

OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

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C&AG Report on (Defence Services) Ordnance Factories presented in the Parliament.

Audit Report No. 15 of 2019- Union Government (Defence Services) was laid on the table of both Houses of Parliament today. This Report contains the results of audit of financial transactions of Ordnance Factories Organisation (OFB), under the Department of Defence Production of the Ministry of Defence. The Report is divided into three chapters. Chapter wise significant audit findings of the Report are summarized below:

Chapter I: Performance of Ordnance Factory Board for the year 2017-18

The OFB received budgetary grant of ₹14,793 crore and ₹804 crore in 2017-18 for its revenue expenditure and capital expenditure respectively.

In 2017-18, OFB supplied materials of ₹14,251 crore to its different indentors. Indian Army is the major indentor for products of the Ordnance Factories, accounting for nearly 80 *per cent* of the total issues. The Factories achieved the production targets for only 49 *per cent* of items. A significant quantity of Army's demand for some principal ammunition items remained outstanding as on 31 March 2018, thus adversely affecting their operational preparedness. In addition, the exports by OFB decreased by 39 *per cent* in 2017-18 over 2016-17.

OFB held an inventory representing 73 *per cent* of the Cost of Production in 2017-18. 52 *per cent* of the inventory was Stores-in-Hand out of which 14 *per cent* was non-active stores. Work-in-Progress constituting 32 *per cent* of the total inventory is an area of concern. High holding of WIP is on account of outstanding production orders, the oldest pending order pertaining to 2009-10.

Chapter II: Performance Audit on “Production of Fuzes in Ordnance Factories” based on the test check of OFs for the period 2013-14 to 2017-18

Fuze is an essential and critical part of an ammunition to provide safe and reliable detonation at the desired time and place.

In Ordnance Factories, the production capacity for empty and filled fuzes (Filling factories fill empty fuzes with explosives and assemble it with other components to form complete ammunition) was not adequate to meet Army’s requirement of ammunition. There were mismatches in the availability of empty fuze from in-house production as well as from trade sources and their filling capacity in OFs.

Major shortfalls in production were noticed for eight types of empty fuzes mainly due to material constraints and quality problems. This resulted in slippages in issue of related ammunitions/ spare filled fuzes to the Users leading to critical deficiency of seven types of ammunition (32 to 74 *per cent*) and five types of spare fuzes (41 to 94 *per cent*) at the Users’ stock as on March 2018. Due to non-availability of spare fuzes, Army had stock of ammunitions worth ₹403.27 crore lying in unusable condition.

Inadequate quality checks both by the Factories and Quality Assurance agencies in manufacturing led to significant quantum of return and rejection of empty fuzes and filled fuzes. 18 accidents occurred at the Users’ end relating to six ammunitions mainly because of fuze related defects/problems.

OFB could not fulfil the Army’s requirement of electronic fuzes due to lack of infrastructure and capability. Army had to order electronic fuzes (valuing ₹1,511 crore) during 2013-14 to 2017-18 on Electronic Corporation of India Ltd (ECIL) and Bharat Electronics Ltd (BEL).

Chapter III contains findings on two thematic audits and some compliance issues.

Functioning of e-procurement system (introduced in September 2011)

Rules and Procedures stipulated in Procurement Manual of Ordnance Factories were not followed completely in its e-procurement system. Transparent bidding could not be ensured as instances of submission of multiple bids from a single machine and use of same Digital Signature Certificate by multiple users were noticed.

The e-procurement system lacked appropriate checks for capturing duplicate e-mail ID/alternate e-mail ID/phone number, invalid PAN and phone number *etc.* Further, same firm being developer and maintenance agency of the portal, database of Defence Organization may be at risk of misuse by a private entity.

(Paragraph 3.1)

Operation of bank Accounts in Ordnance Factories

Ordnance Factories continued their payments and receipts of government money partially through manual method. This was in contravention to the directives of Controller General of Accounts (August 2012) for making e-payment and of Controller General of Defence Accounts (August 2016) for depositing Government receipts into the Government Account through e-challan (MRO). This caused considerable delay in payments to the employees and

in depositing government receipts into Government Accounts during 2015-16 to 2017-18. Government money (₹154.41 crore) remained parked in 60 Bank Accounts of the factories *i.e.* outside Government Account as on 31 March 2018. Factories did not take appropriate steps to reconcile Cash book balances and Bank pass book balances. Further, parking of funds in the Bank Accounts is fraught with immense risks as was seen in the defalcation of ₹6.56 crore in Rifle Factory, Ishapore by the Factory officials themselves.

(Paragraph 3.2)

Major Compliance issues:

Loss of ₹62.10 crore on replacement of defective ammunition by OF, Badmal

Army reported exudation of explosives from ammunition supplied (March, 2009/ March 2010) by Ordnance Factory Badmal (OFBL) within their shelf life. This was on account of lower set point (melting point) on TNT (used as explosive) than the specified range. Set point value of TNT was not tested at OFBL before filling in shells due to absence of such provision in the specification of Controllerate of Quality Assurance (CQA). This led to a loss of ₹62.10 crore on account of replacement of defective ammunition by the Ordnance Factory.

(Paragraph 3.5)

Injudicious procurement of shell filling machine at a cost of ₹21.46 crore at OF, Chanda

Improper assessment of available filling capacity of an ammunition *vis-à-vis* Army's requirement led to injudicious procurement of one Screw Filling machine at OF, Chanda. The machine was received in January 2017 and commissioned in December 2017 in another shop engaged in the pour filling of another ammunition due to non-completion of building to house the machine as on December 2018. The machine valuing ₹21.46 crore has thus remained idle since its commissioning in December 2017.

(Paragraph 3.6)

BSC/SS/TT