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CENTRAL GOVERNMENT

AUDIT REPORT  
DEFENCE SERVICES

1958

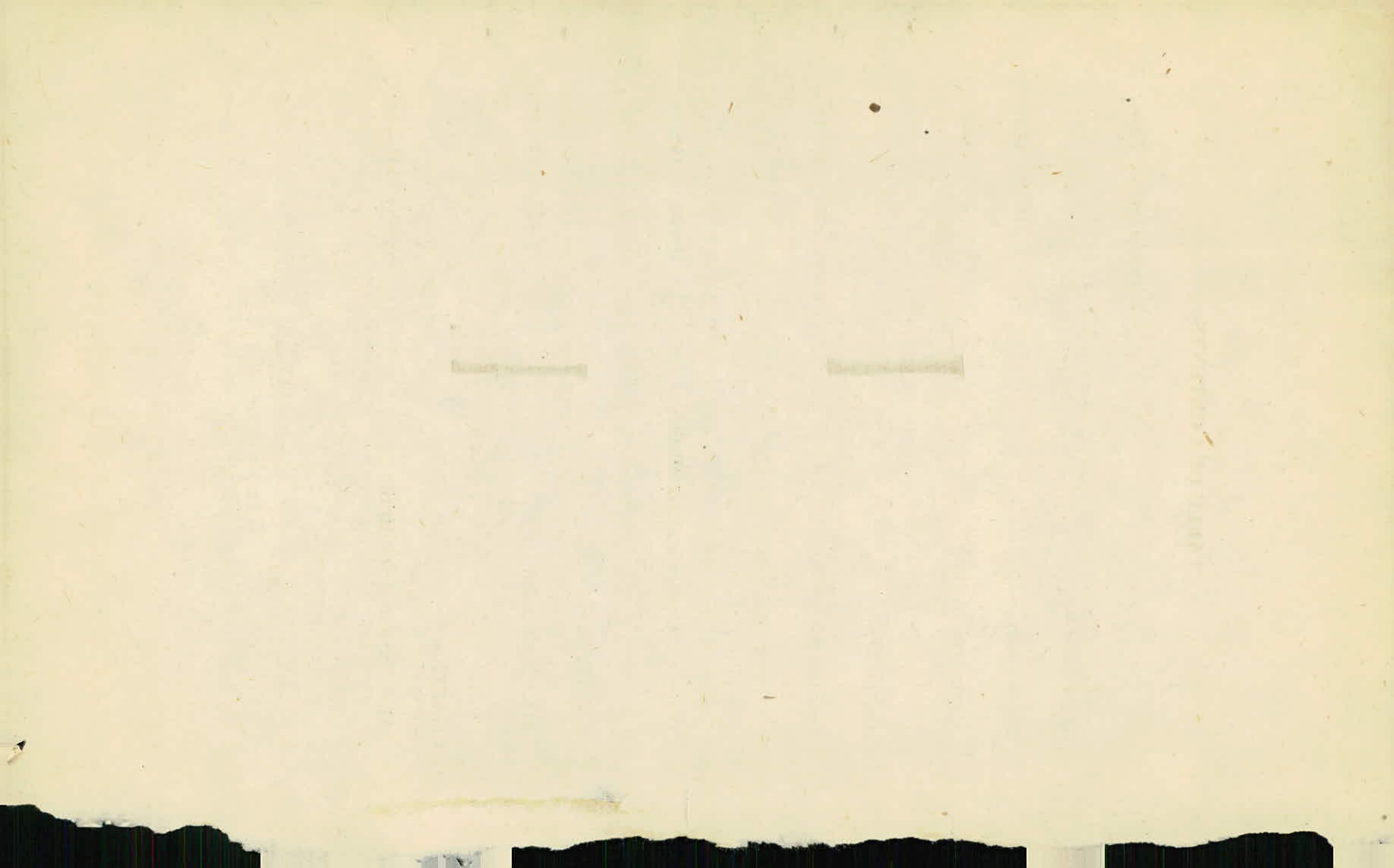
(Including Report on the Appropriation Accounts of the  
Defence Services and the Commercial Appendix  
thereto for the year 1956-57)

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## AUDIT REPORT, 1958

### CHAPTER 1

#### INTRODUCTORY

This Report recounts important financial irregularities etc. noticed in the course of audit of the accounts of the year 1956-57 and of previous years which could not be dealt with in the earlier Reports. Irregularities in respect of which adequate remedial measures have been taken by Government including suitable disciplinary action where necessary, have been generally excluded from the scope of the Report.

2. A disturbing feature is the casual manner in which the initial requirements of stores are first calculated and subsequently processed. Often the stock holding is not properly calculated and dues-in are not taken into account in making provisioning arrangements. As a result stores in excess of requirements are indented, either from abroad or the Ordnance Factories. Even when the correct requirements are later established by reviews, steps to reduce or cancel indents are not taken in time. As a result, there is a large accumulation of unwanted stores in depots and of raw materials and components in the Ordnance Factories. Often, the contracts are defective and the agreement to vary the quantities within a time limit is not incorporated in the contracts. This has enabled the suppliers to refuse to accept reductions and has led again to excess holding of stores.

Three orders for aircraft spares, placed on the basis of recommendations of the foreign manufacturers, have resulted in surpluses aggregating Rs. 35 lakhs, which could have been reduced substantially if the contracts with the foreign firms had not been defective. All these instances indicate the need for a full and detailed technical scrutiny of the estimates of requirements, as well as the necessity for restricting the orders for new equipment initially to the minimum economic level required.

3. The position in regard to the recoveries of rent etc. continues to be still unsatisfactory. A sum of about Rs. 2.79 crores in respect of rent bills issued up to March 31, 1957 was outstanding on September 30, 1957, the bulk of which was recoverable from the State



Governments and Central Ministries. The amount due from private parties alone was Rs. 19.99 lakhs.

4. Large sums are outstanding recovery on account of stores supplied and services rendered by the Defence Services (including Ordnance Factories) to other Governments and Departments as well as to private persons. On June 30, 1957, a sum of Rs. 4.23 crores was thus owing to the Defence Department out of which the large sum of Rs. 71.47 lakhs was due from private parties. In most of the cases the outstandings were mainly due to want of receipted copies of issue vouchers from the consignee Departments.

5. Despite the repeated observations of the Public Accounts Committee, and instructions issued by the Ministry, that works should be administratively approved at least six months before the funds are allotted and actual construction commenced, administrative approvals in respect of 103 works were not issued in time though sums aggregating about Rs. 99 lakhs were allotted during 1957-58. Out of this allotment, funds amounting to Rs. 31 lakhs had to be subsequently withdrawn.

6. The Proforma accounts of the Military Farms as at present prepared do not present a correct picture of the commercial working of these farms in as much as the "blended" and "standard" milk which form the bulk of the issues is priced, not on the basis of a fair market rate of such milk but principally on the cost of production of pure milk (which is excessive). The "profits" exhibited by these accounts cannot, therefore, be considered to be real.

7. The standard of store accounting and store-keeping in all the Branches of the Services still leaves considerable room for improvement. The results of stock verification continue to reveal large discrepancies, in some Depots, despite the fact that these discrepancies had been repeatedly commented upon in the previous Audit Reports. This situation indicates the need for constant vigilance on the part of the supervisory officers, so as to ensure the proper accountal and the safe custody of the stocks. It is also for the consideration of Government if the work of surprise stock verification should not be entrusted to an independent agency working directly under the Ministry or the Financial Adviser.

8. Heavy rejections involving substantial losses in manufacture continue to occur in the manufacture of certain types of stores in an Ordnance Factory since 1943-44.

9. 740 chassis valuing Rs. 2 crores were acquired between 1953 and 1955, but contracts for their body-building have been concluded only during 1956 and 1957. A further lot of 650 chassis (valued at Rs. 98 lakhs and obtained prior to 1948) still awaits body-building orders. The recurring expenditure on storage and maintenance of these idle equipments must be considerable not to mention the loss on account of their deterioration in storage, mostly in the open.

10. Attention is also invited to those paragraphs in the Report wherein cases of infructuous expenditure due to unnecessary purchase of equipment are detailed.

#### APPROPRIATION AUDIT

11. (i) *General results of appropriation audit.*—The following statement compares the total Grants or Appropriations for 1956-57 with the total disbursements:—

Particulars	Voted	(In thousands of rupees)	
		Charged	Total
1. Original Grants or Appropriations	2,54,54,48	..	2,54,54,48
2. Supplementary Grants or Appropriations	5,67,12	1,08,66	6,75,78
3. Aggregate Grants or Appropriations	2,60,21,60	1,08,66	2,61,30,26
4. Aggregate disbursements	2,39,39,26	1,12,47	2,40,51,73
5. Less (—) or more (+) than granted	(—)20,82,34	(+) 3,81	(—)20,78,53
6. Percentage of 5 to 3	8	3.51	7.95

(ii) *Savings on voted Grants.*—A comparison of the actual expenditure with the final Grants is given below. Savings occurred mostly under Army, Air Force and Defence Capital Outlay.

Number and name of Grant	Final Grant	Actual expenditure	(In thousands of rupees)	
			Savings	Percentage of savings
12—Army	1,55,90,31	1,52,82,56	3,07,75	1.97
13—Navy	14,31,07	12,46,61	1,84,46	12.89
14—Air Force	48,16,99	38,58,03	9,58,96	19.91
15—Non-Effective	13,83,23	13,16,72	66,51	4.81
117—Defence Capital Outlay	28,00,00	22,35,34	5,64,66	20.17



(iii) *Excesses over charged Appropriations.*—The following statement shows the excesses over the individual *charged Appropriations* requiring regularisation:—

<i>Number and name of Appropriation</i>	<i>Sanctioned Appropriation</i>	<i>Actual expenditure</i>	<i>Excess</i>
	Rs.	Rs.	Rs.
12—Army	2,44,000	4,36,786	1,92,786
14—Air Force		46,904	46,904
117—Defence Capital Outlay	11,74,000	13,15,087	1,41,087

(iv), *Statistics of Savings or Excesses in Voted Grants and Charged Appropriations as compared with the previous two years:*—

<i>Year</i>	<i>(In thousands of rupees)</i>		
	<i>Final Grants or Appropriations</i>	<i>Savings (—) or Excesses (+)</i>	<i>Percentage of excess/saving</i>
I	2	3	4
<i>Voted</i>			
1954-55	2,43,52,03	(—) 24,96,95	10.25
1955-56	2,45,07,00	(—) 30,56,47	12.47
1956-57	2,60,21,60	(—) 20,82,34	8.00
<i>Charged</i>			
1954-55	6	(—) 2	33.33
1955-56	5	(—) 5	100.00
1956-57	1,08,66	(+) 3,81	3.51
<i>Voted and Charged</i>			
1954-55	2,43,52,09	(—) 24,96,97	10.25
1955-56	2,45,07,05	(—) 30,56,52	12.47
1956-57	2,61,30,26	(—) 20,78,53	7.95



(v) *Control over Expenditure.*—A few important instances of defective control over expenditure noticed during the year are mentioned below:—

(a) *Excessive Supplementary Grant.*—

No. and name of Grant	(In thousands of rupees)	
	Supplementary Grant	Amount of Saving
12—Army . . . . .	5,67,12	3,07,75

(b) *Excessive Surrenders.*—

No. and name of Grant	Sub Head	(In thousands of rupees)	
		Amount surrendered	Excess over final Grant
13—Navy . . . . .	D	3,56	2,18
14—Air Force . . . . .	D	19,49	6,49
15—Non-Effective . . . . .	D	1,07	2,52

(c) *Inadequate surrender of Savings in Voted Grants.*—

No. and name of Grant	Sub Head	(In thousands of rupees)	
		Amount surrendered	Saving in final Grant.
13—Navy . . . . .	A	68	6,74
117—Defence Capital Outlay . . . . .	A-1	1,61,25	63,90
Do. . . . .	A-3	5,94	8,69

(d) *Reappropriation obtained unnecessarily.*—

No. and name of Grant	Sub Head	(In thousands of rupees)	
		Amount Reappropriated.	Final Saving
12—Army . . . . .	A	(+) 13,91	(-) 38,29
Do. . . . .	C	(+) 8,61	(-) 13,73

(e) *Defective budgeting.*—

The excess of Rs. 20 lakhs (approximately) over the final grant in respect of charges in England under Grant No. 12—Army is mainly due to an omission to make provision in the final Estimates for the payment for certain stores amounting to Rs. 19½ lakhs.

## CHAPTER 2

## PROCUREMENT OF STORES

## AIR FORCE

12. *Overprovisioning of stores.*—In June, 1953, the Government of India entered into a contract with a foreign Government for the purchase of a number of aircraft. The foreign Government undertook to arrange for the supply of all spare parts for maintaining the aircraft for a period of eight years. There was no stipulation about the dates by which the spares for the first two years were to be ordered. The spares for the third to the eighth year were, however, to be ordered within three years of the signing of the Agreement, and it was provided that any modification in this order would be accepted if communicated within twelve months.

The contracts for the spare parts were, however, concluded by the Government of India direct with two foreign firms who manufactured these spare parts and the foreign Government was not specifically made a party to these contracts in which unfortunately no stipulation was included about the buyer's right to alter the contracted quantity of the last order within one year of the date of placing the order. As a result of this omission, reduction in quantities in the light of actual Indian experience in overhaul and maintenance could not be effected. This led to unproductive expenditure on spares as indicated below:—

(a) Following the order for spare parts covering two years' requirements, placed in November, 1953 and January, 1954, on the recommendation of the manufacturers, an order for three subsequent years' requirements calculated on the same basis, was placed in August, 1954. In March, 1956, the requirement for spare parts was reviewed and a reduction in the order, to the extent of £ 119,433, was advised in April, 1956, to the manufacturers. They agreed to accept a reduction only to the extent of £ 25,270. In the absence



of a provision in the contract in favour of the buyer as mentioned above this reduced cut had to be accepted.

A review carried out by a team of specialists, early in 1957, disclosed surpluses to the extent of £ 150,000 (Rs. 20 lakhs approximately). If the contract for the spares had included the clause giving the purchaser the right to modify the quantity ordered and if further this right had been exercised within the time permitted, considerable savings could have been made in the outlay on spares.

(b) A contract for 12 Turbine Wheel Assemblies for the above aircraft was placed on a foreign firm in March, 1954. These were meant to cover maintenance for three years, as recommended by the manufacturers. In April, 1955, another contract was placed for 14 more such units, 8 of which were meant for maintenance and 6 for overhaul purposes.

Early in 1957, a team of experts calculated the total requirements as 3 units only, both for maintenance and overhaul, for the entire life of the aircraft, whereas orders had already been placed for 26 units as mentioned above. There was thus an excess acquisition of 23 units costing £ 45,867 (Rs. 6,11,560).

(c) In the case of four other items of spares, related to the same aircraft, procurement on the basis of manufacturers' recommendations also resulted in overstocking to the extent of £ 64,598 (Rs. 8,61,306).

13. *Purchase of Aero-engines.*—In September, 1955, the Air Headquarters enquired of the Air Adviser to the High Commissioner for India in the United Kingdom the price of an aero-engine, pending a final decision in regard to the procurement of three additional aero-engines for reserve. The suppliers, in their letter dated October 18, 1955 quoted £ 12,500 (subject to wage variation) for each aero-engine. This quotation held for 90 days. They made it clear that if orders were placed after the period mentioned, the price would be higher. It was decided in November, 1955 to accept the price quoted. But the indent was delayed till January 27, 1956. Meanwhile, the validity period had expired on January 16, 1956. The revised quotation of £ 13,975 (subject to wage variation) had thus to be accepted.

Had the order been placed before the expiry of the validity period, extra expenditure of £ 4,425 (Rs. 59,000) could have been avoided.

## NAVY

14. *Procurement of unwanted boats.*—Indents for four each, of two types of boats for training purposes were placed by Naval Headquarters on the Director General, Supplies and Disposals in June, 1955. They were received between June, 1956 and January, 1957. On September 12, 1956, the Naval Headquarters informed the Defence Ministry that as a result of experience gained during the previous year these boats would not meet the purpose intended. In spite of this, further demands for three each of the same types of boats had been placed on the Director General, Supplies and Disposals as late as September 1, 1956. The orders for the supply of the boats were placed by him on January 23 and January 29, 1957. An attempt was made only on February 28, 1957 to cancel the demands but this could not be done without payment of compensation. The additional boats were received during September and November, 1957. The expenditure of Rs. 3,86,963 incurred on these purchases has thus become infructuous.

15. *Purchase of unwanted equipment.*—In July, 1953, the Naval Headquarters placed, in anticipation of Government sanction (which was issued in January, 1954) an indent on the Central Purchase Organisation for two Electric Stackers (a proprietary equipment used for lifting loads and stacking them) for operation on 230 volts AC 3 Phase 50 cycles. The stackers purchased at a cost of Rs. 21,365, were received during June, 1954 in two Depots. But they could not be put to use as the electric current available at the stations was different *viz.* 230 volts AC 1 Phase 50 cycles in one station and 440 volts AC 3 Phase 50 cycles in the other.

In August, 1954, the suppliers who were consulted advised that the only way the stackers could be used was by fitting in new induction motors wound to suit 230 volts AC 1 Phase 50 cycles. This they offered to supply at Rs. 1,885 each. The Government sanctioned their purchase only on June 6, 1957 and the indent was placed by the Naval Headquarters on the Central Purchase Organisation on June 18, 1957, when the price had risen to Rs. 3,000 each. The motors have not yet (April 1958) been received in the Depots. On July 1, 1957 the authorities of one Depot reported that due to the limited mobility of the stackers, distance between the godowns, absence of roads for moving them and lack of sufficient stores requiring stacking, it might not be possible to utilise the stacker fully even after a suitable motor



was fitted in. In spite of this the indent for the motors was not cancelled.

This case appears to be one of purchase of a new and costly equipment without proper check of its technical suitability and of the prospects of its utilisation.

16. *Over provisioning of stores.*—In a review, a Naval Store Officer estimated his requirement of a certain type of fire extinguishers to be 564 for two years ending July, 1956. The entire quantity was purchased through the Central Purchase Organisation. Only 70 numbers were issued upto July 31, 1956 leaving 494 numbers lying unused in stock. His requirements for a further period of two years upto July, 1958 were reported to be only two. This indicates that the provision made in 1954 was excessive.

#### MASTER GENERAL OF ORDNANCE

17. *Overprovisioning of Stores.*—(a) On the basis of an approved scale, a Central Ordnance Depot computed its requirements of an item of store for overhauling an equipment, as 1,270 numbers, on April 1, 1953. The total deficiency of this item was calculated as 1,350 numbers. On January 8, 1954, the Army Headquarters intimated a revised and reduced scale, according to which the requirements for overhaul came to 64 numbers only. Despite this reduction in scale, a demand was placed by the Depot on January 29, 1954 for the deficiency of 1,350 numbers as originally calculated.

In March, 1954, the Army Headquarters intimated also a reduction in the number of the equipment requiring overhaul. No action was taken by the Depot even then to revise the demand. As a result unnecessary store of the value of Rs. 28,000 was acquired. As the contract for the supply of these stores was concluded in July, 1955 only and the stores were received in January, 1956, the unnecessary acquisition of these stores could have been avoided had prompt action been taken to reduce the demand on receipt of intimation regarding the change in the scale, and in the number of equipment requiring overhaul.

(b) In September, 1951, a Central Ordnance Depot placed two demands of 1,10,635 lbs. and 1,10,100 lbs. on the Director General, Ordnance Factories, for an item of engineer stores, to be supplied during 1952-53 and 1953-54 respectively. These demands were based mainly on estimates made by the Engineer-in-Chief.

In December, 1951, another Central Ordnance Depot informed the first Depot that it had a surplus stock of over 1,50,000 lbs. of the same item. No action was, however, taken by the first Depot to reduce the demands already placed by it in September, 1951. Even during the subsequent provision review made on June 1, 1952 this stock of 1,50,000 lbs. was not taken into account. This review disclosed a surplus of 1,13,576 lbs. (exclusive of this stock of 1,50,000 lbs.) and the demand for a quantity of 1,10,100 lbs. only was cancelled, in October, 1952.

Including the quantity made available from the second Depot, a stock of 2,63,479 lbs. valued at over Rs. 3.6 lakhs accumulated with the first Depot on December 1, 1956. It was noticed that against the Engineer-in-Chief's estimated requirement of 1,09,648 lbs. for each of the years 1952-53 and 1953-54 his consumption during those years was 7,504 lbs. and 1,932 lbs. only. At this rate of consumption, the stock would last for over 50 years.

18. *Purchase of spare parts.*—A contract was concluded with a foreign Government on September 29, 1953 for the supply of an equipment together with connected spares. According to the offer made earlier by the foreign Government on December 3, 1952, the cost of spares was £ 5,162 only, but no detailed list of the spares, with item-wise cost, was obtained. In the draft agreement forwarded by the foreign Government on May 21, 1953 the price of the spares was, however, raised to £ 13,194. On examining the draft agreement the Government of India, on August 19, 1953, instructed the Director General, India Stores Department, who was associated with the deal, to ascertain through the Military Adviser concerned the reasons for the cost of the spares having more than doubled. He was informed by the representative of the foreign Government that the increase in the cost of spares was due to increase in the overall quantity of spare parts asked for by the Government of India, and the Military Adviser confirmed that the Government of India were, in fact, asking for more spares than were originally offered. The contract was finalised providing for the increased cost of spares.

It is not clear how the representative of the Government of India confirmed the statement of the foreign Government about the increase in the quantity of spares when there was no list of spares originally offered by the other Government, for comparison with the list of spares subsequently asked for by the Government of India.



## QUARTER MASTER GENERAL

19. *Purchase of automatic bottle filling and capping machines.*—In January, 1953, the Military Farm authorities of a Command proposed the purchase of three electric driven automatic bottle-filling, sealing and cap-making machines, at an estimated cost of Rs. 10,000 each, with a capacity of 1,800 bottles per hour. This proposal was not, however, accepted by the Quarter Master General who decided in April, 1953 that as the sale of bottled milk was comparatively small, a hand operated machine installed at a central place would be more economical.

Subsequently, in December, 1953, on considerations which were not recorded, the Quarter Master General placed an indent on the India Stores Department, London, for the purchase of two such automatic machines at a cost of Rs. 12,975 each. These machines were received in the Farms, in which they were proposed to be installed, in November, 1955, i.e., after about two years from the date of indent.

Of the two machines, one is not being used at all, and the other is being used hardly for an hour a day for filling purposes and about another hour for cap making. The purchase of these machines would, therefore, appear to have been made without a proper consideration of their utility in Military Farms.

As a result of the introduction of these automatic machines, two hand operated capping and sealing machines (book value Rs. 3,900 approximately) already with the Military Farms are kept idle and the stock of old model bottles, paper hoods, discs and rings etc. (costing Rs. 66,700) has been rendered surplus. It has been stated by the Ministry that the hand operated capping and sealing machines would be kept as stand-byes and the old type of bottles etc. would continue to be used in certain selected farms till the entire stock is exhausted, over a period of four to five years. Keeping two hand operated machines as stand-by when one of the two automatic machines is itself lying idle, appears to be an uneconomic and unbusinesslike arrangement.

## MINISTRY OF WORKS, HOUSING AND SUPPLY

20. *Purchase of plywood at excessive rates.*—In September, 1951, three indents were placed by a Central Ordnance Depot on the

Central Purchase Organisation for 54 items of plywood measuring in all 6,22,420 sq. ft. for delivery between April and December, 1952 in equal monthly instalments. In November, 1951, the Central Purchase Organisation issued tender enquiries to 14 firms stipulating that the delivery should be completed by September, 1952, but the advanced delivery schedule was not intimated to the indenter. Two firms quoted, the first one for 36 items, with a delivery period of 9 months from January, 1952 to September, 1952 and the second one for all the 54 items, with a delivery period of 6 months from April, 1952 to September, 1952. Though the rates offered by the first firm were higher by about Rs. 91,920 (after making adjustments for some small price reductions effected by negotiation), orders for part quantity of the 36 items measuring 3,28,480 sq. ft. were placed with it in February, 1952, with the stipulation that delivery be completed by July, 1952. The lower offer of the second firm for the 36 items was rejected on the ground that it had certain Government orders already pending with it and it might not be able to complete supplies before September, 1952. Orders for the balance of 18 items were, therefore, placed on the second firm.

The first firm represented within 10 days of receiving the order that it could not meet the revised delivery date given. It repeated again its inability in June and July, 1952, stressing that the date had been revised by Government unilaterally. The firm supplied 54,768 sq. ft. only by the stipulated date of July 31, 1952. The date for completion of delivery was thereafter extended to August 31, 1952, subject to recovery of liquidated damages at 2% of the price of stores for each month's delay. The firm supplied a total of 86,080 sq. ft. by the extended date. In view of the delay in supply and the downward trend in the market, it was proposed on October 22, 1952, by the Central Purchase Organisation to cancel the contract and to invite fresh tenders for the outstanding quantities. But as a result of the representation made by the first firm on October 27, 1952, for further extension and against the recovery of liquidated damages, it was finally decided on November 5, 1952 to permit the firm to complete the order for a further quantity of 1,42,378 sq. ft. by end of February, 1953 at reduced rates and to invite fresh tenders for the balance of 1,00,022 sq. ft. The firm was informed accordingly.

Fresh tenders, invited on November 28, 1952, showed that the market rates in respect of certain types of plywood were considerably lower than the revised rates at which the defaulting firm had



been allowed to complete the supply. Government had incurred excess expenditure in the above purchases, as detailed below:

- (1) Difference in the two quotations in respect of quantity of 86,080 sq. ft. delivered upto 31-8-1952—Rs. 29,859.
- (2) Difference in the revised rate allowed to the firm and the market rate for supply of 1,42,378 sq. ft.

For 61,781 sq. ft.                      Rs. 30,769

For the balance of                      Value cannot be calculated as  
80,597 sq. ft.                              the market rates are not  
known.

A sum of Rs. 1,005 was recovered from the firm on account of delayed supplies.

### CHAPTER 3

#### DEFENCE FACTORIES AND INSTALLATIONS

##### DIRECTOR GENERAL, ORDNANCE FACTORIES

21. *Heavy rejections.*—Heavy rejections in the manufacture of two items in an Ordnance Factory during the years 1943-44 to 1948-49, 1949-50 to 1950-51 and 1951-52 were mentioned in paragraphs 5, 2 and 7(a) of the Audit Reports on the Commercial Appendix to the Appropriation Accounts for 1948-49, 1950-51 and 1951-52 respectively. These rejections were attributed to shortage of skilled workmen and want of proper quality of sand, steel, etc. The Public Accounts Committee was informed, in 1953, that the labour had since been trained for the work and that proper quality of sand had also been obtained, *vide* paragraph 66 at page 23 of the Ninth Report of the Public Accounts Committee. In spite of these assurances, during the years 1952-53 to 1955-56 also, rejections in the manufacture of the same items continued to be quite substantial as shown below:—

Item	Quantity cast 2	Quantity accepted 3	Quantity rejected 4	Approx. value of rejections 5 Rs.	Percentage of col. 4 to col. 2. 6
A(1)	2,92,646	2,00,453	92,193	10,80,655	32
A(2)	3,06,415	88,992	2,17,423	6,35,432	71

The same reasons as before have again been adduced for the persistence of the rejections in these years.

In respect of another item the production of which was taken up in 1951-52, out of a total quantity of 2,281 numbers completed upto March 31, 1956, 1,576 numbers were accepted, and the balance of 705 numbers (approximate value Rs. 13,28,308) rejected. The rejections form 31% of the total number of completed items.

22. *Infructuous expenditure incurred by an Ordnance Factory.*— In May, 1952, Government sanctioned the conversion of one unused Open-hearth Furnace from “acid” to “basic” in an Ordnance Factory at an estimated cost of about Rs. 35,000. In October, 1955, when conversion was nearing completion further work was suspended under the instructions of the Director General, Ordnance Factories. The conversion was abandoned in August, 1957 finally. The consideration was that as the factory had Electric-arc Furnaces, it was unnecessary to undertake this work or recommission the furnace. As a result, a sum of Rs. 24,000 has been unnecessarily expended in this factory.

## CHAPTER 4

### STOCK VERIFICATION

23. *Stock verification in Army units and formations during 1956-57.*—During the year 1956-57, stock verification was incomplete in the following respects:—

- (a) no verification was carried out in seven formations,
- (b) only partial verification was carried out in thirty-three other formations.

The results of stock verification carried out in three Central Ordnance Depots during 1956-57, given below, show that in spite of the reorganisation completed in 1953-54, discrepancies are still large.

The results of stock verification in these three Depots were commented upon in the Audit Reports (Defence Services) for the years 1955, 1956 and 1957 also.

Depot	Total number of items verified	Number of items in which discrepancies were revealed		Value of discrepant items		Remarks
		Surpluses	Deficiencies	Surpluses	Deficiencies	
1	2	3	4	5	6	7
				Rs.	Rs.	
1st Depot	84,699	2,949	2,138	4,88,538	3,17,349	This is the third stock verification after the completion of the re-organisation scheme on 31-5-1953.
2nd Depot	1,51,537	3,033	2,139	1,80,032	1,53,198	This is the third stock verification after the completion of the re-organisation scheme on 31-10-53.
3rd Depot	1,48,515	4,111	4,863	5,55,872	2,96,714	This is the fourth stock verification after the completion of the re-organisation scheme on 31-12-52.

24. *Stock verification in Ordnance and Clothing Factories.*—The stock verification conducted in four factories during 1956-57 was not comprehensive as it excluded materials worth Rs. 108.38 lakhs (Copper Electrolytic Rs. 97.91 lakhs, scraps Rs. 7.95 lakhs and Pig Iron Rs. 2.52 lakhs). It was noticed that ferrous scraps and ingots of pig iron had not been physically verified for periods ranging from three to twelve years.

This failure in four factories has been explained as due mainly to the fact that the bulk and the dispersal of the stores rendered it



difficult to weigh them. The omission was condoned by Government in November, 1957.

It is obvious that if such a plea for failure to verify valuable stocks is accepted, it may result in pilferage and avoidable losses.

25. *Stock verification in Air Force Depots.*—In paragraph 20 of the Audit Report (Defence Services) 1956, mention was made of deficiencies and surpluses revealed in three Equipment Depots during the biennial stock verification for the period ending March 31, 1955.

The results of the biennial stock-verification for the period ended March 31, 1957 in respect of the three Depots are indicated below:—

Depot	Total number of items verified	No. of items in which discrepancies were noticed		Value of discrepancies		Remarks
		Deficiencies	Surpluses	Deficiencies	Surpluses	
				Rs.	Rs.	
1st Depot	1,34,662	6,580	8,385	15,25,186	32,20,232	
2nd Depot	35,854	1,222	2,664	1,07,249	5,68,975	The value of discrepancies revealed in one section of the Depot is not known as the vouchers in adjustment of the discrepancies are yet (September, 1958) to be finalised and priced.
3rd Depot	78,778	3,883	3,386	7,45,256	5,10,086	Stock taking of 4,484 items in the Depot was not done during 1955-57.

26. *Stock verification in the Navy.*—The stock verification in a Principal Naval Stores Depot during 1956-57 revealed discrepancies in 1,549 items out of 68,602 items held in stock. The value of surpluses and deficiencies amounted to Rs. 2,26,831 and Rs. 2,17,141 respectively.



Despite a cent percent verification conducted in a ship during 1955, the muster of consumable stores carried out during 1956 revealed surpluses and deficiencies valued at Rs. 1,03,134 and Rs. 33,287 respectively. In the case of permanent/non-consumable stores, surpluses and deficiencies to the extent of Rs. 84,856 and Rs. 13,499 respectively were also disclosed.

In three other formations only partial stock verification was completed by the due date.

The loss due to deficiencies, and the non-verification of stock are under consideration of Government.

## CHAPTER 5

### MISCELLANEOUS IRREGULARITIES

#### QUARTER MASTER GENERAL

27. *Consolidated Trading and Profit and Loss Accounts of Military Farms.*—The Consolidated Trading and Profit and Loss Accounts of Military Farms, as published in the Commercial Appendix to the Appropriation Accounts, suffer from a lack of clarity and appear to be even misleading in places. For instance, during the year 1955-56 about 98 per cent. of the milk produced was actually issued free to troops and hospitals, but in the accounts the value of the entire issue has been indicated as a sale. Similarly, credits taken for free issues constitute a large element of what has been described as “Sale of Agricultural Produce” and “Miscellaneous Receipts”. It is considered that the value of “sales” and “free issues” should be shown separately in respect of all items, in the body of the Trading and Profit and Loss Accounts.

2. It appears that it had been the practice to fix the sale rates at figures which would generally cover the expenses of the Farms. These rates, with slight modifications, formed the basis for the valuation of free issues. Latterly, however, the sale rates and rates for free issues were made identical. But whereas the sales are in the main, of pure milk, the free issues consist primarily of “reconstituted” or “standard” milk as well as “blended” milk, which obviously should not be automatically priced as pure milk. It does not, therefore, appear to be correct in principle that in assessing the value of reconstituted etc. milk issued free, which is 98 per cent. of the total supply, the rate for the sale of two per cent. of the produce consisting of pure

milk should be applied. It would be more correct to value free issues of milk (standard, blended and pure, if any) at the prevailing market rates for comparable products.

Free issues as at present priced do not reflect correctly the economics of the administration of the Dairy Farms. They invariably give a profit, whether in reality this could or could not have been realised.

3. It was noticed that the sale and free issue rates of milk at a number of stations were changed in the years 1949 and 1950 and at a few stations thereafter. These adjustments were apparently made either when the rates resulted in losses or excessive profits. The principle of pricing, it seems, was to keep the profit as far as possible at an even level year after year. As the issue rates were theoretically determined and were unrelated to prevailing prices of comparable products, the financial picture presented is misleading. It can hardly be accepted as an index of the efficiency of management.

4. The trading results can be correctly presented only if the accounts are recast to show.

- I. (a) quantity and cost of production of pure milk in the farms,
- (b) quantity and cost of local purchase of pure milk,
- (c) quantity and cost of milk powder utilised in blended milk,
- II. the disposal of
  - (a) pure milk,
  - (b) standard milk, and
  - (c) blended milk,

with the quantity and value shown separately for free issues and for cash sales, the free issues being evaluated at market prices as indicated in paragraph 2 above.

It may be of interest to mention here that as compared with a turnover of Rs. 2.36 crores computed on the basis indicated (excluding miscellaneous receipts) in the year 1955-56, the Administrative (Rs. 4.06 lakhs) and non-Administrative (Rs. 51.79 lakhs) staff expenses (including accounts staff but excluding Leave Salary and Pension Contribution and Travelling Allowances) amount to no less than Rs. 56 lakhs approximately.

28. *Arrears in Rent Recoveries.*—Mention was made in paragraph 22 of the Audit Report (Defence Services) 1956, of the arrears in rent recoveries. The position in this regard has not only shown no



improvement but has further deteriorated. In respect of rent bills issued upto March 31, 1957 an amount of Rs. 2,79,39,895 was outstanding on September 30, 1957. The break up of this amount is indicated below:—

Year	Amount
	Rs.
1945-46 . . . . .	711
1946-47 . . . . .	1,04,099
1947-48 . . . . .	2,08,704
1948-49 . . . . .	1,68,134
1949-50 . . . . .	6,37,986
1950-51 . . . . .	7,23,257
1951-52 . . . . .	10,65,554
1952-53 . . . . .	10,77,854
1953-54 . . . . .	38,52,290
1954-55 . . . . .	83,49,270
1955-56 . . . . .	65,51,888
1956-57 . . . . .	52,00,148
TOTAL . . . . .	<u>2,79,39,895</u>

The detailed analysis of the above outstandings is as under:—

- (1) Ministry of Rehabilitation and Rehabilitation  
Deptts. of State Govts. on account of Military  
Buildings occupied by displaced persons . . . . . 137·33 lakhs.
- (2) Central Ministries . . . . . 43·56 lakhs.
- (3) State Governments . . . . . 65·66 lakhs.
- (4) Municipalities and Cantonment Boards . . . . . 6·58 lakhs.
- (5) Private Parties, contractors, etc. . . . . 19·99 lakhs.



1	2
(6) Departmental messes, Clubs, Officers, etc.	4.67 lakhs.
(7) Officers either released or left the country or retired . . . . .	1.61 lakhs.
	279.40 lakhs.

29. *Non-realisation or delay in the realisation of dues from a private club.*—In May, 1947, a private Club applied for the lease of 15.4 acres of military land together with an offer to purchase the buildings on the site. Certain buildings were handed over to the Club the same month under the orders of the then Sub-Area Commander (who was also the Honorary President of the Club) on the understanding that the land would be leased to the Club and the buildings sold to them. The proposal to lease the land was, however, turned down by Government in April, 1948. The Club continued in occupation of the buildings under an order issued in September, 1948 by the Sub-Area Commander on the condition that a new agreement would be executed. No agreement was, however, executed with the Club. Meanwhile, some more buildings had been handed over to the Club bringing the total number of buildings handed over to 41 by January, 1949. No occupation return, in respect of these buildings was furnished to the internal check authorities till May, 1949, with the result that the rent bills were not preferred in time. Rent bills were issued in May, 1949 but the Club failed to make the payments.

By November, 1951, the Club had vacated 2 out of the 41 buildings occupied by them, and applied for a remission of the rent. In December, 1951, the Sub-Area Headquarters recommended that—

- (i) dues amounting to Rs. 18,665 should be remitted,
- (ii) an area of 4.674 acres should be leased to the Club and
- (iii) the buildings then under occupation by the Club should be sold to them.

The Club had vacated 26 out of the 41 buildings by July, 1954, when Government issued orders fixing the rent, and the premium to be recovered from the Club for the lease of land; and the sale value of the buildings. They also fixed the rental of the buildings till purchase by the Club. The proposed lease of the land and the sale

of the buildings did not materialise. The Club vacated the land and the buildings on September 1, 1956. The dues to Government by the Club had mounted to Rs. 62,147 meanwhile. The Club has paid Rs. 8,589 so far leaving a balance of Rs. 53,558 to be recovered. Eventually, Government in October, 1957, cancelled their earlier orders of lease-cum-sale issued in July, 1954. They permitted, in lieu, the recovery of rent for the 4.674 acres of land and of the buildings occupied by the Club from time to time on that area alone. The revised orders, however, did not specify the rent either in respect of the land or the buildings. They did not also mention anything about rent in respect of the land in excess of 4.674 acres and of the buildings outside this area handed over to the Club.

Although the irregularity was first pointed out in audit as early as 1950, it has not yet been regularised by Government. Meanwhile, large Government dues are outstanding against this Club.

#### MASTER GENERAL OF ORDNANCE

30. *Capital locked up in chassis without bodies.*—On April 1, 1958 as many as 740 chassis delivered between January, 1953 and September, 1955, were waiting at various stations for body building. The reasons for this serious hold-up were mainly that specifications for body designs were not finalised and contracts for body building were not concluded even long after the receipt of the chassis. The result was that a sum of Rs. 2 crores was prematurely spent on their acquisition. Meanwhile the chassis deteriorated in storage and expenditure had also to be incurred on storage and safe custody.

These 740 chassis are now covered by contracts for body building. But another batch of about 650 chassis (valued at Rs. 98 lakhs approximately) acquired before 1948 has yet to be covered by any body building contracts. Apart from the capital cost, the recurring expenditure (on these old chassis) on storage and maintenance, and the loss on account of deterioration of tyres etc. has been large, over the last ten years. It is also doubtful, if these could be made serviceable at this distance of time.

31. *Disposal of vehicles.*—1,284 transport vehicles graded by the Army Engineers as class III and IV (as requiring only minor repairs and replacements) were declared for disposal during 1955 and 1956. ✓ During the same years orders for 2,300 new vehicles of the same types (i.e. 3 tonners, 15 cwts. and 5 cwts., 4×4) were placed on the Director General, Supplies and Disposals. While class III and class



IV vehicles were declared for disposal, about 2,000 vehicles of the same types, makes and models, but graded as Class V (as requiring thorough overhaul), were retained and included in the repair programme of the year 1956-57. This irrational planning has resulted in avoidable expenditure.

32. *Loss due to delay in the disposal of a store.*—A quantity of Cloth Drill “Unbleached” with a book value of about Rs. 3.5 lakhs was held by an Ordnance Depot since 1944-45. This is not a prescribed item of service store. The exact date of purchase and the authority at whose instance the provisioning was made cannot now be ascertained. The total issues (including 629 yards for test purposes) were only 905 yards upto June 1, 1957, leaving a balance of 7,83,211 yards.

The samples tested in 1952 showed that the strength of the material was 40 per cent. less than that of Drill Bleached and it was not suitable for issue in lieu of Drill Bleached. Two further tests carried out in December 1954 and April 1957 gave the same result. The purpose of these repeated tests at intervals is not clear. Though no alternative use has been found for this Cloth, no decision to dispose of the large stock has yet been taken (August 1958).

The acquisition in bulk of a store which is not a prescribed item and the subsequent delay in its disposal, even after it was found unsuitable, is bound to result in considerable loss to the exchequer.

#### MINISTRY OF DEFENCE

33. *Fixation of Pay, etc.*—A Commodore of the Indian Navy with a substantive pay of Rs. 1,800, plus a personal pay of Rs. 300 was appointed on February 3, 1958 as the Director General, Ordnance Factories on the pay scale of Rs. 2,500—125—3,000 against the prescribed scale of Rs. 2,000—2,250 and was given an initial start of Rs. 2,625. In a subsequent Government order of August 13, 1958, he was given an entertainment allowance of Rs. 250 p.m. with effect from April 1, 1958, while none of his predecessors in the post had drawn a similar concession. In a further order of August 18, 1958 the officer has been permitted to use the office staff car for private journeys on a payment of Rs. 50 p.m. irrespective of the mileage done on such trips.

34. *Progressing action on new works.*—In their Fourteenth Report, the Public Accounts Committee commented upon a case where the technical sanction to a works project was accorded at a very late stage when a major portion of the work had already been completed.

The Committee noted that Government had issued instructions to the effect that the works would thenceforth be administratively approved at least six months before funds were allotted and the actual construction taken on hand.

The Government's instructions issued in March, 1955 envisaged that in respect of new works to be taken up during 1957-58 administrative approvals should have been issued by the competent authorities by the end of October, 1956, thus giving the Engineering staff five months to prepare designs, drawings and detailed estimates and get the contract documents etc. ready before funds were allotted and the actual execution was undertaken.

The intended procedure was not, however, actually observed in respect of 103 new works (as distinguished from works in progress) for which funds to the extent of about Rs. 98.93 lakhs were allotted in 1957-58, as shown below:—

No. of works	Extent of funds allotted during 1957-58	Month in which administrative approval was actually given
	(In lakhs of rupees)	
43	68.40	December 1956 to March 1957
45	20.05	April 1957 to March 1958
15	10.48	Not yet (March 1958) issued

Of the allotment of Rs. 98.93 lakhs above-mentioned, funds to the extent of over Rs. 31 lakhs (or 32 per cent.) relating to 40 works had been subsequently withdrawn (March 1958).

The above position appears to indicate that a forward programme of new works is either not being drawn up in detail, or that the programme is not being adhered to and that provision for works is made in the budget prematurely and without a realistic appraisal of spending capacity.

35. *Outstandings on account of stores supplied and services rendered by the Defence Services.*—(a) The position in regard to the outstanding dues on account of stores supplied and services rendered by the Defence Services (other than Ordnance Factories) to outside parties was dealt with in paragraph 39 of Audit Report (Defence Services) 1952. The Controller General of Defence Accounts had also commented on the accumulation of outstanding dues in his certificates. The overall position has not, however, shown any improvement. On June 30, 1957, an amount of Rs. 1,32,04,555 was outstanding



in respect of supplies and services rendered upto March 31, 1957. The year-wise break-up of this amount is given below:—

Year	Amount
	Rs.
1946-47 . . . . .	48,693
1947-48 . . . . .	41,296
1948-49 . . . . .	4,765
1949-50 . . . . .	2,20,553
1950-51 . . . . .	22,499
1951-52 . . . . .	1,43,560
1952-53 . . . . .	1,87,201
1953-54 . . . . .	10,77,441
1954-55 . . . . .	15,47,399
1955-56 . . . . .	17,44,491
1956-57 . . . . .	81,66,657
Total . . . . .	1,32,04,555

The bulk of the outstanding (Rs. 1,25,26,748) relates to Central Civil Departments and State Governments and the delay in clearance is mainly attributable to want of receipted copies of issue vouchers from the consignee Departments.

(b) Large amounts were also outstanding for recovery on June 30, 1957 in respect of work done, or stores supplied, by the Ordnance Factories to Civil Departments, Railways and Private Parties etc. An analysis of these outstanding, as on June 30, 1957, is shown below:—

Year	Amount uncleared
	Rs.
1949-50 (and earlier) . . . . .	1,99,333
1950-51 . . . . .	24,16,731
1951-52 . . . . .	16,02,786
1952-53 . . . . .	6,11,228
1953-54 . . . . .	13,17,925
1954-55 . . . . .	22,08,274
1955-56 . . . . .	14,72,617
1956-57 . . . . .	1,93,58,442
TOTAL . . . . .	2,91,87,336

Of the above amount, Rs. 71,47,420 are due from private parties; recoveries to the extent of Rs. 8,58,063 included therein, are stated to be under dispute.

The outstandings against private parties have accumulated over a period of years. Vigorous action for recovery is obviously necessary and should now be undertaken.

P. K. BASU,

*Director of Audit, Defence Services.*

NEW DELHI;

Dated the 4 DEC 1958

*Countersigned.*

A. K. CHANDA,

*Comptroller and Auditor General of India.*

NEW DELHI;

Dated the 5 DEC 1958



