

## CHAPTER V: DEPARTMENT OF DEFENCE PRODUCTION AND SUPPLIES

### 5.1 Non-recovery of Rs 1.17 crore from a firm on failure to complete the supply

**In violation of Ministry's guidelines and by amending a supply order, Department of Defence Production and Supplies granted an advance of Rs 48.82 lakh to a firm for the supply of Arm of Road Wheel. The firm failed to supply the full quantity and consequently a sum of Rs 1.17 crore on account of advance and interest remained unrecovered.**

Department of Defence Production and Supplies (DDPS) placed a supply order in November 1994 on Praga Tools Limited, Hyderabad, for the supply of 790 Arm of Road Wheel (PGM-2919) at Rs 1.22 crore. Advance sample of the item was to be submitted within five to six months of the date of receipt of supply order. The firm submitted advance sample belatedly in April 1996. Bulk Production Clearance (BPC) was given in February 1997.

The original supply order did not provide for any advance payment. Ministry's guidelines of July 1987 stipulate on account payment only after grant of BPC. In violation of this, DDPS amended the supply order in January 1996 for paying interest bearing advance of Rs 48.82 lakh to the firm against Indemnity Bond. Through another amendment in January 1996, it also increased the quantity of the item from 790 to 952. DDPS also raised the unit rate for the extra supplies thereby raising the total value of supply order to Rs 1.50 crore. Within the extended delivery period of 11 December 1999, the firm could supply only 47 units. Since the firm failed to supply the contracted quantity, DDPS cancelled the supply order in April 2000 at the risk and cost of the firm with forfeiture of security deposit.

DDPS placed a risk purchase supply order on D.D. Industries, Delhi, in February 2001. The second firm also could not make any supply. In January 2004 the indenter, Central Armoured Fighting Vehicle Depot, Kirkee informed DDPS that the item was no longer required and recommended cancellation of the supply order.

Department encashed bank guarantee of Rs 2 lakh obtained from Praga Tools against the supply order towards security deposit and recovered Rs 1.89 lakh from their bills. DDPS requested the firm in August 2000 to deposit Rs 72.75 lakh on account of outstanding advance with interest. The firm stated in February 2000 that it stood referred to Board for Industrial and Financial Reconstruction (BIFR) in December 1998. According to BIFR (May 2004) the firm was stated to be under revival process.

Thus, 14 months after placing supply order and before submission of advance samples, DDPS sanctioned advance payment to the firm ignoring the guidelines issued in 1987 which authorise on account payment for raw materials and components

only after grant of BPC. Further, DDPS inordinately delayed cancellation of the supply order till April 2000 while the firm was declared sick in December 1998.

Ministry stated in November 2004 that the firm requested for 'on account' advance for purchase of raw material in November 1995 as it was facing financial difficulties.

The payment of advance to a firm already in financial problems by amending the order placed on it led to non-recovery of Rs 1.17 crore including interest of Rs 71.89 lakh as of November 2004 from the firm even after a period of more than eight years.

## **5.2 Payment of Rs 1.01 crore to a firm before rectification of defective supplies**

### **Issue of Inspection Note by Chief Quality Assurance Establishment (Weapon Spares) declaring stores as accepted without adequate inspection and trials resulted in payment of Rs 1.01 crore to a firm.**

On the basis of Naval Headquarters indent of March 1996, Department of Defence Production and Supplies placed a supply order on Nicco Corporation Ltd., New Delhi in March 1998 for manufacture and supply of two sets of TEM-3 cable assembly at a cost of Rs 2.06 crore plus sales tax. The cable used in the mine sweeping equipment of a warship was to be developed by the firm indigenously by reverse engineering of imported cable. In terms of the delivery schedule, the first set was to be submitted within 10 months from the date of supply order and the second set within 12 months from the date of approval of the first set. Ninety five *per cent* payment was to be made on proof of despatch and production of Inspection Note prior to despatch. Balance five *per cent* payment was to be made on receipt of stores of each consignment.

The first set was offered for trial only in March 2000 after a delay of 14 months. Sea trials without AT-2 cable were conducted in late April 2000 and were considered satisfactory. Retrial with AT-2 cable was recommended and conducted. The cable was considered slightly heavy and rigid. On 17 August 2000, the Chief Quality Assurance Establishment (CQAE) Weapon Spares (WS) Mumbai observed certain defects based on trials and intimated the firm to take care of these observations while manufacturing the second set. The CQAE (WS), however, issued inspection Note on 30 August 2000 without indicating any defects, declaring the stores as accepted. Based on trials of April 2000 and this Inspection Note, Controller of Defence Accounts (Headquarters) New Delhi released 95 *per cent* payment amounting to Rs 1.01 crore to the firm in October 2000.

Subsequent trials in October 2000 and April 2002 were unsuccessful with the cable showing low insulation and damages. The cable, thereafter was taken by the firm for repair. The defective cable was being rectified by the firm as of July 2004 and was not yet handed over to the Navy.

Thus, issue of clear Inspection Note by CQAE (WS) resulted in premature release of payment to the firm leading to blockage of Government money of Rs 1.01 crore.

Further, the warships for which the cable was developed are due for decommissioning in the near future and in that eventuality, the said cable would become redundant. Besides, even after about six years, the aim of indigenising the cable still remained unfulfilled.

The matter was referred to the Ministry in August 2004; their reply was awaited as of December 2004.

### **5.3 Infructuous expenditure of Rs 2.77 crore on procurement of Ammunition shells**

**Department of Defence Production and Supplies (DDPS) did not cancel a contract despite failure of the firm to supply the item even after eight years and even when the item was no longer required. This resulted in creation of an avoidable liability of Rs 2.77 crore to the Government and undue benefit to the firm.**

Ordnance Factory Chanda (OFC) placed an indent for 5000 empty shells of 155 mm HE 77B ammunition in May 1994 on DDPS in order to develop a new source of supply from civil trade. DDPS invited tenders and placed a supply order on T.S. Kisan and Company in February 1995 for supply of shells at a cost of Rs 2.77 crore. The firm was paid an advance of Rs 55.44 lakh in February 1995 against bank guarantee of equal amount plus interest for one year i.e. Rs 63.20 lakh. The firm was to submit advance samples to Senior Quality Assurance Establishment (SQAE) within seven months from the date of receipt of supply order. After approval of samples, bulk supply was to be completed within 15 months.

The firm submitted the advance samples in October 1998, three years after the due date. SQAE (Armaments) Delhi Cantonment accorded bulk production clearance on 21 April 2000. OFC withdrew its indent on 22 April 2000 on the ground that the firm failed to develop the item even after five years and requested DDPS to cancel the supply order. DDPS stated in June 2000 that bulk production clearance had been accorded and cancellation of supply order at that juncture would involve litigation and huge financial loss.

In July 2000 Ordnance Factory Board (OFB) informed DDPS that the requirement of the empty shell for 2000-2001 had been met and further supplies would not be accepted since new version of the ammunition i.e. NASCHEM had been inducted, which alone would be acceptable to the Army from 2001 onwards. To solve the *impasse*, DDPS held meetings in October 2000 and February 2001 with the Army and OFB as any cancellation of contract after payment of advance would involve legal problems. Army and OFB agreed to accept the 5000 shells under the above contract.

The firm, however, failed to supply the shells by the stipulated date of 20 July 2001 and applied for extension of delivery period in July 2001. The validity of the bank guarantee of the firm expired in August 2001 and the firm did not extend the guarantee further. The matter was referred to the Legal Advisor (Defence) in April 2002 who advised DDPS to cancel the contract treating July 2001 as the date of

breach on account of non-supply of material. As regards bank guarantee, the department was advised to pursue the matter with the Banking Ombudsman.

In January 2003 DDPS decided that the item would be used for fuze proof by Director General Quality Assurance. OFC, however, intimated in March 2003 that there was sufficient stock already available which could be used for proof requirement. In spite of this, DDPS took a decision in January 2003 to amend the supply order to grant further extension of delivery period to the firm for 21 months from the date of issue of the amendment letter. However, the amendment was issued only in February 2004, more than a year after the decision, and the delivery period was fixed as November 2005. The amendment also provided for recovery of 50 *per cent* of the advance from the first bill of the firm and 25 *per cent* each from the two following bills.

Thus, the firm took three years as against seven months to submit advance samples for clearance and failed to supply the item even after eight years. Meanwhile the requirement for the item was over, the legal advisor had advised the cancellation of the supply order, yet, no performance notice was ever issued to the firm for its failure to develop the item in time. The firm also failed to validate the bank guarantee beyond August 2001 and DDPS accepted the firm's demand for adjusting the advance of Rs 63.20 lakh against the bills payable. DDPS did not even invoke the provisions of penal clause/levy of liquidated damages envisaged in the supply order against the firm for non-delivery of items, thus showing a series of extraordinary favours to the firm.

Due to the failure of DDPS to cancel the contract, the OFB would be saddled with a wasteful expenditure of Rs 2.77 crore on account of unwanted empty shells of obsolete ammunition.

The matter was referred to the Ministry in August 2004; their reply was awaited as of December 2004.