PRESS RELEASE

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Audit Report of the Comptroller and Auditor General of India for the period ended March 2021, Union Government - Ordnance Factories presented in Parliament

The Report no. 10 of 2024 of Comptroller and Auditor General of India (C&AG) was laid in Parliament here today. The Report is divided into three chapters. Chapter-I contains the analysis of the Performance of Ordnance Factories for the year 2020-21. Chapter-II contains two Subject Specific Compliance Audit Paragraphs and Chapter-III contains five Compliance Audit Paragraphs.

The significant audit findings as brought out in the Report are summarised below:

Chapter – I: Performance of Ordnance Factories

There are 41 Ordnance Factories which produce a range of arms, ammunitions, armoured and infantry combat vehicles, general stores and clothing items. Prior to their corporatisation in October 2021, the Ordnance Factories functioned under the Ordnance Factory Board (OFB), which was under the administrative control of the Department of Defence Production, Ministry of Defence. After corporatisation, these factories have been converted into seven Defence Public Sector Undertakings (DPSUs).

OFB received budgetary grant of ₹11,748 crore and ₹429 crore in 2020-21 to meet its revenue and capital expenditure respectively. Against these grants, it spent ₹11,410 crore and ₹377 crore respectively, under revenue and capital accounts.

During scrutiny of production performance of total 70 Special Army items by OFB during 2020-21, shortfall ranging from 12 to 100 *per cent* in production of 30 items was observed.

During 2020-21, the Cost of Production (CoP) of Ordnance Factories was ₹16,504 crore. CoP showed an increase of four *per cent* over the last year. Stores, Labour and Direct expenses accounted for 45 *per cent*, 11 *per cent* and two *per cent* of the

CoP respectively. Overheads contributed 42 *per cent* of the Cost of Production. Major elements of Overheads were supervision charges and indirect labour cost which together contributed 61 *per cent* of the total overhead cost in 2020-21.

In 2020-21, OFB supplied materials worth ₹9,389 crore (six *per cent* increase over the previous year) to its different indentors. Sales to the Defence Sector increased by 13 *per cent* (₹907 crores) in 2020-21 compared to 2019-20. However, sales to non-Defence Sector dropped by 20 *per cent* (₹339 crore) in 2020-21. Indian Army is the major indentor for products of the Ordnance Factories, accounting for nearly 75 *per cent* of the total issues. Apart from Army, other indentors are Navy, Air Force, Ministry of Home Affairs (MHA), State Police, *etc.*

OFB held an inventory of ₹12,705 crore representing 77 *per cent* of the Cost of Production in 2020-21. Store-in-hand (SIH) as on 31 March 2021 were ₹6,172 crore (49 *per cent* of the inventory) which included non-active stores of ₹1,237 crore *i.e.*, non-moving stores, slow moving stores and surplus/scrap/waste/obsolete stores. Holding of SIH in terms of number of days consumption increased continuously from 214 days in 2016-17 to 344 days in 2020-21. Further, WIP (Work-in-Progress: unfinished items lying at the shop floor) constituted almost 32-42 *per cent* of the total inventory and almost 22-40 *per cent* of the CoP during the last five years.

Audit noticed that out of 25,911 outstanding warrants as on 31.03.2021, 3,425 were outstanding for a period ranging between one and 10 years, against which an expenditure of ₹1,902 crore had been booked. Jobs under these warrants remained unfinished over a period ranging from one to 10 years against normal time of six months for want of closure of warrants.

(Chapter I)

Chapter - II: Subject Specific Compliance Audit Paragraphs

Production of Propellants in Ordnance Factories

Propellant is an essential part of any ammunition which determines its range. Four[1] propellant manufacturing factories manufacture various types of propellants and issue them to six filling factories *i.e.* end product factories to form the complete

[1] Ordnance Factory Itarsi (OFI), Ordnance Factory Bhandara (OFBa), Cordite Factory Aruvankadu (CFA) and Ordnance Factory Nalanda (OFN)

ammunitions/rockets. Filling factories issue the finished ammunitions/rockets to the Armed Forces.

The propellant factories are required to meet their targets by January of each year. However, the propellant factories were unable to meet the targets which impacted the production schedules of the ammunition filling factories. Audit observed delay in issue of propellants to the filling factories by January and March each year in 67 *per cent* and 43 *per cent* instances. Three ammunitions and one rocket valuing ₹1,053 crore could not be issued to the Armed Forces mainly due to short supply of propellants worth ₹276 crore from the sister factories.

Audit found that propellant valuing ₹27.82 crore was lying as unused (tail end lot) in the factories and awaiting for disposal. One ammunition valuing ₹77 crore and five propellants worth ₹21.61 crore were rejected during 2018-21 due to quality problems. Due to non-availability of the blending machine for blending operations for three years, 99.75 MT propellant for one ammunition worth ₹11.24 crore has been held at OF Itarsi without any prospects of further utilisation.

Army reported 214 accidents with four ammunitions during the same period. Sample chemical analysis showed that deviation in moisture content of the propellant was a major reason for defects in the ammunitions.

(Paragraph 2.1)

Augmentation of Production Capacity of Large Calibre Weapons in Ordnance Factories

Ministry of Defence sanctioned (March 2012) a project for augmentation of Large Calibre Weapons at Ordnance Factories to meet the enhanced requirement of weapons for the Army. The cost of the project was ₹376.55 crore with the date of completion being March 2015. Inordinate time was taken in execution of the civil works and procurement/receipt/commissioning of plant and machineries, especially the Electro Slag refining (ESR) plant along with its linked machines at Field Gun Factory Kanpur (FGK) and five important machines at Metal & Steel Factory Ishapore (MSF). Consequently, the augmentation project could not be completed (January 2023) despite having incurred an expenditure of ₹292.32 crore (₹253.13 crore P&M + ₹39.19 crore civil works).

Non-commissioning of the ESR plant at FGK and sub-optimal capacity of production of ESR slugs at MSF had a cascading effect on the entire supply line of components (*viz.* forgings, barrels and breech mechanisms, and ordnance). During 2015-22, shortfall in production of Barrels and Breech Mechanisms ranged from 30 *per cent* to 100 *per cent* of the production capacity envisaged in the project. Ordnance Factories were unable to supply even the truncated targets of **'X58'** Guns and **'X60'** Guns stipulated in the indent/contract due to less supply of PYT forgings, Barrel forgings and Ordnance by MSF, FGK and Ordnance Factory Kanpur to Gun Carriage Factory Jabalpur. Slippages in supply of Guns for '**B'** and '**E'** Tanks to Heavy Vehicle Factory Avadi were partly responsible for shortfall in issue of '**B'** and '**E'** Tanks to the Army.

MoD and the concerned DPSUs need to work out a revised timeframe and put in place a strengthened monitoring mechanism to achieve project deliverables.

(Paragraph 2.2)

Chapter - III: Compliance Audit Paragraphs

Blocked inventory valuing ₹8.76 crore due to failure of Ordnance Factory Dum Dum to develop and supply 'A1' and 'A2' within the delivery schedule

Ordnance Factory Dum Dum (OFDC) had inordinately delayed development of '**A1'** for **'B'** and **'A2'** for **'C'** required by the Air Headquarters (AHQ), thereby failing to supply **'A1'**, **'A2'** to the AHQ within the delivery schedule as stipulated in their indents. AHQ short-closed the outstanding indents, resulting in blockage of inventory, Work-in–Progress, finished/semi-finished **'N'**, *etc.*, worth ₹8.76 crore at two Ordnance Factories *viz.* OFDC and Ordnance Parachute Factory Kanpur. The prospects of utilisation of the stores are bleak as AHQ has removed **'A1'**, **'A2'** from the strategic lines and has requested OFDC to disband the production line and further manufacturing of the **'A1'**, **'A2'**.

(Paragraph 3.1)

Irregular production of 'P' leading to blockage of ₹5.40 crore

In anticipation of projected requirement, Ordnance Factory Itarsi injudiciously manufactured 65 **'P'** costing ₹5.40 crore during August - October 2018 without waiting for a firm order from the User leading to blockage of fund. The prospect of gainful utilisation of these **'P'** manufactured four years ago is remote since Indian Air Force had categorically stated that all the components used in the **'Q'** should have been produced within one year of **'Q'** production.

(Paragraph 3.2)

Loss of ₹14.45 crore due to deterioration of ‘X’ at Ordnance Factory Badmal

Ordnance Factory Badmal (OFBL) could not use 98,574 **‘X’** supplied by Ordnance Factory Kanpur for manufacture of **‘Y’** due to deteriorated condition of these **‘X’**. The exact reasons for its unserviceability could not be ascertained by the erstwhile Ordnance Factory Board /factories. This resulted in a loss of ₹11.08 crore at OFBL as the factory had already reduced the store from ‘Store-in-hand’ in the Annual Accounts. In addition, 29,961 numbers of unserviceable **‘X’** ex-Gun & Shell Factory Cossipore valuing ₹3.37 crore were lying with OFBL as of June 2023 without any prospect of their utilisation.

(Paragraph 3.3)

Overpayment of ₹6.81 crore as electricity charges due to incorrect tariff application

Kanpur Electricity Supply Company Limited (KESCo) unilaterally revised the electricity tariff schedule from LMV-I to HV-I for four residential connections of Ordnance Equipment Factory Kanpur (OEFC) in October 2014. As a result, OEFC made an overpayment of ₹6.81 crore to KESCo. After being pointed out in Audit, tariff schedule was restored to the previous one by KESCo during February 2020 to October 2020. As on date, overpaid amount is yet to be adjusted. Had OEFC instantly contested the unilateral revision of tariff schedule by KESCo, overpayment of ₹6.81 crore could have been avoided.

(Paragraph 3.4)

Overpayment of ₹1.23 crore made to the private agencies

As per the Advisory of Govt. of India, Ministry of Defence (MoD), Director General of Resettlement (DGR) New Delhi, Ordnance Clothing Factory Avadi (OCF) placed Supply Orders (S.Os) for deployment of 50 and 22 Private Security Guards (PSGs) per day against the deficiency in the posted strength of Defence Security Corps and Durwans respectively. As against the contracted numbers, the contractors deployed on an average only 42 and 19 PSGs per day respectively. However, OCF paid for full deployment of 72 PSGs, resulting in overpayment of ₹1.23 crore to the contractors during the period from May 2016 to October 2018.

(Paragraph 3.5)