual expenditure upto this ceiling was also authorised at the same time.

0.5 The development of the mock-up of aircraft 'AA' was cleared in July 1979 due to changes made by Air HQ in the Air Staff Requirement (ASR) and the first flight of the first prototype was scheduled to take place by December 1980 and the flight development to be completed by June 1982. The undertaking had indicated (June 1981) a delay upto May 1983. However, even before the mock-up was developed, aircraft 'A' developed by the undertaking had shown serious shortcomings (1977) from the stipulated ASR and there were also slippages in the delivery of the aircraft. In view of this and in the context of the changes in the tactical environment, the role and capability of aircraft 'A' was reconsidered (November 1979) by the Ministry. Air HQ then stated that in the changed tactical environment, aircraft 'A' was incapable of meeting the operational requirement of the Air Force beyond mid-1980s. Air HQ did not, therefore, want the previously envisaged force level of aircraft 'A' to be built up nor did it want them continued in use for long. It was, therefore, decided to restrict the force level of aircraft 'A' to 50 *per cent* of what was envisaged earlier and to curtail the order for these aircraft to the committed extent. It was also decided to reduce the life cycle of aircraft 'A' and plan its phasing out from 1985. In spite of these developments, Air HQ proposed on 9th January 1980 (based on decision taken in November 1979) the placement of order for aircraft 'AA' for 60 *per cent* of the quantity estimated earlier. Air HQ stated (30th January 1980) that there was a need to interpose a transonic trainer between a basic jet trainer and the advanced combat aircraft in the Operational Conversion Units (OCUs). Aircraft 'Y' in use with the OCUs were expected to be phased out from 1982-83. Aircraft 'AA' under development would fulfil this need and was cheaper in comparison with other transonic trainers of the same class. Thus, aircraft 'AA' would be required in the OCUs in addition to the squadron requirements and would continue to be in service as long as these could be sustained.

0.6 It was decided in March 1980 to place an order for 30 *per cent* of the quantity originally envisaged at a cost of Rs. 1.00 crore each. A sanction for the purchase of this limited number was accorded in April 1980 for supply by the undertaking in 1982-83 and 1983-84, stipulating that the aircraft would be to the standard specified by the Air Force and in case the prototype/production aircraft did not meet the requirement and time frame specified by the Air Force, the responsibility for expenditure would be that of the undertaking. The settlement of the final bill was to be on the basis of a fixed quotation to be offered by the undertaking within 18 months from the date of placement of order. The undertaking quoted (August 1980) an estimated cost of Rs. 114.70 lakhs per aircraft.

0.7 The first prototype of aircraft 'AA' was flown in September 1982 but crashed in December 1982 after carrying out 13 sorties. The second prototype was flown in September 1983 and March 1984 and the development flights were being carried out from March 1984 onwards.

0.8 The closure of the project was considered by the Ministry in March 1983 for the reasons that :

(a) considerable delay was anticipated in the development and production of aircraft 'AA' with substantial hike in the cost ;

(b) there were persistent maintenance and reliability problems in aircraft 'A' leading to its accelerated phasing out, the accident rate of the aircraft 'A' was highest among all aircraft, and

(c) it had become possible to extend the phasing out schedule of aircraft 'Y'.

It was decided (March 1983) in a meeting presided by Secretary, Ministry of Defence and attended by Secretary, Department of Defence Production that a final decision on the closure of the project might be taken in December 1983 and that in the meantime the development work might be continued and that no expenditure was to be incurred by the undertaking on the procurement of fresh material for production except to sustain the first production aircraft. It was stated (October 1984) by the Ministry that a discussion on this project was likely to take place shortly.

0.9 So far (October 1984) the prototype has not been cleared and only the flight tests are being carried out. The undertaking incurred upto September 1983 an expenditure of Rs. 8.97 crores on the development, of which a sum of Rs. 4.16 crores has been reimbursed (March 1984). An expenditure of Rs. 3.74 crores has also been reimbursed (upto March 1984) to the undertaking against the production of aircraft 'AA' on order.

0.10 To sum up :

— The development project for trainer aircraft 'AA' was sanctioned though there were doubts of its economic viability, the estimated requirement being limited. The actual order placed finally was for 30 *per cent* of the original requirement.

— In spite of a decision taken in November 1979 to reduce the force level of aircraft 'A' to 50 *per cent* and phase it out from 1985 and the delay anticipated in development and delivery of aircraft 'AA', order for aircraft 'AA' was placed in April 1980 for delivery during 1982-83 and 1983-84 to meet the limited squadron requirement as well as those required to replace aircraft 'Y' in OCUs, which was expected to be phased out by 1982-83. It had, however, become possible to extend the phasing out of aircraft 'Y'. Aircraft 'A' was also expected to be phased out by April 1988.

— Due to the delay in the development of aircraft 'AA' and uncertain reliability of aircraft 'A', closure of the project was considered in March 1983 but a final decision thereon was deferred and is yet (October 1984) to be taken. The prototype of aircraft 'AA' is still undergoing trials (October 1984).

— Though a sum of Rs. 12.71 crores was incurred on the development and on material for production, there were no prospects of making available aircraft 'AA' before the last quarter of 1987.

The Ministry stated (October 1984) that the programme suffered due to the loss of the first prototype in December 1982. The Ministry added that the development flights are planned to be completed by April 1987, the delivery of first and second production aircraft 'AA' would be around the last quarter of 1987 if there were no further development problems and the orders might be completed by 1988-89 and that the phasing out of the aircraft 'A' is planned from 1985-86 to 1990-91. The Ministry further added that the aircraft 'AA' was required not only for specific to type training but also for replacing aircraft 'Y' in OCUs.

**9. Delay in indigenous development of an equipment and import thereof**

0.1 Based on the qualitative requirement projected by the three services for an equipment 'X', the Defence Research and Development Organisation (DRDO) invited (June 1971) proposals for its indigenous development from 6 Research and Development (R&D) organisations (two of them belonging to DRDO) and one Public Sector undertaking (undertaking-M). The proposal made by the Defence R&D Establishment 'L' (one of the three proposals received in all) was acceptable to the DRDO as well as to the three services. The Government, therefore, sanctioned in July 1972 a project for the indigenous development of equipment 'X' by Establishment 'L' at a cost of Rs. 24.50 lakhs including foreign exchange (FE) of Rs. 12.00 lakhs (revised to Rs. 29.50 lakhs-FE Rs. 15.00 lakhs—in March 1976). Four trialworthy models—two mobile models for the Army, one static model each for the Navy and Air Force as per the qualitative requirement projected by them were to be made available by Establishment 'L'. Undertaking 'M' was nominated (July 1972) as the production agency with whom Establishment 'L' was directed to liaise.

0.2 The equipment developed for the Army was subjected to user trials by a unit of the Army during March/September 1976 and the equipment was recommended for introduction (October 1976). However, no orders were placed for the equipment as the Army had by then projected (October 1976) a new qualitative requirement (finally issued in 1978) for this equipment and the equipment already developed by the R & D Establishment did not meet the changed requirement. Though the DRDO suggested that the equipment already developed could be modified to some extent which could partly meet the new requirement, the Army was of the opinion that the equipment even after modification would not meet their requirement. It was, therefore, ultimately decided (March 1981) to close the project. An expenditure of Rs. 14,08,406 had been incurred on the project by then. As regards, the requirement for Navy, Naval Headquarters (HQ) indicated in April 1976 that they would not be introducing the equipment and as such were no more interested in its development. The project for the Navy was, therefore, closed in April 1976 after incurring an expenditure of Rs. 2,33,000.

0.3 The Air HQ revised (May 1972) the Air Staff Requirement (ASR) for the equipment 'X'. After prolonged discussions between the users and the DRDO on the revised parameters, the equipment was finally cleared for development only in August 1975. The development work commenced in September 1975 and was expected to be completed by December 1978. Undertaking 'N' was nominated (March 1977) in place of 'M' as production agency and was directed to associate itself with the development project with a view to productionise the item in the shortest possible time.

0.4 The equipment (versions A and B) then in use at 67 *per cent* of the airfields being old and difficult to maintain were declining in their reliability. Since the indigenously developed equipment 'X' was not expected to go into production before the second quarter of 1979, the Air HQ proposed in April 1975 the import of such numbers of the equipment (as per the ASR of May 1972) as would replace the existing equipment in 55 *per cent* of the airfields during 1976-77. Keeping in view the financial stringency, Government approved (March 1976) the import of a limited number of this equipment (for 27 *per cent* of the airfields) at a total cost of Rs. 2.60 crores. A contract was accordingly concluded with a foreign firm 'F' on 23rd June 1977 at a total cost of £ 1,389,724 (Rs. 1.25 crores). The contract included an option clause for additional supplies at the same rates if ordered within 6 months from the date of contract. Phased delivery of the equipment was to be made between 8 and 14 months from the date of first payment (*i.e.*, between March 1978 and September 1978). A contract had also been concluded (January 1976) with another foreign firm 'G' for the supply of the compatible air-borne equipment at a cost of US $ 6,985,500 (Rs. 5.08 crores). The airborne equipment was to be delivered between November 1976 and February 1978 and was to be retrofitted in different aircraft by 1981 with the assistance of an installation team (of the Air Force).

0.5 The question of further import of the equipment 'X' was considered (January 1978) by the Ministry of Defence (Ministry) in the light of the option clause available under the contract (of 23rd June 1977) with firm 'F'. As the existing equipment could be maintained only by cannibalising some of them and delivery of indigenously manufactured equipment was expected not earlier than 1980-81, Government approved (February 1978) further import of the equipment for installation at 16 *per cent* of the airfields during 1979-80 and 1980-81. A supplementary contract was accordingly negotiated and concluded (May 1978) with firm 'F' at the contracted price of June 1977. The phased delivery of additional quantities of the equipment was to be made between 10 and 13 months from the date of first payment, *i.e.*, between June 1979 and September 1979.

0.6 Meanwhile, Establishment 'L' was developing equipment 'X' in close liaison with undertaking 'N'. In the design and development of the equipment, Establishment 'L' had not only adopted the frames, chassis, modular construction, etc. currently used by undertaking 'N', but had also used the receiver (a major sub-system) designed and manufactured by that undertaking. Establishment 'L' completed the development work of equipment 'X' by March-April 1978 and handed it over to the Air Force in November 1978 for user's evaluation and maintenance trials. This was finally cleared for introduction in the Air Force in March 1979.

0.7 The Air HQ in the meantime proposed (January 1979) further import of the equipment in view of anticipated slippages in the delivery of the indigenous equipment 'X'. In this context, the Ministry also reviewed (May 1979) the progress made towards the indigenous development and manufacture of equipment 'X' when it was claimed by the Department of Defence production that the Air HQ had not projected their requirement in March 1978 when the production plan of undertaking 'N' for the next 5 years was being finalised and it might be possible to advance the earlier indicated delivery date of March 1982 if an order was placed immediately on undertaking 'N' subject to the decision on the *inter-se* priority for the supply of this item *vis-a-vis* other items earlier ordered on them. In view of this, it was decided by the Ministry that a letter of intent be placed on undertaking 'N' for the quantity required by the Air Force and further import would be considered only if there was adequate justification for the same. An order was placed for only one number of equipment 'X' at a cost of Rs. 12.60 lakhs (at the price quoted in February 1979) by the Air HQ on undertaking 'N' in June 1979. Bulk order could not be placed till the prototype was evaluated and cleared for production.

0.8 The need for import of additional number of equipment was discussed in a meeting held in the Ministry in February 1980. The Air HQ. pointed out that calibration carried out (September 1979) showed that at 53 *per cent* of the airfields the equipment (versions A and B) in use were unsafe and continuing with them was a safety risk. There was a minimum additional requirement for 30 *per cent* of the airfields to provide dependable equipment at these airfields in the near future. The DRDO pointed out that evaluation of the equipment 'X' developed by them has already been completed and the equipment was lined up for production. Air HQ stated in this context that the production agency (undertaking 'N') was not interested any longer in taking up production of the equipment 'X' developed by Establishment 'L' as its order book was full. The order placed on the undertaking was also not progressed. It was, therefore, decided that pending the decision on the change in the production agency by the Department of Defence Production further requirement would have to be met by import as under the existing circumstances it was not considered realistic to assume that within 4 years any appreciable quantity could be available from the indigenous manufacturer. Government accordingly approved (September 1980) import of a further quantity of the equipment (for 30 *per cent* of the airfields) bringing the total import approved to that required for 73 *per cent* of the airfields. Another contract for the import of this quantity was concluded (March 1981) with firm 'F' at a price (excluding spares) of £ 1,098,120 (Rs. 209.74 lakhs) as against the earlier contracted price of Rs. 124.03 lakhs (for the same quantity).

0.9 The equipment ordered under the three contracts were delivered by June 1980, March 1981 and October 1982 against the contractual delivery dates of September 1978, September 1979 and March 1982 respectively. Seventeen *per cent* of the equipment (value : Rs. 83.89 lakhs at the contract value of March 1981) still remained to be installed for want of civil work support and brought into use (April 1984).

0.10 As undertaking 'N' was not interested in the manufacture of the equipment, undertaking 'M' was nominated as the production agency in July 1980. In July 1981, *i.e.*, after about a year of its nomination, undertaking 'M' stated that the design of equipment 'X' developed by Establishment 'L' was not acceptable to it and the equipment would have to be re-designed in many respects and thus production would not commence before September 1985. In view of this development, it was decided (September 1981) to entrust the production of the equipment to a State undertaking 'O' which had shown interest in its development and was also associated with the transfer of the know-how before undertaking 'M' was nominated. A contract was also concluded (September 1982) with the State undertaking 'O' for supply of the balance of requirement (for 27 *per cent* of the airfields and another 28 *per cent* towards training and reserves) at a price of Rs. 28 lakhs (FE : Rs. 6.25 lakhs) for the first model and Rs. 17.30 lakhs (FE : Rs. 4.50 lakhs) each for the remaining quantity. The equipment was to be delivered between May 1984 and January 1986.

0.11 The following are the important features noticed in the execution of project :

— Though the equipment 'X' for the Army was successfully developed by a Defence R&D Establishment 'L', it could not be productionised as Army in the mean time (1976) had projected a new qualitative requirement. The project was decided to be closed (March 1981) after incurring an expenditure of Rs. 14.08 lakhs.

— The development of the equipment for the Navy was also foreclosed (April 1976) after incurring an expenditure of Rs. 2.33 lakhs as the Navy had decided not to introduce the equipment 'X'.

— The equipment for the Air Force was successfully developed (March 1979) in close association with undertaking 'N' but it was not taken up for production by the undertaking immediately as the equipment was not included in its production plan and its order book was full. The production agency was, therefore, changed to undertaking 'M' to whom the design of the equipment developed by the Establishment 'L' was not acceptable and required a longer period for commencing production. The production agency was, therefore, again changed (September 1982) and order for manufacture placed on a State Government undertaking 'O' resulting in a cumulative delay of over 3 years in taking up the production of the equipment after its development; this necessitated additional import of the equipment in March 1981 at a cost of Rs. 209.74 lakhs in FE (excluding spares) involving an increase of Rs. 85.71 lakhs over the earlier imported cost (for the same quantity).

— Though import of the equipment was approved in March 1976 to replace the ageing equipment during 1976-77, contract for the same was concluded with foreign firm 'F' only in June 1977. A major portion of the equipment was actually delivered during 1979-80 involving delay of 5 months over the delivery schedule. Seventeen *per cent* of the equipment imported still remain to be installed (April 1984).

CHAPTER 3

# ORDNANCE AND CLOTHING FACTORIES

## 10. GENERAL

### 1. *Introduction*

There are 34 Ordnance and Clothing Factories functioning as departmental undertakings under the Department of Defence Production, producing wide variety of items for the Defence Services, para military forces and the civil police. According to Group wise classification there are 6 metallurgical, 13 engineering, 4 filling, 3 chemical, 5 ordnance equipment and 3 miscellaneous factories. The overall management of the factories vests with the Ordnance Factory Board (OFB) comprising the Director General, Ordnance Factories (DGOF), as Chairman and seven other full time members. The responsibility for managing 29 factories are assigned to 4 members, and 5 Ordnance Equipment Factories (OEF) to an Additional DGOF. Functional responsibilities on finance, planning and material management, personnel and technical development and services are vested in other members. Overall statistical data on the activities of the Organisation for the period 1980-81 to 1982-83 is shown in Annexure-I.

### 2. *Capacity, Targets and Achievements*

The project capacities/installed capacities of the old established factories are not known. The capacity utilisation during 1982-83 of selected new factories or projects ranged from 8.5 to 54.56 *per cent* with reference to project capacities and from 22.13 *per cent* to 83.01 *per cent* with reference to installed capacity. An analysis of the Production performance in terms of targets and number of items during the year 1981-82 to 1983-84 in respect of critical items for the three Services, revealed the following position in regard to the extent of fulfilment of their requirements by the Factories.

| Range of achievement | 1981-82 | | | | 1982-83 | | | | 1983-84 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Army | Navy | Air Force | Ord. Eqpt. Fys. | Army | Navy | Air Force | Ord. Eqpt. Fys. | Army | Navy | Air Force | Ord. Eqpt Fys. |
| 100% and above | 94 | 9 | 11 | 86 | 85 | 10 | 6 | 85 | 95 | 4 | 8 | 74 |
| 90% to 99% | 4 | .. | .. | ... | 3 | .. | .. | 1 | 2 | .. | .. | .. |
| Below 90% | 6 | 2 | 4 | 10 | 22 | 1 | 4 | 6 | 10 | 9 | 3 | 16 |
| TOTAL | 104 | 11 | 15 | 96 | 110 | 11 | 10 | 92 | 107 | 13 | 11 | 90 |

### 3. *Budget and actuals*

Budget grant and actual expenditure for 1982-83 in respect of Revenue and capital for Ordnance and Clothing Factories is as under :—

| | Revenue | | Capital | |
|---|---|---|---|---|
| | Estimated | Actual | Estimated | Actual |
| | (In crores of rupees) | | | |
| 1982-83 | 773.02 | 744.93 | 69.13 | 59.78 |

### 4. *Works-in Progress*

As on 31-3-1983, 56,862 warrants were outstanding valuing Rs. 304.52 crores, of this 32,079 warrants valuing Rs. 71.35 crores were more than one year old (1952-53 to 1981-82). The normal life of a manufacturing warrant is, however, six months. Of the outstanding warrants mentioned above 756 warrants valuing Rs. 4.14 crores, pertain to development. 591 Development warrants (value : Rs. 2.55 crores) were pending for more than one year (1960-61 to 1981-82).

### 5. *Overtime*

All the Ordnance Factories work on systematic overtime throughout the year. Figures of overtime work for last three years in terms of both money value and hours is as below :—

*Overtime work*

| | Man-hours (in lakhs) | Value (Rs. in lakhs) |
|---|---|---|
| 1980-81 | 788.18 | 2607.48 |
| 1981-82 | 811.11 | 3009.46 |
| 1982-83 | 822.47 | 3655.67 |

### 6. *Inventory*

As against Rs. 583.53 crores on 31st March 1982 the total holding of inventories in terms of money value for various Ordnance and Clothing Factories was Rs. 664.56 crores as on 31st March 1983 as detailed below :—

| Sl. No. | Particulars | Value in crores of Rupees | |
|---|---|---|---|
| | | As on 31-3-1982 | As on 31-3-1983 |
| 1. | Working Stock : | | |
| | (A) Active | 448.80 | 512.00 |
| | (B) Non-moving | 26.85 | 40.03 |
| | (C) Slow-moving | 30.69 | 37.49 |
| 2. | Waste and obsolete | 24.40 | 18.63 |
| 3. | Surplus Stores | 6.72 | 7.05 |
| 4. | Maintenance Stores | 46.07 | 49.36 |
| | | 583.53 | 664.56 |

The stock holding in terms of average monthly consumption of direct and indirect stores works out to 11.11 months. An amount of Rs. 8 crores worth of inventory is held in one Ordnance Factory as fire affected stores.

Of the total inventories the position 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 are as under :—

(In lakhs of Rupees)

| | Slow moving | | Non-moving | |
|---|---|---|---|---|
| | Items | Value | Items | Value |
| 1981–82 | 41,915 | 3069.39 | 1,23,389 | 2685.31 |
| 1982–83 | 41,794 | 3748.63 | 1,31,434 | 4003.19 |

There was an upward trend in the accumulation of slow and non-moving stores and the increase in their cost during the year 1982-83 was Rs. 19.97 crores as compared to the previous year.

### 7. *Stock Taking*

Annual stock verification carried out by an independent group directly under the control of OFB/OEF Head quarters found the following deficiencies and surpluses in the factories :

| | Deficiency | Surplus |
|---|---|---|
| | (In lakhs of Rupees) | |
| 1980–81 | 2.29 | 32.32 |
| 1981–82 | 18.94 | 10.87 |
| 1982–83 | 23.93 | 33.21 |

S/2 DADS/84—3.

## ANNEXURE I

*Overall Statistical Data*

| | | 1980-81 | 1981-82 | 1982-83 |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| (1) | Average value of fixed capital assets (Rs. in crores) | 388.57 | 402.46 | 431.92 |
| (2) | Man-power (No. in lakhs) | 1.74 | 1.76 | 1.79 |
| (3) | Net cost of production (excluding inter-factory demands Rs. in crores) | 540.72 | 621.01 | 697.75 |
| (4) | Capital output ratio | 1 : 1.39 | 1 : 1.54 | 1 : 1.62 |
| (5) | Factory cost analysis in terms of percentage of value of production | | | |
| | Material | 68.30 | 68.80 | 67.68 |
| | Labour | 6.74 | 6.45 | 6.44 |
| | Others | 24.96 | 24.75 | 25.88 |
| (6) | Gross contributed value (value of production less materials and outside supplies and services Rs. in crores) | 212.69 | 245.65 | 281.11 |
| (7) | Wages (Rs. in crores) | 45.20 | 50.80 | 55.99 |
| (8) | Net contributed value (gross contributed value less wages Rs. in crores) | 167.49 | 194.85 | 225.12 |
| (9) | Net contributed value per Rs. 1 crore of fixed capital assets (Rs. in crores) | 0.43 | 0.48 | 0.52 |
| (10) | Average earnings per employee (Rs.) | 9,326 | 10,504 | 12,149 |
| (11) | Net contributed value per employee (Rs.) | 9,626 | 11,071 | 12,606 |
| (12) | Value of abnormal rejection (Rs. in crores) | 4.36 | 4.15 | 5.05 |
| (13) | Percentage of abnormal rejection on gross value of production | 0.65% | 0.53% | 0.58% |
| (14) | Customer composition (percentage of total issues net of Inter-Factory Demands) | | | |
| | Army | 88.72 | 90.48 | 88.86 |
| | Navy, Air Force and others | 4.09 | 3.54 | 3.64 |
| | Civil Trade | 4.96 | 4.36 | 5.12 |
| | Own stock and Capital works | 2.23 | 1.62 | 2.38 |
| (15) | Extent of requirement of stores (Armament, Ordnance clothing, Mechanical Transport) met by Ordnance Factories in terms of percentage : | | | |
| | Army | 64.04 | 62.53 | 55.08 |
| | Navy, Air Force and others | 32.43 | 46.98 | 37.69* |
| (16) | Value of inventories (Rs. in crores) | 525.77 | 583.53 | 664.56 |
| (17) | Surplus, obsolete, slow moving and non-moving inventories (Rs. in crores) | 88.93 | 88.66 | 103.20 |

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| (18) | Norms of general inventory holdings in terms of months requirements | 6 months | 6 months | 6 months |
| (19) | Inventories in terms of months consumption . | 11.21 months | 11.08 months | 11.11 months |
| (20) | Normal manufacturing cycle (normal life of manufacturing warrants) | 6 months | 6 months | 6 months |
| (21) | No. of warrants pendency . . . | | | |
| | Total No. of warrants on 31 March 1983 . | | | 56862 |
| | Value of warrants on 31 March 1983 . . | | | Rs. 304.52 crores |
| | No. of warrants more than one year old (1952-53 to 1981-82) . . . | | | 32,079 |
| | Value of warrants of more than one year old | | | Rs. 71.35 crores |
| (22) | Value of components and products in stock (Rs. in crores) . . | 105.15 | 100.09 | 131.41 |
| (23) | Components and products holding in terms of months production . | 1.88 months | 1.53 months | 1.81 months |
| (24) | Capacity utilisation of selected new factories or projects for which information of installed capacity is available : | | | |
| | (*a*) Percentage utilisation with reference to projected capacity . . . | | | 8.5% to 54.56% |
| | (*b*) Percentage utilisation with reference to installed capacity | | | 22.13 to 83.01% |

*Ordnance Factory issues including MES and R&D but purchase by Navy and Air Force only. Hence the % will be slightly less.

## 11. LOSS ON ACCOUNT OF INEFFECTIVE FINANCIAL CONTROL

### 11. (i) Loss of revenue due to non-revision/delay in revision of rates of recovery of water and electricity charges

The rates for recovery of charges from consumers for supply of water and electricity through Ordnance Factory sources were laid down by Government in March 1978, on the basis of cost data relating to the year 1975-76. It was stipulated that the rates were to be revised/reviewed by December 1979 based on the cost data for 1978-79 in respect of all factories. Fresh orders revising the rates of recovery upward were issued only after 3½ years in June 1983 and were subject to further revision/review by December 1983, based on the cost data for 1980-81 and 1981-82. The revised rates were, however, not given retrospective effect from January 1980. Further revision of the rates by December 1983 was yet to be made (September 1984).

Delay in revision of rates in time by December 1979 was attributed (October 1984) by the Ordnance Factory Board (OFB) to the procedural delay in compilation and supply of data by the various factories and further processing of the same at the OFB Headquarters and the Ministry. The OFB further stated (October 1984) that "efforts are being made and will be made in future to workout the revised rates within a standard time frame periodically as expeditiously as possible which will minimise the time gap between the operative date of giving effect to the old and the revised rates."

The loss of revenue from January 1980 to May 1983 on account of belated revision of rates worked out to about Rs. 88.82 lakhs. Further recurring loss of revenue due to non-revision of rates since December 1983, can be assessed only when the rates are revised by the Government.

The case was referred to Ministry in July 1984 and their comments are awaited (November 1984).

### 11. (ii) Non-realisation of revenues

#### (A) *Payment Issues*

In terms of the Government orders of October 1957, spare capacities available in the Ordnance Factories are utilised for "Payment issues" *viz.* supplies or services to non-defence Government departments both Central and State, Public Sector enterprises, private firms, private individuals, etc. All "Civil Trade" indentors are required to pay for the services in one or other of the various methods, *viz.* cash with orders, security deposit, monthly payment, cash on delivery and irrevocable letters of credit. Officers accepting the Civil Trade orders, have the powers to dispense with pre-payment from the Government Departments and recognised firms of known financial standing, provided they are personally satisfied that the transactions will not result in any loss to the Government. Dues not paid by stipulated dates will also carry interest at 6 *per cent* unless waived.

The total outstanding dues, as on 30th June 1984 for stores supplied and services rendered by the factories upto 31st March 1984 worked out to Rs. 41.36 crores *vide* table below :—

| Party | Amount outstanding for recovery as on 31-3-1984 (position as on 30-6-1984) | Number of items | Period from which amounts are outstanding |
|---|---|---|---|
| | (Rupees in lakhs) | | |
| A. Other Defence Departments. | 2,063.46 | 4,510 | Earlier to 1967-1968 and upto 1983-84 |
| B. Central Civil Departments. | 1,536.59 | 2,236 | 1967-68 to 1983-84 |
| C. Railways | 2.11 | 30 | 1967-68 to 1983-84 |
| D. State Governments | 350.00 | 136 | 1975-76 to 1983-84 |
| E. Foreign Governments. | 7.23 | 7 | Mainly 1982-83 |
| F. Public Sector Enterprises. | 60.69 | 217 | 1967-68 to 1983-84 |
| G. Private Bodies | 116.16 | 5,341 | 1967-68 to 1983-84 |
| TOTAL | 4,136.24 | 12,477 | |

The arrears of Rs. 41.36 crores included Rs. 20.11 crores (9,678 items) pertaining to the years upto 1982-83.

While the issues from the factories to Army are treated as free, the issues to other wings of the services *viz.* Air Force, Navy, Military Engineer Services (MES), etc. are priced and charged through book adjustments at cost.

The outstanding dues of Rs. 39.52 crores from various Central Government and State Government Departments and Organisations indicated lack of adequate follow-up action. Some of the dues, which are very old ranging from 1967-68 are likely to prove to be irrecoverable at this late stage.

The outstandings from Public Sector Enterprises (Rs. 60.69 lakhs) and Private bodies (Rs. 116.16 lakhs) were mainly due to the fact that pre-payment was not insisted upon and even after delivery of the goods prompt action for realising the dues was not taken. The interest alone on account of belated payment from public sector enterprises and private parties works out to Rs. 50.31 lakhs. Taking the interest into account, the net revenue not realised from these parties will be of the order of Rs. 2.27 crores.

Public enterprises are run on commercial lines and in respect of their supplies to Defence, full advance/ spot payments are insisted upon by them. In respect of supplies from Defence to Public Enterprises the payment arrangements should have been on reciprocal basis. On the contrary, not only were credits allowed, but even the dues were not realised over the years. The dues from a single Public Enterprise alone were Rs. 28.92 lakhs for supply of stores by one factory since 1973-74. Supply of stores to private companies without pre-payment and non-realisation of dues within the stipulated time lacks justification and shows lack of financial control.

The Ordnance Factory Board (OFB) stated (October 1984) that :

(i) realisation of outstanding dues was a continuous process and close monitoring was being done at the Board level itself;

(ii) action was in hand to progress the cases pertaining to Public Sector Enterprises and private bodies at higher level,

(iii) directives had been issued (August 1984) as a remedial measure to obtain pre-payments from all; and

(iv) existing orders were under revision, taking into account also the rate of interest.

(B) *Licence Fee and allied charges*

The outstanding dues in respect of Licence fee and allied charges for accommodation provided as on 30th June 1984 (for bills issued upto 31st March 1984) amounted to Rs. 27.10 lakhs. Some of the dues pertained to periods from 1965-66 onwards. Partywise analysis of the outstandings indicated that Rs. 7.31 lakhs were due from released/retired Government officers some of whom had left India. According to the rules all Government dues are to be recovered from Government servants before releasing their retirement benefits. Another Rs. 12.79 lakhs are due from private parties who were required to make monthly payments in advance. The possibility of recovery of these dues is remote. Thus non-observance of rules/orders, has led to potential loss of Rs. 20.10 lakhs on account of irrecoverable licence fees and allied charges.

The OFB stated (October 1984) that the matter was under review as a result of which the irrecoverable amount of outstanding dues was expected to come down.

11. (iii) **Loss due to non-observance of correct procedure**

The procedure introduced by the Railways with effect from 1st January 1962 regarding acceptance by the factory authorities against placement voucher (OPT-18) of railway wagons carrying factory goods at the factory siding laid down that "in case the factory representative observed any defect in the seals at the time of placement (of the wagons), a remark to that effect should be made by him at that very hour in OPT-18 foil so that necessary arrangement of witnessing the unloading may be made. In the absence of any such remark on OPT-18 made at that time it would be presumed that the wagon was made over to the factory representatives with seals intact and no subsequent representation as to the condition of the seal to be entertained".

The Railways intimated the procedure to an ordnance factory in December 1961. According to the Ministry of Defence (Ministry) (November 1984) endorsing shortages/discrepancies on the OPT-18 form in the case of open wagons by merely looking at the contents at the time of receipt without weighment and checking with the various invoices was not practicable. This difficulty was, however, not taken up with the Railways when the procedure was communicated and a workable solution was not arrived at.

During the years 1970 to 1972 the factory accepted several open wagons from the Railways containing steel billets, pig irons, cold rolled sheets, etc. supplied by trade sources without any remark on the OPT-18 and subsequently in 43 cases 379.827 tonnes of the stores valuing Rs. 7.66 lakhs were found short after weighment in the presence of railway representatives. The factory preferred claims (October 1970 to May 1972) for the shortages on the Railways, but the claims were rejected (September 1971 to May 1975) on the ground that the wagons carrying the goods, were accepted by the factory without any remark on OPT-18. The Director General, Ordnance Factories set up a Board of Inquiry (BI) only in December 1976 to fix responsibility for the shortages. The BI observed (April 1979) that the factory was not following the correct procedure as outlined by the Railways till October-November 1974. As the individuals responsible for receipt of wagons during 1970 to 1972 had already retired when the BI was convened and their statements could not be recorded, the BI could not fix responsibility for the loss. The BI did not, however, investigate whether there was any pilferage of the goods after acceptance of the wagons by the factory. The Ministry stated (November 1984) that since the BI had primarily gone into the reasons for the loss due to non-acceptance of the claims by the Railways, they did not consider the aspect of pilferage after receipt of wagons in the factory.

The loss is yet to be regularised (November 1984).

11. (iv) **Irregular payment of overtime allowance at higher rates than those allowed by the rules**

Inspite of the stipulation in the Government orders of August 1983 sanctioning interim relief to civilian employees that it will not count for any purpose other than retirement benefits, the Ordnance Factory Board (OFB) issued instructions in August 1983 that the interim relief should be reckoned for overtime allowance under the Factories Act, 1948. A specific clarification was given by the Ministry of Finance in October 1983 that the interim relief would not form part of the emoluments for determining the rates of overtime allowance. Yet, instructions were again issued in November 1983 and January 1984 for the continuance of such payments. They were reversed only in February 1984 whereafter overtime allowance was regulated on emoluments excluding the interim relief. The OFB stated (September 1984) that the full details of overpayment made on this account were under collection from the factories. The rough estimate made by Audit of the overpayment is Rs. 130 lakhs.

## 12. INJUDICIOUS PURCHASES

12. (i) **Extra expenditure in procurement of quenching oil**

Against the assessed requirements during April 1977 to September 1978 of 3 lakh litres of quenching oil to specification 'M' for the quenching tanks factory 'A' placed in January 1977 an indent on the Director General, Supplies and Disposals (DGSD) for 1,50,000 litres pending further review of the requirements. The purchase was made by DGSD from firm 'X' at Rs. 5.45 per litre. The factory received 1,49,775 litres during December 1977 and January 1978.

In September 1978 the factory initiated action to purchase another 35,000 litres of the oil locally on the ground of urgency, for topping up of the tanks and making up the shortage. Although the oil was available from other sources also, a proprietary article certificate was issued in favour of firm 'X'.

Against single tender inquiry on firm 'X', their quotation of October 1978 was for Rs. 7.10 per litre. The supplier claimed that the price was higher because the oil to be supplied by them called Hardnol 'A' would be manufactured from very refined base oil with special additives apart from those in the specification and that it would give better performance in actual use. As the compostion of the oil was unknown, the buyer had no means of assessing the superiority and efficacy claimed. On 22nd December 1978 an order for supply of 35,000 litres of Hardnol 'A' at Rs. 7.10 per litre was handed over to the supplier's representative who asked the factory on the same day to issue Military Credit (MC) note for despatch of the oil stating that the oil was lying with them for supply. The MC note was issued on the same day.

Supplies were received in March 1979. The supplier did not furnish any test certificate, nor did the factory carry out any test as there was no facility in the factory for conducting the test.

In September 1979, factory 'A' placed another order on firm 'X' on single tender basis under a proprietary article certificate for 80,000 litres of Hardnol 'A' at Rs. 7.99 per litre. The Ministry of Defence stated in October 1980 that different firms were using their own proprietary brand of additives and that as initial supplies of the oil were received from firm 'X' it was essential to purchase the oil from it under proprietary article certificate to maintain the same quality and properties in the oil filled in the tanks.

After 1980, however, procurement of Hardnol 'A' was discontinued and only oil to the specification 'M' was procured from various sources. Factory 'A' stated in September 1982 that as the major portion of the production was being done with water quenching, the necessity of further procurement of Hardnol 'A' did not arise.

A Board of Inquiry (BI) set up in September 1982 by the Ordnance Factory Board (OFB) observed :

(i) that there was no necessity to purchase the oil by giving proprietary article certificate from end use consideration,

(ii) that factories 'B' and 'C' were purchasing the oil on competitive tender basis and

(iii) that experiments at factory 'C' had proved that oil from various sources could be mixed without deleterious effect provided the oils conformed to the laid down specification. It also stated that factory 'A' did not make any reference to these two factories while deciding to procure the oil from firm 'X' on single tender basis against the proprietary article certificate.

The BI observed that procurement action was made by the factory at a very fast pace and that even before the order was placed the firm was aware that they were going to get the order. It could not, however, find out whether the issue of proprietary article certificate was based on a genuine error of technical assessment or there was some other factor or consideration.

Extra expenditure on the procurement of 1,13,963 litres of oil from firm 'X' amounted to Rs. 2.82 lakhs computed with reference to the rate for oil of specification 'M' during 1979 (Rs. 5.24 per litre). The OFB stated that a fresh BI had been ordered in October 1983 to investigate the procurements by factory 'A'. The report which was due for submission by December 1983 was still awaited (October 1984).

12. (ii) **Procurement of a sand washing and grading plant**

In order to provide washed and graded sand to the foundries of factory 'A' for producing castings of better quality, the Director General, Ordnance Factories concluded a contract in March 1976 with a firm for supply of a sand washing and grading plant with auxiliary equipment, their erection and commissioning and execution of connected civil works at a total cost of Rs. 89.22 lakhs. The cost was revised from time to time due to inclusion and deletion of certain auxiliary equipment and it finally stood at Rs. 93.07 lakhs (July 1982).

According to the contract, the firm was to complete the erection, successful commissioning and performance test of the plant by 20th August 1977. They were paid an advance of Rs. 23.76 lakhs to execute the order. Due to delayed finalisation of layout drawings, provision of additional items during the currency of the work, difficulties in procurement of cement and steel, financial hardship, etc. the firm took 72 months, against the expected period of 17 months, to complete the erection, commissioning and performance test of the plant (March 1982). The plant was accepted and taken over by the factory in March 1982 on the condition that the defects which were persisting should be rectified by the firm within a month. Although a sum of Rs. 0.42 lakh was recovered from the firm as liquidated damages for delayed completion of the work, the same was refunded to them (November 1982) as per the order of the Ordnance Factory Board (OFB) and an amount of Rs. 10,000 was recovered as token liquidated damages for the inconvenience caused. The OFB stated (August 1983) that the liquidated damages were not levied as there was no financial repercussion since the factory had not purchased any classified and graded sand during the period of delay. The fact, however, remains that the plant was ordered in 1976 for washing and grading of sand to produce castings of better quality and due to the delay of over 4½ years in its commissioning the object was not achieved. The exact financial implication cannot be assessed in Audit. However, it was seen that in case of production of item X in factory 'A' the rejection loss during 1977 to 1982 due to casting defects was about Rs. 74.03 lakhs.

Regular production in the plant started from March 1982. The firm had, however, not rectified the defects in the plant fully as per the undertaking given in March 1982 and the plant remained under down time for 782 hours during July 1982 to March 1983 and 1144.5 hours during 1983-84. According to the Ministry of Defence (Ministry) (November 1984) the firm had promised to rectify the defects by December 1984.

Against the production capacity of 2000 tonnes of washed and graded sand per month in a single shift of 8 hours, only 2378 tonnes (average 264 tonnes per month) were produced in the plant during July 1982 to March 1983 and 5043 tonnes (average 420 tonnes per month) during 1983-84. The capacity utilisation was about 13.2 *per cent* and 21 *per cent* respectively. The Ministry stated (November 1984) that the total requirement of washed and graded sand in the factory was estimated to be 7 tonnes per hour *i.e.* 1400 tonnes per month, that considering a utilisation factor of 70 *per cent* a plant of 10 tonnes per hour was procured and that to utilise the plant capacity to a greater extent sale of sand to the railways was under consideration.

The use of washed and graded sand had not, however, improved the quality of the castings and the rejections of a few main items of production remained very high during 1982-83 and 1983-84 as indicated below :

Rejection percentage

| Item | 1982-83 | 1983-84 (till January 1984) |
|---|---|---|
| 'X' | 72.25 | 71.09 |
| 'Y' | 61.19 | 47.55 |
| 'Z' | 52.42 | 41.87 |
| 'M' | 47.5 | 44.08 |

Factory 'A' stated (February 1984) that quality of castings depended on various variables in the technology and use of washed and graded sand was not the only attribute towards rejection percentage.

While the factory had not procured washed and graded sand during the long period of six years when the plant was under supply and commissioning, thereafter the utilisation of the plant was minimal and there was no significant improvement in the quality of castings with the use of washed and graded sand presumably because the other attributes towards heavy rejections of castings had not been taken care of, the procurement of the plant at a cost of about Rs. 1 crore was uncalled for.

The case reveals the following :

(i) As the factory was not using washed and graded sand till 1982 and subsequently the use of the sand did not improve the quality of castings, the procurement of the plant (cost : Rs. 93.07 lakhs) was unnecessary.

(ii) Against the stipulated period of August 1977, the plant was actually commissioned and taken over from the firm in March 1982 with number of defects. The defects were yet to be fully rectified (September 1984).

(iii) Against the production capacity of 2000 tonnes of washed and graded sand per month in a single shift of 8 hours, the plant had produced on average only 264 tonnes per month (13.2 *per cent*) during July 1982 to March 1983, and 420 tonnes per month (21 *per cent*) during 1983-84.

12. (iii) **Extra expenditure on local purchase of Vehicle components**

In April 1976 and November 1977, a factory placed two supply orders on a Public Sector Enterprise (PSE) for the supply of 3,000 Driver's Cabin Hard Top (DC) and 2,000 Floor Assembly (FA); the price was Rs. 5,200 each for the first 375 and Rs. 5,250 each for the balance in respect of DC, and Rs. 3,050 each in respect of FA. In December 1977, the factory requested the PSE to accept an increase of 3,000 nos. in the order (April 1976) for DC with reduction from the existing price. The PSE did not agree (February 1978) to accept the additional quantity at the old price and asked for a revised price of Rs. 5,720 each. Counter offer of Rs. 5,450 each, made in February 1978 was not accepted. In the meantime, the factory also floated a tender enquiry (March 1978) for the procurement of 2,000 FA. The following quotations were received :—

| | |
|---|---|
| (*i*) Firm 'A' | Rs. 2,899 (for 1000 nos.) Rs. 2,844 (for 2000 nos.) |
| (*ii*) Firm 'B' | Rs. 3,069 |
| (*iii*) Firm 'C' | Rs. 4,700 |
| (*iv*) Firm 'D' | Rs. 3,400 |
| (*v*) Firm 'E' | Rs. 3,350 |
| (*vi*) PSE | Rs. 4,232 |

Rs. 3,600 (subject to cost-study to be undertaken by Ministry of Defence).

The offers of the firms offering lower price were not considered as they were stated to be developing the item for the first time, whereas the PSE was the only established source of supply. According to the Ordnance Factory Board (OFB) (September 1984), the stock and dues position required placing of the order on the PSE to maintain continuity of supply.

As the offers of the PSE for these two items were considered high by the factory as compared to the existing contract rates (viz Rs. 5,200—Rs. 5,250 each for DC and Rs. 3,050 each for FA) and as the PSE was the only established source of supply for the two items, the factory requested the Ministry of Defence (Ministry) (May 1978) to negotiate the prices with the PSE. After negotiations it was decided by the Ministry (June 1978) that the firm would supply the two items at provisional rates of Rs. 5,550 each for DC and Rs. 3,280 each for FA subject to price variation clause, pending settlement of the final price on 'Cost Plus' basis as advised by the Senior Cost Accounts Officer (SCAO) of the Ministry.

Accordingly two orders for 2,000 nos. of DC and 1,000 nos. of FA were placed on the PSE (December 1978), the quantities on orders were increased subsequently (January 1979) to 3,000 and 2,000 respectively with the delivery schedules as 'December 1978 to September 1979' at the rate of 300 per month for DC and as 'January 1979 to September 1979' for FA at the rate of 225 per month.

The SCAO visited the PSE in March 1979 and submitted his report in April 1979. On the basis of recommendations of the SCAO, the following final rates were sanctioned by the OFB (October 1979) :

| | For supply during December 1978 to May 1979 (Rs.) | For supply from June 1979 (subject to price variation clause) (Rs.) |
|---|---|---|
| DC . . . | 7,456 each | 7,573 each |
| FA . . . | 3,649 each | 3,687 each |

Thus while the price of FA came down from a fixed price of Rs. 4,232 to Rs. 3,649 and Rs. 3,687 each (with escalation), that of DC increased from Rs. 5,720 to Rs. 7,456 and Rs. 7,573 each (with escalation). The actual supply position was as under :

| | Upto May 1979 | | After May 1979 | |
|---|---|---|---|---|
| | Nos. | Rs. in lakhs (basic cost) | Nos. | Rs. in lakhs (basic cost) |
| DC . | 803 | 59.29 | 2,197 | 173.25 |
| FA . | 434 | 15.84 | 1,566 | 62.93 |

The cost study was to be undertaken to ensure that the quotation of the supplier was not excessive. Any such study should, therefore, not have resulted in payment of a price higher than what was quoted.

The OFB stated (September 1984) that the SCAO examined the whole aspect relating to the cost of production of the two items in the context of possible conclusion of a long-term (5 years) contract, not merely on the basis of the offers of the PSE and as such any comparison of the finally accepted prices with the earlier offers would not be apt. Further that due to inflation at 25 *per cent* occurring between 1977-78 and 1979-80, the cost study on the whole resulted in substantial gains.

Had the offers at prices given by the PSE for the two items been accepted without calling for negotiations, the actual payment would have been less by Rs. 55.07 lakhs.

## 13. PRODUCTION LOSS

### 13 (i) Excess expenditure in manufacture of an ammunition

In June 1969 the Director General, Ordnance Factories (DGOF) placed an extract on a factory for manufacture of 170 lakh numbers of an ammunition. Production of the ammunition commenced in 1971-72 and 7.83 lakh numbers were issued to the indentor during 1972-73. Consequent upon modifications in the design of the ammunition by the Director of Inspection (Armaments) in September 1973, the factory requested the DGOF (September 1973) to convert the extract into a development extract and to treat the expenditure against the extract as development cost to be charged off to the production against the subsequent extracts for the ammunition. The Ministry of Defence (Ministry) stated (November 1984) that the factory's proposal covered development of 50 lakh numbers at an estimated cost of Rs. 60.65 lakhs.

Though DGOF's approval was not received, the factory issued a development warrant in October 1973 for establishing manufacture of the ammunition of modified design. Against the estimation of Rs. 60.65 lakhs for development of 50 lakh numbers the warrant was short closed in July 1976 after developing 40,61,340 numbers at a total cost of Rs. 71.30 lakhs. However, after more than three years of factory's request for converting the extract into a development extract the DGOF intimated the factory in February 1977 that the associate finance had not concurred in the proposal and there was no provision for according *ex-post-facto* sanction for development works. Although the development work was meanwhile completed, investigation was not made to review and assess whether the quantum of expenditure incurred on the work was justified.

The ammunition developed (40,61,340 numbers) was issued to the indentor during 1975/1976 at Rs. 39.95 lakhs and the extra expenditure on development on account of difference between the actual expenditure and that charged for the issues worked out to be Rs. 31.35 lakhs. The DGOF advised the factory (February 1977) to prepare a loss statement treating the excess expenditure as production loss. The loss was yet to be regularised (September 1984). The Ministry stated (November 1984) that there had been underpricing of the ammunition to the extent of Rs. 19 lakhs which would reduce the amount of extra expenditure and that the matter was under examination.

13. (ii) **Continued shortfall in production of an ammunition**

Mention was made in paragraph 9 of the Audit Report (Defence Services), 1976-77, of the failure of the ordnance factories to achieve the installed production capacity of an ammunition and that as a consequence imports had to be made.

Government sanctioned in April 1976/August 1977 Rs. 353.65 lakhs for procurement of plant and machinery and execution of connected civil works in factories 'X', 'Y' and 'Z'. With the additional investment, production of 40,000 rounds of ammunition per annum was expected to be achieved in two 8 hour shifts within 3 to 4 years. In December 1972, the Army had indicated their annual requirement of the ammunition as 33,000 rounds and in April 1976, the requirement was revised to 36,300 rounds, on the basis of which the present project was sanctioned. In July 1979, however, the Army indicated their annual requirement to be 68,000 rounds per annum and the Ordnance Factory Board (OFB) further sanctioned in September 1980 another sum of Rs. 16.92 lakhs for plant and machinery as well as civil works required by factory 'X' to ensure production of 40,000 rounds per annum in two 8 hour shifts as originally envisaged. According to the OFB (July 1979), creation of capacity for manufacture of the ammunition had been done in a haphazard manner due to indecisiveness of the Army; had their requirement been known earlier, a suitable plant of higher capacity instead of a smaller one for balancing, which also needed additional works, could have been provided.

Although it was anticipated (1975/1976) that Army's annual requirements of 40,000 rounds of ammunition would be met from 1980-81, there was shortfall in production. The targeted (T) production and actual achievement (A) during the years 1980-81 to 1983-84 are mentioned below :

TABLE 'A'

*(For components in factories 'Y' and 'Z')*

| Year | Cartridge Case | | Fuze | | Fin Assembly | | Shell Assembly | |
|---|---|---|---|---|---|---|---|---|
| | T | A | T | A | T | A | T | A |
| 1980–81 . | 30,000 | 17,385 | 20,000 | 12,000 | 30,750 | 15,375 | 30,750 | 15,500 |
| 1981–82 . | 30,000 | 21,785 | 30,000 | 9,000 | 30,000 | 21,957 | 30,000 | 24,375 |
| 1982–83 . | 40,000 | 22,115 | 40,000 | 7,000 | 40,000 | 23,575 | 40,000 | 23,625 |
| 1983–84 . | 40,000 | 23,930 | 40,000 | 10,000 | 40,000 | 22,500 | 40,000 | 22,225 |
| Total | 1,40,000 | 85,215 | 1,30,000 | 38,000 | 1,40,750 | 83,407 | 1,40,750 | 85,725 |

TABLE 'B'

*(For finished ammunition in factory 'X')*

| Year | T | | A | Percentage of shortfall compared to original target |
|---|---|---|---|---|
| | Original | Revised | | |
| 1980–81 | 30,000 | 15,000 | 15,105 | 49.65 |
| 1981–82 | 30.000 | 24,000 | 24,000 | 20.00 |
| 1982–83 | 40,000 | 30,000 | 10,000 | 75.00 |
| 1983–84 | 40,000 | 35,000 | 2,875 | 92.81 |
| TOTAL | 1,40,000 | 1,04,000 | 51,980 | |

The OFB stated (November 1984) that the envisaged capacity could be achieved after commissioning of the full sets of plants and machinery sanctioned.

Meanwhile, to meet the shortfall in production, 65,000 rounds of ammunition were imported during the period 1979-80 to 1983-84 at a cost of Rs. 12.52 crores. Components worth Rs. 3.10 crores for the manufacture of the ammunition were also imported during the same period. Further imports are also envisaged as per present performance of ordnance factories.

The case was referred to the Ministry in July 1984, but their reply is awaited (November 1984).

13. (iii) **Abnormal rejections of a casting**

For production of a component for an ammunition, factory 'A' has been obtaining the fin castings from factories 'B' and 'C' since 1964 and 1968 respectively. The castings are produced at factory 'B' on centrifugal casting method providing 40 *per cent* rejection during manufacture and that in factory 'C' by gravity die-casting machine with only 10 *per cent* rejection allowance.

Factory 'A' faced difficulties all along in utilising supplies of factory 'B' as various defects like cracks, blowholes corrosion, pitmarks, etc. were being noticed in their castings during and after machine finishing and anodising the components. After investigations were conducted in 1967 and 1973, certain remedial measures were taken but the improvement in the quality of the castings was not significant. According to the Ministry of Defence (Ministry) (November 1984), the inherent shortcomings in the technology of the machine installed, was the main factor attributable for the poor quality of production at factory 'B'. Although the quality of the castings produced by factory 'C' following the old diecasting method was satisfactory all through, it was only in December 1983 that the Ordnance Factory Board (OFB) advised factory 'A' to consider and study, if switch over to the gravity diecasting method by factory 'B', would bring down the rejections. Thus even during 20 years of unsatisfactory performance remedial measures to improve the castings of factory 'B' were not initiated.

Due to poor quality of the castings supplied by factory 'B', the average percentages of rejection of the component produced in factory 'A' was 43.55, 46.24 and 40.16 during 1980-81, 1981-82 and 1982-83 respectively against the provision of 30 *per cent*. The cost of abnormal rejections had not been worked out for regularisation as required under rules. Further, factory 'A' had accumulated stock of about 2 lakh poor quality castings of factory 'B' by September 1982. The approximate cost of abnormal rejections in manufacture during the period 1980-81 to 1982-83, as worked out by Audit, comes to Rs. 18.56 lakhs. To supplement its production target, factory 'A' placed orders on trade between July 1982 to October 1983 for 1.50 lakhs finished fins at a cost of Rs. 28.26 lakhs.

Due to inadequate stock of good castings, and heavy rejections during manufacture, there was shortfall in production of the component at factory 'A' to the extent of 31 *per cent* on average during the years 1980-81 to 1983-84 (value of shortfall : Rs. 88.52 lakhs) with reference to the production targets. To meet the deficiency of the component and consequent shortfall in the issue of the ammunition, orders were placed on trade during December 1983 to May 1984 for 1.45 lakh components at a total cost of Rs. 59.87 lakhs. Bulk of the orders on trade for finished fins and the components are, however, yet to materialise (November 1984).



The case reveals that :

- Production of inferior quality castings continued at factory 'B' for nearly two decades and remedial measures are yet to be formulated.
- Lack of adequate efforts and coordination on the part of OFB to take long term measures for either improving the quality at factory 'B' or establishing trade sources in time, involved shortfall in production valuing Rs. 88.52 lakhs and abnormal rejections in manufacture amounted to Rs. 18.56 lakhs.
- Continued shortfall in supply of the component affected the production of the end ammunition for which there is a heavy demand from the Services.

## 14. INFRUCTUOUS EXPENDITURE

### 14 (i) Infructuous expenditure on development of an item

The Radar and Communication Project Office (RCPO) required (December 1974) a hardware item for integration in an Air Force (AF) communication system for its improved performance. A Research and Development Laboratory (RDL) agreed (April 1975) to undertake the task of development of the item at a cost of Rs. 2 lakhs including foreign exchange (FE) of Rs. 1.40 lakhs per unit and envisaged utilisation of certain officers and staff from its existing strength for about 24 months. Although a Public Sector Undertaking (PSU) had also been engaged in the task, the RCPO recommended (August 1975) entrusting of the work to the RDL without delay stating that (i) the prospects of development in the PSU were uncertain; (ii) the RDL, having carried out similar tasks, was in a position to execute it cheaply and quickly; and (iii) if the PSU could supply the item later, these could be obtained to meet additional requirement. The Steering Committee of the Radar and Communication Board (RCB) accepted the recommendations subject to examination of the programme of the PSU before taking a final decision so as to avoid duplication of efforts. In the meeting, the Chief Controller of Research and Development also recommended the RDL for execution of the task as it had the competence to design and develop the item at a cheaper cost. As the PSU still required considerable developmental efforts and the RDL had the necessary competence, the Department of Electronics also cleared the proposal (February 1976). Government sanction was then obtained (March 1976) at a cost of Rs. 4 lakhs including FE of Rs. 2.80 lakhs for the development of 2 units. The project was expected to be completed within 79/98 weeks (*i.e.* by September 1977/January 1978) depending on whether the import of requisite materials/component would be arranged by the RCPO or the RDL itself.

The development work was commenced in March 1976 and completed in November 1978 (about 140 weeks) at a cost of Rs. 3.64 lakhs including FE of Rs. 2.65 lakhs. Field trials of the item planned to be held in July 1979, were actually held in December 1979 by the representatives of the RCPO and the AF, and proved satisfactory. The Research and Development Organisation, therefore, recommended (June 1980) that the RDL having completed the development successfully, the item could be integrated in the AF communication system. No decision was, however, taken by the RCB for its productionisation (March 1984) even though the project had been stageclosed earlier (August 1981). The RCPO explained (October 1983) that the project had been initiated only as a competence building one and that during trials, the item was found to hold promise but needed further work in many directions. Meanwhile (July 1981), the PSU confirmed that they had developed the item (cost not known) and would productionise their own model; but their delivery schedule being long, import of 6 units (cost : Rs. 54 lakhs approximately) for immediate integration in the communication system was under consideration (November 1984).

Thus the failure of the RDL in spite of its declared competence, to complete the task successfully as envisaged, not only resulted in unintended duplication of efforts and planning of import, but also in infructuous expenditure of Rs. 3.64 lakhs including FE of Rs. 2.65 lakhs, besides the cost of utilisation of its officers and staff.

The case was referred to the Ministry of Defence in June 1984 and their comments are still awaited (November 1984).

### 14. (ii) Loss due to inadequate specifications of a forging

For stepping up production of barrels of a gun in a factory, the Director General, Ordnance Factories (DGOF) asked a public sector enterprise (enterprise) to take up manufacture of forgings for the barrel on the basis of the following letters of intent pending settlement of price and issue of a regular order.

| Date of issue of the letter of intent | Quantity ordered (in numbers) | Remarks |
|---|---|---|
| January 1968 . . . | 10 | Educational order |
| April 1968 . . . | 50 | To be taken up only after the successful establishment of the pilot batch |
| December 1970 . . | 50 | |

The three letters of intent stipulated that the manufacture of the forgings should be strictly as per drawing dimension, tolerances and specifications. The forgings were to be inspected at site by the Director of Inspection (Armament), or his authorised representative and final acceptance accorded after requisite tests.

Though the forgings were required to withstand autofrettage pressure test, a provision for acceptance of the forgings after such operation was not made in the first two letters of intent of January 1968 and April 1968. In the third letter of intent (December 1970) it was specified that the forgings should be produced according to the approved methods of manufacture so that they did not fail in subsequent operations like autofrettage. The Ministry of Defence (Ministry) stated (September 1984) that the drawings and specifications furnished by the foreign collaborator provided autofrettage test of the barrel but since the drawings and specifications for the forging did not mention the test at a subsequent stage, the test was not mentioned in the first two letters of intent and that based on experience gained the condition was stipulated in the third letter of intent.

After negotiations of the price with the enterprise and approval of the purchase (January 1972) by the Government, the factory placed a formal order on the enterprise in February 1972 for all the 110 forgings at Rs. 52,000 each. Again mention was not made in this order that the forgings were required to pass subsequent operations like autofrettage. The omission was, however, made good by issuing an amendment to the order in June 1972.

Against the educational order of January 1968 the enterprise supplied 10 forgings during December 1969 to June 1970. Although the autofrettage test was not completed, the factory did not ask the enterprise to suspend further production pending completion of the test. 15 more forgings were received from the enterprise during July to September 1970 against the second letter of Intent. In November 1970 the factory informed the enterprise for the first time that out of 8 forgings (received against the educational order) autofrettaged, 7 had failed. The factory asked the enterprise (November 1970) to send its representative for discussion and taking remedial measures. But the enterprise continued to supply the forgings and by April 1972 the factory received another 27 forgings. Out of the 52 forgings received in all till April 1972, 22 passed autofrettage test and were used, and 4 were used in gun 'X'. Of the remaining 26 (cost : Rs. 13.52 lakhs) 23 were rejected after autofrettage test and 3 were awaiting decision for use in gun 'X' (August 1984). Consequently, semis worth Rs. 21.52 lakhs were lying in the factory (August 1984) since 1975-76.

The enterprise contended (June 1974) that as the condition of the autofrettage test was communicated to them only in June 1972, they were entitled to get the full price for forgings supplied before this date. On the consideration that the forgings had been passed by the Inspectorate at site, and in a high level meeting (June 1974) it was decided to pay for all the 52 forgings to the enterprise as a package deal connected with supply of another equipment by them at a price equivalent to the ordnance factory cost, Government sanctioned (July 1975) the payment to the enterprise for the rejected forgings at the full rate and accordingly payment was made. The Ministry stated (January and May 1977) that as the technology for successful production of the forgings had to be progressively developed by the enterprise rejections occurred and that as the exact causes of failure in autofrettage test could not be pinpointed, the question of detecting the defects during inspection did not arise.

Meanwhile, after the heavy rejections of the forgings were noticed, a meeting was held in June 1972 between the enterprise, the DGOF and the Chief Inspector of Metals to consider ways and means of improving the quality of the forgings. Subsequently, the enterprise manufactured 9 forgings as per the technology approved and agreed to in the meeting and these were received in the factory during March to August 1973. Of them, 8 passed the autofrettage test and were used. The other one was returned to the enterprise as it failed in the test. Payment was not allowed for this rejected forging. Had the forgings received against the educational order been autofrettaged first and further production of the same continued after proper technical study based on their autofrettage test, the loss on account of subsequent rejections involving an expenditure of Rs. 21.52 lakhs could have been minimised.

Although the supplies of the enterprise during 1973 met the specifications satisfactorily, the enterprise did not make any further supply thereafter against the order of February 1972 and the order was short closed at 61 numbers in June 1975. Within a few months, however, a fresh order was placed on them in September 1975 for 100 forgings (increased to 200 numbers in March 1976) at a higher rate of Rs. 80,000 each. An extra expenditure of Rs. 14.00 lakhs with reference to the order of January 1972 was involved on the quantity short supplied (50 Nos. against the earlier order). The enterprise completed the supplies satisfactorily by 1978. The Ministry stated (September 1984) that the short closure of the order was due to demand for higher price by the enterprise on account of inclusion of autofrettage condition.

## 15. COST ESCALATION/LOSSES DUE TO DELAY IN FINALISATION OF PROPOSALS

### 15. (i) Purchase of a roll turning lathe at high cost

To replace an old lathe machine and overcome production bottlenecks an ordnance factory obtained clearance from the Director General, Technical Development for import of a heavy duty roll turning lathe in August 1974. After more than 1½ years, in April 1976 the factory raised a demand on the Director General, Ordnance Factories (DGOF) for import, erection and commissioning of the machine at a total cost of Rs. 16.92 lakhs based on a quotation of firm 'X' (September 1974). The DGOF submitted the demand to the associate finance after another 10 months for concurrence. The Ordnance Factory Board (OFB) stated (September 1983) that the delays occurred as the factory had to finalise the specification of the machine after obtaining specifications from various firms and that the OFB had to examine various aspects of the procurement in consultation with the factory before submission to the associate finance.

The factory submitted a revised demand (August 1977) at the instance of the associate finance for purchase, erection and commissioning of the machine "as replacement of the existing one" at an estimated cost of Rs. 28.60 lakhs based on a fresh quotation from firm 'X' (June 1977) for a similar machine offered in 1974. The associate finance accepted the demand (September 1978) after protracted correspondence on the increased cost. Meanwhile, due to prolonged processing of the demand for about 4 years, the import licence which was already revalidated twice (December 1975 and March 1977) expired in March 1978. After a fresh revalidation (December 1978) the OFB placed (March 1979) an indent for the machine on the Director General, Supplies and Disposals (DGSD) and after obtaining OFB's recommendations the DGSD placed an order on firm 'Z' in May 1980 for supply, erection and commissioning of the machine at a total cost of DM 8.51 lakhs, *i.e.*, Rs. 39.39 lakhs (machine: Rs. 29.25 lakhs and accessories : Rs. 10.14 lakhs) (as amended in May 1982). The machine was to be supplied within 10 months FOB after opening of letter of credit. The letter of credit was issued in April 1981. However, as a number of amendments were made to the order from time to time to include various items demanded by the factory the delivery period was extended (May 1982) till April 1983. The firm supplied the machine in May 1983. It was received in the factory in November 1983 but was yet to be commissioned (March 1984).

It was observed in Audit that the production in the bar and rod mill gradually decreased and as compared to the production during 1975-76, there was a fall of about 36 *per cent* in the bar mill and 48 *per cent* in the rod mill during 1982-83.

The case was referred to Government in June 1983; their comments are yet to be received (November 1984).

### 15. (ii) Delay in execution of export orders

In para 19 of the Report of the Comptroller and Auditor General of India, Union Government (Defence Services) for the year 1979-80 mention was made of the cancellation of orders on an Ordnance Factory for ammunition 'X' against three contracts of 1972, 1973 and 1974 with a foreign Government. The orders were cancelled due to failure of factory 'A' to supply the ammunition in time.

The contracts with the foreign Government also provided for supply of 9034 numbers of ammunition 'P'. This ammunition had been an item of production in factory 'B' till 1970. Against the contract of October 1972 the Director General, Ordnance Factories (DGOF) placed an order on this factory after a time lag of 20 months in July 1974 for manufacture of 1,034 numbers of ammunition 'P'. Although by this time the other two contracts of November 1973 and May 1974 were concluded orders against them were not placed simultaneously. Against these contracts orders were placed on the same factory only in April and November 1974 for 8,000 numbers. The DGOF's orders envisaged manufacture and supply of the ammunition as early as possible. The factory commenced production in September 1974 but took two years to supply the first lot of 4,680 numbers in September 1976 which were shipped to the foreign Government in October 1976. The manufacture of the balance (4,354 numbers) was completed by March 1978 and of these 3,386 numbers were sent to a depot in March 1977 for shipment. While the ammunition was under check proof by the Controllerate of Inspection (Ammunition) before shipment, the Ministry instructed the factory in February 1979 to withhold further supply to the foreign Government as the foreign Government had in the meanwhile cancelled the orders.

Since the ammunition is not in use by the Services, the Ordnance Factory Board (OFB) had approached the Ministry of Defence in January 1981 for destruction of the unsupplied quantity. Pending a decision 4,294 numbers of the ammunition (cost : Rs. 3.65 lakhs), were lying in stock (October 1984). The balance 60 were spent in test.

The OFB accepted (October 1984) the facts of the case, but offered no explanations for the delay in completing the orders. The case was referred to the Ministry in July 1984 but their remarks were awaited (November 1984).

### 15. (iii) Extra expenditure in purchase of stores

A Technical Committee was set up in May 1971 at Factory 'A' to establish indigenous sources of manufacture and supply of components of a heavy vehicle.

Against a tender floated (December 1979) by the Committee for purchase of five components firms 'X', 'Y' and 'Z' quoted (February 1980) the following rates :—

| | Firm 'X' (Upto 200 numbers each) | Firm 'Y' (For a minimum 200 numbers each) | Firm 'Z' | |
|---|---|---|---|---|
| | | | (Upto 89 numbers each) | (For 90 to 200 numbers each) |
| | Rs. | Rs. | Rs. | Rs. |
| Hull main junction box . . | 7,282 | 15,000 | 9,200 | 8,600 |
| Hull rear junction box . . | 2,708 | 5,000 | 3,350 | 3,050 |
| Hull distribution junction box . | 6,090 | 14,000 | 7,200 | 6,650 |
| Generator panel number 6 . | 17,658 | 18,000 | 22,000 | 20,700 |
| Generator panel number 7 . | 15,714 | 18,000 | 18,800 | 17,150 |

The offers of firms 'X' and 'Z' were valid till 7th May 1980 and the offer of firm 'Y' was valid till 31st May 1980. The validity of the offers was subsequently extended by the firms till 31st July 1980.

The offer of firm 'X' was the lowest (Rs. 49,452 per set). The offer of firm 'Y' was the highest (Rs. 70,000 per set) and was likely to increase in case the firm was to pay higher prices for indigenous components. Firm 'Y' also asked for 50 *per cent* advance payment and foreign exchange at Rs. 11,710 per set against Rs. 1,723 per set asked by firm 'X'. Yet, on the consideration that firm 'X' had the largest outstandings (838 numbers in all against 583 from firm 'Y' and 510 from firm 'Z'), the Committee decided (February 1980) to place an order on firm 'Y' for 100 numbers of each component. However, when the case was sent (March 1980) to the Ministry of Defence (Ministry) for placing the order on the firm by the Department of Defence Supplies or to authorise the factory to place the order, the Ministry intimated (May 1980) that since the rate of firm 'Y' was the highest, negotiations with all the three firms to finalise the rates and other conditions regarding payment should be made. The negotiations with firms 'X' and 'Z' were made in December 1980 when the validity period of the offers had already expired (July 1980). The Ordnance Factory Board stated (August 1984) that as the case file was received from the Ministry on 18th July 1980 and the Chairman of the Technical Committee was transferred, the negotiations were delayed.

Meanwhile, after the validity period of the offers expired, in August 1980 firm 'X' increased their rates. After the negotiations (December 1980) and to maintain supplies from two sources, orders were placed (January and February 1981) on firm 'X' at the increased rates and on firm 'Z' at the original rates as follows :—

| | Firm 'X' | | Firm 'Z' | |
|---|---|---|---|---|
| | Quantity ordered (in numbers) | Rate Rs. | Quantity ordered (in numbers) | Rate Rs. |
| Hull main junction box | 91 | 8,010 each | 90 | 8,600 each |
| Hull rear junction box | 80 | 2,978 each | 90 | 3,050 each |
| Hull distribution junction box | 90 | 6,699 each | 90 | 6,650 each |
| Generator panel number 6 | 120 | 18,000 each | — | — |
| Generator panel number 7 . | 120 | 17,285 each | — | — |

Firms 'X' and 'Z' supplied the components during March 1981 to February 1983. The failure to place the orders on firm 'X' by July 1980 within the validity of their offer of February 1980 involved an extra expenditure of Rs. 3.72 lakhs.

15. (iv) **Extra expenditure due to delay in cancellation of orders**

In order to develop an alternative source an ordnance factory placed an order on firm 'A' in March 1972 for supply by 10th May 1972 of 17,000 kilograms (Kgs.) of cotton yarn (dyed blue) at Rs. 8.55 per kilogram for manufacture of durries. The firm supplied 15,698 kgs. within the stipulated period. Although the order was not completed, two more orders were placed on the firm in May 1972 and November 1972 for another 47,000 kgs. of the material at the same rate to be supplied by 30th July 1972 (17,000 kgs.) and 10th February 1973 (30,000 kgs).

As firm 'A' could not adhere to the stipulated delivery dates, these were extended from time to time upto 15th March 1974 for the first order and upto 31st March 1974 for the second and third orders. The firm could not complete the supplies even by March 1974 and in all 25,302 kgs of yarn remained undelivered against the orders. In April 1974, the firm expressed its inability to supply the balance quantity at the old rate due to revision in Government policy regarding distribution of yarn and restrictions in use of electric power and consequent rise in the price of yarn and requested either to increase the price for the balance quantity to Rs. 18 per kg. or to shortclose the orders to the quantity supplied against each without any financial repercussion on either side. In June 1974, the firm was informed by the factory that the orders could not be shortclosed without financial repercussions and it was advised to complete the orders by 31st July 1974. The firm was also informed that if it failed to complete the supplies by this date, the orders would be shortclosed at its risk and cost without any further reference.

Firm 'A' did not effect any further supply of the yarn by 31st July 1974. Yet, the orders on firm 'A' were not cancelled at its risk and cost. The Ministry stated (September 1984) that the balance quantity (25,302 kgs) against the orders on firm 'A' constituted a meagre fraction of total requirements and it was considered that while the production commitments should be taken care of by covering the requirements on other suppliers, firm 'A' should be allowed to make efforts to supply so as to develop as many additional sources of supply as possible.

As further supplies were not received the orders on firm 'A' were shortclosed in December 1982 without financial repercussion and the unsupplied quantity was procured in February 1983 from another firm at Rs. 24.85 per kg. involving an extra expenditure of Rs. 4.12 lakhs. General damages could not be recovered from firm 'A' as the orders on them were not cancelled and purchase of the store was not made at its risk and cost in time after breach of contract by the firm. The Ministry stated (September 1984) that for failure to act in time disciplinary action had been taken against the departmental officers.

### 15. (v) Unjustified procurement of containers from higher tenderer

To replace the existing unsuitable containers for two varieties of an ammunition, an ordnance factory designed containers 'X' and 'Y' in November 1979. The designs were approved by the Chief Controllerate of Inspection (Ammunition) in April 1980 after certain modifications.

Provisioning procedure provides that orders for indigenous stores can be placed 24 months in advance of the period of utilisation and that actual stock of 6 months' requirements can be held at anytime. Although there was no stock of the containers in the factory the requirement for 30 months, as laid down in provisioning procedure, was not worked out, but to meet the short-term requirements separate advertisements were issued on 22nd May 1980 for 15,000 numbers each of containers 'X' and 'Y' on 18th September 1980 for 15,000 container 'X' and on 19th September 1980 for 20,000 container 'Y'. The Ministry of Defence (Ministry) stated (December 1984) that as the quantum of reusable containers with the consignee factories could not be assessed even roughly at the time of procurement long-term procurement was not practicable and 6 monthly reviews were being made. But separate advertisements issued within a spell of four months show that short-term procurement was also not arranged judiciously.

Against the three advertisements, orders were placed during August 1980 to February 1981 as follows :—

| Advertisement | Name of firm | Container and quantity | Rate for container |
|---|---|---|---|
| May 1980 . . | 'B' | Design 'X' — 15,000 | Rs. 78 |
| | | Design 'Y' — 15,000 | Rs. 78 |
| September 1980 | 'B' | Design 'X' — 9,000 | Rs. 70 |
| | | Design 'Y' — 17,000 | Rs. 70 |
| | 'C' | Design 'Y' — 1,500 | Rs. 68 |
| | 'D' | Design 'X' — 1,500 | Rs. 68 |
| | 'E' | Design 'X' — 1,500 | Rs. 68 |
| | 'F' | Design 'X' — 1,500 | Rs. 66 |
| | | Design 'Y' — 3,000 | Rs. 66 |

Firms 'D' and 'E' did not accept the orders in April 1981, as quantities lower than 5,000 were not considered to be economical to produce. Firms 'B' and 'F' completed the supplies of 25,500 container 'X' and 35,000 container 'Y' by July 1981. The Ministry stated (December 1984) that although the supplies of firm 'C' were initially rejected because of shortages of few components, the same were found suitable after the components were supplied.

Against the first advertisement of May 1980, the factory received eight offers (varying from Rs. 30 to Rs. 70 per container) lower than that of firm 'B' including the offer of firm 'C' (Rs. 59.40 per container). All the lower offers were rejected on grounds like some of the rates not being fixed, or the delivery schedule not meeting the factory's requirement. The highest quotation of firm 'B' was accepted and development of a second source at a lower cost was not considered at this time. However, firm 'C' whose lower offer against this advertisement was rejected eventually proved to be a suitable supplier at a lower cost. An extra expenditure of Rs. 8.34 lakhs was incurred in the procurement of 24,000 container 'X' and 32,000 container 'Y' at higher costs from firm 'B' during August 1980 to January 1981 with reference to the initial offer of firm 'C'.

Had the total requirements been properly assessed in May 1980, as per provisioning procedure and adequate steps taken to establish alternative sources the extra expenditure could have been avoided.

## 16. AVOIDABLE/UNNECESSARY IMPORTS

### 16. (i) Unnecessary imports

In July 1978 the targets for production of Nissan Patrol vehicles at factory 'M' were fixed at 2,000 numbers per annum from 1979-80. The targets were revised in July 1979 to 2,000 vehicles during 1980-81, 2,500 during 1981-82 and 3,000 each during 1982-83 and 1983-84. The targets were later again revised downwards in October 1980 to 1,000 vehicles for 1980-81, 1,200 for 1981-82, 1,800 for 1982-83 and 2,000 for 1983-84. The reasons given for the downward revision were that balancing plant and machinery to augment the production were not in position (these were actually sanctioned only in January 1982) and foreign exchange was not available to supplement the shortfall between the requirements for higher targets and indigenous availability.

Meanwhile, the factory decided (July 1979) to import 1,200 driver's cabins from the foreign collaborator to meet the higher targets fixed in July 1979. The foreign collaborator was informed of the import in May 1980. After the targets were reduced in October 1980, the factory requested (October 1980) the Ordnance Factory Board (OFB) to drop the import as the indigenous supplies were adequate. The collaborator refused to cancel the order but agreed to reduce the quantity to 400 cabins. The Ministry of Defence (Ministry) stated (November 1984) that a sales agreement concluded with the collaborator for import of certain components included the cabins, but since the cabin was a simple item available indigenously and the import price was 4 times the indigenous price there was no justification for its import. The Ministry added that after a great deal of persuasion the order was short-closed subject to payment of a compensation of Rs. 1.77 lakhs to the collaborator on account of the short-closure.

The cabins (401 numbers : Cost : Rs. 79.53 lakhs) were received in the factory during July 1981 to February 1982. The matching components, *viz.*, clamp, cushion rubber, bumper hood, etc. for these cabins were, however, ordered by the factory during December 1981 to February 1982 on indigenous firms and were received during March 1982 to May 1983. Out of 401 cabins imported, 311 numbers (cost : Rs. 61.68 lakhs) were lying in factory's stock at the end of August 1984.

The landed cost per imported cabin was Rs. 19,832 against the cost of Rs. 4,631 per indigenous cabin. Unnecessary import of 401 cabins resulted in extra expenditure of Rs. 60.96 lakhs.

The target production of Shaktiman vehicles at factory 'M' was fixed (July 1978) at 4,200 numbers per annum. As a milling machine demanded by the factory in July 1977 was not sanctioned till then and in the absence of the machine the factory's capacity for machining of castings for fly wheel housing was limited to 4,000 numbers per annum, the factory requested the OFB (December 1979) to arrange for import of 1,700 sets of finished fly wheel housing to meet the production target. The OFB stated (September 1984) that consolidated requirements of plant and machinery were sanctioned in January 1982 to meet enhanced requirement of 4,200/4,700 vehicles per annum.

After three months of placing the demand the factory requested the OFB in March 1980 to defer/drop the import as scaling down of the targets for production of vehicles was under consideration of a high power team in view of considerable foreign exchange involved in the procurement of components to meet the target. However, as per directives of the OFB an order for import of 1,000 sets of finished fly wheel housing was placed (March 1980).

Against the order, 934 fly wheels (cost : Rs. 6.98 lakhs) were received (January to March 1982). As the targets for Shaktiman vehicles were meanwhile scaled down (October 1980) to 3,300 numbers (1980-81) 3,600 numbers (1981-82), 3,700 numbers (1982-83) and 3,800 numbers (1983-84), the whole stock along with another 703 numbers of imported fly wheel housing already in stock of the factory was lying unused (August 1984). The import of 934 fly wheel housing (cost : Rs. 6.98 lakhs) was thus unnecessary and it involved an extra expenditure of Rs. 2.77 lakhs as compared to the cost of indigenous component. The Ministry stated (November 1984) that the import was justified in the context of production programme at the time import action was taken and that the imported quantity proved as necessary cushion for production requirement.

For assembly with tanks factory 'A' was supplying equipment 'X' and 'Y' to factory 'B' from 1966-67 and 1967-68 respectively. Against the created capacity for 192 numbers of each per annum, factory 'A' actually manufactured only 75 equipment 'X' and 64 equipment 'Y' on average per annum till 1975-76. The production was stepped up thereafter to a level of 163 equipment 'X' and 178 equipment 'Y' per annum respectively from 1976-77. The Ministry stated (September 1984) that the full capacity at factory 'A' was utilised to achieve the output of different stores for which priority was given.

In October 1977 the Director General, Ordnance Factories decided to import 50 numbers of each equipment to act as buffer stock in view of steep rise in the targets at factory 'A'. Accordingly, Supply Wing of an Indian Mission abroad (SW) concluded a contract with a foreign firm 'C' (May 1979) for supply of the equipment by February 1980 at a total cost of £ 51,000 (Rs. 9.43 lakhs). The delivery date was later extended to May 1981.

After acceptance by the SW on warranty certificate furnished by the firm 50 equipment 'X' were received by the factory in January 1982. Equipment 'Y' was received during September 1982 (40 numbers) and February 1983 (10 numbers). The total cost of equipment was Rs. 11.10 lakhs (according to the Ministry this includes Rs. 1.66 lakhs erroneously charged as customs duty) and the import involved an extra expenditure of Rs. 8.58 lakhs with reference to factory 'A''s cost of production during 1981-82.

As equipment 'X' was found unacceptable (March 1982) in critical inspection in the factory, the supplies were back loaded to the supplier (June 1982) for rectification at their cost. Of these 45 were received back (March 1984) after rectification but as they were found to have certain other defects and the supplier had agreed to accept the cost of rectification (estimated cost : Rs. 0.34 lakh), the rectification was being undertaken by the factory (August 1984). The remaining 5 were under receipt (August 1984).

During inspection of equipment 'Y' received in September 1982 dimensional discrepancy that could affect the fitment in the tank was observed (November/December 1982). Although the SW intimated (July 1983) that the supplier had asked to complete inspection of all the 50 equipment 'Y' and return only the over dimensional ones to them for repair, the inspection was completed only in April 1984 and the full supplies were back loaded in May 1984 to the supplier for rectification.

The capacity of factory 'B' and factory 'A' was evenly matched (200 : 192). While factory 'B' never achieved a higher figure than 177 (1976-77) and production in that factory gradually came down to 133 in 1982-83, factory 'A' had fully met the programmes assigned to it and was capable of reaching the capacity. The import of equipment 'X' and 'Y' (cost : Rs. 11.10 lakhs) during 1980-81 and 1981-82 at an extra cost of Rs. 8.58 lakhs for creating a buffer stock was, therefore, unnecessary. The Ministry stated (September 1984) that the capacity of factory 'A' having been fully booked for the production of essential targeted items and there being higher probabilities of damages to the equipment, the creation of the buffer stock was considered prudent for easy flow during assembly of tanks.

### 16. (ii) Import at high cost due to delay in development of indigenous sources

A Technical Committee (TC) was set up in May 1971 at factory 'A' to establish indigenous source of manufacture and supply of components of a heavy vehicle. It was decided that, as far as possible, more than one source for such components should be developed.

Pannier bag tank is a rubberised fuel tank for storage of diesel to run the heavy vehicle. It consists of four fuel tanks one each for rear and front offside (OS) and near side (NS). After investigations the TC located (1974) firm 'X' as a possible source of supply for the tank. Based on the recommendations of the TC the Department of Defence Supplies (DDS) placed a development order on the firm in March 1975 for supply of 200 sets at the rate of Rs. 11,500 per set. The firm completed the supplies in March 1977. Thereafter following orders were placed on the firm during October 1977 to January 1981 :—

| Month of placing orders | Quantity ordered | Rate |
|---|---|---|
| October 1977 . | 500 sets | Rs. 10,900 per set |
| August 1978 . | 500 sets | Rs. 10,900 per set |
| January 1981 . | (*i*) 214 tanks rear OS. | Rs. 3,510 each |
| | (*ii*) 237 tanks rear NS. | Rs. 3,500 each |
| | (*iii*) 303 tanks front OS. | Rs. 4,047 each |
| | (*iv*) 231 tanks front NS. | Rs. 3,941 each |

The firm completed the first two orders for 1,000 sets by March 1979. Against the order of January 1981, the firm was to complete the supplies by February 1982. However, only 9 tanks rear NS and 8 tanks front OS were received during February to April 1982. As further supplies were not made and the firm was under lock out from March 1982 the order on them was cancelled in April 1983 without any financial repercussions on either side.

Although more than one source of supply was expected to be established, no order, developmental or otherwise, was placed for the tanks, during the 7 years till 1982 on any other supplier. According to the Ministry of Defence (October 1984) it was decided in August 1978 to place an order on firm 'Y' but as the requirements of tanks were subsequently reduced by the Army and the quantity available for placement of an order was meagre, the order could not be placed. Only in July 1982 a development order was placed on firm 'Y' for 200 sets at Rs. 15,906 per set (total cost : Rs. 31.81 lakhs), but the firm failed to submit pilot samples and the order was cancelled in April 1984.

Due to the failure of firm 'X' to supply pannier bag tanks against the order of January 1981 and failure to establish a second source of supply in time the factory had to import the tanks from the original manufacturer and also obtain the same from the Army stock to meet its production targets for the heavy vehicle. Imports from the original foreign manufacturer were resorted to durnig the period from October 1982 to July 1983 for the following quantities :—

| | |
|---|---|
| Rear OS . . . . . . . | 214 |
| Rear NS . . . . . . . | 237 |
| Front OS . . . . . . . | 303 |
| Front NS . . . . . . . | 231 |

The total cost of imports was Rs. 94.69 lakhs (FOB). As compared to the rate of firm 'X' the imports involved an extra expenditure of Rs. 57.52 lakhs.

## 17. UNINTENDED BENEFIT

### 17. (i) Extra contractual benefits to firms

Ordnance Factory Board (OFB) placed the following two orders on firms 'X' and 'Y' for supply of 2,725 tonnes of brass strips to factory 'A' at Rs. 37,000 per tonne.

| Firm | Month of Placing orders | Quantity ordered | Delivery Schedule |
|---|---|---|---|
| 'X' | May 1980 | 2400 tonnes | 100 tonnes per month during first three months commencing after 8 weeks from the date of order, 125 tonnes per month during next three months and 150 tonnes per month thereafter. |
| 'Y' | February 1982 | 325 tonnes | 50 tonnes per month commencing after 8 weeks or earlier after receipt of order. |

Firm 'X' failed to complete the order as per schedule *i.e.* by January 1982. The delivery schedule was extended initially up to November 1982 and later up to April 1983.

In August 1982, 100 tonnes of electrolytic copper were issued by Factory 'A' to firm 'X' on loan. Similarly, firm 'Y' was also issued 44.835 tonnes of the store on loan in September 1982. Such loans were not covered by the orders. Nor did it form a part of the contracts. Ministry of Defence stated (September 1984) that the loans were made as the firms were experiencing difficulties in getting the supplies of the store from the MMTC/Hindustan Copper Ltd.

Out of 100 tonnes of electrolytic copper issued to firm 'X' on loan, 51.234 tonnes were returned in July 1983 i.e., after 12 months against the normal period of 6 months and the balance 48.766 tonnes was treated as issue for conversion of strips against another order. Firm 'Y' returned the material in July 1983 though the loan was given in September 1982 only for a period of 6 months. The suppliers had been given cash advances carrying interest at 14/16 per cent as per the terms of the contract. There was no provision in the contracts for supply of material on loan. Such loans which were of substantial money value should have been charged interest at the same rate as for cash loans, viz. 16 per cent. The loss to Government on account of the omission to charge interest was Rs. 7.91 lakhs.

## CHAPTER 4

## WORKS AND MILITARY ENGINEER SERVICES

### 18. Construction of a sub-standard Airfield

0.1 A review of the construction of two air-fields ('A' and 'B') out of the three ('A', 'B' and 'C') approved by the Government in May 1973 at a total outlay of Rs. 22 crores was included in paragraph 22 of the Audit Report (Defence Services) for 1975-76.

0.2 A review of the execution of the project for the third airfield 'C' revealed the following :

0.3 Sanction for acquisition of land (Rs. 0.04 crore) and administrative approval for works services (Rs. 5.80 crores) was accorded in September 1973 and May 1974 respectively. In December 1973, the Chief Engineer (CE) concluded a contract for Rs. 1.98 crores with firm 'X' for execution of work pertaining to runway, taxi-tracks, linked tracks and dispersal tracks of the air-field to be completed in January 1975. The work was actually completed in November 1975. The air-field was handed over to the users in March 1976 but was put to use only in October 1976.

0. 4 The contractor was responsible for rectifying any defects noticed during one year after the date of completion of work. According to the Ministry of Defence (Ministry), firm 'X' had initially signed the final bill under protest without assigning any reasons ; the protest, however, was subsequently withdrawn ; the final bill was audited in September 1977 (but the amount was kept in deposit in February 1979) and at that stage there were no Government claims.

0.5 After the maintenance period of one year was over, the users intimated (December 1977) the Zonal CE that the flexible pavement had started showing signs of disintegration to such an extent that the fine aggregate had started coming out and accordingly declared the air-field as hazardous to flying.

0.6 The Technical Examiner pointed out (November 1976 and February 1978) that certain obligatory tests to ensure quality control as prescribed in the contract were not carried out and records not maintained properly. This was also later mentioned by the Chief Technical Examiner in his report for the period October 1980—March 1981.

0.7 Under orders of the Air Headquarters (Air HQ) a Court of Inquiry was held during August 1978—May 1979 to investigate into circumstances under which the airfield had become unfit for operations and also to ascertain whether construction of the air-field and material used therefor were as per provisions specified in the contract agreement. The findings of the Court of Inquiry were as under :

— Surface of bituminous portion of the runway including the overrun was pitted, abraded, ravelled, etc.

— Work of asphaltic concrete done from 25th April 1975 to 10th May 1975 was below the contract specifications.

— Non-use of the runway either by aircraft or by simulated vehicular traffic for about a year after its completion caused age hardening of bitumen and resulted in early deterioration of the airfield.

0.8 The Court blamed two commissioned officers and one junior commissioned officer for the lapses and recommended that the runway in its deteriorated state might not be used for operations, and it was remarked (August 1979) by the authorities at the Air Command concerned that guidelines on the use of active ingredients like cement were inadequate in the contract specifications and there was inadequate control/check by the executive staff at site. The proceedings of the Court of Inquiry were finally approved by the Air HQ in May 1982.

0.9 In order to ascertain the quality of the existing surface of the runway, chunk samples of bituminous macadam and asphaltic concrete were got tested at the College of Military Engineering in April 1979 and these were found to be outside the specified grading limit. Accordingly, the Air HQ sanctioned (September 1979) the work of resurfacing of the runway at an estimated cost of Rs. 15.37 lakhs, subsequently revised (May 1980) to Rs. 22.43 lakhs. The Zonal CE concluded (October 1980) a contract for Rs. 26.29 lakhs with firm 'Y' ; the work under the contract was completed in April 1981 at a cost of Rs. 32.15 lakhs.

0.10 Firm 'X' sought (April 1978) arbitration on account of certain disputes arising out of the operation of the contract, alleging that the work was held up frequently causing delay (of one year) in execution and resulted in losses, that the assessment made by the department of the work done was incorrect, that hire charges of tools and plant worked out by the department were incorrect, etc. Since it was revealed during technical examination that defective and substandard work was paid for, overpayments amounting to Rs. 57.59 lakhs were pointed out (August 1978) to the firm. The Engineer-in-Chief appointed (September 1978) an arbitrator. Firm 'X' put forward a claim for Rs. 1.28 crores before the arbitrator while the department claimed Rs. 71.97 lakhs (as revised during the course of arbitration) towards over payment/compensation on account of :

| | (Rs. in lakhs) Value of claims |
|---|---|
| — flexible bituminous pavement of air-field being non-functional necessitating complete resurfacing of pavement and surface variation being beyond tolerance limits | 30.63 |
| — not-grinding high spots in concrete pavements and replacement/repairin g of sunken/cracked concrete slabs . . . | 9.26 |
| — use of sealing compound not conforming to contract specifications . . . | 1.19 |
| — expansion/dummy and construction joints at places not straight and uniform in width . . . . . . | 0.18 |
| — loss suffered by Government for air-field being non-functional . . . . | 20.00 |
| — other causes . . . . . | 10.40 |
| — miscellaneous . . . . . | 0.31 |
| TOTAL . . . . . | 71.97 |

0.11 In a non-speaking award the arbitrator awarded (October 1982) a sum of Rs. 35.43 lakhs (plus interest) to the contractor and Rs. 0.15 lakh to the department against one of its claims for Rs. 0.18 lakh (other claims were rejected).

The Ministry stated (January and July 1984) that an application has been filed in the Court on 17th January 1983, the date of hearing was fixed on 20th July 1984 but further progress is not yet known (July 1984).

0.12 The following are the interesting points that emerge :

— Due to lack of adequate control/check by the executive staff, sub-standard work was taken over by the department.

— The air-field was not put to use for over one year after its completion, thereby causing the bitumen surface to harden and deteriorate.

— Execution of sub-standard work necessitated resurfacing of the runway at a cost of Rs. 32.15 lakhs without which the airfield could not be put to operational use.

— As observed by the Chief Technical Examiner certain obligatory tests to ensure quality control as specified in the contract were not carried out and records not maintained properly.

— In a non-speaking award the Arbitrator awarded Rs. 35.43 lakhs to firm 'X' against its claims for Rs. 1.28 crores and only Rs. 0.15 lakh to the Department as against its claim for Rs. 71.97 lakhs, resulting in extra expenditure of Rs. 35.28 lakhs.

**19. Avoidable expenditure on account of failure to hand over site**

In May 1971, Air Headquarters (Air HQ) accorded go-ahead sanction authorising commencement on high priority of works on improvement of area drainage at an airfield at a cost not exceeding Rs. 24.50 lakhs.

In March 1972 (*i.e.* 9 months after the date of issue of the go-ahead sanction) the concerned Commander Works Engineer (CWE) concluded an item rate contract No. 1 at Rs. 2.28 lakhs with firm 'A'. Items of work included in the contract *inter alia* provided for construction of a 110 feet long culvert (cost : Rs. 0.41 lakh) the site for which was to be handed over by the local Air Force authorities. The work was commenced by the contractor on 29th March 1972. As construction of the culvert was likely to take 4 to 6 months during which period landing and taking off of aircraft would have been held up, the users asked (26th October 1972) for an alternative route for use by the aircraft.

On an assurance given by the firm 'A' in February 1973 that the culvert would be constructed at the agreed rates when the site for its construction would be made available to it, the item concerning culvert was deleted (February 1973) from contract No. 1 and included (February 1973) in another contract No. 2 concluded for Rs. 11.97 lakhs with the same firm in December 1972 for improvement of area drainage. Works under contract No. 2 were scheduled to be completed by 11th April 1974.

For the construction of alternative route for use by aircraft, the CWE concluded (March 1974) contract No. 3 with firm 'B' for Rs. 1.70 lakhs. This work was scheduled to be taken up on 7th March 1974 and be completed by 6th December 1974. As there was delay in commencing the work by firm 'B', contract No. 3 was terminated (10th February 1978). In regard to contract No. 2 nine extensions were granted to firm 'A' from time to time mainly due to failure to make available the site for the culvert in the absence of an alternative route; the ninth extension stretching the date of completion to 28th February 1977 when contract No. 2 was completed without the culvert.

The work concerning culvert was deleted from contract No. 2 on 18th March 1977 and was included the same day in another existing contract No. 4 with firm 'A' for provision of special repairs to roads through an amendment but was deleted on 24th January 1978 as the site was still not available. A separate contract No. 5 was concluded (amount Rs. 0.41 lakh) by the CWE with firm 'A' on 24th January 1978 for construction of only the culvert and yet another contract No. 6 was concluded (amount Rs. 2.96 lakhs) (22nd March 1978) by CWE with firm 'A' for construction of an alternative route; the latter was completed on 14th December 1978 at the risk and cost of defaulting contractor (contract No. 3) and the former on 11th July 1979 that is after 8 years and 2 months of the date of sanction.

Due to abnormal extension of time in respect of contract No. 2, firm 'A' claimed Rs. 15.09 lakhs on account of idle men and machinery and increase in the rate of wages and cost of material. The arbitrator appointed for the purpose awarded (27th July 1981) a sum of Rs. 3.96 lakhs in favour of the contractor. A sum of Rs. 4.10 lakhs including interest on the awarded amount was paid to the contractor in March 1982.

The following points emerge in this case :

- Construction of a culvert was provided in a contract without consideration of the fact that the site at which it was to be constructed could not be made available unless an alternative route for aircraft was provided.
- As a result the high priority work sanctioned in May 1971 could be completed only in July 1979 *i.e.* more than 8 years after its sanction.
- The contract for construction of alternative route for use by the aircraft to be completed by 6th December 1974 was kept alive for over three years even though the work was not started. This necessitated granting of extensions for the work of construction of the culvert due to which the department had to incur an avoidable expenditure of Rs. 4.10 lakhs.

## 20. Unfruitful expenditure on the provision of works services

In April 1979, an Area Headquarters (HQ) accorded sanction to the replacement at station 'X' of air-conditioners, cold storage plants and refrigerators (declared beyond economical repair (BER) in August—November 1978) at an estimated cost of Rs 8.69 lakhs.

Accordingly, in February 1980, the Commander Works Engineer (CWE) 'A' entered into a contract with a firm for the provision of 3 units of cold storage plants (of 10 ton capacity each) in a Medical Stores Depot and another unit (of 10 Ton capacity) in a Hospital at a total cost of Rs. 4.54 lakhs including all accessories. The contract *inter alia* provided for execution of work as per design and specifications furnished by the firm and accepted by the engineers. The design *i.e.* technical specification/ makes of the equipments offered by the firm was approved by the accepting officer subject to satisfactory performance of the installation as a whole and the cold storage plants were to be taken over by the department only after the designed inside conditions were achieved and maintained during initial take over test and phase-II tests. The entire work was to be completed within 6 months from the date of handing over of site.

The concerned Garrison Engineer (GE) 'P' placed (March 1980) a work order on the firm for commencement of the work on 11th March 1980. The date of completion was last extended upto 31st July 1981 at the firm's request. The progress of work as on 30th May 1981 was 89.5 *per cent*.

The plants (work on which had progressed upto 90 *per cent* as on 1st May 1982) having broken down several times during trial runs by the contractor in April-May 1982 could not be taken over by the department. The firm was not able to carry out Phase I tests as stipulated in the contract. As a result, the CWE convened (June 1982) a Board of Officers to take over the plants/accessories after noting down the defects/ deficiencies and to suggest remedial measures. The Board recommended (June 1982) that the contract be terminated as it was not possible to commission the plants departmentally due to "inherent defects in installation of plants".

After affording another opportunity to the firm to complete the work by 31st January 1983, the CWE cancelled (February 1983) the contract with effect from 5th March 1983 at the risk and cost of the firm.

In the meantime, on account payment of Rs. 3.68 lakhs was made to the firm between April 1980-May 1981 at various stages of execution of the work.

In March 1983, the GE 'Q' (to whom the execution of work was transferred on 15th July 1981) requested other GEs in the Zone to withhold from sums due to the firm an amount of Rs. 1.25 lakhs being the expected requirement for execution of the left over work at the risk and cost of the defaulting contractor. The firm, however, obtained (April 1983) a stay order from a Court of Law restraining the department from deducting "any amount from other contracts". In the meantime, the Medical Stores Depot reported (February 1982) that due to the non-functioning of the cold storage plants, valuable and perishable drugs were deteriorating.

The Court vacated the stay order and directed that the dispute regarding completion and cancellation of contract be referred to arbitrator. The arbitration proceedings were in progress (August 1984). A risk and cost contract was concluded by CWE 'A' on 19th May 1984.

Notwithstanding its tardy performance, the Zonal Chief Engineer (CE)—who had been earlier (February 1982) informed about the poor performance of the contractor by the CWE 'A' and GE 'Q' concluded (April 1982) a contract with the same firm (though not enlisted) for air-conditioning of certain buildings at station 'Y' at a cost of Rs. 6.25 lakhs. The work was to be completed by 26th May 1983. Before acceptance of the contract, the Zonal CE in consideration of large investment to be made by the tenderers on the procurement of air-conditioning equipment, accorded his approval for making advance payment upto 85 *per cent* (instead of 75 *per cent* payable as per normal terms and conditions of contracts) of the value of stores brought to site by the firm.

In August 1982, a sum of Rs. 2.20 lakhs, representing 85 *per cent* of the cost of material brought to site by the firm was paid by GE 'R'.

Since the firm delayed the submission of detailed drawing, a notice was served (February 1983) by the CWE 'B' to it for commencing the work satisfactorily in an organised manner. The firm contended (May 1983) that the department had failed to hand over the site; it demanded 20 *per cent* additional cost as compensation for delay and extension of one year for completion of the work; in the alternative, it asked for reference of the matter to arbitration.

In reply to Audit queries, the Zonal CE, stated (August 1983) that the firm (though not enlisted) was selected on the basis of its past performance. The case reveals :

*Station 'X'*

— 4 cold storage plants declared BER in August—November 1978 in a Medical Stores Depot and a Hospital could not be replaced even after a lapse of over 5 years resulting in loss of perishable drugs;

— the plants based on design and specifications offered by the firm and approved by the engineers before their acceptance were found to have some inherent defects ;

— an amount of Rs. 3.68 lakhs advanced to the firm during April 1980-May 1981 both on account of materials brought to site as also 90 *per cent* work executed by it remains infructuous ,

*Station 'Y'*

— notwithstanding the tardy performance of the firm at station 'X' another contract for air-conditioning work was awarded to the same firm at station 'Y' ; and

— a sum of Rs. 2.20 lakhs was advanced to the firm in August 1982 and there was no further progress of the work even after payment of 85 *per cent* advance to the firm.

Ministry of Defence stated (September 1984) that :

— Chief Engineers are being directed to exercise greater care in monitoring progress of works through periodic reports and returns so that defaulting contractors are not issued tenders for other works; and

— the work done by the contractor has become the asset to be utilised under risk and cost work.

## 21. Infructuous expenditure on a tube well

To meet the immediate requirement of water at station 'X', the Commander of the Sub-Area accorded (June 1976) a 'go-ahead' sanction for provision of a tube well; covering administrative approval to the work was issued by the Sub-Area Commander in January 1977 at an estimated cost of Rs. 1.75 lakhs.

In July 1977 *i.e.* 13 months after the 'go-ahead' sanction, the Garrison Engineer (GE) concluded a contract with a firm which was not enlisted at the time of issue of tender but was provisionally enlisted only before conclusion of the contract.

The work, which the firm got executed through another agency was completed on 31st January 1978. The yield test was stated to have been carried out by the executing agency of the contractor on 26th December 1977 to the satisfaction of the Engineer-in-Charge; such test was not done by the department independently before issue of completion certificate. It was done only on 12th and 13th April 1979, *i.e.* 15 months after issuing the completion certificate.

On 24th February 1978, *i.e.*, just after 19 days of the issue of the completion certificate, the Assistant Garrison Engineer-in-charge of the tubewell reported that it was not functioning properly and sand was "coming out during pumping". Although the contractor was liable, under General Conditions of the Contracts to rectify free of cost any defect in the work coming to notice during the maintenance period *viz.*, within twelve calendar months after the work had been handed over to Government, the firm upon being asked (February 1978 and March 1978) to rectify the defects did not comply. Despite non-compliance by it, final bill amounting to Rs. 9,397 (excluding income tax) was paid to the firm on 31st March 1978; bringing the total expenditure on the work to Rs. 1.39 lakhs.

In January 1979, the GE again asked the firm to rectify the defects which the contractor did not do. In March 1979 the GE informed the firm that the defects would be got rectified at its risk and cost. The tubewell, ceased functioning from 28th April 1979.

The Central Ground Water Board, North East Region, to whom the matter was reported by the GE, opined (July 1979) that the tubewell had not been developed properly during initial development. In July 1980, the Directorate of Geology and Mining of State Government (DGM) pointed out that sizes of the gravels thrown out along with water were much bigger than the size of gravel (3 mm to 5 mm) stipulated in the contract for packing around the strainer and pipe.

Since the firm did not rectify the defects, the tubewell was got re-developed through DGM at a cost of Rs. 6,227. The re-developed tubewell which was taken over on 30th December 1980, also ceased to function from 19th June 1981.

In the meanwhile, the Sub-Area Commander accorded (September 1980) sanction for the provision of another tubewell, in substitution of the defective one at the station at an estimated cost of Rs. 1.79 lakhs. The work was completed on 22nd March 1982 at a cost of Rs. 1.86 lakhs.

The case reveals the following :

- Tenders were issued to the unlisted firm without verifying its performance. The firm was provisionally enlisted before conclusion of the contract. The firm got the work done through another agency.
- Although the firm did not turn up to rectify defects pointed out to it within the maintenance period, the final bill preferred by the firm was paid.
- Apparently departmental supervision of the work was inadequate; the tubewell was not developed properly during the initial development stage and oversize gravels were used for shrouding the well.
- A major portion of the expenditure of Rs. 1.45 lakhs (inclusive of expenditure on re-development) incurred on the tubewell became infructuous and the urgent requirement of water at the station remained unfulfilled.

The Ministry stated (September 1984) that there had been certain lapses on the part of the executives who had been subjected to disciplinary action and punishment. The Ministry further added that of the total expenditure of Rs. 1.45 lakhs, Rs. 0.21 lakh will be recovered or adjusted from amounts due to the firm and that a loss statement for Rs. 1.24 lakhs has been initiated.

### 22. Acceptance of contracts at extra cost due to delay in obtaining financial concurrence

In the following two cases, delay in obtaining financial concurrence for acceptance of tenders before expiry of the validity of offers resulted in re-tendering and acceptance of contracts at higher rates :

*Station 'X'*

In October 1980, Ministry of Defence (Ministry) sanctioned certain works services for an Air Force unit at station 'X' at an estimated cost of Rs. 105.03 lakhs. Tenders for items of work relating to main building, roads, culverts, drains, sewage disposal and security fencing, for which the total sanctioned amount was Rs. 64.73 lakhs, were issued by the concerned Zonal Chief Engineer (Zonal CE) 'A' in February 1982 to six firms. Tenders were opened on 5th April 1982. Only two out of six tenderers had quoted; offer of firm 'P' being Rs. 77.70 lakhs and that of firm 'Q' Rs. 88.37 lakhs. The offer of firm 'P' was valid upto 3rd June 1982.

The Zonal CE 'A' forwarded (11th May 1982 *i.e.*, after more than a month) the case to the Engineer-in-Chief's branch (E-in-C) for obtaining financial concurrence as the offer was beyond his powers for acceptance being in excess of the sanctioned amount by more than the permissible limit of 10 *per cent*. On 17th May 1982, the E-in-C directed the Zonal CE to get the validity period of the offer of firm 'P' extended upto 30th June 1982, and besides seeking certain clarifications, asked (24th May 1982) the Zonal CE to confirm that the rates quoted by firm 'P' were reasonable.

The Zonal CE approached (18th May 1982) the firm to extend the validity of its offer upto 3rd July 1982 and furnished clarifications, sought by the E-in-C, on 3rd June 1982. On 11th June 1982, the E-in-C sought further clarifications from the Zonal CE.

Meanwhile, the firm informed (5th June 1982) the Zonal CE that it was willing to extend the offer for a month (*i.e.* upto 3rd July 1982) provided the lump sum tendered by it was increased by Rs. 8 lakhs to compensate increase in the rates of labour and material. As a result, the Zonal CE decided (22nd June 1982) to retender.

Fresh tenders were issued by the Zonal CE on 24th November 1982 and the offer of Rs. 83.99 lakhs made by firm 'P' was found to be the lowest.

Contract was concluded by the Zonal CE 'B' with the firm on 18th March 1983 for a lump sum of Rs. 83.99 lakhs.

*Station 'Y'*

In November 1976, the Ministry accorded administrative approval for provision of essential accommodation for an Army unit at station 'Y' at an estimated cost of Rs. 92.27 lakhs, later (December 1977) amended to Rs. 96.04 lakhs. The work was released for execution in October 1980.

Certain adjustments in the siting of the accommodation of the regiment were suggested by a Board of Officers in July 1981 and tenders for the building work were issued by the Zonal CE 'C' to 8 firms on 16th November 1981. Out of 5 firms which responded, the offer of firm 'R' which quoted Rs. 73.49 lakhs was the lowest and considered reasonable (16th January 1982). The second lowest offer made by firm 'S' was Rs. 80.84 lakhs. The tender of firm 'R' was valid for acceptance upto 15th April 1982. As the amount available in the administrative approval for the items of work included in the tender was Rs. 45.18 lakhs only, the Zonal CE 'C' approached (13th February 1982 *i.e.* after about 1 month) the E-in-C for obtaining financial concurrence so that the lowest tender offered by firm 'R' could be accepted. The CE also asked (March 1982) the firm to confirm its willingness to keep its tender open for acceptance upto 17th May 1982. On 17th April 1982, the firm informed the CE that it was prepared to execute the work provided its offer of Rs. 73.49 lakhs was enhanced to Rs. 77.27 lakhs and that this revised offer would be open for acceptance till 20th May 1982. Financial concurrence to accept the lowest tender of Rs. 73.49 lakhs was accorded by the Ministry of Defence (Finance) and conveyed by the E-in-C only on 30th April 1982 although E-in-C was aware that the offer was open only upto 15th April 1982. Thus, due to delay in obtaining financial concurrence to accept the lowest tender, the department had to resort to re-tendering for the work. Out of five tenderers who quoted in response to retendering, the tender of Rs. 83.20 lakhs quoted by the firm 'R' was the lowest. This was accepted by the Zonal CE 'C' on 1st October 1982 after obtaining financial concurrence.

Thus, delay in obtaining financial concurrence within the validity period of offers in the above two cases resulted in extra expenditure of Rs. 16 lakhs.

The Ministry stated (August-September 1984) that :

- — In the case of conclusion of contract with firm 'P' for station 'X' certain clarifications were sought from the CE 'A' on market analysis and percentage quoted above Standard Schedule of Rates and the CE was also asked to confirm that the rates quoted were reasonable. The clarifications were furnished by the CE on 3rd June 1982 but the case could not be considered further and projected to Government as the contractor increased his quotation and the CE decided to retender.
- — In the case of contract at station 'Y' the contractor did not agree to extend the validity of tender upto 17th May 1982 without enhancement of tendered amount which could not be agreed to.

## CHAPTER 5

## PROCUREMENT OF STORES AND EQUIPMENT

### 23. Procurement of night vision goggles

Against an operational indent raised in September 1980 by the Director of Ordnance Services (DOS), the Supply Wing of an Indian Mission abroad concluded a contract in January 1981 with a proprietary firm for supply of 36 pairs of night vision goggles at f.o.b. price of $ 267,048.00 later amended in January 1982 to $ 293,417 (Rs. 26.41 lakhs). The stores were to be consigned by air to Embarkation Headquarters (HQ) at station 'A' for onward despatch to the ultimate consignee—an Ordnance Depot (OD) at station 'B'. In March 1982 the DOS nominated the Central Ordnance Depot (COD) at Station 'C' as the ultimate consignee in place of the OD at Station 'B' nominated earlier as the equipment being sophisticated and delicate was to be kept in air-conditioned storage.

The goggles were despatched by Air India flight on 21st May 1982 and intimation about the confirmation on completion of shipment, giving particulars of Airway Bill dated 12th May 1982 and Air Flight No. 110 dated 21st May 1982, was sent by the Supply Wing in their letter dated 21st June 1982 to the DOS. According to instructions issued in December 1975 by the Army HQ, the Supply Wing was required to intimate the Embarkation HQ the despatch particulars including approximate date of arrival of the consignment in India. Further, to avoid postal delays, airway bills were required to be transmitted to India through Air India and on arrival these were to be collected by the Embarkation HQ. The Airway Bill dated 12th May 1982 was stated to have been sent by the Freight Forwarders on flight dated 21st May 1982 in a special no-tear envelope clearly marked Embarkation HQ Station 'A' for delivery by Air India. But the Embarkation HQ received neither the despatch particulars nor a copy of the airway bill. It was only after the DOS sought in July—September 1982 confirmation from the Embarkation HQ about the receipt of the stores that the latter enquired in October 1982 the position from Air India and informed the DOS on 5th November 1982 that the stores had not landed. Embarkation HQ simultaneously requested the DOS to ascertain the correct flight number and its date from the Supply Wing. On 22nd November 1982 the DOS referred the matter to the Supply Wing which forwarded a copy of the airway bill (togetherwith the invoice) to the Embarkation HQ in December 1982. After receipt of the copy of the airway bill on 1st January 1983, the Embarkation HQ could obtain a 'non-traceable certificate' dated 8th April 1983 from Air India only on 4th May 1983. On 6th May 1983, the Embarkation HQ preferred a claim for Rs. 27.70 lakhs on Air India. After receipt of this claim, Air India traced the consignment and handed it over to the Embarkation HQ on 20th July 1983. Although these sophisticated and delicate stores were delivered by Air India 14 months after the date of despatch, the Embarkation HQ did not take open delivery after detailed inspection in the presence of the carrier, the consignee and/or the inspection authorities. Army HQ stated (June 1984) that as per existing procedure, only a survey of the damaged packages was to be carried out and in this case it was not carried out as the packages were found intact and in sound condition at the time of delivery.

The consignment was despatched on 30th July 1983 to the COD at station 'C' which received it on 31st July 1983. The consignment was received in wet condition. Thereafter the packages were opened and instruments dried under a fan to avoid further damage as advised by representatives of Controllerate of inspection (Instruments) attached with the COD. The inspection of the equipment was carried out by the COD, the representative of the Indian agent of the supplier and representative of the Controllerate of Inspection on 1st September 1983. Out of the 36 goggles, 35 were found not acceptable as the performance of 14 was very poor and 21 were not operating. The Indian agent pointed out in October 1983 that the warranty period had already expired in May 1983 and contended that the damage to the goggles was not attributable to poor packing but was entirely due to exposure of the consignment to two rainy seasons at station 'A' with inadequate protection and, therefore, Air India be asked to make good the loss.

In November 1983, the COD sent a discrepancy report through Ministry of External Affairs to the Supply Wing for taking up the matter with the Supplier for replacement of the defective stores free of charge. The supplier wanted (February 1984) the goggles to be sent to them for evaluation and restoration to original quality, the cost of repairs being borne by Government, if it was found that non-operation of the goggles was due not to manufacturing defect but to mis-handling.

Ministry of Defence stated (August 1984) that :

— In order to pinpoint responsibility for the loss, a Court of Inquiry was convened at COD at station 'C'. After going through the Court of Inquiry proceedings, the Station Commander held that the Court of Inquiry had failed to pinpoint responsibility for the occurrence of loss. He, however, held the view that the damage to the equipment was due to neglect. The Station Commander recommended another Court of Inquiry to be held at COD at Station 'A' to pinpoint responsibility for the damage as all the three agencies, involved *viz.* Air India, Embarkation HQ and COD 'A' were located at the same place.

— Army HQ ordered the Command HQ at station 'D' on 23rd May 1984 to constitute a second Court of Inquiry to investigate the circumstances leading to the delay in the clearance of the consignment and damage to the goggles and ascertain the reasons for not lodging claim against insurance. The proceedings of the Court of Inquiry have not yet been completed (August 1984).

The case reveals the following :

(a) After the stores were air-freighted in May 1982, it took as much as 7 months to place the Embarkation HQ in possession of the airway bill and other particulars required for clearance of the consignment.

(b) Even after the receipt of despatch particulars it took another 4 months for the Embarkation HQ to process the matter up to the stage of presentation of claim against Air India, which led to the eventual tracing of the stores.

(c) Although the sophisticated and delicate stores were delivered by Air India 14 months after the date of despatch, the Embarkation HQ did not take open delivery after detailed inspection of stores.

(d) 35 goggles (value : Rs. 25.68 lakhs) were found non-operational on receipt by the ultimate consignee and have yet (August 1984) to be made functional ; the urgent requirements of the user unit for which these were indented on 'operational priority' as far back as September 1980 have not so far been met (August 1984).

24. **Procurement of an item with meagre life for Naval aircraft**

A Naval aircraft 'X' requires items 'A', 'B' and 'C' to perform a particular role 'Y', all three forming an integral system ; non-availability of any one of the three items has an effect on the total exploitation of the system for the role 'Y'. Item 'A' can also be used independently for another role.

Naval Headquarters (HQ) placed (July 1978) an indent for 1,100 numbers of item 'A' (estimated cost : Rs. 16.88 lakhs) on the Supply Wing of an Indian Mission abroad (Supply Wing) stipulating that the item be procured with a minimum of 6 years remaining user life. Since the foreign supplier was not willing to guarantee a life of more than 2 years, the requirement of user life was changed (3rd October 1978) by Naval HQ to a minimum of 2 years. A contract was concluded (17th October 1978) with the foreign supplier for supply of 1,100 numbers of item 'A' with life not less than 2 years (550 numbers ex-stock and 550 numbers from new manufacture) at a total cost of Rs. 15.40 lakhs with a warranty clause for replacement of material in case of defects noticed within 18 months of receipt. As the supplier did not agree to the guarantee clause and supply of 550 numbers from new manufacture, a fresh contract without the guarantee clause was concluded (2nd April 1980) for supply of 1,100 numbers ex-stock. The supplies were shipped to India on 14th April 1980.

While intimating the despatch particulars of the consignment, the Supply Wing informed (21st April 1980) Naval HQ that the consignment be inspected on arrival and discrepancies reported forthwith, as supply was obtained under a fresh contract removing the guarantee clause. Inspection of the item after arrival in India (May 1980) revealed that the entire stock of 1,100 numbers was of 1973 manufacture *i.e.* 7 years old and the estimated life of the item being 8 years from the date of manufacture, it was doubtful whether its life would be 2 years. Naval HQ, therefore, requested (December 1980) the Supply Wing to arrange replacement of supplies to conform to the provisions of the contract of 17th October 1978 *i.e.* 550 numbers to be supplied ex-stock and an equal number ex-new manufacture with a minimum of 2 years life. The supplier did not agree (March 1981) to replace the consignment on the ground that the contract did not contain any provision for guarantee and supply of 550 numbers ex-new manufacture was not possible as the production of the item had been stopped. Naval HQ also informed (April 1981) Naval Attache that the consignment had been found to be of very old vintage, that at no stage had the former agreed to the acceptance of defective stores of old vintage and that the supplier be approached to replace the consignment. The Naval Attache intimated (October 1981) that the supplier was agreeable neither to stand warranty nor to replace the consignment.

According to Naval HQ (December 1982), since item 'B' system was not operational, there was no possibility of item 'A' being utilised. Moreover the failure rate of item 'A' in another role being very high, the item could not be put to effective use even in that role. The entire quantity of 1,100 numbers of item 'A' was lying in stock (September 1984) since May 1980 and its user life was already over. The Supply Wing was requested (February 1982) to obtain compensation from the supplier in respect of defective stores. The reply of the Supply Wing in this regard was awaited (September 1984).

The case reveals the following points :

— 1,100 numbers of item 'A' were indented with remaining user life of 6 years. As against this, these were contracted (October 1978) for a user life of 2 years with a warranty clause for replacement of material in case of defects noticed within 18 months of receipt. A fresh contract was concluded in April 1980 without any guarantee clause. The actual supply was with the remaining user life of one year only.

— The entire supply of 1,100 numbers (cost : Rs. 15.40 lakhs) was still (September 1984) lying in stock since May 1980 without the possibility of its being put to use as the user life had expired in April 1981.

Ministry of Defence stated (September 1984) that :

— Even though the shelf life of the item had expired, it can be used after necessary proof for which necessary instructions have been issued by Naval HQ to lower formations.

— The system was put to use within the limitations imposed by the non-availability of item 'A'. To overcome the limitations, tactical doctrine was modified to meet the operational requirement as an interim measure.

**25. Avoidable extra expenditure in procurement of domestic fire tenders**

To meet their requirement of Domestic Fire Tenders (DFTs), Air Headquarters (Air HQ) placed (January 1981) an order on firm 'A' for supply of 30 chassis by June 1981, extended subsequently upto 31st October 1981. Meanwhile in September 1981, the Air HQ changed the inspection agency, which according to the firm caused delay in inspection. The new inspection agency insisted on road test of chassis at station 'Y' instead of at firm's premises (Station 'Z') as provided for in the supply order. The inspection agency, however, started inspection of chassis at firm's premises by 14th November 1981 and in January 1982 the Air HQ again refixed delivery period as 31st March 1982. The firm despatched/supplied the chassis only between November 1981 and May 1982.

In response to a limited tender enquiry for fabrication of superstructure on the chassis to be supplied by firm 'A', quotations were received by September 1980 from 10 firms including firms 'B' and 'C'. The offer of firm 'B' for a fixed price of Rs. 1,15,000 each was accepted in February 1981 and a supply order for fabrication on 8 chassis was placed on firm 'B' in March 1981. The supplies were completed during October 1983 to June 1984.

Firm 'C' had quoted Rs. 1,16,000 each with the condition that if the supply of chassis for fabrication was delayed beyond three months from the date of receipt of order, escalation in the prices of raw materials including consumables and labour would be payable. The price offered by the firm was stated (August 1980) to have been based upon the prices of raw materials and cost of labour prevailing at that time. During negotiation held on 26th February 1981 firm 'C' agreed to the rate of Rs. 1,15,000 each with the condition that if the contract was extended beyond August 1981 due to non-availability of chassis, it would be entitled to price escalation on steel, aluminium and copper. The firm while confirming (27th February 1981) its acceptance of the rate of Rs. 1,15,000 each, set a condition that "in case supply of chassis is delayed beyond August 1981, then the price will be subjected to escalation as applicable at that time".

A supply order for fabrication on 22 chassis at the rate of Rs. 1,15,000 each was placed on firm 'C' in March 1981. According to the provisions of the supply order, the prices were firm and fixed except that escalation would be applicable if the period of contract extended beyond August 1981 due to non-availability of chassis. The clause, however, did not precisely spell out :

(i) the specific items on which escalation was to be allowed,

(ii) the base prices on which variation in price was to be determined,

(iii) the formula for working out the variation, or

(iv) the extent to which the escalation was permissible.

Even the decision taken in the price negotiation meeting of 26th February 1981 to admit price escalation only on steel, aluminium and copper was not incorporated in the order.

As no chassis could be supplied to firm 'C' till August 1981 due to non-receipt from firm 'A', the former claimed (June 1982) price increase at the rate of Rs. 55,000 for each superstructure representing variations in the cost of raw materials, accessories, components, labour charges, consumables (as also overhead and profit) obtaining at the time of tender (August 1980) and during June 1982. In terms of the decision of the price negotiation meeting of 26th February 1981, the quantum of escalation on steel, aluminium and copper as computed by the department, worked out to Rs. 12,701 each only. The firm, however, insisted upon payment of escalation on other items also.

The Legal Adviser (Defence) whose advice was sought stated (May 1983) that Government stand of limiting the escalation to three items only was weak because it was not so defined in the supply order.

In a price negotiation meeting held in May 1983 to resolve the issue the firm ultimately agreed to the price of Rs. 1,55,250 each (*i.e.* an increase of Rs. 40,250 each) which was allowed. The supplies were completed during January—November 1983.

Incorporation of vague and indefinite clause regarding escalation in the supply order placed on firm 'C' and non-incorporation of an agreement reached to restrict escalation to only three items resulted in avoidable expenditure of Rs. 6.06 lakhs on account of escalation on items other than those agreed to in the price negotiation meeting held on 26th February 1981 but not spelt out in the supply order.

The Ministry stated (August 1984) that the supply order should have been precise to state that the escalation was only for steel, aluminium and copper and this was an omission.

**26. Duplication in the procurement of Naval stores**

In June 1981, Director of Logistics Support, Naval Headquarters (NHQ) placed an indent on the Supply Wing of an Indian Mission abroad for the purchase of 2 items of stores. On receiving two separate acknowledgements for the same indent from the Supply Wing, the NHQ informed the Supply Wing of the duplication by aerogram on 25th August 1981.

In September 1981, the Supply Wing placed a purchase order for the stores on the Ministry of Defence (MOD) of a foreign country at £ 16,290. The stores were received by the indentor in May 1982 and September 1982.

Orders for the same stores were issued on two manufacturing firms, 'A' and 'B', in December 1982 (item 1) and May 1982 (item 2) based on a duplicate copy of the indent. The orders were placed on the firms since the MOD, this time, expressed their inability to supply the stores. Even during this process, Supply Wing did not notice the duplication though it was pointed out by the indentor again on 20th March 1982. When the duplication was pointed out by the indentor on two more occasions in February 1983 and October 1982, efforts were made to cancel the orders. While firm 'A' agreed to the cancellation, it was considered expedient to accept (September 1983) item 2 of the stores (value : £ 11,163) from firm 'B', as prohibitive cancellation charges were demanded. According to the indentor there is no shelf life limit for these stores and their utilisation would depend on the failing of the existing item on board.

It was also noticed in audit that the second purchase of stores (item 2) directly from the manufacturing firm was cheaper by £ 3,699 than the first purchase of the same stores from the MOD; the extra cost involved for both the items was £ 3,942.

The possibility of directly contacting the manufacturing firms for both the items was not explored by the Supply Wing earlier. This would have saved £ 3,942 (Rs. 0.67 lakh).

The Ministry of Defence and the Supply Wing conceded (September—October 1984) that the duplication in the procurement took place due to opening of two different files for the same indent by the computer cell in the Supply Wing. The Supply Wing also added that to obviate recurrence of such lapses in future, necessary provision has since been incorporated in the computer.

## CHAPTER 6

## UTILISATION OF EQUIPMENT AND FACILITIES

### 27. Import of a camera for a printing press

For photo-lithographic printing of navigational charts and nautical documents, the Naval Hydrographic Office (NHO) initiated in August 1978 a proposal for import of a modern camera. Of the two cameras considered, the NHO recommended the camera of country 'X' on the ground that it was cheaper and that its installation would require very little alterations and additions to the existing building. The proposal was sanctioned by the Ministry of Defence on 22nd March 1979 at an estimated cost of Rs. 13.01 lakhs. Accordingly, the NHO placed an indent on 26th March 1979 on the Supply Wing of an Indian Mission abroad (Supply Wing) for procurement of the camera. The Supply Wing contracted for the purchase in August 1979 at f.o.b. price of French Francs 639,124 (Rs. 10.14 lakhs).

The camera arrived in India in January 1982. The delay was attributed by NHO to non-availability of suitable ship until July 1981.

The purchase contract provided that NHO would conclude a separate contract for installation of the camera by the foreign supplier's engineer in India. In response to the NHO's enquiry made on 16th March 1979, the foreign supplier intimated that certain structural changes had to be made in the room where the camera was to be installed. It was seen that the NHO sanctioned works services in October 1979 and in October 1981 only for part of the changes suggested by the supplier which were completed by March 1980/ March 1982 at a total cost of Rs. 0.34 lakh.

The NHO projected the remaining part of the work only in March 1982 to the Military Engineer Service authorities who intimated that if the proposed alterations were to be carried out, the structural stability of the existing building might be affected. The proposal to instal the camera in the building was, therefore, dropped. Construction of a new technical accommodation for installing the camera at an estimated cost of Rs. 9.53 lakhs was sanctioned by the Naval Headquarters in October 1983. The work has not yet commenced (September 1984). The warranty period for the camera had expired in January 1983. The NHO stated (July 1983) that requests for getting the warranty period extended by the foreign supplier had not evoked any response.

Though the NHO projected procurement of the camera as a 'very urgent requirement' in August 1978, the camera is still to be installed (September 1984). The assumption of the NHO that very little alteration would be required turned out to be erroneous and caused an additional commitment of Rs. 9.53 lakhs in the construction of a new building. The equipment imported in January 1982 at a cost of Rs. 10.14 lakhs is yet to be installed and its warranty period expired in January 1983.

### 28. Defective binoculars

Based on an indent raised in September 1980 by Director of Ordnance Services (DOS), the Supply Wing of an Indian Mission abroad (Supply Wing) placed in March 1981 a supply order on a proprietary firm for supply of 44 units of binoculars at a total cost of \$ 278,300 including Indian agent's commission at 3 *per cent*. The supply of binoculars was initially to be completed by October 1981, but extension was given (April 1982) upto 31st May 1982 subject to recovery of \$ 2,403.50 from the firm. The terms of the supply order *inter alia* provided as under :

> "The contractor warrants that at the time of shipment, the commodities (excluding batteries) will be free from defects in material and workmanship. The contractor agrees to repair, or at its option, replace, any commodities or components thereof which do not satisfy the foregoing warranty provided written notice of such defects is received by the contractor within three months (3) from the date of shipment in case of defect with Image Intensifier Tube or its component part........."

The binoculars after having been air-lifted from the foreign country were received at Embarkation Headquarters (HQ) at station 'X' in June 1982 and in the Central Ordnance Depot (COD) at station 'Y' on 30th August 1982 through the concerned Embarkation HQ; these were taken on charge by the COD on 9th and 10th September 1982. After night trials carried out on 22nd September 1982, the Controllerate of Inspection (Instruments) Detachment attached to the COD reported (26th November 1982) that 32 out of 44 units of binoculars were not acceptable as glow in the image intensifier tubes of these binoculars was not continuous. On 26th February 1983, *i.e.,* after a period of over 8 months from the shipment—as against 3 months available for replacement—the COD raised a discrepancy report on the Supply Wing for getting replacement of these binoculars from the firm.

By May 1983, the firm's agents repaired 14 out of 32 units of defective binoculars and intimated (3rd April 1984) the DOS that remaining 18 binoculars would have to be air-freighted to the firm for their test as testing equipment was not available in India.

In the meantime, the Supply Wing took up (March 1983) the matter with the foreign firm and asked it either to replace or rectify the defective binoculars. This has not been done so far (May 1984).

Thus, 18 units of binoculars imported in June 1982 at a cost of $ 1,12,867 (Rs. 10.16 lakhs) which were found defective on receipt were still (May 1984) lying in the COD in the same condition.

**29. Procurement of aerials for the Navy**

For maintaining an efficient naval communication system, the Naval Headquarters (Naval HQ) planned in June 1972 and July 1973 the replacement of the existing aerials at Wireless Transmitting (WT) Stations. Two types—'A' and 'B'—of aerials were projected for procurement and installation. The Ministry of Defence accorded sanction (August and October 1973) for the procurement of 38 numbers of aerials of type 'A' and 36 numbers of type 'B' costing Rs. 22.25 lakhs and Rs. 46.80 lakhs respectively.

Supply orders for procurement of the two types of aerials were placed (6th and 25th January 1975) by the Department of Defence Supplies on a private firm (38 numbers type 'A' costing Rs. 17.39 lakhs) and a public sector undertaking (36 numbers type 'B' costing Rs. 35.17 lakhs). The supplies materialised during 1977-1978 and were received in 3 Naval Stores Depots.

Out of 38 aerials of type 'A' and 36 aerials of type 'B', only 30 of type 'A' and 23 of type 'B' were installed during January 1978 to February 1984. Naval HQ stated (February 1984) that while 6 aerials (type 'A' : 1 and type 'B' : 5) were planned to be reallocated to new WT stations, 15 aerials could not be installed (May 1984) for want of spare parts, cables, suitable site, etc.

Even though the Naval HQ had planned as early as in 1972 to bring the naval communication system up to a satisfactory standard, 21 aerials (cost : Rs. 15.67 lakhs approximately) out of 74 procured in 1977-1978 remained uninstalled even after a lapse of 6 years after their procurement.

CHAPTER 7

ARMY

30. Procurement of communication equipment

A communication equipment 'X' in use by Army was being procured alongwith voltage stabiliser from a public sector undertaking (PSU) (manufacturer). The annual provision review carried out as on 1st October 1975 revealed a deficiency of 3,737 sets of equipment 'X'. Since this equipment 'X' was planned to be replaced by another equipment under a modernisation scheme, Army Headquarters (Army HQ) recommended (13th July 1976) procurement of only 2,000 sets of the equipment. The PSU quoted (August 1976) Rs. 27,680 per unit for the main equipment alongwith voltage stabiliser and connected cable assemblies. In a price negotiation meeting held on 21st July 1977, the PSU agreed to supply the main equipment at Rs. 24,505 each and the voltage stabiliser with connected cable assemblies at the rate of Rs. 2,365 each.

Based on the results of a value engineering study, a proposal for the elimination of the voltage stabiliser was discussed in a meeting held on 26th July 1977 at the Army HQ. The PSU was, however, not in favour of eliminating the voltage stabilisers. Despite the view held by the PSU, it was decided to procure equipment 'X' against all future requirements without the voltage stabiliser and to ask the PSU to design a suitable back plate assembly (BPA) to eliminate the need for the voltage stabiliser. Accordingly the Director of Ordnance Services raised two indents on the PSU for equipment 'X', without the voltage stabiliser, one in October 1977 for 2,000 sets at a total cost of Rs. 490.10 lakhs and another in March 1978 for 285 sets at a total cost of Rs. 69.84 lakhs.

The PSU designed the BPA (Cost : Rs. 725 each) which was tried out with equipment 'X' by a special signal regiment in December 1977/January 1978 and found suitable. In July 1978, an amendment was issued to the indents raised earlier asking the PSU to supply with the main equipment 2,285 numbers of BPA at Rs. 725 each (total cost : Rs. 16.56 lakhs).

The PSU offered (December 1979) some sets of equipment 'X' with BPA for inspection. The inspecting authorities intimated (January 1980) the PSU that the BPA was not acceptable to the users due to variations in the battery voltage which affected the communication range. Earlier in March 1979 the equipment 'X' with BPA was found to be incompatible with equipment 'Y' which was approved in September 1976 for introduction into Service under the modernisation scheme. The PSU was, therefore, asked to discontinue manufacture of equipment 'X' with BPA and intimate the financial implication of such discontinuance. The PSU replied (February 1980) that on receipt of amendment to the indent in July 1978, all the components and the materials required for 2,000 sets of equipment 'X' with BPA had been procured, parts for 1,400 sets had been fabricated and 700 sets fully assembled. In a meeting held in April 1980 in Army HQ, it was decided that 1,400 sets of equipment 'X' would be accepted with BPA for issue to certain specified user units only and the balance 885 sets on order would be procured with the voltage stabiliser. This was subsequently confirmed in a meeting in November 1980.

On 31st August 1981, the indentor requested the PSU to resubmit its quotation for the voltage stabiliser and also to intimate the financial implication involved in scrapping the BPA in respect of the balance 885 sets. The PSU quoted (September 1981) Rs. 3,909 per unit for the voltage stabiliser. In January 1982, the PSU intimated that due to scrapping of the BPA components worth Rs. 0.90 lakh had been rendered surplus which could be ordered on them as maintenance spares. After price negotiations with the PSU, the price of the voltage stabiliser was fixed at Rs. 3,209 per unit as against Rs. 2,365 quoted by the PSU in July 1977 and financial sanction of Rs. 28.40 lakhs for the procurement of 885 numbers of voltage stabiliser was accorded in March 1982. Necessary amendment to the indents raised earlier in October 1977 and March 1978 was issued (April 1982) by the indentor, whereby 1,400 sets of equipment 'X' would be supplied with BPA (Cost : Rs. 353.22 lakhs) and 885 sets with voltage stabilisers (Cost : Rs. 245.27 lakhs). By August 1983, 1,155 sets of equipment 'X' with BPA and 553 sets with voltage stabiliser were supplied by the PSU.

Instructions were issued (December 1982) by the indentor to the stock holding depot to issue equipment 'X' with BPA to a particular type of units only. The General Staff Branch stated (December 1982) that non-issue of equipment 'X' with BPA to newly raised units had affected their operational efficiency

The case reveals the following points :

- The Army authorities decided (July 1977) to procure a communication equipment with BPA in place of voltage stabiliser despite the advice given by the PSU that they were against such a change.
- 2,285 sets of equipment 'X' with BPA were ordered on the PSU in October 1977 and March 1978. Although the BPAs designed by the PSU were tried out with equipment 'X' by user unit in December 1977/January 1978 and found suitable, samples of equipment 'X' with BPA submitted by the PSU in December 1979 for inspection were not found acceptable due to variations in battery voltage and incompatibility with equipment 'Y'. The Army authorities, therefore, decided (April 1980) to restrict the procurement of equipment 'X' with BPA to 1,400 sets and to revert to the procurement of the balance 885 sets with voltage stabiliser. This resulted in extra expenditure of Rs. 7.47 lakhs besides affecting operational efficiency of newly raised units.
- Equipment 'X' when used with BPA would be incompatible with another equipment 'Y' introduced under a modernisation scheme.

**31. Procurement of plant and machinery for an Army Base Workshop**

A proposal accepted (November 1971) by the Ministry of Defence (Ministry) to entrust the base overhaul of a gun to an Army Base Workshop involved provision of additional plant and machinery and technical accommodation. A case for obtaining financial sanction for procurement of ten machines through indigenous sources (estimated cost : Rs. 15.46 lakhs) and thirteen machines (estimated cost : Rs. 19.84 lakhs) through import was initiated by the user Directorate in March 1972. The estimated cost of machines to be procured was obtained in consultation with likely suppliers. The technical accommodation required for housing the plant and machinery was sanctioned (June 1973) by the Ministry at an estimated cost of Rs. 42.89 lakhs. The financial sanction for the procurement of machines was accorded in February 1974 and the required foreign exchange of Rs. 19.84 lakhs was released in July 1974.

An indent for the import of thirteen machines was placed by the Director of Ordnance Services (DOS) on the Director General, Supplies and Disposals (DGS&D) in December 1974 with a copy to the Supply Wing of an Indian Mission abroad (Supply Wing). The indent remained in correspondence between the indentor, the DGS&D and the Supply Wing till September 1976. The Supply Wing informed (September 1976) the indentor that since no formal cross-mandating of the indent had been received from the DGS&D, no action had been initiated by them for procurement.

Before taking any further action on the indent which was 2 years old, the indentor requested the Supply Wing in September 1976 and again in October 1976 to ascertain the latest prices of the machines with a view to obtaining the required additional foreign exchange to cover the escalation in prices. The Supply Wing informed (January 1977) the indentor that additional funds after allowing 20 *per cent* increase for every year over the last price known be provided and separate indents for each type of machinery be raised. Accordingly, a sum of Rs. 23.80 lakhs in free foreign exchange was allocated in February 1978 and thirteen urgent indents were raised (March 1978) on the Supply Wing with the expected date of delivery being December 1978. Based on the quotations obtained by the Supply Wing from the likely suppliers, the total price for the thirteen machines worked out to Rs. 66.53 lakhs. The Ministry, therefore, approved (2nd March 1979) the import of thirteen machines involving an additional foreign exchange of Rs. 42.73 lakhs, which was released on 6th March 1979.

The Supply Wing concluded contracts--three in April 1979, two each in May 1979 and September 1979, one each in June 1979, July 1979, August 1979, October 1979 and May 1980 for twelve out of thirteen machines with accessories and spares for 2 years maintenance at a total cost of Rs. 66.88 lakhs.

The technical accommodation required to accommodate the machines was completed in September 1976 at a cost of Rs. 55.27 lakhs and the ten indigenous machines were procured and installed during May 1976 to May 1982. Out of the 12 imported machines, 11 were received during June 1980—December 1982 and installed and commissioned during October 1981—March 1983. One machine (cost : Rs. 1.44 lakhs) was received in burnt condition.

The base repairs of the guns commenced from the year 1975-76 and during the period of five years from 1975-76 to 1979-80 the number of guns repaired was 38 *per cent* of the target level as envisaged in the project.

The case revealed the following points :

— Though financial sanction for the import of thirteen machines required by an Army Base Workshop for base overhaul of a certain type of gun was accorded in February 1974, proper indents could be raised on the Supply Wing only in March 1978 after a gap of four years.

— Due to delay in the import of machines, the investment of Rs. 71.43 lakhs on providing technical accommodation and procurement of indigenous machines remained largely idle and the workshop was handicapped in the base overhaul of the gun.

The Ministry stated (August 1984) that :

— In the absence of imported machines, the existing machinery and indigenously procured machines were used by the workshop for base overhaul of the guns. The imported machines are of general purpose high precision—measuring and manufacturing machines. In their absence, the quality of the repairs carried out for the overhaul of the gun could not be ascertained.

— Accumulation of repairable arisings was due to several factors like non-availability of spares in adequate range and depth and delay in the provision of additional resources including imported machines.

## CHAPTER 8

## NAVY

### 32. Review on the working of the Controllerate of Procurement

1. *Introduction*

1.1 The Controllerate of Procurement (CPRO) came into being in 1971, as part of the efforts to improve the material management procedures in the Navy, with the objective of procuring stores of the right quality in the right quantity, at the right price, at the right time and from the right source.

The CPRO is responsible for the procurement of stores classified under General, Engineering, Electrical and Electronics required for Naval units/ships. The following types of indents/demands are processed by the CPRO :

— All items of stores and machinery spares handled by the Material Superintendent (MS), valuing upto Rs. 0.50 lakh per item.

— Ad-hoc requirements of Naval ships for meeting their urgent requirements.

— Stores required to replenish stocks costing upto Rs. 0.40 lakh per item.

— Base demands of Naval Headquarters (Naval HQ) and any other indents projected by them.

1.2 For purchase of items required exclusively by the Navy, a Central Purchase Cell was created at CPRO with effect from 1st June 1976. All recurring requirements were to be purchased centrally and local purchases resorted to only for urgent and essential requirements. Analysis of the purchases made by CPRO, however, revealed that during the years 1980-81 and 1981-82 the number of items purchased locally (LP) was far in excess of those purchased centrally (CP) as shown below :—

| Year | | Number of orders | Items covered | Percentage to total number of | | Total value of orders (Rs. in crores) |
|---|---|---|---|---|---|---|
| | | | | Orders | Items | |
| 1980-81 | CP | 223 | 525 | 1.3 | 1.7 | 0.29 |
| | LP | 17,194 | 29,720 | 98.7 | 98.3 | 16.83 |
| 1981-82 | CP | 1,302 | 5,224 | 13.2 | 23.3 | 1.32 |
| | LP | 8,546 | 17,213 | 86.8 | 76.7 | 9.02 |
| 1982-83 | CP | 1,025 | 16,776 | 15.8 | 57.4 | 10.93 |
| | LP | 5,462 | 12,473 | 84.2 | 42.6 | 6.38 |

2. A test check of local purchases made by the CPRO (selected at random), revealed the following irregularities :

2.1 *Invitation to tender*

Invitation to tender in the case of local purchases under the limited tender system is required to be issued to a minimum of 7 firms for purchases of value upto Rs. 20,000 and 15 firms for purchases of value exceeding Rs. 20,000 and upto Rs. 50,000. Non-observance of these instructions was noticed in 32 cases of tender enquiries (for purchases exceeding Rs. 20,000) issued during 1978-79 to 1982-83.

2.2 *Splitting up of requirements*

In respect of a few items selected for scrutiny for which there were regular and recurring requirements and in considerable quantities, it was found that such requirements, were split so as to bring them within the delegated financial powers of the Admiral Superintendent (ASD)/CPRO. As a result, these purchases escaped the scrutiny of the Tender Purchase Committee (TPC) which had to examine purchases exceeding Rs. 50,000. In these cases, orders were split and placed repeatedly as indicated below :—

| Sl. No. | Item | 1980-81 | | 1981-82 | | 1982-83 | |
|---|---|---|---|---|---|---|---|
| | | Number of orders | Value (Rs. in lakhs) | Number of orders | Value (Rs. in lakhs) | Number of orders | Value (Rs. in lakhs) |
| 1. | Soap laundry | 29 | 8.41 | 6 | 3.02 | 2 | 0.94 |
| 2. | Soap soft Grade II | 14 | 5.53 | 3 | 1.04 | .. | .. |
| 3. | Cuprous oxide | 33 | 12.88 | .. | 6.42 | .. | .. |
| 4 | Rope Polypropyline parapro (of different types) | 78 | 25.46 | 62 | 25.79 | 17 | 6.26 |
| 5 | Paint Admar Chocolate | 14 | 4.32 | 9 | 4.52 | .. | |

NOTE : No orders were placed for central purchase of items at Sl. No. 1, 2, 3 and 4 during 1980-81 to 1982-83.

3.1 *Extra expenditure on local purchase of soda ash*

Soda ash technical grade is consumed by the Navy in considerable quantities. This item is available on Director General, Supplies and Disposals (DGS&D) rate/running contracts. Under the standing instructions of Government, when items conforming to the prescribed specifications are available on the DGS&D rate/running contracts, these should be procured only from the firms enlisted in the DGS&D rate/running contracts. Although soda ash technical grade was available on the DGS&D rate contracts, yet the CPRO resorted to local purchase from private firms at rates (varying between Rs. 2.80 and Rs. 4.40 per Kg.) much higher than the DGS&D rates (varying between Rs. 1.05 and Rs. 2.11 per Kg.) and procured 248 tonnes costing Rs. 7.78 lakhs between November 1978 and October 1983, thereby resulting in extra expenditure of Rs. 3.09 lakhs.

3.2 *Irregular procurement of a non-patternised item*

In April 1979, Naval HQ instructed the Flag Officer Commanding-in-Chief (FOC-in-C) of a Naval Command to obtain a few numbers of commercial raincoats for issue to sailors during the monsoon season for trial purposes with a view to replacing the existing rubber raincoats. The FOC-in-C in turn instructed (May 1979) the CPRO to procure 14 numbers of commercial raincoats from the market and issue them to ten different ships/establishments for trial purposes. In response to a telephonic enquiry on 15th June 1979, the CPRO obtained quotations on a single tender basis from firm 'A' for supply of raincoats nylon finish of quality suitable for use by scooter-riders at Rs. 45 each and of quality suitable for normal use at Rs. 37 each. This offer was accepted by the CPRO and orders placed on 18th June 1979 for supply of 7 numbers each of the two qualities of raincoats.

During November-December 1979, the Naval Command furnished to Naval HQ a detailed report on the raincoats procured from firm 'A' indicating the results of trials and recommended that they would be suitable only for individuals who were not employed on strenuous work. The life of the raincoats was assessed as one year. No orders were, however, issued introducing the item in service as required under the prescribed procedure nor had Naval HQ intimated their decision on the introduction of plastic raincoats into service. Nevertheless, the CPRO placed (May 1980) 5 Local Purchase Orders (LPOs) for the supply of 5,000 numbers of raincoats at Rs. 37 each and 2 LPOs for 5,000 numbers of souvesters at Rs. 4 each at a total cost of Rs. 2.05 lakhs from firm 'A'.

The inspection authorities intimated the CPRO that the quality of stores offered by the firm for inspection being not uniform at all, stores were accepted taking into consideration urgent requirement. They added that the firm be black-listed and pending orders for 1,068 plastic raincoats and 1,500 souvesters be cancelled. However, the entire lot was accepted, ignoring the Inspector's remarks and the CPRO asked (September 1980) the Inspector to review his inspection reports. In reply to an audit query as to the circumstances leading to the acceptance of rejected stores, the CPRO stated (October 1983) that the matter was being investigated. Results of the investigation were awaited (April 1984).

4. *Unnecessary procurement of stores* :

(a) *Paint bituminous enamel*

4.1 The annual requirement of this paint was 10,000 Kgs. as per the records of the Controllerate of Warehousing (CWH)/Controllerate of Material Planning (CMP). Against the requirement of 12,000 Kgs. of this paint projected by the CWH on 27th September 1980 (when there was stock of 14,300 Kgs.), the CPRO placed 11 LPOs between 30th December 1980 and 10th January 1981 on a local firm for the procurement of the required quantity at a total cost of Rs. 1.56 lakhs. The quantity ordered against the LPOs was received by the CWH between 6th March 1981 and 12th May 1981. The entire stock remained unissued upto March 1984; the shelf life of this stock expired by May 1982, resulting in a loss of Rs. 1.56 lakhs.

The CWH also received 27,425 Kgs. of this paint during January—April 1981 against pending CPOs. Out of this, only 682 Kgs. could be issued upto March 1984. The shelf life of the remaining stock (26,743 Kgs.) costing Rs. 1.90 lakhs expired by April 1982.

(b) *Refractory materials* :

4.2 With a view to indigenisation of one of the items of refractory materials *viz.*, 'refractory mortor cement', an indigenous development order was placed by the Department of Defence Supplies on firm 'C' in July 1980. The firm supplied (February 1982) 400 Kgs. of this item at a total cost of Rs. 964 and the same was under users' trials (March 1984). The CPRO had, however, placed an LPO on a local firm for procurement of 4,905 Kgs. of this item at a total cost of Rs. 0.42 lakh. The item supplied (July 1982) by the firm was issued to the Naval Dockyard at station 'X' during October and December 1982. The entire quantity was returned by the Dockyard to the CWH in April 1983, being surplus to requirements. While the stock procured against the LPO was lying with the CWH, requirements of this item in respect of Naval Dockyard and other ships were being met through import. The shelf life of the item would expire in July 1984.

Further, the CPRO also placed (March and May 1983) two more LPOs for the procurement from firm 'D' of 23,000 Kgs. of 'Plastic Refractory-Mix'—another refractory material at a cost of Rs. 0.92 lakh. Against these LPOs, the firm supplied 19,000 Kgs. of the material (total cost : Rs. 0.77 lakh) between 15th June 1983 and 10th August 1983. No issues were made out of the material procured locally and the Navy's requirements continued to be met through import.

Thus, the entire stock of the refractory materials purchased locally at a cost of Rs. 1.19 lakhs was lying in stock un-used (March 1984).

(c) *Paint bituminous black* :

4.3 Against three exclusive indents raised by Naval HQ in February 1979, April 1979 and October 1979, the CPRO concluded (between June 1980 and September 1981) three contracts with local firms 'E' and 'F' for the procurement of 66,498 litres of this paint at a total cost of Rs. 3.79 lakhs. Out of the total quantity of 57,500 litres of paint received by the CWH (consignee) between April 1981 and December 1981 from the two firms, a quantity of only 36,742 litres could be issued till March 1984 and the balance quantity of 20,758 litres (costing Rs. 1.34 lakhs) remained in stock (March 1984) with shelf life (of one year) already expired.

(d) *Paint sky blue* :

4.4 A quantity of 10,900 litres of paint sky blue (cost : Rs. 2.86 lakhs) procured against 5 LPOs placed by the CPRO during July 1981—March 1982 and against the DGS&D contract of April 1981 was received by the CWH between December 1981 and October 1982. This quantity was despatched to a Naval Stores Depot (NSD) at station 'Y' between January and December 1982. The NSD returned (July 1983) 9,000 litres of the paint "being excess to requirement". The shelf life of this paint had already expired in October 1983. The unnecessary procurement of this paint, its despatch to the NSD and its return to the CWH resulted in a loss of Rs. 2.40 lakhs.

(e) *Syncolite Mosaic Layer and Topping* :

4.5 Between August 1980 and November 1980, the CPRO placed 5 LPOs on a local firm for supply of 30,000 Kgs. of Syncolite Base Layer, 20,100 Kgs. and 25,300 Kgs of Syncolite Mosaic Topping 'Yellow' and 'Green' respectively at a total cost of Rs. 1.41 lakhs. The supplies were made by the firm between February and May 1983. Meanwhile, in February 1983 another LPO was placed by the CPRO on the same firm for the procurement of 2,500 Kgs. of Syncolite Mosaic Topping 'yellow' at a total cost of Rs. 0.05 lakh. Supplies against this order were made by the firm in April 1983. Out of the stores received, only 1,000 Kgs. of Syncolite Base Layer were issued and the balance valuing Rs. 1.44 lakhs remained in stock (March 1984).

5. *Procurement of paper labels at exorbitant rate*

5.1 In September 1980, the CPRO placed an LPO on firm 'G' for supply of 7 lakh numbers of Label Manila (paper labels) at the rate of Rs. 63 per thousand. The rate was justified by the CPRO on the ground that the previous purchase rate was Rs. 71 per thousand. The previous LPO dated 16th May 1979 (quantity 50,000) was for supply of cloth labels and not for paper labels. Audit scrutiny also revealed that the demand, based on which the procurement of 7 lakh labels was made, added upto 3 lakh only and that in the limited tender enquiry floated for placement of the LPO, tender enquiries were not issued to any of the previous suppliers.

Five more LPOs were placed on private firms by the CPRO between November 1980 and January 1981 for the procurement of 18.30 lakh of this item at prices ranging from Rs. 50 to Rs. 62.70 per thousand. Compared to the prevailing market rate of Rs. 22.25 per thousand the extra expenditure due to local purchase of paper labels at exorbitant rates worked out to Rs. 0.92 lakh. The CPRO had not produced the documents relating to these LPOs for audit scrutiny (March 1984).

At the end of March 1984, the CWH held 28 lakh numbers of paper labels which would be sufficient to meet the requirement of the next 7 years.

The CPRO stated (October 1983) "The Group Officer and the dealing Clerk have already resigned from service and no more in Indian Navy. Hence no clarification can be given".

6. *Central Purchase*

*Location of sources of supply and enlistment of suppliers* :

6.1 An examination of the procedure followed by the CPRO in respect of locating sources of supply and registration of suppliers revealed the following deficiencies :

- Majority of the firms registered were either agents or retailers; 93 out of 176 suppliers registered during 1981 to 1983 were agents/retailers.
- Banker's Report regarding the financial standing of the firms was not obtained even in a single case.
- The capability and capacity of the firms as manufacturers/stockists were not assessed by competent inspection authority or by the CPRO.
- Out of the 176 registrations granted during 1981 to 1983, Income Tax Clearance Certificate was not obtained in 56 cases.
- Sales Tax Certificate was not obtained in 40 cases.
- Ownership certificate was not obtained in 61 cases.
- No registers were being maintained in respect of firms black-listed, banned or removed and firms whose registration was under consideration.
- Firms were allowed to keep the registration beyond 3 years without revalidation.

Further, separate lists of suppliers for central/direct/local purchase were not maintained in spite of specific instructions by Government. The CPRO stated (October 1983) that all deficiencies in the procedure, pointed out by Audit would be removed in a phased manner.

6.2 *Extra expenditure on procurement of waste cotton coloured and rags cotton coloured*

Naval HQ raised on the CPRO an exclusive indent dated 5th May 1979 for the procurement of 44,344 Kgs. of waste cotton coloured and 1,49,995 Kgs. of rags cotton coloured at a total estimated cost of Rs. 8.56 lakhs (at the rate of Rs. 2.90 per Kg. for waste cotton coloured and Rs. 4.85 per Kg. for rags cotton coloured) with the stipulation that the items should be delivered by the successful bidder on or before 30th September 1979. The CPRO received this indent on 11th May 1979 and issued tender enquiry on 13th July 1979. The last date for receipt of tenders was fixed as 6th November 1979, allowing a period of over 15 weeks for the submission of quotations as against the normal time limit of 4—6 weeks. The CPRO received 6 quotations; the lowest and the next lowest ones were as under :

| Item | Quotation |
|---|---|
| Waste cotton coloured | *Lowest* : Rs. 3.86 per Kg. (Rs. 3.90 per Kg. less 1 *per cent* discount) from Firm 'A-1'.<br>Next Lowest : Rs. 3.87 per Kg. (Rs. 3.75 per Kg. plus 3 *per cent* tax) from Firm 'B-1'. |
| Rags cotton coloured | *Lowest* : Rs. 5.94 per Kg. (Rs. 6 per Kg. less 1 *per cent* discount) from Firm 'A-1'.<br>*Next Lowest* : Rs. 6 per Kg. from Firm C-1. |

Though the comparative statement of tenders (CST) was prepared (6th November 1979) and firms 'A-1', 'B-1' and 'C-1' were on the "approved list of suppliers" of the CPRO, further action to process the case through the TPC was not taken. Instead tenders were reinvited and in response to the tender enquiry of 20th February 1980 opened on 2nd May 1980, the CPRO received 10 quotations. The lowest among them was from firm 'D-1' which ranged from Rs. 2.18 to Rs. 3.05 per Kgs. for different types of waste cotton coloured and from Rs. 2.75 to Rs. 4.20 per Kg. for rags cotton coloured. Since the CPRO doubted the credibility of firm 'D-1' 's offer, he made enquiries with the Naval Inspectorate at station 'Z' (where firm 'D-1' was located) about the capability of this firm to meet the Navy's requirements within the stipulated delivery period and according to the prescribed specifications. On receipt of the report of the Naval Inspectorate which confirmed the apprehensions of the CPRO, the case for the procurement of the items was processed through the TPC. The TPC recommended the placement of order on firm 'E-1', the next lowest tenderer whose rates were Rs. 3.97 per Kg. for waste cotton coloured and Rs. 6.87 per Kg. for rags cotton coloured and the same was approved by the competent authority. On 31st July 1980 the CPRO concluded the contract with firm 'E-1' and the supplies were received between September 1980 and December 1980. During the period May 1979 to the date of receipt (11th September 1980) of first supply against this contract, the CPRO purchased locally 97,000 Kgs. of waste cotton coloured and 1,05,850 Kgs. of rags cotton coloured. The local purchase rates for these items varied from Rs. 3.72 to Rs. 4 per Kg. for waste cotton coloured and Rs. 5.60 to Rs. 6.87 per Kg. for rags cotton coloured. The bulk of the local purchases (62,000 Kgs. of waste cotton coloured at the rate of Rs. 4 per Kg. and 60,550 Kgs. of rags cotton coloured at the rate of Rs. 6.87 per Kg.) was from firm 'E-1' to whom the contract was eventually awarded (July 1980).

Non-conclusion of contract against the lowest quotations received in the first tender enquiry (November 1979) resulted in an extra expenditure of Rs. 1.44 lakhs.

6.3 *Avoidable extra expenditure in procurement of sandals PVC*

Naval HQ raised on the CPRO an exclusive indent dated 14th January 1981 for the procurement of 80,000 pairs of sandals PVC straps in different sizes, out of which 40,000 pairs were operational requirement. The estimated cost of the purchase was Rs. 9.60 lakhs (at the rate of Rs. 12 per pair). The indent contained *inter alia* the following stipulations :

— The CPRO would issue tenders to all registered suppliers, allowing sufficient time to enable the firms situated outside to submit their quotations.

— Tenderers would submit, alongwith their quotations, two pairs of sandals as tender samples, conforming to the prescribed specification and the test particulars of the item from a recognised/registered laboratory.

— Naval HQ would scrutinise the CST and approve the samples to guide the procurement and inspection.

— The CPRO would process the procurement through the TPC under the procedure prescribed for the direct purchase of stores/spares, etc. required exclusively by the Navy.

— The successful bidder would commence supply from 15th March 1981 at a monthly rate of 20,000 pairs of sandals.

The CPRO issued tender enquiry on 4th February 1981, specifying the last date for receipt of tenders as 14th May 1981. On 11th April 1981, the CPRO reported to Naval HQ that since the finalisation of the contract would take time, 40,000 pairs of sandals PVC would be procured through local purchase to meet the operational requirement. Between April 1981 and June 1981, 31,000 pairs costing Rs. 3.70 lakhs were thus procured by the CPRO from two local suppliers at Rs. 11.95 per pair. Against the tender enquiry of 4th February 1981 opened on 14th May 1981, the CPRO received 8 quotations, the lowest three among them being Rs. 10.50 (plus Central Sales Tax at 4 *per cent*), Rs. 10.95 and Rs. 11.00 per pair quoted by firms 'A-2', 'B-2' and 'C-2' respectively. After scrutiny, these quotations were forwarded (May-June 1981) to Naval HQ alongwith the CST etc. with the following remarks :

— Only one firm 'D-2' (not among the three lowest) had forwarded the samples alongwith the test certificate and the sandals PVC of this firm were made out of virgin material whereas those of other firms were made of reprocessed scrap.

— 40,000 pairs of sandals required on operational basis had already been procured under local purchase powers on urgent basis.

Naval HQ which examined the case, communicated the following remarks to the CPRO on 25th June 1981 :

— The offer of firm 'D-2' (*viz.* Rs. 19.77 per pair) alone fulfilled all the conditions of tender enquiry.

— Except for the quotations of firms 'A-2', 'C-2' and 'D-2', who are the manufacturers of the items, the other quotations were from the agents of manufacturers and hence had to be ignored.

— After taking into account the terms and conditions of the tender and the operational nature of half the quantity of the indent, the case be taken up with the TPC for the placement of order for 40,000 pairs of sandals PVC on firm 'D-2'.

— Firms 'A-2' and 'C-2' whose quotations were lower should be advised to send their test reports from a recognised laboratory alongwith two pairs of samples and also to extend the validity of their offers until August 1981.

After obtaining necessary approval of the TPC/competent authority, the CPRO placed (July 1981) an order on firm 'D-2' for 40,000 pairs at a total cost of Rs. 7.91 lakhs (at the rate of Rs. 19.77 per pair). The supplies materialised during November 1981.

On receipt of samples and test reports furnished by firms 'A-2' and 'C-2' through the CPRO, Naval HQ advised (November 1981) the CPRO to procure the balance quantity of 40,000 pairs of sandals PVC from firm 'A-2' at the rate of Rs. 11.35 per pair. The requirement was, however, subsequently cancelled (June 1982) by Naval HQ.

Thus, procurement of 40,000 pairs of sandals PVC from firm 'D-2' at a higher rate resulted in an avoidable extra expenditure of Rs. 3.64 lakhs.

7. *Other interesting points*

7.1 *Procurement of stores on proprietary article certificates*

The procurement of stores on single tender basis was resorted to by the CPRO on the basis of proprietary article certificates even in cases where the brand name of a particular product was indicated as the requirement and the same was treated as proprietary product of the manufacturers of that product though there were other manufacturers producing the items bearing different brand names, *vide* instances given below :

(1) *Rope Polypropylene*

The requirement of this item was specified as "Polypropylene Parapro" being the brand name of the polypropylene rope treating it as a proprietary product of firm 'XX' whereas other firms 'XA', 'YA', 'ZA', etc. were also manufacturing polypropylene rope. During September 1980 to October 1983, purchases of the item amounting to Rs. 64.01 lakhs were effected from firm 'XX' against 173 LPOs.

(2) *Foam Rubber products*

The CPRO placed (February and May 1980) 5 LPOs for foam rubber items (costing Rs. 0.45 lakh) of brand name 'MM Foam' on firm 'AD' (an authorised dealer of the manufacturer) without inviting tenders on the ground that the items were proprietary products and were required urgently by the users (though such products of equally good quality were marketed by several other manufacturers).

7.2 *Functioning of Fast Transaction Team*

A Fast Transaction Team (FTT) headed by a Technical Officer functioning under the direct control of the CPRO was created to procure operationally required stores and machinery off the shelf. In keeping with the urgency of the requirements, the FTT deviated from the normal procurement procedure in the following respects :

— Hand delivery of tender enquiries and collection of quotations as against the normal procedure of sending them by post.

— Limited time allowed for submission of quotations.

— Less number of quotations obtained making the tenders less competitive.

These relaxed procedures made it imperative that procurement of the items by the FTT should be confined to immediate requirements to keep the ships operational. During the years 1981-82 and 1982-83, purchases aggregating Rs. 106.43 lakhs and Rs. 85.83 lakhs respectively were effected by the FTT. A random scrutiny of the procurements made during 1982-83 revealed that stores for entertainment furnishing, etc. were procured.

8. *Summing up* : The following points emerge from the review :

— 98.3 *per cent* and 76.7 *per cent* of the total number of items covered by the orders placed during the years 1980-81 and 1981-82 respectively were procured through local purchase.

— In respect of fast moving items where procurement should have been made through Central Purchase the requirements were split and procurement made through LPOs within the delegated powers of lower competent financial authority.

— Piecemeal procurement through local purchase of soda ash despite the item being covered by the DGS&D rate contract resulted in extra expenditure of Rs. 3.09 lakhs.

— Irregular procurement of a non-patternised item (plastic raincoat) costing Rs. 2.05 lakhs against requirement of patternised item.

— Unnecessary procurement of stores valued at Rs. 9.83 lakhs, shelf life of which had already expired or was nearing expiry.

— Irregular procurement of paper labels at exorbitant rates resulting in extra expenditure of Rs. 0.92 lakh.

— Extra expenditure of Rs. 1.44 lakhs in procurement of waste cotton and rags cotton due to non-acceptance of lowest tender and resorting to re-tendering.

— Avoidable extra expenditure of Rs. 3.64 lakhs in procurement of sandals PVC due to non-acceptance of lowest offer.

— Incorrect procurement of stores such as rope polypropylene, foam rubber products, etc., (being marketed by several manufacturers) on single tender basis on the basis of proprietary article certificates.

— Large scale procurement of stores (costing Rs. 192.26 lakhs during 1981-82 and 1982-83) by the FTT of the CPRO created for procurement of stores for operational requirement in violation of laid down guidelines.

The review was issued to the Ministry in July 1984; their reply is awaited (November 1984).

### 33. Avoidable extra expenditure on acquisition of an equipment

An equipment required for fitment in certain Naval ships under indigenous construction in Mazagon Dock Ltd. (MDL) was to be supplied to MDL by a public sector undertaking 'X'. The same equipment was also required for Base and Depot Spares. An order for 7 numbers of the equipment required by MDL was placed (December 1977) by undertaking 'X' (which was responsible for combining another part with the equipment and supplying complete unit to MDL) on another public sector undertaking 'Y' at the rate of Rs. 9.30 lakhs each. The first two sets of equipment were to be delivered by December 1979.

Since the delivery schedule indicated by undertaking 'Y' was not found suitable by MDL, one number of the equipment was imported to meet the immediate requirement. MDL, therefore, sought (November 1978) reduction in the quantity of equipment on order. To do so, undertaking 'Y' demanded (February 1979) cancellation charges to the tune of Rs. 5.56 lakhs. Later, it agreed (April-May 1979) to reduction in the order by one number subject to a separate order for one number being placed immediately by Naval Headquarters (Naval HQ) at the price of Rs. 9.30 lakhs. On being informed of this, the user Directorate at Naval HQ requested (June 1979) the indenting Directorate to procure one number of the equipment (against the cancelled quantity) for Base and Depot Spares.

The indenting Directorate instead of placing an order against the cancelled quantity invited (October 1979) fresh quotations from undertaking 'Y'. The quotations were received in April 1981 and a supply order was placed (September 1981) for one number of the same equipment at a cost of Rs. 31.10 lakhs; amended to Rs. 35.22 lakhs in October 1983; its supply materialised in March 1984. This resulted in avoidable extra expenditure of Rs. 25.92 lakhs.

Ministry of Defence stated (October and December 1984) that in order to rectify the omission of non-linking of Naval HQ supply order of 30th September 1981 to the agreement, undertaking 'Y' was approached (July 1984) to reduce the cost charged for the equipment to Rs. 9.30 lakhs and refund the additional amount of Rs. 25.92 lakhs but it declined (October 1984) to accept the request for refund.

### 34. Grounding of Naval helicopters due to premature failure of engines

A Naval Training School was established in 1970 for imparting basic as well as advanced training to Naval pilots. For imparting basic training, a certain helicopter (type 'A') was selected (July 1969) by the Naval Headquarters (HQ) on considerations of its availability ex-stock with a foreign firm, guaranteed supply of spares with the Indian agent (of the foreign firm) agreeing to stock one year's requirements and indigenous availability with private firms of overhaul facilities for airframe and engine. The Ministry of Defence (Ministry) accorded (30th July 1970) sanction for the procurement of 4 such helicopters together with 2 spare engines, associated ground equipment, tools and maintenance spares to meet 4 years' requirement at a total estimated cost of Rs. 17 lakhs.

The Naval HQ raised three indents—two on 31st July 1970 for helicopters and spare engines (Rs. 11.92 lakhs) and one on 2nd April 1971 for maintenance spares, tools and ground equipment (Rs. 2.54 lakhs)—on an India Supply Mission abroad. The third indent did not cover the full range of spares etc. which was awaited from the foreign firm. The supplies of helicopters and spare engines were made in June-July 1971 and early 1972 respectively. As regards maintenance spares, no record indicating contract action and materialisation of supplies could be shown to Audit by the Naval HQ. The Ministry stated (October 1984) that the relevant old files and records were not available.

As against the engine overhaul prescribed after every 1,000 hours, four engines failed prematurely (the number of hours run by each engine, inclusive of runs after repairs, varied between 255 and 450 hours) and one spare engine not fitted to the helicopter was found defective in February 1975.

The annual flying task of the Naval Training School was assessed at 680 hours for providing basic training to the Naval pilots. The four helicopters used for providing basic training to the pilots during the period 1971 to 1978 had flown to the extent of only 41 *per cent* (average) of their estimated flying task. The low serviceability was stated (February 1980) to be due to non-materialisation or delay in materialisation of spares. From the year 1979, the basic training was given on another type of helicopter (type 'B'). The Naval HQ proposed (April 1981) the phasing out of the type 'A' helicopters—2 each in 1981 and 1982. The Naval HQ pointed out (October 1982) that continued low serviceability of type 'A' helicopter had affected satisfactory progress of helicopter conversion courses in stipulated time. Government approval to phasing out of type 'A' helicopters is still (10th October 1984) awaited.

The following interesting points emerge in this case :

— Serviceability of the helicopters procured from a foreign firm at a cost of about Rs. 12 lakhs for imparting training to pilots could not be maintained for want of spares.

— During the period 1971–1978, the helicopters could be used to the extent of only 41 *per cent* of the assessed flying task; this adversely affected the training programme.

— The proposal for phasing out of the helicopters initiated by Naval HQ in April 1981 is yet (10th October 1984) to be approved by Government. The delay, besides involving avoidable expenditure on their maintenance, might result in further deterioration of these helicopters and consequently reduce their resale value.

### 35. Import of paints

During the review meeting on the modernisation of a certain Naval ship, the Naval authorities decided to use epoxy heavy duty non-skid black and yellow paints on the ship. This decision necessitated the positioning by end August 1983 of 1,250 litres of epoxy paints (750 litres black and 500 litres yellow) and 500 litres of primer in a Naval Dockyard. A Naval Command intimated (July 1983) Naval Headquarters (HQ) that taking into account the time required for supply, inspection and testing the performance of the paints for heat resistance the supply from indigenous sources would not be available till October 1983, and the paints should, therefore, be imported.

After obtaining import clearance from the Directorate of Production and Inspection (Naval), Naval HQ placed (17th August 1983) an operational indent on the Supply Wing of an Indian Mission abroad (Supply Wing) for the procurement of the stores. The requirement of the stores was indicated in the indent as 'immediate' and the stores were to be despatched by air. The Supply Wing concluded a contract (7th/12th September 1983) with the foreign firm for supply of the stores at a total cost of £ 5,812.50 (Rs. 0.92 lakh). The stores were despatched by Air India flight on 29th September 1983 on freight to pay basis and landed in India at station 'X' on the same day. The air freight charges payable to Air India amounted to Rs. 0.68 lakh. The Controller of Warehousing (CWH) could not get the stores cleared from the airport on their arrival due to :

— non-availability of financial sanction for air-lifting of stores and payment of freight charges ;

— refusal by Air India to give credit facilities towards payment of air freight charges ; and

— instructions from the Ministry of Finance (Defence) to the Defence Accounts authorities restraining the latter from making any provisional payment on account of air freight charges on the ground that the stores had been ordered by Naval HQ beyond delegated powers and without obtaining proper Government sanction for the air freight.

Government sanction accorded on 21st October 1983 for payment of air freight charges amounting to Rs. 68,111 was received by the CWH on 31st October 1983. Thereafter, necessary funds were obtained from the Defence Accounts authorities and stores were got cleared on 8th November 1983 after making the following payments.

| | Rs. |
|---|---|
| —Air freight charges | 68,111 |
| —Warehousing charges for delay in clearance of consignment | 80,146 |
| —Customs Duty | 2,49,685 |
| TOTAL | 3,97,942 |

The stores were taken on ledger charge of the CWH on 15th November 1983. Thereafter 748.500 litres of black paint, 498.500 litres of yellow paint and 75 litres of primer were issued to the Naval Dockyard during end December 1983 and January 1984. Out of these quantities, the Naval Dockyard issued 550 litres of black paint, 300 litres of yellow paint and 75 litres of primer to the Naval ship during 16th January—6th February 1984.

The Ministry of Defence (Ministry) stated (September 1984) that the period involved in obtaining of Government sanction for payment of actual air-freight charges and completion of procedural formalities thereafter has resulted in payment of godown charges of Rs. 80,146. The Ministry further added that the delay of 4 months in actual utilisation of stores was only due to procedural formalities/time required for communication at different points which could not be foreseen at the time of indenting.

Thus, the stores required by end August 1983 to meet the operational requirements of a Naval ship, imported at a cost of Rs. 0.92 lakh and despatched by air, were received at the destination on 29th September 1983 but could be got cleared only on 8th November 1983 (after making a payment of Rs. 3.98 lakhs towards air freight, warehousing charges and customs duty), and issued during January-February 1984 for use on the Naval ship. Further, of 500 litres of primer imported (which was considered as urgent, inescapable and absolutely essential requirement), only 75 litres (15 *per cent*) were issued to the Naval ship in January 1984 and the remaining quantity of 425 litres (85 *per cent* of primer imported)—proportionate cost : Rs. 1.18 lakhs could be consumed only by August 1984.



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

The Director of Logistics Support, Naval Headquarters (Indentor), raised (November 1981) an indent for procurement of 23 items of certain spares through the Supply Wing of an Indian Mission abroad; the indent was accompanied by a proprietary article certificate in favour of firm 'A'. The Supply Wing obtained a quotation from firm 'A' and placed an order on it (July 1982) for supply of 19 of the items at a total cost of £ 1,31,166.

The Schedule of Requirement accompanying the indent indicated that two of the items ordered were actually the products of firm 'B'.

The Supply Wing, however, placed the order with the firm 'A' without making any inquiries with firm 'B' or from any other source. At the time of inspection of stores the Inspection Directorate of the Supply Wing observed (April—May 1983) that, 4 of the items were actually proprietary to firm 'B'. With a view to having a comparison of the prices of the two firm, the Supply Wing obtained (May 1984), at the request of Audit, a quotation from firm 'B' in respect of these 4 items. A comparative study of the prices revealed that the prices of firm 'B' were considerably lower than those contracted for in respect of 3 of the 4 items, the net financial implication being of the order of £ 21,779 (Rs. 3.44 lakhs).

The defective proprietary article certificate issued by the indentor coupled with the omission of the Supply Wing to notice the real manufacturer indicated in the Schedule of Requirement for two items, resulted in the Government being put to an extra avoidable expenditure of Rs. 3.44 lakhs even on the basis of firm 'B' 's quotation of May 1984 by which date the Index Numbers of producer prices had actually gone up by more than 7 *per cent*.

The Supply Wing stated (July 1984) that from the description of the items in the Schedule of Requirement it could not be made out that the items were the products of firm 'B' and that as the proprietary article certificate was in favour of firm 'A', the items were procured from that firm. This is hardly tenable since the fact of the items being proprietary to firm 'B' could subsequently be noticed by the Inspection Directorate. Further, it was noticed that the Supply Wing had issued instructions (December 1983) requiring, *inter alia*, that all proprietary article certificate cases, irrespective of value, should be referred to the Director (Inspection) for advice/comments before issue of tender enquiries.

## CHAPTER 9

## AIR FORCE

### 37. Loss due to avoidable ground accidents of aircraft

Two Indian Air Force (IAF) aircraft of type 'Y' were involved in ground accidents (in December 1975 and February 1980) due to inadvertent charging of oxygen/ingress of inflammable material in the accumulator of the aircraft while under repair, causing fire and extensive damage to the aircraft and the death of a person in one case.

Aircraft 'Y1' while undergoing (17th December 1975) periodical maintenance servicing at the squadron by a detachment of a Public Sector Undertaking (Undertaking) was involved in a ground accident causing severe damage to the airframe and its two engines. As a result, the airframe had to be declared unserviceable and the engines put to extensive repairs. The value of the loss was estimated at Rs. 27.77 lakhs. One of the employees of the Undertaking also died as a result of the burn injuries received by him.

A Court of Inquiry convened (20th December 1975) to enquire into the cause of the accident as well as to fix responsibility for the accident found that :

(i) the accumulator in the aircraft was charged from an oxygen cylinder mistaking it for compressed air and the high pressure oxygen coming into contact with hydraulic fluid caused explosion and fire; and

(ii) there was no stencilling on the cylinder as an identification for air cylinder (required under the existing technical instruction), there was a small amount of black paint on the rear plug and the spherical portion of the cylinder that would indicate that it was an oxygen cylinder.

The Court held the Supervisor and the Assistant Supervisor of the Undertaking directly responsible for the accident as they had certified that the cylinder which was used for charging the accumulator was air cylinder whereas it was actually oxygen cylinder.

The Court recommended that in the interest of safety the colour coding and stencilling on compressed air and gases should be properly visible at all times on the cylinders and instructions should be issued that supplies of cylinders from contractor of cylinders without clear stencilling/painting should be rejected.

Air Headquarters (Air HQ) reviewing the proceedings of the Court of Inquiry observed that there had been a chain of lapses with regard to the supply of compressed gases at the Air Force unit which probably indirectly contributed to the accident. Since these aspects were ignored by the court convened in December 1975, Air HQ directed (June 1976) that the court be reconvened and these lapses investigated. Accordingly the Court of Inquiry was reconvened in July 1976. The findings of the court were that :

(i) the marking over the body of the cylinder received from trade had faded away including stencilling of word 'oxygen'; and

(ii) the supervisory staff of the logistic section were fully aware of the possibilities of mix up and they exercised effective control to avoid such a mix up.

The Court recommended that the markings on cylinders be more vigorously checked both by the stocking section and the user section. The Chief of Air Staff (CAS) also agreed (October 1976) that the cause of accident was due to erroneous charging of hydraulic system with oxygen instead of air and the Supervisor and the Assistant Supervisor of the Undertaking were responsible for the accident for mistakingly authorising the use of oxygen cylinder instead of air cylinder to charge the hydraulic system. The CAS recommended that while suitable action may be taken against these two officers by the Undertaking, the loss should be borne by the Undertaking.

The Undertaking did not accept (November 1977) the responsibility for the loss because the aircraft at the time of accident was in the charge of the Air Force. Further, the Undertaking contended that there was no distinct painting as well as marking on the cylinder to distinctly differentiate air cylinders from oxygen cylinders and thus the Undertaking was in no way responsible for the damage caused to the aircraft. By way of disciplinary action the Undertaking had issued a letter of warning to the Supervisor, as according to the Undertaking, a more severe action was not justified as the Court of Inquiry was not able to establish that the condition of the cylinder was satisfactory enough to enable proper identification. As a remedial measure instructions had been issued by Air HQ in

January 1976 for observing the colour code and the marking on the cylinder, the Undertaking on their part had issued suitable instructions for ensuring against such accidents.

The loss of the aircraft was partly due to indistinct marking/paintings on the cylinders received from trade and issued by Air Force and partly due to representatives of the Undertaking not taking enough care before the charging of the hydraulic system. The loss of Rs. 27.77 lakhs was thus regularised (July 1983) as a store loss due to gross neglect.

In spite of the instructions issued by the Undertaking to ensure against such accidents, yet another aircraft 'Y2' of the type 'Y' was involved in a similar ground accident in February 1980 while undergoing overhaul at the premises of the Undertaking. The Board constituted by the Undertaking to investigate the accident concluded that combustion/mild explosion had taken place in the air chamber of the hydraulic accumulator either due to inadvertent charging of oxygen or ingress of the inflammable material into the air chamber during the external cleaning resulting in fire and damage to the aircraft. The Board could not, however, categorically establish which of the two possibilities was the primary cause of the accident. The Board among other things pointed out that the existing system of identification of the different gas cylinders, based on their content, was not being implemented satisfactorily and that the shape, size and identification of the adaptor and of the hose should have been different and distinct for various types of contents. However, in the absence of proper documents of the work carried out from stage to stage on the accumulator and its periodic charging and also in view of the sequence of events leading to the accident, the Board could not fix responsibility on any individual or group of individuals for the accidents. The Board, however, opined that enough precautions should have been taken and adequate checks built in to prevent recurrence of such accidents. The Undertaking did not accept the responsibility for the loss on the ground that there was no procedure laid down to insure the IAF aircraft. It was, however, decided that since Government was its own insurance covering authority, the loss was to be borne by Government. The loss of Rs. 18.54 lakhs was written off in April 1984 as due to gross neglect.

Thus the action taken in connection with the loss, caused due to gross negligence, of the aircraft of the Air Force consisted only of the issue of a letter of warning to a Supervisor of the Undertaking and the write-off of the loss of Rs. 46.31 lakhs.

Ministry stated (September 1984) that as the Court of Inquiry did not clearly establish that the condition of the cylinder was satisfactory enough to enable proper identification, a lenient view was taken by the Undertaking and the concerned employees were issued only with a letter of warning.

## CHAPTER 10

## OTHER TOPICS

### 38. Review on acquisition and/or utilisation of lands for defence purposes

*Introduction*

1. Requirement of land for defence use is decided either on short-term or long-term basis depending upon the situation. Whereas land required on short-term basis is requisitioned in the first instance and is acquired later, if warranted under the Requisitioning and Acquisition of Immovable Property (RAIP) Act, 1952, land required on long-term basis is straight-away acquired under the Land Acquisition (LA) Act, 1894 except in case of urgent and immediate needs in which case land can be requisitioned in the first instance and then acquired under the relevant Act.

2. According to the Acquisition, Custody and Relinquishment of Military Land Rules, 1944, the heads of the departments or services, in need of land, are responsible to assess area of the land required, suitability of the land and submission of the proposal to acquire/requisition it to the Government for sanction. The responsibility to obtain "No objection" to the proposed acquisition from the State Government concerned, placement of demand for acquisition on the Civil authorities, ensuring steady progress of acquisition proceedings, assisting the Civil authorities in assessment of compensation payable to the owners as also timely disbursement of compensation devolves on the Defence Lands and Cantonment (DLC) Service.

I. *Delay in obtaining/issuing of Government sanction*

***Station 'A'***

3.1 Two Boards of Officers were held in January 1970 and October 1977 to determine the area of hired land that had become surplus to the requirements of the Air Force at Station 'A'. Air Headquarters (Air HQ) approached (April 1979) the Ministry of Defence (Ministry) for acquisition (290.55 acres)/ de-hiring (290.44 acres) of land as recommended by the latter Board. The valuation of 290.55 acres of hired land was assessed at Rs. 14.40 lakhs based on sale data for the years 1974—1977. Sanctions for de-hiring of 290.44 acres and acquisition of 286.875 acres at an estimated cost of Rs. 47.74 lakhs (based on the sale data for the years 1979—1981) were accorded by the Ministry in January 1981 and May 1982 respectively. The delay in issuing the sanction was stated (September 1981) by the Ministry to be due to discrepancies in the area of land recommended for de-hiring and acquisition as also finalising the assessment of the cost of acquisition by the DLC authorities. In February 1983, preliminary notification (*i.e.*, intention to acquire) under the LA Act to acquire 286.875 acres of hired land was published in the State Gazette. 290.44 acres of land was yet (March 1984) to be dehired, pending demarcation of the area by the Defence Estates Officer (DEO) in consultation with the users.

3.2 Thus, the delay of over 3-4 years in obtaining sanctions (by the Air Force authorities/DLC authorities) for acquisition and de-hiring of land resulted in an avoidable expenditure of Rs. 33.52 lakhs on account of escalation in the cost of land. Besides, continued retention of the hired land found surplus to requirements entailed a further avoidable expenditure of Rs. 1.44 lakhs from 1963 to March 1984 on payment of rental charges.

*Station 'B'*

4.1 An Army unit was located temporarily at station 'BB' pending finalisation of its Key Location Plan (KLP). The KLP of the unit was decided (October 1968) at Station 'B'. The State Government agreed (March 1969) to release an area of 307.21 acres of land (private land : 256.06 acres; State Government land : 51.15 acres) at Station 'B' for acquisition by the Army.

4.2 The Command HQ forwarded (April 1974) the acquisition papers to the Army HQ for obtaining Government sanction to the acquisition of 307.21 acres of land at an assessed cost of Rs. 24.91 lakhs (private land : Rs. 22.94 lakhs; State Government land : Rs. 1.97 lakhs). The delay of over 5 years (1969-1974) in finalising the proposal by the Command HQ was stated (January 1984) by the Ministry to be due to non-receipt of the vital information with regard to cost of land from the Civil authorities. This delay could have been obviated had the Assistant Military Estates Officer (MEO) concerned taken steps to obtain the information from the Civil authorities by vigorously pursuing the case. After protracted correspondence with the concerned Command HQ, Army HQ approached (October 1977) the Ministry for sanction to he acquisition of the land. While Ministry agreed October 1977) to the proposal, financial concurrence vas accorded only on 1st July 1982 (*i.e.*, after over ½ years) due to certain clarifications sought by the Ministry of Finance (Defence) in regard to the proposal and protracted correspondence with Army HQ. On 6th July 1982, the Ministry accorded sanction to the cquisition of 307.21 acres of land at estimated cost f Rs. 49.55 lakhs (private land : Rs. 47.70 lakhs; tate Government land : Rs. 1.85 lakhs). In August 982, demand for acquisition/transfer of the land was laced on the Civil authorities; the acquisition was till in progress (February 1984).

4.3 Thus, the delay of over 8 years in projecting ne case by the Command HQ/Army HQ to the Ministry for approval and another 5 years in obtaining financial concurrence resulted in an extra expenditure of Rs. 24.64 lakhs.

I. *Delay in acquisition of land after issue of sanction*

*tation 'C'*

5.1 In November 1975, the Ministry accorded anction to the taking over of 196.21 acres of land t Station 'C' from a District Council on payment of ompensation of Rs. 3.46 lakhs (including the amount or exploitable and marketable produce, structures nd standing crops and fruit trees) for locating an army establishment. The possession of the land ncluding forest produce was taken over on th January 1976 subject to spot verification of the ist of forest produce before payment.

5.2 On 27th January 1976, the Army establishment requested the Divisional Forest Officer DFO) to arrange joint verification to determine the exact amount of compensation payable on ccount of forest produce. On 26th April 1976, the istrict Council requested the Army establishment to make payment of Rs. 1.78 lakhs being the value of orest produce before 15th April 1976. In May 976, the DFO informed the MEO that the question of joint verification of forest produce did not arise t that stage. On 31st May 1976 the District Council equested that the compensation of Rs. 1.78 lakhs be aid immediately.

5.3 Payment of the compensation could not be rranged by the MEO till May 1977 when the District Council intimated that the allotment order stood ancelled. The District Council allotted (April 980) another plot of 200 acres of land for which ayment of compensation was to be made by June 1980. Sanction was accorded by the Ministry in June 1980 for the acquisition of 200 acres of land authorising an *ad hoc* 'on account payment' of Rs. 5 lakhs. As payment of compensation could not be made by June 1980, the second allotment order was also cancelled but revived in January 1981. On demarcation and survey, the actual area worked out to 260 acres, compensation for which was assessed by the District Council as Rs. 18.67 lakhs. Accordingly, the sanction issued in June 1980 was modified (23rd February 1981) for making provisional payment of Rs. 17.84 lakhs subject to adjustment after physical verification. The payment amounting to Rs. 17.84 lakhs was made to the District Council on 28th February 1981 and the land was taken over by the MEO in August 1981, after physical verification of the site. Since the value of the land was finally assessed (September 1981) at Rs. 16.89 lakhs, an amount of Rs. 0.95 lakh was refunded by the District Council on 29th December 1981.

5.4 Thus, the action of the MEO/Army establishment in taking over (January 1976) the land initially allotted by the District Council without conducting spot verification gave rise to dispute over the payment of compensation leading eventually to cancellation of the initial allotment order and re-allotment of another plot at an extra expenditure of Rs. 12.31 lakhs.

*Station 'D'*

6.1 Land measuring 581 acres at Station 'D' was requisitioned (December 1942) under the Defence of India Rules, 1939 for imparting field firing and warfare training to the troops. The requisitioning was extended in September 1946 by the District Collector.

6.2 In February 1948, it was decided that 469.23 acres out of the requisitioned land be de-requisitioned and the balance 111.77 acres retained for Army use. In September 1967, the Ministry accorded sanction to the acquisition of 111.77 acres of land (comprising private land, State Government forest land and the Gram Samaj land) at a total cost of Rs. 0.51 lakh.

6.3 In the meantime the Civil authorities revised (31st March 1964) the estimated cost of Gram Samaj land from Rs. 0.19 lakh (included in the sanctioned amount of Rs. 0.51 lakh) to Rs. 0.76 lakh. This was intimated by the MEO to the DLC in October 1965. In January 1968, the MEO placed a demand on the Civil authorities for acquisition of the land. The State Government approved (December 1968) the transfer of 48.35 acres of Gram Samaj land only. In January 1969, the Civil authorities informed the MEO to deposit a sum of Rs. 0.76 lakh as transfer value of 48.35 acres of Gram Samaj land.Pending approval of the Ministry to the revised estimated cost of Rs. 0.76 lakh the amount was yet to be deposited (January 1984).

6.4 In April 1969, the State Government informed the MEO that 51.70 acres of land (cost : Rs. 0.21 lakh) was private land and not forest department land. Thereafter, the DLC authorities investigated the matter and found that the land actually belonged to private parties and was under the management of the Forest Department for a period of 15 years. In October 1980, the MEO placed a demand for acquisition of 51.70 acres of land (revised value : Rs. 6.37 lakhs) on the civil authorities. Another demand for acquisition of land was placed in 1982. The land stands acquired with effect from 31st December 1983. The reason adduced (August 1983) by the Assistant MEO for delay in placing the demand for acquisition of 51.70 acres on the Civil authorities was that vital documents like original requisition/de-requisition order and handing/taking over notes had been misplaced.

6.5 The Ministry stated (January and October 1984) that acquisition proceedings in respect of 51.70 acres of land could not be completed because real ownership of land remained undecided till May/June 1982.

6.6 Delay of over 11 years in placing the demand for acquisition of 51.70 acres of land on the Civil authorities by the MEO thus resulted in extra expenditure of Rs. 6.16 lakhs besides continued payment of rental to the extent of Rs. 0.85 lakh.

*Station 'E'*

7.1 In September 1969, the Ministry accorded sanction to the extension of runway, provision of parallel taxi-tracks, etc., in an airfield at station 'E'. The sanction catered *inter alia* for acquisition of 513.27 acres of land by paying compensation of Rs. 12.65 lakhs for private land. The land actually acquired (February 1970) measured only 491.51 acres (private land : 461.27 acres; State Government land : 30.24 acres). In March 1970, the Deputy Commissioner served the owners of private land (148 parties) with notices to receive 50 *per cent* payment on account of compensation assessed by him. As 47 out of 148 owners were not satisfied with the amount of compensation fixed (Rs. 3,000 per bigha for basti land, Rs. 2,500 per bigha for paddy land), they received the payments under protest. As per their request, however, the State Government appointed (June 1970) arbitrator 'X' to decide the dispute. The arbitrator awarded (November 1970) :

- recurring compensation at the rate of Rs. 200 per bigha per annum from 25th November 1962 (date of requisition) to 19th February 1970 (date of acquisition)
- compensation at the rate of Rs. 4,000 per bigha towards acquisition of land; and
- interest at 6 *per cent* per annum on the above amounts from 19th February 1970 till the actual date of realisation to the 47 claimants.

7.2 In February 1971, the State Government sent a copy of the arbitrator's award to the MEO concerned for necessary follow-up action. The decretal dues of Rs. 7.84 lakhs (including interest of Rs. 0.53 lakh) were paid in April 1971.

7.3 In the meantime, the Deputy Commissioner offered to the remaining 101 owners revised compensation at the rate of Rs. 4,000 per bigha for paddy land and Rs. 5,300 per bigha for basti land in respect of about 166 acres of land acquired from them. Majority of the owners gave written consent to the enhanced compensation on the condition that payment should be made immediately. As the Deputy Commissioner could not arrange payment of the enhanced compensation immediately without a fresh sanction from the Defence Department the parties (101 numbers) did not execute the bonds for agreement and approached the State Governmnt for appointment of an arbitrator. This situation could have been avoided if the MEO had kept proper liaison with the Deputy Commissioner consequent upon the award published by arbitrator 'X' and obtained necessary sanction of the Ministry to the enhanced amount.

7.4 Arbitrator 'Y' appointed in July 1971 published his award in November 1971, by which 101 claimants became entitled to recurring compensation of Rs. 150 per bigha per annum from the date of requisition (25th November 1962) to the date of acquisition together with interest at 6 *per cent* from 25th November 1962 to the date of final payment and compensation of Rs. 8,000 per bigha towards acquisition of land alongwith interest at 6 *per cent* per annum on the amount of compensation from the actual date of possession of land (12th January 1970) to the date of final payment.

7.5 The decretal dues of Rs. 30.10 lakhs towards compensation for acquisition and Rs. 9.78 lakhs towards interest were paid in May 1972.

7.6 Thus, non-arrangement of funds for payment of enhanced compensation to 101 owners immediately after publication (November 1970) of the award in 47 cases resulted in extra expenditure of Rs. 18.92 lakhs towards additional compensation awarded by the second arbitrator and Rs. 9.78 lakhs on account of interest for the belated payment.

*Station 'F'*

8.1 The Ministry accorded (March 1972) under the RAIP Act, sanction to the acquisition of 832.65 acres of private land (requisitioned in 1963), at station 'F', at an estimated cost of Rs. 31.39 lakhs, for use as firing ranges. The concerned Special MEO placed (April 1972) a demand on the Special Land Acquisition Collector (SLAC) for acquiring the requisitioned land. In December 1972, the Station HQ asked the Special MEO to acquire the private land that fell inside the existing ranges/danger zone and to de-requisition the land falling outside the danger zone. Demarcation of the requisitioned land falling inside the danger zone was carried out by the SLAC and requisite notification for acquisition of 710.72 acres of land was published in the State Government Gazette in March 1973. The cost of acquisition of land was revised from Rs. 31.39 lakhs (for 832.65 acres) to Rs. 14.29 lakhs (for 710.72 acres) in June 1974.

8.2 The Station HQ advised (April 1974) the Special MEO that the balance 121.93 acres (actually measured 123.74 acres) of land was also required and should be acquired. The Special MEO, however, requested (August 1975) the SLAC to drop the acquisition proceedings for the balance land.

8.3 In October 1975, the Station HQ convened a Board of Officers with a view to ascertaining if the danger zone of the ranges was sufficiently covered by 710.72 acres already acquired. The Board recommended (November 1975) that to meet the requirement of the danger zone of the ranges the entire area of 832.65 acres should be acquired. The Board could not comprehend any reasons for not acquiring the entire area of 832.65 acres at the initial stage and suggested an enquiry be made into this. Based on the recommendations of the Board, the Station HQ advised (September 1976) the Special MEO to acquire the balance area of the requisitioned land. Notification in respect of the remaining requisitioned land (123.74 acres on actual measurement) was eventually published in the State Government Gazette in February 1978. The cost of acquisition of this land was assessed (October 1978) at Rs. 9.46 lakhs against Rs. 3.48 lakhs payable in terms of the award of April 1974.

8.4 Thus, acquisition of requisitioned land in two stages resulted in avoidable expenditure of Rs. 5.98 lakhs.

8.5 The Ministry stated (January 1984) that the reasons for delay in acquiring balance area (121.93 acres) of land, which resulted in avoidable expenditure of Rs. 5.98 lakhs, were being looked into through a departmental Court of Inquiry.

III. *Non-utilisation/ill management of land*

*Station 'G'*

9.1 A Board of Officers convened in September 1974 recommended acquisition of 1,585 acres of land for locating certain Army units at station 'G' at a particular site taking into account the non-buildable land in the site. In September 1975, the State Government issued 'No Objection Certificate' for acquisition of the land. In a meeting held in September 1976, which was attended by representatives of the user unit, the MEO and the Secretary (Land Revenue) of the State Government, it was decided to acquire 2,000 acres of land on 'top priority basis'; the State Government agreed to release 1983.53 acres (comprising 1,393.53 acres of private land and 590 acres of State Government land). The cost of acquisition was assessed as Rs. 2.07 crores by the Director General, DLC.

9.2 On 2nd December 1977, the Ministry accorded sanction to the acquisition of 1393.08 acres (later measured as 1,395.08 acres of private land under the LA Act and transfer of 590 acres of State Government land at a total estimated cost of Rs. 2.07 crores (including Rs. 4.63 lakhs payable on acquisition of land under urgency-clause of the LA Act and Rs. 72.37 lakhs as compensation for cardamom plantation). On 17th December 1977, the Ministry accorded sanction to the payment of an advance of Rs. 1.65 crores (increased to Rs. 1.76 crores on 29th December 1977) on account of compensation payable for the acquisition of both private land (Rs. 1.24 crores) and State Government land (Rs. 0.52 crore). The advance payment of Rs. 1.76 crores was made to the State Government in January 1978. State Government land measuring 590 acres was taken over in May 1978 and possession of 1395.08 acres of private land was taken during March-April 1979 (1297.39 acres), February and December 1980 (30.21 acres) and January 1983 (67.48 acres). In 1979, the State Government published an award whereunder the cost of acquisition increased to Rs. 2.37 crores.

9.3 569.04 acres of private land (cost : Rs. 50.70 lakhs) and 433.50 acres of State Government land (cost : Rs. 21.67 lakhs) were already covered under cardamom plantation. Pending finalisation of the Zonal/Master plan of the station, the Army authorities, at the instance of the Director General DLC, had to take over (December 1978) and maintain the cardamom plantation.

9.4 In September 1981, the maintenance of cardamom plantation, disposal and marketing of the produce, etc. was transferred, at the instance of the Director General DLC, to the Forest Department of the State Government for the period 26th September 1981 to December 1983 (three crop seasons) under an agreement which, *inter alia*, envisaged that 50 *per cent* of the net profit after deducting all cost towards maintenance of the plantation, etc. was to be paid to the Defence. During the period (September 1981—1983) when the plantation was under the management of the Forest Department of the State Government, a sum of Rs. 3.30 lakhs was realised as against the expenditure of Rs. 7.59 lakhs on maintenance of the plantation incurred by them. The yield during the period the cardamom plantation was under the management of the Army compared much higher as detailed below :—

| Yield per year during the management by Army | | Yield per year during the management by the Forest Department of the State Government | |
|---|---|---|---|
| Year | Yield (In Kgs.) | Year | Yield (In Kgs.) |
| 1978–79 . . | 9,216.9 | 1981–82 (September) | 2,068 |
| 1979–80 . . | 31,310.2 | 1982–83 | 14,282 |

(No revenue was realised from the State Government on the plea that the expenditure on maintenance of plantation exceeded the sale proceeds of the produce).

Consequently, it was decided by the Ministry to terminate the agreement with the Forest Department. A termination notice was served in 1983. The Ministry stated (November 1983) that orders for placing the management of the land under the MEO were under issue.

9.5 Thus, 1985.08 acres of land acquired during 1978-79 at a cost of Rs. 2.37 crores under urgency clause of the LA Act was not put to intended use (January 1984) for which it was acquired. Ministry stated (January 1984) that the Zonal Plan of the station has since been finalised and was under examination at Army HQ.

*Station 'J'*

10.1 For locating an Air Force unit the Ministry accorded (February 1970) sanction to the acquisition of 43.29 acres of land at Station 'J' by invoking the urgency clause of the LA Act. The MEO concerned placed (January 1971) a demand for acquisition o the land on the District Collector. A declaration fo the acquisition of land was issued in December 1971

10.2 In January 1972, the Air HQ issued a directiv to the DLC Directorate to pend acquisition of the lan till further instructions in view of a likely change i the deployment of the unit. Accordingly, the DLC Directorate directed (February 1972) the Comman DLC authorities to advise the MEO not to tak possession of the land under the urgency clause of th LA Act. However, on being informed by the Ai HQ in March 1972 that location of the unit remaine unchanged, the Ministry accorded (October 1972) sanction to the provision of works services in respec of the unit at station 'J' at an estimated cost o Rs. 34.42 lakhs (including Rs 2.66 lakhs toward acquisition cost of the land).

10.3 In March 1973, it was decided by the Air HQ to move the unit to station 'JA' and to utilise the lan under acquisition for installation of a new equipment. Possession of the land was taken over by the MEO in May 1973 pending declaration of the award o compensation by the Collector.

10.4 In September 1974, the Air HQ proposed t the Ministry that pending finalisation of its actua utilisation the land acquired at station 'J' be lease out temporarily. Accordingly, the Ministry decide (October 1974) to lease out the land for cultivatio purpose for a period of 2 years but the land coul not be leased out due to agitation by the land owner who had not been paid full compensation.

10.5 The Collector declared the award in Octobe 1975 and disbursed (November 1975—May 1976) a sum of Rs. 2.85 lakhs to the owners of the land A further sum of Rs. 0.78 lakh towards interest fo not paying or depositing the amount of compensatio before taking possession of the land was paid in Augus 1978.

10.6 In September 1976, the Air Command agree to lease out the land to ex-servicemen for a period o 5 years from November 1976 to October 1981 at an annual rental of Rs. 4,329. In October 1978, the Air HQ decided that the land which was no longe required for Defence Services be disposed of.

10.7 The Ministry stated (March 1984) that the disposal action was stopped on operational grounds Thus, the land acquired (December 1971) on urgen basis at a cost of Rs. 3.63 lakhs remained unutilise so far (March 1984).

*ation 'K'*

11.1 A Board of Officers held in August 1970 commended a site for construction of an Army ospital at Station 'K'. In December 1970, the Area Q sanctioned a job for soil investigation of the oposed site at a cost of Rs. 0.31 lakh. The job as undertaken (1973) by an Indian Institute of chnology. The investigation could be done by the stitute only partially till 1975 due to unauthorised croachments of a portion of Defence land by jhuggi vellers. The land which was not fit for cultivation d been placed under the management of MEO who id no watch and ward staff. The Ministry stated February 1984) that encroachments on the land were t susceptible of detection as they came up overght. Eviction proceedings were initiated against e encroachers sometime in 1971-72 but were opped (May 1974) under orders of the Government nding arrangements for re-habilitating the croachers by local Civil Administration. In May 175, the question of re-habilitating the encroachers some other alternative site was taken up with the cal Civil Administration. In July 1975 the local vil Administration agreed to a request from the cal Development Authority that shifting of the croachers be phased out after studying the problem detail in consultation with the Defence authorities.

11.2 At a high-level meeting held in November 176, it was decided by the Defence authorities to trust removal of encroachments/re-habilitation of uggi dwellers to the local Development Authority.

11.3 In April 1980, the Ministry accorded sanction the payment of Rs. 9.37 lakhs to the local evelopment Authority for removal and re-settlement 504 families which had encroached the Defence id. The amount of sanction was revised (October '80) to Rs. 12.18 lakhs on the basis of 655 families be re-habilitated. Construction of security wall the Defence land with a view to preventing further croachments was sanctioned (August 1981) by the ommand HQ at a cost of Rs. 14.03 lakhs. Even ough payment of Rs. 12.18 lakhs was made to the cal Development Authority in February 1981 no ogress could be made to get the encroachments moved. The number of encroachments which were 0 prior to June 1973 increased to 655 by July 82. The area of Defence land under encroachment as about 26.87 acres valuing Rs. 191 lakhs proximately. During that period the project could t be taken up as it was not possible to re-site it sewhere. The estimated cost of the project for nstruction of the hospital including residential commodation escalated from Rs. 15.29 crores (in 1972) to Rs. 27 crores (February 1977) and further to Rs. 32.03 crores (1981-82).

11.4 The Ministry stated (January 1984) that the encroachment on the land earmarked for the Army hospital had been removed by the Civil Administration and the land handed over to the Army authorities free of encumbrances. The Ministry added that a go-ahead sanction for Rs. 50 lakhs was issued (April 1983) for taking up work on the project.

11.5 Thus, placing the temporarily surplus defence land under the management of MEO resulted in encroachments for removal of which an unusual payment of Rs. 12.18 lakhs had to be made to the local Development Authority and the objective expected to be achieved by undertaking the hospital project remained unfulfilled. Besides, the estimated cost of the project also escalated from Rs. 15.29 crores in 1972 to Rs. 32.03 crores in 1981-82.

*Station 'L'*

12.1 In January 1953, the Ministry permitted a State Government, without imposing any condition to construct stalls for hawkers on defence land at station 'L'. In May 1954, the Ministry intimated the State Government that the land measuring 1.27 acres (cost : Rs. 13.21 lakhs) under their occupation for construction of the stalls would be treated as having been leased out for a period of 30 years on payment of rental of Rs. 72,685 per annum (including occupier's share of taxes) with a stipulation that the land would be reverted to the Defence department when it was no longer required for the said purpose. In September 1965, the State Government approached the Ministry to waive recovery of licence fee for the Defence land on which stalls were constructed as the land was originally made available to them without imposing any condition. The Ministry did not, however, communicate their decision. Consequently, the MEO could neither execute a lease agreement with the State Government nor could recover the outstanding licence fee of Rs. 22.53 lakhs accrued for 31 years from 1953 to 1984, pending decision of the Ministry in the matter.

12.2 Defence land measuring 1.613 acres (alongwith buildings standing thereon) at station 'L' was leased out to the State Government for a period of 20 years from April 1950 on payment of annual rental of Rs. 0.20 lakh. The period of lease expired on 5th April 1970. The property, however, continued to be under occupation of the State Government. In April 1975, the MEO requested the State Government to restore the land to Defence as it was required for construction of an office complex, a transit camp etc.

for the Navy. In October 1975, the State Government requested the Ministry either to transfer to them the land and the premises or to extend the lease for a further period of 20 years from May 1970, *ex-post-facto*. No decision in this regard was taken by the Ministry till February 1984. As a result, neither the lease could be extended nor could any recovery of the outstanding rent of Rs. 2.80 lakhs for the period April 1970 to March 1984 be enforced.

13. *Summing up*: The various points emerging from the above review are summed up below:

- In two cases delay in obtaining/issuing Government sanction to the acquisition of land resulted in avoidable expenditure of Rs. 59.60 lakhs.
- In three cases, acquisition of land after issue of Government sanction was delayed between four and sixteen years resulting in extra expenditure of Rs. 25.30 lakhs.
- In one case, delay in arranging funds resulted in extra expenditure of Rs. 18.92 lakhs towards additional compensation and Rs. 9.78 lakhs on account of interest for belated payment.
- In one case, 1985.08 acres of land acquired in 1978-79 at a cost of Rs. 2.37 crores under urgency clause was not put to intended use (January 1984).
- In one case, 43.29 acres of land acquired (1973) under urgency clause of the LA Act at a cost of Rs. 3.63 lakhs remained unutilised so far (March 1984).
- In one case, placing of temporarily surplus defence land under the management of MEO resulted in encroachments, for removal of which an unusual payment of Rs. 12.18 lakhs had to be made to the local Development Authority. This also delayed taking up construction of the hospital and resulted in escalation in the cost of the project from Rs. 15.29 crores (1972) to Rs. 32.03 crores (1981-82).
- In two cases, a total amount of Rs. 25.33 lakhs on account of licence fee/rental remained unrealised (March 1984) as no decision with regard to waiver of licence fee/transfer of land or further extension of lease had been taken.

NEW DELHI
Dated the 23 APR 1985

(M. PARTHASARATHY)
*Director of Audit, Defence Services.*

Countersigned

T. N. Chaturvedi

NEW DELHI
Dated the 29 APR 1985

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