OVERVIEW

Working of the Cantonment Boards

Cantonment Boards (CBs)with the status of Municipalities, have to provide civic amenities to the personnel residing in the cantonments.During the period 2009-10 to 2013-14, none of the test checked 17CBs, except for one CB (Clement Town) had prepared and implemented Town Planning schemes, plans for economic development and social justice in their respective areas. Further, none of the CBs provided all the 24 types of services, mandated as per the Cantonments Act, to its residents and no Central Government schemes for upliftment of the poor applicable in the CBs were implemented. The CBs were unable to ensure adequate revenue generation through taxes and non-taxes, leading to their increased dependency on Grant-in-aid from the Ministry of Defence. This was mainly due to non-revision of taxes every five years, recovery of property tax at a rate lower than the stipulated rate and non-levy of Vehicle Entry Tax *etc.*

(Paragraph 2.1)

Non-availability of Specialised Parachutes

Combat free Fall parachutes developed by DRDO in 2006 could not be put to production successfully even after incurring an expenditure of ₹10.75 crore.Parachutes (Special Forces) Battalions of Indian Army are therefore without these specialised parachutes for over a decade.

(Paragraph 2.2)

Functioning of Army Aviation Corps

" For the contents of this paragraph/report, printed version of the relevant report may be referred to"

(Paragraph 3.1)

Shortfall in availability of BMP vehicle in Indian Army

" For the contents of this paragraph/report, printed version of the relevant report may be referred to"

(Paragraph 3.2)

Unwarranted procurement of Image Intensifier Sight for Commander of Tank T-55

Integrated Headquarters (IHQ) of Ministry of Defence (MoD), Armyprocured Image Intensifier Sights between February 2011 and June 2013 valuing ₹22.12 crorefor Commander of Tank T-55 whereasthe tank was declared obsolescent in December 2011.

(Paragraph 3.3)

Less deduction of Liquidated Damages

While the procedure for levy of Liquidated Damages (LD) stated that LD at reduced rates was to be levied only if there is no loss caused to the State, yet the Army Purchase Organization invoked the condition without ascertaining the facts about the loss caused and thereby extended undue benefit to the defaulting contractors. In a test case, Audit found that loss had actually occurred.

(Paragraph 3.5)

Non- installation of Hydraulic Test Benches

Due to delay in installation/commissioning and in creation of requisite infrastructure in the repair workshops, four out of five Hydraulic Test Benches procured for MBT Arjun at a cost of ₹2.23 crore were lying idle since their procurement in November 2010.

(Paragraph 3.6)

Avoidable expenditure in procurement of Hi-Lo Beds

Indecisiveness regarding inclusion of Comprehensive Annual Maintenance Contract (CAMC) in the contract for procurement of Hi-Lo beds by the Director General Armed Forces Medical Services (DGAFMS) led to retendering, resulting in extra expenditure of ₹63 lakh in procurement of 1406 beds.

(Paragraph 3.7)

Recoveries, savings and amendment of annual accounts at the instance of Audit

Based on our observations, the audited entities had recovered overpaid pay and allowances, sundry charges, electricity charges and cancelled works sanctions and amended annual accounts, having a net effect of ₹11.70 crore.

(Paragraph 3.8)

Loss due to excess payment and short recovery of electricity charges

Due to failure on the part of the Garrison Engineers (GEs) in exercising the requisite checks and in adhering to the approved electricity tariff, an excess payment of ₹24.54 crore was made by the GEs selected for audit. The GEs also failed to effect recovery of electricity charges worth ₹23.66 crore from the paying consumers, including private parties, which was mainly due to short recovery of energy and fixed charges, delay in floating of bills, defective meters, *etc*. These lapses of excess payment and short recovery underscore the inadequacy of internal controls in Military Engineer Services.

(Paragraph 4.1)

Inadequate monitoring of execution of a project

Inadequate monitoring of execution of work by the Engineers for Indian Military Academy (IMA), Dehradun resulted in non-completion of main building work costing ₹22.75 crore. The delay of five years had not only deprived the Gentlemen cadets of proper training with modern facilities but also held up the other training projects valuing ₹2.50 crore.

(Paragraph 4.2)

Non-utilisation of Assets

Missiles storage shed constructed in August 2008 at a cost of ₹2.29 crore could not be utilised for the purpose for want of Air conditioning system.CESZ failed to conclude the contract for air conditioning, despite the same being approved in the sanction alongwith the building. Non availability of the sheds affected the drawal plan of the missiles, as the missiles were being held at another location at a distance of 110 km, thereby impacting the operational efficiency of the users.

(Paragraph 4.3)

Blockage of government money due to conclusion of contracts without availability of site

Chief Engineer, Jabalpur Zone, Jabalpur concluded contractswithout availability of clear site for construction of Baffle Range. This was not only in contravention of the codal provisions but also resulted in payment of ₹1.68 crore to the contractor. Case has now been initiated forclosure of the work.

(Paragraph 4.4)

Infructuous expenditure due to procurement of substandard pipes

Procurement of defective pipes by Chief Engineer, Jaipur Zone (CEJZ) led to execution of substandard work. As aresult fire fighting infrastructure created at an Ammunition Depot at a cost of ₹2.33 crore had to be abandoned rendering entire expenditure infructuous.

(Paragraph 4.5)

Avoidable expenditure due to acceptance of contract at higher rates

Director General Border Roads could not accord approval to lowest tender due to delay in concurrence by the Integrated Financial Adviser (IFA) within the validity period. The contract was concluded at a higher rate after third call which resulted in extra expenditure of ₹1.89 crore.

(Paragraph 5.1)

Under Recovery of Service Tax from the Contractors

Service Tax was not recovered as per the provisions of J&K State Government Act on the gross value of works in five contracts concluded by the Chief Engineer (Project) Vijayak.This resulted in under recovery of ₹1.06 crore on account of service tax from the contractors.

(Paragraph 5.2)

Delay in procurement of Water Truck resulted in extra expenditure

The delay in decision making by Director General Border Roads (DGBR) to select the type of trucks to be procured, led to extra expenditure of ₹81 lakh on account of escalation of rates.

(Paragraph 5.3)

Project Management in Terminal Ballistics Research Laboratory Chandigarh

Out of 28 projects selected for audit, 24 projects including two staff and 22 R&D projects were completed by TBRL. We however observed that against the two staff projects, parameters as per qualitative requirements of Army were not completely achieved. Out of the remaining 22 completed R&D projects, success against the prescribed objectives, in qualitative and quantitative terms was achieved only in 10 projects. These projects were however still to be translated into deliverables. In the remaining 12 projects, the objectives were only partly achieved.Inspite of monitoring at various levels through Executive Committee, Project Monitoring Committee, 58 *per cent* projects got delayed mainly due to non-materialisation of supply orders.

(Paragraph 6.1)

Production of Weapon Manufacturing Factories

Audit covered the performance of six weapons manufacturingFactories for 2011-12 to 2013-14, on 25 strategic weapon items that together accounted for 79 *per cent* of total cost of production of 68 weapon items in the product line of these Factories.

Meeting the requirements of Indentors

Army's Roll-on-Plan projecting its requirements for 2011-12 to 2015-16, was to aid the Board in short term planning. However, indents received from the Army were not matching with the Army's Roll-on-Plan. Ministry of Home Affairs, though projected a Roll-on-Plan in 2010, its requirements were largely reduced in the annual target fixation meetings.

The Board faced capacity constraints in 68 *per cent* of the items and hence, fixed lower targets than the Army's requirements for most of the items.The Board provided original target to the Factories in December/ November of the previous year, giving only three months for advance planning by the Factories against six months time required for the procurement of input materials. Revision of these targets mid-year also disrupted the production. The Factories achieved the targets by 80 *per cent* and above for eight to 16 items during 2011-12 to 2013-14. But for five to 10 items, the achievement was less than 60 *per cent*. Total value of shortfall in issue of the selected weapons against the revised targets stood at ₹1479 crore during 2011-12 to 2013-14. Delays in receipt of input stores are the predominant cause for slippages across the Factories.

- **Marshalling resources for production**

  Delay in procurement of stores impacted the Factories in achieving the production targets. Three out of the six Factories placed 60 to 70 *per cent* of their supply orders in 2011-12 to 2013-14, within five months of identifying the requirement of stores. The remaining Factories could meet the timelines in only 3 to 52 *per cent* of the supply orders. Compounding the inefficiencies in procurement from trade sources was the inability of a sister Factory in meeting the requirements for forgings for manufacture of barrels for high-calibre weapons at Field Gun Factory Kanpur. The Factories could not complete the quality control of stores within prescribed 15 days time in 40 to 63 *per cent* instances.

- **Quality Control and Quality Assurance**

  Quality problems besiege the Factories with impact on cost, achievement of targets and above all, the reputation of the Board and its products. The incidence of "Return for Rectification" and rejection declaredby Senior Quality Assurance Establishments (SQAE) were high on certain products like 5.56mm rifle, 7.62mm MAG, 30mm cannon and spare barrel T-90. The recurrence of defects previously pointed out by the SQAE in its Quality Inspection Notes indicates inadequate attention to these Notes. Defects such as variations in gauge dimensions to be covered in the inspections by the Factory's Quality Control section, remained undetected and were raised at subsequent stages by SQAE. The users, the Army noted the erosion of trust in field units because of weapon defects.

- **Financial Management**

The practice of fixing issue price for products in the beginning of the year based on the trends in the past three years could have worked in a set-up in which cost control was effective and fluctuations, especially in overheads were controlled. This was not, however, the case in these Factories, which operated on high overheads, particularly, the fixed overheads. The apportionment of the overheads over products was irrational, overloading it on some products, making them uneconomical. Ordnance Factories are generally focused on meeting the demand placed on them without due regard to cost control and cost reduction. The availability of assured funds with the Armed Forces helped them to accept the products from the Board regardless of the high issue prices.

- **Planning for future**

The Board prepared a Perspective Plan 2007-12 to provide the Armed Forces with "timely supply of state-of-the-art technology with greater value for money". The dreams of the Perspective Plan could not be translated into reality, with implementation marred by delays in development of the new items.

Even as the Board did not prepare a plan for the subsequent period, the environment has changed substantially. The Army prepared the Long Term Integrated Perspective Plan (LTIPP) covering a period of 15 years, to which the Board was yet to formulate a plan to position itself as an important player.

Small Arms Factories were facing multiple challenges like declining demand from indentors and quality problems; lacklustre response from clients for its new products; and delays in project for new generation carbines. The traditional weaponry in the high calibre range 81mm Mortar, 105mm LFG is facing a downturn. Besides, delayed indigenisation and continued reliance on imports of certain assemblies posed a challenge to the Factories in meeting the demand.

(Paragraph No 7.2)

Production of Chemical manufacturing factories

The Chemical Group of Factories is a sub-group under the operating group: Ammunition & Explosives (A&E). This group accounted for 35 *per cent* of the total cost of production during 2011-12 to 2013-14. Four chemical producing Factories, with an average annual cost of production of ₹755 crore, during 2011-12 to 2013-14 contributed to around five *per cent* of the cost of the production of the Ordnance Factory Board.

Meeting the requirement of Indentors

Mid-year enhancement of targets by the Board to Factories covering majority of products did not, in most cases, result in target achievement as the factories were unable to meet even the original targets.

The Chemical Group of Factories is required to meet the production targets by January each year, a commitment the Factories were unable to meet. This impacted the production schedules of the ammunition filling factories.

The irregular practice of preparing advance issue vouchers for claiming credit without actual physical issue of products to the indentorspersistedat High Explosive Factory Kirkee, Ordnance Factory Bhandara and Ordnance Factory Itarsi.

The internal controls in the Board to monitor production against targets were routine and hence their effectiveness diminished.

Marshalling resources for production

The Factories could not achieve compliance with the timeframe prescribed by the Board on placing supply orders in one-third of the procurements. Further, if the lead time for delivery of stores were to be factored, procurement would consume most of the production year. Due to the delays in procurement, the factories could not maintain even flow of production, with production peaking in the fag end of the year. The labour productivity reported by the Factories was high and did not correlate with the performance against targets.

Quality Control and Quality Assurance

There were rejections in quality control and inordinate time was taken in proof establishment, causing cascading effect on achievement against targets.

Absence of dedicated proof range at Factories caused delay in conduct of dynamic proof; a project sanctioned in December 2008 was abandoned and alternatives have not come to fruition.

Financial Management

The Factories ran on high overheads that inflated the cost of production. The practice of fixing issue price for products in the beginning of the year based on the trends in the past three years could have worked in a set-up in which cost control was effective to closely monitor abnormal fluctuations in cost. This was not however the case in the Factories with the two controls: the Shop Budget Committee and the Quarterly Financial Review, being inadequate interventions suffering from structural deficiencies.

Ordnance Factories being sole production unit for the armed forces are generally focused on meeting the demand placed on them without due regard for the considerations of cost control and reduction.

Environmental Issues

Factories did not identify the specific environmental risks or prepare a perspective plan for progressive risk mitigation measures. The investment of funds on environmental measures was low in all the Factories.

Large number of pending recommendations in energy audit indicated the future potential savings that will require investment of funds.

The general trend of the accidents, especially in Ordnance Factory, Itarsi indicated a gap in safety training of the staff.

(*Paragraph No 7.3)*

Loss of ₹1.37 crore due to non-fulfilment of contractual obligation against export orders

Ordnance Factory Board delayed the delivery of the Kavach system against an export order due to slippages in development of the Kavach system and non-supply of Fire Control System (part of the Kavach) by an Indian firm. Consequently, the foreign firm deducted penalty of ₹1.37 crore from the bills of the Board.

(*Paragraph No 7.4)*

Non-utilization of feeder system

A new substation installed by Rifle Factory Ishapore (RFI) at a cost of ₹4.09 crore in June 2006 remained unproductive owing to RFI's failure to procure and install switch gears for it. (April 2015).

(*Paragraph No 7.6)*

Procurement and Inventory Management – Bharat Earth Movers Ltd.

One of the many factors contributing to decrease in profits was high inventory levels impacting on the working capital. Vendor negotiations resorted to by the Company were in deviation to the Purchase Manual and CVC guidelines. The amount of Bank Guarantees obtained for advances paid was not in accordance with the CVC guidelines. Documentation of all the activities relating to procurement was inadequate. Vendor management was not foolproof due to non-availability of data regarding all the tenders in the system. Vendor list contained duplicates indicating lack of sufficient controls in SAP. Advances remained unadjusted and also could not be monitored due to inclusion of payments made against proforma invoices, ad-hoc payments against pending POs, *etc.* under advances. Stores manual was not updated for last 23 years. Due to inadequate security features, SRM system of the Company lacked confidence of foreign vendors. No integration of data between SAP and SRM was provided.

(Paragraph 8.1)

Blocking of funds due to accumulation of Inventory - ₹16.14 crore

Continued procurement of raw materials by M/s BEML Limited when the new technology was yet to be proven and production of dumper without matching shovel resulted in blocking of inventory valued ₹16.14 crore.

(Paragraph 8.3)