

Recommendations

1. **Ministry should review the role and composition of the Ordnance Factory Board. The Board should be expanded to include senior representatives of Department of Defence Production, Integrated Finance, DRDO and Army Headquarters. The Factories and the OF Secretariat should be Board managed.**

Ministry accepted the recommendation.

2. **The responsibility of the Board should be to oversee the functioning of the Ordnance Factories rather than taking decisions relating to procurement and the day to day functioning of the Factories. In other words, Board should function similar to a Board of a company.**

Ministry accepted the recommendation.

3. **Day to day running of Factories including procurements should be function of the DGOF, who should be assisted by the Members and other officials. The decisions taken by DG should be subject to the review by the Board. DG should function as the CEO with responsibility and accountability commensurate with CEO of any Organization.**

Ministry accepted the recommendation.

4. **In view of the fact that the internal control in the Ordnance Factories including OFB Headquarters has become dysfunctional, there exists a case for completely overhauling the same. Ministry may review the position and put in place a comprehensive and functional internal control system in the Ordnance Factories.**

Ministry stated that it would be incorrect to say that the internal control system has become dysfunctional. The performance of Factories is closely monitored by the Members concerned as well as Board level. The performance of the OFB is also monitored by the Ministry. A comprehensive e-procurement system has been put in place which would become operational from 01 August 2010. This

would enable, the Ministry stated, to make the procurement procedures of Ordnance Factories transparent and accountable.

Appreciating the steps taken by the Ministry, it is stated that the internal control in an organization denotes a robust control environment, which sets the tone of the organization including tone at the top, risk assessment, control activities which comprise policies and procedures that help ensure that management directives are carried out. It also requires dissemination of pertinent information and continuous monitoring.

Ministry should broad base the concept of the internal control beyond narrow supervisory controls, which as would be evident from the present audit report, failed completely.

5. **The Chief Internal Auditor (Factories) should have his own dedicated set up and should be completely independent from DGOF and Factories. He should report directly to the Board. Copies of his reports should be invariably endorsed to the Secretary, Department of Defence Production.**

Acknowledging that the internal audit system needed to be strengthened, Ministry stated that action will be taken in consultation with the CGDA who is responsible for internal audit.

6. **Secretary, Department of Defence Production should immediately form a standing audit committee to monitor the internal audit reports.**

Ministry agreed to form an audit committee. The recommendation of audit would be considered to include suitable external representatives in the audit committee.

7. **The Chief Vigilance Officer of the Ordnance Factories should have complete independence and should preferably be from outside the Indian Ordnance Factory Service. The guidelines issued by the CVC should be followed strictly.**

Ministry informed that an officer of Railway Engineering Service has been appointed as Chief Vigilance Officer of the OFB.

8. The MMPM should be reviewed thoroughly to ensure procurement in accordance with the General Financial Rules. The artificial restrictions on the firms coming through OTE channel should be reviewed.

Ministry informed that the procurement manual is under complete revision. According to the proposed revised manual, the Ministry stated, procurement would hereafter be made mainly through open tenders and limited tenders will be resorted to avoid stock out situations and to meet unforeseen requirement of armed forces.

9. The roles and responsibilities of competent financial authority and tender purchase committee should be separated. Accountability of individual CFA both at DG level and factory level should be established. The role of the tender purchase committees should be recommendatory.

Ministry assured to examine the recommendation.

10. Ministry may review the composition of tender purchase committees and reduce the levels of such committees. Inclusion of representative from another factory in the same location should be considered.

Ministry assured to examine the recommendation.

11. Separate sanction order should be issued for each procurement and copies of such orders should be endorsed to all concerned in terms of General Financial Rules.

Ministry accepted the recommendation. It assured that separate sanction order will be issued in all procurement cases.

12. The present system of procurement through the channel of Memorandum of Understanding should be discontinued forthwith. Co-production, Co-development and Collaboration agreements should be subjected to prior approval of Ministry of Defence or the reconstituted Board. The user directorate and DRDO should be involved in these decisions.

Ministry stated a standard operating procedure for cases of collaboration has recently been prepared. In all cases in which foreign technology collaboration is involved, prior approval of the Ministry of Defence would be required. The user directorate and DRDO would also be consulted, if necessary.

13. Ministry should on a priority basis invest required resources to computerize the procurement process completely in line with the e-procurement initiative of Government of India and ensure that all Factories maintain compatible databases. Suitable procurement application also should be developed.

Ministry stated that action is under way and it is in accordance with the recommendations made by Audit.

14. All databases should be networked so that Factories can reap the benefits of networked databases in procurement. Suitable triggers should be included in the procurement application so that unusual cases according to pre determined parameters are thrown up by the system itself.

Ministry agreed to initiate action according to the above recommendation.

15. Generic and widely available items should be identified and should be procured through open tenders only. List of such items should be published in the website of OFB. Such open tenders should be published in the websites of OFB and Ministry of Defence.

Ministry stated that the procurement manual were under revision and open tender channel would be the main channel for procurement.

16. The proposed independent CVO and Internal Audit should investigate all cases where a number of firms quote the same price.

Ministry agreed to include stringent measures against cartelization in the revised procurement manual.

17. A cost audit cell should immediately be set up and procurement must be done, specially in cases of limited tender and single tender taking into account the advice of the cost audit cell.

While noting the recommendation and acknowledging that induction of qualified cost accountants will help, Ministry noted that there are industrial engineering units within the Ordnance Factories.

18. OFB should recheck the credentials of all the vendors registered with the Factories, so that ghost firms can be rejected. Such check should include a one time check of the owners of the firms, their addresses and other details and most importantly, their manufacturing capacity by site visits/ inspections.

Ministry agreed with the recommendation.

19. OFB should also place a list of all such vendors with all details about their ownerships, nature of business etc. in its website.

Ministry stated that action would be taken to include the details in the upcoming e-procurement portal of OFB.

20. Ministry should instruct OFB Headquarters and Factories that subject to compulsions of national interest, all limited and single tenders should be published on the website till the time limited tender channel is used for procurement.

Ministry stated that all tenders would be published in the upcoming e-procurement portal.

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