

Chapter III: Production Planning

Audit objectives

Whether the production planning was efficient and effective to meet the requirements of the Services.

Source of audit criteria

- Annual provision review by the Army;
- Minutes of target fixation meetings; and
- Production targets and capacity of the factories.

3.1 General

3.1.1 Under the Standing Directive for Provision Review (SDPR), DGOS centrally carries out the annual provision review (APR) for the GS&C items for identifying the future requirement and initiation of procurement action based on data obtained from Central Ordnance Depots relating to ‘stocks held’ and ‘dues out’ as on 1 October of each year for items other than winter clothing. For winter clothing, stock/dues-out details as on 1 July are reckoned. The APR is to be completed by 30 November each year. The demands finalised based on APR are forwarded to the Addl. DGOF. Thereafter, a list of all items giving size-wise details and the proposed targets are sent to Addl. DGOF for fixation of target. The mutually agreed targets fixed during the target fixation meeting form the basis for procurement and production planning by the factories to ensure optimum utilisation of the resources and timely delivery of the targeted products to the Services.

3.1.2 Although there is no provision for fixation of tentative target, the DGOS indicates tentative target to the Addl. DGOF to facilitate the factories to plan advance procurement. Subsequently, at the instance of OFB, DGOS introduced (February 2011) a ‘five year roll-on-procurement plan’⁴ for the years 2011-12 to 2015-16 to facilitate procurement of materials in time.

We observed systemic deficiencies *viz.* delays in holding target fixation meeting, targets not commensurate with the factory’s capacity, huge variation between tentative and final targets *etc.* as discussed in the succeeding paragraphs.

3.2 Delay in holding target fixation meeting

In order to establish an efficient and effective production-supply chain, target fixation meeting is required to be held well in advance so that the factories can

⁴ Army indicates minimum and tentative annual requirements to OFB for 5 years at a time.

resort to proper procurement planning. However, the target fixation meetings were held in February, March, July and February for the years 2008-09 to 2011-12. As an interim measure, the DGOS has been giving tentative targets to the Addl. DGOF for procurement planning. We observed that the tentative targets and actual targets had been at variance to the extent of (-) 100 *per cent* to (+) 1067 *per cent*.

While admitting the facts, the Ministry stated (May 2012) that the target fixation meeting for 2012-13 was advanced and held in January 2012 and added that roll-on-procurement plan had been introduced in February 2011 for OEFG but the actual targets were widely different from the figures indicated in the roll-on-procurement plan.

The reply indicates that the procedure of the target fixation was yet to improve to facilitate advance procurement action by the factories based on firm target. We also observed that even after introduction of roll-on-procurement plan in February 2011; the DGOS continued the practice of forwarding tentative target to OEF HQ even for the year 2012-13.

3.3 Targets not commensurate with the manufacturing capacity

Production capacity of the factories for different items is required to be ascertained by DGOS from OEFG before fixing realistic targets. As required under Paragraph 3.7.3 of OFB's Material Management and Procurement Manual, 2005 (MMPM), OEF HQ is required to formulate production programme with reference to the Services' demands, available capacity in the factories and constraints related to production.

However, we observed that there was no system in place for informing the DGOS of the production capacity of the factories for different items. DGOS intimated (April 2011) that OEF HQ generally communicated the capacity of factory made items as and when asked by them. Non-availability of latest and reliable information about the capacity of different product range led to fixing of targets below or beyond the capacity during 2008-12, as discussed in the succeeding paragraphs.

3.3.1 Targets beyond the capacity

We test checked the item-wise capacity and tentative/final targets for the sampled 56 items for the years 2008-12 and observed that targets for 7 to 16 items were fixed in excess of the capacity by 5 to 367 *per cent* as shown in Table-4.

Table-4: Target fixed beyond the capacity

| Year | Targets in excess of capacity (percentage) | |
|---------|--|---------------------|
| | Number of items | Range of percentage |
| 2008-09 | 10 | 25 to 300 |
| 2009-10 | 9 | 13 to 250 |
| 2010-11 | 7 | 25 to 160 |
| 2011-12 | 16 | 5 to 367 |

We observed that out of the above 42 instances of fixing final targets higher than the capacity, the factories failed to meet the targets in 35 instances (26 items). This practice was predominant in respect of seven items (Jacket and Trouser (combat disruptive and ICK), Trouser (PW PC OG), Socks (woollen heavy khaki), Tank fabric collapsible (6140 ltr. body), Parachute tactical assault (main) and Tent (2M)) for which excessive targets were fixed year after year.

3.3.2 Target below the capacity

We observed that targets were fixed in the range of only 1 to 50 *per cent* of the available production capacity in 56 instances covering 33 items (59 *per cent*) during 2008-12, while in 24 instances covering 21 items (38 *per cent*), the same was fixed between 51 and 79 *per cent* of the available capacity during the same period as tabulated below:

Table-5: Target fixed below 80 per cent of the capacity

| Year | Target as percentage with reference to capacity | | | |
|---------|---|-----------|-----------|-------|
| | Number of items | | | |
| | 1 to 20% | 21 to 50% | 51 to 79% | Total |
| 2008-09 | 5 | 17 | 4 | 26 |
| 2009-10 | 8 | 8 | 6 | 22 |
| 2010-11 | 2 | 9 | 9 | 20 |
| 2011-12 | 2 | 5 | 5 | 12 |

Despite low utilisation of capacity due to fixation of target below the capacity, OFB did not impress upon the DGOS in the target fixation meeting to fix the targets commensurate with available capacity.

The Ministry stated (May 2012) that productivity/piece work profit and absenteeism were the main factors influencing the capacity and in reality absenteeism was going beyond the projected benchmark. It added that factory managements had taken all out efforts to curb absenteeism for optimum utilisation of capacity. The reply is not specific to the audit observation as it failed to address the shortcomings in fixing targets below and beyond capacity.

3.4 Unilateral reduction of target

We observed that OEF HQ reduced the targets unilaterally in the mid-year without the concurrence of DGOS, either due to acceptance of higher targets beyond the capacity or delayed positioning of input materials and shortfall in production, for 21 items (2008-09), 19 items (2009-10), 3 items (2010-11) and 5 items (2011-12). Targets were also reduced to Nil for 8 items in 2008-09 and 1 item in 2009-10. This unilateral reduction of target was also not placed before the meetings of the OFB.

3.5 Other major constraints in target fixation

Analysis of minutes of final target fixation meetings revealed various constraints viz. insufficiency of Army's formal indents (orders) to cover the mutually agreed targets in respect of certain items, non-availability of size-wise details for clothing and boot items, late receipt of vetted indents from CQA (T&C) and CQA (GS). These factors ultimately contributed to delays in procurement of input materials and manufacture of end products.

3.6 Audit conclusion

The target fixation mechanism suffered from systemic deficiencies such as inordinate delays in communication of firm requirement by the DGOS, lack of coordination between DGOS and OEF HQ and poor flow of information about the item-wise capacity of factories, and fixation of multiple targets like tentative, final, roll-on procurement plan without any reliability.

Recommendation 1

Ministry may ensure that the Army and OFB, in close coordination, fix production targets taking into account Army's requirement and capacity of OEFG. OFB should communicate its production capacity for each item to the Army well in advance before target fixation meetings.

Recommendation 2

Ministry may ensure that the Army and OFB hold target fixation meeting at the appropriate time so as to give the factories the required procurement lead time.