

# Chapter-2

## AUDIT APPROACH

### 2.1 Scope of Audit and Audit Methodology

Audit studied the procurement policies, guidelines and directives formulated by the Company and implementation by the units. The audit examination was restricted to a sample of 1,272 purchase orders placed between April 2007 to March 2010 valuing ₹ 4954.83 crore (out of total of 1,24,751 purchase orders valuing ₹ 9490.95 crore) which constituted about 52 per cent of the value of total purchases during the period. The sample was drawn by using Monetary Unit Sampling Method. The details of sample are indicated in Annexure-1. Besides, an analysis of Purchase Orders relating to overseas offices located at New York and Singapore generated through the SAP ERP was also conducted.

Audit commenced with an entry conference held with the Management in April 2010 wherein the scope, objectives and methodology of audit were discussed and the Audit criteria were agreed upon. This was followed by collection of data, issuance of preliminary observations and discussions with the unit Management. Audit was concluded with an Exit conference with the Corporate Management, held in September 2010, wherein the results of audit and recommendations were discussed. The replies of the Management ( December 2010) and Ministry of Defence, GOI ( March 2011) have been suitably incorporated in this report.

### 2.2 Audit objectives

The objectives of the Performance audit were to assess whether:

- Company had a well defined purchase policy/ procedure in place and the same was complied with by the units.
- The procurement process was fair, equitable and transparent and ensures efficiency, economy and effectiveness.
- There existed an effective mechanism for reviewing the outcome of contracts to implement the lessons learnt in future contracts.

### 2.3 Audit Criteria

The performance of the Company was assessed against the following criteria:

- Purchase Policy and procedures amended from time to time.
- Minutes of the meetings of Board of Directors.
- Procurement budgets and production plans of the Company
- Guidelines issued by Central Vigilance Commission and other Regulatory Authorities.
- Internal control procedures
- Industry best practices.

## 2.4

### Audit Findings

Audit findings, conclusions and recommendations are discussed in the following chapters:

- **Chapter - 3 Procurement System and procedures**
- **Chapter - 4 Vendor Development**
- **Chapter - 5 Tendering System**

## 2.5

### Acknowledgement

Audit acknowledges and appreciates the co-operation and assistance extended by the Management at various stages in conducting the performance audit.