REPORT OF THE

COMPTROLLER AND AUDITOR GENERAL OF INDIA

FOR

THE YEAR 1981-82

UNION GOVERNMENT (DEFENCE SERVICES)

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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 1981-82 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 1981-82 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 1981-82 have also been included, wherever considered necessary.

The points brought out in this Report are not intended to convey or to be understood as conveying any general reflection on the financial administration by the departments/authorities concerned.

CHAPTER 1

BUDGETARY CONTROL

1. Budget and actuals

The table below compares the expenditure incurred by the Defence Services in the year ended March 1982 with the amount of original and supplementary appropriations and grants for the year :

(Rs. in crores)

(i) Charged Appropriations

Original	*3.54*
Supplementary	*1.53*
Total	*5.07*
Actual Expenditure	*3.41*
Saving	(—)1.*66*
	(per cent)
Saving as percentage of the total provision.	*32.74*

(ii) Voted Grants

(Rs. in crores)

Original	4402.33
Supplementary	423.81
Total	4826.14
Actual Expenditure	4899.56
Excess	(+)73.42
	(per cent)
Excess as percentage of the total provision	1.52

2. **Supplementary grants/appropriations**

(a) Supplementary grants (Voted) aggregating Rs. 423.81 crores were obtained under all the 5 Grants in March 1982 as indicated below :

(Rs. in crores)

Grant No.	Amount of Grant			Actual Expenditure	Saving (—) Excess(+)
	Original	Supplementary	Total		
20-Army . .	2424.43	234.95	2659.38	2748.17	(+)88.79
21-Navy . .	299.25	13.99	313.24	318.72	(+)5.48
22-Air Force .	991.85	77.80	1069.65	1027.55	(—)42.10
23-Pensions . .	283.16	40.14	323.30	323.24	(—)0.06
24-Capital Outlay on Defence Services .	403.64	56.93	460.57	481.88	(+)21.31
TOTAL . .	4402.33	423.81	4826.14	4899.56	(+)73.42

In the case of Grants relating to 'Army', 'Navy' and 'Capital Outlay', the supplementary grants proved inadequate. Under the Grant relating to 'Army', the surrender of Rs. 17.57 crores notified on 31st March 1982 was not judicious in view of the excess of Rs. 88.79 crores over the Grant. As regards 'Air Force', supplementary grant to the extent of 54 *per cent* proved unnecessary.

(b) Supplementary appropriations (Charged) aggregating Rs. 152.45 lakhs ('Navy' : Rs. 0.30 lakh, 'Air Force' : Rs. 0.90 lakh ; 'Pensions' : Rs. 1.25 lakhs and 'Capital Outlay' : Rs. 150 lakhs) were obtained in March 1982 to meet decretal payments.

Against the total appropriation of Rs. 400 lakhs (original: Rs. 250 lakhs and supplementary : Rs. 150 lakhs) for 'Capital Outlay', the actual expenditure came to Rs. 299.89 lakhs, leaving a balance of Rs. 100.11 lakhs unutilised. Thus, supplementary appropriation to the extent of 67 *per cent* proved unnecessary. Surrender of Rs. 90 lakhs was notified on 31st March 1982.

3. **Excess over Voted Grants**

Excess aggregating Rs. 115,58,63,327 over voted portion of 3 Grants, as indicated below, requires regularisation under Article 115 of the Constitution :

Grant No.	Total Grant	Actual Expenditure	Excess (+)
	Rs.	Rs.	Rs.
20-Army . . .	2659,37,40,000	2748,17,18,556	(+)88,79,78,556
	The excess occurred mainly under 'Transportation', 'Ordnance Factories', 'Stores' and 'Works'.		
21-Navy . . .	313,24,20,000	318,71,71,761	(+)5,47,51,761
	The excess occurred mainly under 'Stores'.		
24-Capital Outlay on Defence Services .	460,57,00,000	481,88,33,010	(+)21,31,33,010
	The excess occurred mainly under 'Construction Works' (relating to Army, Navy and Air Force) and Naval Dockyards.		

4. Control over expenditure

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

(a) Instances in which the supplementary grants proved wholly unnecessary :

(Rs. in crores)

Grant No. / Sub-Head	Original Grant	Supplementary Grant	Total Grant	Actual Expenditure	Saving(—)	Amount re-appropriated
21-Navy						
A.6—Works	21.24	2.81	24.05	20.69	(—)3.36	(—)0.53
24-Capital Outlay on Defence Services						
A.4—Ordnance Factories						
(2) Machinery and Equipment	44.84	2.16	47.00	42.13	(—)4.87	(—)4.00

(b) Instances in which the re-appropriations/surrenders made were wholly unnecessary :

(Rs. in crores)

Grant No. / Sub-Head	Sanctioned Grant	Amount re-appropriated surrendered	Final Grant	Actual Expenditure	Excess (+) Saving (—)
20-Army					
A.2—Pay and Allowances and Miscellaneous Expenses of Auxiliary Forces	7.21	(+)0.24	7.45	6.93	(—)0.52
A.4—Transportation	46.70	(—)1.47	45.23	53.55	(+)8.32
A.9-Stores	590.57	(—)15.49	575.08	618.19	(+)43.11
21- Navy					
A.5—Stores	178.61	(—)0.63	177.98	184.94	(+)6.96
22-Air Force					
A.5—Stores	806.46	(+)1.42	807.88	759.96	(—)47.92
24-Capital Outlay on Defence Services					
A.6—Inspection Organisation	3.00	(—)0.25	2.75	3.37	(+)0.62

CHAPTER 2

MINISTRY OF DEFENCE

5. Development of a weapon system

A proposal was made by the Defence Research and Development Organisation (DRDO) in October 1971 for indigenous development of a weapon system 'A' (already in use with the Air Force since 1965) on a 1 : 1 basis i.e. without effecting any improvements in its performance. This was intended to enable the DRDO to acquire detailed knowledge of all the design parameters of a proven weapon system and to build up necessary research and development base as well as the production base in the field of these weapon systems with a view to reducing dependence on imports. The development was expected to take about 7 to 8 years and the establishment of full production 2 more years thereafter. While the replacement requirements of this weapon system were estimated at 462 numbers, the anticipated requirement for future expansion was 432 numbers. The development project for indigenisation was sanctioned by the Ministry of Defence in February 1972 at a cost of Rs. 16 crores (including foreign exchange (FE) of Rs. 4 crores) and a sum of Rs. 4.56 crores was released for expenditure in the first 3 years of the project. Additional funds were released between November 1975 and September 1978, totalling in all Rs. 15.90 crores.

The indigenisation project was identified for development under different sub-systems which were assigned to 6 Defence research establishment/laboratories with an appropriate allocation of funds. Defence Research and Development Laboratory (DRDL), one of the six referred to above, was entrusted with the development of majority of sub-systems and was also made responsible for systems integration and carrying out proving trials. In May 1972, Gas Turbine Research Establishment

(GTRE), was also associated with this project on the parallel development of a sub-system 'C' for which a sum of Rs. 25 lakhs was apportioned out of the funds released for the project. A Steering Committee was formed in July 1973 to monitor the progress on the project.

Soon after the commencement of the indigenisation project, the Air Force chose weapon system 'B' which had a range of operation that effectively met the changed operational needs of the times and for which weapon system 'A' was not considered advantageous. During the meeting of the Steering Committee held in October 1973, the representative of the Air Force stated that the Air Force did not have any significant requirement for additional quantities of either weapon system 'A' or its ground complex after 1980 and hence it might be necessary to re-direct research and development effort towards indigenisation of weapon system 'B' (being acquired) rather than to continue indigenisation of weapon system 'A'. However, keeping in view the commonality of the sub-assemblies and hardware between the two weapon systems, and that the 'fall out' of the development of weapon system 'A' would logically build up the infrastructure for indigenisation of weapon system 'B', the Steering Committee decided to continue the programme of indigenisation of weapon system 'A' as planned. Weapon system 'B' was imported at a total cost of Rs. 37.30 crores under a contract concluded with a foreign Government in November 1973.

During the meeting of the Steering Committee held in January 1974, the representative of the Air Force stated that weapon system 'A' was becoming obsolescent very fast and their requirement for this weapon system would be 144 for the years 1974—79; there would be no further requirement thereafter. The representative of the DRDO, however, felt that the development programme of weapon system 'A' should continue in order to establish the infrastructure and the required competence to undertake the development of successor and futuristic weapon systems. In addition, the Defence Electronics Research Laboratory (DLRL) suggested that the range of operation of weapon system 'A' should be improved by incorporation of sub-system 'D' which could be developed by them. The representative of the Air Force, however, stated that the development of sub-system 'D' should not be linked with any guarantee of purchase. It was, therefore, decided by the Steering Committee that:

—the programme of development of weapon system 'A' would continue and the fabrication of 50 prototypes of weapon system 'A' be planned by DRDL for test and evaluation; and

—the work on ground equipment of weapon system 'A' was to be confined to sub-system 'D' and to the areas of technology common to both weapon systems 'A' and 'B'.

A Review Committee was constituted in December 1974 to review the progress on the project and to recommend whether further development work could be continued to complete the project and also to review the build-up of infrastructure and facilities in DRDO. The Review Committee in its report submitted in March 1975 stated that the project had made adequate progress to warrant further 'go-ahead' and recommended further release of funds to bring it to a successful completion. The report of the Review Committee was considered by the Steering Committee in the meeting held in June 1975. In this meeting the representative of the Air Force pointed out that they had a maximum requirement of 116 numbers of weapon system 'A' to be delivered by 1980—82, which would be reduced to 39, if delivery would take place in 1982. The Steering Committee, therefore, decided that work on the development of weapon system 'A' during the next year would be limited to the fabrication of 10 sets of the sub-systems and a revised proposal incorporating the switch-over of the development programme of weapon system 'A' to weapon system 'B' be prepared for obtaining Government approval. However, all work on development of ground system of weapon system 'A' was to be closed down except on sub-system 'D' (in progress) and ground electronic equipment which would be treated as a competence-building project. The expenditure on development of the ground equipment so foreclosed amounted to Rs. 60.95 lakhs as on 31st March 1982.

In June 1976, the Steering Committee constituted a study group to study the problems connected with the limited production of weapon system 'A' and the requirements of associated ground equipment. The study group *inter alia* expressed the view that production of 116 numbers of weapon system 'A' was feasible with a slight change in the delivery schedule and 50 numbers would be required for flight trials. Additional funds required for further development work were estimated at Rs. 12.58 crores (FE : Rs. 1.21 crores).

In January 1977, the Air Headquarters (Air HQ) took a decision to continue weapon system 'A' up to 1990 and indicated their requirements of weapon system 'A' as 230 numbers to be supplied during 1981—85 and also suggested extension of life of the existing weapon system 'A' to 15 or 20 years. It was added that if the life could not be extended beyond 15 years, 111 numbers of such weapon system would have to be imported before 1980.

Between 1972 and 1977, models of some of the sub-systems had been fabricated and had undergone extensive ground testing and evaluation. These sub-systems had also been flight-tested on the existing imported weapon system 'A'. The GTRE engaged on parallel development of sub-system 'C' also completed its fabrication in October 1973 and had carried out static trials. But development of this sub-system was foreclosed in 1976 after incurring an expenditure of Rs. 19.06 lakhs (including FE of Rs. 6.30 lakhs) as the DRDL had by then developed this sub-system at a cost of Rs. 7.15 lakhs and flight-tested the same. Trials were also carried out on sub-system 'D' and the Steering Committee authorised (March 1977) an expenditure of Rs. 9.75 lakhs (FE: Rs. 6.25 lakhs) to complete the project. The total expenditure incurred on the development of sub-system 'D' amounted to Rs. 6.75 lakhs (FE: Rs. 4.41 lakhs).

While the development of weapon system 'A' and its flight trials were in progress, the Air HQ made a reappraisal of their requirements (February and May 1979) and stated that:

—weapon system 'A' would not meet the operational requirements of 1990s;

—compared to weapon system 'B', weapon system 'A' was technologically an obsolete system, using technology of 1950s and was a very unwieldy system with lesser mobility;

—the Air Force was committed to a large force of weapon system 'B' which would be in operational service for a long time to come; and

—cost of indigenous production of weapon system 'A' was more than 1½ times the imported cost of weapon system 'B'.

In view of the above considerations, the Air HQ suggested (May 1979) that weapon system 'A' should be phased out after its life expiry and replaced by a futuristic weapon system. The question of extending the life of weapon system 'A' by 5 to 7 years was considered (May 1979) by the Steering Committee and it was decided that its life be extended either with the assistance of a foreign country or by indigenous efforts thus keeping it operational till 1989. The life extension programme was undertaken by the Air Force with the assistance of a foreign country and completed at a cost of about Rs. 25 lakhs.

In July 1981, the Steering Committee decided to bring to close all the activities on the indigenisation project by March 1982 after completing all documentation and competence build-up being carried out under this project.

An expenditure of Rs. 15.41 crores (FE : Rs. 4.59 crores) was incurred up to June 1981 on the indigenisation project against the sanctioned amount of Rs. 16 crores. In the meantime the establishment sanctioned for the project to the

DRDL was being continued up to 31st March 1983 involving monthly expenditure of Rs. 16,868.

The Ministry of Defence stated (September 1982) that production of weapon system 'A' was not undertaken due to change in the requirement of Air Force for strategic reasons.

Summing up.—The following are the main points that emerge:

—The indigenisation project for development of weapon system 'A' sanctioned in February 1972 at a cost of Rs. 16 crores was continued till June 1981, even though the Air Force had pointed out as early as October 1973 that they did not have any significant requirement for additional quantities of this system or its ground complex after 1980 and had also contracted for import of weapon system 'B' in November 1973.

—The indigenisation project for weapon system 'A', on which an expenditure of Rs. 15.41 crores had been incurred (up to June 1981), did not culminate in establishing production facilities.

—In spite of uncertainties regarding the requirements projected by the Air HQ from time to time, the project was allowed to linger on for over 9 years.

—The programme of weapon system 'A' was allowed to be continued with the object of providing infrastructure for the development of weapon system 'B'. This objective too was not achieved as weapon system 'B' was also not developed/productionised.

6. Import of a trainer aircraft

In paragraph 6 of the Audit Report (Defence Services) for 1975-76 mention was *inter alia* made of approval accorded (September 1974) by the Ministry of Defence to the import of an aircraft ('L') for delivery during September 1975—March 1976 as the public sector undertaking could not fulfil the requirement of trainer aircraft within the time-frame prescribed by the

Air Headquarters (Air HQ). Some of the features noticed in the purchase of aircraft 'L' and their performance are given in subsequent paragraphs.

Advance training to fighter pilots was being imparted on aircraft 'G', 'H' and 'K'. Aircraft 'G' was being phased out by December 1974 and aircraft 'H' was not expected to be maintained beyond June 1975. On the basis of a long term training plan prepared (March 1974) for the years 1977—86 with reference to aircraft 'K', the Air HQ had assessed that, with the available assets of aircraft 'K' and further deliveries anticipated from the undertaking, there would be progressive deficiency of trainer aircraft making up to 40 *per cent* of the total requirement by 1977.

For the interim period 1975 to 1977, the Air HQ had formulated (March 1974) an extended contingency training plan for the courses commencing during the period as the trainees for these courses were already in the pipeline. It was felt (July 1974) that to implement this training plan the existing assets of aircraft 'K', together with the deliveries anticipated at 20 aircraft per year and with a maximum utilisation rate of 30 hours per aircraft per month, would be deficient of the progressive total requirement by 41 *per cent* in 1975, 39 *per cent* in 1976 and 40 *per cent* in 1977, thereby necessitating import of trainer aircraft.

Pending a decision on the import of the trainer aircraft, an Air Force team evaluated (May-June 1974) aircraft 'L' and 'M' manufactured by countries 'X' and 'Y' respectively. The team in its report stated that while aircraft 'M' excelled in certain areas of performance and was priced at Rs. 41.29 lakhs, aircraft 'L', on the other hand, was priced at Rs. 26.2 lakhs, was technologically outdated by 10 years and was neither designed nor had experienced intensive operations under tropical conditions for which suitable assurances would have to be built in the agreement. Operating and maintenance costs of aircraft 'L' were stated to be less because of its fewer and less complicated systems. Its major overhaul costs were also stated to be significantly less. A substantial number of aircraft 'L' could be delivered in January 1975 and the balance by December 1975, which adequately met the time-frame of training requirements. Delivery of aircraft 'M' was, however, not expected to commence before the 1st quarter of 1976.

As aircraft 'L' met the technical requirements of a basic trainer to a considerable extent and also in view of its cheaper cost of acquisition and maintenance as well as the over-riding consideration of its delivery schedule meeting the time-frame requirement of the training plan, the Air HQ proposed (July 1974) the import of aircraft 'L' to make up 61 *per cent* of the total deficiency by mid-1975 and the balance by mid-1977. The Ministry of Defence considered the proposal in detail. Since the import proposal was made on the assumption that no reduction was possible in the intake of trainees and the utilisation rate of aircraft ('K') could not be improved further nor could the training wastages be reduced, import of aircraft 'L' to the extent of 61 *per cent* of the total deficiency (estimated cost : Rs. 18 crores) was approved by Government in principle in September 1974. The extended contingency training plan was also sanctioned in September 1974 .

While the purchase of aircraft 'L' was being negotiated with the delegation from country 'X', the Ministry of Defence reviewed (February 1975) whether the import could not be avoided. The Ministry observed that with the existing assets of aircraft 'K' (including the anticipated deliveries), it would not be possible to impart advance training to more than 67 *per cent* of the trainees against the output from the Elementary Flying School. Thus, the extended contingency training plan could not be put into operation with the existing assets, inevitably leading to the suspension of advance training of the trainees meant for subsequent courses and the trainees remaining idle as a consequence.

An agreement was entered into (April 1975) with the Government of country 'X' for the purchase of a certain number of aircraft 'L' and associated ground equipment at a total cost of Rs. 14.61 crores. Three separate contracts were concluded at the same time laying down the technical specifications of aircraft 'L', etc. for the training of Air Force personnel (Rs. 32 lakhs) as well as for the purchase of spares, test equipment and training aids (Rs. 1.74 crores). The contract for purchase of spares, etc. included an optional clause for the purchase of certain armaments and ammunition (Rs. 42.40 lakhs) and test equipment (Rs. 7.43 lakhs), to be exercised not later than 15th August 1975.

Under the agreement of April 1975, the supplier guaranteed that the aircraft supplied would be fit for operation under tropical conditions and in respect of possible defects occurring due to the utilisation of the aircraft under tropical conditions in India, necessary remedial measures would be taken by the supplier to rectify such defects/replacement of necessary components at his own cost including transportation to and from country 'X'. Aircraft 'L' were to be delivered f.o.b. foreign port between September 1975 and March 1976. But under a supplementary contract concluded in September 1975, these aircraft (including some spare engines) and ground equipment were to be despatched by air and delivered at station 'Z' in India, for which an additional payment of Rs. 68 lakhs was to be made. These aircraft were delivered in India during October 1975—June 1976 and were inducted for training from November 1975 on-wards.

Against the sanctioned strength of trainees for each of the 4 courses under the extended contingency training plan commencing during the period July 1975—January 1977, on the basis of which import of aircraft 'L' was made, the average number of trainees inducted/trained in each of these courses fell short of the sanctioned strength (average peak) by 47 *per cent*, 20 *per cent*, 39 *per cent* and 28 *per cent* respectively. Owing to sufficient number of trainees not being available, aircraft 'L' were utilised much below their planned rate of utilisation, the shortfall in utilisation being 47 *per cent* in 1976, 42 *per cent* in 1977 and 32 *per cent* in 1978.

The engines of aircraft 'L' developed engine bearing failures prematurely bringing down the serviceability of the aircraft to 33 per cent of the fleet in the year 1978. The defects noticed in these engines were investigated (November 1977) by the supplier and the issues arising out of the defects were discussed with the representatives of the supplier. It was claimed by the supplier that the only cause of the bearing failures of the engines under operation in India was the use of lubricant 'N' of a particular batch of production which contained some unidentified additives and which did not meet the operational requirements of these engines. The representatives of the supplier, while disclaiming responsibility for the defects, stated that though they had carried out defect investigation and repaired/ exchanged the defective engines at their cost, the problem could be solved only on the basis of a compromise in sharing the costs already incurred by both sides. The Indian side, on the other hand, claimed that the engine bearing failures were mainly caused by the incompatibility of lubricant 'N' with these engines as well as inadequacy of the bearing specifications to withstand the requirements of engines specially in tropical conditions. The Indian side added that the onus of clearing the lubricant for use in these engines rested with the supplier and it was obligatory for him to meet the contractual requirements of ensuring a trouble-free and satisfactory operation of these engines in the tropical climate of India and therefore the entire cost involved in the change of bearing in all the affected engines including their transportation to and fro between India and country 'X' should be borne by the supplier.

The issues involved were negotiated (March 1980) with the representative of the supplier and it was agreed to pay a sum of Rs. 8 lakhs to the supplier in order to arrive at a fair and equitable settlement with regard to the expenses incurred by the supplier on bearing replacements, qualification test of substitute oil, etc. and by the Government of India on transport and other expenses (Rs. 57.23 lakhs). It was also noticed that after the middle of 1978 lubricant 'O' (which has a short life) from country 'X' was brought into use and there were no bearing failures of these engines. However, to eliminate the logistical difficulties caused by the short life of lubricant 'O', the supplier was carrying out studies to extend its life by a year and this was yet (October 1982) to be completed. The Air HQ stated (January 1980) that due to shortage in the availability of the aircraft during 1978 training effort was made up partly by using aircraft 'K' and partly by extending the duration of training. The Air HQ also stated (February 1982) that as a consequence of the setback in the performance of aircraft 'L', due to inadequate product support and restricted supply of lubricant 'O', the number of aircraft that could be sustained operationally (since 1979) at the training establishment was only about 50 *per cent* of the assets held and the authorised holding of the aircraft had been reduced.

The syllabus of flying training included handling and operational use of certain armaments and firing practice. The supply of these armaments alongwith ammunition was included as an option under the contract (of April 1975) for the purchase of spares, etc. to be exercised before 15th August 1975. According to the Air HQ, the option could not be exercised before the specified date due to non-availability of funds. A separate contract was, however, concluded later (May 1977) with the supplier for the procurement of these armaments and ammunition, thereby involving an extra expenditure of Rs. 1.64 lakhs. These stores were received in India during October—December 1979 and were thus not available for imparting training during 1975—1979.

While considering import of aircraft 'L' the Air HQ had stated (July 1974) that the costs of major overhaul of airframes and engines of aircraft 'L' were significantly less as compared to those of aircraft 'M'. The agreement of April 1975 for purchase of aircraft 'L' also envisaged that full assistance would be provided by the supplier to establish overhaul facilities in India. For this purpose, a project team was sanctioned (November 1975) by the Ministry of Defence. A joint study conducted for examining the feasibility of setting up of overhaul facilities for engines had revealed that the cost of overhaul in India would be higher (by about Rs. 0.03 lakh) than that in country 'X'. A contract was concluded (August 1976) with the supplier for the overhaul of engines during 1977-78 at the rate of Rs. 2.08 lakhs (representing 43 *per cent* of the purchase cost of this engine). Though a similar study was to be conducted for overhaul of airframes, the study was withheld by the Air HQ pending reconsideration of the long term utilisation of aircraft 'L'. In view of the small fleet strength of aircraft 'L' and uncertain product support from the supplier it was finally decided to arrange for the overhaul of the airframes also from abroad. For this purpose, a contract was concluded with the supplier in March 1980 for overhaul of airframes at the rate of Rs. 12.80 lakhs.

The Ministry of Defence stated (October 1982) that :

—while the requirement of aircraft was worked out for the sanctioned strength of courses, the shortfall in the intake of trainees as well as abnormally high rate of wastage resulted in under-utilisation of aircraft 'L';

—the exact cause of bearing failures of the engines (of aircraft 'L') could not be established (there was difference of opinion between the manufacturers and the Air HQ); and

—only 50 *per cent* of aircraft 'L' could be sustained operationally since 1979 due to poor product support and logistic constraints for procurement of lubricant 'O'.

Summing up :—The following are the salient points that emerge from the above :

—The import of aircraft 'L' was resorted to on the consideration that with the existing assets it would not be possible to train more than 67 *per cent* of the trainees (in the pipeline). However, the actual number of trainees inducted/ trained in the courses commencing during the period July

1975—January 1977 fell short of the sanctioned strength by 20 to 47 *per cent*.

—As a consequence of the shortfall in the intake of trainees and on account of abnormally high rate of wastage, utilisation of aircraft 'L' fell short of the planned rate of utilisation during the period 1976—1978 by 32 to 47 *per cent*.

—Though it was claimed that the engine bearing failures were attributable to the supplier, the onus of responsibility of the supplier for the engine bearing failures could not be established and as a compromise, a sum of Rs. 8 lakhs had to be paid to the supplier in addition to incurring an expenditure of Rs. 57.23 lakhs on transportation and other expenses to and fro between India and country 'X'.

—As a consequence of set-back in the performance of aircraft 'L' due to poor product support and inadequate supply of lubricant 'O', the number of aircraft that could be sustained operationally since 1979 was about 50 *per cent* of the assets held.

—As the option clause in the contract of April 1975 for the supply of armaments and ammunition was not exercised before the specified date and these stores were received 4 years later under a separate contract concluded in May 1977 for this purpose, the same were not available for imparting training during the period 1975—1979.

7. **Procurement of projectors**

In June 1950, the Ministry of Defence sanctioned scales of 35 mm film projectors for various Army establishments for imparting audio visual training to the troops. Some establishments were authorised to hold one projector while the others two projectors. One establishment was authorised to hold four projectors. It was envisaged that where the number of projectors was two, they should be considered as one double set and should be of the same make.

Provision review of the requirements of such projectors carried out by the Director of Ordnance Services (DOS) in October 1975 and October 1976 revealed a deficiency of 20 numbers and 10 numbers respectively. To meet the deficiency of 30 projectors, the DOS raised two urgent indents (August 1976 and February 1977)—one for procurement of 10 double sets and the other for 5 double sets. The double sets of projectors were composite ones with certain accessories common to both the projectors and were not capable of being used as independent single units.

In response to a tender inquiry floated in October 1976 for procurement of double sets of 35 mm projectors, three firms sent their quotations; one of these firms—firm 'A'—while quoting rates for double sets, enclosed a price list for complete range of 35 mm theatre equipment including single projectors, as well as additional accessories manufactured by it. The Department of Defence Supplies (DDS) placed a supply order in April 1977 on firm 'A' for 15 double sets at the rate of Rs. 0.77 lakh per set (total cost : Rs. 11.55 lakhs) plus sales tax and excise. The supply was to commence within 2 months of clearance of the prototype by the technical/inspection authorities under the Director General of Inspection (DGI). The projectors were to be despatched to Ordnance Depot 'X'.

Based on another provision review carried out by the DOS in July 1977, an indent for 13 double sets was raised by the DOS in September 1977 to cover a further deficiency of 27(single) projectors. Before this indent could be covered by the DDS, the DGI suggested (January 1978) to the DOS that in order to cut short delay in despatch and quicker installation of the equipment, the equipment should be despatched direct to the users. The DGI also sought particulars of the consignee units where the equipment was to be installed. While agreeing to these suggestions, the DOS advised (July 1978) the DDS as well as the DGI that 15 single projectors be despatched to 14 establishments (one number each to 13 establishments and two numbers to 1 establishment) and the remaining 15 single projectors to another

Ordnance Depot 'Y'. On receipt of these instructions, the DGI pointed out (21st August 1978) the impracticability of splitting a double set into two independent single projector systems without providing additional accessories at extra cost, as the complementary units of the double system *e.g.* amplifier rack, speaker system, transformer, projector screen, etc. remained common to the system using two projectors. Firm 'A', while expressing similar views, informed (31st August 1978) the DOS that additional accessories required to convert each double set into two independent single projectors would cost Rs. 20,809 per double set. In September 1978, the DGI ,while reiterating his earlier views, pointed out that if two projectors of the double set were split into two independent single projectors, only one of the projectors could be used with the components/accessories in entirety and the other would become a replacement spare. The DGI added that if the indentor was to use this equipment as a single projector system, the demand should have been projected for single projector system which was available in the market.

Meanwhile, the indent of September 1977 for 13 double sets was covered by the DDS through an amendment to the supply order (of April 1977) issued on 19th August 1978 at the rate of Rs. 73,900 per set; the total amount of the supply order was revised to Rs. 21.16 lakhs.

With a view to resolving the problem arising out of orders placed for double sets, it was *inter alia* decided in a meeting held at the Army Headquarters in November 1978 that:

—the issues would be made in sets in respect of those establishments where there was a deficiency of two projectors for use in a single auditorium and other units would be issued one projector each complete with accessories; and

—28 sets of additional accessories be procured to make each of the split-up projectors functional.

Pursuant to the above decisions, the DOS placed an indent in April 1979 for procurement of additional accessories for all the 28 double sets at an estimated cost of Rs. 6.28 lakhs. Earlier instructions for despatch of 15 double sets (30 numbers of single projectors) were also revised (May 1979) as under:

—12 establishments to be issued one projector each;

—3 establishments to be issued two projectors each with one set of accessories; and

—11 projectors (less common accessories) out of the split-up double sets to be sent to Ordnance Depot 'Y'.

Extension in delivery period was granted to firm 'A' upto February 1980 and further up to November 1980. Fifteen double sets ordered in April 1977 were supplied during April 1979—December 1980 but further supplies of 13 double sets ordered in August 1978 were not forthcoming. In September 1980, firm 'A' asked for enhancement of price in respect of 13 double sets on the plea that there had been a considerable delay in clearing the first lot of 5 double sets tendered in March 1978 (which were cleared in inspection only in April 1979) necessitating advancement of the delivery period and giving rise to increase in price. The request for increase in price was turned down (26th March 1981) by the DDS on the ground that extension in delivery period as required had been granted and prices in the contract were firm and fixed. The DDS granted (25th March 1981) further extension of delivery period (for 13 double sets) up to 30th June 1981 stipulating that in the event of failure to supply projectors by that date, the supply order would be liable to be cancelled at the risk and cost of the firm. Firm 'A', however, asked for (9th June 1981) an increased price of Rs. 1.19 lakhs per double set (as against the contracted price of Rs. 73,900) for the additional 13 double sets.

The matter was thereupon referred (July 1981) by the DDS to the Legal Adviser (Defence) who observed (September 1981) that while the delay in clearing the first lot of 5 sets would have affected mode of supply by firm 'A', it was not understood as to how the Department would justify that the delay was entirely to the firm's account. He added that if the Department could satisfy that the refixation of the delivery period was done for the duration of delay caused by the Department, it was open to them to cancel the outstanding quantity with date of breach as 31st May 1979. Thereafter, a price negotiating meeting was held by the DDS in November 1981 when a price of Rs. 1,12,500 per double set was agreed and firm 'A' was also allowed to complete supply of 13 double sets by 15th April 1982. The additional liability on this account worked out to Rs. 5.02 lakhs.

Additional 28 sets of common accessories for 35 mm projectors indented (April 1979) by the DOS were ordered by the DDS on firm 'A' in March 1981. These accessories costing Rs. 6.53 lakhs (inclusive of sales tax) were supplied to Ordnance Depot 'Y' by May 1981.

Provision review (as on 1st October 1980) carried out by the DOS in April 1981 had revealed that on materialisation of supply of 13 double sets ordered in August 1978, there would be a surplus of 13 single projectors. The surpluses revealed in this review were, however, not approved by the financial authorities in view of discrepancies in the figures of unit entitlements and holdings, which were stated (October 1982) to be under reconciliation. No action was, however, taken by the DOS to reduce the demand for these projectors pending reconciliation of the discrepancies. In the meantime, supply of 13 double sets materialised; 20 projectors (10 double sets) were allotted (May and July 1982) to units and establishment, and the remaining 6 projectors (3 double sets) were to be stocked in Ordnance Depot 'Y'.

The double sets of projectors procured from firm 'A' had two magazines capable of holding 2,000 feet length of films. The inspection authorities as well as one of the user establishments pointed out in January-February 1980 that the operation of the split-up projectors was presenting difficulties in screening films of 10—15 reels without interruption, which required magazines with a capacity of 6,000 feet length of films, whereas the magazines supplied were capable of holding 2,000 feet length of films only, thereby adversely affecting the imparting of training.

The Ministry of Defence stated (October 1982) that:

—before placement of the order on firm 'A' in April 1977, a meeting attended amongst others by the Director of Electrical and Mechanical Engineering and the Director of Weapons and Equipment was held (March 1977) to discuss procurement of projectors, but they did not point out the actual authorisation of single or double projectors of the units and establishments;

—surplus sets of accessories would be merged in depot stock and adjusted against future requirements;

—the review carried out in April 1981 revealed a surplus of 13 single projectors due to decrease in unit entitlement but for one or the other reasons this review could not be approved and therefore reduction in demand could not be carried out; and

—the change-over of magazines/spools from 2,000 ft. to 6,000 ft. was likely to create replacement/maintenance problems.

The case revealed the following interesting points:

—Failure on the part of the indentor (DOS) to distinguish between the functions of a double set and an independent single projector led to the procurement of double sets which were not capable of being split for use as independent single projectors without additional common accessories. This resulted in avoidable expenditure of Rs. 6.53 lakhs on procurement of additional common accessories.

—Delay of about 18 months in resolving the problem of splitting the double sets ordered on firm 'A' into independent single projectors for issue to user establishments resulted in additional liability of Rs. 5.02 lakhs consequent on increase in cost of additional 13 double sets from Rs. 73,900 to Rs. 1,12,500 per set.

—While supply of additional 13 double sets ordered in August 1978 was pending, the provision review carried out in April 1981 revealed a surplus of 13 single projectors. No action was, however, taken by the DOS to reduce the demand for these projectors although the review was held up for approval in view of discrepancies in the figures of unit entitlements and holdings. Consequently, 6 double sets costing Rs. 6.74 lakhs came to be procured without assessing the firm requirements.

—The magazines supplied with double sets were capable of holding 2,000 feet length of films and were not adequate for screening training films of 10—15 reals without interruption as against the requirement of magazines for 6,000 feet length of films.

CHAPTER 3

ORDNANCE AND CLOTHING FACTORIES

8. Shortfall in production of an equipment

Government entered into an agreement (in August 1961) with a foreign firm 'P' for purchase of prototypes and production models of an equipment, the licence to manufacture it indigenously and for obtaining design knowledge, complete data and technical assistance in setting up a factory and in establishing production of the equipment. Three separate agreements were concluded (August 1961) with foreign firms 'Q', 'R' and 'S' for obtaining licence, drawings and specifications etc. and necessary technical assistance for establishment of indigenous manufacture of parts I, II and III respectively of the equipment which were not being manufactured by firm 'P' and not covered by the agreement concluded with it. A fifth agreement (August 1961) was with a foreign Government for establishment of indigenous production of part IV of this equipment.

Mention was made of the shortfall in production of part IV in the ordnance factories and unsatisfactory performance of its sub-parts due to defective manufacture of components resulting in import of the part, its sub-parts and components worth Rs. 8.88 crores till 1973 in paragraph 6 of the Audit Report (Defence Services) 1973-74. Their unsuitability for use by the Army and their replacement at an estimated cost of Rs. 2.70 crores was commented upon in paragraph 19 of the Audit Report (Defence Services) 1978-79.

In January 1962 Government sanctioned Rs. 16.12 crores (increased to Rs. 17.27 crores in January 1967) to establish an ordnance factory with the capacity to produce 100 numbers of the equipment per annum in a single shift of 8 hours including its parts I, II and III. In February 1966, Government sanctioned Rs. 64.43 lakhs for additional civil works to enable the factory to run on double shifts so that the outturn might be raised to 160 numbers per year. The requisite plant and machinery for the factory was mostly in position during 1964 to 1966 and the remaining during 1967.

The first equipment (mainly by assembly of imported components and sub assemblies) came out of the factory production line in December 1965. All the shops of the factory started working two shifts of 9 hours from 1967. Against the Army's total requirement for 549 numbers of the equipment by March 1972 the factory could supply only 368 numbers in all during the 7 years from 1965-66 to 1971-72. In addition the factory produced and supplied (1967-68) a prototype of another version of the equipment (type-II) and supplied 10 numbers each of this version to the Army during 1970-71 and 1971-72 against their requirement for 33 numbers (excluding prototype) during 3 years 1968-69 to 1970-71. In 1969-70 a prototype of a third version (type-III) of the equipment was also produced but no supply of this was made till March 1971.

The reasons for failure to achieve the targets and consistent shortfall in production of the equipment were investigated in September-October 1970 by a study team, appointed by the General Manager of the factory. The study team observed that the optimum production of the equipment that could be achieved with the installed capacity would be 120 numbers against target of 160 as 25 *per cent* of the capacity would be required for manufacture of spares for which no capacity was created. According to the study team even this reduced target of production could not be achieved due to several factors, *viz.*

(*i*) plant and machinery procured and installed were based on timings recommended by the foreign collaborators but experience of the past few years revealed that in most cases, the timings needed upward revision;

(*ii*) no separate provision was made for development work for establishing production of different components of the equipment and its other versions;

(*iii*) allowances made for unavoidable machine break downs and uneven flow of materials were inadequate;

(*iv*) materials of the correct sizes were not available in the country and the factory had to use oversized materials necessitating extra machining; extra machining capacity was also required for machining castings which had to be discarded subsequently due to casting defects; and

(*v*) material handling facilities were grossly inadequate.

To overcome the deficiencies the study team recommended (September/October 1970) immediate procurement of certain balancing machine tools and additional material handling equipment. Government sanctioned Rs. 36.55 lakhs for the purpose in December 1970 and most of these machines had been brought into use by August 1972.

Meanwhile after reviewing the requirements of the Army a long term production programme was drawn up for the factory in January 1971, according to which production of the equipment (including all types) was required to be stepped up to 200 numbers by 1974-75 along with adequate spares. The Government expected to achieve this target in phases so that at the first stage the production could be stepped up to 140 numbers of the equipment during 1972-73. In October 1971 Government sanctioned another sum of Rs. 5.69 crores for procurement of additional plants and machineries. Additional accommodation was found necessary in October 1973 for the new machines, though initially it was held (1971) that the required space would be found by re-organising shops. Government sanctioned Rs. 1.23 crores in May 1974 (revised to Rs. 1.25 crores in April 1975) for the additional accommodation. The increased production was to be achieved from 1974-75, but the construction of accommodation with connected equipments was completed in November 1976, the shop was commissioned in December 1976 and the augmented facilities were available from 1976-77. To achieve the rated capacity for the equipment, Government also sanctioned piecemeal during February 1976 to October 1978 further additional amounts totalling Rs. 1.95 crores for augmenting the forge shop, construction of a dust proof assembly shop and commissioning of a moulding machine. The plant and machinery in the forge shop were commissioned in December 1979, the dust proof assembly shop was completed in January 1981 and the moulding machine was commissioned in Chittaranjan Locomotive Works to meet the factory's requirements for castings.

During the 11 years from 1971-72 to 1981-82, the rated capacity for production of the equipment in the factory, the production achieved and the percentage of shortfall in production were as follows:

Year	Rated capacity	Production achieved (all types)	Percentage of shortfall
1971-72	120	90	25
1972-73	140	120	14
1973-74	140	95	32
1974-75	140	99	29
1975-76	140	94	33
1976-77	200	177	11.5
1977-78	200	173	13.5
1978-79	200	163	18.5
1979-80	200	133	33.5
1980-81	200	140	30
1981-82	200	133	33.5

Thus, inspite of the implementation of the recommendations of the study team set up in 1970 to overcome the production difficulties and augmentation of facilities and equipments to step up production to specified numbers, the shortfall in production of the equipment continued even after 1971-72. In August 1975 Government set up a high level committee to look into the slippages in the production of the equipment in the factory to improve the production. The committee made certain recommendations on the organisational structure of the factory, delegation of financial powers, production planning and control system, management and worker motivation, etc. These recommendations were mostly implemented by 1978 but the production of the equipment during the 3 years 1979-80 to 1981-82 did not show any improvement. The Ministry of Defence stated (November 1981) that the shortfall in production was due to short supply of various bought-out materials and components from the public sector, departmental sector and private firms both of indigenous and UK origin and unsatisfactory industrial relations situation throughout the country during the period 1978-79 and 1979-80. Thus, although the factory was set up in 1965 at a total cost of Rs. 17.27 crores to produce 100 numbers of equipment per annum in a single shift and additional investments totalling Rs. 10.10 crores were made periodically till 1978 to overcome the various deficiencies in the planning of the factory and to raise the production capacity to 200 numbers of the equipment per annum in two shifts, the desired production was yet to be achieved (March 1982).

During September 1963 to March 1971 the demands placed on the factory for the equipment (all types) totalled 898 numbers. Although the review made in January 1971 indicated a requirement for 200 numbers per year of the equipment from 1974-75, demands for only 1356 numbers were placed (Octoer 1971 to July 1980) on the factory in 11 years till October 1981. Against the total demands (2254 numbers) of which 1879 numbers were to be supplied by March 1982, the factory supplied in total 1715 numbers upto that period leaving a balance order of 539 numbers (520 type I+19 type III) in March 1982. [Balance order (520 numbers) for type I is likely to be manufactured by 1985-86 at the rate of 130 numbers per year. Though the factory has not been upgraded for productionising equipment of a new design, retrofitting of the equipment was going on as a continuous process. Meanwhile, against orders placed (January

1979 and May 1980) on a foreign Government for 218 numbers of different versions of the equipment at a total cost of Rs. 188.65 crores, 144 numbers were received during 1980/1981. Besides, 23 numbers of type II version of the equipment were ordered for import (January 1980) from another foreign Government at a total cost of Rs. 4.26 crores though the orders on the factory placed during October 1967 to February 1975 for 112 numbers of similar equipment were completed by 1978-79 and there was no pending order with the factory for this type thereafter. The average cost of production (per item) of type I and type II of the equipment in the factory is Rs. 31 lakhs and Rs. 17 lakhs respectively. The Army stated (January 1982) that the shortfall in supply of the equipment by the factory was met by depressing the War Wastage Reserve and by keeping the units at hard scale.

Till 1971, there were frequent breakdowns of the equipment supplied to the Army due to high incidence of premature failures of part I of the equipment. Steps were taken as per recommendations made by an investigation committee set up in December 1971 to improve part I. According to Army (January 1982), though there was no report at present on the operational performance of the factory supplied equipment, part I was defect prone and its maintenance was heavy.

In pursuance of additional requirements indicated by the Army in December 1973 for part I of the equipment to build up a 'pool' of 40 to 50 per cent of the holdings of the equipment, Government sanctioned Rs. 0.55 crore in November 1974 and Rs. 0.30 crore in July 1976 for procurement of additional plant and machinery to raise the production capacity for part I in the factory from 200 to 275 numbers per annum. To build up the 'pool', 157 numbers of part I were supplied by the factory from its production during the 5 years 1973-74 to 1977-78 and 232 numbers were imported (1970 to 1978) at a total f.o.b. cost of Rs. 7.74 crores against orders placed during August 1970 to April 1974. Although the augmented production facilities for part I were available from 1978-79 onwards and the factory was expected to supply 75 numbers per annum for the 'pool', only 144 numbers were supplied during the 4 years 1978-79 to 1981-82. As against the requirement of 40 to 50 per cent of 1715 numbers of the equipment supplied to the Army during the 16 years 1966-67 to 1981-82 (686—857 numbers), the holding of part I for the 'pool' at the end of March 1982 was only about 32 per cent (549 numbers). The Ministry of Defence stated (November 1981) that till March 1980 only 70 numbers of part I were outstanding. In fact the Services had projected a reduced requirement. Further, the Ministry stated that between October 1980 and March 1981 demands for 245 numbers of part I were placed stipulating unrealistic delivery schedule and that as a leadtime of 3 years was essential to plan production, action was being taken to obtain part I of the equipment from trade and public sector undertakings to meet Army's requirements.

The factory thus failed to provide the Services with part I and huge foreign exchange expenditure had to be incurred. While the augmentation of capacity required less than Rs. 1 crore, foreign exchange outgo on import was more than Rs. 7 crores, which had to be resorted to as the equipment manufactured in the factory was not upto the mark. Further, there was lack of coordination between the factory and the users.

The equipment was expected to be outdated after 1985. In order to replace it, the qualitative requirements for a modern one 'M' to be in service during 1985 to 2000 were approved in August 1972. In May 1974 Government sanctioned a project for design and development of the modern equipment by a Research and Development Organisation at a total cost of Rs.15.50 crores subsequently revised to Rs. 56.55 crores (October 1980). The project envisaged manufacture of 12 prototypes. As per the time schedule 4 prototypes were to be offered for trials within 6 years (April 1980) and another 8 within 8 years (April 1982). The trickle production of the modern equipment was expected to commence within 9 years (April 1983) and bulk production within 10 years (April 1984). The prototypes were yet to be completed (March 1982). If the modern equipment is not introduced from 1985 as planned, the Army would continue with the outdated model even beyond 1985, or depend on imports.

Some interesting features concerning production in the factory were as follows:

(*i*) Although production started in the factory in 1965, estimates indicating quantum of labour, materials, etc. for the manufacture of the equipment had not yet been standardised (March 1982) and no incentive system was introduced in the factory (March 1982).

(*ii*) Systematic overtime was resorted to in the factory to achieve targets. Despite fall in production there was increased overtime work during 1979-80 to 1981-82 as compared to 1978-79 as indicated below :

Year	Total number of equipments produced	Industrial Establishment		Non-industrial establishment/Non-Gazetted Officers	
		No. of overtime hours (in lakhs)	Amount paid (Rs. in lakhs)	No. of overtime hours (in lakhs)	Amount paid (Rs. in lakhs)
1978-79 .	163	24.05	94.15	9.03	43.78
1979-80 .	133	25.76	117.19	9.71	53.38
1980-81 ..	140	24.79	99.57	9.08	41.55
1981-82 .	133	25.69	122.15	9.22	54.75

The Ministry of Defence stated (November 1981) that the increased overtime was due to manufacture of a large quantity of components and special jigs, tools and fixtures for them for future production of the equipment. The main items of production were lagging and the capacity utilisation for production of tools, jigs, etc. do not seem to have any relevance since these must be in consonance with the manufacturing programme and actual manufacture of the equipments in question.

(*iii*) In 1980 productivity linked bonus was introduced for the ordnance factories as a whole, whereby if productivity falls below 90 *per cent* as compared to the base year 1977-78 as 100, no bonus was payable. Considering the ordnance factories as a whole Rs. 25.03 lakhs and Rs. 27.67 lakhs were paid to the civilian workers of the factory on account of productivity linked bonus during 1979-80 and 1980-81 respectively in this factory though productivity index during these years in the factory had actually fallen to 69 and 82.4 *per cent* respectively as compared to the base year. As per provisional estimate (in the absence of standardisation of estimates) 1.40 lakh manhours and 1.46 lakh manhours were needed by the assembly shop of the factory in the assembly of 133 numbers of the equipment during 1979-80 and 140 numbers during 1980-81. But 5.66 lakh manhours were actually utilised during 1979-80 and 4.89 lakh manhours during 1980-81. The total manhours utilised during 1979-80 and 1980-81 in excess for production of 265 equipments (7.69 lakhs) were equivalent to Rs. 154.54 lakhs in money value. The utilisation of excess manhours increased the direct labour expenditure per equipment by Rs. 0.57 lakh during 1979-80 and Rs. 0.60 lakh during 1980-81. The Ministry of Defence stated (November 1981) that the estimates provided time required for assembly alone and did not cater for inspection time, rectification time, removal of major assemblies due to failure of bought out items and their rectifications. No action was taken to revise and standardise the estimates on a scientific basis.

(*iv*) The estimates for manufacture of the equipment and its sub-assemblies did not indicate the quantum of arisings of scrap recoverable from the shop floors. The Ministry of Defence stated (November 1981) that the scraps were returned by the shops to stock against indirect work orders. However, in the absence of any indication of the quantum of arisings in the estimates, it was not verifiable in audit whether the actual arisings were being correctly returned to stock.

(*v*) No shop budget committees for exercising control over the overheads were functioning in the factory as provided under the rules. As a result there was no effective cost control on the cost of production.

(*vi*) The value of slow-moving and non-moving stores in the factory as on 31st March 1981 was Rs.2.87 crores and Rs. 3.79 crores respectively, which has further increased to Rs. 3.88 crores and Rs. 4.09 crores respectively as on 31st March 1982. The Ministry of Defence stated (November 1981) that the accumulation of slow-moving and non-moving stores was mainly due to spares purchased alongwith the machines during the initial period of commencement of production in the factory. No study has been conducted to see what use it could be put to or disposal resorted to, in respect of the non-moving stores.

Summing up.—The following main points emerge :

(1) The project failed to achieve the replanned production of 200 numbers of the equipment, despite heavy capital investment totalling Rs. 27.37 crores over the years (1962 to 1978).

(2) Although the recommendations of the factory study team made in October 1970 and the high level committee set up in 1975 to improve the production were implemented by 1978, at a cost of Rs. 9.26 crores, there was no improvement in the production of the equipment and it declined during 1979-80 to 1981-82 as compared to the production during 1976-77 to 1978-79.

(3) In spite of resorting to systematic overtime payments the targets have never been achieved and the shortfall in supply of the equipment was met by depressing the

War Wastage Reserve and by keeping the units at hard scale.

(4) The factory has not been upgraded for productionising equipment of a new design and to meet the requirements of the Army. Orders for import of 218 numbers of different versions of the equipment were placed in January 1979 and May 1980 at a total cost Rs. 188.65 crores. Besides, 23 numbers of type II version of the equipment were ordered for import (January 1980) at a total cost of Rs. 4.26 crores.

(5) Although to build up a 'pool' Government sanctioned Rs. 0.85 crore to raise the production capacity for part I of the equipment by 75 numbers per annum the factory failed to meet the capacity with the result that only 32 *per cent* (against 40—50 *per cent*) of the requirement could be met after import of 232 numbers at a total cost Rs. 7.74 crores.

(6) The equipment was expected to be outdated by 1985 and replaced by a modern version of which even the prototype is yet (October 1982) to be produced.

9. Project for production of weapons

Introduction

In November 1968, the Director General, Ordnance Factories (DGOF) submitted a project report to the Ministry proposing establishment of capacity in factory 'X' for production of 500 numbers of either (i) new indigenous version of weapon 'A'/weapon 'B' or (ii) 250 numbers of each per month in a single shift of 8 hours utilising the existing forging and tool room capacity as well as new machines costing Rs. 157.17 lakhs. The project was planned to be completed within a period of 30 to 33 months from the date of sanction. The project was not, however, sanctioned as Finance did not favour manufacture of weapon 'A' with weapon 'B'. A revised project report submitted to the Ministry in October 1970 provided for 165 machines

(116 numbers under NC and 49 numbers under RR) costing Rs. 116.62 lakhs including civil and external electrification works Rs. 14.17 lakhs. In February 1971, the Ministry submitted the case to the Expenditure Finance Committee (EFC) proposing setting up of capacity for the manufacture of both weapons in factory 'X' for 500 numbers of either of the two weapons 'A' and 'B' or 250 numbers of each per month in a single shift of 8 hours.

Sanction to the project

The project was sanctioned in April 1971 at a total cost of Rs. 116.60 lakhs including foreign exchange (FE) of Rs. 29.17 lakhs and was expected to be completed within 30 to 33 months (including 19 months for civil works) *i.e.* by January 1974 and bulk production was to commence by April 1974.

Sanction for civil works was accorded in September 1972 at a cost of Rs. 28.60 lakhs and was revised to Rs. 32.71 lakhs in January 1973 (an increase of Rs. 17.69 lakhs from the amount of Rs. 15.02 lakhs sanctioned in April 1971) with its probable date of completion by September 1974. The delay in issue of Government sanction was due to resiting, replanning, re-estimating, etc.

Suspension of the project

The project was, however, suspended by the Ministry in May 1973. Before suspension 11 numbers of (6 numbers under NC and 5 numbers under RR) machines costing Rs. 27.22 lakhs (including FE of Rs. 17.45 lakhs) were received in factory 'X'. Of these one machine costing Rs. 1.73 lakhs was transferred to factory 'Y' in 1975 and the balance 10 numbers were erected in factory 'X' during October 1973 to May 1975 and commissioned during October 1973 to December 1975. Earlier, in October 1969, Government sanction was accorded for issue of development order to the factory by the DGOF for manufacture of 100 numbers of weapon 'B' and toolings therefor, at a cost of Rs. 6 lakhs, which was superseded in February 1975 reducing the cost to Rs. 4.03 lakhs and remained operative alongwith the corresponding development order even after suspension of the project. Against this development order the factory produced 81 numbers of weapon 'B' during April 1979 to March 1982. In the trial report for weapon 'B' received in July 1981, some modifications were proposed.

Revival of the project

In May 1976, Finance (Projects) called for a second look at the project and pointed out that there being no firm requirement for weapon 'B', there could be no need for establishing capacity for its production. The project was nevertheless revived and in February 1977, Government sanction was accorded at a cost of Rs. 238.28 lakhs including FE of Rs. 63.05 lakhs, increased to Rs. 251.76 lakhs in November 1977; the probable date of completion being 30 months (*i.e.* by August 1979), subsequently extended to October 1981.

Plant and machinery

Till January 1982, 132 machines had been received and 128 commissioned. Four machines could not be commissioned due to mechanical/electrical defects.

The delay in receipt/erection/commissioning of the machines was due to delay of over one year in ordering of a honing machine by the Director General, Supplies and Disposals (DGSD) and also due to defects noticed in certain machines requiring rectification. The expenditure booked against plant and machinery till March 1982 was Rs. 149.72 lakhs.

Civil works

Go-ahead sanction for site clearance and other essential items relating to civil works was accorded by Government in April 1977 for Rs. 10 lakhs. In August 1977, sanction for civil works was accorded at a cost of Rs. 52.88 lakhs. The expected date of completion of the works was 2 years from the date of sanction (*i.e.* by August 1979).

Civil works were completed in October 1979 and the building was taken over from the Military Engineer Services (MES) in November 1979. Due to certain defects/discrepancies in works relating to external electrification, the works were not fully taken over till September 1982 pending rectification of defects and trials. The expenditure booked on this account till March 1982 was Rs. 56.22 lakhs.

The delay in completion of civil works was due to breakdown of electrical transformer in transit and also breakdown of high tension oil circuit breaker pertaining to external electrification.

Production

Production of weapon 'A' was planned to be carried out in a single shift of 8 hours except for a few components for which double shift was envisaged. Against existing orders for 32,380 numbers (March 1982) for Services and the requirement of Ministry of Home Affairs (MHA) for 20,250 numbers upto 1978-79 as envisaged earlier (May 1976), bulk production commenced in June 1981 and till March 1982, the total quantity produced was 1,010 numbers at an average of about 100 numbers per month. The annual target production of 6,000 numbers was expected (April 1979) to be achieved during 1981-82 but according to latest indication (October 1981) it was expected to be achieved in 1982-83. The original delivery schedule for supply of weapon 'A' was, however, as under :

1978-79	100 numbers
1979-80	750 numbers
1980-81	2,225 numbers
1981-82 onwards	3,000 numbers

6,075 numbers of weapon 'A' were due to be delivered to the users by March 1982 against which the factory produced 1,010 numbers up to March 1982.

The delay in commencement of bulk production of weapon 'A' was due to teething troubles and clearance being given by the Director of Inspection (Armaments)—DI (Arm)—only in

February 1981. Further, while the main components of weapon 'A' were completed, certain sub-components could not be completed due to non-availability of the requisite materials in the market.

Bulk production of weapon 'B' was yet to be commenced (March 1982).

As a result of delay in establishing the production capacity and non-maintenance of delivery schedule a contract for import of 5,000 numbers of weapon 'A' at a total outlay of Rs. 113.64 lakhs has been concluded by the Ministry with a foreign firm (1982). The Ministry of Home Affairs was also contemplating its procurement (April 1980) by import for meeting its own immediate requirement.

In summing up, the following points emerge :

- the project was expected to be completed by January 1974 including 19 months for civil works but Government sanction for civil works was issued only in September 1972. The cost also increased from Rs. 15.02 lakhs to Rs. 32.71 lakhs in January 1973 (increase of over 100 *per cent*);
- the project was suspended in May 1973 by which time a total expenditure of Rs. 27.22 lakhs had been incurred;
- the project was later revived and sanctioned by Government in February 1977 at a cost of Rs. 238.28 lakhs (increased to Rs. 251.76 lakhs in November 1977);
- according to the revised project papers, the project was expected to be completed within 30 months (by August 1979) subsequently extended to October 1981 (56 months);
- bulk production of weapon 'A' was cleared in February 1981 and although so planned, target production of 6,000 numbers per annum was not achieved during 1981-82 (1,010 numbers produced) and the target for 1982-83

was only 2,400 numbers, as per OFB (September 1982), the shortfall in actual production in 1981-82 was due to late clearance of bulk production of the weapon 'A' by the DI (Arm).;

—while delay increased capital investment by 135.16 lakhs (116 *per cent*), a situation developed in which 5000 weapon 'A' is being imported to meet immediate requirements at a cost of Rs. 113.64 lakhs; and

— the services having a total requirement of 32,380 numbers of weapon 'A' and the MHA of 20,250 numbers of weapon 'A' up to 1978-79, 1,010 numbers of weapon 'A' only were produced (*i.e.* 100 numbers per month or 1,200 per annum); even if full capacity is achieved (*i.e.* 6000 numbers per annum) it will take about 9 years to complete the above requirements.

10. **Heavy rejections in the production of an item**

Mention was made in paragraph 17 of the Audit Report (Defence Services) for 1976-77 of excess rejections (cost : Rs. 22.39 lakhs) in factory 'A' during 1970/1971 in the production of brass blanks and cartridge cases for an ammunition over the normal rejections fixed in December 1967 (12.5 *per cent* for brass blanks from brass slabs and 10 *per cent* for cartridge cases from brass blanks).

Factory 'A' stated (November 1977) that the original rejection percentage for cartridge cases was increased in May 1971 by the factory from 10 to 30 to bring the level of provision in line with the actual rejections occurring then due to the deteriorated conditions of the very old plants and machineries. The Ministry of Defence reported (February 1980) to the Public Accounts Committee that the revised percentage of 30 which included the process rejections was reasonable and stricter control had been introduced at different stages of manufacture.

Although 8 new machines (cost : Rs. 63.94 lakhs) were installed during 1973 to 1977 to replace old worn-out machines of the manufacturing shops, still the normal rejections were kept at 12.5 *per cent* for brass blanks and 30 *per cent* for cartridge cases. The Ministry of Defence stated (September 1982) that these machines had in some way a direct impact on the production so far as commitment was concerned and were not meant for rejections only.

Against two demands of factory 'B' (June and September 1977) factory 'A' processed 2,38,253 brass blanks against three manufacturing warrants between November 1977 to March 1980 out of which only 1,63,548 were accepted in inspection and 74,587 were rejected (balance 118 were spent in test); the actual percentages of rejection in the 3 manufacturing warrants were 44.63, 55.34 and 37.04 as against the normal rejection percentage of 12.5. To make good the deficiencies resulting from excessive rejections, factory 'A' processed additional 48,521 brass blanks during January 1979 to October 1980 against another 4 manufacturing warrants issued during January 1979 to April 1980; of these 36,125 were accepted in inspection and 12,320 were rejected (balance 76 were spent in test) and the actual rejections in these manufacturing warrants varied from 21.23 *per cent* to 37.97 *per cent*. The total cost of excess rejections of the brass blanks in the 7 manufacturing warrants was about Rs. 46.83 lakhs.

The position of manufacture of the cartridge cases out of the brass blanks against the 3 manufacturing warrants issued during October 1977 to December 1978 and completed by November 1980 showed that against the manufacturing warrant of October 1977 the cost of excess rejection over the revised normal rejection percentage of 30 fixed in May 1971 was about Rs. 6.79 lakhs (actual percentage of rejections : 43). In the meantime, the normal rejection percentage was further increased in February 1979 from 30 to 45 to bring the level of provision in line with the actual rejections and thus the rejection (44.73 *per cent*) against the manufacturing warrant of December 1978 also became permissible. Due to heavy rejections of brass blanks and cartridge cases during process of manufacture, factory 'A' could supply only 1,56,610 cartridge cases to factory 'B' till March 1981 against the ordered quantity of 1,63,010 numbers. The Ministry vaguely stated (October 1981) that the deterioration of plant condition had resulted in increase in actual rejection percentages. Factory 'A' stated (November 1982) that 2 out of 7 low frequency furnaces procured during 1935—1941 had recently been modified and that it had been advised some measures by the Ordnance Factory Board (OFB) to reduce the defects of the blanks.

During 1970-71 to 1980-81, the actual percentages of rejections in manufacture of the cartridge cases from brass blanks varied from 32.62 to 48.96 in factory 'A' as against 30 *per cent* approximately in factory 'C' and 23 *per cent* approximately in factory 'D' in the manufacture of cartridge cases for other ammunitions.

The case brings out that heavy rejections during manufacture of brass blanks and cartridge cases continued even after 1971 and the cost of such rejections during 1977-78 to 1979-80 over the prescribed provisions (12.5 *per cent* for blanks and 30 *per cent* for cartridge cases) was about Rs. 53.62 lakhs against two demands of factory 'B' (June and September 1977) though the Ministry considered (February 1980) that the provisions in the estimate were reasonable and assured that stricter control had been introduced at different stages of manufacture. The percentage of normal rejection for cartridge cases was further revised to 45 (February 1979) to cover up continuing excessive rejections and adequate remedial measures were not taken.

The Ministry stated (October 1981) that improvements were expected in future with the progress/continuity in production and implementation of fresh ideas/control to check the defects. The OFB, however, informed Audit (November 1981) that "all involved processes are being closely observed to catch up the trouble spot leading to high rejections in the stages of blanks and cases. Reporting on such observation would, however, take its due time because it will be appreciated, the same would involve the performance review of some warrants in these stages".

11. Manufacture of a gun

In January 1962, Government accorded sanction for setting up of factory 'X' for manufacture of tank 'A' at the rate of 100 numbers per annum on a single shift basis. This capacity was later increased to 200 tanks (including Armoured Recovery Vehicles) in double shifts in 1971. The factory commenced production in 1965 and up to March 1982 had supplied 1,586 numbers of tanks 'A'. The production achieved yearwise during the last three years was as follows :

Year	Numbers	
	Tank 'A'	130 SP Gun
1979-80	133	..
1980-81	133	7
1981-82	123	10
	389	17

As per decision taken at the Steering Committee meeting held in April 1966, it was decided that the Director General, Ordnance Factories (DGOF) should consider the establishment of sufficient capacity for new manufacture of gun 'P' for the planned programme of production per month of 8 new guns 'P' plus 8 spare barrels on single shift of 8 hours basis immediately to meet the requirement of tanks 'A' which were to be fitted with these guns. The production of 96 guns per annum was to match 100 numbers of tanks planned to be produced in factory 'X'.

The matter was further discussed in the meeting to review the manufacture of ammunition and weapons for tank 'A' in March 1968 when Secretary, Ministry of Defence directed that since new capacity for this item was necessary, highest priority should be given to this proposal. Finally in May 1970 sanction was issued by the Government for setting up of facilities at factory 'Y' at a cost of Rs. 36.85 lakhs for manufacture of 8 numbers of gun 'P' and equal number of spare barrels per month (i.e. 96 numbers each per annum) in single shift.

No civil works were involved and the required machines were expected to be commissioned by July 1973 (*i.e.* 38 months from the date of sanction) and batch production line was to be established within another six months *i.e.* by January 1974.

By December 1972, 26 machines out of 36 required were received and commissioned. Another machine received by December 1972 was commissioned in March 1975. The remaining 9 machines were received by 1975, out of which 8 were commissioned in December 1975 and one in July 1976. The delay in receiving and commissioning of the machine was due to some defects in the machines. An expenditure of Rs. 41.97 lakhs had been incurred on the project till September 1980 and the increase of Rs. 5.12 lakhs over the original sanctioned amount was attributed to increase in the price of machines.

For establishing the process of manufacture of Gun 'P' a development order for 10 numbers was placed by the DGOF on factory 'Y' in August 1974 and it was taken up by the Factory in July 1975. The first prototype produced (August/September 1975) underwent modifications and rectifications which were found necessary as a result of technical trials conducted during August 1977 to March 1979 and the clearance for bulk production of Gun 'P' was given in December 1979. The factory produced the following numbers of guns and barrels up to March 1982 :

Year	Guns	Barrels
1979-80	10	4
1980-81	60	20
1981-82	82	38
	152	62

During the intervening period (1965 onwards) the requirements of the guns for the tanks were being met by conversion of used guns 'Q' in factory 'Y'. Up to March 1982, 1,804 numbers of old guns were converted in the factory. 180 numbers of barrels were also converted up to March 1982. Against the capacity of 96 guns per annum the factory 'Y' produced 82 numbers in 1981-82. The production has not been stepped up in tune with augmentation of the production of tanks which is 200 numbers per annum. The life of converted guns fitted to tanks produced so far is about 6 to 10 years.

The tanks 'A' are expected to be in service up to the year 2004. After 1981-82, there are outstanding firm orders for tanks 'A' numbering 520. Considering the availability of old converted guns 'P' (less life-expired guns) (1,804 — 735 = 1,069) and the capacity for new guns 'P' created, the requirement of guns 'P' for use on the freshly manufactured tanks 'A' cannot be met. Thus the Army was having 1,221 numbers of gun 'P' (1,069 converted; 152 new) as against 1,586 numbers of tank 'A' leaving a shortage of 365 numbers of gun 'P' as on March 1982. No import of guns 'P' was made at any time. The Ordnance Factory Board stated (September 1982) that the outstanding orders of new and converted gun "P' were 373 and 26 numbers respectively and the outstanding orders for new spare barrels were 121 numbers as on April 1982 but did not indicate as to how the shortage of requirements would be made good.

To sum up :

- the production of guns 'P' had not come up alongwith the production of tanks in which they are to be fitted. Factory 'X' started production of tanks from 1965 but the gun production started only in 1979-80 after 13 years even though proposals were first mooted in 1966;
- since these guns were not produced, old used guns 'Q' were converted into guns 'P'; and
- the manufacture of gun 'P' at the rate of 96 numbers per annum is not matching the actual production of installed capacity for manufacture of tank 'A'.

12. Inventories and works-in-progress in the ordnance factories

During the year 1980-81 the total production in the ordnance factories was of the order of Rs. 671 crores (material component : Rs. 458 crores).

At the end of March 1981 the ordnance factories had inventories and works-in-progress of the value of Rs. 525.77 crores and Rs. 224.52 crores respectively. A review in audit revealed that a considerable portion of this stock was surplus to requirements and on a rough basis with reference to the expected holdings for 9 months' requirements in case of inventories and 6 months' life for manufacturing warrants in case of works-in-progress, stores and works-in-progress of the value of Rs. 197 crores approximately were surplus. Further points noticed during review are discussed below :

A. *Inventories.*—According to the provisioning procedure the ordnance factories are authorised to hold inventories for 9 to 12 months' requirements of imported items, 9 months' requirements of difficult indigenous items and 6 months' requirements of other indigenous items. The compiled accounts or any other control register of the factories do not indicate the total accumulations/holdings of different types of stores in tonnage or money value. As such the overall average in terms of all the varieties may be roughly taken as 9 months' requirements. According to the Controller of Accounts (Factories) the overall stock holdings in the ordnance factories had gradually increased from 9.63 to 11.21 during 1978-79 to 1980-81 in terms of number of months' consumption during the period as indicated below :

Year	Average inventory held during the year	Average monthly consump-tion during the year	Stock holdings in terms of months' consump-tion
	(In crores of rupees)		
1978-79	332.43	34.51	9.63
1979-80	384.30	37.35	10.29
1980-81	471.57	42.08	11.21

A review of the position of the individual factories on similar basis revealed that during 1980-81 out of 34 factories, in 14 the average inventory held was for 3 to 9 months' requirements, in 7 for 10 to 12 months' requirements and in 10 for 13 to 28 months' requirements (balance 3 factories being in initial/closing stage). The cost of excess holdings beyond 9 months in 17 factories was approximately Rs. 149 crores.

The total cost of the inventories of the ordnance factories *viz.* Rs. 525.77 crores at the end of March 1981 included stores of substantial value for which there had been no issue at all during 3 years commencing from 1978-79 (Rs. 34.35 crores), scraps (Rs. 15.16 crores) and surplus stores (Rs. 4.11 crores). In addition, the cost of stores for which there had been no issue for 1 year was Rs. 31.98 crores. Large capital was locked up in these holdings for long period. The Ministry of Defence stated (November 1982) that with the object of tackling the problem of high level of inventory holdings, task forces had been constituted (June 1982) in all factories to carry out thorough analysis of the inventory position for taking remedial measures and reports received from the task forces in respect of 15 factories were under examination and that the stock in terms of number of months' consumption had recorded a decrease from 11.21 in 1980-81 to 11.04 in 1981-82.

The scrap holdings in the ordnance factories had gradually increased from Rs. 10.19 crores at the end of March 1979 to Rs. 12.58 crores at the end of March 1980 and Rs. 15.16 crores at the end of March 1981, as their utilisation was restricted due to non-availability of required facilities and disposal by sale was not commensurate with the rate of their accumulation. Out of the total scraps of Rs. 15.16 crores as on 31st March 1981, the holdings in 4 factories alone amounted to Rs. 11.68 crores. In one of them about 109 tonnes of cupronickel scraps in bullet forms (cost : Rs. 20.68 lakhs) received in March 1956 from a sister factory and 112 tonnes of fired cartridge cases (cost : Rs. 25.11 lakhs) received from other sources mainly during March to October 1972 were awaiting disposal (March 1982).

The Ordnance Factory Board (OFB) stated (November 1981) that these scraps were not useful for the present programme of manufacture and that their disposal could not be effected for "security classification". In this factory the following are the few of other accumulations of scraps:

Nomenclature	Quantity (tonnes)	Cost (in lakhs of rupees)	Period of accumulation
Copper scrap Grade II . .	44.62	14.29	Mainly prior to 1977-78
Copper scrap Grade IV . .	73.88	21.82	Mainly prior to 1977-78
Cupronickel scrap Grade IP .	54.33	21.09	Mainly prior to 1968
Non-ferrous mixed metal scrap NM-2	101.50	15.65	Mainly prior to 1977-78
Cupronickel scrap Grade 1A .	19.47	7.71	Mainly prior to 1970

The Ministry of Defence stated (November 1982) that instructions had been issued to all factories for expeditious clearance of scraps and surpluses. The Ministry added that the accumulation of scrap and obsolete stores in the ordnance factories and slow progress in their disposal would be discussed by a high level committee and corrective measures taken.

B. *Works-in-progress.*—In paragraph 7 of the Audit Report (Defence Services) 1967, comments were made on the delay in completion of orders after commencement of manufacture and resultant accumulation of works-in-progress in the ordnance factories. The Public Accounts Committee had stressed the need for clearance of these orders expeditiously in paragraph 1.22 of its 52nd Report (4th Lok Sabha, 1968-69). The Ministry of Defence then stated (November 1968) that every effort would be made to reduce the time lag between the placing of orders and supply. The annual accounts of ordnance factories, however, revealed that as against 12.37 to 16.30 per cent during 1963-64 to 1965-66 in relation to the cost of production, the works-in-progress had steadily increased from 27 per cent at the end of March 1977 to 33 per cent at the end of March 1981 as indicated in the table below :

Year	Cost of production during the year	Works-in-progress at the end of the year	Percentage of works-in-progress to the cost of production
	(In crores of rupees)		
1976-77	518.33	141.31	27
1977-78	545.58	161.16	30
1978-79	550.57	177.27	32
1979-80	600.06	196.44	33
1980-81	670.99	224.52	33

During 1980-81 in 6 factories the percentages even ranged between 48.74 and 92.62 individually. The OFB stated (November 1981) that the factories had already been advised (June 1980) to examine the reasons for upward trend in the works-in-progress and to take remedial measures. The OFB, however, added (November 1981) that high percentage of works-in-progress in some of the factories were due to :

—frequent power interruption restricting production; and

—in filling factories a number of lots of ammunition and filled components though completed were under proof and shown as semis.

The works-in-progress in the ordnance factories on 31st March 1981 totalled Rs. 224.52 crores; this comprised Rs. 3.67 crores for development works and Rs. 220.85 crores for other works. The table below shows the age of the works-in-progress and the manufacturing warrants against which the works remained incomplete on 31st March 1981 :

Year in which works started	No. of manufaturing warrants			Works—in-progress		
	Develop-ment works	Other works	Total	Develop-ment works	Other works	Total
				(In crores of rupees)		
1952-53 to 1975-76	146	2,900	3,046	1.13	3.91	5.04
1976-77 to 1977-78	196	6,037	6,233	0.56	7.13	7.69
1978-79 to 1979-80	186	13,947	14,133	0.50	34.57	35.07
1980-81	181	24,662	24,843	1.48	175.24	176.72
	709	47,546	48,255	3.67	220.85	224.52

According to the prescribed procedure manufacturing warrants are normally to be completed in 6 months and stores which can be produced during this period only are to be included in them; in exceptional cases duration for manufacturing warrants may be extended by the OFB on factories' request but such cases should be limited to the minimum. However, 9,279 manufacturing warrants (including 342 numbers on development works) which were issued during and prior to 1977-78 and on which an expenditure of Rs. 12.73 crores was incurred remained incomplete at the end of March 1981 even after 3 years or more after these were issued. Warrants one year old and more numbered 23,412 on which Rs. 47.80 crores were locked up. The Ministry of Defence stated (November 1982) that instructions had been issued to all factories to constitute task forces to analyse the reasons for carrying over each of the out-standing warrants as semis from year to year and to suggest and adopt effective remedial measures.

As the manufacturing warrants have been lying incomplete for a long period in the ordnance factories, it is likely that a substantial portion of the stores, manufacture of which was taken up against such manufacturing warrants, would not be required by the indentors with passage of time. The OFB stated (November 1981) that "this may happen in a few cases only", but it was not clarified whether any detailed review in this regard in consultation with the indentors was ever made. The OFB had also not furnished the details of those manufacturing warrants, which already stood suspended/cancelled after commencement of manufacture against them and the financial repercussions involved though called for in audit (March 1981). Mention was made in paragraph 12 of the Audit Report (Defence Services) 1979-80 that orders placed on a factory in December 1969 and April 1970 for 2 types of an ammunition were cancelled (1980) due to delay in establishment of their manufacture and supply involving financial repercussion of Rs. 107.32 lakhs (including cost of documentations obtained from a foreign Government). In respect of another order placed on the same factory in December 1971 for 1 lakh numbers of an ammunition to be supplied by March 1973 only 49,835 numbers were supplied till June 1974 due to inadequate supply of components by the sister factories and failure of lots in proof. As the ammunition thereafter was phased out of services, the order was short-closed at 69,259 numbers involving financial repercussion of Rs. 34.33 lakhs (revised to Rs. 29.19 lakhs in April 1981). The indentor refused to accept the liability for the loss (March 1980) as the order was not completed within the scheduled period. The OFB stated (November 1981) that the indentor had been informed that the order was not completed due to phased withdrawal of the ammunition by the Services and that the acceptance of financial repercussion by the indentor was awaited. Further development had not been intimated to Audit (October 1982).

C. *Finished components and products.*—Besides inventories and works-in-progress, the ordnance factories had "finished semis" (finished components and products awaiting use or issue at the end of the year) worth Rs. 105.15 crores as on 31st March 1981. This comprised finished components (Rs. 75.42 crores) and final products (Rs. 29.73 crores). The yearwise break-up of the accumulated finished semis is not available in compiled accounts. However, out of the finished components, 5848 tonnes of steel ingots, blooms, billets, etc. (cost : Rs. 90.64 lakhs) produced by factory 'F' since 1943-44 were suplus to requirements due to excess manufacture, change in specification or due to short-closure/cancellaion of orders as mentioned in paragraph 25 of the Audit Report (Defence Services) 1980-81. In the same factory 96 items (296.22 tonnes) of brass rods, billets etc. (cost : Rs. 18.60 lakhs) and another 14 items of the same type of stores (11 items—42,360 numbers and 3 items—1,653.28 metres) (cost : Rs. 4.17 lakhs) manufactured during 1944 to 1965 were also lying in stock being unsuitable for use (March 1982). In factory 'K' out of total finished semis available on 31st March 1981 (cost : Rs. 18.84 crores) semis valuing Rs. 4.19 crores pertained to the years 1971-72 to 1977-78 and semis valuing Rs. 4.71 crores to the years 1978-79 and 1979-80. Though finished semis pertaining to very old period were available in various factories, no review was ever made to ascertain how much of them were surplus to the factories and require disposal.

Summing up :

(*i*) Against the expected stock holdings for 9 months' requirments, the overall stock holdings in the ordnance factories in terms of number of months' consumption had gradually increased from 9.63 to 11.21 during 1978-79 to 1980-81. The cost of excess holdings beyond 9 months in 17 factories was approximately Rs. 149 crores (March 1981).

(*ii*) Out of the total inventories (cost : Rs. 525.77 crores) at the end of March 1981, the cost of surplus stores (declared), scraps and slow and non-moving stores totalled Rs. 85.60 crores.

(*iii*) As against 12.37 to 16.30 *per cent* during 1963-64 to 1965-66 in relation to the cost of production, the works-in-progress had steadily increased in the ordnance factories from 27 *per cent* at the end of March 1977 to 33 *per cent* at the end of March 1981, the total cost of works-in-progress at the end of March 1981 being Rs. 224.52 crores against the cost of production of Rs. 670.99 crores during 1980-81. In 6 factories the percentage ranged between 48.74 to 92.62 during 1980-81.

(*iv*) Although the normal life of a manufacturing warrant was 6 months, 9,279 manufacturing warrants which were issued during and prior to 1977-78 and on which an expenditure of Rs. 12.73 crores was incurred remained incomplete at the end of March 1981. Warrants one year old and more numbered 23,412 involving a locked up capital of Rs. 47.80 crores.

(*v*) Although manufacturing warrants were lying incomplete for a long period, no review in consultation with the indentors was made to ascertain their requirements for the stores manufacture of which was taken up against such warrants.

(*vi*) Cases of cancellation/short-closure by the indentors involving financial repercussion of Rs. 136.51 lakhs due to delay in manufacture and supply came to notice during test check.

(*vii*) In one of the factories finished components and products worth Rs. 4.19 crores pertaining to the years 1971-72 to 1977-78 were lying unused (March 1981).

13. Manufacture of an ammunition

Against an indent of the Air Headquarters (February 1971) the Director General, Ordnance Factories (DGOF) placed 3 orders on factory 'A' during August 1971 to April 1972 for manufacture of 14,142 numbers (reduced to 11,142 in August 1972) of ammunition 'X' an established item of production in the ordnance factories. Factory 'A' placed 4 orders on factory 'B' during October 1971 to September 1972 for 14,116 numbers of empty bodies. In December 1973 the requirement of the indentor for the ammunition under-went drastic change on account of revision of War Wastage Reserve and introducton of new weapons. The indentor, therefore proposed (December 1973) reduction of his indent of February 1971 from 11,142 to 3,000 numbers. However, production of ammunition 'X' was not short-closed at 3000 numbers and supplies against indent continued. The DGOF informed factories 'A' and 'B' in December 1977 i.e. after 4 years that further procurement action of the items connected with the manufacture of the ammunition should be suspended. The Ministry of Defence stated (October 1982) that indications were given to the factories (January 1974) on the reduced requirements of the ammunition but as the short-closure/reduction was still in correspondence with the indentor, delay in intimating the final decision occurred.

After 5,703 numbers of ammunition 'X' were supplied against the indent, it was decided in September 1978 that in order to clear the semis in production lines of the factories the DGOF should supply another 1,200 numbers of ammunition 'X' for practice purposes. Accordingly, 385 numbers of practice ammunition were supplied (March 1982). The financial reprecussion of the reduction in the quantity of the Air Headquarters indent to 6,903 numbers (including practice ammunition) would be about Rs. 9.38 lakhs on account of raw materials, components, etc.

For production of empty bodies for ammunition 'X' the DGOF had placed an order on firm 'P' in November 1973 for supply, in 8–9 months, of 3 lathe machines from their foreign principals at a total cost of Rs.22.75 lakhs (as amended in August 1975 and August 1978). Within about 2 months of placement of the order, the Ministry decided that alternative utilisation of capacity at factory 'B' for manufacture of ammunition 'X' should be examined by the DGOF as the Air Headquarters had no requirement for this ammunition. The DGOF and the General Manager of factory 'B' were present in the meeting (January 1974) in which the decision was taken. However, no action was taken to cancel the order for the lathe machines, nor was the requirement of 3 machines in the changed circumstances reviewed. The DGOF also did not avail of the opportunity to cancel the order though the machines were not supplied within the stipulated period (August 1974). The machines were tendered for inspection to an India Supply Mission abroad in April 1975 and after acceptance these were received at factory 'B' in November 1975. The Ministry of Defence stated (October 1982) that as factory 'B' did not agree (January 1974) to the cancellation of the existing orders of the empty bodies for ammunition 'X' due to heavy financial repercussion and it was advised to proceed with necessary planning and provisioning action for completion of the outstanding quantity, there was no scope for cancellation of the order for the lathe machines. It was, however, seen in audit that the action taken was in contravention of the Ministry's instructions (January 1974) which stipulated that plant and machinery specifically required for ammunition 'X' should not be ordered; further the financial repercussion in the event of cancellation of the orders for empty bodies was not assessed to see whether the procurement of the lathe machines was economical.

The lathe machines had a capacity to produce in a year 4,800 empty bodies for ammunition 'X' in two shifts. However, due to non-availability of adequate orders for the ammunition from the Air Headquarters, factory 'B' produced only 1,828 empty bodies in 6 years during 1976-77 (600), 1977-78 (556), 1978-79 (135), 1979-80 (200), 1980-81 (256) and 1981-82 (81). Thus the procurement of the lathe machines (total cost : Rs. 32.47 lakhs including customs duty, etc.) involving a foreign exchange of Rs. 21.91 lakhs, without a further review of their requirement in the circumstances was injudicious. Factory 'B' stated (February 1981) that since the machines were tooled up for production of ammunition 'X' and had particular setting for its machining, there was no scope for their diversion to other factories for use.

The case reveals :

(*i*) Though in view of surplus stock of ammunition 'X' the indentor suggested (December 1973) short-closure of his indent of February 1971 for 11,142 numbers at 3,000 numbers, the production of the ammunition continued and after about 5 years in September 1978 the proposal for reduction of the indent to 6,903 numbers was accepted with financial repercussions of Rs. 9.38 lakhs.

(*ii*) Although the DGOF and factory 'B' were informed (January 1974) that the indentor had no requirement for ammunition 'X' and that alternative utilisation of the capacity rendered surplus should be examined, no action was taken to cancel the order of Novermber 1973 for 3 lathe machines (cost : Rs. 32.47 lakhs) while the supplier had also failed to supply the machines within the stipulated delivery period (August 1974).

(*iii*) The magnitude of the financial repercussion was not assessed to see whether the procurement of the machines was economical.

(*iv*) The lathe machines, received in November 1975, were used for production of only 1,828 numbers of empty bodies for ammunition 'X' during 6 years from 1976-77 to 1981-82 against a capacity of 4,800 numbers per annum.

14. Procurement of a store for manufacture of a component

In November 1969, Government accorded sanction to the holding in the Ordnance factories of 254.25 tonnes of two varieties of tungsten ore (wolframite—120 tonnes and scheelite—134.85 tonnes) and 25 tonnes of cobalt for issue by the Director Genral, Supplies and Disposals (DGSD) against orders to be placed on the indigenous firms for manufacture of components I and II of part 'Q' for ammunition 'Y'. Accordingly 108.74 tonnes of wolframite (cost : Rs. 56.76 lakhs), 122.02 tonnes of scheelite (cost : Rs. 73.22 lakhs) and 25 tonnes of cobalt (cost : Rs. 6.73 lakhs) were imported during July 1971 to October 1971 at a total cost of Rs. 136.71 lakhs.

In November 1969 factory 'B' placed an indent for 9,747 numbers of component I and 14,747 numbers of component II on the DGSD. Foreign exchange required for import of raw materials (Rs. 49.86 lakhs) was released by the Ministry in July 1970 and the DGSD. concluded a contract in March 1971 with firm 'A' for supply of the full indented quantity at a total cost of Rs. 84.80 lakhs (as revised in October 1972). Factory 'B' placed two more indents for components I and II in May 1972 (6,000 numbers of I) and August 1972 (18,000 numbers of I and 24,000 numbers of II) on the DGSD. It was stipulated in the indent of May 1972 that the tungsten ore would be provided from the reserve held in the ordnance factories. But no release of the ore was made from the stock by the Director General, Ordnance Factories (DGOF) who asked (October 1972) the DGSD to get the requirement through the Minerals and Metals Trading Corporation. The Ministry of Defence stated (November 1980) that the reserve was maintained in the ordnance factories for emergent situations to ensure regular supply of the components and the question of issue from it during normal circumstances did not arise. This was, however, not in accordance with the sanction of Government (November 1969) for holding the reserve which was intended for issue to the indigenous firms for manufacture of components against DGSD orders.

The DGSD requested the DGOF (October 1972 and November 1972) to release foreign exchange amounting to Rs. 11 lakhs against the indent of May 1972 and Rs. 67.76 lakhs against that of August 1972. Though required to be released within 2 months, as per DGSD's standing orders, foreign exchange aggregating Rs. 148.22 lakhs was released in piecemeal in December 1972 (Rs. 11 lakhs), March 1973 (Rs. 30 lakhs), January 1974 (Rs. 21.42 lakhs), October 1974 (Rs. 38.08 lakhs) and July 1976 (Rs. 47.72 lakhs). The Ordnance Factory Board (OFB) stated (October 1980) that due to clarifications sought for by the Ministry, the release of foreign exchange was delayed and made in piecemeal resulting in higher foreign exchange outlay due to rise in the cost of the materials.

Out of 24,000 sets (one of each component per set) against the two indents (May and August 1972) the DGSD covered 6,000 sets (December 1972) by increasing the quantity in the existing contract of March 1971 (cost: Rs. 46.63 lakhs) on firm 'A'. The factory received 9,668 numbers of component I and 14,844 numbers of component II by June 1973 and the remaining 6,079 numbers of component I and 5,903 numbers of component II thereafter till July 1979. The balance 18,000 sets to be procured were reduced by the factory by 2,000 sets (February 1974) and this quantity was projected as an educational order on a defence unit in order to use its available capacity. Due to delay in release of adequate foreign exchange at a time, the DGSD concluded a contract with firm 'A' for supply of 13,000 sets in September 1974 and this was increased to 16,000 sets in February 1975 at a total cost of Rs. 130.40 lakhs (revised to Rs. 210.74 lakhs in April 1978 to cover increased cost of imported material during operation of the contract). Against this contract, the first consignment of the imported tungsten ore was received by firm 'A' in June 1976 and the supplies of the components were received in factory 'B' during September 1976 to October 1977.

Due to failure to provide adequate foreign exchange expeditiously in the context of the rising world prices for the ore, which delayed the conclusion of the contract of September 1974 and import of required raw materials by the firm, extra expenditure on the procurement of 16,000 sets of the components amounting to Rs. 80.34 lakhs (inclusive of Rs. 56.77 lakhs in foreign exchange) computed with the rates prevailing in February 1975 was incurred.

It was also observed in audit that the reserves of the tungsten ore and cobalt sanctioned in 1969 for issue to the indigenous firms for manufacture of the components and held in stock since 1971, though not issued to the manufacturers on the ground that the reserves were for emergent situation only, were ordered for liquidation by the Ministry in May 1977. Out of 122.02 tonnes of scheelite, 79.90 tonnes were of sub-standard quality and this was disposed of by sale during 1979 and 1980 for Rs. 60.15 lakhs. Of the stock of wolframite only 1.91 tonnes were used (March 1982). The balance quantity of scheelite concentrate (42.12 tonnes), wolframite (105.83 tonnes) and cobalt (25 tonnes) valuing Rs. 82.52 lakhs were yet to be disposed of (March 1982). Thus the holding of the reserves did not serve the specified purpose and locked up capital to the extent of Rs. 82.52 lakhs for more than 11 years.

The matter was reported to the Ministry of Defence in June 1982 but their comments were still awaited (October 1982), despite two reminders issued in August 1982 and September 1982.

15. Purchase of a store at high cost

As per provisioning procedure, for ordinary indigenous materials ordnance factories were authorised to keep a stock of 6 months' requirements at a time and to place indents for another 24 months' requirements in advance of the period of utilisation. A situation arose in a factory when there was no stock of a variety of steel required in the production of a barrel from September 1978; even then tender enquiry was floated after 4 months (February 1979) to four firms for supply of 30 tonnes of steel based on a review (February 1979) which revealed a requirement for 91 tonnes against outstanding dues of 16 tonnes from trade (12 tonnes) and another factory (4 tonnes). Further an indent was also placed (February 1979) on the Director General, Supplies and Disposals (DGSD) for another 30 tonnes.

Against the factory's tender, supply of steel of specification 'A' or 'B' was provided though specification 'A' was withdrawn in 1972. Only firm 'X' offered a quotation (March 1979) of Rs. 18,950 per tonne of the steel of specification 'A'. The price was firm and valid for 20 days from the date of opening of the tender. However, as per the special conditions attached to the quotation, the price was based on pooled price of molybdic oxide fixed by the Minerals and Metals Trading Corporation for the period ending 31st January 1979 and subject to revision from time to time. Before an order was placed, the firm increased their price to Rs. 24,500 per tonne (March/April 1979). Although only one quotation was received against the tender and it was increased within 19 days by about 30 *per cent* without furnishing basis for such increase and the Controller of Inspection (Metals) stated (April 1979) that specification 'A' indicated in the factory's tender had been withdrawn (1972), retendering was not done and the factory intimated the Inspectorate (April 1979) that as intimation of withdrawal of specification was not received and order had already been booked, the material as per specification 'A' could be accepted as a special case to avoid repercussions. The order on firm 'X' for supply by January 1980 of 30 tonnes of the steel of specification 'A' at the revised rate was actually placed in May 1979 without negotiating with the firm for supply of the material of specification 'B'. There was no record in factory to show how the reasonableness of the original and revised price was determined. Ministry of Defence stated (October 1982) that retendering was not considered necessary when there was no proven source to supply the material immediately and that negotiations would have delayed the placement of order resulting in production loss due to non-availability of raw material. The fact is that the factory failed to take procurement action in time as per provisioning orders.

In the meantime, against the factory's indent of February 1979 the DGSD concluded a contract with the same firm in February 1980 for supply of 30 tonnes of steel of specification 'B' at Rs. 18,225 per tonne by November 1980. Despite DGSD's contract (copy received by the factory on 25th February 1980) being at Rs. 18,225 per tonne as against the factory's contracted cost of Rs. 24,500 per tonne no action was taken to cancel the order of May 1979 nor was any negotiation with the firm made to reduce the price. The firm failed to supply the steel within the stipulated delivery period (January 1980). On 29th February 1980 the delivery period was extended till April 1980. The factory received supplies during May 1980 (22.36 tonnes) and July 1981 (6.91 tonnes). Against the DGSD's contract of February 1980 the factory received the supplies from firm 'X' during November 1980 to February 1981. The Ministry of Defence stated (October 1982) that the delivery date had to be extended as the firm could not manufacture the material due to reasons beyond their control and that as the order placed by the DGSD was for a material of specification 'B' having less percentage of molybdenum, there was no question of cancellation of the order or approaching the firm for reduction in price. The fact remains that despite knowing that the material of specification 'A' would be costlier due to more percentage of molybdenum and had been withdrawn from use, no efforts were made to persuade the firm to supply the material of specification 'B' against the tender of February 1979 and the procurement of 29.27 tonnes of steel of specification 'A' caused an extra expenditure of Rs. 1.91 lakhs (including 4 *per cent* sales tax) as compared to DGSD's procurement cost of steel of specification 'B'.

Meanwhile, in August 1980, the factory issued another tender, this time by open advertisement, for 15 tonnes of steel of specification 'B'. In response, quotations varying from Rs. 12,560 to Rs. 19,825 per tonne were received from 8 firms. Of these, quotations from two firms were received after the due date (19th September 1980). However, even before the tenders were opened, the Director General, Ordnance Factories decided on 7th September 1980 that the steel should be procured preferably either from firm 'X' or from a sister ordnance factory as their store had given good results. As there was no justification in coming to a decision even before the tenders were opened and examined, the very purpose of calling for tenders was vitiated. An order was placed on firm 'X' in December 1980 for supply of 15 tonnes by October 1981 or earlier at the rate of Rs. 19,825 per tonne though their quotation was the highest. As compared to the lowest valid offer (Rs. 13,500 per tonne) the extra cost involved in the procurement (including sales tax) was Rs. 0.99 lakh. The Ministry of Defence stated (October 1982) that as the material had rigid specification and was to be produced with extra care it was considered to be a risk to procure the same from the stockists and that the decision to procure the material from firm 'X' who was a proven supplier, was taken considering all aspects. In that case, there was no justification for floating open tenders at all and at least one tenderer was a manufacturer, although the risk involved in procuring from any dependable stockist whose source of supply is known and verifiable is not clear.

16. Extra expenditure due to delay in acceptance of offers

The Director General, Ordnance Factories (DGOF) placed two indents in January and July1978 on the Director General, Supplies and Disposals (DGSD) for 3 loco-shunters of 150 horse power for factories 'B' (two) and 'C' (one) although it was known that indigenously produced shunters of 150 horse power capacity were not availabile. A third indent for one loco-shunter of 220 horse power for factory 'A' was also placed in January 1979.

The DGSD floated tenders (December 1978) and only firm 'Z' quoted (3rd and 4th January 1979) Rs. 8.65 lakhs per shunter of 220 horse power. The quotations were valid till 9th March and 16th March 1979 respectively and were sent on 21st February 1979 to the DGOF and the Controller of Inspection, Engineering Equipment (CIEE), the inspection authority for scrutiny and comments. The DGSD intimated on 20th March 1979 the DGOF that as loco-shunters of 150 horse power were no longer in production there was no possibility of getting a quotation for the same and he forwarded on 26th March 1979 quotations of Rs. 8.75 lakhs per shunter of 220 horse power received from firm 'Y' (valid till 18th June 1979) for scrutiny and comments. The CIEE, after consultations with the Ordnance Factory Board (OFB) and the factories, accepted the offers of both firms for shunters of 220 horse power after 5 months (July and August 1979). In the meantime, the validity of the offers of the firms expired (March and June 1979) and the DGSD concluded a contract with firm 'Z' in October 1979 for 3 shunters of 220 horse power each for factories 'B' and 'C' at an enhanced price of Rs. 9.95 lakhs per shunter against the firm's original price of Rs. 8.65 lakhs (January 1979). As firm 'Z' increased its price (Rs. 10.25 lakhs) for the shunter for factory 'A' (indented in January 1979), the DGSD, after inviting revised price of firm 'Y', placed an order on them in March 1980 for a shunter of 220 horse power at a cost of Rs. 9.25 lakhs against their initial offer of Rs. 8.75 lakhs (March 1979). The 4 shunters were received in the factories in January 1981 (factories 'B' and 'C'), April 1981 (factory 'A') and June 1981 (factory 'B'). As the revised price of firm 'Y' (Rs. 9.25 lakhs) was lower than that of firm 'Z' (Rs. 9.95 lakhs), the placing of the order for 3 shunters on the latter in October 1979 at the negotiated price without ascertaining the price of the former was injudicious.

As compared to the initial offers of firm 'Z' (January 1979), an extra expenditure of Rs. 4.50 lakhs was involved in the procurement of 4 shunters in October 1979 and March 1980. As the OFB had earlier experience of the performance of the shunters of firm 'Y', there was no justification to delay the acceptance of their offers of March 1979 (Rs. 8.75 lakhs per shunter). If the offers of firm 'Y' had been accepted and orders for 4 shunters placed on them within the validity period (June 1979), extra expenditure to the extent of Rs. 4.10 lakhs could have been avoided. The Ministry of Defence stated (October 1982) that since the quotations had certain discrepancies with reference to the indent specifications, it took some time to resolve the issues with the CIEE and that the specifications had to be revised to suit the indigenous requirement which delayed the acceptance of the offers and conclusion of contracts.

17. Extra expenditure in the purchase of vehicle component

In response to a tender enquiry floated by a factory (April 1979) for supply of 3,366 numbers of rear body, firms 'A', 'B', 'C' and 'D' quoted the following rates (April/May 1979) :

Firm	Rates quoted per rear body (Rs.)	Validity period
'A'	2,035	1st June 1979
'B'	2,390 (for 50 *per cent* quantity) 2,350 (for 100 *per cent* quantiy)	17th July 1979 17th July 1979
'C'	3,250	17th July 1979
'D'	4,720 (late quotation)	Not mentioned

The offers were opened on 17th April 1979 and the factory decided (May 1979) to place an immediate order on firm 'A' (the existing established source of supply) for 1,683 numbers of the store and to place an order on firm 'B' for the balance 1,683 numbers after obtaining clarifications on their offer to establish a second satisfactory source of supply for the store.

The factory referred the case to the Ordnance Factory Board (OFB) only on 30th May 1979 for nogotiation with firm 'A' as their offer was considered very high and stated that after firm 'B''s offer was found technically suitable, the same would be intimated to the OFB for consideration. In July 1979, the technical suitability of the offer of firm 'B' was intimated and the OFB was requested to finalise the orders on firms 'A' and 'B'. The OFB called for (23rd July 1979) the stock position statement for the store, comparative statement of tenders, etc., which were not forwarded along with the proposal. These were furnished by the factory on 5th August 1979. Although the validity of the offer of firm 'A' was extended up to 11th September 1979, the OFB did not finalise the order and directed the factory on 29th September 1979 to negotiate with firms 'A' and 'B' to reduce their prices. The OFB stated (October 1982) that as there was no immediate hold up for the item, the factory was asked to negotiate with the firms and intimate the results of negotiations for further action.

As the orders for the store were not placed within the extended validity period of the offers, during negotiations with the factory (October 1979) firm 'A' revised their price from Rs. 2,035 to Rs. 2,485 each and firm 'B' from Rs. 2,390 to Rs. 2,525 each for 50 *per cent* quantity and from Rs. 2,350 to Rs. 2,490 each for 100 *per cent* quantity. Subsequently firm 'B' agreed (December 1979) to supply the store at Rs. 2,475 each provided an order for a minimum 2,000 numbers was placed. As the firms were not agreeable to reduce their prices the factory again referred the case to the OFB on 4th February 1980. After about 4 months the OFB conducted negotiations with firm 'B' on 30th May 1980. As firm 'B' wanted to submit a revised offer after the budget was announced on 18th June 1980 and firm 'A' could not attend the negotiations, further negotiations were conducted with both firms 'A' and 'B' on 24th June 1980. Based on the negotiations (June 1980) the OFB sanctioned (July 1980) purchase of 2,000 numbers from firm 'A' and 1,500 numbers from firm 'B' at Rs. 2,550 each. The price accepted was higher than the initial offers of April 1979 (firm 'A' : Rs. 2,035 and firm 'B': Rs. 2,390) and the revised offers of October/December 1979 (firm 'A' : Rs. 2,485 and firm 'B' : Rs. 2,475). Thus the negotiations with the firms merely delayed the finalisation of the offers of April 1979 involving additional liability. The OFB stated (October 1982) that through negotiations it was expected to bring down the quoted price but as the time taken for negotiations prolonged there was upward revision of price and the anticipation did not come to be true.

In pursuance of the OFB's sanction (July 1980) the factory placed (July 1980) two orders on firms 'A' and 'B' for supply of 3,500 numbers of rear body at Rs. 2,550 each. Firm 'A' supplied 1,476 numbers out of 2,000 and firm 'B' 445 numbers out of 1,500 (August 1982). Out of the advances paid (Rs. 5 lakhs to each in September/October 1980) Rs. 0.31 lakh from firm 'A' and Rs. 3.50 lakhs from firm 'B' were yet to be recovered (August 1982).

The delay of 14 months in finalising the tenders received in April 1979 caused an extra expenditure of Rs. 12.70 lakhs based on the initial offers (firm 'A' : Rs. 2,035 each and firm 'B' : Rs. 2,390 each). When computed with the offer of firm 'A' alone which was the lowest, the extra expenditure was Rs. 18.03 lakhs.

The Ministry of Defence stated (November 1982) that directions would be issued for taking suitable remedial measures to avoid such delays in future.

18. Increase in price sanectioned for an order

Two orders 'B' and 'C' for 15 million cartridge links each were placed by a factory in December 1977 and November 1977 on firms 'M' at Rs. 175 per 1,000 numbers and 'N' at Rs. 166.80 per 1,000 numbers respectively. In the case of order 'C' the period of commencement of supply was specified and the price was firm and final.

In order 'B', howerer, neither the specific date of commencement of supply was mentioned nor was there a stipulation that the price was firm and final. Both the contracts provided for claim by firms for difference in price, if any, if the material used was as per B.S. specifications, as against indigenous material supplied by a specified firm. Firm 'N' commenced supply during June 1978 and completed by 1979 and there was no price increase.

For order 'B' the firm 'M' requested in July 1978 for an increase in the basic price element with effect from July 1978 on the plea that the raw material cost had increased. The factory allowed this price increase by issuing two amendments in December 1978 and April 1979 without verifying the market prices, despite the fact the firm 'N' had honoured committed delivery without asking for an increase in price and without referring the case to the Ordnance Factory Board (OFB), the next higher authority competent to sanction increase in price during the operation of the contract. The acceptance of the increased price caused an extra expenditure of Rs. 2.32 lakhs.

While forwarding the case (August 1979) to the OFB for obtaining *ex postfacto* sanction on issue of amendments to price, the Accounts Officer endorsed the view that the onus of delayed supplies against order 'B' was on the firm and payments on the basis of price increase (Rs. 2.32 lakhs including excise duty) required regularisation. In January 1981 the OFB felt that as the amendment had been issued by the factory there was no other alternative but to sanction increased price as a "*fait accompli*". The *ex postfacto* sanction for price increase was accorded by the OFB in December 1981.

The case revealed as to how a subordinate authority accepted price increase, although another firm had supplied sizeable quantities on contracted price, and without verifying increase in cost of raw material, exceeded its powers and created a liability of Rs. 2.32 lakhs, which had to be *ex post facto* approved by the competent authority as a '*fait accompli*'.

19. Grant of an advance to a firm

During November 1978 to July 1979 an ordnance factory placed 6 orders on a firm for supply of 6 types of vehicle components (27,425 numbers) at a total cost of Rs. 43.65 lakhs. After 10,798 numbers of the components (cost : Rs. 16.03 lakhs) were supplied against the orders the firm requested the Ministry of Defence (September 1979) for an advance of Rs. 5 lakhs for a period of 3 months till December 1979 stating that they were facing financial crisis. The advance, though not permissible under the rules, was sanctioned (November 1979) by the Ministry of Defence and as per stipulation made (July 1980), recovery was to commence three months from the date of payment and to be made in five consecutive monthly instalments of Rs. 1 lakh each along with interest (14 *per cent* per annum) on *pro rata* basis. Adequate security like bank guarantee or safeguard measures to ensure interests of Government were not taken. The financial soundness of the firm was not looked into before grant of advance.

By the time the advance was paid (August 1980), the firm had got into a position where they "could not fully execute orders as per schedule for want of funds/timely help and consequent labour trouble in their works". Although the advance was to be recovered in instalments of Rs. 1 lakh each during November 1980 to March 1981 only Rs. 0.84 lakh could be recovered from them (August 1981) as the firm supplied only 837 numbers of the components (cost : Rs. 1.63 lakhs in 5 bills) after receipt of loan (August 1980) and stopped supply (December 1980) as they suffered from labour unrest/strike and finally went under lock-out.

An amount of Rs. 4.16 lakhs and interest thereon (Rs. 0.39 lakh) was pending recovery from the firm (March 1982). The Registrar of Companies intimated (March 1982) that the financial position of the firm was unsatisfactory, that the firm was incurring heavy losses during the last few years, that they had stopped production and that there were complaints from other creditors of the firm also. The Ministry of Defence stated (October 1982) that the firm was an established source of indigenous supply of auto electrical items since 1965, that as the supplies from them on average were Rs. 40 lakhs per annum till such time they got into the labour and financial troubles, the advance paid was not significant. They added that the factory had been advised to take legal action against them.

Thus an advance of Rs. 5 lakhs was paid to the firm without taking financial precautions and verifying the financial soundness of the firm, as laid down in rules necessitating legal action to recover unadjusted amount of Rs. 4.16 lakhs plus interest thereon. The Ministry of Defence stated (October 1982) that though the indemnity bond did not protect the interest of Government to the same extent as the bank guarantee, the same was accepted by a high level committee after consideration of all the factors.

20. Uneconomical deployment of security personnel

For the maintenance of security posts in Ordnance Factories (Ord Fys) sanctions are issued by the Ministry of Defence (M of D) in terms of number of Defence Security Corps (DSC) platoons. In terms of extant Regulations, the DSC platoon is raised from ex-service personnel, the minimum experience in services for induction in DSC being two years for sepoy and three years for junior commissioned officer. Generally service personnel render 15 to 20 years' active service before being phased out i.e. becoming ex-service personnel. Thus there is continuous availability of ex-service personnel for induction in DSC. Wherever DSC platoons cannot be positioned, M of D issues sanctions for deployment of Special Reserve Police Force/ Provincial Armed Constabulary (SRPF/PAC), the cost of maintenance of which is to be borne by the concerned factories. The position regarding the sanctioned strength/posted DSC platoons, deficiency and in lieu postings of SRPF/PAC/additional posts of Durwans are given as under :

Year	No. of Ord. Fys. for which DSC platoons are sanctioned	No. of DSC platoons sanctioned	No. of DSC platoons posted	No. of DSC platoons deficient	No. of SRPF/ PAC platoons posted in lieu	Equivalent DSC platoons of Col. 6	No. of Ord. Fys. where deficiency of DSC sanctioned by additional posts of Durwans (deficiency by DSC platoons)
1	2	3	4	5	6	7	8
1972 .	29	66	$51\frac{1}{2}$	$14\frac{1}{2}$	14	7	$7\frac{1}{2}$
1976 .	29	66	52	14	14	7	7
1980 .	32	$72\frac{1}{2}$	56	$16\frac{1}{2}$	14	7	7

The deployment of SRPF platoon is based on the assessment that one DSC platoon is functionally equivalent to two SRPF platoons. During 1974-75 one DSC platoon cost Rs. 2.5 lakhs and 2 SRPF platoons Rs. 4.83 lakhs i.e. an extra expenditure of Rs. 2.33 lakhs per annum was incurred for one deficient DSC platoon. The cost of maintenance of 2 SRPF platoons continued to be double that of DSC subsequent to 1974-75 even up to 1982. During June 1976 while issuing sanction for continued authorisation of 66 DSC platoons, M of D stated that the then existing deficiencies of 14 DSC platoons would not be made up pending further raising of DSC platoons.

The Ordnance Factory Board (OFB) stated (July 1982) that a case for raising of 16 deficient platoons was first taken up with M of D in April 1978. Sanctions for raising $^1/_2$, 1 and $8^1/_2$ DSC platoons were accorded by M of D during November 1979, December 1981 and May 1981 respectively. For raising and provisioning of $8^1/_2$ platoons M of D estimated a time span of one or two years i.e. by May 1983. During April 1982 Army Headquarters advised M of D to continue the employment of SRPF platoons due to unsatisfactory intake of ex-servicemen and that the raising would take a long time. OFB had thus continued the deployment of SRPF/PAC platoons and in lieu posts of 324 Durwans upto 1982. M of D stated (August 1982) that the non-raising of required DSC platoons was due to poor intake* of ex-servicemen and with an expectation to increase the rate of intake, Government has improved the terms and conditions of service of DSC personnel. Proposals were also in hand on service benefits to DSC personnel, fixation of norms for security personnel and to induct Central Industrial Security Force in lieu of SRPF/PAC if found economical.

The case reveals the following features :

—During February 1982 M of D had stated that one or two years would be required from the date of sanction for raising and positioning $8^1/_2$ DSC platoons. The Ministry was seized of the problem of deficiency of DSC platoons, that the requirements were definite and

*The number of ex-servicemen registered with employment exchanges as on 31-12-1981 was 1.75 lakhs.

immediate and in lieu arrangements were causing extra expenditure since as early as 1972. The OFB had initiated the case for raising for the first time during April 1978 and the sanctions for raising $9^1/_2$ numbers DSC platoons were issued during 1981. As the phasing out of service personnel is a continuous process, issue of phased sanctions for raising the DSC platoons against deficiencies since 1972 would have enabled Army Headquarters to raise in a phased manner against deficiencies synchronising with the continuous arisings of ex-service personnel. Due to delayed decision since 1972 on raising of DSC platoons and actual issue of sanctions during 1981 only for raising in bulk $9^1/_2$ platoons had otherwise created man-power problems in intake of DSC personnel. The extra expenditure incurred on the maintenance of SRPF/PAC for the period 1975-76 to 1982-83 (8 years) is Rs. 2.41 crores.

—The total deficiency during 1980 was $16^1/_2$ DSC platoons whereas the raisings sanctioned during 1979 and 1981 were only 10 platoons. No target date for positioning the platoons had been fixed by M of D. Consequently the extra expenditure on deployment of SRPF/PAC platoons would continue indefinitely.

21. Delay in disposal of factory assets

Mention was made in paragraph 10 of the Audit eport (Defence Services) 1977-78 about closing down (April 1977) of a meat factory established in 1968 due to heavy financial losses. The total value of assets held by the factory at the time of closure amounted to about Rs. 217 lakhs.

In January 1979, Ministry of Defence stated that the land and building of the factory had been retained for possible utilisation by some other defence undertakings and that efforts were being made to dispose of the plant and machinery and stores through the Director General, Supplies and Disposals. Alternative use of the land and building was not made (July 1982). The Ministry stated (August 1982) that many proposals for disposal/alternative use were considered but were not found feasible and that a proposal of the Ordnance Factory Board to utilise these facilities for production of boots and that of State Trading Corporation for setting up an export oriented unit for export of buffalo meat were under consideration.

During 1977-78 to 1981-82 assets of the factory worth Rs. 32.15 lakhs were transferred to other factories/defence departments and Rs. 3.95 lakhs disposed of by sales (at a net loss of Rs. 1.07 lakhs). During the period the plant and machinery etc. of the factory depreciated by Rs. 36.33 lakhs and the total book value of the assets at the end of March 1982 was about Rs. 153.27 lakhs (building : Rs. 118.25 lakhs, plant and machinery : Rs. 19.68 lakhs and stores and other items : Rs. 15.34 lakhs).

The total expenditure incurred on the care and custody of the factory during April 1977 to March 1982 was Rs. 37.29 lakhs, comprising Rs. 14.78 lakhs on pay and allowances of factory staff, Rs. 4.02 lakhs on accounts staff, Rs. 11.10 lakhs on security, Rs. 7.39 lakhs on maintenance stores and other expenditure. The personnel employed are one officer, two technical personnel, six non-industrial employees, eighteen casual employees and four accounts staff (1-6-1982).

22. Air-lifting of a store

A factory placed two demands in July and October 1976 on the Director General, Ordnance Factories (DGOF) for import of 98.20 tonnes of aluminium alloy rods required in the production of a component for an ammunition (types 'X' and 'Y') during August 1977 to May 1978. While the clearance for import from the Dirctor General, Technical Development (DGTD) against the demand of July 1976 was awaited (November 1976), the DGOF processed (November 1976 to March 1977) the demand of October 1976 for import of 54 tonnes of the store and placed an indent on the Director General, Supply Wing

(DGSW), London in May 1977. The three offers forwarded by the DGSW in August 1977 for technical clearance, were scrutinised and the DGOF communicated acceptance of the offer of firm 'A' (December 1977) based on which the DGSW concluded a contract with the firm (February 1978) for supply in May/June 1978 of 54 tonnes of aluminium alloy rods to the factory at a cost of DM 5.65 (Rs. 23.50) per kg. (total cost : Rs. 12.69 lakhs).

Against the factory's demand of July 1976 for 44.20 tonnes the DGTD gave import clearance in February 1977 after obtaining information on details of chemical composition, condition of supply, availability of indigenous materials etc. But the Ministry of Defence stated (November 1982) that this actually was received by the DGOF only in June 1977 after several reminders. The DGOF forwarded the proposal for import to the associate finance in July 1977 for financial concurrence. The observations of the associated finance raised in September 1977 on the delay in submission of the proposal and stock position of the store in the factory were replied to only in December 1977 and financial concurrence was given in January 1978. The indent against the demand was placed on the DGSW in March 1978. The DGSW included the indented quantity (44.20 tonnes) in the contract of February 1978 with firm 'A' by an amendment (May 1978) for supply at the same rate (additional cost : Rs. 10.39 lakhs).

Thus, although the demands (July and October 1976) were placed to meet the requirements of the store from August 1977, actual contracts were placed only in February and May 1978. Meanwhile, in December 1977 the factory informed the DGOF that stock of the store was critical and just sufficient for production of the component upto the middle of January 1978. Simultaneously the factory requested him to arrange air-lifting of at least 2 months' requirements (36 tonnes) to avoid interruption in production and to maintain commitment. Accordingly the DGOF forwarded a proposal to the Ministry of Defence (April 1978) for releasing foreign exchange of Rs. 9.90 lakhs for air freight of 30 tonnes, which was withdrawn (April 1978) in view of the possible availability of an alternative indigenous material. As the alternative material was authorised by the inspectorate for production of only one lot of type 'Y' ammunition and supplies of the imported store were not received from firm 'A' though according to the contract these were to be supplied by June 1978, a proposal for air-lifting of the store was re-submitted (July 1978) and approved by the Ministry (September 1978) for 20 tonnes at a cost of Rs. 6.60 lakhs in foreign exchange. But before action for the air-lifting was initiated by the DGSW, without prior intimation to him the firm despatched the full contracted quantity (98.20 tonnes) against the contract by ship on 22nd September 1978, which was received in the factory during January to September 1979. Although supplies were delayed, liquidated damages were not levied on the firm on the plea that the delay was due to *'force majeure'*. Due to non-availability of the store, the production of the component suffered and only 26,876 numbers of ammunition 'X' and 32,658 numbers of ammunition 'Y' were produced during 1977-78 against the targets of 40,000 and 36,000 respectively.

As the factory's requirement for the store was urgent and since the supplies against the contract of February 1978 shipped by firm 'A' in September 1978 were expected to be received only in November 1978, 16.89 tonnes were air-lifted on 29th November, 1978 at a cost of Rs. 5.05 lakhs against the contract concluded with the same firm 'A' in October 1978 for supply of 150 tonnes of the store. Out of the balance, 132.76 tonnes were received in the factory during May 1979 to September 1980.

The air-lifting of 16.89 tonnes of the store (cost : Rs. 3.76 lakhs) at a cost of Rs. 5.05 lakhs involved an extra expenditure of about Rs. 4.19 lakhs as compared to sea freight. The Ministry of Defence stated (November 1982) that had the supplies against the contract of February 1978 been shipped by the supplier in time, the air-lifting would not have been necessary. The fact, however, remains that the processing of the factory's demands (July and October 1976) was badly delayed and when the contract was placed (February 1978) the factory had already no stock;

against the scheduled delivery in May/June 1978, the supplier delivered the store late in September 1978 and these delays resulted in Ordnance Factory Board resorting to airlifting the store incurring an avoidable expenditure of Rs. 4.19 lakhs.

The case reveals :

(*i*) Although two demands were placed by the factory in July and October 1976 for import of 98.20 tonnes of aluminium alloy rods to meet production requirements from August 1977, the same were covered by contracts only in February and May 1978 due to delay in processing them.

(*ii*) Due to non-availability of store only 26,876 numbers of ammunition 'X' and 32,658 numbers of ammunition 'Y' were produced during 1977-78 against the targets of 40,000 and 36,000 respectively.

(*iii*) To meet the requirement during 1978-79, 16.89 tonnes of aluminium alloy rods were airlifted in November 1978 at an extra expenditure of about Rs. 4.19 lakhs.

23. Delay in repair of an ammunition

In paragraph 37 of the Audit Report (Defence Services) for 1974-75 loss of Rs. 8.23 lakhs due to defective manufacture of an ammunition was reported in depot 'A'. The Ministry of Defence stated (January 1976) that a high level joint investigation committee was being constituted to determine the causes of failure of the ammunition. Meanwhile, out of 27,060 pieces of the ammunition supplied to depot 'B' during April 1972 to March 1973, 18,151 pieces (cost: Rs. 5.81 lakhs) were also downgraded as unserviceable in September 1975 due to exudation of filling. The high level investigation committee set up in June 1976 observed (July 1976) that the deterioration of the ammunition in depots 'A' and 'B' had occurred due to a combination of circumstances not traceable to a particular organisation and that the factors possibly responsible for such deterioration were:

- ingress of moisture into the ammunition through accessible areas in the body during manufacture, packing or storage;
- possible reaction of the sealant ingredients if left in wet condition, with the composition; and
- packing specifications not being stringent enough.

The Ordnance Factory Board (OFB) stated (July 1982) that there was nothing wrong in the process of manufacture in the factory as while the ammunition held in the depots deteriorated, a part of the ammunition held in the factory "awaiting completion and issue was still in serviceable condition".

In the light of the report of the investigation committee the Ministry of Defence set up (October 1976) a team of officers to examine, *inter alia,* the possibility of retrieval of the downgraded ammunition in depot 'B' (18,151 pieces) and the condition of the ammunition lying in the ordnance factory awaiting completion (6,988 pieces) and to recommend proper mode of their packing. After examination the team recommended (December 1976) replacement of the striker mechanism assembly and igniters of the downgraded ammunition in the depot and completion of the semi-finished ammunition in the factory since these were found satisfactory. The team also suggested (December 1976) that the striker mechanism assembly and the igniters should be separately packed and that after repair the ammunition could be packed in cylinders with suitable additional packing pieces and further packed in a box similar to the one used in 1961-62.

For retrieval of the downgraded ammunition, the Army placed an order on the Director General, Ordnance Factories in October 1977 for supply of 19,000 pieces each of the two components to depot 'B' during 1978-79 or earlier. However, only during December 1980 and January 1981, 18,549 pieces of striker mechanism and 19,542 pieces of igniters were supplied at a total cost of Rs. 3.48 lakhs but the repair of the ammunition was yet to start in depot 'B' (March 1982).

The semi-processed ammunition lying in the factory (6,988 pieces) was supplied after completion only in March 1980. The financial repercussion due to short-closure of Army indents (April/May 1964) for 1.16 lakh numbers of ammunition at the quantity supplied (61,463 numbers) was Rs. 4.14 lakhs. The OFB stated (July 1982) that the delay in supply of 6,988 pieces of the ammunition was due to the time taken to finalise the method of packing in consultation with the Inspectorate.

The case reveals that although the shelf life of 10 years of the ammunition expires by 1983 the repair work at depot 'B' (18,151 pieces-cost : Rs. 5.81 lakhs) is yet to commence (March 1982).

The matter was reported to the Ministry in May 1982, but in spite of reminders (August and September 1982), their reply is still awaited (October 1982).

24. **Loss of vehicle components in a fire accident**

A factory for manufacture of vehicles was sanctioned by the Ministry of Defence in November 1965 at an estimated cost of Rs. 32.06 crores and the factory commenced production in June 1970. While designing the factory no provision for storage accommodation was made to keep completely knocked down components (CKD)/stores. The Ordnance Factory Board (OFB) stated (October, 1982) that the collaborators, with whom the layout of civil works was finalised, did not suggest any storage accommodation and that while planning the factory lesser emphasis was given on storage provision to keep the project cost down.

The factory commenced production in June 1970 and the case for storage accommodation was initiated in September 1970 and sanction for construction of 3 numbers of storage sheds, one Railway platform and ramp, a 5-tonne overhead crane and shed for swarf crushers was accorded in July 1972. The building was taken over in October 1975. Meanwhile, stores were lying without proper storage. On 13th June 1972 a fire broke out at the factory and there was damage to CKD components of vehicles estimated at Rs. 12.91 crores based on 1972 prices (Shaktiman: Rs. 450.45 lakhs and Nissan: Rs. 840.83 lakhs). A Court of Enquiry constituted (September 1972) for investigating the causes of the fire and fixing responsibility found that the damages were caused by sparks from railway engine which set fire to the dry grass and in turn the CKD packages stored nearby, and also held that there were direct lapses on the part of the Security Officer and Fire Officer and that the factory management was very much alive to the danger of fire but failed to take corrective measures. However, the Ministry of Defence decided (September 1979) to drop the disciplinary proceedings against the Security Officer. The OFB stated (October 1982) that the recommendations of Court of Enquiry were examined by OFB/Ministry and that they did not suggest enforcement of responsibility for the losses excepting Railways for not providing precautionary measures for engine sparks despite repeated reminders by the factory and a firm for not removing the timbers.

The value of components under different categories damaged in the fire and the progress of their utilisation up to July 1976 are as follows:

Sl. No.	Condition of components	In lakhs of rupees				
		Value of fire affected components			Value of components utilised (Shaktiman and Nissan)	Value of balance components held (Shaktiman and Nissan)
		Shaktiman	Nissan	Total		
1	2	3	4	5	6	7
1.	Serviceable	59.67	9.73	69.40	69.40	Nil
2.	Repairable	233.17	561.40	794.57	237.00	557.57
3.	Unserviceable	156.59	268.74	425.33	..	425.33

NOTE :—The repairable components worth Rs. 237.00 lakhs were made serviceable at a cost of Rs. 10.47 lakhs (up to 1975-76)

Out of the items worth Rs. 191 lakhs which could be used after reclamation at an estimated cost of Rs. 17.47 lakhs, components worth Rs. 41.88 lakhs were reclaimed and used till October 1982.

Final figures of loss had not been worked out (October 1982). The OFB stated that the provisional loss statement for Rs. 804 lakhs had been sent to the Controller of Accounts.

25. Disposal of aluminium swarf

In factory 'B' a contract was concluded (August 1978) with firm 'X' for sale of 134.63 tonnes of aluminium swarf at Rs. 10923.13 per tonne. The swarf was to be lifted by 15th October 1978. The firm did not execute the contract for about two years on the plea of downward recession in the market price. After their requests for revision of price were dismissed by the Ministry, the swarf was lifted during August and September 1980.

Meanwhile, fresh arisings of aluminium swarf had been accumulating since April 1978 at an average monthly rate of about 10 tonnes. Although the swarf was stored in the open, due to lack of space in the shop, the factory invited tenders only in June 1980 after accumulation of 257 tonnes. The Ministry of Defence stated (October 1982) that as firm 'X' did not lift the swarf against the contract of August 1978, operation of two parallel contracts simultaneously for the same item at the same site would have involved contractual complications and that after the fresh arisings were shifted by May 1980 to a convenient place, tendering action was initiated.

The tenders were opened in August 1980 and the 18 offers received varied from Rs. 3,000 to Rs. 11,007.19 per tonne. However, as many as 13 offers (including ten higher offers which varied from Rs. 7,000 to Rs. 11,007.19 per tonne) were rejected being invalid due to non-payment of earnest money and only 5 (which varied from Rs. 4,110 to Rs.6,733 per tonne) were considered (August 1980).

On the basis of the price obtained in the contract of August 1978 with firm 'X' the ledger price of the swarf was revised from Rs. 5,810 to Rs. 12,100 per tonne (Rs. 10,923.13 plus other charges). No reserve price was, however, fixed for its sale as required under orders of November 1973. Although the valid offers were abnormally low as compared to some of the other offers, no fresh tender for disposal of the swarf was invited and after negotiation with firm 'Y' who had quoted Rs. 6733 per tonne, the highest of the valid tenders, a contract was concluded with them in September 1980 for sale of 275 tonnes at Rs. 6,883 per tonne. The Ministry of Defence stated (October 1982) that the swarf disposed of against the earlier contract was not similar, that there was slump in the market price of aluminium in 1980 and that according to the opinion of a committee the swarf under sale was not likely to fetch higher price if retendering was done. It was, however, observed that the swarf disposed of against both contracts was accounted for in the same ledger folio as one and the same item and that there was no slump in the market price as the cost of aluminium ingots and bars were Rs. 15,867 and Rs. 16,349 per tonne respectively in July 1980 as against Rs. 12,399 and Rs. 12,875 per tonne respectively in October 1978 as per Bharat Aluminium Limited Company's ruling price.

Firm 'Y' lifted the swarf during October 1980 to February 1981. The sale involved a loss of Rs. 14.35 lakhs computed with the ledger price (Rs. 12,100 per tonne). The Ordnance Factory Board, however, stated (July 1982) that the correct ledger price should have been only Rs. 5,810 per tonne as the contract of August 1978 based on which the ledger price was revised had not been executed at the time of acceptance of the offer of firm 'Y'. The fact is that the swarf was not revalued with reference to the prevailing market price at an interval of every 2 years as required and that at the time of conclusion of the contract the swarf was lifted as per the earlier contract on the basis of which the ledger rate was revised to Rs. 12,100 per tonne while the market price of aluminium remained high during this period.

The case reveals the following:

(*i*) Reserve price was not fixed for the sale of 275 tonnes of aluminium swarf.

(*ii*) Although the valid offers were abnormally low as compared to some of the other offers and sale price on earlier sale contract under execution (Rs. 10,923.13 per tonne) and ledger price (Rs. 12,100 per tonne) were known, 275 tonnes of swarf were sold to firm 'Y' at only Rs. 6,883 per tonne without resorting to retender.

(*iii*) The sale involved a loss of Rs. 14.35 lakhs.

26. Hiring of accommodation

A multistoreyed building (53,829 square feet) at station 'A' was hired on lease from April 1968 at a monthly rent of Rs. 53,910 to accommodate a part of the office of the Director General, Ordnance Factories (DGOF) functioning from a Government owned building. The lease agreement (January 1968) initially valid for three years provided that it could be extended by Government at the same rent and terms and conditions for a further period of three years, that all disputes and differences between the parties arising out of the agreement could be referred to the arbitrator appointed by the Ministry of Defence and that the award of the arbitrator would be final and binding on the parties.

After 1974 the lease agreement was not renewed due to owner's demand to increase the rent by more than 100 *per cent* (Rs. 1,12,335 per month). The DGOF continued to occupy the building paying the same rent (Rs. 53,910). At the instance of the owner the matter was referred to arbitrator (January 1977) who gave an award (March 1979) in favour of the owner for Rs. 20.45 lakhs as arrears of rent for the period April 1974 to February 1977 at Rs. 1,12,340 per month. The award was also upheld by the High Court (November 1979) stipulating that the arrears of rent should be paid with 12 *per cent* interest per annum from the date of decree (19th November 1979) till the date of payment. After one month, the Ordnance Factory Board (OFB) requested the Ministry (21st December 1979) to arrange the requisite funds out of charged expenditure against the budget for 1979-80. Government sanction authorising payment of Rs. 21.30 lakhs (including interest of Rs. 0.85 lakh) to the owner was, however, issued on 3rd May 1980. Since the payment was actually made on 29th May 1980, a further sum of Rs. 0.44 lakh had to be paid to the owner as interest. Had the arrears of rent been paid promptly, the expenditure of Rs. 1.29 lakhs on account of interest for delayed payment could have been largely avoided. The Ministry stated (July 1982) that the payment was delayed as the case had to be examined in consultation with the concerned authorities whether or not to go in appeal against the High Court orders and as there being a limited provision under the relevant head of account for 1980-81, advance from the contingency fund had to be arranged.

To provide accommodation to the sections occupying the rear block of the Government-owned building, which was condemned (November 1972) by the Central Public Works Department, four newly constructed additional floors of the same hired building (30,224 square feet) were also taken on lease on 22nd April 1977 for a period of 5 years at a monthly rent of Rs. 60,448. However, one floor remained completely unoccupied and all the 4 floors were dehired on 13th March 1978. The rent paid during 22nd April 1977 to 13th March 1978 for the unused floor (Rs. 1.57 lakhs) was thus infructuous. The Ministry stated (July 1982) that the unused floor was intended to be used as the office of the DGOF, visitors' hall etc. but before action in this regard could be completed, Government decided to dehire the accommodation. The reason for not using the floor was that the staff, who were to be shifted there, refused to move and the old building occupied by them was itself repaired. Had this been foreseen and timely action taken, the wasteful expenditure on rent of the unused floor could have been reduced, if not avoided altogether.

27. Sale of sub-standard ammunition

In April 1979, the Ordnance Factory Board (OFB) informed the Ministry of Defence that 13.55 million rounds of sub-standard ammunition 'X' (cost : Rs. 156.47 lakhs) were lying in factories 'A', 'B' and 'C'. The Ministry received an order on 10th September 1979 from a foreign firm 'M' for supply of 12 million rounds of these ammunition to a foreign Government. Along with the order, the firm submitted a 'photo copy' of an 'End User Certificate' (EUC) issued by the representative of the foreign Government and indicated to lift the entire quantity (12 million rounds) in their ship likely to reach Bombay port on or about 28th September 1979. Government approved the sale at US Dollars 87 per 1,000 rounds f.o.b. Bombay on 18th September 1979. A letter of credit was received from the firm on 26th September 1979 and the original EUC on 27th September 1979. The Embassy of India in country 'P' who were requsted (28th September 1979) to verify the authenticity of the EUC, however, informed on 9th October 1979 that the original EUC as available in the files of the Ambassador of the foreign Government, did not have 12 million rounds of the ammunition. Subsequently the Embassy confirmed on 6th December 1979 that the foreign Government had never dealt with the firm and that as earlier suspected, the firm had inserted the ammunition in the EUC presumably for diversion to another country.

Meanwhile, 4.595 million rounds of the ammunition were despatched by the factories ('A' : 0.704 million rounds, 'B' : 0.891 million rounds and 'C' : 3 million rounds) on 4th and 6th October 1979 to Bombay port (packing and transportation charges : Rs. 6.58 lakhs approximately). On 6th October 1979 the Ministry informed the OFB that as the ship of the foreign firm arrived in Bombay port on 27th September 1979 and had been waiting in midstream and would be leaving Bombay port without waiting for the ammunition, the factories should suspend further despatch of the ammunition to Bombay and keep the balance quantity duly packed ready for supply at short notice. The ship actually left the port on 7th October 1979 without lifting any ammunition. The Ministry stated (July 1982) that pending verification of the EUC the Embarkation Headquarters was advised not to load the ammunition till further instructions and that as the Mercantile Marine Department declared the ship unsuitable for carrying the cargo, it left the port without being loaded.

Although the ammunition was not found to be included in the original EUC of the Ambassador of the foreign Government (9th October 1979) and the EUC submitted by firm 'M' was, therefore, unacceptable, the factories were not asked to suspend packing of the balance quantity of the ammunition (7.405 million rounds) and in contravention of Ministry's directives of 6th October 1979 for suspension of further supplies, 5.109 million rounds of this were sent duly packed to Bombay (factory 'B' : 1.109 million rounds on 25th and 26th October 1979; factory 'C' : 4 million rounds on 17th October 1979) at the instance of Naval Armament Headquarters (packing and transportation charges : Rs. 7.38 lakhs approximately). Besides, during 26th September to 15th October 1979 factory 'A' packed another 2.296 million rounds (packing charges : Rs. 4.02 lakhs approximately) for supply against the order and factory 'B' 1.5 million rounds (packing charges: Rs. 3.30 lakhs) in anticipation of further orders which were held in the factories awaiting issue (March 1982). The Ministry stated (September 1982) that efforts were made to sell the sub-standard ammunition to another country through the same foreign firm but that country was not later found acceptable for political reasons.

Out of 13.5 million rounds of the ammunition (cost : Rs. ~~15.90~~ 155'90 lakhs) which were packed, 1.5 million rounds (cost : Rs. 17.10 lakhs) at factory 'B' were awaiting break down as per OFB's order of September 1981 and the balance 12 million rounds (cost : Rs. 138.80 lakhs) were lying at Bombay port (9.704 million rounds) and factory 'A' (2.296 million rounds) pending further instructions from the Ministry for their disposal (July 1982). Out of the total expenditure (Rs. 21.28 lakhs) on transportation, packing, etc. of these ammunition, Rs. 5.84 lakhs were involved in the ammunition packed after 9th October 1979, which could have largely been avoided, had immediate action to suspend packing been taken on receipt of the findings of the Embassy on 9th October 1979.

28. Commissioning of diesel generators in a factory

Due to general power cut a factory suffered a loss of 17.57 lakh manhours during June 1979 to February 1980. The production loss was assessed at Rs. 0.78 lakh per hour of power failure. To avoid losses, the Additional Director General, Ordnance Factories (Addl. DGOF) Ordnance Equipment Group initiated a proposal (March 1980) for installation of two diesel generating sets of 250 KVA in the factory. It was contemplated (March 1980) that the generators should be procured under local arrangements of the factory on limited tender basis due to urgency and that the additional requirement of staff for operating the generators would be met within the overall strength of the factory. The proposal was concurred by the associated finance in March 1980 and Government sanction for procurement of the generators at an estimated cost of Rs. 12 lakhs by local purchase was accorded in May 1980.

The factory had meanwhile invited quotations (April 1980) to be opened on 21st April 1980, from 14 likely suppliers. Of them only 4 quoted (April/May 1980) for generators manufactured by the same manufacturer. Details of their quotations are as below :

Firm	Rate per generating set inclusive of air compressor and other accessories (Rs. in lakhs)	Delivery schedule
'A'	(i) 5.54	First set within 4 to 5 months
	(ii) 5.84	Second set within 5 to 6 months
'B'	5.97	4 to 5 months.
'C'	6.30	First set in 4 months. Second set in 6 months.
'D'	6.36	First set by November 1980. Second set by December 1980.

The offer of firm 'A' was the lowest and 'B' the second lowest. As firm 'C' wanted 100 *per cent* payment on proof of despatch and from technical aspect the offer of firm 'D' was considered more suitable, the factory placed two orders on firm 'D' in June 1980 for supply by November/December 1980 of 2 generators of 250 KVA alongwith their accessories at a total cost of Rs. 12.72 lakhs (excise duty and sales tax extra) involving an extra expenditure of Rs. 1.64 lakhs compared with the offer of firm 'A'. The orders provided payment of 98 *per cent* of the cost of generators on proof of despatch and of balance 2 *per cent* on receipt of the store in the factory in good condition. The Ministry of Defence stated (October 1982) that the offers of firms 'A', 'B' and 'C' were not technically suitable being of high speed engine and that their payment terms were also not acceptable. There is no record of this in the minutes of the tender purchase committee which approved (June 1980) the purchase of the generators from firm 'D'. The committee rejected the offer of firm 'A' only on the ground of payment terms, though on verification it was found to be the same as that allowed to firm 'D'.

As per terms and conditions of the orders, pre-inspection of the generators was to be made by the authorised representative of the factory before their despatch and a final inspection on receipt in the factory. The generators were to be commissioned by the firm at an additional payment of Rs. 0.10 lakh. However, pre-inspection of the generators at the firm's premises was not done on the plea that there was a warranty clause and the firm supplied the sets in April 1981 though these were to be supplied by November/December 1980. The firm was paid 98 *per cent* (Rs. 12.97 lakhs including taxes) of the cost of the generators in July 1981. The Ministry of Defence stated (October 1982) that as pre-inspection was to be carried out at various manufacturing units at different places and the firm demanded additional amount for pre-inspection at site, pre-inspection was not carried out. The Ministry of Defence added that no liquidated damages were enforced on the firm as the delay in supply of the generators was beyond their control due to labour unrest, power cut and non-availability of forgings.

Although the generators were received in April 1981 these were erected in October 1981. During their trial runs in November 1981 various defects were noticed and the factory informed the Addl. DGOF in December 1981 that both the generators had been commissioned but because of defects in the reverse power relay only one of them could be run at a time. The factory informed Audit (May 1982) that the defective part had been replaced free of cost and the generators were fully commissioned (February 1982). According to the Addl. DGOF (September 1982) the time taken in erection and commissioning of the generators was unavoidable due to limited facilities available in the factory and teething troubles inherent in such type of work.

In order to save time and thereby avoid production loss owing to power cut, limited tender system was adopted for urgent procurement of 2 generators (March 1980), yet one of the generators could be put to use only from December 1981 and the other from February 1982 due to delay in their supply (4 months), erection (6 months) and completion of trial runs and replacement of defective parts (3 months) which could have been avoided if pre-inspection during manufacture as provided in the supply order had been enforced. Meanwhile, during 1981-82 on account of power cut the factory had to make idle time payments totalling Rs. 2.48 lakhs to the workers and suffered a production loss of about Rs. 100.40 lakhs based on the manhours lost (4.82 lakhs). Further, according to the Ministry of Defence (October 1982) since the generators could not be positioned in time, overtime had to be resorted to meet urgent service demands.

CHAPTER 4

WORKS AND MILITARY ENGINEER SERVICES

29. Avoidable extra expenditure in execution of a work

In February 1972, a Chief Engineer (CE) concluded a contract for Rs. 39.08 lakhs with a firm for provision of 'converted power supply' at a Naval wharf. The contract included *inter alia* laying of serviceable cables in ducts in mild steel brackets/racks which were to be provided by the department. The contractor was responsible for the design of cable subway or duct and also for the design of mild steel brackets or racks on various routes to be provided by the department. The work was to be completed within 20 months *i.e.* by October 1973.

The CE decided (February 1973) in consultation with the contractor to lay the cables in one layer, straightaway on a bedding of sand, separated by hollow blocks, filling the trench up with sand and then a final layer of hollow block and sealing of earth as per the relevant drawings and in accordance with the ISI specifications of 1967, instead of running the cables in ducts as originally catered for in the contract. Hollow blocks, sand and earth were to be supplied by the department but these items were not issued to the contractor as no amendment to the contract agreement was made.

Trenches for laying the cables were provided by the department during March—April 1974 and cables were laid by the contractor in April 1974, after which trenches were back filled by the department. Testing and commissioning of the electrical equipment were scheduled in September 1976 but during insulation resistance test carried out by the contractor certain faults were noticed (September 1976). On investigation it was found by the department that the work had not been carried out as per prescribed specifications and drawings. Detailed investigation done

(April 1977) jointly by the contractor and the department revealed that the cables had been damaged due to cuts.

The contractor was asked by the department to replace the damaged portion of the cables. At this stage a dispute arose between the parties as to who was to bear the cost of rectification. After prolonged correspondence the matter was reviewed in November 1977 and the contractor agreed to do the rectification work (as per the revised drawings given by the department) under protest subject to his claiming the cost thereof. Rectification of the damaged cables was accordingly carried out by the contractor and the work was certified to be complete on 31st May 1978.

The contractor incurred an expenditure of Rs. 9.33 lakhs for carrying out the rectifiction work whereas the department had to incur an expenditure of Rs. 4.98 lakhs towards re-excavation of trenches, back filling of trenches and for adoption of protective measures.

The department did not agree to bear the cost of rectification work and held the contractor responsible for damage to the cables. The matter was referred (August 1979) to arbitration. The contractor in his claim filed (November 1979) before the arbitrator alleged that damage to the cables was due to lapse on the part of the department in not providing protective measures, back filling was done by ordinary soil containing broken stones/boulders and heavy vehicles/equipment were allowed to ply frequently over the cable routes.

The department, however, pleaded (March 1980) that cut marks on the cables could be attributed either to damage during transit when cables were transported or at the time of laying them in trenches and the cables had not been laid properly.

The arbitrator, in his award published in September 1981, rejected the department's claim *in toto* and admitted the contractor's claim on account of rectification works to the extent of Rs. 5.76 lakhs. After obtaining legal advice, the department decided (February 1982) to implement the award.

The Ministry of Defence stated (October 1982) that the dispute arose on account of defective cables laid by the contractor and there was no lapse on the part of the department.

Failure on the part of the department to provide protective measures and to ensure execution of work as per drawings and specifications resulted in avoidable extra expenditure of Rs. 10.74 lakhs on account of rectification work.

30. Unauthorised advance payments to a private firm

Based on allocations made by the Billet Re-rollers Committee (BRC), a Command Chief Engineer and a Zonal Chief Engineer placed 15 supply orders on a private firm during November 1971—January 1975 for supply of 2,692 tonnes of steel of different sections. The terms of payment laid down (October 1971) by the BRC were either in cash or by demand draft or by cheque on local bank at the time of taking delivery for despatches by trucks/lorries/trailers and within 7 days from the date of receipt of bills supported by railway receipts and other relevant documents in the case of despatches by rail. The date of the bill was the date put on acknowledgement.

Although the orders issued by the Ministry of Defence on 9th December 1971 enjoined that payments were to be made at the time of taking delivery of steel, payments were made to the firm against the above supply orders before taking local delivery/receipt of bills supported by railway receipt.

Supplies against 7 supply orders were completed by the firm satisfactorily. In respect of the remaining 8 supply orders for 1,968 tonnes of steel, advance payments aggregating Rs. 38.23 lakhs were made to the firm during December 1971—February 1975, against which the firm supplied 1,668.43 tonnes of steel during March 1972—August 1976, leaving a balance of 299.57 tonnes of steel (worth Rs. 6.21 lakhs). The firm neither supplied the balance quantity of steel nor did it refund the unadjusted advance of Rs. 6.21 lakhs.

The Engineer-in-Chief's Branch decided (October 1977) that action should be initiated to institute cases against the defaulting firm in a Court of Law and also directed (December 1977) that in such cases the matter should be investigated and responsibility fixed for making unauthorised advance payments. In August 1978 eight civil suits were filed against the firm for recovery of Rs. 6.21 lakhs. Rs. 0.60 lakh were paid towards court/pleader's fee. The civil suits have not been decided (July 1982).

The Ministry of Defence stated (August 1982) that in accordance with the BRC rules, the allottee was required to make full payment at the time of taking delivery of the material in cash or by cheque/demand draft and the Chief Engineer made advance payments on the assurance given by the re-rollers in their offer letter that the material was ready for delivery. The Ministry added that necessary instructions to investigate the case through a Staff Court of Inquiry and to pin-point responsibility were issued by the Engineer-in-Chief's Branch in July 1982.

Unauthorised advance payments to a firm in contravention of the terms of payment stipulated by the BRC as also Government orders left a sum of Rs. 6.21 lakhs with a defaulting supplier which has not been recovered for over 7 years. Responsibility for making the unauthorised advance payments was yet (August 1982) to be fixed.

31. Unauthorised retention of accommodation and failure to recover licence fee and allied charges

A private building at station 'A' (peace station), hired by the Station Commander at a monthly rental of Rs. 700, was allotted to a married Air Force officer on 19th September 1963 on his posting to that station. The officer was posted out to another peace station 'C' on 6th September 1971 but he continued to retain the accommodation at station 'A' although he was personally responsible for ensuring that vacant possession of Government accommodation was made over to the authorities concerned by the due date. The allotting authority could not know about this unauthorised occupation as there was no procedure whereby the fact of posting out of the officer was required to be intimated. In October 1975, on receipt of a communication from the Air Command concerned, the Station Headquarters (HQ) became aware of the officer's posting to yet another peace station 'D' on 5th August 1974 and allotment of single officers' quarter to him on 12th September 1975. The Station HQ informed (September 1976) the Barrack Stores Officer (BSO) at station 'A' that the officer should be charged market rent with effect from 6th September 1971 till he vacates the accommodation.

On 14th October 1976, unit 'T' (at station 'D') where the officer was serving at that time, requested the Air Force Central Accounts Office (AFCAO) to withhold final payment of the officer (who was to retire on 11th November 1976) pending receipt of 'No Demand Certificate' from the BSO at station 'A' as he was still in occupation of Government (hired) accommodation. In December 1976, the Military Engineer Services authorities intimated the BSO at station 'A' that market rent of the hired building had been fixed at Rs. 960 per mensem. The latter in turn informed (January 1977) the Unit Accountant (UA) responsible for preparation of licence fee bills. In the meantime, the AFCAO had finalised the Individual Running Ledger Account of the officer on his retirement on 11th November 1976 on the basis of a 'No Demand Certificate' covering only the period March 1975—June 1976 issued (14th October 1976) by the UA BSO at station 'D'.

Even after retirement, the officer did not vacate the accommodation at station 'A' in spite of eviction order served (16th April 1977) on him under the provisions of the Public Premises (Eviction of Unauthorised Occupants) Act, 1971. The officer was eventually evicted from the accommodation on 21st July 1981. A sum of Rs. 0.83 lakh covering the period 6th September 1971 to 20th July 1981 (after adjusting Rs. 0.08 lakh already recovered) on account of licence fee at market rate (based on the rent payable to the owner plus 10% thereof) and allied charges had become due from the officer.

The Ministry of Defence stated (December 1981 and July 1982) that :

— based on the findings of a Court of Inquiry, administrative/disciplinary action against three officials (one Commissioned Officer, one Warrant Officer and one Civilian) was recommended on behalf of the Chief of the Air Staff and these recommendations were under their examination; and

— action to withhold the pension of the officer was being initiated to recover the amount of Rs. 0.83 lakh due from him.

The case revealed the following :

— A hired building at station 'A' remained under unauthorised occupation of the officer from 6th September 1971 to 11th November 1976 even after his posting out to other peace stations as there was no procedure whereby the allotting authority was required to be intimated about the posting out of the officer.

— The accounts of the officer on his retirement (11th November 1976) were finalised by the AFCAO based on 'No Demand Certificate' issued for a limited period despite the instructions issued by unit 'T' at station 'D' (where the officer was last serving) on 14th October 1976 for withholding final payment pending receipt of 'No Demand Certificate' from the BSO at station 'A'.

— The officer continued to retain the accommodation unauthorisedly even after his retirement and a sum of Rs. 0.83 lakh had become due from the officer for the period up to 20th July 1981.

CHAPTER 5

PROCUREMENT OF STORES AND EQUIPMENT

32. Extra expenditure in procurement of stores

For procurement of 9 items of spares for an equipment, the Naval Headquarters placed an indent on 25th January 1978 on the Supply Wing of an Indian Mission abroad. The estimated cost of the spares, which were proprietory stores, shown on the indent was £ 305,282 including £ 272,468 for 8 items based on a quotation of September 1977 (valid for 90 days up to 27th December 1977) obtained by the indentor from the proprietory manufacturer and £ 32,814 for one more item (2 numbers) not quoted by them. As the validity period of the quotation had already expired at the time of raising the indent, the Supply Wing asked (March 1978) the firm to tender rates again. The firm sent (August 1978) a revised quotation for £ 371,356 (including £ 338,616 for 8 items referred to above). Later, the firm agreed to 3 *per cent* discount and the contract was accordingly concluded by the Supply Wing in October 1978 at a cost of £ 360,215 (including £ 328,457 being the cost of 8 items referred to above).

It was noticed in audit that foreign exchange was sanctioned in January 1977 and the stores were cleared for import in October 1977. The indentor, thus, had about two months to project the indent within the validity period of initial quotation (*i.e.* 27th December 1977).

The Ministry of Defence stated (November 1981) that the quotation of September 1977 of the firm was in the nature of an offer and was obtained as a guide for pricing the indent. The

Ministry added that the lists (of spares) were subjected to a technical scrutiny and after revising the requirements properly, the indent of January 1978 was placed on the Supply Wing.

Had technical scrutiny of requirements of spares been completed expeditiously so as to facilitate conclusion of the contract within the validity date of the quotation (27th December 1977), the extra expenditure of Rs. 8.82 lakhs would have been avoided.

33. Avoidable extra expenditure on the procurement of an equipment

The indigenous development of a ground equipment required for starting certain types of aircraft was sanctioned by the Aeronautics Research and Development Board in July 1971. The Aeronautical Development Establishment with the assistance of a private firm 'A' developed a prototype of the equipment at a cost of Rs. 3.83 lakhs. A provisional type certificate was issued in July 1973.

After indigenous development, procurement of the equipment was required to be arranged by the Air Force through the Department of Defence Supplies (DDS) which had constituted (September 1972) a separate Technical Committee for speedily establishing indigenous sources. Even though the Air Headquarters (Air HQ) had received satisfactory user's trial report on the equipment developed by firm 'A', instead of placing their requirement on the DDS, they asked (August 1973) a public sector undertaking to procure the requirements of 12 units of the ground equipment from that firm.

In January 1974, the undertaking concluded a works contract with firm 'A' for fabrication and supply of 12 complete units of the equipment. The supplies of the equipment as obtained from firm 'A' were made by the undertaking to the Air Force during 1974-75 (2 units) and 1975-76 (10 units). The undertaking charged a sum of Rs. 68.78 lakhs (inclusive of Rs. 6.02 lakhs as 10 *per cent* profit and Rs. 2.54 lakhs as sales tax) from the Air Force for these 12 units. The average price (excluding sales tax) for the ground equipment fabricated by firm 'A' but procured through the undertaking thus worked out to Rs. 5.52 lakhs.

For meeting future requirements, an indent for procurement of 52 units of the ground equipment (of the same model as was procured earlier from firm 'A' through the public sector undertaking) was placed (October 1975) by the Air HQ on the DDS who, in turn, placed (April 1976) three supply orders on firms 'A', 'B' and 'C' for manufacture and supply of 27 units (at Rs. 2.93 lakhs each), 13 units (at Rs. 2.57 lakhs each) and 12 units (at Rs. 2.58 lakhs each) respectively. These prices did not include the price of the chassis which were to be supplied by the department. The DDS placed (April-May 1976) a separate supply order on another firm 'D' for supply of 52 chassis (without cabs) at a total cost of Rs. 46.88 lakhs, to be delivered direct to the three firms. The price of the unit (including chassis) thus worked out to Rs. 3.83 lakhs, Rs. 3.47 lakhs and Rs. 3.48 lakhs for firms 'A', 'B' and 'C' respectively. The supplies of complete units were made by firm 'A' during October 1976—May 1978 by firm 'B' during July 1977—December 1980 and by firm 'C' during May 1979—March 1981.

The Ministry of Defence stated (October 1982) that the price paid for the 12 units procured through the public sector undertaking had to be judged on the basis of the circumstances prevailing at that time and that it would not be apt to compare it with the price paid on a subsequent occasion when a large quantity of 52 units was purchased and there were 3 firms in the field.

The procurement of ground equipment developed indigenously was required to be arranged through the normal procurement agency *i.e.* the DDS whose policy is to establish more than one source. The non-adoption of the normal procurement procedure by the Air HQ and consequent procurement of 12 complete units of the equipment fabricated by firm 'A' through the public sector undertaking (actual unit cost: Rs. 5.52 lakhs) against the demand of August 1973 resulted in avoidable extra expenditure of Rs. 20.28 lakhs when compared to the highest unit price of Rs. 3.83 lakhs, at which similar procurement was made later through the DDS.

34. Procurement of spares for aircraft

For the procurement of 4,368 numbers of bolts for main wheels of an aircraft 'Y', an indent (estimated cost : £ 30,576 = Rs. 5.50 lakhs) was placed by the Air Headquarters (indentor) on the Supply Wing (SW) of an Indian Mission abroad in November 1978. The receipt of the indent was acknowledged by the SW in December 1978 but no action was taken thereon for twenty months. The indentor reported (July 1980) non-finalisation of contract for the item inspite of repeated reminders and requested procurement of 400 numbers on top priority and airlifting them to the consignee as non-availability of bolts had seriously hampered the production of the aircraft. On this, SW informed the indentor (August 1980) that the file containing the indent had been misplaced and solicited a copy of the indent, which was supplied by the indentor in August 1980. Simultaneously, SW obtained quotations from five firms (August 1980) including the prime manufacturer 'A' (£ 21.88 per bolt) and a stockist firm 'B' (£ 18 per bolt). Firm 'B' also stated that its goods were original and would be covered under certificate of conformance. In reply to a reference made by SW, the indentor accepted the goods on certificate of conformity and asked SW to procure maximum quantity within its financial powers. SW, however, concluded a contract (September 1980) with firm 'B' for only 290 numbers at a cost of £ 5,220 (Rs. 0.94 lakh) though a larger quantity could have been covered by SW under its financial powers.

Nine months after the award of the above contract, the indentor again enquired (June 1981) the procurement position of the remaining 4,078 numbers. SW again obtained quotations from six firms (July-August 1981) including the prime manufacturer 'A' (negotiated price : £ 25 per bolt) and a stockist firm 'C' (quoted price: £ 19 per bolt). The stockist firm 'C' had indicated that its supplies would be covered by certificate of conformity. On a reference made by SW, the indentor replied (September 1981) that procurement action may be finalised under the rules currently in force. The indentor further informed (December 1981) that, as a result of the review of the demand, the requirement had been reduced to 1,500 numbers. Upon this, SW concluded a contract (January 1982) with firm 'A' for 1,500 numbers at a cost of £ 37,500 (Rs. 6.75 lakhs) ignoring the lower offer of firm 'C' entailing additional expenditure of £ 9,000 (Rs. 1.62 lakhs).

The following observations are made :

(*i*) For ignoring the lower offer of firm 'C' SW stated (July 1982) that it was a stockist firm and for the procurement of an important defence item it was not considered prudent to place order on a stockist. This reply was found to be untenable in asmuchas :

— under the instructions issued by the Ministry of Supply (November 1976) a stockist firm is to be preferred if its rates are reasonable as compared to the rates of the prime manufacturer;

— the first contract of September 1980 was placed with stockist firm 'B' on the strength of indentor's acceptance of the goods on a certificate of conformity; no complaints were received on these supplies, as a matter of fact, the indentor had requested procurement of maximum possible quantity from the supplier;

— firm 'C' offered goods duly covered by certificate of conformity and also subject to return if found unsuitable ; and

— firm 'C' offered a better delivery schedule of 3½ months against 8 months of firm 'A'.

(*ii*) The indent, classified as urgent, stipulated delivery of stores, by sea, in May 1979. Against this, 290 numbers were air-freighted to the consignee between December 1980 and February 1981, 24 numbers were air-freighted in April 1982 and 1,476 numbers were due for delivery, by air, in August-September 1982. SW attributed the delay to the missing indent and shortage of staff.

35. Loss due to part cancellation of a supply order

Based on an indent (of June 1972) from the Director of Ordnance Services (DOS) for procurement of two items of general tools 'A' and 'B' required for small arms equipments, the Department of Defence Supplies (DDS) placed (November 1972) a supply order on a firm for supply of 1,825 numbers of item 'A' and 1,095 numbers of item 'B' at the rate of Rs. 55 and Rs. 167 each respectively. As per terms of supply order, 3 advance samples each of the two items were to be submitted to the inspecting officer and after approval of the advance samples, the entire supply was to be completed within 10 to 12 weeks.

The supply of item 'A' was completed by August 1973. As for item 'B', the inspection authorities pointed out (June 1973) that the advance samples comprised two different items 'B' and 'BB' covered by the same drawing (forming part of the supply order) given to the firm whereas the requirement was for item 'B' only. This was also confirmed by the DOS on 1st October 1973.

On 18th October 1973, the firm requested clearance for bulk production of item 'B' as according to it, nearly 90 *per cent* of the work on this item was complete and only final finishing was left to be done. The matter was considered by the Technical Committee in their meeting held on 23rd October 1973 and the following course of action was decided :

— the firm be asked to stop further work in regard to manufacture of the subject item;

— expenditure incurred by the firm towards manufacture of the item be ascertained through the inspecting officer; and

— further discussions be held with the firm on receipt of report from the inspecting officer.

Accordingly, the firm was asked (13th December 1973) to stop further work in regard to manufacture of the subject item. Meanwhile, the inspecting officer reported (8th December 1973) that the firm had incurred an expenditure of Rs. 1.30 lakhs on tooling etc. for manufacture of item 'B' (including item 'BB') and recommended that item 'B' which was already in an advanced stage of manufacture by the firm, might be accepted to avoid payment of heavy compensation.

In January 1975, the DDS informed the firm about cancellation of the supply order in respect of item 'B'. However, as the firm claimed compensation towards cost incurred by it on the procurement of equipment and raw material for the manufacture of item 'B', the DOS asked (18th February 1977) the stocking depot to intimate its requirement of item 'B' to consider placement of a fresh supply order on the firm to avoid payment of compensation. The depot authorities replied (24th February 1977) that their requirement had already been met by the Director General, Ordnance Factories (DGOF) by supplying the item at the rate of Re. 0.85 (as against the contract rate of Rs. 167) and that they would place their furture requirements also on the DGOF.

As the order for supply of item 'B' was not reinstated, the firm requested (January 1978) for appointment of an arbitrator to decide the disputes. The arbitrator, appointed in February 1978, held the department guilty of breach of the contract and awarded (August 1979) Rs. 1.75 lakhs in favour of the firm. The payment in terms of the award was made to the firm in March 1980.

The DDS stated (October 1982) that :

— at the time of taking the decision to place order on the firm, the DOS did not point out that the requirement was for item 'B' only;

— the inspecting officer could not detect the discrepancy between the advance sample and the item actually required as the drawings did not indicate any part numbers for two items ('B' and 'BB') covered by it; and

— the order for item 'B' was cancelled as the DOS was not agreeable to accept the stores as per the supply order.

The case revealed that :

— ambiguity in the drawings for an item of general tools required by the DOS for small arms equipments resulted in part cancellation of an order placed on a firm, thereby causing an avoidable expenditure of Rs. 1.75 lakhs; and

— an item was contracted for supply at Rs. 167 each against 85 paise each charged for it by the ordnance factory.

CHAPTER 6

UTILISATION OF EQUIPMENT AND FACILITIES

36. Idle machines procured from abroad

Two cases of defective machines procured from abroad for an Army Base Workshop (hereafter called 'Workshop') are mentioned below :

Machine 'A'

In September 1972, the Workshop authorities projected a demand for Machine 'A' required in the tool room. The proposal for obtaining financial sanction for the procurement of this machine was initiated by the Army Headquarters (Army HQ) in October 1972, but it was cleared by the Government only in March 1975. An indent for procurement of the machine was placed by the Army HQ on the Supply Wing of an Indian Mission abroad in August 1975. The indent could not be covered due to insufficient foreign exchange released for this purpose. After release of additional foreign exchange in April 1977, the Army HQ placed (September 1977) fresh indent for this machine on the Supply Wing. The latter concluded (November 1978) a contract for £ 17,520 (Rs. 2.80 lakhs) for supply ex-stock of the machine (alongwith spares) with a foreign firm 'X'.

As per terms of the contract, the machine was to be accepted on supplier's warranty without inspection and in the event of its being found not in accordance with the order on receipt by the ultimate consignee in India, the supplier was required to replace the machine free of cost including freight, etc. The warranty was to expire 15 months after delivery of the machine or 12 months after its arrival at ultimate destination in India, whichever was earlier. The machine was shipped in September 1979 and was received in the Workshop in January 1980.

On opening the packages in January-February 1980, plated parts of the machine were found rusty. The matter was, therefore, reported (March 1980) by the Army HQ to the Supply Wing for rectification and commissioning of the machine. After protracted correspondence with Army HQ, the Supply Wing intimated (7th July 1981) that firm 'X' was no longer in business and that it could not be held responsible for the damage/rust which occurred due to defective storage at the consignee's place or in transit. The Supply Wing added that if the Army HQ felt that any of the damages to any of the accessories/parts could have occurred before shipment or due to any negligence not in conformity with the contractual obligations of the firm, the detailed reasons alongwith the extent of damage so attributed to the supplier might be intimated to them so that they could take up the matter afresh with the successor company which had taken over from firm 'X'. The Army HQ advised (21st July 1981) the Workshop authorities to prefer a claim for loss during transit on the shipping authorities and to liaise with the Inspection authorities for inspection, installation and commissioning of the machine. On being approached, the Inspection authorities replied (August 1981) that repair, installation and commissioning of the machine did not fall under the purview of their responsibilities and they also did not have any expertise for this type of work. As regards preferring claim against the shipping authorities, the Embarkation HQ stated (September 1981) that no such claim was tenable as the consignment was cleared in sound/perfect condition.

According to the Workshop authorities (August 1980), in the absence of the machine, conventional machine tools were being used, which were time-consuming and less accurate.

The Ministry of Defence stated (July 1982) that a Board of Officers had been convened in February 1982 by the Workshop authorities for assessing the extent of loss and also to make efforts to commission the machine.

Machine 'B'

In November 1972, the Workshop authorities projected another demand for Machine 'B' including its accessories with a view to checking all types of gauges for their accuracy before issue to the inspection/production departments of the Workshop. The Army HQ initiated a case for obtaining financial sanction in March 1973. This was cleared by the Government only in March 1975. An indent for procurement of the machine was placed on the Supply Wing in August 1975, but this could not be covered due to insufficient foreign exchange released for this purpose. After obtaining release of additional foreign exchange, the Army HQ placed (September 1977) a fresh indent for this machine on the Supply Wing which concluded (November 1978) a contract for Sw.Fr. 155,000 (Rs. 5.47 lakhs) with a foreign firm 'Y' for its supply by the end of February 1979. The contracted amount included payment of 12 *per cent* as commission to an Indian agent.

As per terms of the contract, the machine was to be inspected by the Inspection Wing of the Indian Mission prior to its packing. The warranty of the machine was to expire 15 months after delivery (fob) of the machine or 12 months after its arrival at ultimate destination in India, whichever was earlier.

After inspection and clearance by the Inspection Wing of the Indian Mission in February 1979, the machine was shipped to India in March 1979 and it was received in the Workshop in November 1979. The machine was inspected (March 1980) for assembly with the assistance of the Indian agent who stated that :

— the machine could not be assembled/put into operational use in view of the extensive damage/rusting of its major parts;

— the re-conditioning/repair of the machine could be done at the works of the manufacturer; and

— damages were caused as a result of defective storage or mishap during transit/handling.

A Board of Officers held (25th March 1980) for the purpose of checking the accessories, opined that the machine alongwith its accessories be backloaded to the manufacturer as the accessories were extensively rusted making the entire machine unserviceable. Meanwhile, the matter was reported (7th March 1980) to the Army HQ which, in turn, requested (19th March 1980) the Supply Wing to approach the supplier for free replacement under the warranty clause. Firm 'Y' declined (February 1981) to offer replacement as in its opinion the damage was caused by bad handling and storage during transit. On the advice (29th June 1981) of Army HQ to prefer a claim for loss (on account of damage to the machine) on the shipping authorities, the Workshop authorities took up (August 1981) the matter with the Embarkation HQ. The latter replied (January 1982) that the two packages containing the machine, when discharged from the ship, were not damaged externally and as such neither any survey for these packages was held nor was any claim preferred against the shipping authorities. No responsibility for the damage to the machine had been fixed.

According to the Workshop authorities (October 1980), in the absence of the machine, the measurements were being taken with available measuring instruments with limited accuracy, speed and versatality.

The Ministry of Defence stated (July 1982) that machine 'B' was presently under inspection by a team of officers.

Summing up.—The following are the main points that emerge :

— Procurement action in respect of two machines for which demands were projected by an Army Base Workshop as early as 1972 took nearly 7 years.

— Both the machines (cost : Rs. 8.27 lakhs) were received by the ultimate consignee (Workshop) in defective condition.

— The defects could not be attributed to the suppliers and therefore the machines could not be got replaced under the warranty clause of the contracts.

— Claims on account of damage to the machines could not be preferred against the shipping authorities as according to the Embarkation HQ the consignments were received at the port of destination in sound/perfect condition.

— Both the machines were still (July 1982) lying in defective condition with the result that the requirements of the Workshop for these machines, which were projected more than 9 years ago, have still not been met and in their absence conventional machine tools/measuring instruments were being used by the Workshop with limited accuracy.

CHAPTER 7

ARMY

37. Avoidable expenditure due to delay in payment of decretal dues

On 13th March 1943, a property (having an area of 1.46 lakh square feet) was requisitioned for defence purposes. The recurring compensation for the property was fixed by the Land Acquisition Collector (LAC) concerned at Rs. ~~1,06,200~~ per annum. Being not satisfied with the quantum of compensation fixed, the party filed a petition before the State Government which appointed (8th September 1947) arbitrator 'X' for this purpose. The arbitrator enhanced the amount of recurring compensation to Rs. 1,37,280 per annum *vide* his award given on 10th October 1947. The award was not acceptable to the party which filed an appeal in the High Court in 1948. The High Court remanded (June 1955) the appeal for re-adjudication by a fresh arbitration. Arbitrator 'Y' appointed (December 1958) for re-adjudication, further increased (June 1959) the amount of compensation to Rs. 1,37,520 per annum besides interest at 4 *per cent* per annum on the increased amount of compensation. In the meantime, the property was de-requisitioned in March 1956.

The award of arbitrator 'Y' was also contested (1960) by the party in the High Court. The High Court enhanced (14th December 1977) the amount of compensation to Rs. 1,75,920 per annum with the stipulation that the enhanced compensation should be paid within six months from the date of the judgment, failing which the compensation amount would carry an interest of 6 *per cent* per annum from the date of requisition (13th March 1943) till the date of payment.

On 19th January 1978, the Military Estates Officer (MEO) informed the Special Land Acquisition Collector (SLAC) with a copy to the LAC that the result of the appeal had inadvertantly been conveyed to the SLAC's office instead of to the LAC. The SLAC, however, replied (15th February 1978) that the case pertained to his office.

Thereafter, the MEO did not pursue the matter and the stipulated period of 6 months for payment of enhanced compensation without interest expired on 13th June 1978. The party, having not received the payment in time, claimed (19th September 1978) interest of about Rs. 9 lakhs on the enhanced compensation of Rs. 5.01 lakhs (computed at Rs. 3,200 per month for the period 13th March 1943 to 31st March 1956) as per the High Court's judgement. The MEO contended (9th November 1978) that responsibility for the payment of interest on the enhanced compensation rested with the State Government. The LAC argued (28th November 1978) that the payment of interest could have been avoided had certified copies of the judgment been obtained and sent by the MEO to the former in time.

In December 1978, the MEO advised the LAC to obtain funds from the Pay and Accounts Officer (PAO) concerned. Accordingly, on 12th April 1979, the LAC presented a bill to the PAO for payment of decretal dues but the same was returned by the latter with the observation that no allotment of funds existed to admit the bill. The LAC approached the MEO (June 1979) for arranging necessary allotment of funds. The MEO, however, insisted (13th June 1979) that the payment was to be arranged initially by the LAC out of the funds obtained from the civil treasury, according to the procedure laid down in the Treasury Rules and reimbursement claimed by the State Accountant General from the regional Controller of Defence Accounts (CDA). Thereupon, the LAC pointed out (22nd August 1979) that in accordance with the instructions issued by the Ministry of Defence in December 1957 and February 1962, funds for making payments in satisfaction of Court decrees/arbitration awards were to be arranged by the Defence authorities in cases where the respondent is the Union of India. Notwithstanding the instructions issued by the Ministry of Defence the MEO reiterated (27th August 1979) that the LAC should have arranged the funds and made payment through the State Accountant General and that his office had no role to play in the matter.

Eventually, in October 1979, the LAC took up the case with the Ministry of Defence which accorded sanction (February 1980) to the payment of enhanced compensation. This sanction was, however, silent in regard to the interest payable for belated payment. The payment as per the sanction could not, however, be made before the close cf the financial year 1979-80 as necessary funds could not be released by the regional CDA in the absence of allotment of funds by the Director General, Defence Lands and Cantonments (DL&C). A fresh sanction was, therefore, issued in September 1980 for the payment of Rs. 5.01 lakhs towards enhanced compensation and Rs. 9.51 lakhs towards interest at 6 *per cent* per annum on the enhanced compensation for the period 13th March 1943 to 31st August 1980. The decretal amount was paid during September 1980 and December 1981.

The Ministry of Defence stated (August 1982) that :

—the payment of interest amounting to Rs. 9.51 lakhs had resulted due to delay/lapses on the part of the DL&C Officers and also the Land Acquisition Officers of the State Government concerned; and

—the circumstances under which the delay/lapses had occurred were being investigated by the State Government concerned and the Director General DL&C separately in respect of their officers involved in this case.

Thus, failure to make payment of the enhanced compensation within six months from the date of judgment of the High Court *i.e.* by 13th June 1978 resulted in an avoidable payment of interest amounting to Rs. 9.51 lakhs on the compensation of Rs. 5.01 lakhs awarded by the High Court.

38. Irregular disposal of assets

Land measuring 11,365.23 sq. yds. at station 'X', belonging to the Railways, was hired by the Army in September 1944 at an annual rental of Rs. 29,460. Certain assets in the shape of barracks (cost : Rs. 0.60 lakh) and a building for cold storage (cost : Rs. 7.89 lakhs) with an ice plant (cost : Rs. 2.93 lakhs) were created (1945) on the land for the use of an Armed Forces Medical Stores Depot (AFMSD). Out of this land, an area measuring 1,208.18 sq. yds. was released to the Railways on 10th October 1966 and the balance area of 10,157.05 sq. yds. continued to be used by the AFMSD, involving payment of proportionate annual rental of Rs. 26,328. This was enhanced quinquennially from 1st April of the years 1967, 1972 and 1977 to Rs. 1.22 lakhs, Rs. 2.44 lakhs and Rs. 5.10 lakhs respectively.

In August 1967, the Ministry of Defence sanctioned permanent accommodation for the AFMSD at another location (in the same station) at an estimated cost of Rs. 60.92 lakhs. The work was completed in March 1978 and the AFMSD was shifted to the new accommodation in March 1978. Consequently, Railway land and the assets created thereon became surplus to the Army's requirements.

In June 1978, the Military Estates Officer (MEO) approached the Area Headquarters (HQ) to arrange for the release of remaining land in case it was no longer required for use by the Army. As the release of this land to the Railways was linked with the disposal of assets created thereon, it was decided (August 1978) by the Ministry of Defence that this land together with the assets (including the cold storage plant) existing thereon would be handed over to the Railways. In October 1978, the Railway Board intimated that they were not interested in taking over the assets and that the subject land should be handed over to the Railways free from all encumbrances to meet their urgent operational needs.

According to the Regulations for the Military Engineer Services (MES), assets created by Government within the precincts of the hired buildings and lands are to be disposed of by the

MES by public auction. However, in April 1979, the Army HQ recommended to the Director General, Defence Lands and Cantonments (DL&C) that the subject land be dehired only after disposal of the assets whose depreciated value had been worked out by the local MES authorities at Rs. 1.68 lakhs. While the matter regarding disposal of the assets was still under consideration of the Ministry of Defence, the Zonal Railway authorities licensed (September 1979) the land to a private firm 'A' (engaged in refrigeration industry) subject to handing over of the same by the Defence Department.

On 20th November 1979, firm 'A' offered to take over the assets on 'as is where is' basis on payment of compensation to be worked out by the Defence Department. A Board of Officers held on 29th November 1979, under orders of the Zonal Chief Engineer, assessed the disposable value of the assets at Rs. 7.82 lakhs and recommended the minimum reserve price of the assets as Rs. 9.21 lakhs for the purpose of disposal of the assets in public auction. In the meantime, the Command DL&C authorities recommended (21st November 1979) to the Director General, DL&C that the assets be transferred to firm 'A' on the following grounds:

—The Railways were not interested in taking over the assets and there was no option but to demolish the same and reinstate the site.

—The process of disposal of the assets by public auction and clearance of site would take at least 6 months for which period payment of about Rs. 2.5 lakhs by way of licence fee would have to be made to the Railways. Further, the possibility of the Railways claiming terminal compensation for reinstatement of the site to its original condition could not be ruled out.

—The amount of bid that would be realised in the auction proceedings would more or less off-set the amount of rent that would be payable to the Railways.

The Command DL&C authorities worked out (November 1979) the transfer value of the assets at Rs. 1.60 lakhs on the basis of Government orders (of September 1951) applicable in the case of transfer of accommodation to State Governments. The proposal of the Command DL&C authorities was accepted (December 1979) in principle by the Ministry of Defence with the modification that compensation payable be increased to Rs.1.68 lakhs on the basis of depreciated value of the assets (as worked out by the local MES authorities in February 1979). Government sanction to this effect was accorded on 5th January 1980.

On 24th January 1980, another private firm 'B' communicated its offer of Rs. 3 lakhs to the Ministry for taking over the assets. Without reconsidering the question of disposal of assets through public auction, the assets were handed over to firm 'A' on 30th January 1980 for Rs. 1.68 lakhs.

The following interesting features were noticed in this case :

—Although as per the Regulations, assets created on hired buildings and lands were to be disposed of by the MES by public auction, assets created on Railway land were sold by the DL&C authorities to a private firm 'A' at the depreciated value of Rs. 1.68 lakhs without conducting any public auction and ignoring the minimum reserve price of Rs. 9.21 lakhs assessed (29th November 1979) by a Board of Officers (held under orders of the Zonal Chief Engineer).

—One of the reasons advanced by the Command DL&C authorities for dispensing with the public auction of assets was to avoid payment to the Railways of licence fee amounting to about Rs. 2.5 lakhs for a period of at least 6 months that would be required for the public auction and clearance of the site. This only benefited the private firm.

— In the wake of the offer of private firm 'B' to take over the assets at Rs. 3 lakhs, received before the actual transfer of assets to firm 'A' on 30th January 1980, the question of disposal of these assets through public auction was not reconsidered.

The Ministry of Defence stated (September 1982) that the case was under investigation by the Central Bureau of Investigation and their report would bring out the lapses in disposing of the assets.

39. Working of Embarkation Headquarters

Embarkation Headquarters (EHQs) located at three ports 'A', 'B' and 'C' are responsible for the receipt of imported Defence stores and their despatch to ultimate consignee. A review of the working of these EHQs covering the period 1977 to 1981 revealed the following:

1. *Levy of extra wharfage charges due to delay in clearance of cargo:*

1.1 Stores shipped from abroad and landed at the ports are subjected to levy of wharfage charges at ordinary rates where clearance of the cargo from the docks is effected before the last free date. The cargo not so cleared by the last free date attracts payment of extra wharfage charges. According to the instructions contained in the Defence Services Regulations (Army), payment of extra wharfage is viewed as wasteful expenditure and every possible effort should be made for effective clearance of cargo from the docks within the last free date. Notwithstanding these instructions, delay in clearance of cargo (subsequent to the last free date) resulted in levy of extra wharfage charges amounting to Rs. 49.87 lakhs during 1977—1981 as detailed below :

Year	Total wharfage levied/paid (Rs. in lakhs)			Extra wharfage levied/paid (Rs. in lakhs)		
	'A'	'B'	'C'	'A'	'B'	'C'
1977 .	16.99	0.75	3.65	2.50	0.07	0.95
1978 .	13.48	1.28	3.15	3.03	0.06	1.15
1979 .	15.34	0.70	2.52	6.59	1.12	0.89
1980 .	20.99	0.85	3.18	9.56	1.24	1.73
1981 .	14.60	0.58	10.93	15.64	0.56	4.78
Total :	81.40	4.16	23.43	37.32	3.05	9.50

1.2 An analysis of the extent of delay (subsequent to the last free date) in the clearance of consignments during the years 1980 and 1981 involving levy/payment of extra wharfage charges is given below :

Extent of delay	Number of cases					
	'A'		'B'		'C'	
	1980	1981	1980	1981	1980	1981
From last free date up to 15 days	1,532	1,213	152	208	315	7,911
From 16 days to one month	90	298	87	26	97	542
Over one month and up to 3 months	52	339	21	19	33	83
Over 3 months .	16	96	18	12	44	44
Total . .	1,690	1,946	278	265	489	8,580

1.3 The delay in clearance of cargo was attributed to :
—delays in receipt of shipping documents;

—difference in case markings; and

—packages landed in damaged condition.

1.4 Abnormal delay (ranging between 1 year 2 months and 2 years 9 months) in clearing the cargo (which arrived at port 'A' in March 1978, September 1978 and June 1980) by the EHQ at port 'A' occurred in respect of these cases due to absence of physical marking or wrong marking, resulting in payment of extra wharfage amounting to Rs. 0.38 lakh.

1.5 In two other cases cleared (January 1981) by the EHQ at port 'A' there was delay in clearance of the cargo consigned to an Ordnance Factory and a Naval Stores Depot due to late receipt of shipping documents, which resulted in payment of extra wharfage of Rs. 0.37 lakh.

2. *Claims for short-landed/damaged cargo*:

2.1 The EHQs are responsible for lodging claims in respect of imported stores short-landed or landed in damaged condition. The claims were lodged on the carriers, port turst authorities and also insurance companies. The position of the pending claims for the period under review was as follows :

Year	Claims lodged		Claims rejected/ partially rejected		Claims pending	
	No.	Amount (Rs. in lakhs)	No.	Amount (Rs. in lakhs)	No.	Amount (Rs. in iakhs)
EHQ 'A'						
1977 . . .	287	72.88	77	6.18	777	299.59
1978 . . .	516	230.92	45	2.94		
1979 . . .	455	268.33	17	5.03		
1980 . . .	661	418.39	2	1.44		
1981 . . .	586	403.32	..	..	169	94.76
Total:	2,505	1393.84	141	15.59	946	394.35
EHQ 'B'						
1977 . . .	24	4.08	5	0.02	6	1.10
1978 . . .	48	11.04	12	1.51	8	2.19
1979 . . .	99	27.47	5	0.65	49	13.86
1980 . . .	58	22.05	..	..	36	15.76
1981 . . .	60	52.12	1	0.01	47	16.62
Total:	289	116.76	23	2.19	146	49.53
EHQ 'C'						
1977 . . .	28	2.09	14	1.01	..	..
1978 . . .	64	15.06	14	3.07	10	2.26
1979 . . .	53	9.42	8	3.54	8	0.97
1980 . . .	75	20.10	4	0.13	28	12.79
1981 . . .	68	23.14	2	0.09	37	16.44
Total	288	69.81	42	7.84	83	32.46

2.2 The total value of claims for shortlanded/damaged stores pending settlement was Rs. 4.76 crores (August 1982). The rejection of refund claims was mainly attributable to :

—full value of the cargo not being insured ;

—liability of the carriers being limited ;

—delay in marine survey ; and

—defective preparation of the documents by the suppliers.

2.3 Three claims for shortlanded cargo amounting to Rs. 1.29 lakhs, Rs. 1.39 lakhs and Rs. 1.35 lakhs were preferred (May 1979—July 1980) by the EHQ at port 'B' against the carriers which did not accept the claims. For enforcement of these claims cases were filed (January—September 1980) in a court of law the final outcome of which was awaited (August 1982).

2.4 Another claim for shortlanded cargo (amount : Rs. 1.70 lakhs) consigned to an Ordnance Factory was preferred (March 1978) by the EHQ at port 'A' against the carriers. The carriers, however, accepted the claim for Rs. 0.06 lakh only as per Gold Clause Agreement as the value of contents of the package was not declared in the Bill of Lading. This resulted in a loss of Rs. 1.64 lakhs which was yet (August 1982) to be regularised.

2.5 The Ministry of Defence stated (November 1981) that in cases where the claims for shortlanded/damaged stores were lodged without the required documents (which the consignees had to provide to the EHQs), the claims were rejected or accepted partially and the rejected amounts got regularised by the consignees concerned. The Ministry added (September 1982) that the case regarding declaration of value of the stores in the Bill of Lading was under consideration.

3. *Levy of customs duty:*

3.1 The position of the outstanding refund claims of customs duty for the period under review was as follows :

Year	Preferred		Settled		Rejected		Outstanding	
	No.	Value (Rs. in crores)	No.	Value (Rs. in crores)	No.	Value (Rs. in crores)	No.	Value (Rs. in crores)
1	2	3	4	5	6	7	8	9
EHQ 'A'								
1977	879	12.39	367	4.76	251	2.82	261	4.81
1978	711	9.52	266	3.80	195	1.52	250	4.20
1979	348	4.22	180	1.56	16	0.06	152	2.60
1980	525	7.89	209	3.41	14	0.07	302	4.41
1981	251	4.20	51	1.71	..	..	200	2.49
Total:	2,714	38.22	1,073	15.24	476	4.47	1,165	18.51
EHQ 'B'								
1977	619	2.49	542	2.04	52	0.28	25	0.17
1978	612	2.05	553	1.70	37	0.18	22	0.17
1979	737	3.41	588	2.80	97	0.26	52	0.35
1980	1083	9.71	905	7.67	67	0.89	111	1.15
1981	213	7.50	80	1.29	33	1.05	100	5.16
Total:	3,264	25.16	2,668	15.50	286	2.66	310	7.00

1	2	3	4	5	6	7	8	9
EHQ 'C'								
1977	22	0.16	21	0.15	—	—	1	0.01
1978	49	0.05	47	0.04	—	—	2	0.01
1979	30	0.20	28	0.10	—	—	2	0.10
1980	34	0.13	29	0.12	—	—	5	0.01
1981	39	0.12	15	0.01	—	—	24	0.11
Total:	174	0.66	140	0.42	—	—	34	0.24

3.2 The total value of refund claims of customs duty pending finalisation was Rs. 25.75 crores (August 1982). The rejection/non-finalisation of the pending claims was mainly attributed to :

—delay in preferring claims;

—non-production of required documents in time;

—production of incomplete documents; and

—not specifically covered by rules for exemption from customs duty.

3.3 The Ministry of Defence stated (November 1981 and September 1982) that the following difficulties were experienced by the EHQs in clearing the stores from customs:

—invoice/packing accounts were very often not available at the time of the arrival of the ship; and

—invoice/packing accounts were received without showing details of items imported and value thereof.

3.4 Fourteen refund claims amounting to Rs. 53.27 lakhs on account of incorrect levy of customs duty on motor vehicle parts (CKD) consigned to a vehicle factory were preferred by the EHQ at port 'A' on the customs authorities during January—December 1978 on the advice of the consignee that these parts were intended for specialist vehicles but were rejected on the ground that no documentary evidence could be shown to prove that the parts were intended for specialist vehicles. According to the Ministry of Defence (September 1982), these claims had since been closed as the consignees failed either to produce the documentary evidence or to depute their representatives and the claims were being regularised at the consignees' end.

3.5 A claim for refund of customs duty amounting to Rs. 6.81 lakhs levied on stoies consigned to Gas Turbine Research Establishment was preferred (September 1980) by the EHQ at port 'B' but it was rejected (April 1982) by the customs authorities due to non-production of requisite documents. The Ministry stated (September 1982) that a revision petition was being filed by the EHQ at port 'B'.

4. *Delay in redemption of Provisional Deposit Bonds* :

4.1 With effect from June 1976, payment of customs duty in respect of consignments received from some foreign countries was based on the bills of entry and where requisite information/documents were not produced at the time of assessment of duty, payments were made to the customs authorities on Provisional Deposit Bonds. These bonds were later required to be redeemed on production of necessary documents. The position of bonds furnished by the EHQ at port 'B', yet to be redeemed as on 20th July 1982 was as follows :

Year	Bonds furnished		Bonds yet to be redeemed	
	Number	Amount (Rs. in lakhs)	Number	Amount (Rs. in lakhs)
1977	181	223.96	7	10.27
1978	308	524.77	21	71.58
1979	381	549.64	58	97.65
1980	179	272.89	59	172.21
1981	141	440.56	20	10.28
	1,190	2011.82	165	361.99

4.2 Thus, bonds amounting to Rs. 3.62 crores for the year 1977 to 1981 were awaiting to be redeemed (July 1982). The delay in redemption of bonds was attributed to non-availability of purchase orders, packing lists, price details etc. and negligible response from the consignees in furnishing the documents.

5. *Delay in despatch of consignments (Sea cargo) to ultimate consignees* :

5.1 The responsibility for the prompt despatch of imported cargo to the ultimate consignees rests on the EHQs. The number of cases where there was delay of over 3 months in the despatch of consignments (Sea cargo) cleared during 1979 to 1981 are given below:

Year	Total number of consignments cleared			Number of cases where there was delay of over 3 months		
	'A'	'B'	'C'	'A'	'B'	'C'
1979 .	8,247	494	5,730	36	6	Nil
1980 .	8,435	486	3,103	20	2	44
1981 .	6,769	404	9,828	84	15	44

5.2 The Ministry of Defence stated (November 1981 and September 1982) that the delay in despatch of packages to ultimate consignees was attributable to:

—combining despatch of various consignments meant for one consignee to avail of the facilities of 'economy' wagons;

—delay in collection by local consignees;

—delay in arranging collection of over-dimensional packages;

—a fair percentage of packages had to be repacked having been opened for customs examination/survey/damage; and

—non-provision of suitable escorts in time by the consignees.

6. *Non-receipt of returnable copies of packing accounts* :

6.1 As per the procedure prescribed for the receipt and disposal of packing accounts, the packing accounts on receipt in India by the EHQs are to be forwarded to the ultimate consignees who after noting the particulars of receipt and discrepancies, if any, on the packing accounts would return the landing officer's copy to the former through the Controller of Defence Accounts concerned. The position regarding non-receipt of returnable copies of the packing accounts was as under:

Year	Total number of packing accounts despatched to ultimate consignees			Number of cases where returnable copies were not received back		
	'A'	'B'	'C'	'A'	'B'	'C'
1977 .	1,936	297	152	842	227	61
1978 .	1,740	403	252	353	353	55
1979 .	1,759	422	367	388	388	70
1980 .	676	443	154	631	356	93
1981 .	923	298	117	811	104	113
	7,034	1,863	1,042	3,025	1,428	392

6.2 As the prescribed procedure was not followed, it was not possible to ensure whether consignees had received all the imported stores (in good condition) as invoiced and paid for. The Ministry of Defence stated (November 1981) that the consignee units were responsible for returning the packing accounts and that the Controlling Headquarters were being reminded from time to time to issue instructions to the consignee units in this regard.

7. *Airlifting of consignments of imported stores* :

7.1 In the case of imported stores airlifted subject to *post-facto* sanction for airlifting, payment of air freight is made by the EHQs out of provisional advances drawn for this purpose.

The position in regard to non-adjustment of such advances drawn during 1978 to 1981 was as under:

Year	Number of consignments (air cargo) involved			Unadjusted amount of provisional advances for air freight (Rs. in lakhs)		
	'A'	'B'	'C'	'A'	'B'	'C'
1978 .	23	1	5	7.58	..	0.33
1979 .	21	5	3	6.93	0.15	0.23
1980 .	10	27	10	0.26	0.63	0.40
1981 .	13	480	10	2.45	0.52	1.24
	67	513	28	17.22	1.30	2.20

7.2 The non-adjustment of provisional advances for payment of air freight (Rs. 20.72 lakhs) was mainly attributed to want of *post-facto* sanctions of the competent authorities and want of copies of airway bills. The Ministry of Defence stated (September 1982) that the EHQs and Movement Directorate at Army Headquarters had made all out efforts to obtain sanctions of the competent financial authorities from the consignee units. The fact remains that an amount of Rs. 20.72 lakhs pertaining to the years 1978 to 1981 remained unadjusted (September 1982), despite mention of similar advances drawn for payment of air freight bills remaining unadjusted in paragraph 53 of the Audit Report (Defence Services) for 1976-77.

7.3 In case of failure to clear consignments despatched by air within 3 to 7 days from the date of landing, warehousing charges are required to be paid to the customs authorities. During the period under review, payments amounting to Rs. 19.51

lakhs towards warehousing charges in respect of consignments despatched by air were made as under:

Year	Total number of consignments (air cargo) cleared			Warehousing charges paid					
				No. of consignments involved			Amount (Rs. in lakhs)		
	'A'	'B'	'C'	'A'	'B'	'C'	'A'	'B'	'C'
1977 . . .	1,903	2,393	124	526	Nil	*	0.69	Nil	*
1978 . . .	2,304	2,098	139	587	2,098	*	7.02	1.07	*
1979 . . .	1,952	4,076	151	798	4,076	*	1.60	2.42	*
1980 . . .	2,132	4,023	141	494	4,023	49	1.01	1.18	0.14
1981 . . .	1,620	3,365	132	646	2,609	85	2.78	1.14	0.46
Total :	9,911	15,955	687	3,051	12,806	134	13.10	5.81	0.60

*Not applicable as during the years 1977 to 1979 stores were cleared from customs house.

7.4 Some interesting cases of avoidable payment of warehousing charges due to delay in clearance of consignments (air cargo) are given below :

(*i*) 26 packages containing imported dental articles consigned to an Armed Forces Medical Stores Depot (located about 30 kms away from port 'A') were landed at port 'A' in October 1981. However, the EHQ at port 'A' could get the packages cleared only in February 1982 due to late receipt of documents from the consignee. This resulted in payment of warehousing charges amounting to Rs. 0.41 lakh, which were yet to be regularised (August 1982).

(*ii*) In two other cases where cargo consigned to two Defence Research and Development Establishments had arrived by air during November 1981 and December 1981, the EHQ at port 'A' could get the cargo cleared only in April 1982 due to delay in receipt of airway bills duly endorsed by bankers involving payment of Rs. 0.41 lakh as warehousing charges.

7.5 According to the Ministry of Defence (November 1981), the payment of warehousing charges at the airport was inevitable and the contributory reasons were mainly as under:

—there were delays upto 3-4 months in making available copies of Airway bills duly endorsed by bankers by the consignee;

—the invoices did not tally with the actual contents; and

—short-landing of consignments.

The Ministry added (September 1982) that a case for increasing the free time limit had been taken up with the Ministry of

Tourism and Civil Aviation and the same was pending with that Ministry.

7.6 An analysis of the extent of delay in forwarding consignments (air cargo), after their landing, to the ultimate consignees during the period under review is given in the Annexure. The analysis revealed considerable delays in forwarding of such consignments after their landing to the ultimate consignees.

8. *Summing up*—The salient features brought out in the review are summed up below:

—non-clearance of sea cargo within the prescribed time limit resulted in avoidable payment of extra wharfage charges amounting to over Rs. 49.87 lakhs;

—claims for shortlanded/damaged cargo totalling Rs. 4.76 crores were pending for settlement with the various agencies;

—claims for shortlanded/damaged cargo amounting to Rs. 25.62 lakhs were rejected on the grounds of delay in marine survey, limited liability of carriers and defective preparation of documents by suppliers;

—refund claims amounting to Rs. 25.75 crores preferred on the customs authorities were outstanding while the amount of claims rejected was Rs. 7.13 crores;

—provisional deposit bonds for Rs. 3.62 crores furnished by the EHQ at port 'B' towards payment of customs duty remained to be redeemed;

—provisional advances amounting to Rs. 20.72 lakhs for payment of airway bills remained unadjusted;

—non-clearance of air cargo within the prescribed time limit resulted in avoidable payment of warehousing charges amounting to Rs. 19.51 lakhs; and

—considerable delays were noticed in despatch of consignments of sea/air cargo to the ultimate consignees.

Annexure

(*Referred to in sub-para* 7.6)

Number of consignments (air cargo) cle:red

	1977			1978			1979			1980			1981		
	'A'	'B'	'C'	'A'	'B'	'C'	'A'	'B'	'C'	'A'	'B'	'C'	'A'	'B'	'C'
Forwarded															
—within 10 days of landing	459	13	113	231	69	128	385	129	138	932	169	113	580	189	80
—within 11-30 days of landing . .	1,110	778	11	1,830	927	11	1,495	1,265	13	1,100	1,449	28	648	930	48
—within 31-90 days of landing . .	327	87	—	230	106	—	60	445	—	93	358	—	323	650	4
—over 90 days of landing . .	7	9	—	13	10	—	12	17	—	7	3	—	55	18	—
—details not known	—	10	—	—	90	—	—	—	—	—	—	—	14	—	—
Total . . .	1,903	897	124	2,304	1,202	139	1,952	1,856	151	2,132	1,979	141	1,620	1,787	132

40. Delay in acquisition of land

Land measuring 53.01 acres (private land : 51.31 acres; State Government land: 1.70 acres) was requisitioned at a station between June 1949 and April 1969 for defence purposes at an annual rental of Rs. 0.14 lakh. Assets of a permanent nature costing Rs. 7.59 lakhs were created on the requisitioned land during 1949 and 1969.

In September 1975, one of the land-owners whose land measuring 33.32 acres was held under requisition (13.80 acres from June 1949 and 19.52 acres from April 1969), offered to sell his land to the Defence Department at the prevailing market value. The Army Headquarters (HQ) asked (September 1975) the Command HQ to examine the request and forward a proposal for acquisition of the land in case the same was required permanently. In October 1975, action was initiated to acquire the land in question. A Board of Officers convened (April 1976) for this purpose recommended (January 1977) that the entire land (53.01 acres) held under requisition be acquired as the requirements were of a permanent nature. Accordingly, the Command HQ approached (February 1977) the Army HQ for obtaining necessary Government sanction for acquisition of the land. The Ministry of Defence accorded (September 1977) sanction to the acquisition of 51.31 acres of requisitioned private land under the provisions of the Requisitioning and Acquisition of Immovable Property Act, 1968 of the State Government at a cost of Rs. 3.38 lakhs and transfer of 1.70 acres of State Government land at a cost of Rs. 0.13 lakh. The Military Estates Officer (MEO) placed (29th October 1977) a demand on the State revenue authorities for acquisition and transfer of the land. The requisite notification in Form 'J' under the Act, notifying formally the acquisition of land free from all encumbrances, was published in the State Gazette on 16th January 1979.

In the meantime, the Act had been amended on 20th October 1977. The cost of acquisition of requisitioned land was to be fixed at market value prevailing on the date of issue of notification in Form 'J' under the amended Act as against double the market value prevailing at the time of requisitioning before the amendment. In December 1977, the MEO approached the revenue authorities to assess the revised cost of the land. The revised rates for assessing the cost of land were finalised in a meeting held on 21st February 1979 in the revenue office of the State Government. The revised cost of the land was accordingly assessed at Rs. 62.59 lakhs (private land : Rs. 61.57 lakhs; State Government land: Rs. 1.02 lakhs). The Director General, Defence Lands and Cantonments sought (June 1979) sanction for payment of the revised cost of land. The Ministry of Finance (Defence) observed (September 1979) that the increase in the cost of land was mainly due to the reason that the land was situated within the municipal limits, "having a very huge potential from the residential and commercial point of view" and that the Army units were normally to be located for security reasons at places away from civil population. The Ministry of Finance (Defence) suggested to the Ministry of Defence to de-requisition the requisitioned land and acquire another area of land away from civil population at a lesser cost. The Ministry of Defence, however, stated (November 1979) that in view of the publication of the notification in Form 'J' on 16th January 1979, the subject land stood acquired from that date and that the question of de-requisitioning the land and acquiring another area of land at a lesser cost did not arise. After clearance (December 1979) of the proposal by the Ministry of Finance (Defence), the revised sanction for Rs. 62.59 lakhs was issued by the Ministry of Defence in January 1980. The amount was paid to the revenue authorities of the State Government in February 1980 for disbursement to the land owners.

The Ministry of Defence stated (August 1982) that land was required for an advance landing ground and a large area for this purpose could not be commonly found in hilly areas.

The case revealed the following :

— Although 53.01 acres of land requisitioned during June 1949 and April 1969 and on which permanent assets valued at Rs. 7.59 lakhs had been created, was stated to be required for use as an advance landing ground on long-term basis, action to acquire it was initiated in October 1975 only.

— While the cost of acquisition of requisitioned land increased from Rs. 3.51 lakhs to Rs. 62.59 lakhs as a result of amendment of the Act (in October 1977), an alternate site away from the civil population at a lesser cost was not specifically considered on the ground that the land stood acquired with the publication of the notification in Form 'J' on 16th January 1979.

CHAPTER 8

NAVY

41. Idle expenditure

In July 1967, the Ministry of Defence sanctioned *inter alia* the procurement of one mobile diesel generator (125 KVA) for shore supply of power to certain types of boats at a Naval station 'X'. The generator was procured (October 1968) through the Director General, Supplies and Disposals at a cost of Rs. 1.39 lakhs and was received at station 'X' in December 1970. The generator was put to use from September 1973 onwards as the Naval wharf at the station was commissioned only in August 1973. As the deployment of boats did not allow their stay at station 'X' for long, the requirement of power was limited to 15 KVA only. The generator was put to limited use (56.45 hours) up to April 1974.

Under orders of the Naval Command, the generator was transferred (May 1974) to a Naval Dockyard at station 'Y' for repair and retention in the Dockyard to meet inadequate shore supply of power. After making it serviceable on 12th July 1974, it was used on 2 days for 21 hours and broke down thereafter. The Naval Command sought (September 1975) approval of the Naval Headquarters (Naval HQ) to the purchase of an item of spare (cost : Rs. 27,500) through the Controller of Material Planning, Naval Dockyard at station 'Z', but this communication was stated to be not traceable in the Naval HQ.

In December 1979, the Naval Command ordered a Board of Officers to survey the generator. The Board observed (March 1980) that there had been excessive corrosion of all parts of the generator as it had been lying in the open for over 5 years and declared it as Beyond Economical Repairs (BER). The Board proceedings were forwarded to the Naval HQ in July 1980. The Naval HQ instructed (January 1981) the Naval Command to get the generator repaired. The Naval Command replied (May 1981) that the generator had been declared BER *vide* Board proceedings forwarded in July 1980 and added that a Board of Inquiry was being appointed to investigate into the circumstances leading to the generator becoming BER. The Board of Inquiry held in September 1981 concluded that :

— due to rapid expansion of the Dockyard resulting in reshuffling of work centres and key supervisors and due to lack of proper handing/taking over procedures proper care and maintenance of the generator could not be carried out; and

— 83 (out of 105) items of spares (valuing around Rs. 0.90 lakh) required for repair of the generator were procured by mid-1976 but repairs could not be started for want of one essential item of spare (cost : Rs. 27,500) due to non-receipt of approval of the Naval HQ for its purchase.

The Ministry of Defence stated (July 1982) that the generator had been salvaged and made serviceable by resorting to replacement of its damaged components but prime mover was beyond retrieval.

Although the generator (cost : Rs. 1.39 lakhs) which had been lying in repairable condition in the open (at station 'Y') for over 7 years and declared BER was now stated (July 1982) to have been made serviceable (March 1982) by incurring an expenditure of Rs. 0.03 lakh on its repairs, it would not be operational in view of its prime mover (*i.e.* the engine which is an essential part) being beyond repairs.

42. Avoidable extra expenditure on procurement of an equipment

In October 1974 and January 1976, the Ministry of Defence sanctioned re-conditioning and modernisation of two types of ships in a Naval Dockyard. The requirements of 4 numbers and 12 numbers of an equipment (Hull and Fire Pump) comprising two items *viz*. motor (item 'A') and pump (item 'B') were projected by the Naval Headquarters (Naval HQ) in July 1975 and February 1976 respectively. Accordingly, the Department of Defence Supplies (DDS) placed two supply orders on firm 'X' in April 1976 for 4 and 12 numbers of item 'A' at a price of Rs. 51,500 each and another supply order on firm 'Y' in November 1976 for 16 numbers of item 'B' at a price of Rs. 36,050 each. Item 'A' to be supplied by firm 'X' was to be issued to firm 'Y' to enable the latter to couple it with item 'B' and supply the complete equipment to a Naval Store Depot.

On a review of the requirements of the equipment, it was decided (4th February 1978) by the Naval HQ to cancel the requirements of 12 numbers of the equipment on order. Accordingly, both the firms were advised (10th February 1978) to stop manufacture of 12 numbers of the respective items ordered on them. While firm 'Y' agreed (March 1978) to the reduction in quantity from 16 to 4 numbers without financial repercussions, firm 'X' replied (March and May 1978) that cancellation charges on account of reduction in the order would be Rs. 1.75 lakhs and suggested reconsideration of the order as item 'A' could be used against future requirements of the Navy.

The position was again reviewed by the Naval HQ in May and October 1978 when it was revealed that the equipment would be required for another type of new ships to be acquired as per sanction accorded by the Ministry of Defence in November 1977. Accordingly, both the firms were informed (December 1978) to retain the full quantities on order. Thereupon, firm 'Y' expressed (January and April 1979) its inability to supply item 'B' at the contracted price (of Rs. 36,050) as it had already accepted cancellation of the order for 12 numbers and in turn had cancelled orders with its sub-contractors. In July 1979, firm 'Y' aksed for a revised rate of Rs. 65,000. As there was no other indigenous source available, the revised rate of Rs. 65,000 was accepted and the supply order was amended accordingly in February 1980. The supplies of 11 numbers of item 'A' and 13 numbers of item 'B' were made during July 1980—September 1981 and October 1980—June 1982 respectively.

The Ministry of Defence stated (August 1982) that although Government sanction for acquiring new type of ships was accorded in November 1977, the finalisation of equipment to be installed in the new ships was done only in May 1978 and in the meantime order for the equipment having been cancelled (February 1978), the requirements of the same for the new ships could not be foreseen.

Thus, omission to take into account the requirements of the equipment for the new ships (acquisition of which was sanctioned in November 1977) while effecting reduction (February 1978) in the quantity on order, resulted in an avoidable extra expenditure of Rs. 3.47 lakhs.

CHAPTER 9

AIR FORCE

43. Working of Base Repair Depots

1. *Introduction* :

The Base Repair Depots (BRDs) are primarily responsible for repair/over haul of various types of aircraft and aero-engines as well as repair/manufacture of the Air Force equipment. The annual tasks for the repair/over haul work to be carried out during the year are fixed by the Air Headquarters (HQ) for each BRD with the concurrence of the Ministry of Finance (Defence). The task for the first year, which is termed as 'firm task', quantifies the number of each type of equipment to be repaired/overhauled. The task for subsequent years is termed as 'forecast task' to enable advance planning for provision of a necessary maintenance/overhaul spares, etc.

2. *Performance of the BRDs* :

2.1 *Task vis-a-vis output* —A comparison of the approved task *vis-a-vis* actual output in respect of various aircraft, aero-engines and equipment for a period of 5 years (from 1976-77 to 1980-81) pertaining to all the 9 BRDs as well as the shortfall in output is indicated in Annexure I. In almost all the BRDs significant shortfalls in output had occurred except during 1980-81.

The shortfall in output was mainly attributed to lack of facilities, non-availability of repairable arisings in BRDs and non-availability of spare parts due to non-materialisation of demands.

As regards non-availability of spares an analysis of the demands for spares raised by 5 BRDs and their materialisation during 1978-79 to 1980-81 is given in Annexure II. It would be seen therefrom that the materialisation of demands in respect of

5 BRDs ranged from 79 to 100 *per cent* during 1978-79, 60 to 95 *per cent* during 1979-80 and 20 to 100 *per cent* during 1980-81.

2.2 *Under-utilisation of installed capacity :*

In the case of BRD 'J' the annual task allotted for repair of aircraft for the years 1976-77 to 1980-81 ranged from 21 to 50 *per cent* of the installed capacity (as per the project report). The actual output revealed considerable under-utilisation of installed capacity (*viz*. 48 to 71 *per cent*) during the period under review.

The Ministry of Defence stated (November 1981) that the availability of man-power was one of the essential requisites to determine installed capacity of the BRD and according to the availability of man-power, the capacity could be taken as half the installed capacity. However, the authorised establishment of the BRD was not reviewed to cater to only 50 *per cent* of the installed capacity.

3. *Non-productive man-hours in BRDs :*

There is no cost accounting system prevailing in the BRDs. As such no estimates are prepared before undertaking the repair/overhaul jobs. In the absence of estimates, consumption of materials and utilisation of man-power were not susceptible of any check. The Ministry stated (November 1981) that the task of the BRDs was such that a regular cost accounting system was not feasible.

As per records of the BRDs, non-productive man-hours (other than those spent on production jobs) totalled up to 1,94,40,972 valued at Rs. 3691.36 lakhs during the years 1976-77 to 1980-81. The BRD-wise details are given in Annexure III.

It was noticed from the man-hours statistical returns prepared by the BRDs that non-productive manhours were mainly due to service personnel having to perform guard duties, ceremonial and other parades, collection of rations/clothing, etc.

4. *Excess utilisation of man-hours for overhaul of aircraft :*

4.1 The Ministry of Defence had authorised (June 1971) 6,250 man-hours for overhaul of an aircraft (Type I). However, for the overhaul of 38 aircraft by BRD 'A' during 1975-76 to 1979-80, 5,36,191 man-hours were utilised in excess of the prescribed limit and the value thereof worked out to Rs. 83.74 lakhs. The actual man-hours utilised during the overhaul of 22 (out of 38) aircraft, ranging from 18,065 to 34,680 (as against 6,250 man-hours prescribed), were regularised under sanction accorded by the Ministry of Defence in December 1980.

4.2 During April 1980—December 1981, 12 more aircraft were overhauled by consuming 1,01,213 man-hours in excess of the prescribed limit and the value thereof worked out to Rs. 28.34 lakhs.

4.3 The Ministry stated (November 1981) that the approved man-hours were meant for scheduled operations and did not cover unscheduled operations like structural repairs, finishing, etc. No action was, however, taken to get the man-hours prescribed for unscheduled operations. On the other hand, the Air HQ had to obtain Government sanction from time to time for regularisation of the excess man-hours utilised in each and every case.

4.4 Similarly, in respect of 48 aircraft of various types repaired/overhauled by BRD 'B' during 1976-77 to 1979-80, 44,011 man-hours (valued at Rs. 6.19 lakhs) were utilised in excess of the prescribed limit.

5. *Other topics of interest* :

5.1 *Dis-establishment of an engine repair line* :— BRD 'D' was responsible for repair/overhaul of certain types of aero-engines. The engine repair line in respect of one of these types, which had been functioning for about 18 years, was closed down in April 1979 as per orders issued by the Ministry of Defence in September 1978. This work was transferred (April 1979) to a public sector undertaking which was also simultaneously doing the same job as BRD 'D'.

As a result of dis-establishment of the engine repair line in BRD 'D', 233 technicians and 25 equipment assistants and storekeepers (whose monthly wage bill amounted to Rs. 1.29 lakhs) were rendered surplus. On closing down of the engine repair line, the surplus man-power was stated (March 1981) to have been diverted to other overhaul lines (in the same BRD). The Ministry stated (November 1981) that the airmen rendered surplus were not even sufficient to meet the shortage of the established strength of this BRD. The Ministry added (October 1982) that BRD 'D' had since submitted its proposal for revision of establishment.

The undertaking did not take over all the connected items of spares from the BRD. Consequently, 1,100 items valued at Rs. 7.74 lakhs were rendered redundant. The Ministry stated (November 1981) that the items rendered surplus were being disposed of as per existing regulations. Only 177 items (Rs. 0.29 lakh) were stated (April 1982) to have been diverted to certain other Air Force units, etc.

5.2 *Delay in setting up of repair line for an aircraft*:—Mention was made in paragraph 6 of Audit Report (Defence Services) for 1976-77 about delay in setting up of overhaul/repair facilities for aircraft (of two Types 'A' and 'B'). It was, *inter alia*, mentioned therein that pending creation of indigenous facilities at BRD 'C' air-frames and aero-engines of one such type of aircraft (aircraft 'A') had to be sent abroad for overhaul during 1974-75 and 1976-77, involving an expenditure of Rs. 105.33 lakhs. The overhaul line of this type of aircraft was commissioned during 1979-80. Meanwhile, a further expenditure of Rs. 225.52 lakhs was incurred on the air-frames/aero-engines sent abroad for overhaul.

Owing to delay in setting up the repair facilities, the authorised utilisation rate of 45 hours per month originally prescribed (October 1971) for the aircraft was reduced (April 1980) to 25 hours per month, thereby resulting in reduced flying effort.

The Ministry stated (November 1981) that the engine overhaul line could not be commissioned as planned due to the following reasons :

— Construction of major work services (engine) could not be completed by December 1979.

— An important equipment required to be provided in the test bed, which was expected to be imported during first quarter of 1979, was actually received at the end of 1979.

5.3 *Modification of glider launching winches etc*: — Certain glider launching winches of type 'A' were inducted in service during 1964—66. The petrol engines fitted on these winches were stated to be under-powered and also the servicing spares were difficult to procure. In order to improve their performance, the Ministry accorded sanction (February 1976) to the procurement of diesel engines (manufactured by a private firm) for modification of 44 winches at an estimated cost of Rs. 8.54 lakhs. Forty-four diesel engines were procured at a cost of Rs. 10.55 lakhs against a contract concluded by the Director General, Supplies and Disposals in December 1976. The supply of these engines materialised during January-February 1977. BRD 'G' was entrusted with the modification work on these winches during 1976-77 to 1980-81, however only 30 winches were modified. Fourteen engines (cost : Rs. 3.36 lakhs) were diverted by BRD 'G' for dieselisation of domestic fire tenders, involving an expenditure of Rs. 2.40 lakhs on modification work without any sanction. In all, 16 fire tenders were modified by utilising 14 diverted engines and 2 locally purchased engines (in 1980-81) at a total cost of Rs. 20.84 lakhs (cost of labour: Rs. 16.43 lakhs; cost of engines: Rs. 4.41 lakhs) for which *ex post facto* sanction was obtained in November 1981. These fire tenders were already 15 years old and source of spares required for repair/overhaul of their mounted equipment had already dried up. The expenditure of Rs. 16.43 lakhs on modification of fire tenders in addition to the cost of engines (Rs. 4.41 lakhs) would thus hardly serve any purpose.

While entrusting the modification work (1976) on glider launching winches of type A' to BRD 'G', the Air HQ had specifically instructed that the modification work should be undertaken only on type 'A' winches and not on type 'B' winches. However, BRD 'G' had modified 4 winches of type 'B' during 1977-78 (cost : Rs. 2.13 lakhs). The Air HQ intimated (June 1981) that the Air Staff Equipment Policy sub-committee had (May 1981) declared type 'B' winches as obsolescent and these were not to be overhauled. Thus, the modification work already carried out on 4 winches of type 'B' (cost : Rs. 2.13 lakhs) was infructuous.

5.4 *Uneconomical repair/overhaul work undertaken by BRDs.*— No repair work can be undertaken if estimated expenditure exceeds 50 *per cent* of the price of new equipment. In exceptional circumstances, however, when the items are in short supply or not available in the country, the repair work can be undertaken with the prior approval of the Air HQ, if the estimated cost of repair exceeds 50 *per cent* of the price. In actual practice, however, estimates of repair charges were not being prepared before undertaking the jobs. Even after completion of the job, the expenditure actually incurred was not computed to determine the economics of the repair work done. An analysis of major jobs executed by BRD 'G' during 1976-77 to 1980-81 revealed that in the case of repair of 28 specialist vehicles, the cost of labour element alone (Rs. 16.05 lakhs) was more than 50 *per cent* of the cost of new vehicles (Rs. 18.60 lakhs).

The Ministry stated (October 1982) that the limit of expenditure on repair/overhaul up to 50 *per cent* of the cost (of new equipment) applied only at the time of preparing the estimates for the job and after specialist vehicles were stripped system-wise and taken on the repair line, the actual expenditure was likely to exceed the limit in certain cases. The fact remains that the estimates were not prepared before undertaking actual repairs nor was the actual expenditure reviewed from time to time.

5.5 *Closing down of BRD 'B'*,—BRD 'B' was formed at a certain station with effect from 1st April 1963 for major servicing/repair/reconditioning of certain old types of aircraft and helicopters. In September 1975, Government accorded sanction to the provision of permanent single domestic accommodation and allied works for airmen (working in the BRD) at a cost of Rs. 25.29 lakhs. Earlier in February 1970, Government had accorded another sanction (go-ahead) to the execution of works services for the BRD at a rough cost of Rs. 81.77 lakhs. The works covered by the earlier sanction were of the type of technical, administrative and storage accommodation required for the depot. These included *inter-alia* three large size hangarage for parking aircraft, spacious workshop buildings, provision of heavy (2-ton to 5-ton) electrically operated travelling cranes and all other allied works (in-built fittings and fixtures) essentially required for running the BRD. The provision of these assets ultimately involved total expenditure of Rs. 135.89 lakhs and these were completed during 1975 and thereafter.

In January 1980, Government decided to close down BRD 'B'. The repair/overhaul work being done by BRD 'B' was entrusted to a public sector undertaking (from April 1981) located at a different station. This involved shifting of almost entire plant and machinery (by dismantling) for being handed over to the public sector undertaking. Shifting of the entire stock of overhaul spares, ground/test equipment, tools and facilities existing at the BRD was ordered to be completed during March—May 1981. Consequently, the assets created for the BRD at a cost of Rs. 135.89 lakhs ceased to serve their intended purpose.

As a result of the closure of the BRD certain test/ground equipment, jigs, etc. valued at Rs. 1.52 lakhs were also rendered surplus and were awaiting disposal.

Certain plant and machinery valued at Rs. 0.39 lakh, which had not been put to use at all/or only partially used by the BRD, were lying idle as the same were not accepted by the public sector undertaking.

Costly ground equipment (electrical), diesel generating sets, aircooling trolleys, airconditioners and ground power units (received in repairable condition from users) costing Rs. 10.75 lakhs were also lying in the open in the BRD, exposed to the vagaries of weather and consequential deterioration. No orders for their despatch to the repair agency concerned or for their disposal had been issued so far (April 1982).

6. Excess payment of compensation in lieu of quarters to Air Force personnel :

Compensation in lieu of quarters (CILQ) was payable at prescribed rates (*viz.* Rs. 24 to Rs. 61 per month) to married Air Force personnel who are not provided with Government accommodation and are permitted to live out. During 1973, 422 quarters were hired by BRD 'F' (under its own arrangements) from a housing authority for which rental charges were paid out of non-public funds since there are no Government orders for such hiring. As quarters for Air Force personnel within the married establishment were not available, these quarters were allotted to the Air Force personnel at a monthly rental of Rs. 45. The claims of these personnel were certified by the BRD authorities to the effect that the actual expenditure was not less than the amount of CILQ claimed. Consequent on revision of the rates (Rs. 95 to Rs. 165 per month) under Government orders issued in September 1976 but given retrospective effect from 1st November 1973, arrears on account of difference between the old and new rates were paid to entitled personnel. The payment of claims at maximum rates was objected to by the internal audit authorities in February 1977, but the BRD authorities continued to make payment of such claims. The irregularity was mentioned in the Appropriation Accounts (Defence Services) for 1979-80. The Controller of Defence Accounts concerned took up (April 1980) the matter with the Air Force Command HQ to restrict the payment of CILQ to the entitled personnel with reference to the actual rent (Rs. 45 per month) charged from them plus hire charges of furniture (@ 2½ *per cent* of the pay) and hire charges of fans (@ Rs. 11.60 per ceiling fan per month). The Air Force Command HQ instructed (July 1980) the BRD authorities to regulate the payments accordingly and initiate a case for waiver under Government orders of irregular/over-payment made in the past. The payment of CILQ was restricted by the BRD authorities from June 1980 onwards. The amount of irregular/over-payment was assessed (August 1980) by the BRD authorities at Rs. 3.70 lakhs and was yet to be regularised (October 1982) under Government orders.

7. *Summing up.*— The following are the main points that emerge :

— There was shortfall in output in each BRD as compared to the task allotted for the years 1976-77 to 1979-80.

— In the case of BRD 'J', there was considerable under-utilisation (48 to 71 *per cent*) of the installed capacity (as per the project report) during 1976-77 to 1980-81.

— No cost accounting system or specific check over the consumption of materials and labour existed in the BRDs. During the period under review over 194 lakh manhours valued at Rs. 3691 lakhs remained non-productive.

— In BRDs 'A' and 'B' about 6.81 lakh manhours valued at Rs. 118.27 lakhs were utilised in excess of the prescribed manhours, in the repair/overhaul of the aircraft.

— An engine repair line, which had been in existence for the last 18 years in BRD 'D', was closed down in April 1979, resulting in redundancy of stores worth Rs. 7.45 lakhs.

— There was considerable delay in setting up repair facilities for an aircraft in BRD 'C'. Consequently, the repair/overhaul work was got done from abroad, involving a total expenditure of Rs. 330.85 lakhs. This also resulted in reduced flying effort.

— Expenditure of Rs. 20.84 lakhs on modification of fire tenders by BRD 'G' would not serve any purpose.

— Expenditure of Rs. 2.13 lakhs incurred on modification of 4 numbers of winches of type 'B' (not required to be modified) by BRD 'G' was infructuous.

— Repair/overhaul jobs were being undertaken in BRDs without going into the economics. In the case of repair of 28 specialist vehicles by BRD 'G', the cost of labour (Rs. 16.05 lakhs) alone had exceeded 50 *per cent* of the cost of new vehicles (Rs. 18.60 lakhs).

— BRD 'B' established over a period of 18 years, involving an expenditure of about Rs. 161.18 lakhs (on works services alone), which was dis-established in 1981, ceased to serve the intended purpose. Tools (Rs. 1.52 lakhs) were rendered surplus. Ground equipment, diesel generating sets, etc. (in repairable condition) costing Rs. 10.75 lakhs were also lying in the open subject to deterioration.

— CILQ (amounting to Rs. 3.70 lakhs) had been paid in excess to the Air Force personnel of BRD 'F', who were provided quarters hired from a housing authority under its own arrangements.

ANNEXURE I

(Referred to in sub-para 2.1)

COMPARISON OF TASK VIS-A-VIS OUTPUT

Name of BRD	Major equipment	1976-77			1977-78			1978-79			1979-80			1980-81		
		Task (a)	Output (b)	Shortfall (Per cent) (c)	(a)	(b)	(c)	(a)	(b)	(c)	(a)	(b)	(c)	(a)	(b)	(c)
BRD 'A'	Aircraft (Type I)	21	21	—	28	29	—	26	12	54	22	31	..	15	36	—
	Aircraft (Type II)	14	8	43	10	7	30	10	8	20	16	8	50	7	5	29
BRD 'B'	Aircraft	53	52	2	46	15	67	40	30	25	30	31	—	36	36	—
	Aero-engines	2	—	100	—	—	—	—	—	—	—	—	—	—	—	—
BRD 'C'	Aircraft	24	20	17	22	4	82	16	19	—	18	23	—	13	13	—
	Aero-engines	66	82	..	68	52	24	29	26	10	37	49	—	22	26	—
BRD 'D'	Aero-engines	62	67	—	101	89	12	103	92	11	68	66	3	68	68	—
BRD 'E'	Aircraft	40	35	12	43	24	44	45	29	36	40	32	20	44	40	9
BRD 'F'	Air Defence Equipment	117	116	1	117	103	12	117	91	22	108	108	—	118	118	—
	Specialist vehicles and generating sets	90	73	19	90	76	16	86	70	19	86	85	1	93	93	—
BRD 'G'	Specialist vehicles	80	89	—	80	82	—	86	90	—	82	83	—	82	82	—
	Engines of vehicles	100	119	—	120	101	16	120	86	28	No separate task	100	—	—	57	—
BRD 'H'	Signal and other equipment	2,760	2,528	9	3,405	3,039	11	2,952	3,292	Nil	3,880	3,895	—	3,797	3,886	—
BRD 'J'	Aircraft	12	16	—	24	20	17	24	24	—	19	19	—	10	14	—

ANNEXURE II

(Referred to in sub-para 2.1)

Statement showing extent of materialisation of demands by BRDs

Year	BRDs' 'A' and 'D'			BRD 'B'			BRD 'C'			BRD 'H'		
	No. of items demanded	No. of items materia-lised	Percentage of mat-erialisa-tion of demands									
	(a)	(b)	(c)	(a)	(b)	(c)	(a)	(b)	(c)	(a)	(b)	(c)
1978-79	3,946	3,118	79	369	369	100	899	709	80	212	212	100
1979-80	2,011	1,361	68	408	343	84	1,503	898	60	308	294	95
1980-81	1,48,299	86,965	59	776	776	100	1,348	268	20	496	395	80

ANNEXURE III

(Referred to in sub-para 3)

Statement showing BRD-wise details of non-productive manhours (with value thereof) during 1976-77 to 1980-81

BRD	Total non-productive manhours for 5 years	Value of non-productive manhours (Rs. in lakhs)	Percentage of non-productive manhours to manhours available				
			1976-77	1977-78	1978-79	1979-80	1980-81
BRD 'A'	33,79,543	659.40	40	35	33	29	31
BRD 'B'	12,71,031	239.62	40	26	53	39	35
BRD 'C'	32,99,073	613.05	32	47	63	50	24
BRD 'D'	41,97,577	735.47	46	33	28	22	25
BRD 'E'	22,06,403	429.06	26	33	31	32	31
BRD 'F'	14,41,969	283.27	———	———	NA	———@@	20
BRD 'G'	9,75,483	187.69	28	42	42	34	33
BRD 'H'	11,28,410	222.85	30	36	46	38	40
BRD 'J'	15,41,483@	320.95	NA	34	24	27	33
	1,94,40,972	3691.36					

@Does not include figures for 1976-77.

@@Year-wise break-up of figures for 1976—80 not available.

44. Wrongful appropriation of public revenues to non-public funds

In order to provide an open and safe tract for practice firing by the Air Force aircraft in a sector, the Ministry of Defence accorded sanction (January 1962) for acquisition of 3,627 acres (approximately) of land at an estimated cost of Rs. 24.50 lakhs. Acquisition action got delayed because the State Government was reluctant to the acquisition of certain portions of this land. The land was, therefore, requisitioned under the Defence of India Act, 1962 and handed over to the Air Force in April 1963. Covering Government sanction for the requisitioning of 3,677 acres of land at an annual rental of Rs. 2.24 lakhs was issued in December 1967. Later, in February 1970, the Ministry accorded sanction to the acquisition of this land at an estimated cost of Rs. 84 lakhs. The land was finally acquired at a cost of Rs. 1.45 crores in March and June 1971 by which time rental amounting to Rs. 14.37 lakhs had been paid.

The Military Lands and Cantonments (ML&C) authorities during an inspection of the area in April 1970 observed that the entire area (except for a small patch) was under cultivation by the original land-owners and some of them had sunk tubewells after the lands were requisitioned. The Special Military Estates Officer (MEO), therefore, advised the local Air Force authorities to get the encroachments removed.

In view of the difficulties experienced in removing encroachments and unauthorised cultivators (and without instituting eviction proceedings) the local Air Force authorities evolved (April 1972) a scheme making the cultivators (original land-owners) the farm managers of the lands (already acquired for defence purposes). The Air Headquarters (Air HQ) whose approval to the scheme was sought replied (July 1972) that they had no objection to the cultivation of these lands under unit arrangements as per the policy laid down by them in January 1971 according to which cultivation of Air Force lands was to be undertaken subject to certain conditions which *inter alia* stipulated that (i) stations/units might employ labour on the pay roll of the Service Institute for which payment was to be made in cash or kind (out of non-public funds) and (ii) profits would be credited to the Service Institute (non-public funds).

In August 1973, the Ministry decided that after 5th November 1973 temporarily surplus lands could be cultivated by troop labour on payment of one-fourth of the gross produce as lease rent (to be credited to public funds). In supersession of these orders, the Ministry decided (May 1976) that :

— defence lands which were rendered surplus temporarily could be placed at the disposal of the ML&C authorities for being leased out for agricultural purposes temporarily;

— lands close or within the perimeter of installations or any other lands which could not be placed at the disposal of the ML&C authorities on account of security considerations could be cultivated through troop labour or where feasible, by security cleared private labour and such lands could not be given to private parties on lease basis or on the basis of sharing crops and wherever such managements were in vogue, these should cease forthwith; and

— in respect of land in excess of the prescribed ceiling one-fourth of the net profit was to be credited to Government.

The previous owners of the lands were allowed by the local Air Force authorities, in the capacity of farm managers to cultivate the lands on year-to-year basis; the realisations from the farm managers in respect of land under their cultivation were worked out by a Board of Officers every year partly on the basis of the total produce assessed with reference to certain quantum of yield per acre (for different types of land) in consultation with a specialist from an agricultural university and partly on the basis of assessed rates of licence fee per acre. An amount of Rs. 0.82

lakh realised for the first crop *i.e.* for the year 1972-73 was credited in full to non-public funds. The total realisations from the farm managers during the subsequent years 1973 to 1980 amounted to Rs. 21.48 lakhs (which was not related to actual gross produce or net profit), out of which a sum of Rs. 5.32 lakhs was credited to Government revenues. This arrangement was, however, not in accordance with the orders applicable from 5th November 1973, according to which temporarily surplus lands could be cultivated by troop labour or wherever feasible by security cleared private labour on payment of one-fourth of the gross produce (modified to net profit in May 1976) as lease rent. But in the present case land was being cultivated neither by troop labour nor by security cleared private labour but by ex-owners designated as farm managers who were asked to ensure certain minimum amount of net profit per acre. Moreover, as per the Board proceedings, the amounts realised were not related to actual produce but were worked out on the basis of assessment made of the gross produce/lease rent per acre. Had the acquired land been temporarily placed under the management of the local MEO for leasing out for cultivation purpose instead of cultivated through ex-owners in the capacity of farm managers, the entire realisation on account of lease rent would have been credited to Government revenues.

Apart from the firing range area of 3,677 acres, there were two other vast tracts of agricultural lands measuring 185 acres and 615 acres in the possession of the Air Force. These lands were also under cultivation through farm managers since November 1973 on year-to-year basis. The value of gross produce in respect of the first tract for the period from November 1973 to December 1980 was worked out at Rs. 4.89 lakhs on the basis of assessed rate per acre (which did not represent the net profit with reference to actual produce), out of which a sum of Rs. 1.22 lakhs (one-fourth share) was credited to Government revenues. In respect of the second tract, out of the collection of Rs. 13.09 lakhs for the period from November 1973 to December

1980, a sum of Rs. 3.29 lakhs (one-fourth share) was credited to Government revenues.

The Ministry of Defence stated (July 1982) that :

— encroachments (on 3,677 acres of land) could not be stopped by the Air Force authorities because the land was situated at a distance of about 45 Kms. from the concerned unit and neither there was any security fencing/ wall around the area nor was sufficient manpower available to protect or guard the land;

— the intention of the arrangement (of managing the land through farm managers) was only to ensure that the ex-land owners did not claim any right of occupation under the Tenancy Act;

— all the cultivators (designated as farm managers) were security-cleared and were the employees of the Service Institute (under regimental arrangements) and these farm managers were to ensure that net profit did not fall below Rs. 150 per acre per annum;

— no revenue was realised as tenancy right since the land was not given on lease of tenure under the Tenancy Act; and

— a further sum of Rs. 1.65 lakhs representing 1/4th of the value of the produce (Rs. 6.60 lakhs) for the calendar year 1981 was credited to Government revenues.

The following are the main points that emerge :

— Even after requisition (April 1963) and subsequent acquisition (March and June 1971) of 3,677 acres of land at a cost of Rs. 1.45 crores, the land remained under cultivation of the ex-owners and no revenue was realised for the period from April 1963 to March 1972.

— The scheme for cultivation of defence lands by the ex-owners in the capacity of farm managers was not in accordance with the policy laid down by the Ministry of Defence.

— Had the acquired land been temporarily placed under the management of the local MEO for leasing out for cultivation purposes instead of being cultivated through the ex-owners in the capacity of farm managers, the entire realisations on account of lease rent would have been credited to Government revenues.

45. Locking up of funds

Based on critical requirement, *inter alia,* of 35 numbers of equipment 'X' indented by the Air Headquarters in December 1980, two contracts were concluded by the Supply Wing of an Indian Mission abroad in March 1981 in consultation with the indentor as under :

Name of the firm	Quantity	Rate per unit £	Total amount £	Delivery schedule
'A'	25	576.89	14,422	10 numbers (by air) within 30 days and 15 numbers (by sea) in 240 days
'B'	10*	540.00	5,400	Within 14 days (by air)

*Firm 'B' offered only 10 numbers.

On 25th April 1981, the indentor informed the Supply Wing that the requirement of these items had been met locally through a public sector undertaking and requested cancellation of the maximum quantity from the contract or deferment of delivery by a period of 3 years. However, by then the suppliers had either despatched or made ready for despatch all the 35 numbers which were air-freighted to the consignee in April 1981 (25 numbers) and May 1981 (10 numbers).

In reply to a query by Audit, the indentor stated (June 1981) that :

(*i*) the undertaking also procures these items for its own use from the same supplier and while placing the indent, it had been ascertained from the undertaking that it was not able to sypply the items from stock;

(*ii*) indents for partial quantities were placed both on the undertaking and the Supply Wing so that double banking would be available; and

(*iii*) cancellation/postponement of the supply was necessary to avoid blocking of funds and also to get newly manufactured items when actually required for use.

According to the contracts the warranty on the items expired 15 months after delivery by the suppliers or 12 months after their arrival at the ultimate destination, whichever was earlier. Accordingly, the warranty on items supplied in April-May 1981 expired in mid-1982 whereas, according to the indentor's statement, the items would be required for use after 1984. The Ministry of Defence,while accepting these facts (November 1981), stated that the shelf life of these items is 10 years extendable to 15 years.

The faulty procurement planning on the part of the indentor resulted in locking up of funds amounting to £ 19,822 (Rs. 3.67 lakhs) for a period of 3 years and loss of the benefit of warranty.

The Ministry of Defence, actually, approved (April 1982) return of 25 numbers of this equipment to the supplier for exchange with another item at an additional cost of Rs. 7,192 plus transportation charges (Rs. 432).

G. N. Pathak

NEW DELHI
Dated the
21 FEB 1983

(G. N. PATHAK)
Director of Audit, Defence Services.

Countersigned

Gian Prakash

NEW DELHI
Dated the
22 FEB 1983

(GIAN PRAKASH)
Comptroller and Auditor General of India.