Chapter V : Tendering

5.1 Procurement through Open Tender

Broadly, procurement by Ordnance Factories is conducted through three channels. A Limited Tender Enquiry (LTE) is issued to established suppliers who are registered with the factory concerned. Open tender enquiry (OTE) is open to any supplier. OTE channel is designed to encourage new suppliers to participate in the Ordnance Factory procurement process and thus to expand the base of suppliers to the Ordnance Factories. However, established suppliers are also allowed to quote against open tender enquiries. For materials which are proprietary or are not available widely in the open market, Single Tender Enquiry (STE) is issued.

According to Paragraph 4.6.1.1 of MMPM, 80 *per cent* of annual ordering quantity is to be procured through Limited Tender Enquiry (LTE) from established sources and 20 *per cent* quantity is to be procured through Open Tender Enquiry (OTE) with wider publicity for source development.

Scrutiny in audit indicated that LTE channel continued to be the dominant channel of procurement and a miniscule part of procurement was carried out through OTE channel. Out the 18 Factories selected, the information on the OTE / LTE/ STE was available in the database of seven Factories only. The data of OTE in these seven Factories during the last three years was meagre and varied from 0.07 *per cent* to 1.91 *per cent* only.

Even when new suppliers were registered, it was seen that they were not encouraged. Ordnance Parachute Factory Kanpur registered 21 new suppliers since 2006 for supply of different stores. The factory however did not issue any tender to these new suppliers despite capacity verification and registration by the factory.

5.2 Cases of malpractices relating to OTE

Several cases were noticed where Ordnance Factories ignored the companies which came through OTE channel or allowed the established companies to take advantage of the OTE channel by various methods.

Case 1 Abnormally low rate accepted through the OTE channel

Ordnance Factory Khamaria issued an OTE for 8577 sets of 'Time & Impact Fuze 447 in January 2007 in order to develop more sources. The response to the OTE ranged from Re. 0.07 (7 paise) to Rs. 3700.00. Two companies namely Hyderabad Precision Co and Mech Components Ltd, both located in Hyderabad, quoted 7 paise only. Both these companies were otherwise established suppliers. The last purchase rate of the item was Rs. 4401.90 per set, and the lowest offer of Re 0.07 per set was obviously "freak**"**. Despite this the factory placed in September 2008 supply orders for the item on these two firms for 4289 sets and 4288 respectively at an absurd price of 7 paise. Since both the firms were found technically acceptable and are regular suppliers to several Factories, obviously such rates were quoted to block entry of other suppliers. Needless to say, no supply of the item has been received from either of the firms. Incidentally, both the companies shared the same fax number for another tender enquiry in Ammunition Factory, Kirkee.

Ministry replied that disciplinary action would be initiated against the officers responsible for placing orders on these two firms on abnormally low price. Action would also be initiated to blacklist these two firms. Ministry further committed that appropriate provisions would be included in the revised procurement manual of OFB to prevent recurrence of such practices.

Case 2: Order not placed on a firm despite lower rates through OTE channel

In Ordnance Factory Kanpur, proof machined body of 51mm bomb was procured from May 2004 to August 2008 from two firms namely RK Machine Tools and Mukesh Industries through LTE channel. A third company namely Lucky Engineering got two supply orders on 06 May 2004 and 22 December 2006 through the OTE channel. The rate of Lucky Engineering was Rs 77 per body on 06 May 2004, the rates charged by RK Machine Tools and Mukesh were Rs 165 per body on 16 June 2004. Similarly, in December 2006, Lucky Engineering charged Rs 124 per body whereas in February 2007, the rate charged by RK Machine Tools and Mukesh was Rs 188. Yet only the above two supply orders were placed on Lucky Engineering and bulk of the procurement continued to be carried out through LTE channels through these two companies. The difference between the OTE rates and LTE rates in respect of all the supply orders from May 2004 to August 2008 amounted to Rs 6.17 crore compared to the available prices charged by Lucky Engineering.

Ministry replied in June 2010 that subsequently Lucky Engineering has become an established supplier in 2008 and the increased competition has led to better rates. Ministry's reply was however silent as to the reasons why supply order continued to be placed on RK Machine Tools and Mukesh at higher prices despite the fact that Lucky Engineering was quoting lower prices on more than one occasion.

Case 3 : Even packing boxes were procured through limited tender

As per Paragraph 4.3.3 of MMPM, OTE should be resorted to for all generic items. In practice, this provision was hardly followed. During the last 3 years Ammunition Factory Kirkee procured even packing material through LTE from only two suppliers - Stuti Enterprises. & Embee International. In Vehicle Factory Jabalpur, for transportation contracts, LTE was resorted rather than going for OTE. During 2006 to 2008, contracts worth Rs 16.38 crore were given to four firms only.

Ministry stated in June 2010 that packing materials like wooden boxes and paper cartons cannot be considered as generic items as they are required for ammunitions. However, it is felt in audit that such low technology items like packing boxes can easily be procured through open tender channels. The specifications of these boxes did not indicate any special characteristics that would require specialized technology.

Case 4: Loss due to non-issue of tender to a supplier who had supplied at lower rate earlier

In Ordnance Parachute Factory Kanpur, a supply order for 40,000 metres webbing nylon was placed on 24 October 2008 on Swadeshi Newar Cotton Mills Kanpur through OTE channel. The company completed the supply on 24 March 2009. However, the store was not brought on charge due to delay in inspection. When LTE for 9,14,755 metres of the same store was issued on 31 March 2009, the LTE was not issued to the company on the ground that full quantity was not brought on charge. Going by the rate quoted by the company in October 2008, the excess expenditure incurred on the supply order through LTE amounted to Rs 72.04 lakh.

Ministry stated in June 2010 that testing of supplied materials takes some time and therefore the company could not be treated as an established vendor on the day the limited tender was issued. While the claim of the Ministry was technically correct, the fact remains that this caused a loss of Rs 72 .04 lakh to the exchequer.

Case 5: Loss due to non issue of tender to supplier who had supplied at lower rate

Fabric Nylon was procured regularly by Ordnance Parachute Factory, Kanpur (OPF). In October 2007, Ordnance Clothing Factory Shahjahanpur (OCFS) initiated procurement action for 1,27,920 metres of the fabric. OCFS obtained the list of four suppliers from OPF. The latter factory also intimated that supply order was placed on Shalon Rs 76.50 per metre in August 2006 against OTE. Quantity Enhancement Clause was also exercised by OPF for this contract. OCFS, however, did not even issue tender enquiry to Shalon. LTE was issued to other four firms intimated by the OPF. All four firms quoted, out of which the lowest tender was by two firms, both of whom had quoted the exact rate of Rs 133 per metre. Subsequently OCFS placed order in November 2008 at Rs 48 per metre against OTE which clearly showed the downward trend in rates and also the actual pricing/ rate of the item. The loss to the exchequer amounted to Rs 1.08 crore.

Ministry replied in June 2010 that the vendor selection for issue of the limited tender was done on 4 October 2007 and as on that day, Shalon did not supply 50 *per cent* of the quantity. It could not, therefore be treated as an established vendor. Ministry also stated that when OTE is issued for source development, very low rates are received as they are entry rates for new vendors.

Ministry did not however indicate as to how the quantity enhancement clause could be operated on Shalon. The fact also remains that despite knowing that Shalon has been supplying at a lower price, the Ordnance Clothing Factory Shahjahanpur did not even issue tender enquiry to them.

Overall, Ministry in its reply has taken a technical view about issuing tender enquiry on limited tender basis and open tender basis. The primary objective of the tender process is to encourage fair competition leading to fair price. During audit, enough evidence came to light- narrated in subsequent paragraphs- to indicate that strong collusive relationship exists between many suppliers. Consistently ignoring the much lower prices through the OTE channel and placing supply orders on the higher prices through the LTE channel has only reinforced the grip of the select group of suppliers on the procurement processes in the Ordnance Factories.

5.3 Tell-tale evidence of collusion of suppliers ignored

As per Rule 142 (ii) of GFR, credentials of the suppliers should be carefully verified before registration of the suppliers. Further as per Rule 142 (iv) of the GFR performance and conduct of every registered supplier is to be watched by the Department. The suppliers are liable to be removed from the list of approved suppliers if they make any false declaration to the Government or for any ground which in the opinion is not in public interest.

Scrutiny of the procurement files of the past three years revealed that the Ordnance Factories registered and placed orders on a large number of companies which shared the same telephone numbers, or fax numbers or registered addresses. 23 such cases are listed in Annexure III. Such cases indicate on one hand, lack of basic verification of the credentials of the companies and lack application of mind by the authorities in the Factories on the other. It is apparent that many shadow firms were operating and cornering supply orders from various Factories. The factory authorities however did not take into account even the most obvious evidence of such malpractices which enabled the suppliers to manipulate the prices which would be apparent in the present and the following chapter.

5.4 Individual cases of collusion and/or shadow firms

Ammunition Factory Kirkee

Case 1

Ammunition Factory Kirkee sent fax messages on 21 April 2009 to Mukesh Industries and KEW Industries at the same fax number giving counter offer to both the firms being L2 and L3. Both the companies replied from the same fax number on 26 April 2009 at 2235 and 2237 hrs. The ordered quantity was distributed among three firms. While the supply order on the first firm was placed on 22 April 2009, the supply orders were placed on these two firms on 3 May 2009.

Case 2

Ammunition Factory Kirkee invited limited tender enquiry for Fuze Percussion DA5A (Empty) from Hyderabad Precision Mfg Co Pvt Ltd and Mech Components Pvt Ltd. Both these companies were located in Hyderabad. The firms were registered by AF Kirkee for the same items on 6 and 7 July 2006. An amendment to the tender enquiry was faxed to both the companies at the same fax address which were responded to.

During audit, at least 4 other fax messages from Mech Component Pvt Ltd were received by AF Kirkee from the fax number which belonged to Hyderabad Precision Pvt Ltd.

In case of OF Khamaria, these two companies were issued supply order at the freakish rate of 7 paise as mentioned at Case 1 under Paragraph 6.2 of this report.

Case 3

In Ammunition Factory, Kirkee, two firms got themselves registered. The firm Precision Engineering was owned Shri Anil Kumar Agarwal whose residence was 30 Ayodhya Enclave, Cheshire Home Road Ranchi. The owner of other firm Alcast was Shri Sashi Kant Agarwal, who also indicated the same address. They shared the same mobile number, fax number and telephone number. Both of them were given supply orders and the factory corresponded with the firm from the same fax number without raising any issue of collusion between the firms.

Case 4

In another case, in the same factory, two Kolkata based companies having different addresses corresponded from the same fax number. In response to a tender enquiry for Cartridge Training for 81 mm Mortar Bomb, Asha Industries having address at Tarpan Ghat Road, Kolkata and Tirupati Industries at Ram Saran Poddar Lane, Kolkata despatched their tenders through Speed Post which were posted on the same day at the same time at the same post office. The tender of Tirupati Industries was posted from Kolkata GPO on 12 January 2007 at 1907 hrs with a serial number EE 50714823. The tender of Asha Industries was despatched from the same post office on the same date at 1907 hrs with a serial number E 50714824. Both the companies again posted tenders against a later tender enquiry from the same post office on the same date at the same time with consecutive serial numbers for speed post. On both the occasions, supply orders were placed on both the companies without examining the possibility of collusion.

Case 5

High Explosives Factory, Kirkee

In High Explosives Factory Kirkee in case of a transportation contract, , tenders were received among others from Gauri Roadlines and Vijay Roadlines. Both had the same telephone number. The contract was awarded to Vijay Roadlines. Similarly, in Ammunition Factory Kirkee two firms namely Veekay Enterprise and Sheth &Co quoted against another tender in which both the firms showed the same fax number. While partner of one firm was Shri BV Sheth, the partner of the second firm was Shri AV Sheth.

Case 6

Ordnance Factory Ambernath and Ordnance Factory Kanpur

Cases were also noticed in Ordnance Factory Ambernath, Ordnance Equipment factory, Kanpur where such firms operated with collusive possibilities. In Ordnance Equipment Factory Kanpur, four firms based in Tamil Nadu with identical telephone number participated in the tender process. Two of these firms had same address as well.

Case 7

Ordnance Clothing Factory Shahjahanpur

In Ordnance Clothing Factory Shahjahanpur, large number of supply orders were placed on 10 firms from Panipat and Ludhiana from 1997 for Yarn Woolen 450 Tex Natural Grey. These firms were

(a) RSM Woolen Mills,

(b) Mittal Woollen and Cotton Mills

(c) Prestige Spinners Ludhiana

(d) Punjab Wool Syndicate Ludhiana

(e) AAA Spinners Panipat

(f) Siddharth Woolen Mills Panipat

(g) Raghav International Ludhiana

(h) Maheswari Woollen Mills Ludhiana

(i) Vikas Udyog Ludhiana and (j) Geeta Woollen Mills Ludhiana.

Audit scrutiny indicated that

(a) RSM Woolen Mills and Mittal Woolen and Cotton Mills had the same telephone number.

(b) Prestige Spinners and Punjab Wool Syndicate had identical telephone and fax numbers. They also had identical address.

(c) AAA Spinners and Siddharth Woollen Mills had identical telephone and fax number, identical e-mail address and identical address.

(d) Raghav International and Maheswari Woolen Mills had identical fax number and identical address.

(e) Vikas Udyog and Geeta Woollen Mills had same telephone number.

Thus competition among these Factories was suspect but the factory refused to act on the aspect and kept on placing the supply orders.

Case 8

Ordnance Parachute Factory, Kanpur

For procurement of 29,275 Nos. of Universal Member, an item for tent, in Ordnance Parachute Factory, Kanpur four firms namely Bishmber Dayal Onkar Pershad Delhi, Standard Niwar Mills Kanpur, VK Brothers Kanpur and AVR Enterprises Kanpur responded. From the three quotations received from Kanpur based firms, it was noticed that the Fax number of Standard Niwar Mills Kanpur & AVR Enterprises Kanpur was identical. Their e-mail address was also the same. Tender enquiries to Standard Niwar Mills Kanpur & VK Brothers Kanpur were issued to the same address. They also had the same phone numbers.

Examination in audit of the three quotations received from three companies indicated that all of them had the same format and had been typed from the same document from the computer. Against the date of delivery, the blank spaces were underlined and were filled by hand. The length of the underlines in all the quotations was exactly the same viz. 1.4 cm and 2.1 cm. The handwriting in all the three quotations was the same.

Bishmber Dayal Onkar Pershad Delhi quoted a rate of Rs 163.63 per number with 4 *per cent* UP Trade Tax. VK Brothers Kanpur became the L-I as it quoted Rs Rs 158.00 per number with 4 *per cent* UP Trade Tax. However, against Taxes and Duties: Excise Duty, whatever was written was covered with a black sketch pen. The supply order SO No.60049 was placed on the firm on 17-05-2006 for Rs 48.10 lakh through a process which was to say the least suspect. In another factory namely Ordnance Equipment Factory Kanpur, the same three firms were involved in the tender enquiry 20080183/PV/4142 dated 10 June 2008.

V.K. BROTHERS

105/696, Chamanganj,
Bhannana Purwa,
Kanpur - 208 003
Phone : 0512-2546449

VKB

Handwriting same in all the three quotations

18/3/06

3/4

TO,
The General Manager ,
Ordnance Parachute Factory,
KANPUR - 208 004.

9-3-3

23/3

SUB.: T/E No.20050749/PROV DUE ON 23.03.2006 FOR SUPPLY OF UNIVERSAL MEMBER .

Dear Sir,

We have the pleasure to participate against your subject tender enquiry with our lowest rate , terms and conditions as under :-

ITEM NO.	Description of Stores	QTY	RATE
01.	UNIVERSAL MEMBER CONFIRMING TO TENDER SPECIFICATION.	29275 NOS.	@ RS.158=49= PER NO. (One Hundred Fifty Eight Rupee only)

Handwriting same in all the three quotations

TERMS & CONDITIONS

1. TERMS OF DELIVERY : FREE DELIVERY TO O.P.F. KANPUR.
2. DATE OF DELIVERY : Commencement within 15 days & Completion by 03 months from the date of receipt of firm Order complete in all respects.

Length of lines same at 1.4 cm and 2.1 cm

Cont...2

For V. K. BROTHERS

Proprietor

MANUFACTURERS & EXPORTER OF

Cotton Tape, Niwar, Belts, Ropes, Webbing, Wet Equipment, Tents, All Types of Bags, Dosuite Sheeting, Fabric Cotton, Razai, Coat Combat, All Type of Uniform, Leather Items etc.

A. V. R. ENTERPRISES

(An ISO certified company)
Approved Govt. Contractors, Suppliers & Exporter of all types of textile items

ACCREDITED BY RvA

Date 21/3/06

TO,
The General Manager ,
Ordnance Parachute Factory,
KANPUR - 208 004.

SUB.: T/E No.20050749/PROV DUE ON 23.03.2006 FOR SUPPLY OF UNIVERSAL MEMBER .

Dear Sir,

We have the pleasure to participate against your subject tender enquiry with our lowest rate , terms and conditions as under :-

ITEM NO.	Description of Stores	QTY	RATE
01.	UNIVERSAL MEMBER CONFIRMING TO TENDER SPECIFICATION.	29275 NOS.	@ RS. 150.00/= PER NO. One hundred Fifty Rupees only

TERMS & CONDITIONS

1. TERMS OF DELIVERY : FREE DELIVERY TO O.P.F. KANPUR.
2. DATE OF DELIVERY : Commencement within 15 days & Completion by 03 months from the date of receipt of firm and final Order complete in all respects.

4/4

Cont...2

For A.V.R. Enterprises

Partner

Visit at : www.standardgroupofcompanies.com • E-mail : Contact @standardgroupofcompanies.com
Factory & Administrative Off. : D-23, Panki Industrial Estate, Site No.1, Kanpur-208 022, U.P. (INDIA)
Phone : (H.O.) : 2692397, 2691070, Fax : 0512-2692497, Gram : TEX-HOUSE

STANDARD NIWAR MILLS

(An ISO certified company)

Approved Govt. Contractors, Suppliers & Exporter of all types of Textile items

Date : 20/3/06

TO,
The General Manager ,
Ordnance Parachute Factory,
KANPUR - 208 004.

SUB.: T/E No.20050749/PROV DUE ON 23.03.2006 FOR SUPPLY OF UNIVERSAL MEMBER .

Dear Sir,

We have the pleasure to participate against your subject tender enquiry with our lowest rate , terms and conditions as under :-

ITEM NO.	Description of Stores	QTY	RATE
01.	UNIVERSAL MEMBER CONFIRMING TO TENDER SPECIFICATION.	29275 NOS.	@ RS.156.71/= PER NO.

TERMS & CONDITIONS

1. TERMS OF DELIVERY : FREE DELIVERY TO O.P.F. KANPUR.
2. DATE OF DELIVERY : Commencement within 21 days & Completion by 03 months from the date of receipt of firm and final Order complete in all respects.

For STANDARD NIWAR MILLS

PARTNER

Cont...2

Visit at : www.standardgroupofcompanies.com • E-mail :Contact@standardgroupofcompanies.com
Regd. Off. & Factory :D-24, Panki Industrial Estate, Site No.1, Kanpur - 208 022, U.P. (INDIA)
Phone : (H.O.) : 2691152, 2691070, 2546449, Fax : 0512-2692497, Gram : NEWAR-HOUSE

Ministry stated that Ordnance Factory Board would conduct a detailed enquiry into the cases. A fresh capacity verification of the firms involved would be conducted to see whether they have separate production facilities. Explanation of the officers would also be called for.

The other replies of the Ministry seek to establish that all these firms were independent entities and hold separate registration numbers etc. However, the issue is not whether they have separate identities or have separate production facilities. There was enough evidence to suggest that these firms are colluding with each other to suppress competition in the procurement process. Ministry's replies do not comment on the tell tale evidence of such collusion. If counter offers are being made by two companies from the same fax at the same time or tenders are being posted together or the same handwriting appears on quotations by different firms, they cannot be treated as mere coincidences.

5.5 Manipulation of procedures to avoid single tender situation

Case 1

In Vehicle Factory Jabalpur, against a tender enquiry for manufacture and supply of Frame side member Drilled RH along with Frame Filtch RH for Stallion vehicle, two firms namely Simplex Metallica and Simplex Auto Industries responded. From 2004 onwards, one or the other of these two firms had been awarded the supply orders. Audit scrutiny indicated that both these firms are located at the same address. Their telephone numbers and fax numbers were the same. In one of tender opening meeting on 13 January 2009, the same individual represented both the firms. By adopting this malpractice, potential single tender situation was avoided.

Case 2

Ordnance Equipment Factory Kanpur issued a two bid global tender enquiry for procurement of 2 Light Duty Splitting Machines in January 2007. Only two firms - Anurag Trading Co. Kanpur and Panna Marketing (P) Ltd. Kanpur responded. Both of them had identical telephone numbers, fax numbers. The e-mail address of Anurag was shyam_meh@rediffmail.com and that of Panna was shyammeh@rediffmail.com. Their addresses were different. Apart from the fact that the factory corresponded with both the firms at the same fax number, it did not enquire into how the same land line telephone number could be installed in two different premises. This however, enabled the factory to avoid a potential single tender situation.

Case 3

In another case, Ordnance Parachute factory Kanpur issued in April 2006 an open tender enquiry for procurement of 30 Single needle flat bed chain stitch industrial sewing machines. The case was re-tendered in July 2006. Three bids were received and after technical evaluation, only two remained in the competition. These firms were Star International Pvt Ltd and New India Sewing Machine Company, Kanpur. Supply order was placed on Star International Pvt Ltd for Rs 24.95 lakh.

Both Star International Pvt Ltd and New India Sewing Machines Company Kanpur had the same fax number. It was also seen that the factory letter dated 01 December 2006 to both the parties were faxed to the same number.

Case 4

In Ordnance Clothing Factory Shahjahanpur, against an open tender enquiry of December 2007 for procurement of two numbers of Warping machines, two firms – M/s Keshar Corporation, Ahmedabad and M/s Tech Mech Engineers Ahmedabad responded. The Fax numbers of both the firms in the correspondences were found to be identical. Despite the similar identities of the firms which resulted in single tender situation and vitiating tendering process, TPC decided to place order on M/s Tech Mech Engineers Ahmedabad at a cost of Rs 34.66 lakh.

Ministry stated that Ordnance Factory Board would conduct a detailed enquiry into the cases. A fresh capacity verification of the firms involved would be conducted to see whether they have separate production facilities. Explanation of the officers would also be called for.

5.6 Cases of cartelization by quoting the same price

During audit at least 108 cases were seen in different Factories, where firms from different cities have quoted the same price for same item. All were through limited tender channel. Details are at Annexure IV. As an example, in the first case in Annexure IV, in Ordnance Factory Khamaria, five firms from Mumbai, Delhi, Pune, Gurgaon and NOIDA quoted exactly the price of Rs 398 per item for ball insert.

Supply order was placed on all firms and the tendered quantity was equally distributed.

In order to stop cartelization, OFB on 18 July 2007 introduced a new measure. It prescribed that L2 and L3 tenderers should also be allowed to supply provided they accept the counteroffer of the rate quoted by L1 at a ratio of 50:30:20. However the measure did little to improve the situation as the suppliers quoted the same rate and all became L1 as a result.

One of the reasons why firms registered themselves under different names was the usual practice of Ordnance Factories to distribute the ordered quantity among different suppliers if they were found to have quoted same rate or accepted, being L2 or L3, a counter offer of the L1 rate. Such firms who operate under different names, in the event of equal distribution of tendered quantity will get a larger share through a sister concern or a ghost firm. In one extreme case, Ordnance Clothing Factory Shahjahanpur placed supply orders on 13 suppliers at the same rate by distributing the quantity of Yarn Woolen 450 Tex Type Natural Grey.

Unwillingness of TPC[21]s headed by the Head of the factory and comprising other senior factory officials to take action on blatant cases of price manipulation by suppliers and in some cases their active connivance to favour suppliers, absence of independent assessment of the rates quoted and treating the last purchase rate as the only benchmark coupled with the practice of distributing the ordered quantity among all suppliers reinforced and encouraged the practice of cartelization even more.

It also came to notice that prices quoted under OTE were significantly lower than the prices under LTE. The opinion among the factory officials was that suppliers quoted cheaper rates to grab the contracts as the first step to enter into the supply chain of the Ordnance Factories. While this may be partially true, many cases were seen in which established suppliers also participated in open tender enquiries and quoted cheaper rates. The belief also presupposes that suppliers will be making losses to make entry through the open tender channel which may not be wholly true. Cases were seen that suppliers through shadow firms also were able to suppress effective competition.

[21] Tender Purchase Committees

In none of the cases mentioned in Annexure IV, where cartelization was prima facie evident, Ministry or OFB or the factory concerned made any enquiries or took any effective action. On the other hand, such a situation was allowed to continue in almost all the Factories. In factory after factory the same firms responded to various tender enquiries both through LTE and OTE channel and manipulated the prices, as would be evident from the next chapter. In many cases, in replies to audit observations the Factories justified the action by the fact that they were following the provisions of the MMPM. No initiative was taken by Ministry, OFB or the factory officials to stop the brazen manipulation of the system.

Distribution of ordered quantity vitiated the tendering process itself

Case 1:

OFB's circular dated 18 July 2007 stated that wherever Ordnance Factories would like to distribute the quantity under procurement to more than one supplier for strategic reasons to have better and assured supply prospect, a decision will be taken in advance whether order would be placed on two or three firms. The circular further stated that accordingly a clause should be included in the tender enquiry.

Small Arms Factory Kanpur issued a limited tender enquiry in November 2008 to three firms for procurement of 138844 Nos Magazine Assembly (30 rounds). In the tender enquiry itself, it was mentioned that order will be placed on three firms at L1, L2 and L3 at the pre determined ratio of 50:30:20. There was no strategic reasons for dividing the quantity and in fact there were several other firms who were awarded supply orders earlier to whom tender enquiries were not issued. The LPR rate was Rs 114.50 in March 2008. L1 firm Ajit Chemicals quoted a price of Rs 119.50 per item for 50 *per cent* of the quantity, L2 firm Nityanand Udyog quoted Rs 119.75 for full quantity and L3 Miltech Industries quoted a rate of Rs 120, again for full quantity. Supply orders were placed on all the three at the ratio of 50:30:20 at the rate of Rs 119.50. All the supply orders had a QEC[22] of 25 *per cent*.

As would be seen in the case, limited tender enquiry was issued to only three firms with a condition that orders will be placed on all three. Thus the three firms would have known beforehand that they would be awarded the contract. The uncanny similarities in the rates quoted would also be indicative of that fact.

[22] Quantity Enhancement Clause- an option clause for repeat order at the contracted price

Case 2:

In another case in Ordnance Parachute Factory Kanpur, the process was subverted even further. In April 2009, the factory was declared as nodal factory for procurement of Fabric for Olive Green Dresses. Sunil Industries of Mumbai on 15 April 2009 addressed a letter to the factory that the firm had come to know that the factory had recently finalized the list of approved suppliers for the above product but the name of their firm has not been included. Even though, OEF Headquarters Kanpur reminded the GM OPF on 6 May 2009 to issue the limited tender enquiry as time has been lost and more than three established suppliers were available, the limited enquiry was issued on 26 May 2009 after 20 days. It was issued to five firms including Sunil Industries as by that time the capacity verification of the firm was completed. A similar condition of division of quantity in the ratio of 50:30:20 was mentioned in the enquiry itself.

All the five firms responded. The L1 firm S Kumar Nationwide quoted Rs 82.80 per metre for full quantity. Two firms (Reliance India Ltd and Sangam India) quoted Rs 90 per metre. The remaining two firms (Grasim Bhiwani Textiles and Sunil Industries) quoted Rs 90.25 per metre. Thus one firm was L1, two firms were L2 and two at L3. Supply orders were placed on all the five firms in the ratio of 50:15:15:10:10.

Ministry replied that disciplinary cases would be initiated against the officers responsible.

Case 3

Small Arms Factory Kanpur issued a limited tender enquiry in April 2007 for procurement of 7956 Bipod Assembly consisting of 20 Compartments to 12 suppliers. All the firms quoted and National Tools Limited Kolkata became the lowest tenderer at Rs 2446 per unit. The TPC approved placement of order on the firm. However, some of the other firms complained that National Tools was not an established supplier and hence should not have been issued the limited tender enquiry. The factory decided to retender. In the second tender, 11 firms quoted the same rate of Rs 2440 per unit. The factory placed supply orders in June 2007 on all the firms by distributing the ordered quantity.

Against the OTE, in March 2007, supply orders were placed on Ashoka Moulders Kolkata and Nityanand Udyog Nagpur at a rate of Rs 1099 per item. The loss to the exchequer was Rs 1.06 crore.

Ministry stated in June 2010 that source development rates are not used for comparison as firms grossly under quoted to get entry into the category of established suppliers.

Ministry's reply was silent about the collusive aspect of the tendering process.

5.7 Communication with the suppliers

To provide equal opportunities to all suppliers and to generate maximum competition in an environment in which tender enquiries are issued only to limited number of suppliers and there exists tell-tale evidence of cartel, it is of utmost importance that all suppliers receive the enquiries. During audit, however, in several Factories, cases were seen of different and irregular modes of communication. Gun Carriage Factory Jabalpur issued tender enquiries to some suppliers through Registered Post while others through normal post in respect of the same tender enquiry. Ordnance Factory Ambajhari issued tender enquiry under Posting Certificates. In Gun Carriage Factory, it was further observed that in some cases no postal stamp expenses were incurred while issuing such notices to some firms. While the factory replied that this was due to clubbing of more than one TE in one envelope, the risks of these notices not being issued or being handed over to the firms cannot be ruled out.

Audit also came across a few cases in which quotations sent by fax were accepted and supply order placed on the basis of that. As per MMPM, a quotation by fax may be considered as regular tender if the same is followed by a formal tender within 7 days from the date of opening of tenders provided the copy by fax is complete in all respect.

Audit scrutiny indicated that against a tender enquiry in Ordnance Equipment Factory Kanpur, three suppliers submitted their quotations through FAX without follow up by the formal tender. Factory considered all three FAX quotations and decided to place supply order on a firm, which was irregular. A few such cases were seen also in Vehicle Factory Jabalpur, Ordnance Factory Khamaria and Ordnance Factory Ambajhari.

Ministry stated that explanation of the officers would be called for accepting quotations through fax which were not followed by regular sealed tenders in the Factories.