

PRESS RELEASE

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CAG AUDIT REPORT ON DEFENCE PUBLIC SECTOR UNDERTAKINGS TABLED IN PARLIAMENT

Report of the Comptroller and Auditor General of India on Defence Public Sector Undertakings for the period ended March 2023, Report No. 34 of 2025 was presented in parliament here today. This report is divided into three chapters. Chapter I provides a profile of the DPSUs and follow up of previous Audit Reports. Chapter II contains four Subject Specific Compliance Paragraphs and Chapter-III contains four Compliance Audit Paragraphs on miscellaneous issues.

The significant audit findings as brought out in the Report are summarised below:

Subject Specific Compliance Audit Paragraphs

Procurement and Management of Stores in Munitions India Limited

The twelve factories under M/s Munitions India Limited (MIL) held an inventory of ₹4,286 crore as on 31 March 2023 which accounted for 76 per cent of the cost of production. Stores consumed constituted around 54 per cent of the cost of production in the 12 factories under MIL during 2018-23.

The timely procurement of raw materials is a pre-requisite for timely achievement of the production targets. Audit noticed that the delays in the various stages of procurement was an inherent problem in provisioning of input materials to achieve the production targets. Delays were noticed in issue of 65 *per cent* of the tender enquiries and 59 *per cent* of the supply orders examined. Further, delays in receipt of input materials in 71 *per cent* orders followed by delays in inspection and taking in stock in 65 *per cent* instances had an adverse effect in meeting the production schedules of the factories, reflecting systemic deficiencies.

Despite assurances for corrective action given by the Ministry (August 2017) on a previous Audit Report (No. 35 of 2014), Stores-In-Hand (SIH) still constituted about 50 *per cent* of the inventory holding as of 31 March 2023 and the issue of stores to the production shops on 'loan basis' without demand notes continues even after corporatisation compromising thereby, the Stock Verification process. Audit observed that 21 *per cent* of the SIH valuing ₹330 crore in the four sampled factories as on 31 March 2023 was non-active stores which also includes surplus/scrap/obsolete and blocked items. Around 46 *per cent* of the SIH valuing ₹728 crore as

of March 2023 in the four selected Factories exceeded the prescribed limits of holding of four months' consumption.

(Paragraph 2.1)

Utilisation of Ordnance Factory Hospitals facilities

Ordnance Factory Hospitals (OFHs) were established between 1801 and 1988 to provide healthcare services to Ordnance Factory employees and their dependents. Initially, OFHs were set up to provide primary healthcare with limited beds, where the focus was on providing first aid and stabilising patients before referring them to nearby military or civil hospitals. In 1970, the government delinked healthcare in Ordnance Factories from Army.

Following the Union Cabinet's decision in June 2021, the ordnance factories were corporatised into seven Defence Public Sector Undertakings (DPSUs) and the management of OFHs was placed under the Directorate of Ordnance (Coordination & Services) under Department of Defence Production. Employees of the newly created DPSUs now eligible for CGHS.

Between 2020–24, ₹598.84 crore was spent on OFHs, of which over 82 *per cent* was on Pay & Allowances. The audit of eight selected OFHs revealed major systemic shortcomings including mismatch in sanctioned beds and staffing of Doctors, Specialists, Nurses and Paramedics *vis-à-vis* actual beneficiary load; inadequate specialist and diagnostic services, particularly in remote areas; low in-patient bed utilisation with over 75 *per cent* of admitted patients being discharged on the same day; and the absence of an approved regulatory framework post-corporatisation. Audit further observed that the final decision on merger of Indian Ordnance Factories Health Services and Central Health Service is awaited as on March 2025.

These issues merit a relook at the functioning of OFHs. The MoD stated (June 2025) that following the Union Cabinet's 2021 decision, the new DPSUs should focus on core production, there is no legal obligation for them to operate Hospitals and the transfer of OFHs to other Ministries/Departments is under consideration. The decision on continuation of OFHs or transfer to other Ministries/Departments remains pending and needs to be decided upon by the MoD.

(Paragraph 2.2)

Land Management in Hindustan Aeronautics Limited and Bharat Electronics Limited

Hindustan Aeronautics Limited

Based on the CAG's Audit Report in 2015, HAL had issued a Land Management Policy in 2016. Audit observed non-compliances to some of the Policy stipulations. There were instances of non-

maintenance/ incomplete information in basic land records such as asset register, land boundary verification register and encroachment inspection register in Bangalore Complex and Nasik Division. In Bengaluru Complex, it was observed that the contents of the manual records were not verified or filtered prior to scanning/digitisation. It did not prepare any short-term or long-term plans for utilisation of 783.28 acres of vacant land. A total of 135.18 acres of land was under litigation and encroachment and non-construction of boundary walls in the past was one of the contributing factors. The non-execution of deeds for purchase/sale/lease of land parcels pending for long periods was pointed out in the CAG Audit Report of 2015 but still remains a problem area. Of the total of 363.36 acres of land sold in Bengaluru to other organizations, there were no sale deeds for 223.71 acres. In Hyderabad and Lucknow, sale/ purchase deeds for 23.01 acres and 44.52 acres are pending from 1976 and 1985 respectively. Lease agreements were not executed/ renewed in Bengaluru, Nasik, Kanpur, Korwa and Kasargod divisions.

The efforts made by HAL to monetise a land parcel of 2.925 acres at Okalipuram, Bengaluru which is a separate piece of land under the control of Facility Management Division of HAL, was exposed to extreme risk due to fixation of a very low reserve price of ₹52.30 crore by using the services of a single IBBI registered valuer. On being pointed out by audit, HAL cancelled the ongoing process and is going for a fresh monetisation case with a reserve price of ₹97.80 crore. The matter is required to be investigated for fixing responsibility.

Bharat Electronics Limited

BEL had substantial land holdings, but it did not have any land management policy. It had a land holding of 704 acres and 24½ guntas acquired in Bengaluru in the 1950s, for which it did not possess the title deeds. Audit observed a large number of discrepancies between the details of land holding as per the records of BEL and as reflected in the Government gazette as well as the record of Rights, Tenancy and Crops of the State Government.

Shortcomings were also observed with respect to fixation of lease period and rent; recovery of property tax for land given on lease/license to other parties; and management of ancillary units in BEL Industrial Estate which had resulted in encroachment by the units.

(Paragraph 2.3)

Compliances to Regulatory Framework for Medical Facilities by Hindustan Aeronautics Limited

An audit of three Industrial Health Centres (IHCs) and two dispensaries of HAL showed instances of non-compliance to the regulatory frameworks prescribed for medical facilities. The IHCs at Bengaluru and the Dispensaries at Hyderabad and Lucknow were not registered under

the respective State Clinical Establishments (Registration and Regulation) Act/Rules. Shortcomings were observed in the compliance to the National Disaster Management Authority guidelines for hospital safety in respect of conduct of ICU/ward evacuation drills; formulation of evaluation plan; preparation of actionable plans for pre and post disaster phases; and obtaining 'No-objection Certificate' from the State Fire Department. Structural Design Sufficiency Certificates had not been obtained by any of the audited units of HAL for new construction or for renovation of old buildings as prescribed by the National Building Code 2016 published by the Bureau of India Standards. The IHCs located at Bengaluru owned and operated imaging services, viz., ultrasound, medical diagnostic, X-ray and CT without obtaining requisite license from the Atomic Energy Regulatory Board. Further, no Radiological Safety Officer was designated/ appointed in the IHCs at Bengaluru and Nasik, and the Dispensaries at Hyderabad and Lucknow.

Non-compliances were also observed to some of the provisions of the Electronic Health Records Standards 2016 such as e-prescriptions not signed manually nor digitally; not indicating the registration number of the doctor on the prescription, etc.

(Paragraph 2.4)

Compliance Audit Paragraphs

Disposal of rejected propellant for 'A' ammunition by burning without undertaking root cause analysis resulted in non-identification of reasons for rejection and loss of ₹4.12 crore

Ordnance Factory Bhandara (OFBA), a production unit under M/s Munitions India Limited (MIL) manufactured 21 lots of propellant for 'A' ammunition during the period from 2013-14 to 2017-18 of which three lots were rejected by Sr. Quality Assurance Establishment (Armaments) Khamaria and Controllerate of Quality Assurance (Ammunition) Khadki in January 2014, May 2015 and July 2019. In contravention of the Director General of Ordnance Factories Procedure Manuals and instructions, OFBA did not follow prescribed procedures to identify the root cause(s) of rejection and disposed of the rejected lots valuing ₹4.12 crore by burning in March 2020 and May/June 2023. This resulted in the loss of opportunity to ascertain the exact reasons for rejection which could have reduced risk of similar rejections in future. Ministry stated (June 2024) that the loss for all three rejected lots has been regularised as approved by the competent authority at MIL.

(Paragraph 3.1)

Blockage of inventory worth ₹12.68 crore due to procurement of components before according of Bulk Production Clearance

Ordnance Factory Dehu Road (OFDR) was assigned (September 2009) the task of development and bulk production of 'B' ammunition. In contravention of the manual provisions, OFDR procured components of the ammunition 'D' and 'E' from trade sources as well as another Ordnance Factory in bulk during July 2017 to August 2020 before conduct of user trials and receipt of Bulk Production Clearance. Army subsequently removed (April 2020) the scaling of the subject ammunition and this resulted in blockage of inventory worth ₹12.68 crore at OFDR as of January 2024.

(Paragraph 3.2)

Avoidable loss of ₹4.25 crore due to delay by Ordnance Factory Chanda in raising of Quality Claim to the foreign firm for replacement of a defective Lot of 'J'

Ordnance Factory Chanda (OFCH) procured (July 2018 to May 2019) 12 lots of 'J' from a foreign firm, 'K'. Out of these, one Lot was not cleared (September 2019) during proof firing by Central Proof Establishment, Itarsi due to observance of cold debris beyond permissible limit, which was a critical defect. There was no provision of re-proof for critical defect as per the Proof Schedule. OFCH disputed the proof results, kept pursuing the matter with the Directorate General of Quality Assurance (September 2019 to November 2020) and in the process, could not raise a timely claim with the vendor for replacement of the said lot. This resulted in the rejection of the quality claim, being time barred, and an avoidable loss of ₹4.25 crore.

(Paragraph 3.3)

Extra cost of ₹188.73 crore for supply of alternative/additional items without reimbursement by the Customer

Bharat Dynamics Limited (BDL) entered into (March 2011) a Contract with the 'Customer 1' for supply of 'M' of 'U' at ₹14,180.46 crore. Scrutiny of project execution at BDL revealed instances of BDL incurring extra expenditure amounting to ₹188.73 crore, without reimbursement from the customer.

(Paragraph 3.4)