Chapter IV: Provisioning

4.1 Background

For manufacturing organisations like Ordnance Factories, provisioning is an important function involving estimations of requirements of raw materials and semi finished goods to ensure production schedule meet the production targets. Over provisioning would result in accumulation of inventories blocking scarce resources. Under provisioning on the other hand would disrupt the production schedule. Provisioning also is the first step for effective procurement management.

Paragraph 3.1.1 of the MMPM[13] lays down that the provisioning action should commence with 100 *per cent* of the target for the ensuing financial year plus 25 *per cent* for the first quarter of the following year. The net requirement of stores (for a maximum period of 15 months) is then arrived at duly taking into account the existing stock, dues in[14] and work-in-progress. As regards actual holding of inventories, Paragraph 3.4 of the MMPM lays down the overall inventory holding of the factory at not more than the maximum level of three to six months requirements at any point of time.

The OFB finalizes the annual production programme for various items in consultation with the users before commencement of each financial year and communicates the production target to the Ordnance Factories. The Factories then draw up production plans based on such annual targets and initiate provisioning and procurement of raw material and components required. Material planning sheets generated by the Factories are based on production programme and standard estimate for an item and indicate the net requirement after taking into account the stock and dues.[15]

4.2 Over provisioning approved by OFB

During the audit at OFB Headquarters and Ministry of Defence, it was noticed that 11 cases were approved between January 2007 to December 2008 in which the basic norms of provisioning were violated. The requirements projected through these 11

[13] Material Management and Procurement Manual: OFB's procurement manual
[14] Dues in a term used to denote supplies due but for which the supply orders have already been placed.
[15] Paragraph 3.8 of MMPM

proposals worth Rs 224 crore for procurement of stores by different Ordnance Factories were much more than the laid down provisioning norms of 15 months and was ranging from 24 to 36 months. These were sanctioned by the OFB or Ministry of Defence and resulted in excess procurement worth Rs. 137 crore over and above the provisioning norms. The details are given in Annexure I.

It was also noticed that 8 sanctions worth Rs. 229 crore were accorded by OFB between February 2007 and April 2007 without initiation of Material Planning Sheet. These eight cases mostly involved single tenders. The suppliers were ROE[16] (6 cases), Sundaram Clayton (one case) and R K Machine Tools, TS Kissan and Kew Industries (one case).The details are given in Annexure II.

Ministry replied that most of the items were marked by factors such as difficulty to procure, longer lead time, highly volatile prices, limited sources etc. There were cases in which procurement in restricted lots would lead to higher prices and stock out situations resulting in overall loss to the state. There would hardly be an instance where an item would remain unutilized.

Ministry's reply is generic in nature and does not address the specific cases mentioned. The provisioning norms for 16 months take into account these factors already. Audit did not come across any evidence to justify deviations from the provisioning norms.

Case 1: Excess procurement from Private firms

In one particular case, OFB accorded sanction in July 2008 for procurement of Shell 105 mm IFG[17] at the total cost of Rs 51.42 crore. The eventual suppliers were T S Kissan, R.K Machine Tools and KEW. OFB finalized the case during 2008-09 taking into account the requirement for 2007-08 whereas the stock in hand and dues were sufficient to meet even the requirement for 2008-09. The requirement was thus artificially inflated in order to facilitate the unnecessary procurement. The value of excess procurement was Rs 36.63 crore.

Ministry replied in June 2010 that as the in-house manufacturing capacity of 105 mm shell in Ordnance Factory Kanpur and Ordnance Factory Ambajhari during the year 2008-09 was inadequate, it was decided to restrict the supplies from Ordnance

[16] M/S Rosoboronexport Russia
[17] Indian Field Gun

Factory Kanpur to 2 lakh and Ordnance Factory Ambajhari was not given any production programme.

Ministry's reply needs to be considered in the backdrop of the following facts. The Store Holder's Inability Sheet, which the TPC considered in May 2008, was raised in November 2007. According to the TPC minutes after taking the full requirement of 2007-08 and 2008-09 and considering dues in etc. the deficiency for OF Chanda was calculated at 226383 and for Ordnance Factory Bolangir was calculated at 30750. The IFD procurement was provisioned at 130000 shells from OF Kanpur and the provision for trade procurement was 127130 shells based on requirements from OF Chanda of 231586 shells and for OF Bolangir of 100400 shells during 2008-09.

Actual production figures in the Factories as in the printed annual accounts for 2008-09 depicted a different picture. OF Kanpur produced 191988 shells during the year and OF Ambajhari produced 30202 totaling 222190 shells. The final production of OF Chanda was however at 153765 and that of OF Bolangir was 104989 totaling 258754 shells.

This will indicate that trade procurement of at least 90566 shells worth Rs 36.63 crore was in excess of actual requirement.

Case 2: Excess procurement from a subsidiary of BEL

In yet another case, OFB accorded sanction for procurement of 4248 Image Intensifier Tubes for OLF[18], to be procured from BELOP, Pune a subsidiary of BEL at the total cost of Rs. 56.49 crore (without Customs Duty) and Rs. 71.69 crore (with Customs Duty). The original proposal of OLF was for the procurement of 4944 I I Tubes. OFB Level TPC-I held in May 2008 worked out the requirement as 4248. The above deficiency was calculated taking full production target of 2008-09 and 2009-10. As per norms, only 25 *per cent* of the requirement of 2009-10 should have been taken into account and the deficiency should have been worked out to 2345 only. The excess procurement amounted to Rs. 25.30 crore.

Ministry in its reply stated that it was difficult to procure the item for which very few manufacturers are available world-wide. It also confirmed that about 90 *per cent* of the Tubes have been used by 2009-10 and balance 10 *per cent* would be used in 2010-11.

[18] Opto Electronics Factory Dehradun

Ministry's reply confirms the audit point of over provisioning.

4.3 Questionable and unnecessary trade procurement by Factories

Case 1 : Undue favour to a private firm by Ordnance Factory Ambernath

Ammunition Factory Kirkee placed an IFD[19] on Ordnance Factory Ambernath (OFA) in November 2005 for supply of 37 MT of steel cups KF 38 required for AK-47 Ammunition. Accordingly, OFA placed an IFD on MSF[20] for supply of 125 MT of steel strips. Later cups manufactured by OFA were rejected at AFK. AFK short closed the IFD in June 2007 and required only 14 MT of steel cups for Pre Despatch Inspection and commissioning of an imported machine.

Despite this, in October 2007, OFA placed a supply order on Paras Engineering Company, Mumbai for supply of 165.11 Metric Tons of Cold Rolled Steel sheets in two sizes worth Rs. 3.24 crore. According to the terms and condition of supply order, five coils of each size were to be supplied as a pilot samples. Cups manufactured out of the pilot coils were to be test fired at AFK. Only after successful trials, bulk production clearance was to be given.

The cups were never test fired by AFK, but bulk production clearance was given by OFA to the firm in April 2008 to supply the remaining sheets.

138.338 MT of Steel sheets worth Rs 2.72 crore are lying in OFA. Possibility of their further use is remote as there is no further requirement of the steel cases for AK 47 ammunition. Undue favour was thus granted to the supplier at the cost of the national exchequer.

Ministry stated in June 2010 that OFB would take immediate action to ensure that the steel is utilized without any further delay. It also informed that explanation of officers concerned will be called for procuring the steel in spite of reduction in demand.

Case 2 : Unnecessary procurement of brass cups at Ammunition Factory Kirkee

AFK requires brass cups for manufacture of 5.56 mm ammunition and their requirements were met by OFA. During ammunition review meeting held at OFB on

[19] Inter Factory Demand- where one factory procures from another
[20] Metal and Steel Factory

11/12 June 2008, it was decided that 2300 MT brass cups for 5.56 mm ammunition was required against which OFA would supply 2100 MT brass cups. AFK was directed to procure balance requirement of 2008-09 plus three months opening stock of brass cups from trade .Accordingly AFK placed a supply order on Rashtriya Metal Industries for supply of 157 MT of brass cups valuing Rs 8.09 crore with delivery period up to 31 March 2009.

The firm failed to supply store within the delivery period. AFK finally extended it up to 31 August 2010. In the meanwhile AFK met the target for 08-09 and 09-10 without trade support, which is indicative of the fact that AFK did not require the supply from the vendor. AFK however, did not cancel the supply order. The additional expenditure as a result of procurement from the trade amounted to Rs 1.33 crore compared to the cost of manufacturing of the cups in the factory in 2008-09.

Ministry stated in June 2010 that the requirement of 5.56 mm ammunition was phenomenally high and had been increasing. The supply order was placed on the trade due to non availability of brass cups from the sister Factories. Ministry also stated that as against a target of 1206.56 lakh rounds in 2008-09, AFK achieved production of 1147.64 lakh rounds. Similarly in 2009-10, against a target of 1217.52 lakh rounds, the factory achieved production of 1200 lakh rounds. Ministry further stated that the procurement price from trade was Rs 515.55 per kilogram against the IFD price of Rs 570 per kilogram.

Ministry’s reply does not acknowledge the fact that despite the failure of the vendor to supply the brass cups and continuous extension of the delivery date by the factory, the shortfall in production during the last two years has been only marginal. Further, as per OFB’s own guidelines, only the difference in material cost would affect the decision to procure from the trade. Though the IFD issue price was Rs 570, the material cost was Rs 431 and the total production cost was Rs 470.

Case 3: Procurement of Fuze from private firm when OFAJ had the capacity to produce

OFB in October1997 instructed all the Factories that in the event of the price of an IFD store being higher than trade cost, higher price alone should not be considered by the Factories as the only factor for deciding to order on trade overlooking the capacity of sister factory to produce such store. However, if the material price alone of the IFD (supplying) factory was more than the total cost of the store obtained extrade, the buying factory has the option to go to trade. Further, as per OFB's policy (12/06) guidelines for determining interdepartmental production vis-a-vis trade procurement, all Factories should first explore the possibility of getting items from sister Factories, receiving factory would go for cost breakup of the item from IFD supplying factory before going for trade.

Ordnance Factory Ambajhari (OFAJ) has a production capacity of 1,00,000 Nos. per year of the Fuze MG-25 required for 23mm Schilka. During the three years from 2006-07 to 2008-09, OF Khamaria (OFK) procured 5,51,592 Fuzes at the unit rate ranging from Rs. 411 to Rs 418. During the same period, it also placed an order for 2,40,000 fuzes from OFAJ against Inter Factory Demand. OFAJ could supply only 1,29,806 units. The material cost of the product in OFAJ ranged from Rs 110 to Rs 117

It was noticed in audit that OFB fixed the target of only 25,000 in 2006-07 for OFAJ. No target was given in 2007-08 and in 2008-09 a target of 1,00,000 was fixed. The factory claimed to have fulfilled all targets. While OFK placed the procurement order on the trade, OFAJ had the capacity up to 1,00,000 per year, it would appear due to OFB fixing less target, the factory could not supply to its full capacity.

Ministry replied in June 2010 that there was enough IFD placed on OFAJ but the factory could not supply the full quantity. This however contradicts the claim of OFAJ in November 2009 that from 2006-07 to 2008-09, all targets have been fulfilled. In 2006-07, for example, according to OFAJ, a target of 25,000 was set, which the factory fulfilled. In 2007-08, no target was set and in 2008-09, a target of 1,00,000 was set against which 24,646 were issued. The balance quantity was under proof.

Ministry further stated that OFB would take immediate steps to verify the actual capacity for production of fuze MG-25 on OF Ambajhari and ensure that the in house capacity is fully utilized before placing order on trade.

Case 4: Excess raw materials issued to a private firm by Ordnance Factory Trichy

Ordnance Factory, Trichy placed an order in April 2009 on M/s. Anang Enterprise, Kolkata for supply of 26,862 Units of Piston Extension at a unit rate of Rs 325 with stipulation to supply 3500 Units per month. Raw material for the subject work was to be issued by the factory and the supply to be completed by the firm in April 2010.

On receipt of the item from the firm, further machining on the item was to be done at the factory, before using the same in production of the rifles. The firm could not supply the items as per the agreed monthly delivery schedule though raw materials were issued by the factory as per schedule. As of October 2009 the factory had issued raw material for 21,175 Units but the firm supplied only 14,023 items. As monthly supply of the item by the firm was ranging from 1000 to 3400 Units only affecting the production target of the rifles, the factory short-closed the order in November 2009. The excess raw materials issued to the firm for supply of the remaining 7152 Units were lying with them at the time audit was conducted.

Ministry in June 2010 confirmed that the items had been received in full in March 2010.