



Report of the Comptroller and Auditor General of India

Performance of Ordnance Equipment Group of Factories



Union Government (Defence Services)
Ordnance Factories
No. 24 of 2013
(Performance Audit)

Contents

Sl. No./ Para No.	Subject	Page
1	Preface	iii
2	Executive Summary	iv
3	Chapter I - Introduction	
1.1	Ordnance Equipment Group of Factories	1
1.2	Organisational Structure	1
1.3	Product profile and cost of production	2
1.4	Budget estimate and actual expenditure/income	3
4	Chapter II – Audit Approach	
2.1	Why did we take up this Audit?	4
2.2	Scope of audit and sample	4
2.3	Audit objectives	5
2.4	Audit criteria	6
2.5	Audit methodology	6
2.6	Acknowledgement	6
5	Chapter III - Production Planning	
3.1	General	7
3.2	Delays in holding target fixation meeting	7
3.3	Targets not commensurate with the manufacturing capacity	8
3.4	Unilateral reduction of target	10
3.5	Other major constraints in target fixation	10
3.6	Audit conclusion	10
6	Chapter IV – Procurement of Stores	
4.1	General	11
4.2	Over-provisioning of stores	12
4.3	Non-observance of procedures for opening of tenders	13
4.4	Procurement through Limited Tender Enquiry and Single Tender Enquiry instead of Open Tender Enquiry	14
4.5	Long lead time for placement of orders	15
4.6	Procurement of stores at higher rates beyond eight <i>per cent</i> of LPR	16
4.7	Formation of cartel	16
4.8	Audit conclusion	18
7	Chapter V – Production Performance	
5.1	General	19
5.2	Shortfall in production/issue against targets	20
5.3	Spill-over production / issue	21
5.4	Outsourcing of jobs	23
5.5	Civil trade/ export activities	27
5.6	Audit conclusion	28
8	Chapter VI – Utilisation of Resources	
6.1	General	29
6.2	Utilisation of manpower	29
6.3	Under-utilisation of machinery	32

6.4	Inventory control	35
6.5	Audit conclusion	37
9	Chapter VII – Quality Control and Assurance	
7.1	General	38
7.2	Inadequate inspection of input materials procured from trade	38
7.3	Acceptance of materials with deviation	40
7.4	Repeated failure of items in quality assurance	42
7.5	Final rejection during quality assurance checks	43
7.6	Rejections at the consignee end	45
7.7	Customers' complaints	45
7.8	Audit conclusion	46
10	Chapter VIII – Pricing of Products and Cost Control	
8.1	General	47
8.2	High overheads and labour charges in cost of production	49
8.3	Wide variation in cost of production of common items	51
8.4	Audit conclusion	53
11	Chapter IX – Internal Control	
9.1	General	54
9.2	Control failure in manufacture	54
9.3	Monitoring by top level management	58
9.4	Audit conclusion	59
12	Chapter X – Conclusions	60
13	Annexure I	62
14	Annexure II	63
15	Annexure III	69
16	Annexure IV	70
17	Annexure V	72
18	Annexure VI	74
19	Annexure VII	78
20	Appendix-I - Abbreviations	79