

Chapter II: Audit Approach

2.1 Why did we take up this audit?

Performance of 'Supply chain management of general stores and clothing in the Army' was earlier reviewed by us, which had highlighted (Audit Report No. PA 4 of 2008) that the supply chain suffered from systemic deficiencies such as placing of orders on trade in preference to ordnance factories, users' dissatisfaction on quality of GS&C items of ordnance factories, failure to meet the users' demands, *etc.*

Mentions were also made in previous Audit Reports³ of the Comptroller and Auditor General of India about inefficient production planning, various deficiencies in procurement of stores and machinery, underperformance in production, underutilisation of resources, *etc.* Performance of OEFG for the period 1999-2004 had been reviewed by us during February-June 2004 and the results thereof were included in Paragraph 8.2 of Report No. 6 of 2005 of the Comptroller and Auditor General of India. Details of action taken by the Ministry/OFB on the aforesaid Audit Reports are indicated in **Annexure-I**. However, no significant improvement was seen.

We observed that OEFG could meet only 56 *per cent* of total requirement of GS&C items of the Services during 2008-12.

The performance of these factories was reviewed afresh with focus on the areas of production planning, utilisation of capacity, production and issue of right products at the right time to the Army (major recipient of the products).

2.2 Scope of audit and sample

The Performance Audit, conducted during January to July 2011, covered the performance of OEFG during the years 2008-09 to 2010-11, subsequently (April 2013) updated for the period 2011-12 wherever stated in this Report. The audit findings were arrived at after test check of records of the OEFG, OEF HQ, Central Ordnance Depot (COD) Kanpur, Controllerate of Quality Assurance (Textile and Clothing) Kanpur and Director General Ordnance Services (DGOS) New Delhi.

³ Paragraph 8.2 of Report No. 6 of 2005, PA Report No. 19 of 2007 and PA Report No. 4 of 2008

The details of population and sample selected for examination in Performance Audit are indicated in Table-3.

Table-3: Details of population and sample

Issues		Population	Sample	Remarks
Planning (Fixation of production target)	2008-09	81 items	56 items	Sample size restricted to major principal items (Army) for which capacity is known.
	2009-10	76 items		
	2010-11	58 items		
	2011-12	61 items		
Procurement (Placement of orders for procurement of stores by five factories during 2008- 12)		11689 numbers	966 numbers	Stratified sampling based on money value (orders valuing less than ₹1 lakh not selected in sample).
Production (Shortfall in production and issue)	2008-09	57 items	52 items	Only principal items (Army) considered. Few items of sample changed year to year based on fixation of their target.
	2009-10	58 items	52 items	
	2010-11	56 items	52 items	
	2011-12	61 items	52 items	
Quality (Returned for rectification) (RFR)	2008-09	91 items	34 items	Population and sample size was small in 2008-09 due to non-availability of RFR data in respect of OEFC. For 2011-12, only principal items were considered.
	2009-10	187 items	143 items	
	2010-11	208 items	143 items	
	2011-12	77 items	60 items	

While conducting the Performance Audit we were constrained with limitations such as non-availability of data in the required format as asked for by us pertaining to items ‘returned for rectification’ (RFR) and ‘machine-hour utilisation’ in respect of OEFC for 2008-09.

2.3 Audit objectives

The primary audit objectives were to assess whether:

- production planning was efficient and effective to meet the requirements of the Services;
- factories procured requisite stores efficiently and economically in tandem with the production requirement;
- factories optimally utilised their resources;
- quality and cost control mechanism were efficient and effective;
- an efficient pricing mechanism was in place to recover the cost of production; and
- internal controls and monitoring systems were effective.

2.4 Audit criteria

The major sources of audit criteria for assessing the audit objectives were:

- Defence Procurement Manual, OFB's Material Management and Procurement Manual (2005) and General Financial Rules (GFR) ;
- Minutes of annual target fixation meeting between the Army and OFB;
- Orders on delegation of financial powers to OFB and General Managers;
- Monthly production reports of factories;
- Cost estimates vis-à-vis pricing formula;
- Norms for consumption of raw materials;
- Norms of normal rejection in factory and proof rejection by the DGQA;
- Policy on outsourcing of jobs;
- Policy/direction in regard to work on overtime; and
- Minutes of the monthly Board meeting of the OFB.

2.5 Audit methodology

The audit objectives and criteria were discussed with OFB during an 'Entry Conference' held in August 2011. Subsequently, audit findings and recommendations were reported to the OFB and the Ministry in October 2011 and discussed in an 'Exit Conference' held with OFB in April 2012. Responses of OFB/Ministry and views expressed by them in the 'Exit Conference' have been considered while finalising this report. The Ministry's reply of May 2012 to the draft Performance Audit Report has also been considered.

2.6 Acknowledgement

The Chairman of the OFB, Addl. DGOF of OEF HQ, Senior General Managers/General Managers and the Accounts Officers of the factories, DGOS New Delhi, COD Kanpur and CsQA Kanpur had extended co-operation during audit.

A list of **abbreviations** used in this report is appended as *Appendix-I*.