

**HUNDRED AND EIGHTEENTH REPORT
PUBLIC ACCOUNTS COMMITTEE
(1995-96)**

(TENTH LOK SABHA)

TUBE MAKING PLANT AT JABALPUR

**MINISTRY OF COMMUNICATIONS
(DEPARTMENT OF TELECOMMUNICATIONS)**

*[Action Taken on 89th Report of the Public Accounts Committee
(10th Lok Sabha)]*



*Presented to Lok Sabha on 8.3.1996
Laid in Rajya Sabha on 8.3.1996*

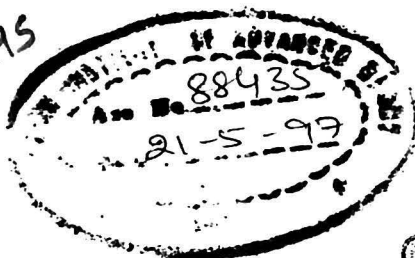
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**COMPOSITION OF PUBLIC ACCOUNTS COMMITTEE
(1995-96)**

Shri Ram Naik — *Chairman*

MEMBERS

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3. Kumari Mamata Banerjee
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6. Shrimati Maragatham Chandrasekhar
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SECRETARIAT

1. Shri G.C. Malhotra — *Joint Secretary*
2. Smt. P.K. Sandhu — *Director*
3. Shri P. Sreedharan — *Under Secretary*

* Expired on 1 December, 1995.

INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Hundred and Eighteenth Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their 89th Report (10th Lok Sabha) on Tube Making Plant at Jabalpur.

2. In their earlier Report the Committee had found that the project of Tube Making Plant at Jabalpur had suffered due to several irregularities/shortcomings. In this Report, the Committee have rejected the plea now put forth by the Ministry of Communications that the decision for waiver of Clause 16(i) of the contract entered into with the foreign supplier which provided for pre-despatch inspection of machinery and equipments was taken by the competent authority after taking into account all the relevant factors. They have pointed out that the losses suffered by the project had primarily arises due to the technical deviations and discrepancies in the equipment supplied and the failure of the foreign supplier to fulfil his contractual obligation to demonstrate the rated output of the plant and that these discrepancies could have been effectively tested had the Department resorted to invoking of Clause 16(i) of the contract. The Committee have, therefore, reiterated that responsibility should be fixed for the lapse and have desired to be informed of the conclusive action taken in the matter within a period of three months.

3. The Committee have further noted that the Department have now lodged a formal claim on the foreign supplier for Rs. 34.99 crores towards the consequential losses suffered on production, extra manpower etc. and Rs. 66.67 lakhs on account of technical deviations in supply, commercial discrepancies etc. The Committee have, however, expressed there surprise that the department have chosen to make claim on account of consequential losses of production for a period of two years, namely 1988-89 and 1989-90 only and that the Action Taken Note is completely silent about the reasons for not making claims in respect of the subsequent period. Deprecating the attitude of the Ministry in this regard, the Committee have desired that the Ministry should review the same and take conclusive steps within a period of three months for lodging the entire claims in this regard from the foreign supplier.

4. The Committee have in this Report also expressed their unhappiness that the Ministry of Communications have not made any thorough enquiry to find out the exact reasons for the inclusion of Clause 20.4 in the contract document, which sought to exclude recovery of all types of consequential losses, and to ascertain precisely whether it had the approval of the Integrated Finance Wing of the Department. Deploring the lack of seriousness on the part of the Ministry in effectively dealing with the people responsible for their failure in safeguarding governmental interests adequately in this regard, the Committee have reiterated that the matter should be thoroughly investigated and responsibility fixed for the lapses.

5. The Report was considered and adopted by the Public Accounts Committee at their sitting held on 26 February, 1996. Minutes of the sitting form Part II of the Report.

6. For facility of reference and convenience, the recommendations of the Committee have been printed in thick type in the body of the Report and have also been reproduced in a consolidated form in Appendix to the Report.

7. The Committee place on record their appreciation of the assistance rendered to them in the matter by the Office of the Comptroller and Auditor General of India.

NEW DELHI;
29 February, 1996

10 Phalguna, 1917. (Saka)

RAM NAIK,
Chairman,
Public Accounts Committee.

CHAPTER I

REPORT

This Report of the Committee deals with the action taken by Government on the recommendations and observations of the Committee contained in their Eighty-ninth Report (10th Lok Sabha) on paragraph 8.1 of the Report of the Comptroller and Auditor General of India for the year ended 31 March, 1993, No. 7 of 1994, Union Government (Posts and Telecommunications) relating to Tube Making Plant at Jabalpur.

2. The Eighty-ninth Report which was presented to Lok Sabha on 30 March, 1995 contained 18 recommendations/observations. Action Taken Notes on all the recommendations/observations have been received from the Ministry of Communications (Department of Telecommunications) and these have been broadly categorised as follows:

- (i) Recommendations/Observations which have been accepted by Government:

Sl. Nos. 2 to 4, 6, 10-11, 14 and 16

- (ii) Recommendations/Observations which the Committee do not desire to pursue in the light of the replies received from Government:

Sl. Nos. 1 and 8

- (iii) Recommendations/Observations replies to which have not been accepted by the Committee and which require reiteration:

Sl. Nos. 5, 7—9, 12-13 and 18

- (iv) Recommendations/Observations in respect of which Government have furnished interim replies:

Sl. Nos. 15 and 17

3. Government sanctioned a project for setting up a modern integrated tapered tube making plant (for telephones and telegraph poles) at Richhai, Jabalpur at an estimated cost of Rs. 724.28 lakhs in April, 1983 in replacement of the existing plant at Telecom Factory, Jabalpur. The modern plant was expected to be commissioned by 1985 and the existing plant phased out by 1988. It was also expected that the modern plant with a better technology would produce 5.25 lakhs tubes per annum and the total output may touch maximum of 6.75 lakhs per annum at a lesser cost as against the production of 4.5 lakhs tubes per annum by the existing plant. In their 89th Report (10th Lok Sabha), the Committee had found that the project had suffered due to several irregularities/shortcomings. These included, inadequate preparation of project estimates, failure to

ensure synchronisation of procurement of machinery and construction of building, failure to invoke provisions contained in the contract entered into with the foreign firm regarding pre-despatch inspection of machinery and equipments, incorrect waiver of contractual clause, inclusion of incorrect clause in the contract document, failure to take prompt action on the findings of the departmental Committee, delay in initiating arbitration proceedings and above all failure to ensure achievement of objectives behind the project. The Committee had recommended that the various omissions and commissions pointed out by them in the Report should be thoroughly looked into with a view to fixing responsibility and also ensuring that such lapses do not recur. The action taken notes furnished by the Ministry of Communications (Department of Telecommunications) on the various observations/recommendations of the Committee have been reproduced in the relevant Chapters of the Report.

4. The Committee desire that final replies to the recommendations contained in paras 94 and 96 in respect of which only interim replies have so far been furnished should be submitted expeditiously after getting them duly vetted by Audit.

5. In the succeeding paragraphs the Committee will deal with action taken on some of their recommendations/observations.

Incorrect Waiving of Contractual Provision (Sl. No. 5, Paragraph 84)

6. Commenting on the departmental failure in ensuring before commissioning of the plant that the equipments supplied by the foreign firm conformed to the technical specifications and the rated output, the Committee in Paragraph 84 of their Report, had observed as follows:—

“Clause 16(i) of the contract entered into with the foreign firm provided that the purchaser would at his option carry out inspection and tests in the factory of the contractor or his suppliers on the equipment as and when these are produced and before their despatch for confirmation of the technical specifications/guarantee of the equipments. Surprisingly, no action was taken by the department to exercise this option inspite of a communication having been received from the foreign firm in October, 1984 to depute people for pre-despatch inspection of the equipment. Equally surprisingly, the Department did not insist for a joint inspection immediately on receipt of the entire plant and machinery in 1985. No planning was also done to have the machines inspected by the departmental engineers who were sent abroad as the machines had already been transshipped in December, 1984 whereas trainees were sent much later in May, 1986. The Committee are dismayed to note that rather than taking recourse to any of the options mentioned above, the departmental authorities took an unusual decision on 31.10.1984 waiving clause 16(i) of the contract on the ground that enough safeguards were

provided under other clauses of the contract for replacement of defective equipments, warranty for quality etc. The Ministry of Communications while justifying their decision not to undertake any pre-despatch inspection of the equipment stated that Clause 16(i) was an optional Clause and that the requisite inspection could have been carried out after assembling and installation of the machines at site. The Secretary, Telecommunications during evidence however, stated that the decision for waiver of Clause 16(i) was guided by the fact that the World Bank Loan and IDA credit was to expire on 31.12.1984. The Committee are not convinced with the arguments adduced by the Ministry seeking to explain the departmental failure for not invoking the available contractual provision for ensuring before commissioning of the plant that the equipments supplied by the foreign firm conformed to the technical specifications and the rated output. Since the date of expiry of the World Bank Credit was known to the Department very well in advance, they ought to have planned the commissioning of the project after ensuring the quality and specifications of the equipments by taking recourse to the available options stipulated in the contract well in time. The Committee consider it unfortunate that instead of doing so the Department resorted to an extraordinary course of action by waiving the relevant clause to the contract itself which eventually resulted in innumerable losses. The Secretary, Telecommunications was candid in his deposition before the Committee that he had not come across any such waivers and that "in retrospect I do not justify it". The Committee deprecate departmental failures in this regard and desire that responsibility should be fixed for the lapses."

7. In their Action Taken Note furnished to the Committee in respect of the above recommendation, the Ministry of Communications (Department of Telecommunications) have stated as follows:—

"Purchaser had the option to carry out inspection and test in the factory premises as and when the equipments were ready for despatch. This was an optional clause. The decision for waiver of this clause was taken on account of following factors:—

- (i) Scope of the order provided that contractor will design and supply the equipment, supervise, instal, carry out trial run and commissioning of the plant.
- (ii) It was the responsibility of the contractor to see that equipment manufactured and supplied by him is according to specifications and will be able to produce products of right quality.
- (iii) As per clause 16(iii) the equipment on receipt will be tested

during and after installation before taking over and if anything found defective will be replaced free of cost to the purchaser.

- (iv) Sufficient safeguards were provided under various clauses:—

Clause 17—Replacement of defective equipment.

Clause 18—Taking over.

Clause 19—Warranty as to quality.

- (v) The equipment was custom built to meet the specifications of DOT. Therefore, no agreed test schedule was drawn for the equipment. It was felt that the DOT Engineers would not be able to contribute much in the testing and inspection of equipment.

Taking into account the above factors, a (competent) decision was taken by the then M(TO) on 31.10.84 to waive off the clause.

- (vi) As the decision was taken by the then competent authority after taking into account all the related factors, it is not considered appropriate to fix responsibility”.

8. The Committee are surprised that the Ministry of Communications have not sought to justify the decision taken for waiver of Clause 16(i) of the contract entered into with the foreign supplier which provided for pre-despatch inspection of machinery and equipments for ensuring that the machines/equipments supplied conformed to the technical specifications and the rated output. The Committee are of the considered view that the losses suffered by the project had primarily arisen due to the technical deviations and discrepancies in the equipment supplied and also the failure of the Foreign supplier to fulfil his contractual obligation to demonstrate the rated output of the plant. Undoubtedly, these discrepancies, deviations etc. could have been effectively tested had the Department resorted to invoking of Clause 16(i) of the contract. Unfortunately, the Department not only failed in exercising this option but also questionably resorted to an unusual action of waiving of the relevant clause. Pertinently, the then Secretary, Telecommunications had been candid in his deposition before the Committee that he had not come across any such waivers and that in retrospect he did not justify it. In view of the same and also of the fact that the Department have not been able to realise their legitimate dues from the party so far, the Committee are not inclined to accept the plea now put forth by the Ministry that the decision for waiver of Clause 16(i) was taken by the competent authority after taking into account all the relevant factors. The Committee, therefore, cannot but reiterate their earlier recommendation and desire that responsibility be fixed for the lapses. The Committee would also like to be informed of the conclusive action taken in the matter within a period of three months.

Filing of claims towards damages (Sl. Nos. 7, 9, 12 & 18—
Paragraphs 86, 88, 91 & 97)

9. In their 89th Report, the Committee had observed that in March-April 1991, the Chief General Manager, Telecom Factory intimated the Directorate that the factory had suffered losses amounting to over Rs. 40 crores due to technical deviations in the plant and machinery supplied, commercial discrepancies, shortfall in production and other miscellaneous items. Thereafter, the Ministry appointed a departmental committee in March 1991 to look into the matter. Although the departmental committee had *inter alia* recommended to lodge a formal claim with the foreign supplier towards the damages, it was not done. Subsequently after obtaining the advice of the Ministry of Law regarding recovery of the production losses from the foreign supplier, the Department of Telecommunications appointed another departmental committee in July 1993 to prepare brief for arbitration proceedings. In this connection, the Committee in paragraph 91 of their report had recommended:—

“The Committee were informed that the departmental committee in its report submitted alongwith the brief for arbitration has recommended that a formal claim may be first lodged with the firm before initiating arbitration proceedings. The Department of Telecommunications informed the Committee that the said report was under their examination. On perusal of the relevant report obtained by the Committee subsequently it was however seen that the departmental committee has proposed to claim the losses incurred by the department on account of technical deviation in supply, commercial discrepancies and the miscellaneous recoveries only. As regards recovery of part of the consequential losses of production, the said committee has observed that in view of clause 20.4 of the contract this was not being pressed. The Committee are astonished over this recommendation since the Ministry of Law had clearly recommended that it was open to the administrative Ministry to take decision to claim the losses suffered on this account also alongwith the other claims. Pertinently, the cumulative effect of the losses due to shortfall in production during the six years period from 1988-89 to 1993-94 according to Audit amounted to Rs. 74.96 crores. The Committee, therefore, desire that the Ministry should look into the matter again and take appropriate steps for ensuring that all legitimate claims of the department are duly lodge.”

10. Further, in paragraph 97 of the report the Committee had among others recommended:—

“Since these losses have arisen also due to the failure of the foreign firm to fulfil their contractual obligation to demonstrate the rated output of the plant, the Committee are of the view that the matter should be taken to its logical conclusions by making

suitable claims alongwith the other claims proposed to be filed with the arbitrator without any further delay."

11. From the action taken note furnished by the Ministry of Communications (Department of Telecommunications) it was seen that the Department had lodged a formal claim for Rs. 66.67 lakhs on account of technical deviations in supply, commercial discrepancies and miscellaneous recoveries as well as Rs. 34.99 crores towards the consequential losses of production, extra manpower, excess payment of electricity bills etc. on the firm on 12 May, 1995. On further scrutiny of the details furnished by the Ministry in this regard it was seen that the department made a claim of Rs. 33.10 crores on account of consequential losses of production for a period of two years, namely, 1988-89 and 1989-90 only.

12. The Committee note that the Department have now lodged a formal claim on the foreign supplier for Rs. 34.99 crores towards the consequential losses suffered on production, extra manpower etc. and Rs. 66.67 lakhs on account of technical deviations in supply, commercial discrepancies etc. The Committee are, however, surprised that the Department have chosen to make claim on account of consequential losses of production for a period of two years, namely, 1988-89 and 1989-90 only. The Action Taken Note is completely silent about the reasons for not making claims in respect of the subsequent period. The Committee, therefore, desire that the Ministry should review the same and take conclusive steps within a period of three months for lodging the entire claims in this regard from the foreign supplier. They would like to be informed of the precise action taken and also the latest position in the matter including the response of the party and the subsequent action taken by the Department in realising the dues.

**Inclusion of Incorrect Clause 20.4 in the Contract (Sl. No. 13—
Paragraph 92)**

13. Clause 20.4 in the contract entered into with the foreign firm had excluded recovery of all types of consequential losses. The departmental Committee in their report submitted in May, 1991 had recommended that the reasons for inclusion of this clause in the contract and whether it had the approval of the Integrated Finance should be investigated. In this connection, the Committee in paragraph 92 of their 89th Report (10th Lok Sabha) had recommended:—

"The Committee regret to note that the Ministry of Communications have not adequately investigated the circumstances in which Clause 20.4 was included in the contract document which eventually sought to deprive the department of the consequential losses. The Ministry pleaded that there was nothing on record to suggest as to how the Clause was included in the contract. The Secretary, Telecommunications admitted during evidence that "to my mind, that Clause is not there anywhere else." Strangely enough, the Ministry of Communications were also

unable to produce any documentary evidence to the Committee suggesting that the draft contract was approved by the Integrated Finance wing of the Ministry. The Committee are satisfied that the manner in which such an admittedly unusual clause was allowed to creep into the contract document requires to be deeply looked into. They, therefore, desire that the matter should be thoroughly investigated and responsibility fixed."

14. In their Action Taken Note furnished to the Committee in respect of the above recommendation, the Ministry of Communications (Department of Telecommunications) have stated as follows:—

"Records pertaining to the case have again been looked into. From the information available in the file it has not been found possible to know the reasons for inclusion of Clause 20.4 in the contract document. The contract was signed on 7.6.83 and the file was submitted to the Finance Branch which was seen by them on 18.6.1983. Thus the contract including the Clause 20.4 stood concurred by integrated finance. Moreover, the clause absolved both parties from the consequential damages arising out of contract hence its inclusion might have been considered fair at that time. In view of this it is considered not appropriate to fix responsibility."

15. The Committee are unhappy to note that the Ministry of Communications have not made any thorough enquiry to find out the exact reasons for the inclusion of Clause 20.4 in the contract document, which sought to exclude recovery of all types of consequential losses, and to ascertain precisely whether it had the approval of the Integrated Finance Wing of the Department. The Ministry have in their Action Taken Note merely repeated the facts already made available to the Committee earlier. Curiously enough, they have considered it as not appropriate to fix responsibility for the lapses in the matter as according to them, "the inclusion (of the Clause) might have been considered fair at that time". This is clearly indicative of the lack of seriousness on the part of the Ministry in effectively dealing with the people responsible for their failure in safeguarding governmental interests adequately. The Committee deplore the same and reiterate that the matter should be thoroughly investigated and responsibility fixed for the lapses. They would like to be apprised of the conclusive action taken in the matter withing a period of three months.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

The Committee notes that though the project was scheduled to be commissioned in March, 1985 it was actually made operational in March 1988 only. The total expenditure booked against the project as of March 1993 was Rs. 8.97 crores as against the estimated cost of Rs. 7.24 crores. Further, the scrutiny by Audit has revealed that a number of essential infrastructure items costing Rs. 3.25 crores were executed separately, which were not taken into account while computing the project cost and annual recurring expenditure. The Ministry of Communications stated that the increase in the project cost was necessitated by the increase in the cost of building whose original estimates were made on an adhoc basis, the increase in customs duty, the increase in the exchange rate etc. The Ministry attributed the time overrun to the delay in the construction of the building due to the delayed submission of full foundation details for the plant and machinery by the contracted foreign firm and also due to the failure on the part of the contractor in the construction of the building. The Department justified non-inclusion of certain infrastructure items in the project cost since they were not meant exclusively for the tube making plant but were also common to various projects like modern galvanising plant, modern tower fabrication etc. The Committee are not satisfied with these arguments. Since the cost and time overruns in this project has primarily occurred due to the failure of the Department to plan and synchronise the construction of building in time and the procurement of the plant and machinery, as discussed subsequently, the Committee desire that the Ministry of Communications should take necessary steps in order to ensure that such delays necessitating extra expenditure are avoided in future. The Committee are also convinced that the project cost in this case should be recast after apportioning the cost of those infrastructure items to the project which ought to have been included in order to assess the actual cost of the new tube making plant in a more realistic manner.

[Sl. No. 2 (Para 81) Appendix II of (Eighty Ninth Report of PAC)
(10th Lok Sabha)]

Action Taken

Normally a Project Manager is appointed for each project for coordinating the work between various departmental agencies, contractor,

customs etc. Project Manager is responsible for all works relating to the project for effective liaison and coordination. As and when such projects are taken up in future a very close watch will be kept over the progress of the project and periodical monitoring will be ensured at appropriate level. In this connection instructions has been issued to all concerned to avoid recurrence of such lapses in future. (Copy enclosed at Annexure-I)

As desired by PAC, the project cost has been recast. The cost of infrastructure items which amount to Rs. 3.25 crores apportioned fully to tube making project. The revised project cost works out of Rs. 12.22 crores against booked expenditure of Rs. 8.97 crores against the work. A copy of the working sheets indicating how the revised project cost of Rs. 12.22 crores was arrived are placed at Annexure-II. No expenditure had been incurred towards the project after March 93, Hence, no change in the total expenditure as on March, 95 and September, 1995.

Action has been taken to revise the project estimate after including the cost of infrastructural facilities. The revised Project estimate is already under process of sanction in Telecom. Commission and is likely to be sanctioned by March, 1996.

This issues with the approval of Advisor (P).

[Ministry of Communications (Deptt. of Telecommunications) U.O. No. RR-Project/2(d) 4526/192 & 252 dated 13-11-95 and 15-12-95 respectively]

Recommendation

The Committee note that construction work for a building under the project was awarded by the civil wing of the department to Government contractor National Building Construction Corporation (NBCC) at the tendered amount of Rs. 48.55 lakhs in April, 1985 for completion in 12 months i.e. by April, 1986. However, the works were delayed and the building was made over for installation purpose in August 1987 and ultimately the plant could be commissioned only in March 1988. Meanwhile, by October, 1985, the entire equipment and machinery, worth Rs. 7.13 crores had been supplied by the foreign firm. The equipment and machinery were stored in a department building till commencement of installation in November 1987. Consequently, the department had to take out a 'storage cum erection' insurance policy for which premium of Rs. 3.52 lakhs was paid. By then, the warranty on the equipment had already expired in February, 1987. The Committee are surprised at the complete absence of planning in synchronising the civil works and procurement of equipment which resulted not only in incurring of extra expenditure but also in delaying the commissioning of the project considerably. The

Department of Telecommunications attributed the delay in construction of the building to the foreign firm who had defaulted in making available in time the drawing of the plant and also to the Government contractor, NBCC. While intimating the action taken for these lapses, the Committee were informed that whereas a part of the sum payable to the foreign firm had been withheld, a penalty was imposed on the contractor for the delay. The Secretary, Telecommunications while admitting lack of synchronisation stated in evidence, "the only defence that I advance is that this was the price which we had to pay in terms of the learning process." The Committee deplore the laxity on the part of the authorities concerned on this score and desire that the Ministry of Communications should ensure that such lapses are not allowed to recur in future projects.

[Sl. No. 3 (Para 82) Appendix-II of Eighty Ninth Report of PAC (10th Lok Sabha)]

Action Taken

Suitable instructions have been issued to avoid such lapses in future and a copy of the same of enclosed as Annexure-III.

This issues with the approval of Advisor (P).

[Ministry of Communications (Deptt. of Telecommunications) U.O. No. RR-Project/2(d) 4526/192 & 252 dated 13-11-95 and 15-12-95 respectively]

Recommendation

The Committee note that global tenders were invited in October, 1981 for design, supply of machinery and equipment, supervision of installation, carrying out the trial run, commissioning of plant and training of staff for the proposed modern tube making plant. Pre-bid concurrence of the World Bank was also stated to have been obtained before floating the global tenders. The contract was awarded to a German Firm, M/s Klockner Industries in June, 1983. As per the terms of the contract, the delivery of equipment was to be completed by April, 1985. The complete equipments were supplied by the foreign firm between December, 1984 and October, 1985. On completion of the building, the installation team from the foreign firm arrived in October, 1987. During installation, the Plant and Machinery were jointly inspected and various technical deviations, commercial discrepancies and design defects were observed. After several modifications carried out by the installation team, the plant was ultimately commissioned in March, 1988. However, some of the defects remained. Although the foreign firm subsequently in January, 1988 and March, 1990 replaced the indigenous band rolling machines (supplied and installed earlier) by machines of Japanese origin, and also carried out some modifications, they could not demonstrate the rated output of the plant besides failing to resolve the technical deviations and commercial discrepancies. The contract was eventually rescinded in August, 1990 at the

risk and cost of the firm. The Committee's examination has, revealed certain vital omissions and commissions on the part of the Department in enforcing the contractual obligation of the firm.

[Sl. No. 4 (Para 83) Appendix II of Eighty Ninth Report of PAC
(10th Lok Sabha)]

Action Taken

The recommendation of the Committee has been taken note of and appropriate action taken in this regard is discussed on the subsequent paras.

This issues with the approval of Advisor (P).

[Ministry of Communications (Deptt. of Telecommunications) U.O. No. RR-Project/2(d) 4526/192 & 252 dated 13-11-95 and 15-12-95 respectively]

Recommendation

The design defects, deviations, discrepancies etc. in the equipments necessitating modifications, obviously have adversely affected the productivity of the plant from what was initially envisaged. The Ministry of Communications stated that they had withheld part of the payments due to the firm towards provision of the installation and commissioning charges. The Committee have been informed that major modifications have not been taken up so far. However, modifications involving expenditure of Rs. 27.25 lakhs were proposed. The Ministry further stated that they propose to achieve the rated output within a couple of years by taking up suitable modifications. The Committee would like to be apprised of the extent of modifications carried out, the cost incurred for the same and the results achieved.

[Sl. No. 6 (Para 85) Appendix II of Eighty Ninth Report of PAC
(10th Lok Sabha)]

Action Taken

A statement showing the extent of modification carried out alongwith the cost for each such modification is furnished in the Annexure III to the reply of this para.

The increase in production every year is indicated below:—

Year	Production	%Increase	%Increase
1990-91	1,48,880	Progressive	w.r.t.1990-91
1991-92	2,72,780	83	83
1992-93	3,30,100	21	121
1993-94	3,58,520	9	141
1994-95	4,08,800	14	175

It is expected that the production may go up further in the coming years as may be seen from the data indicated above.

This issues with the approval of Advisor (P).

[Ministry of Communications (Deptt. of Telecommunications) U.O. No. RR-Project/2(d) 4526/192 & 252 dated 13-11-95 and 15-12-95 respectively]

Recommendation

Clause 20.4 in the contract document had excluded recovery of all types of consequential losses. Although the departmental committee had recommended that the Ministry might consult the Ministry of Law whether the department could still recover the production losses from the foreign supplier in spite of the said clause in the contract, the Department of Telecommunications had made a reference to the Ministry of Law on 26-12-1991 only. The Committee are unhappy over this delay and desire that the Ministry should take suitable action to ensure that such references are promptly made by the department in future.

[SL No. 10 (Para 89) Appendix II of Eighty Ninth Report of PAC (10th Lok Sabha)]

Action Taken

A copy of the instruction issued to field units & copies to various officers in TCHQ, to avoid recurrence in future is enclosed at Annexure VI.

This issues with the approval of Advisor (P).

[Ministry of Communications (Deptt. of Telecommunications) U.O. No. RR-Project/2(d)4526/192 & 252 dated 13.11.95 and 15.12.95 respectively]

Recommendation

The Committee further find that the Ministry of Law in their advice tendered on 5-2-1992 had opined that the claim of the Department of Telecommunications did not appear to be legally sustainable. They had however, pointed out that it was open to the Ministry to take an administrative decision to file those claims alongwith the other claims before an arbitrator. The Committee are surprised to note that the Department of Telecommunications constituted another committee to

prepare brief for the arbitration proceedings on 23-7-1993 only i.e. after a lapse of about one and a half years. The Ministry of Communications while explaining the delay stated that a committee initially appointed in July 1992 had to be changed due to reallocation of works and other fresh committee had to be constituted in July 1993. The newly constituted committee submitted the report on 28-7-1994 i.e. after one complete year. The Committee are constrained to observe that this is indicative of the lack of seriousness on the part of the Ministry in pursuing the matter to its logical conclusions.

[SL No. 11 (Para 90) Appendix II of Eighty Ninth Report of PAC
(10th Lok Sabha)]

Action Taken

A copy of the instructions addressed to field unit and copies to various officers in TCHQ to avoid such delay in future is enclosed at Annexure VI.

This issues with the approval of Advisor (P).

[Ministry of Communications (Deptt. of Telecommunications) U.O. No. RR-Project/2(d)4526/192 & 252 dated 13.11.95 and 15.12.95 respectively]

Recommendation

The Committee note that as per the contract, two indigenous band rolling machines including eight sets of tools had been indicated as DM 314800. These special purpose machines were designed by the German firm and supplied indigenously by them to the Telecom Factory, Jabalpur. On installation of these machines, it was found that they were not suitable for rolling bands and the same were rejected. The foreign firm tried to carry out a lot of modifications to these machines but failed. Thereafter, the firm supplied two Japanese made machines. However, at the time of clearing these two machines from Customs, Telecom Factory authorities came to know that the cost of Japanese band rolling machines had been shown as DM 22400 each. The recovery of the difference in cost namely rupee equivalent to DM 2,70,000 sought for by the TFJ authorities from the foreign firm was not agreed to by the departmental committee on the ground that the firm had replaced the machines to the satisfaction of TFJ authorities. In the opinion of the Committee, this clearly shows that while scrutinising the tender offers adequate care had not been given by the Department to verify the cost effectiveness of the items included and other relevant considerations. The Department of Telecommunications stated that the entire contract was on turn key basis for design, supply, installation and commissioning of the plant and it was not in their purview to verify its suitability, cost effectiveness etc. The Committee did not agree with this contention and desire that the Ministry of Communications should further look into the

facts of this case and take necessary measures in order to ensure that similar losses are not incurred in the future contracts.

[SL. No. 14 (para 93) Appendix II of Eighty Ninth Report of PAC
(10th Lok Sabha)]

Action Taken

The observation of PAC are noted for future compliance. A copy of instructions issued to field units and copies to various officers of TCHQ is enclosed at Annexure VI.

This issues with the approval of Advisor (P).

[Ministry of Communications (Deptt. of Telecommunications) U.O. No. RR-Project/2(d) 4526/192 & 252 dated 13-11-95 and 15-12-95 respectively.]

Recommendation

The project for setting up of the modern tube making plant was conceived mainly with a view to achieving higher output and improved product at a lesser cost. It was expected that the modern plant with a better technology would produce 5.25 lakhs tubes per annum at a lesser cost as against the production of 4.5 lakhs tubes per annum by the existing plant. The Committee were informed that the cost of production at the new factory was lesser than the old one. However, as against the expected production of 5.25 lakhs, the production registered by the modern plant during the year 1989-90 and 1993-94 varied between were 1.34 lakhs and 3.59 lakh tubes. Ironically, the production registered by the existing old plant during the corresponding period varied between 3.35 lakhs and 3.74 lakh tubes. Thus, contrary to the expectations the modern plant with better technology is giving a lower output than the purportedly outlived plant with obsolete technology. Evidently, the underlying objectives behind the setting up of this plant still remains to be fully achieved. Significantly, the Department as of now are meeting more than 80% of their requirements of the tube from the open market where the price per tube is stated to be lesser than the cost of production by the government factory. The Committee cannot be express their serious concern over the failure of the plant to achieve the rated production even after a period of six years. During evidence the Secretary, Telecommunications admitted that the Department were not satisfied with the production performance and that it has to be improved. The Committee recommend that all out measures should be taken to increase the production of the new tube making plant so as to achieve the desired output. The Committee would like to be apprised of the latest position in respect of the production of the new and old factories, the cost of tubes produced and also the quantity obtained from the open market and the rates at which they are so procured. They

would also like to be informed of the Government proposals on the fate of the old plant.

[Sl. No.16 (Para 95) Appendix II of Eighty Ninth Report of PAC (10th Lok Sabha)]

Action taken

As submitted in post evidence reply to list of points No. 26 it would be possible to achieve the rated output within 2 years or so by taking up suitable action locally. During 1994-95 nearly 80% of the rated capacity has been achieved. The latest position in respect of production of the new and the old factories, cost of tubes produced, the quantity obtained from the open market through CGMTs Calcutta and the rate at which procurement was made are indicated in Annexure VIII to IX.

The old plant is still being run as a stand-by to meet the huge demand for the items in the Department and it will continue till the new plant achieves the required production capacity.

This issues with the approval of Adviser (P).

[Ministry of Communications (Deptt. of Telecommunications) U.O. No. RR-Project/2(d)4526/192 & 252, dated 13-11-95 and 15-12-95 respectively.]

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN THE LIGHT OF THE REPLIES RECEIVED FROM GOVERNMENT

Recommendation

The Ministry of Communications felt in February 1983 that there would be a constant requirement of Hamilton tubes (for telephone and telegraph poles) in increasingly larger numbers in the years to come for opening new connections/call offices, extending telecommunication facilities in rural areas etc. A tube making plant manufacturing such tubes established in 1942 at Jabalpur had outlived its life. The technology used was very old, outmoded and had low productivity. Accordingly, Government approved a proposal in March 1983 for setting up a modern integrated tapered tube making plant at Richhai, Jabalpur at an estimated cost of Rs. 723.84 lakhs. The project was sanctioned in April 1983 for Rs. 724.28 lakhs in replacement of the existing plant at Telecom Factory, Jabalpur. The modern plant was expected to be commissioned by 1985 and the existing plant phased out by 1988. It was also expected that the modern plant with a better technology would produce 5.25 lakhs tubes per annum and may touch maximum of 6.75 lakhs per annum at lesser cost as against the production of 4.5 lakhs tubes per annum by the existing plant. The Committee's examination of the Audit Paragraph has revealed several disquieting aspects arising out of the execution of the project and its attainment of the objectives.

[Sl. No. 1 (Para 80) Appendix II of Eighty Ninth Report of PAC (10th Lok Sabha)].

Action Taken

According to EFC Memo the new plant was to produce 5.25 lakh tubes per annum. It was also envisaged that the maximum output obtainable from both new and old plant may touch 6.75 lakhs till phasing out of old plant from 1988 onwards. The Modern Tube Making Plant has already achieved the production of 4,08,800 tubes in 1994-95 which is nearly 80% of the rated capacity. It is expected that by the end of 1996-97 the full rated output would be achieved. Since the old plant is also being run the combined production has been more than 6.75 laks.

The cost of the tube from the Modern Tube Making Plant after apportioning the cost of infrastructure facilities (Rs. 3.25 crores) is Rs. 406.47 which is less than the market rate of Rs. 450/- at which rate stores were procured by CGM TS, Calcutta from the open market during year 1990-91.

In the proposal for approval of EFC, besides the economy the other objectives were:—

- Product improvement
- Improvement in process — Elimination of the manual rivetting by the less fatigue welding process.
- Elimination of noise pollution in rivetting in the old plant.

These objectives have been achieved.

This issues with the approval of Advisor(P).

[Ministry of Communications (Deptt. of Telecommunications) U.O. No. RR-Project/2(d) 4526/192 & 252 dated 13-11-95 and 15-12-95 respectively]

Recommendation

The Committee find that the Ministry took no action to entrust the work of assessing the losses scientifically to HMT. The Ministry of Communications *inter alia* stated that this was not done as it was realised that HMT was not an approved agency to take up technical inspection for making claim on a foreign firm and that no useful purpose will be served by entrusting the work to them. However, the Ministry subsequently informed the Committee that when the matter was referred to HMT it was learnt that owing to limited nature of supplied, Indian inspection agency i.e. HMT may not be acceptable to be foreign supplier. The Committee wonder as to how the acceptability of the foreign supplier was relevant in this case and they strongly disapprove the Ministry's action in sustaining the said argument.

[Sl. No. 8 (Para 87) Appendix II of Eighty Ninth Report of PAC (10th Lok Sabha)]

Action taken

It is submitted that the contract did not provide for any 3rd party inspection. Hence entrusting the work to HMT without the consent of foreign supplier was not fair in terms of contract. However, the second Committee opined that no useful purpose would be served by entrusting the work to M/s HMT to assess the loss.

This issues with the approval of Advisor(P).

[Ministry of Communications (Deptt. of Telecommunications) U.O. No. RR-Project/2(d) 4526/192 & 252 dated 13-11-95 and 15-12-95 respectively]

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS REPLIES TO WHICH HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION:

Recommendation

Clause 16(i) of the contract entered into with the foreign firm provided that the purchaser would at his option carry out inspection and tests in the factory of the contractor or his suppliers on the equipment as and when these are produced and before their despatch for confirmation of the technical specification/guarantee of the equipments. Surprisingly, no action was taken by the department to exercise this option inspite of a communication having been received from the foreign firm in October, 1984 to depute people for pre-despatch inspection of the equipment. Equally surprisingly, the Department did not insist for a joint inspection immediately on receipt of the entire plant and machinery in 1985. No planning was also done to have the machines inspected by the departmental engineers who were sent abroad as the machines had already been transhipped in December, 1984 whereas trainees were sent much later in May, 1986. The Committee are dismayed to note that rather than taking recourse to any of the options mentioned above, the departmental authorities took an unusual decision on 31.10.1984 waiving Clause 16(i) of the contract on the ground that enough safeguards were provided under other clauses of the contract for replacement of defective equipments, warranty for quality etc. The Ministry of Communications while justifying their decision not to undertake any pre-despatch inspection of the equipment stated that Clause 16(i) was an optional Clause and that requisite inspection could have been carried out after assembling and installation of the machines at site. The Secretary, Telecommunications during evidence however, stated that the decision for waiver of Clause 16(i) was guided by the fact that the World Bank Loan and IDA Credit was to expire on 31.12.1984. The Committee are not convinced with the arguments adduced by the Ministry seeking to explain the departmental failure for not invoking the available contractual provision for ensuring before commissioning of the plant that the equipments supplied by the foreign firm conformed to the technical specifications and the rated output. Since the date of expiry of the World Bank Credit was known to the Department very well in advance, they ought to have planned the commissioning of the project after ensuring the quality and specifications of the equipments by taking recourse to the available options

stipulated in the contract well in time. The Committee consider it unfortunate that instead of doing so the Department resorted to an extraordinary course of action by waiving the relevant Clause of the contract itself which eventually resulted in innumerable losses. The Secretary, Telecommunications was candid in his deposition before the Committee that he had not come across any such waivers and that 'in retrospect I do not justify it'. The Committee deprecate departmental failures in this regard and desire that responsibility should be fixed for the lapses.

[Sl. No. 5, (Para 84) Appendix II of Eighty Ninth Report of PAC (10th Lok Sabha)]

Action Taken

Purchaser had the option to carry out inspection and test in the factory premises as and when the equipments were ready for despatch. This was an optional clause. The decision for waiver of this clause was taken on account of following factors:—

- (i) Scope of the order provided that contractor will design and supply the equipment, supervise, instal, carry out trial run and commissioning of the plant.
- (ii) It was the responsibility of the contractor to see that equipment manufactured and supplied by him is according to specifications and will be able to produce products of right quality.
- (iii) As per clause 16(iii) the equipment on receipt will be tested during and after installation before taking over and if anything found defective will be replaced free of costs to the purchaser.
- (iv) Sufficient safeguards were provided under various clauses:—
 Clause 17 — Replacement of defective equipment.
 Clause 18 — Taking over.
 Clause 19 — Warranty as to quality.
- (v) The equipment was custom built to meet the specifications of DOT. Therefore, no agreed test schedule was drawn for the equipment. It was felt that the DOT Engineers would not be able to contribute much in the testing and inspection of equipment.
 Taking into account the above factors, a (competent) decision was taken by the then M(TO) on 31-10-84 to waive off the clause.
- (vi) As the decision was taken by the then competent authority after taking into account all the related factors, it is not considered appropriate to fix responsibility.

This issues with the approval of Adviser(P).

[Ministry of Communications (Department of Telecommunications)
 U.O. No. RR-Project/2(d) 4526/192 & 252, dated 13-11-95 and 15-12-95
 respectively]

Recommendation

The Committee note that in March—April 1991 the Chief General Manager, Telecom Factory intimated the Directorate that the factory had suffered losses amounting to over Rs. 40 crores due to technical deviations in the plant and machinery supplied, commercial discrepancies, shortfall in production and other miscellaneous items. Thereafter, the Ministry appointed a departmental committee in March 1991 to look into the matter. The departmental committee in its report submitted in May 1991 *inter alia* recommended:—

- (i) Since the machines procured were for a special purpose and there was some technical deviations for which recoveries were to be made, the work of assessing the losses scientifically may be entrusted to an expert firm like Hindustan Machine Tools Ltd. — special machines tools division.
- (ii) Damages may be recovered from the foreign firm on account of commercial discrepancies (DM 1,66,800 equivalent to Rs. 52.69 lakhs), cost of modifications (Rs. 28.76 lakhs) and miscellaneous recovery (Rs. 3.9 lakhs).
- (iii) It was unable to give its recommendations about the recovery of a major portion of the loss due to shortfall in production suffered by the department (Rs. 35 crores during 1988—90) in view of inclusion of a Clause (20.4) in the contract document which clearly excluded recovery of all types of consequential losses. Therefore, it recommended investigation of the reasons for inclusion of this clause in the contract and whether this had the approval of the Integrated Finance. It also recommended consulting the Ministry of Law whether the production losses could still be recovered inspite of the particular contract clause.

The Committee deeply regret to note that no action was taken by the Ministry to act upon promptly on the recommendations of the departmental committee constituted by the Ministry themselves.

[Sl. No. 7, (Para 86) Appendix II of Eighty Ninth Report of PAC (10th Lok Sabha)]

Action Taken

- (i) & (ii) It is submitted that the contract did not provide for any third party inspection. Hence it was felt entrusting the work to M/s HMT without the consent of the foreign supplier was not fair in terms of contract. Further the second committee opined that no useful purpose could be served by entrusting the work to M/s HMT to assess the loss.
- (iii) (a) The Law Ministry was consulted who expressed their views that no claims can be sustained at this belated stage but it can be pursued in the Arbitration. The Second Committee constituted for preparing a brief for arbitration recommended that a formal

claim should be filed first. Accordingly, a claim for Rs. 66.67 lakhs has been filed on 12-5-95. A copy of the letter No. 12-408/81-MMD/Vol. VI, dated 12.6.95 indicating the details of the claims lodged with the foreign supplier is enclosed (Annexure-V)

- (b) Inclusion of Clause 20.4 in the contract had the approval of Integrated Finance. The records pertaining to the case have been looked into from the information available in the file it has not been possible to know the reasons for inclusion of Clause 20.4 in the contract document.

This issues with the approval of Adviser(P).

[Ministry of Communications (Deptt. of Telecommunications) U.O. No. RR-Project/2(d) 4526/192 & 252, dated 13-11-95 and 15-12-95 respectively]

Recommendation

The Committee are astonished that the Department of Telecommunications have not chosen to lodge a formal claim with the foreign supplier towards the damages as assessed by the Departmental Committee so far. The Ministry of Communications have not offered any convincing explanation for this delay excepting that certain payments due to the firm has been withheld and hence no claim has been lodged. The Committee cannot but express their displeasure over the inordinate delay in filing the claim particularly since the Departmental Committee had recommended to do it as far back as in May, 1991. The Committee trust that the necessary claims on this account will now be lodged alongwith the other claims. The Committee would like to be informed on the action taken in the matter.

[Sl. No. 9, (Para 88) Appendix II of Eighty Ninth Report of PAC (10th Lok Sabha']

Action Taken

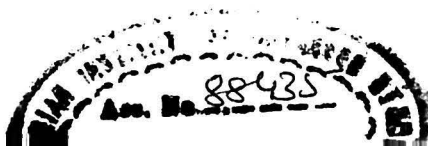
The Claim for Rs. 66.67 lakhs on account of losses due to technical deviations in supply, commercial discrepancies and miscellaneous recoveries as well as the consequential losses of production etc. has been filed on the firm on 12-5-95. The details of the claim of Rs. 66.67 lakhs are given in Annexure V.

This issues with the approval of Adviser(P).

[Ministry of Communications (Deptt. of Telecommunications) U.O. No. RR-Project/2(d) 4526/192 & 252, dated 13-11-95 and 15-12-95 respectively]

Recommendation

The Committee were informed that the departmental committee in its report submitted alongwith the brief for arbitration has recommended that a formal claim may be first lodged with the firm before initiating arbitration proceedings. The Department of Telecommunications informed



the Committee that the said report was under their examination. On perusal of the relevant report obtained by the Committee subsequently it was however seen that the departmental committee has proposed to claim the losses incurred by the department on account of technical deviation in supply, commercial discrepancies and the miscellaneous recoveries only. As regards recovery of part of the consequential losses of production, the said committee has observed that in view of Clause 20.4 of the contract this was not being pressed. The Committee are astonished over this recommendation since the Ministry of Law had clearly recommended that it was open to the administrative Ministry to take decision to claim the losses suffered on this account also alongwith the other claims. Pertinently, the cumulative effect of the losses due to shortfall in production during the six years period from 1988-89 to 1993-94 according to Audit amounted to Rs. 74.95 crores. The Committee, therefore, desire that the Ministry should look into the matter again and take appropriate steps for ensuring that all legitimate claims of the department are duly lodged.

(SL.-No. 12 (Para 91) Appendix II of Eighty Ninth Report of PAC (10th Lok Sabha))

Action Taken

A formal claim for Rs. 66.67 lakhs including all legitimate claims on account of technical deviation in supply, commercial discrepancies and miscellaneous recoveries as well as consequential losses of production etc. has been lodged on the firm on **12.5.95**.

The details of the claim amount pertaining to technical deviation in supply, commercial discrepancy and misc. recoveries as well as consequential losses of production etc. are indicated in Annexure-V.

This issues with the approval of Adviser (P).

[Ministry of Communications (Department of Telecommunications) U.O. No. RR-Project/2(d) 4526/192 & 252, dated 13-11-95 and 15-12-95 respectively]

Recommendation

The Committee regret to note that the Ministry of Communications have not adequately investigated the circumstances in which Clause 20.4 was included in the contract document which eventually sought to deprive the department of the consequential losses. The Ministry pleaded that there was nothing on record to suggest as to how the Clause was included in the contract. The Secretary, Telecommunication admitted during evidence that "to my mind, that Clause is not there anywhere else". Strangely enough, the Ministry of Communications were also unable to produce any documentary evidence to the Committee suggesting that the draft contract was approved by the Integrated Finance Wing of the Ministry. The Committee are satisfied that the manner in which such an admittedly unusual clause was

allowed to creep into the contract document requires to be deeply looked into. They, therefore, desire that the matter should be thoroughly investigated and responsibility fixed.

[Sl. No. 13 (Para 92) Appendix II of Eighty Ninth Report of PAC (10th Lok Sabha)]

Action Taken

Records pertaining to the case have again been ~~looked~~ info. From the information available in the file it has not been found possible to know the reasons for inclusion of clause 20.4 in the contract Document. The contract was signed on 7-6-83 and the file was submitted to the Finance Branch which was seen by them on 18-6-1983. Thus the contract including the clause 20.4 stood concurred by integrated finance. Moreover, the clause absolved both parties from the consequential damages arising out of contract hence its inclusion might have been considered fair at that time. In view of this it is considered not appropriate to fix responsibility.

This issues with the approval of Adviser (P).

[Ministry of Communications (Deptt. of Telecommunications) U.O. No. RR-Project/2(d) 4526/192 & 252 dated, 13-11-95 and 15-12-95 respectively]

Recommendation

From the facts stated in the preceding paragraphs the Committee are inclined to conclude that the project of the modern tube making plant Jabalpur had suffered due to several irregularities/shortcomings. These included inadequate preparation of project estimates, failure to ensure synchronisation of procurement of machinery and construction of building, failure to invoke contractual provisions, incorrect waiver of contractual clause, inclusion of incorrect clauses in the contract document, failure to take prompt action on the findings of the departmental committee, delay in arbitration proceedings and above all failure to ensure achievement of objectives behind the project. The Ministry of Communications (Department of Telecommunications) assured the Committee that they proposed to take suitable remedial measures for improving the terms and condition in the future contracts by providing for detailed testing schedule plan, the terms of payment, incorporation of adequate clauses, in case of failure to administer the rated output of the plant etc. The Committee cannot remain satisfied with this. They desire that the various omissions and commissions pointed out by them in this report should be thoroughly inquired into with a view to fixing of responsibility and also ensuring that such lapses do not recur. The Committee also do not agree with the contention of the Ministry that the cumulative production loss of Rs. 74.96 crores pointed out by Audit was "hypothetical and speculative". Since these losses have arisen also due to the failure of the foreign firm to fulfil their contractual obligation to demonstrate the rated output of the plant, the Committee are of the view that the matter should be taken to its logical conclusions by making suitable claims alongwith the other claims

proposed to be filed with the arbitrator without any further delay. The Committee would like to be apprised of action taken within a period of six months.

[Sl No. 18 (Para 97) Appendix II of Eighty Ninth Report of PAC (10th Lok Sabha)]

Action Taken

The actions taken have been indicated against paras 80 to 96.

This issues with the approval of Advisor (P).

[Ministry of Communications (Deptt. of Telecommunications) U.O. No. RR-Project/2(d) 4526/192 & 252 dated 13-11-95 and 15-12-95 respectively]

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES

Recommendation

The Committee further note that one packing case containing imported machines and spares was damaged during transit. Also, another indigenous machine was damaged during unloading. Claims for Rs. 15.78 lakhs lodged by the Department on both the cases with the insurance company in July 1985 and May 1987 were, however, still pending. The Department of Telecommunications stated that the main reasons for the delay in the case is due to dilly-dallying tactics adopted by the insurance company for settlement on various pretexts. The Committee desire that the cases should be vigorously pursued so as to realise the legitimate claims of the department.

[Sl. No. 15 (Para 94) Appendix II of Eighty Ninth Report of PAC (10th Lok Sabha)]

Action Taken

M/s. Oriental Insurance Co. in June 1994 indicated that in a similar type of claim of MTNL, Bombay the matter is pending before a court and is hence subjudice. They have informed that they will proceed according to the Court's order in the matter. In the meantime Ministry has taken up the matter with the Finance Ministry vide its letter No. 12-10/83-TFP dated 13.10.1994 followed by reminders dated 19.12.94 and 1.2.95. It has been reported by CCM, TF, Jabalpur that since the claims have been rejected by Insurance Company the matter may be referred to High Power Committee in Cabinet Secretariat. Accordingly action is being taken.

This issues with the approval of Advisor (P).

[Ministry of Communications (Deptt. of Telecommunications) U.O. No. RR-Project/2 (d) 4526/192 & 252 dated 13.11.95 and 15.12.95 respectively]

Recommendation

The Committee find that the proforma profit and loss accounts of the modern tube making plant from the years 1988-90 onwards are yet to be finalised. However, at their instance provisional accounts for the year 1990-91 to 1993-94 were furnished. The accounts revealed that the operating expenditure had registered an increase from Rs. 9.74 crores in 1990-91 to Rs. 23.78 crores in the year 1993-94. However, sales during the corresponding period increased from Rs. 12.52 crores to Rs. 24.49 crores

only. It was also seen that the factory was carrying an inventory of Rs. 13.53 crores and current liabilities on account of galvanising charges were still to be discharged. In view of the above also the fact that various essential infrastructure facilities amounting to Rs. 3.24 crores were yet to be appropriately booked, the Committee are convinced that the costing aspects need to be looked into again in order to assess the financial viability of the project in a more appropriate manner. This is particularly necessary considering the fact that Government/Department of Telecommunications are themselves the principal customer of the product. The Committee, therefore, desire that the proforma accounts should be recast accordingly, finalised expeditiously and got duly audited. The Committee would like to be informed of the action taken in the matter.

[Sl. No. 17 (Para 96) Appendix II of Eighty Ninth Report of PAC (10th Lok Sabha)]

Action Taken

Recasting of the Proforma account is under process and is expected to be completed and submitted to Audit by Jan., 96.

This issues with the approval of Advisor (P).

[Ministry of Communications (Deptt. of Telecommunications) U.O. No. RR-Project/2 (d) 4526/192 & 252 dated 13.11.95 and 15.12.95 respectively]

NEW DELHI;
29 February, 1996

10 Phalguna, 1917 (Saka)

RAM NAIK,
Chairman,
Public Accounts Committee.

ANNEXURE I

**Govt. of India
Ministry of Communication
Department of Telecommunications**

No. 12-10/83-TFP (Vol. IX)

Dated: 20-7-95

To

**All Heads of Telecom Circles/Metro Telephone Districts
All Heads of Telecom Project Circles.
All Heads of Telecom Factories.
All Heads of Telecom Maintenance Circles.**

**SUB:— *Irregularities/shortcomings arising out of execution of the Projects-
steps to avoid lapses/recurrence thereto.***

During Audit review of the Project on a Tube Making Plant Richhai (Jabalpur), C&AG of India, in his report for the year ended 31st March, 1993 vide para 8.1, has pointed out some Irregularities or shortcomings arising out of execution of the Project. The said Rara was selected for detailed examination by PAC who have badly commented upon the execution of the said project. A detailed analysis of the case revealed the following facts:—

(i) Non-inclusion of certain infrastructure items in the Project since they were not meant exclusively for the tube making plant but common to various other projects.

In this connection, attention of all concerned is invited to para 134 of Vol. X of P&T Manual, according to which a Project should be complete in itself even though in some situation it may not be necessary to incur expenditure on all the items included in the Project.

(ii) Failure of the Department to plan and synchronise the construction of building in time and the procurement of the Plant and Machinery thereby causing delay in completion/commissioning of the Project.

In this connection it is reiterated that the Project Manager appointed for a Project should be made responsible for all works relating to the Projects for effective liaison and coordination. As and when such projects are taken up, a very close watch should be kept over the progress of the project and periodical monitoring should be ensured at appropriate level in order to avoid recurrence of such delays in future.

These instructions may please be brought to the notice of all concerned for strict compliance.

**(ABDUL UAJID)
DIRECTOR(ID)**

ANNEXURE II

Sanctioned cost vis-a-vis Revised Estimated Cost

Sanctioned Cost			Levised Estimated Cost		
Cash	O/H	Total	Cash	O/H	Total
*A & P B. 6,6089,000/-	B. 6,60,890 /-	B. 6,67,49,890 /-	B. 7,91,15,844/-	B. 7,1,558 /-	B. 7,99,47,402/-
**Bldg. & B. 33,13,000/-	B. 3,97,560 /-	B. 37,10,560 /-			
Elect. B. 10,00,000/-	B. 1,20,000/-	B. 11,20,000/-	B. 81,17,883/-	B. 9,6,546 /-	B. 91,14,429/-
***D & E B. 6,45,000/-	—	B. 6,45,000 /-	B. 5,19,069/-	—	B. 5,79,069/-
****NV&L B. 2,00,000/-	B. 2,000 /-	B. 2,02,000 /-	B. 38,325/-	B. 883 /-	B. 89,208/-
Total: B. 7,12,47,,000/-	B. 11,80,450 /-	B. 7,24,27,450 /-	B. 8,79,51,121/-	B. 17,8,987 /-	B. 8,97,30,108/-
****Infrastructural facility:	Apportioned fully to Tube Making Project				B.3,24,54,284/-
					B. 12,21,84,392/-

*Details at page (2)

**Details at page (3)

***Details at page (4)

****Details at page (4)

*****Details at page (5-6)

Statement of the Cost of Plant and Machinery

	Revised cost	Original estimated cost	Difference	Reason for variation
1	2	3	4	5

(a) **Supplied by the Foreign**

Tenderer:

Cost of Imported Equipment

(including spares)

(DM 87,90,700)

Rs. 3,53,31,061/- Rs. 2,24,66,624/- Rs. 1,29,14,437/-

While finalising the contract the rate of DM was Rs. 100 = DM 25.24. When the delivery of the consignments progressed, the rate of German mark had been continuously raised and hence there is a variation in the FOB value. Moreover the original estimated cost of A&P on FOB basis excluding cost of Trg. and supervision of installation was 5670576 DM whereas contract was placed for FOB of 87,90,700 DM.

1	2	3	4	5
Indigenous				
Cost of Insurance	Rs. 80,60,705/-	Rs.2,22,26,624/-	Rs.1,41,65,919/-	Savings.
	Rs.9,83,583 /-	Rs.22,46,662/-	(-) Rs.4,40,249/-	
Freight charges	Rs.17,16,695/-	Rs.8,93,865/-	Handling	-do-
Customs Duty	Rs.2,54,23,831/-	Rs.1,34,79,974/-	charges	The custom duty considered in the
			Rs.1,19,43,857/-	original estimate was @ 60% on
				FOB value of 5670576 DM
				whereas in actual the FOB value
				comes to 8790700 DM as per the
				contract and the actual expenditure
				on custom duty have been at the
				rate of 65% on CIF value. Hence
				variation of Rs. 1,19,43,857/-
Installation and	Rs. 4,93,319/-	Rs. 9,58,003/-	} (-)Rs.7,64,684 / -	Savings.
Commissioning		Rs. 3,00,000/-		
	Rs. 1,73,100/-	Rs. 7,16,957/-		(-)Rs. 5,43,857/-
Training (DM 30,000)				-do-

1	2	3	4	5
(b) A & P procured by GMTF				
Air Compressor	Rs. 1,76,272/-	Rs. 5,00,000/-	(-)Rs. 3,23,728	-do-
Overhead Electrical Crane (5 Ton.)	Rs. 3,44,230/-	Rs. 5,00,000/-	Rs. 3,44,230/-	
	<u>Rs. 7,32,52.796/-</u>			
(c) Anticipated Expenditure:				
Supervision, Installation and trial run charges to be paid to Foreign supplier	Rs. 41,03,048	(As per Clause 8.C (iii) of Contract)	Rs. 41,03,048/-	The payment is withheld since performance of the plant is yet to be conducted by Supplier and the Plant is yet to be taken over.
Cost of one EOT Crane (25 MT)	Rs. 18,00,000/-	Rs. 18,00,000/-	—	The crane is under installation.
	<u>Rs. 59,03,048/-</u>			
Over head 1%	Rs. 7,91,55,844/-	Rs. 6,60,88,709/-	Rs. 1,30,67,125/-	
	Rs. 7,91,558/-	Rs. 6,61,000/-	Rs. 1,30,558/-	
	<u>Rs. 7,99,47,402/-</u>	<u>Rs. 6,67,49,709/-</u>	<u>Rs. 1,29,36,577/-</u>	Overhead varies due to variation in principal cost.

Details of Anticipated expenditure:

DM 35,000 Towards travelling and living expenses for repairing Decoiler.
DM 19,378/- Travelling expenditure for Joint Inspection and Technical discussion.
DM 4,00,000 Installation and Supervision.
DM 54,000 Expenses for Specialised Engr. for Damaged Decoiler.

DM 5,08,778/-

Statement of cost of Building and Electrical Installation

The original estimated cost of Building work was Rs. 33.13 lacs based on adhoc rates and Rs. 10 lacs for Electrical Installation whereas in actual expenditure comes to Rs. 89.29 and Rs. 1.85 lacs respectively as indicated below:—

Revised cost of Building:

Main shed	48.55	lacs as per Original letter of Award and agreement by Civil Wing.
	10.77	lacs for non-structural works like side cladding, doors, windows, machine foundations which are not included in the original contract.
	4.70	lacs for Centry Girdor for EOT Crane not included in the original Contract.
	<hr/> 64.02	
Services (Internal and external) like water supply, surface drain etc.	13.52	lacs—not included in original estimate.
Test Room & Office Partitions etc.	2.18	lacs—not included in original estimate.
	<hr/> 79.72	lacs
Over head	9.57	lacs
TOTAL :	<hr/> 89.29	lacs

Revised cost of Electrical Installations:

Over head —	Rs.
	1,65,857.00
	Rs.
	19,903.00
TOTAL :	<hr/> Rs.
	1,85,760.00

Revised Cost of Direction & Execution :

		Savings
Actual Expenditure from Junc'86 to Nov.'88	Rs. 5,79,069.00	Rs. 65,931.00

Expenditure on Motor Vehicles :

		Savings
Cost of procurement of Operational Vehicle (1 No.)	Rs. 88,325.00	Rs. 1,04,842.00
O/H	Rs. 853.00	
	<hr/> Rs. 89,208.00 <hr/>	

ANNEXURE 5

Statement showing the Details of Works Sanctioned Separately as Infrastructure Facility at Telecom Factory—Kichhai : Jabalpur

Sl. No.	Name of work	Sanction No. and date	Estimated Cost (Rs.)	Position as on 31.03.93	Total Expenditure upto 31.03.90	incurred
1	2	3	4	5	6	
1.	Construction of Tube Wells-2 nos.	TEJ/Proj11-1/ (7)	67,245/-	Work completed		Not readily available
2.	(a) Construction of Railway Siding.	12-24/81-TF(P) dated 16.02.82 and revised Sanction No. 12-7/85-TFP dated 20.11.85.	1,17,12,289/-	-do-	}	Rs. 1,81,32,802/-
	(b) Construction of Platform for Railway siding.	12-1/83-TFP dated 11.07.83.	6,77,760/-	-do-		
3.	Construction of Underground tank capacity 6,81,000 Ltrs.	TEJ/PROJ/11-3/(2)	9,82,000/-	-do-		Rs. 5,57,700/-
4.	Construction of Overhead tank capacity 3,48,800 Ltrs.	TEJ/PROJ/11-4/(2) dated 28.11.81.	9,47,000/-	-do-		Rs. 6,79,263/-
5.	(a) Provision of 21000 Transformer Sub Station.	PROJ/11-5/Vol. II dated 28.10.83.	4,59,470/-	}	-do-	Rs. 73,24,424/-
	(b) Provision of 2X1000 Transformer Sub Station.	TEJ/PROJ/11-5/(84) dated 09.07.83.	50,88,500/-			
	(c) Provision of 500 KVA Outdoor transformer.	Supplementary sanction No. TEJ/PROJ/11-5 II dated 16.01.84	6,82,467/-			

1	2	3	4	5	6
6.	Construction of Compound wall	TEJ/PROJ/11-6/(6) dated 20.01.82		22,00,800/-	Work completed Rs. 25,30,070/-
7.	Construction of Watch Tower	TEJ/PROJ/11-7/(2) dated 19.01.82		1,49,500/-	-do- Rs. 2,27,840/-
8.	Construction of Compound Street and Watch tower Lighting	TEJ/PROJ/11-9/(3) dated 26.04.82		6,05,228/-	-do- Rs. 11,97,648/-
9.	Construction of WBM Road and Culvert	TEJ/PROJ/11-8/(2) dated 19.01.82		6,62,700/-	-do- Rs. 11,17,187/-
10.	Construction of Tube well pump	TEJ/PROJ/11-10/(8) dated 25.04.82		1,19,095/-	-do- Rs. 2,18,493/-
11a	Construction of Reception, Security Office and entrance gate.	TEJ/PROJ/11-12/(3) dated 02.05.82		95,300/-	-do- Rs. 1,28,191/-
12.	Supplying and Laying of cable for watch tower.	TEJ/PROJ/11-23/(3) dated 03.01.83		75,144/-	-do- Rs. 1,38,525/-
13.	Acquisition of additional 4.5 acres of land at Richhai	TEJ/PROJ/11-0/Vol.II/74 dated 11.11.83		2,02,141/-	-do- Rs. 2,02,141/-
				Rs. 3,01,26,639/-	Rs. 3,24,54,284/-

*Government of India
Ministry of Communications
Department of Telecommunications, New Delhi*

D-3/94-A&C

dated: 5.3.94

*All Chief Engineers (C)
Department of Telecom,*

SUBJECT:— Avoidable delay in execution/Completion of Building works.

During Audit Review of the Project on a Tube making plant at Richhai (Jabalpur) C&A.G. has observed besides other points that there was delay in completion of Civil works. The equipment worth Rs. 713 lakhs was supplied by a foreign firm and had to be stored for a considerable period causing Department to take in insurance policy for 'storage cum erection' for which Rs. 3.52 lakhs was paid as premium.

A detailed analysis of the case revealed the following facts.

(i) Entire Equipment/machinery supply were received in October 1985, the Civil works were awarded in April, 1985 with stipulated period of completion of one year initially, i.e. April, 1986. Vital details of Machine foundations were received in February, 1986 from consultants. On scrutiny these were found to be designed without taking into account actual soil conditions. At the site of work the soil was of poor bearing capacity being black cotton soil in nature. Hence, the machine foundations design required modifications to suit the actual soil conditions. These resulted in additional time for completion of Civil works.

(ii) The Civil works for the project were highly technical and specialised in nature and realising its importance, the Chief Engineer (Civil) proposed that work be entrusted to a reputed and experience agency and accordingly Civil Works were awarded to N.B.C.C. after abinitio negotiations on rates of a similar works with the approval of the Works Advisory Board.

(iii) Due to delay in getting details the work of specialised items e.g. machine foundations, machine room flooring and some other items could not be including in the original agreement. Subsequently, these works were awarded after obtaining relevant details.

(iv) Ultimately, the Civil works were completed with a delay of 16 months. Compensation was levied upon the agency as per the agreement.

The above facts indicate the following:

1. There was no sufficient lead time available for the construction of building and other civil works. Apparently, the overall PERT for the project including Civil Works had to be planned, after taking all factors into account.

2. All relevant details for such a specialised buildings have to properly coordinated. The Civil Works should not be awarded in piece meal manner.

For cases where imported equipments are expected to arrive in the near future close coordinations/monitoring is required at every level to avoid slippages in the overall completion of the project.

The above guidelines are being issued to be brought to the notice of all concerned to avoid such slippage in future.

(N.S. CHAKRAVARTHY)
SR. DDG (BW)

Copy to:— All C.G., Ms., Telecom Factories.

Cost of modifications

Sl. No.	Machine	Description	Amount spent on modification
1.	Shearing machine	— Pneumatic gauging system	5,000
2.	Bending press	— Modification of Chain conveyor system	10,500
3.	Welding machine	— Auto tracking system	32,000
		— Voltmeter, Ammeter	
4.	Band Shearing M/c.	— Stacking trolley	—
5.	Punching/Stamping machine	— Modification of punching/ marking tool	16,000
		— Provision of stacking platform	4,750
6.	Band Rolling M/c.	— Provision of stacking platform	3,700
7.	Band Welding M/c.	— Replacement of chutes by special pallets	19,200
		— Volt meter Ammeter	12,000
		— Clamping tool	54,500
8.	Assembly machine	— Modification of Ejection system	5,000
		— Purchase of Depositors 4 nos.	10,000
		— Provision of timer for welding	8,600
		— Provision of portable resistance for welding	
9.	Load testing M/c.	— Modification of holding chuck	5,000
Total :			1,86,250

Government of India
Telecommunications Commission
Department of Telecommunications
Sanchar Bhawan, 20 Ashoka Road
New Delhi — 110001

No. 12-408/81-MMD/VOL-VI

Date: 12.06.95

To

M/s. Klockner Industries
Anlagen GM BH, POB 100852
Neudonfer Street, 3-5, D-4100
Duisbure-1
Germany

Subject: Integrated Tapered Tube Making Plant at Jabalpur under
Purchase Order No.12-408/81—MMD dated 7th June, 1983.

Dear Sirs,

Kindly refer to this office letter Nos. 12—408/81-MMD/V dated 24th July, 1989 and 12-408/81 MMD/V dated 4th April, 1990 wherein you were given an opportunity for completing the balance activities. The said activities were not completed in spite of extension of the period as requested by M/s. Tata Klockner, New Delhi. This office has to continuously approach M/s. Tata Klockner for deputation of your experts to India for completion of the balance activities. After protracted efforts, your experts arrived at Jabalpur on 7th March, 1990 but left on 10th March, 1990 without demonstrating the output of the plant and sorting out the various technical deviations as pointed out by the field unit.

2.0 The above action clearly indicates that you are not interested in completing the contractual obligations under this Contract. In view of the non-completion of all contractual obligations by you till date the

Department of Telecommunications suffered very heavy losses on account of various factors as indicated below:

Sl. No.	Item	Amount	Datials available
A (i)	Technical deviation in supply	Rs. 28.76 lakh	Annexure-V (I)
(ii)	Commercial discrepancies	DM 166800 (equivalent to Rs. 33.99 lakh @ 1 DM = Rs. 20.38)	Annexure-V (2)
(iii)	Misc. expenditure on customs, bank charges and liquidated damages for delay in indigenous supply	Rs. 3.92 lakh	Annexure-V (3)
Total Rs. 66.67 lakh			

B. In addition to these, the Department suffered consequential losses of production, extra manpower and excess payment of electricity bills amounting to Rs. 34.99 crore upto 31st March, 1990 as per details in Annexure-V (4) and Annexure-V (5)

3.0 It is pointed out that the above losses have been solely due to non-fulfilment of contractual liabilities on your part in spite of providing number of opportunities.

4.0 You are, therefore, requested to accept this claim of the Department in order to avoid future complexities in this matter. The payment towards this claim be please be made within thirty days.

With kind regards.

Your, faithfully,

(ANIL KAUSHAL)
Director (MMD)
Tel No. 3717011

Copy to:

Director (TF), FOT Hqs., New Delhi for information.

ANNEXURE V (I)

*Technical Deviations in Supply
(Cost of modifications)*

Sl. No.	Machine	Description	Amount estimated spent
1.	Shearing m/c	— Pneumatic gauging system	5,000
2.	Bending press	— Modification of chain conveyor system	10,500
3.	Welding m/c	— Auto tracking system	20,00,000
		Voltmeter	32,000
		Ammeter	
4.	Hand shearing machine	— Stacking trolley	10,000
5.	Punching/Stamping m/c	— Modification of punching/ marking tool	40,000
		— Provision of stacking platform	4,750
6.	Band rolling machine	— Provision of stacking platform	3,700
		Replacement of chutes by Spl. pallets	26,400
7.	Band welding machine	— Voltmeter	12,000
		— Ammeter	
		— Clamping tool	54,500
8.	Assembly m/c	— Modification of ejection system	5,000
		— Purchase of Depositors 4 numbers	10,000
		— Provision of timer for spot welding	8,600
		— Provision of portable resistance spot welding	6,42,800
9.	Load testing machine	— Modification of holding chuck	5,000
Total Rs.			28,75,850

Losses due to Commercial Discrepancies

(i) Item 5 & 3(d) of — Conveyors before and after Annex. A to the welding Contract	— Machines are identical and supplied by same firm, but cost of item is Rs. equivalent to DM 204,600 as against DM 57800	1,46,800
(ii) Item 15, 16, 17, — A/T cost in rupees is equal to 18 of Anenx. A DM 8000 and 12000. The supplies to the Contract are not correct, hence DM 20,000 should be recovered		20,000
		DM <u>1,66,800</u>

Rs. 35,99,384 (@ 1 DM = Rs. 20.38)

ANNEXURE V (3)

Miscellaneous Losses

Amount (in Rs.)

(i) LD charges for delay in imported and indigenous supply	7,410
(ii) Bank charges paid by the Deptt. @ Rs. 25/- per invoice. There are 17 invoices for indigenous items	425
(iii) Bank charges paid by the Deptt. against invoice No. 89002/10 dated 15.10.89 P.O. -No. 12-408/81-MMD supply-I dt. 2.5.87 for DM 147900 for reimport of spares for damaged decoiler	6,146
(iv) Amount paid to the transporters (Cargo Care Pvt. Ltd. Bombay and Air Freight Pvt. Ltd. Bombay) for bringing reimported spares for damaged decoiler from Bombay to TF Richhai.	23,550
(v) (a) Custom duty paid for 1st band rolling machine under free replacement	1,57,696
(b) Transportation charges from Bombay to Richhai	2,232
(vi) Custom duty for 2nd Band Rolling Machine	1,61,178
(vii) Repairing charges for Decoiling machine.. to be paid to M/s. Siemens India, Bombay	29,429
Total	Rs. 3,91,515

ANNEXURE V (4)

Losses suffered due to delay in commissioning

(i) *Interest on Capital booked in TM Plant*

Total expenditure as on 31.3.1988

A&P	..	Rs. 7,12,68,461
Bldg.	..	Rs. 62,33,705
O&E	..	Rs. 3,98,428
		<hr/> Rs. 7,79,00,594

Interest @ 10% from 1.4.1988 to 31.3.1989 and 1.4.1989 to 31.3.1990 i.e. for 2 years

Rs. 1,55,80,118

(ii) Loss of production in 1988-89 and 1989-90

	Description	B-8 Equvi. Tubes manufactured	Value
(a) (i)	Actual production during 88-89	2626	Rs. 9,50,532
(ii)	Proposed rated production if the plant would have been ready in all respects during 88-89	525000	Rs. 18,90,00,000
	Loss	Rs. 18,80,49,468
(b) (i)	Actual production during 89-90	133520	Rs. 4,87,00,000
(ii)	Proposed rated production if the plant would have been ready in all respects during 1989-90	525000	Rs. 19,16,25,000
	Loss	Rs. 14,29,25,000
	Total production loss		<hr/> Rs. 33,09,74,468

ANNEXURE V (5)

Losses due to employment of 2 operators on welding Machines

Pay scale of M/C operator	:	Rs. 800-1500
Average	:	Rs. 975.00
20% Pensionary charges	:	Rs. 244.00

Rs. 1219.00

Allowances	:	Rs. 583.00
------------	---	------------

Total Rs. 1802.00

Annual cost : Rs. 1802×2 Shifts × 8 Machines × 12 months	:	Rs. 3,45,984
----------------------------------------------------------------	---	--------------

Amount for 1988-89 and 1989-90: Rs. 6,91,968

Government of India
Telecommunications Commission
Department of Telecommunications
Sanchar Bhawan, 20, Ashoka Road
New Delhi - 110 001

No. 12-408/81-MMD

Date : 18.07.95

To

All Heads of Telecom Circles/Telecom Districts

Subject: *Irregularities/shortcomings arising out of execution of the projects
— steps to avoid lapses/recurrence thereof.*

During Audit review of the project on a tube making plant at Richai (Jabalpur), C&AG of India, in his report for the year ended 31st March, 1993 *vide* Para 8.1 has pointed out some irregularities/shortcomings arising out of execution of the project. The said Para was selected for detailed examination by Public Accounts Committee who have badly commended upon the execution of the said project.

1. Vital omissions and commissions on the part of the Department in enforcing the contractual obligations of the firm:

As usual, an optional clause for pre-despatch inspection/tests in the factory of the contractor of the supplier before despatch of the equipment was provided in the contract but later on, the said clause was waived off on the ground that enough safeguards were provided under other clauses of the contract for replacement of defective equipment, warranty for quality, etc. PAC was not convinced with the explanation for waiver of the said clause. As such, it is impressed upon all concerned that henceforth no such decision is taken which eventually may result in innumerable losses to the Department. It is to be ensured before commissioning of the equipment. That the equipment supplied by the supplier conform to the technical specifications as stipulated in A/T so as to give rated output in case of supplies/projects on turn-key basis.

2. Delay in constitution of Departmental Committee/implementation of action on its recommendations and seeking advice of Ministry of Law, etc. on recovery of production losses etc. from the foreign supplier:

It has been observed in the instant case that there had been unusual delay in making reference to Ministry of Law seeking their advice. The Departmental Committee though submitted its reports in May, 1991, but a reference to Ministry of Law was made on 26th December, 1991 only.

Similarly, there had been delay of one and a half years in constituting the Departmental Committee to prepare brief for the arbitration proceedings after tendering the advice by the Ministry of Law. PAC has taken a serious view for the lack of seriousness on the part of the Department in pursuing the matter to its logical conclusions. It is enjoined upon all concerned that once it is decided to entrust the work to a committee, there should be no delay in appointing the Departmental Committee and prompt action is taken on examination and implementation of its recommendations. The references to other Ministries, whenever required, should be made promptly to avoid such criticism from audit/PAC

3. It has also been observed by PAC that while scrutinising the tender offers, adequate care had not been given by the Department to verify the cost effectiveness of the items included and other relevant considerations for the reasons that the entire contract was on turn-key basis for design, supply, installation and commissioning of the plant. As a result, the Department had to suffer a loss.

It may, therefore, kindly be ensured that in future, while scrutinising the tender offers, adequate care is taken by the Tender Evaluation Committee to verify the cost-effectiveness of each and every item included in the tender offers and other relevant consideration so that similar losses are not incurred in the future contracts.

The receipt of this letter may kindly be acknowledged.

Sd/-
(ANIL KAUSHAL)
Director (MMD)

No. 12-408/81-MMD

Date : 18.07.95

Copy to:

1. Principal Director of Audit (P&T), Shyam Nath Marg, Delhi.
2. DDG (B&A)/Sr. DDG (F)/DDG (VLF)/DDG (LTP)/DDG (PROD)/DDG (ML)/DDG (MM-I)/DDG (MM-II)/DDG (RN)/DDG (SAT)/DDG(SW)/DDG (TX)/DDG (TRG), DOT Hqs. New Delhi.
3. Sr. DDG, TEC, Khurshid Lal Bhawan, New Delhi.
4. CGM (TS), 3-A, Chowringhee Place, Calcutta-700013.
5. CGM (QA), 61, Cock Burn Road, Bangalore.
6. CGM, ALTTC, Ghaziabad (UP).
7. CGM, TTC, Jabalpur.

8. Director (PFR)/Director (PFC)/Director (FA-III)/
Director (FA-V)/Director (TPS)/Director (SBP)/
Director (ML)/Director (MR)/Director (MMC)/
Director (MMT)/Director (MMS)/Director (GP)/
Director (RDTF)/Director (PD)/Director (SAT)/
Director (SW)/Director (E)/Director (TAX)/
Director (ES-I)/Director (ES-II)/Director (L)/
Director (OF)/DOT Hqs. New Delhi.
9. Audit Officer (CA), Room No. 1210, Sanchar Bhawan, New Delhi.
10. All CAOs of all Heads of Telecom Circles/Telecom Districts.
11. CPAO (ITI Bills), M/s. ITI Ltd. Bangalore.
12. PAO (ITI Bills), M/s. ITI Ltd., Naini/Rac Bareli/Mankapur/
Palakhad.
13. ADG (PF-II), DOT Hqs., New Delhi.
14. ADG (MMX)/ADG (MMY)/ADG (CT)/ADG (MT)/ADG (CE)/
ADG (IT)/ADG (FA-III)/ADG (FA-V), DOT Hqs., New Delhi.
15. Spare (10 copies).

Sd/-
Director (MMD)

ANNEXURE VII

**Latest Position of Production of Welded and Riveted Tubes During 1994-95
(April' 94 to March' 95)**

<i>Year</i>	<i>Description</i>	<i>Production of welded tubes in the new plant</i>	<i>Production of riveted tubes in the old plant</i>
1994-95	Tube A 4'	NIL	50, 976
	Tube A 8'	1,74,100	1,36,332
	Tube B 8'	1, 69,300	1,68,963
	Tube C 8'	63,700	NIL
	B 8' equivalent of tubes produced	4,08,800	3,27,345

*Sd /-
AE(TNP)*

*Sd /-
SE*

ANNEXURE VIII

Total Supply of Tubes from Open Market in the Year 1993-94

UP TO FEB'95

1993-94 (Up to Feb.'95)

Item	Issue as on 31.3.94 (A)	Stock Balance as on 31.3.94 (B)	Stores not credited as on 31.3.94 (C)	Opening Balance as on 1.4.93 (D)	Telecom Factory, supply (E)	Total supply from open market in the year 1993-94 (A+B+C)-(D+E) (F)
Tube A-4'	55,194	39,890	1700	9,255	56,500	96,784—65,755=31,029
Tube A-8'	11,42,567	1,40,415	21800	37,578	3,34,000	13,04782—371978=9,32,804
Tube B-8'	16,13,632	2,66,969	29907	1,14,292	3,91,094	(19,10,508—5,05,386)=14,05,122
Tube C-8'	2,27,980	77,377	2717	39,894	1,020	(3,08,074—40,114)=2,67,960

ANNEXURE IX

I—PROCURED RATES OF THIS FROM PRIVATE SOURCES AS ON 25.4.1995

Tube A-4		Tube A-8		Tube B-8		Tube C-8		Remarks
Lowest	Highest	Lowest	Highest	Lowest	Highest	Lowest	Highest	
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
222.80	247.57	414.95	48.95	540.55	627.90	703.84	876.78	These rates are inclusive of Price Escalation E.D. @Rs. 15% CST@Rs. 4%

II—COST OF PRODUCTION IN TELECOM FACTORY

	Tube A-4	Tube A-8	Tube B-8	Tube C-8
Old Plant	350	475	625	—
New Plant	—	400	525	760

PART II
MINUTES OF THE TWENTY-SECOND SITTING OF THE PUBLIC
ACCOUNTS COMMITTEE (1995-96) HELD ON
26 FEBRUARY, 1996

The Committee sat from 1530 hrs. to 1630 hrs. on 26 February, 1996 in Room No. 51, Parliament House Annexe, New Delhi.

PRESENT

Shri Ram Naik—Chairman

MEMBERS

Lok Sabha

2. Kumari Mamata Banerjee
3. Shri Anil Basu
4. Shri Dileep Singh Bhuria
5. Shrimati Maragatham Chandrasekhar
6. Dr. K.D. Jeswani
7. Maj. Gen. (Retired) Bhuwan Chandra Khanduri
8. Shri Peter G. Marbaniang
9. Shri Shravan Kumar Patel

Rajya Sabha

10. Shri Triloki Nath Chaturvedi
11. Shri Misa R. Ganesan
12. Shri Rajubhai A. Parmar
13. Shri G.G. Swell

SECRETARIAT

- | | |
|-----------------------|------------------|
| 1. Shri G.C. Malhotra | —Joint Secretary |
| 2. Smt. P.K. Sandhu | —Director |
| 3. Shri P. Sreedharan | —Under Secretary |

Representatives of the Office of the Comptroller and Auditor General of India

- | | |
|------------------------|------------------------------------|
| 1. Shri A.K. Thakur | —Pr. Director
(Reports-Central) |
| 2. Shri Vikram Chandra | —Pr. Director
(Indirect Taxes) |
| 3. Smt. S. Ghosh | —Director (Customs) |

2. The Committee Considered and adopted the following draft Action Taken Reports.

(i) ** ** ** **

(ii) Tube Making Plant at Jabalpur (Action Taken on 89th Report of PAC) (10th Lok Sabha)

(iii) ** ** ** **

3. The Committee adopted the draft Action Taken Report at (ii) above with certain modifications as shown in Annexure. The Committee adopted the draft reports at (i) and (ii) above without any amendments.

4. The Committee authorised the Chairman to finalise the draft Action Taken Reports in the light of the above modifications and other verbal and consequential changes arising out of factual verification by Audit and present the same to both the Houses of Parliament.

The Committee then adjourned.

ANNEXURE

*List of Amendments/Modifications made by the Public Accounts Committee
in the Draft Report on Action Taken on 89th Report (10th Lok Sabha)
regarding Tube Making Plant at Jabalpur*

Page	Para	line(s)	Amendment/Modification
6	8	Last line	<i>Add</i> "within a period of three months" after the word "matter".
8	12	3rd From bottom	<i>Substitute</i> "take expeditious steps" by "take conclusive steps within a period of three months".
10	15	Last line	<i>Add</i> "within a period of three months" after the word "matter".

APPENDIX

Conclusions and Recommendations

Sl. . Para Ministry/ No. No. Deptt.			Conclusions/Recommendations
1	2	3	4
1.	4	Ministry of Communi- cations (Deptt. of Telecommuni- cations)	The Committee desire that final replies to the recommendations contained in paras 94 and 96 in respect of which only interim replies have so far been furnished should be submitted expeditiously after getting them duly vetted by Audit.
2.	8	-do-	The Committee are surprised that the Ministry of Communications have now sought to justify the decision taken for waiver of Clause 16 (i) of the contract entered into with the foreign supplier which provided for per-despatch inspection of machinery and equipments for ensuring that the machines/equipments supplied conformed to the technical specifications and the rated output. The Committee are of the considered view that the losses suffered by the project had primarily arisen due to the technical deviations and discrepancies in the equipment supplied and also the failure of the Foreign supplier to fulfil his contractual obligation to demonstrate the rated output of the plant. Undoubtedly, these discrepancies, deviations etc. could have been effectively tested had the Department resorted to invoking of Clause 16(i)) of the contract. Unfortunately, the Department not only failed in exercising this option but also questionably resorted to an unusual action of waiving of the relevant clause. Pertinently, the then Secretary, Telecommunications had been candid in his deposition before the Committee that he had not come across any such waivers and that in retrospect he did not justify it. In view of the same and also of the fact that the Department

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			<p>have not been able to realise their legitimate dues from the party so far, the Committee are not inclined to accept the plea now put forth by the Ministry that the decision for waiver of Clause 16(i) was taken by the competent authority after taking into account all the relevant factors. The Committee, therefore, cannot but reiterate their earlier recommendation and desire that responsibility be fixed for the lapses. The Committee would also like to be informed of the conclusive action taken in the matter within a period of three months.</p>
3	12	Ministry of Communication (Deptt. of Telecommunication)	<p>The Committee note that the Department have now lodged a formal claim on the foreign supplier for Rs. 34.99 crores towards the consequential losses suffered on production, extra manpower etc. and Rs. 66.67 lakhs on account of technical deviations in supply, commercial discrepancies etc. The Committee are, however, surprised that the Department have chosen to make claim on account of consequential losses of the production for a period of two years, namely, 1988-89 and 1989-90 only. The Action Taken Note is completely silent about the reasons for not making claims in respect of the subsequent period. The Committee, therefore, desire that the Ministry should review the same and take conclusive steps within a period of three months for lodging the entire claims in this regard from the foreign supplier. They would like to be informed of the precise action taken and also the latest position in the matter including the response of the party and the subsequent action taken by the Department in realising the dues.</p>
4.	15	Ministry of Communication (Deptt. of Telecommunications)	<p>The Committee are unhappy to note that the Ministry of Communications have not made any thorough enquiry to find out the exact reasons for the inclusion of Clause 20.4 in the contract document, which sought to exclude recovery of</p>

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all types of consequential losses, and to ascertain precisely whether it had the approval of the Integrated Finance Wing of the department. The Ministry have in their Action Taken Note merely repeated the facts already made available to the Committee earlier. Curiously enough, they have considered it as not appropriate to fix responsibility for the lapses in the matter as according to them, "the inclusion (of the Clause) might have been considered fair at that time". This is clearly indicative of the lack of seriousness on the part of the Ministry in effectively dealing with the people responsible for their failure in safeguarding governmental interests adequately. The Committee deplore the same and reiterate that the matter should be thoroughly investigated and responsibility fixed for the lapses. They would like to be apprised of the conclusive action taken in the matter within a period of three months.

