Executive Summary

Bharat Electronics Limited (Company), a Navartna Public Sector Undertaking under the administrative control of the Ministry of Defence (MoD), Government of India, is engaged in designing, developing and manufacturing wide range of electronic equipment/components for defence services and other government departments.

The Company has nine production units located at Bangalore, Chennai, Ghaziabad, Hyderabad, Kotdwara, Machilipatnam, Navi Mumbai, Panchkula and Pune. In addition, two overseas offices have been established at New York and Singapore as technological windows of the Company for importing material / components.

Performance Audit covering a sample of 1272 purchase orders placed between April 2007 to March 2010 aggregating ₹ 4954.83 crore constituting about 52 per cent of the total value of purchases of ₹ 9490.95 crore was conducted to assess the efficiency, economy and effectiveness of the procurement system of the Company. Audit examination revealed certain inadequacies in the systems and procedures of purchase, vender development and tendering process. Some of the significant audit findings are discussed below:

Thin vendor base

The Company was operating on a thin vendor base, as for almost one third of the standard items, it had only one vendor while for *another one third of these items, it had only two vendors. In fact, the Company could add only 168 vendors to its directory during the last three years which accounted for only one per cent of the total vendors of the Company. Thus, in the absence of an adequate vender base for procuring a large number of items, the Company's ability to obtain competitive rates was impaired. Despite the fact that the Company has a very thin vendor base, the purchase procedure of the Company was liberalised in 2009 to permit procurement of items through single tender even where more than one vendor for such item was available. Consequently, during the last three years, almost 90 per cent of the total procurement of the Company was made through single tenders and balance 10 per cent through limited tenders. The procurement through open tenders was negligible.*

Non-sharing of vendor base

Vendor base of the Company was unit specific and was not being shared among units while inviting quotations. This deprived the Company from reaping the benefits of competitive prices particularly when the vendor base of the Company was thin.

As the vendor base impacts the competitiveness of the procurement prices and provides leverage in selecting the suppliers, the Company needs to urgently address this issue of widening the vendor base to achieve economy and quality in procurement.

Non-monitoring of price trend

The Company and its units were not monitoring the price trends of material and components despite specific provision in its Purchase Procedure.

Delays in placement of purchase orders and inspection of material

In 38 percent of cases examined, the units of the Company failed to adhere to the specified time limit for placement of purchase orders. Ghaziabad and Chennai units, in particular, could convert only 43 and 26 percent of the purchase requisitions respectively within the prescribed time. Moreover, in 66 percent of the cases where purchase orders had been finalised, there were delays in dispatching the Purchase orders to the vendors. The Company had not fixed any time lines for various stages of procurement process, i.e., tender evaluation and placement of purchase orders after its finalization.

Also, no timeline was fixed for quality test or physical inspections of material unlike in another Defence PSU viz HAL. In the absence of any such norms, there were considerable delays in inspections and consequent return of rejected materials.

Under utilization of overseas offices

Though the Company had opened two overseas offices at New York and Singapore for importing materials/components directly and had worked out a saving of around 14 per cent on purchases made through these offices, audit noticed that meager quantities (3.34 to 5.91 per cent of value of imports) were imported through these overseas offices. Thus, the Company could not leverage its overseas offices to reap savings in the import of material.

Cost reduction measures

Indigenization, which was supposed to be one of the major drivers of cost reduction, was not very successful as is evident from the fact that the value of purchase orders placed on foreign vendors increased from 48 per cent in 2007-08 to 68 per cent in 2009-10.

Executive Summary

Unrealistic budgeting

Company failed to exercise a realistic assessment of its requirement of its expenditure on procurement as in all the three years under review, the actual expenditure of procurement deviated by more than 20 per cent from the planned expenditure.

Recommendations

This performance audit contains following recommendations to help the Company improve its performance.

- *Company should make concerted efforts to expand its vendor base and share the vendors directory among its units to facilitate competitive rates.*
- *Company should fix time line for various activities of the procurement process and ensure its compliance for adherence to production schedule.*
- *Revisit its procedures for procurement to ensure that quotes are invited from more than one available sources to reap the benefits of competitive rates*
- *Optimally utilize the services of foreign offices for economical imports of material/components*
- *Fix timeline for various activities of the procurement process and ensure its compliance for adherence to production schedule.*
- *Strengthen the existing ERP system to ensure comprehensive database for exercising effective control over procurement of material only from authorized sources and advances to suppliers*

Ministry accepted all the recommendations and stated (March 2011) that as a follow up of the extensive study by Audit, the Company has been advised to find out solutions for the problems highlighted in the Report.