

**INVENTORY MANAGEMENT IN ORDNANCE
SERVICES**

MINISTRY OF DEFENCE

**PUBLIC ACCOUNTS COMMITTEE
(2023-24)**

ONE HUNDRED AND FOURTH REPORT

SEVENTEENTH LOK SABHA



**LOK SABHA SECRETARIAT
NEW DELHI**

PAC NO. - 2334

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**PUBLIC ACCOUNTS COMMITTEE
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MINISTRY OF DEFENCE



सत्यमेव जयते

Presented to Lok Sabha on: 08.02.2024

Laid in Rajya Sabha on: 08.02.2024

**LOK SABHA SECRETARIAT
NEW DELHI**

February, 2024 /Magha, 1945 (Saka)

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COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE
(2023-24)

Shri Adhir Ranjan Chowdhury - Chairperson

MEMBERS

LOK SABHA

2. Shri Subhash Chandra Baheria
3. Shri Thalikkottai Rajuthevar Baalu
4. Shri Bhartruhari Mahtab
5. Shri Jagdambika Pal
6. Shri Pratap Chandra Sarangi
7. Shri Vishnu Dayal Ram
8. Shri Rahul Ramesh Shewale
9. Shri Gowdar Mallikarjunappa Siddeshwara
10. Dr. Satya Pal Singh
11. Shri Brijendra Singh
12. Shri Rajiv Ranjan Singh alias Lalan Singh
13. Shri Jayant Sinha
14. Shri Balashowry Vallabhaneni
15. Shri Ram Kripal Yadav

RAJYA SABHA

16. Shri Shaktisinh Gohil
17. Dr. K Laxman
18. Shri Derek O'Brien¹
19. Shri Tiruchi Siva
20. Dr. M. Thambidurai
21. Shri Ghanshyam Tiwari
22. Dr. Sudhanshu Trivedi

SECRETARIAT

1. Shri Sanjeev Sharma - Joint Secretary
2. Smt. Bharti Sanjeev Tuteja - Director
3. Ms. Malvika Mehta - Under Secretary

¹ Elected w.e.f. 19.08.2023 consequent upon retirement of Shri Sukhendu Sekhar Ray, MP on 18.08.2023.

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(2022-23)

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15. Shri Shyam Singh Yadav

RAJYA SABHA

16. Shri Shaktisinh Gohil
17. Shri Bhubaneswar Kalita
18. Dr. Amar Patnaik
19. Dr. C. M. Ramesh
20. Shri V. Vijayasai Reddy[†]
21. Dr. M Thambidurai
22. Dr. Sudhanshu Trivedi

[†] Shri V. Vijayasai Reddy was elected as Member of Public Accounts Committee w.e.f. 13.12.2022.

INTRODUCTION

I, the Chairperson, Public Accounts Committee (2023-24), having been authorised by the Committee, do present this One Hundred and fourth Report (Seventeenth Lok Sabha) on “Inventory Management in Ordnance Services” based on C&AG Report number 3 of 2022 relating to the Ministry of Defence, Department of Military Affairs.

2. The Report of Comptroller and Auditor General of India was laid in Lok Sabha on 18 July 2022 and in the Rajya Sabha on 07 April 2022.

3. The Public Accounts Committee (2022-23) selected the subject for detailed examination and report. The Committee took briefing on the subject from the representatives of Ministry of Defence at their setting held on 12.10.2022. The Committee took oral evidence of the representatives of the Ministry of Defence at their sitting held on 09.11.2022. The Public Accounts Committee (2023-24) obtained detailed information in connection with the examination of the subject. The Committee considered and adopted this Report at their sitting held on 05.02.2024. The Minutes of the sittings of the Committee are appended to the Report.

4. For facility of reference and convenience, the Observations and Recommendations of the Committee have been printed in **bold** and form Part-II of the Report.

5. The Committee thank their predecessor Committee for taking oral evidence and obtaining information on the subject.

6. The Committee would like to express their thanks to the representatives of the Ministry of Defence, Department of Military Affairs for tendering evidence before them and furnishing the requisite information to the Committee in connection with the examination of the subject.

7. The Committee also place on record their appreciation of the assistance rendered to them in the matter by the Committee Secretariat and the office of the Comptroller and Auditor General of India.

NEW DELHI:
05 February, 2023
16 Magha, 1945 (Saka)

ADHIR RANJAN CHOWDHURY
Chairperson,
Public Accounts Committee

PART-I

CHAPTER-1

Audit objectives and methodology

I. Introduction

1.1 The Committee have learnt that Army Ordnance Corps (AOC) is responsible for providing material and logistics support to the Indian Army during war and peace. The inventory management functions of AOC primarily involve provisioning, receipt, storage, preservation, accounting, stocktaking and issue of ordnance stores. The aim of the AOC is to make available all kinds of stores required to raise and maintain an efficient and effective Army. The inventory range covers every conceivable requirement of the soldier from clothing to weapons, and also all ammunitions except fuel, fodder and medicines.

1.2 The C&AG of India (Audit) conducted a performance audit to assess the efficiency of the supply chain management of Central Ordnance Depots in meeting the requirements of Army. The Report is based on the audit of the major stakeholders in inventory management in ordnance services like Director General Ordnance Services, Procurement Progressing Organisation under Master General Ordnance and selected Ordnance Depots dealing with electronics & engineering stores and combat/ non-combat vehicles. The period covered in the audit was 2014-15 to 2018-19.

1.3 The Public Accounts Committee decided to take up for detailed examination and report, this C&AG Report No. 3 of 2022 (Union Government-Defence Services-Army) on the subject, "Inventory management in Ordnance Services". This Audit Report pertains to the Ministry of Defence, Department of Military Affairs.

1.4 The Committee took briefing from Audit on the subject matter on 12th October 2022 and oral evidence of the representatives of Ministry of Defence, Department of Military Affairs on 9th November 2022. The Committee also obtained written information on various aspects of the issues under consideration. Based on the briefing, oral evidence and written submissions made, the Committee have carried out in-depth examination of the subject as detailed in the succeeding paragraphs.

1.5. The Committee have found that the Inventory management functions of AOC involve:

(a) provisioning, receipt, storage, preservation, accounting, stocktaking and issue of ordnance stores i.e. armament, engineering, electronic stores and mechanical transport spares, vehicles, ammunition, clothing and necessaries to the Army and common user items to Navy and Air Force and para military forces;

(b) repair and modifications to ordnance stores which are not the responsibility of the Corps of Electrical and Mechanical Engineers (EME);

(c) inspection, repair, proof and test, conversion and disposal of ammunition and explosives; and

(d) disposal action in respect of unwanted stores including unserviceable stores.

II. Audit Objectives

1.6 The Performance Audit (PA) of 'Inventory Management in Ordnance Services' was taken up to assess the efficiency of the supply chain management of Central Ordnance Depots (CODs) in meeting the requirements of Army. The Performance Audit also examined status of action taken by the Ministry on the assurances given in the Action Taken Notes (ATN) of earlier reviews. In particular, Audit reviewed:

1. Whether provisioning was done efficiently based on requirements projected by the users as per prescribed scales taking into account existing stock levels at different echelons;
2. Whether procurement, including for UN Peace Keeping Missions, was conducted timely as per laid down procedure with due consideration to objectivity, transparency and competitiveness to obtain value for money;
3. Whether inventory was maintained at optimum level with due consideration to operational necessity;
4. Whether computerization and internal controls aided effective inventory management.

III. Audit Criteria

1.7 The audit criteria for the performance evaluation were derived from Defence Procurement Manual, 2009, General Financial Rules 2017, DGOS Technical Instructions, Provision Review Directives issued by Army HQ and CODs, Delegation of Financial Powers, Regulations for the Army 1987 and Action Taken Note of the Ministry on C&AG's Report No. 7A of 2000 and Report No. 3 of 2006 (PA on Information Technology).

IV. Scope of Audit

1.8 The PA covered the five years period from 2014-15 to 2018-19. Audit covered activities related to only Class 'A' stores under Electronic and Engineering (L&E) Section and Combat Vehicle (CV) wing at DGOS and their spares at DDG Procurement Progressing Organisation (PPO) and three central depots at Agra, Dehuroad and Kirkee. Provisioning activities at three central depots for 2019-20, wherever carried out during the time of audit, were also examined. The Depot activities like automation, inventory management, internal control, etc. were covered in audit at selected ordnance depots and other units. In respect of automation, Audit covered the implementation of CICP in the relevant section of DGOS and other depots. The present audit does not cover the IT Audit of CICP. The procurement related to stores and equipment by MGO for troops on UN Mission was also covered.

V. Organisational Structure

1.9 The Committee have also learnt that the Director General, Ordnance Services (DGOS) as the head of the AOC reports to Master General of Ordnance (MGO) at Army Headquarters (Army HQ). DGOS is responsible for administration and direction of Ordnance Services. At the field level, there are Central Ordnance Depots (CODs) located at different stations to deal with specified items of stores being provisioned, procured, stocked and managed.

1.10 Provisioning of Class 'A'¹ stores is carried out by the concerned Stores Sections of the DGOS. Additional Director General of Ordnance Services (ADG OS) Combat Vehicle (CV) carries out the provisioning of all types of vehicles and ADG OS Technical Stores (TS) deals with the provisioning of stores related to Electronics and Engineering (L&E) items, Armament and Ammunition. Provisioning of Class 'B'² stores is carried out by the respective Central Depots designated for specific type of inventory.

1.11 The decision for procurement of ordnance stores, where deficiencies are revealed through provision reviews, is taken by the various Procurement Authorities from the lowest level i.e. Ordnance Units to the highest level i.e. Vice Chief of Army Staff at Army HQ, as per the delegation of financial powers. The cases of procurement through import are separately processed by ADG Procurement. ADG Equipment Management (EM) exercises control over management of inventories and lays down policies for management of equipment in the Indian Army. The supply of the stores to Army units is carried out through a network of depots and store holding units.

1.12 The production and supply agencies including Ordnance Factories and Defence Public Sector Undertakings (DPSUs) supply bulk of the materials. Responsibility for the quality assurance of items lies with the Directorate General Quality Assurance (DGQA). Budgetary control with the exception of delegated powers rests with the Ministry of Defence (Finance). Controller General of Defence Accounts handles payment for procurements through various Principal Controllers of Defence Accounts.

VI. Budget and Expenditure

1.14 The Audit Budget under Revenue Head is sub allocated to Army Ordnance Corps (AOC) under Major Head 2076 and Minor Head 11 (C), both for procurement through trade (central and local purchases) and Ordnance Factories.

1.15 The Committee desired to know the quantity, percentage-wise as well as money wise supply of inventory from the Ordnance Factories, other Govt organisations, private parties and foreign vendors. The Ministry submitted the following information:-

¹ Weapon Systems and complete equipment such as tanks, radars, guns, vehicles and helicopters are termed as Class A stores.

² Items required for support of weapon systems and equipment such as spares, consumable and expandable stores are termed as Class B stores.

(a) Received In terms of Budgetary allocation (Financial Year 2020-21):-

S No	Source	Allotment (Rs in Cr)	Percentage of allotment
(i)	DPSU	6686.4565	58.42%
(ii)	Import	3478.4316	30.39%
(iii)	Trade	1280.4588	11.19%
Total		11445.3469	100%

(b) Receipt in terms of number of items:-

S No	Source	Receipt	Percentage Receipt
(i)	DPSU	30337	35%
(ii)	Trade	33197	38%
(iii)	Ex-Import	23694	27%

1.16 During oral evidence of the representatives of Ministry of Defence, a representative stated the following:-

“Out of this (inventory of 4.4 lakh items), 41 per cent is related to vehicles and spare parts, 35 per cent is related to electronics, 14 per cent is about armaments, five per cent is related to aviation, and around two per cent constitutes general stores and clothing.”

CHAPTER-2

Provisioning in Ordnance Services

2.1 The Committee have been given to understand that Army Ordnance Corps (AOC) is responsible for providing major and minor equipment; related spares; ammunition and general stores and clothing to meet all requirements of the Army. The major and minor equipment and ammunition are normally classified as Class A stores and the related spares, accessories and general store and clothing are classified as Class B stores. A brief description of the process to calculate required stores and different stocks is as follows:-

Process to calculate required stores and stocks

Provisioning at Army HQ: Ordnance Sections at DGOS is responsible for provisioning of Class A stores. Annual Provision Reviews (APRs) are carried out to work out the requirement by netting off liability on account of authorisations of units (Unit Entitlements (UE), reserves (War Wastage), etc. with assets held in stock at units (Unit Holdings (UH), stocking depots (Reserves and free stock) and stores due for delivery against orders placed in the past (Dues-in³).

Provisioning at Depots : Central Ordnance Depots (CODs) are responsible for provisioning of Class B Stores. Provisioning is based on monthly average of past wastage (consumption). Liability is worked out based on monthly maintenance figure (MMF) for assigned provisioning period, estimated period between placement of demand and physical receipt of stores (Interim Period), overhaul (OH) requirements, unmet users' requirements (Dues out) and reserves, if any. Assets include stock held and dues-in.

Provision Review Form (PRF) is used to record Liability and Assets. Excess of liability over assets results in demand for procurement. Excess of assets over liability is termed as surplus.

Maintenance Period (MP) :- The Period, in months, represents working stocks for normal maintenance by any depot.

- 12 months MP for Central Ordnance Depots (CODs).
- 4-5 months MP for Regional Ordnance Depots (RODs).
- 3 months MP for Field Ordnance Depots (FODs) and Advanced Base Ordnance Depots (ABODs).
- 2 months MP for Divisional Ordnance Units (DOUs).

2.2 Audit noticed various system deficiencies in the process of provisioning. These are given in the succeeding paragraphs.

³ Ordered already

I. Persistent deficiency and surplus in respect of Class A stores during provisioning

2.3 DGOS, in respect of Electronics and Engineering (L&E) stores, carries out an annual review of 168 items, 92 items were selected in audit for detailed scrutiny. Audit analysed surplus and deficiency as per Annual Provision Reviews (APRs) from 2014-15 to 2018-19 in respect of selected 92 items / equipment. It was noticed that,

(a) Out of 63 items which were deficient as per APR of 2018-19, 15 items were such where there was continuous deficiency for last two to five years ranging between 24 Percent and 100 percent of respective Unit Entitlement (UE)⁴. Further, out of 15 items, deficiency increased from year to year in case of seven items, indicating a deteriorating position. These included Class A Stores such as Radars, Radios, Signal Generators, Power Sets, GPS equipment etc.

(b) Out of 23 items which were surplus in 2018-19, Army was holding six items as surplus up to 19 times of the respective UE for last two to five years. These included Class A Stores such as Field Cipher Equipment, Test Battery discharge, Transformer etc.

2.4 Out of the 63 deficient items, there was continuous significant deficiency in the case of 24 per cent items. Similarly, out of 23 surplus items, continuous significant surplus existed in case of 26 per cent items for the previous two to five years.

2.5 The Ministry stated that continuous deficiency exists for some items due to upgradation of electronic equipment on ground of technological obsolescence and non-recommendation by the user directorate for procurement. Certain items remain surplus which are being replaced by new equipment and their authorization in units, is reduced resulting in their surplus. Ministry explained that out of 15 deficient items, in six items, the deficiency was due to non-recommendation of user directorate for procurement and in another four items, the supply orders were already placed. Further, out of the six cases of surplus pointed out by Audit, now there was deficiency in respect of two items.

2.6 Audit noticed that even after ignoring six items that were not recommended by user directorates, persistent shortfall existed in respect of the other nine items. The reply of the Ministry indicates that delay in updating scales/ requirement of certain items makes the provisioning process ineffective and leads to excess procurement resulting in surplus.

2.7 In this regard, the Ministry of Defence submitted the following in their background note:-

“Annual Provision Reviews (APRs) of Class ‘A’ stores is carried out by the concerned stores section of the DG OS taking into account the authorisation of the units (Unit Entitlement) UE, stores held with unit (Unit Holdings) UH, stores held in Ordnance Depots, requirement of reserves and existing supply orders if

⁴ Unit Entitlement- Stores authorised to a unit.

any. Once requirements are revealed, views of users (Line Directorates) are obtained for any procurement actions. Subsequently, based on operational criticality and availability of budget, Priority Procurement Plan (PPP) is finalised by the Master General of Sustenance. Procurement action is then initiated for only those items included in PPP.

For the equipment undergoing rapid technological changes especially electronics stores, on many occasions Line Directorates do not recommend procurement of existing models and carryout trials on advanced models. Thus no procurement action is initiated till such time trials are successful. This leads to temporary deficiencies of stores.

Deficiencies also occur due to inabilities of Ordnance factories, DPSUs, ex import sources as well as indigenous sources to timely supply stores as per required specifications and in required quantities.

The reasons for surpluses revealed during Annual Provision Review are invariably because of reduction in Unit Entitlements (UE) due to phasing out of equipment / disbandment of the units and reductions in requirement of reserves.

With automation of data with MISO, the provisioning process is now more strengthened, as earlier manual compilation of the basic data by MISO was prone to certain inaccuracies.

Majority of the items where deficiencies were revealed were not recommended by the line directorates. Surpluses revealed are mostly on account of reduction in Unit Entitlements (UE).

No operational criticality was expressed by the user directorates for items which remained deficient due to technological upgrades.”

2.8 When asked for specific reasons for deficiencies in items for so many years as pointed out by the audit, the Ministry submitted as under:-

“Deficiency in equipment highlighted by C&AG needs to be viewed in light of anticipated requirements worked out for a year, based on inputs in terms of Unit Entitlement (UE), Unit Holding (UH), forecasts, reserves, state of previous procurement cases and supplies and numerous other factors. With all factors remaining stable and as expected, the deficiency revealed can be made up each year. However, in actual all these are quite dynamic leading to deficiency. However, to illustrate the same, main causes are as follows:-

(a) As a process, any equipment in service is planned for upgrade/replacement based on inputs/recommendation of the User Directorate as also the down gradation of an introduced equipment for obsolescence (OBE/OBT) is undertaken based on inputs/recommendation of Line Directorate. Accordingly, upon phasing out of equipment initially, Line Directorate don't recommend the old pattern equipment for procurement and plans are made for introduction of its successor equipment. The old equipment meanwhile continues

to be utilised alongside and in case the new equipment fructifies these numbers get added to the unit holding leading to surplus. Whereas concurrent reduction of old equipment doesn't take place upto the time the equipment is declared OBE/OBT and slowly its population withers out from the environment during its continued exploitation to the maximum.

(b) Procurement of equipment is also not recommended by User Directorate due to replacement of equipment planned, Upgradation of Technical Specifications and additional inputs awaited from other stakeholders. This may lead to temporary deficiencies.

(c) The delays in procurement add up to the deficiencies. Further, inabilities of Ordnance Factories/DPSUs/Ex import sources in timely supply of items lead to deficiencies."

2.9 The Committee desired to know the importance of these items in the functioning of the various units of Army. In this regard, the Ministry submitted the following response:-

"The items mentioned in the Audit Para are related to Surveillance, Communication, Engineer, Power and Test Equipment. While equipment being phased out are not critical, upgraded equipment being inducted holds more importance. As such it is Line/ User Directorate which is the ultimate user which gives its recommendation for procurement / non procurement of equipment based on its criticality / importance at that point of time. The urgency/criticality of requirement from the operational perspective has been duly factored in our reply to Audit Para 2.2."

2.11 When asked how the Army (the units) was coping with the situation arising out of the aforementioned deficiencies, the Ministry furnished the following reply:-

"All Annual Provision Review (APRs) upon compilation are routed through User Directorate for their vetting and comments, so as to duly authenticate the requirement and offer comments with respect to urgency/ deficiency of the equipment from the user's perspective. In addition, Priority Procurement Plan is made every year to prioritise the procurement. Besides this, where required adequate reserves are catered for and in case of emergency internal rationalisation within Formations is resorted to. Besides, this procurement through ACSFP and Emergency Procurement is also exploited for immediate requirements."

2.12 The Committee enquired about the reasons for surplus availability of items and whether any assessment was made before procuring those items. The Ministry, in this regard, furnished the following response:-

"(a) The surplus revealed during audit needs to be seen holistically, in light of provisioning of particular items which form part of a PRF (Provision Review Form) Group. All similar nature items/variants which perform the same/similar task are clubbed to form a PRF group and the ones declared

obsolescent/obsolete and their upgrades / newer versions against previously procured are being accounted for under same head. This being a concurrent exercise undertaken every year, does indicate positive balance (surplus) for a limited period, till such time the obsolescent /obsolete, get phased out by 100% fresh variant of the item. Alongside, surpluses are created when Units Entitlement (UE) are reduced due to changes in scaling/authorisation as also on disbandment/optimisation of units. This again is a concurrent exercise and more so cannot be predictive, hence the positive balance (surplus) emerging due to this are rationalised among existing units for continuity of operations and also ensuring complete exploitation of the equipment upto end of life.

(b) Surplus revealed during audit are on account of the following: -

- (i) Reduction in Unit Entitlement (UE).
- (ii) Disbandment/ optimisation of Units.
- (iii) Phasing out of equipment.
- (iv) Inconsistency in UE/OH data

2.13 When asked about the action taken by the Ministry for strengthening the provisioning process to update the scales/requirements of items and to mitigate persistent surplus/deficient stock, the Ministry submitted the following:-

"Steps taken to strengthen the provisioning process are as follows: -

(a) **Automation of Basic Data.** Automation of MISO, so as to rule out inconsistency in Unit Entitlement/Unit Holding data provided by them. MISO functioning was automated in 2016-17 hence during audit period i.e 2014-2019 data was seen to be inconsistent, as it took 2-3years for the same to stabilize and errors being obviated.

(b) **Collegiate of Stakeholders.** Inputs are obtained from user Directorate on quantity revealed (deficient/surplus) and technical specifications during APR and prior to obtaining AON. Post DFPDS-2016, PC (Procurement Committee) Collegiate mechanism has been introduced, where all stake holders including maintenance agency i.e. DGQA, Equipment management etc are all part of the PC for their regular monitoring and valuable inputs during the complete procurement process.

(c) **Descaling of Obsolete / Obsolescent Equipment.** Six monthly review of equipment by updation of technical specifications by users and fielding of new equipment and OBE/OBT to GSEPC for scaling/descaling action in a time bound manner.

(d) **Surplus Management.** Equipment declared surplus is rationalised among existing units performing similar tasks during its phasing out period.

2.14 During oral evidence, the Committee enquired how the Ministry/ Army was rationalizing such variations of either deficiency for many years or huge surplus in respect of items. The Ministry submitted the following written reply:-

“Both deficiency or surpluses are revealed each year for all items during the Annual Provision Review (APR), undertaken at various levels of Ordnance echelons. These are not classical deficiency/ surpluses, but are positive and negative balances arrived at after factoring various aspects related to provisioning. These include Assets (Unit holding, Dues-in quantities, already on order even though not fructified on ground, Reserves held etc) and Liabilities (Unit Entitlements, Forecast requirements, War Wastage Reserves (WWR) etc). Upon comparing the Assets Vs Liabilities, in case of a minus balance, it indicates that the quantities reflected need to be procured. Similarly, in the case of a plus balance, it indicates that the item is available in adequate numbers and no procurement action needs to be undertaken. Besides assets and liabilities, other factors (which are very dynamic) are also considered prior to undertaking any procurement action. These include the Status (Current/Obsolescent/Obsolete) of the item, its anticipated balance life, progress on previous procurement cases initiated for the item, the extent of exploitation of the item/equipment, existing sources and their capacity/ capability, administrative lead time, level of maintenance stocks to be maintained etc. Based on a thorough assessment by the Provision Officer, final call with respect to further procurement action is taken. For items where surpluses are revealed after provision review, cancellation of Dues-in (if any) is resorted to, if required, after holistic consideration of the case. At the operational/ field level, deficiency/ surpluses are rationalised at theatre level by Command and Corps Headquarter, where the Operational logistics or Equipment Management sections undertake a regular exercise to rationalise these within their geographical region. Reserves are also catered for at various levels to cater to any unforeseen situation/ circumstances. Further, adequate decentralisation exists in the system to permit procurement of any emergent requirement of items through Army Commander Special Financial Power, Local Purchase and other grants.”

II. Discrepancy in data relating to Class B⁵ Vehicles

2.15 Management Information System Organisation (MISO) of Army HQs acts as a repository of data of UE and UH of all equipment used by the Army. MISO data of UE and UH are used for carrying out provisioning by DGOS. For provisioning purpose, items of similar nature are categorised in Groups and provisioning of each Group is carried out in a separate Provisioning Review Form (PRF). Audit scrutiny of APRs of 36 Groups for 'B' vehicles carried out by ADG (CV) during 2014-15 to 2018-19 revealed discrepancies in data affecting accuracy of the provisioning process. A few such cases noticed are discussed below:

(a) Audit noticed that in 19 Group of vehicles, the increase in unit holdings in a particular year over the previous year was not commensurate with the anticipated supplies against already placed supply orders (i.e. dues-in quantity year). In six cases, unit

⁵ Non-combat vehicles such as truck, bus, motor cycle, car, gypsy, etc.

holdings increased more than the dues-in quantity of previous year and in 13 cases unit holdings increased where there was no dues-in quantity in previous year. For example, the number of 2.5 Ton SPL (3) vehicles increased from 0 to 99 to 111 to 182 to 222 in each successive year from 2014-15 to 2018-19 without any dues-in for the years; Crane 5-10 Ton (501) increased to 4 in 2015-16 to 76 in 2016-17 without any dues-in for the years.

(b) In APRs of 500 KG Special 4X4' vehicle, UE/Reserve figures changed every year in the period from 2014-15 to 2018-19. Further, the total holding of vehicles decreased by 645 from 1632 in 2014-15 to 987 in 2018-19. However, the total number of vehicles projected for discard during the above period was only 125.

(c) In APR for 2018-19 of PRF Group 'Lorry 10 Ton' 907 vehicles were taken into account for working out anticipated discard whereas the actual holding as per their record was only 751, thereby raising question marks on the authenticity of data.

2.16 Ministry in its reply stated that there had been regular changes in the scaling (UE) of various weapons & equipment and changes in the number of units from year to year arising out of new raising/disbandment, etc. It further stated that the variation in data observed by Audit was of pre-computer Inventory Control Project (CICP) roll out and since 2019, the UE and UH data was being directly imported from CICP. Ministry did not explain the reasons for inconsistent changes in UH. As regards direct import of data from CICP since 2019, integration of MISO application and connectivity with User Directorates had not been achieved

2.17 In this regard, the Committee sought to know reasons for discrepancy in unit holding for each type of vehicle especially the 500kg special 4x4. The Committee enquired how the decrease of 645 vehicles was rationalised when the vehicles projected for being discarded was only 125. The Ministry submitted the following response:-

“(a) Reasons for variations are provided against each item as given in Annexure II of the CAG Report in the Appendix ‘A’ enclosed to the questionnaire (not enclosed). Variations exist in the data provided with respect to surplus vehicles given in the Annexure II by the audit and the records held with this office. Reconciled details of holdings are also rendered in Appendix ‘A’ (not enclosed). It is highlighted that the surplus quantities are minimal and the Annual Provision Review (APR) process has inherent tolerance for such miniscule surpluses, which get addressed in subsequent reviews.

(b) Special vehicles details are compiled by OS Directorate based on MISO data. The data presented is of 500 Kg Special 4x4 vehicle as highlighted in audit para 2.3 (b). It can also be seen from table 3 of C&AG Report that no dues-in for the said special vehicle exists. These vehicles are generally drawn from the GS Pool of corresponding category, 500 kg Light Vehicle 4x4 in the instant case and issued by EM Directorate for modification to the line directorates. In some cases, COTS vehicles are procured with required modifications making them special vehicles. The requirement against the deficiencies of the said special vehicles are being met through General Staff (GS) Pool vehicles which are primarily

meant for administrative requirements. The Civil Hired Transport (CHT) are used to meet the administrative requirements, as per the need / requirement.

(c) Anticipated discard quantities are forecast figures and actual data of discard may vary due to prolonged and operational exploitation which renders mechanical condition of vehicles unfit for further use. The actual discard is dependent on utilization of vehicles during the period, operational imperatives, terrain etc and is bound to vary. It is pertinent to mention that the said discard variation is covering the period of five years i.e. from 2014-15 to 2018-19.

2.18 The Committee asked the Ministry / DG OS to comment on cases of discrepancy seeking views on whether the mere explanation of the audit report being of the pre-computerisation period justified aberration of such serious nature. The Ministry submitted the following reply:-

“(a) Mismatch of holdings data had been a challenge due to delays/ errors in updation of holdings data by units/ formations which has been streamlined to a great extent due to updated MISO application being used by units as on date. Delays in updation are also attributable to deployment of units in remote areas which also has been addressed with improved LAN connectivity in recent years. Variations in UE also occur due to regular changes in the scaling of vehicles due to revision of WE/ PE, disbandment, raising of new units etc.

(b) It is perceived that with the MISO application, the auto compilation of data would rule out errors of accounting vis a vis manual compilations and would be real time. Analysis of data would also be facilitated and it would be easier to check such variations by the MISO.”

2.19 When asked what corrective measures had been taken for removal of discrepancies in data resulting in unwarranted provisioning of Class 'B' vehicles, the Ministry provided the following reply:-

“To address the issue of variations and timely updation of Class 'B' vehicles data, MISO application has been made user friendly and units have been sensitised to regularly update the holdings data. In recent years, intranet connectivity in the operational areas / difficult areas has been upgraded by the Army which will facilitate timely updation of data by units. A lot of emphasis has been given by the Army on training of personal on use of MISO application for updation of data.”

III. Irregular reduction of assets during provision review in respect of vehicle earmarked as anticipated discard.

2.20 Annual Provision Review of Class B vehicles are carried out at CV wing Of DGOS taking into consideration the data published by MISO towards unit entitlement and unit holding. While working out requirement/Liability, initial requirements of new raisings, deficiencies in UEs of regular Army units, forecast requirements of other services/non-Army users is considered. In the case of discard vehicles, reserves have to be calculated at a fixed percentage as adopted in the Emergency Cabinet Committee

Intake/Discard Plan ranging from 5 to 13 per cent. Besides, a specific percentage of reserve on account of War Wastage Reserve (WWR) equivalent to 0.5 percent is supposed to be provided for in the APR Under Assets total stock held with units against their entitlements, depot stock and dues in against demands already placed are to be considered.

2.21 Audit noticed that in 16 out of total 36 PRF Group while working out liability, 5 to 15 per cent of the unit entitlement was considered towards reserve (without bifurcating WWR and other reserves.) However, anticipated quantity of discard published by MISO has been deducted from the Assets. As no authority exists to reduce the available assets while conducting provision review, this reduction of assets against the data published by MISO towards anticipated discard is not in order. This reduction of assets without proper authority against vehicles for which proper reserve have been considered in the Emergent Cabinet meeting led to over provisioning to that extent as worked out by audit in respect of vehicles of 12 PRF group.

2.22 Ministry stated that the reserve percentage and anticipated discard quantity are different. It explained that while the reserve was to cater for unforeseen exigencies like operations, unexpected attrition, raising of new units/formations and accelerated exploitation of equipment, the anticipated discard quantity was for replacement for discarded/downgraded vehicles. Ministry further stated that action to revise the policy of 1972 was under process and policy for quantity of anticipated discard would also be addressed once the new policy is implemented.

2.23 The Ministry explained the different purposes of reserves and anticipated discard quantity. However, reduction of assets on account of anticipated discard was without any laid down criteria or policy of the Ministry. Further, the DGOS had not undertaken a detailed study on the level of reserves since 1972.

2.24 The Ministry submitted the following in their background note:-

“Reserve percentage and anticipated discard quantity which are being catered in provisioning of vehicles are different. Provision of reserve is catered for both type of vehicles covered under discard policy and not covered under discard policy to compensate the deficiency maintained due to time taken in procurement process and also to cater for any unforeseen situations.

However, the anticipated discard quantity is being catered in vehicles provisioning for the replacement of vehicles which are to be discarded under discard policy. The same is being maintained by MISO and forwarded to this office yearly for provisioning of vehicles.

Based on observation of the audit, action has been initiated to review the policy on this subject.”

IV Over-provisioning of stores due to non-reduction of dues-in quantity

2.25 DGOS Technical Instruction provides that in case of provisioning of Class A stores where surpluses are revealed in the form of dues-in, a decision will be taken as to whether these will be carried forward against the future requirement or to defer procurement or to cancel dues-in. In case of Class B stores, if surpluses are revealed in provision review, action has to be initiated for their adjustment by cancellation/reduction of dues-in building up of reserves, retention or disposal as necessary or permissible under the rules. Audit found cases where over-provisioning of Class A and B stores had arisen due to non-reduction of dues-in despite surpluses.

2.26 **(i) Class A stores:-** Audit observed that in 5 out of 92 selected L&E Class 'A' stores, the APR revealed surplus warranting action for reduction of quantity under procurement. Similarly, APRs of 4 out of 36 PRF Groups of B vehicles for 2018-19 revealed surplus quantity where the dues-in quantity also existed. However, Audit did not find any document indicating that a considered decision was taken so as to carry forward the surplus against the future requirement or to defer procurement or to cancel dues-in. Thus, non-reduction of 'surplus' from the 'dues-in' of the respective items resulted in their over-provisioning.

2.27 Ministry replied that surplus /deficiency of stores keeps changing from year to year owing to the change in scale, state of equipment/technology, etc. It added that, in the APR 2020-21, the surplus existed only in four out of nine items and no provisioning was done for Crane 5/8 Ton.

2.28 The reply of Ministry confirms surplus and upholds the point relating to non-reduction of dues-in quantity when surplus was revealed in APR. Such non-reduction of dues-in quantity as per APRs resulted in holding surplus quantity valuing 324.41 crore in respect of these five items. Such excess procurement may lead to idling/slow-moving of stores in depots besides locking up of resources.

2.29 **(ii) Class B stores:-** In respect of Class 'B' stores at COD Agra, analysis of data of entire population of PRFs pertaining to the year 2018-19 revealed that in case of 2,414 items, provision review resulted in surpluses valuing Rs. 178.56 crore but the dues-in quantity was not reduced. The surpluses of the above items were also noticed in the PRF of 2019-20. Audit also observed from PRFs of 2019-20 at CAFVD, Kirkee that in 23 out of 35 sampled PRFs, provision review resulted in surpluses worth Rs. 125.80 crore, requiring reduction of dues-in quantity.

2.30 COD Agra stated that source of majority of stores was either Ordinance Factories or Defence PSUs. It was added that the items were forming part of overhaul/equipment out of action and were recurring in nature, and therefore, surplus item would be required during next three to five years again. It further stated that ex-import indents are placed after Global Tender Enquiry which is a cumbersome and long drawn process and takes years to fructify.

2.31 CAFVD Kirkee stated that review of PRFs was in process and post review, action would be initiated for placing demand/reduction. Reply of COD Agra is not tenable as it is not in accordance with the guidelines of provisioning. Cumbersome procedures do

not justify holding of a 'surplus' and the projection for future utilization needs to be balanced out by cost-effective resource constraints. Over provisioning of Class B stores worth 304.36 crore at COD Agra and CAFVD Kirkee had, therefore, taken place as surpluses revealed through provision reviews had not been reduced from dues-in quantity.

2.32 The Ministry in their background note submitted the following on the matter:-

“Due to delayed supplies beyond stipulated time, especially by Ordnance Factories and DPSUs, dues-in quantity against surpluses as revealed in the provision review are not cancelled at times anticipating that such surpluses will get adjusted in next review cycle. In such cases cancellation of dues-in of older contracts and then subsequently purchase of those items in future may lead to procurement at higher rates on account of inflation.

However the audit observation is agreed to and instructions have been passed to all concerned to follow the laid down policy on the subject, strictly.”

CHAPTER-3

Procurement by Ordnance Services

3.1 The Committee found that Procurement constitutes an integral part of inventory management and relates to sourcing and acquisition, inter-alia, of critical items of inventory and entails substantial financial outlays. Details of procuring authorities, types of procurement and sources of procurement are explained below.

Authorities for Procurement

Director General of Ordnance Services (DGOS)- Procures common use, Defence, Civil use and Defence exclusive items under delegated powers.

Additional Director General (Procurement)/DDG Procurement Progressing Organisation (PPO) - Procures stores ex-import.

Central Ordnance Depots (CODs)/Advance Base Ordnance Depots (ABODs)/Field Ordnance Depots (FODs)/Ordnance Depots (ODs)/ Divisional Ordnance Units (DOUs) - Commandants/Commanding Officers of these Depots are empowered to make central and local purchases up to the limits, laid down from time to time under delegated powers.

Types of Procurement

Central Procurement (CP) - CP is undertaken against those items, which are required to be procured centrally. These are requirements resulting either as consolidation of demands by a Central agency through planned provisioning processes or an ad-hoc / special exercise without adopting Provisioning Review route. CP covers the consolidated requirements of the item or group of items for the duration of the provisioning period.

Local Procurement (LP) - LP undertaken by various authorities as per the delegated powers to meet the short-term, ad-hoc or urgent requirements of units/establishments when supplies are not available through the central provisioning agency and to meet the normal requirements of units/establishments for stores which are not within the purview of central purchase organizations.

Sources of supply of stores

Director General of Ordnance Factories - The main source of supply of ordnance stores are the Ordnance Factories (OFs) under DGOF. After acceptance of necessity, all stores falling within the product range of the OFs are procured through the Ordnance Factories Board (OFB) by placing indents without issuing RFPs.

Trade - In the case of emergency purchase, items falling within OFB's product range are procured from trade following the tendering procedure but only after obtaining a "No Objection Certificate" from the OFB.

Defence Public Sector Undertakings (DPSUs) - Any item developed/manufactured by a DPSU specifically for the Defence Services, with transfer of technology or through design and development, is procured from the concerned DPSU only by following the tendering procedure.

Import - Import of equipment and spares is also resorted to until the required items are indigenised.

I Quantum of procurement from different sources

3.2 During the period 2014-15 to 2018-19, DGOS procured 64.37 per cent value of items through DGOF and 35.63 per cent value of items through trade (including DPSUs).

3.3 DPM 2009 stipulates that purchases of stores must be made in timely and most economical manner and in accordance with the definite requirements of the Defence Services. To achieve this, controls must be in place to (a) scientifically assess the reasonability of rates, (b) ensure completion of different stages of tendering process as per stipulated schedule, (c) follow-up with vendors for timely receipt of stores, (d) ensure timely replacement of defective stores by vendors, etc. Similarly, procurement for UN Mission must ensure (a) that procurement is as per UN requirements, (b) timeliness in transportation and (c) economy. Audit noticed several instances of system deficiencies resulting in delays in procurement and excess expenditure. These are given in the succeeding paragraphs.

II Delay in procurement of critical items by DGOS

3.4 DPM 2009 lays down that every individual in the chain of the procurement process is accountable for taking action in a specified time period so that the requirements are met on time. The prescribed time frame, laid down in DPM, for placement of supply order or signing of the contract since vetting of indent under single bid and two bid system is 17 to 19 weeks and 20 to 23 weeks, respectively.

3.5 During the audit of procurement at ordnance section of DGOS and Central Ordnance Depots, Audit noticed ten cases where there were delays in procurement process of Class A and Class B stores ranging between 13 and 301 weeks, as given in Table below.

Sl. No.	Name/ Type of equipment	Procurement agency	Demand revealed	Whether SO/ indent placed (as of February 2020)	Status of supply where SO Placed	Delay ⁹ in procurement (as on February 2020) beyond 23 weeks	Reasons for delay, as per reply
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1.	Equipment 'S'	DGOS	June	SO not placed	--	165 weeks	Delay in

	(Qty. 30) as BFE for Equipment 'R'	(L&E)	2016				finalisation of specification, obtaining Acceptance of Necessity (AoN)
2.	10 items of class 'A' equipment	DGOS (L&E)	Between 2014-15 and 2018-19	SO not placed	--	73 to 229 weeks	Cases were at different stages of procurement.
3.	25 cases of spares of Class 'A' equipment	--do--	Between 2014-15 and 2018-19	SO placed between April 2017 and August 2019	N/A ¹⁰	13 weeks to 85 weeks	Inordinate time taken in opening of price bid and its finalisation.
4.	Engines Tank 'T': 322 numbers Tank 'U' : 905 numbers Tank 'V' : 501 numbers	DGOS (CV)	2014-15	SO placed between September and December 2016	N/A	65 weeks	Delay in obtaining of sanction and placement of indent.
5.	22 cases of spares of Class 'A' Vehicles	--do--	2016-17 to 2018-19	SO placed between December 2017 and March 2019	N/A	13 weeks to 81 weeks	Inordinate time taken in opening of price bid and its finalisation.
6.	Tank 'T' spares LHBU:215 numbers RHBU:293 numbers	--do--	April 2016	September 2017	Not completed	49 weeks	ADG(CV) took 17 months in converting the demand into supply order.
7.	68 items for Tank 'T'	CAFVD Kirkee	2017-18	SO not placed	--	73 weeks	SOs were not placed within bid validity leading to retendering.
8.	19 items for Tank 'V'	--do--	2017-18	SO not placed	--	73 weeks	SOs were not placed within bid validity leading to retendering.
9.	1106 items for Tank 'W'	--do--	2017-18	SO for only 128 items placed in 2019-20	--	73 weeks	Against requirement of 1106 items, SO placed for 128 items only. In some cases, SO could not be placed within bid validity.
10.	17 items for Radio Set 'N'	MGO PPO	May 2011	SO placed in August 2017	Sept 2018	301 weeks	AoN was granted after 04 years of revealing of demand. Further, there was delay in conduct of trials.

3.6 As seen from above, in four cases, the supply order was yet to be placed (February, 2020) even after delay of 73 to 229 weeks (Sr. No. 1,2,7 & 8).

3.7 Ministry replied that in case of delays, system has provision of reserve and stocks at various echelons, which meet the critical requirements of the field army and ensure that operational preparedness is not compromised. It was further added that maximum dependency of A vehicles and technical spares was on Ordnance Factories and DPSUs. The delays were not only attributed to procedures/documentation but also due to slippage in meeting of targets by Ordnance Factories and DPSUs.

3.8 However, Audit had commented on the delay in placing supply orders. Further, deficiency arising against an item is inclusive of all types of reserve which may not be sufficient in case of inordinate delay in procurement.

3.9 In their background note, the Ministry submitted the following on the matter:-

“Efforts are made by procuring authorities to complete the process within laid down timeframe. However at times delays do occur which are beyond the control of procuring agency on account of following:-

- (a) Delays in finalisation of specifications by the User Directorates.
- (b) Delays at TEC stage for want of registration of firms with DGQA and Capacity Verification/ Capacity Assessment.
- (c) Delays at price negotiation stage as in some cases a number of rounds of negotiations are carried out.
- (d) Delays at trial stage.
- (e) Delays due to re-tendering.
- (f) Inadequate/ nil response by DPSUs/firms.

Procurements through GeM has considerably reduced the timelines for completion of procurement activities.”

3.10 The Committee enquired on the action taken to avoid delays in the procurement process. The Ministry, in this regard, responded with the following written reply:-

“Common reasons leading to delays have been identified and actions taken to avoid these delays in procurement process are as follows: -

- (a) **Delay in Capacity Assessment /Capacity Verification (CA/CV).** Fresh RFPs now issued have requirement of firms to apply for registration or CA/CV against RFP with DGQA at the time of bidding itself. Firms are required to submit proof of having applied for the same with DGQA alongwith Bid documents. Also, CA/CV is part of Technical Evaluation/assessment which is now stipulated to be done, within 3 months by DGQA.
- (b) **Specification Changes.** Prior to obtaining AON itself, the user/nominated Line Dte is expected to firm up specification either based on

JSS/BOOs/COTS/GSQR so that no delay occurs owing to that and AON is granted only once specifications are frozen.

(c) **Trials.** Conclusion of trials is also to be done by the Users within a stipulated time so as to ensure timely conclusion of contracts.

(d) **Monitoring Mechanism.** Monthly, quarterly & half yearly review of progress of procurement cases is being undertaken both at OS Dte & MGS Br. All Carry Forward cases of PPP are closely monitored & expedited.

(e) **Creation of New MGS Procurement Branch.** With promulgation of new DFPDS enhanced powers have been granted to ADG Procurement, a newly created appointment alongwith a new vertical viz. MGS (Procurement) Branch within MGS for smooth & effective procurement functions & monitoring of the same.

(f) **Procurement through GeM** Procurement through GeM is a mandatory requirement now and this has enhanced timely progress of cases as timelines are being imposed during bid validity/ expiry, timely delivery and also timely payment being ensured to the firms.

(g) **Indigenisation** It was observed that cases of foreign procurement were inevitably delayed owing to the long duration of trials. The same is being plugged through a rapid indigenisation drive under Atma nirbhar Bharat. This will wade over the procurement delays involved in the process.”

3.11 In case of inordinate delays of procurement, the Committee desired to know how the critical requirements of Army's Field units are met. The Ministry responded thus:-

“Units deployed in field have their critical requirements being met through, within Command rationalisation where necessary. Reserves are released at the level of Command & IHQ of MoD (Army). Also, adequate funds are available for procurement through ACSFP, Local Procurement, Grants etc. Even at AHQ for operational requirements Emergency Procurement is resorted to. Deficiency of vehicles is also mitigated through civil hired transport.”

III Outstanding supplies against various supply agencies

3.14 Audit examination of the outstanding supply orders/indents placed by COD Agra on DGOF, DPSU, trade and foreign vendors revealed that supply orders valuing more than Rs. 700 crore were outstanding beyond the delivery period and awaiting completion for the last one to nineteen years as shown in the Table below-.

Table- Details of outstanding supply orders

Procurement Source	No. of Supply orders/Indents				Amount of SOs/Indents (` in crore)			
	1 to 5 years	5 to 10 years	10 years & above	Total	1 to 5 years	5 to 10 years	10 years & above	Total
DGOF	186	147	90	423	241.92	11.93	13.11	266.96

DPSU	957	341	36	1324	354.32	72.74	2.69	429.75
Trade	109	-	-	109	0.38	-	-	0.38
Import	75	10	1	86	SO details not available			

3.15 Audit further noticed in CAFVD Kirkee that 364 indents for Tank 'T' placed on Ordnance Factories between January, 2004 and February, 2010 were outstanding to be supplied for more than 10 years.

3.16 Ministry stated that due to non-civil end use items and availability only through PSUs/DGOF, the supply orders were not cancelled for criticality of these items in Indian Army. It further stated that the matter was required to be addressed at OFB level and instructions had been issued to CAFVD, Kirkee to cancel all indents which were more than 10 years old. It added that steps were being taken to widen the base of sources of supply from trade. Ministry's reply, however, was silent on the cases pertaining to COD Agra. COD Agra in its reply to Audit had stated that orders outstanding for supply from Ordnance Factories and Defence PSUs were not cancelled as they are the only sources of procurement.

3.17 According to Audit, both Ordnance Factories and DPSUs are under the jurisdiction of the Ministry. Ministry should have taken proactive steps to ensure that the supplies get materialized within the stipulated delivery period. Non-materialisation of supplies for such a long period impacted the efficacy of provisioning reviews as outstanding items were kept reflected as dues-in (asset), however, they were actually not made available to the Indian Army. Inordinate delay in meeting the requirement of the units, in turn adversely affects their operational preparedness.

3.18 The Ministry submitted the following in their background note:-

"Bottlenecks in procurement chain where PSUs/ DGOF are involved are well documented.

Steps are being taken to widen the base of sources of supply through trade.

Due to non civil end use items and availability of items only through PSUs/DGOF, the Supply Orders are not cancelled as requirement of these items in Indian Army remains. Therefore Delivery Period is extended time and again.

Alternative sources for 218 items have also been identified by CAFVD Kirkee in 2019-20 & 2020-21.

With corporatisation of Ordnance Factories, supply situation is likely to improve."

3.19 When asked about reasons for not being able to supply tank 'T' even after a gap of 10 long years, the Ministry submitted the following reply:-

"The supply of stores for Tank 'T' was sub optimal by erstwhile Ordnance Factories ie EFA, Avadi and HVF, Avadi. The provisioning activity and placing of

indents was done in time bound manner by CAFVD Kirkee. With Corporatization with Ordnance Factories, the situation may improve.”

3.20 The Ministry were asked to give the current status of supply of Tank ‘T’, especially in view of corporatisation of the Ordnance factories. In reply, they submitted the following:-

“Post corporatization of Ordnance Factories, grandfathering of indents (clubbing of previous years outstanding quantities) was carried out. These were converted into Deemed Contracts. CAFVD is entirely dependent on AVNL for spares support for approx 80% of its inventory and slippages to the tune of approx 92% for financial year 2021-22 existed based on the Deemed Contract quantities. It is being assumed that once the newly created DPSU i.e. AVNL stabilises, the supply position will improve.”

3.21 When asked to elucidate on the efforts and result thereof to complete supply of orders pending for more than 2 decades , the Ministry replied thus:-

‘Post corporatization the outstanding indents have been clubbed under the Grandfathering scheme and during this exercise, 732 indents which were more than 10 years old have been cancelled. The AVNL is periodically expedited for supply of stores and the same is monitored at IHQ of MoD (Army) level. The impact of Corporatization of Ordnance Factories will only be known after few years, once the new system stabilises.”

3.22 On being asked to elucidate on the efforts and result thereof to widen the base of sources of supply from trade, the Ministry stated the following:-

“In the course of past three years, alternate sources for 259 items have been developed by CAFVD Kirkee and it is a continuous process. In addition to this, it is notable to mention that the AVNL group of factories have also undertaken indigenisation drive to indigenise certain critical assemblies and items of tanks. The Army is also embarking on the project to involve reputed firms for overhauling of tanks and engines which will boost indigenization of tank spares, enhance overhauling capacities and contribute towards having alternate sources.”

3.23 The Committee queried about the contractual provisions in case of delay in supply of orders by DGOF, DPSUs, trade and foreign vendors and whether the provisions were invoked in cases of delays in supply of orders. The Ministry submitted the following written reply:-

“The contractual obligations for various sources of supply are governed by DPM 2009, its supplement and numerous Government instructions issued from time to time. Post corporatization, the DPSUs will be treated akin to private firms (Trade) and compete in open/limited tenders They will also invite penal clauses like payment of liquidated damages on delayed deliveries, risk and expense clause,

cancellation of supply order, black listing/ debarring of firm to participate in defence tenders etc. These clauses, however, do not apply to the quantities covered in the Deemed Contract as this is covered under the hand holding phase wherein the newly converted DPSUs stabilize and reorient their internal procedures. These clauses are invoked with due diligence in all cases where failure on the part of supplier to supply the stores occurs.”

3.24 The Committee desired to know whether there was any mechanism to penalise the supplying agencies who failed in supplying the product within the stipulated delivery period and if so, the action taken against the non-complying vendors. The Ministry replied thus:-

“(a) DPM provides adequate provisions towards penalising defaulting vendors, like imposition of LD (maximum upto 10%), carrying out Risk & Expense purchase & Blacklisting/Holiday listing etc. For old contracts/indents, (besides OFB) the existing provisions are adequately being used to ensure timely supplies and all firms, including DPSU/Trade/Foreign vendors are all penalised for late deliveries. For erstwhile OFBs (new DPSUs) the LD clause was done away with in old indents as part of the handholding of these new units by the Govt. However, with effect from 01 Oct 2021 all orders on erstwhile OFB (Now DPSUs) will be done through competitive bidding and with all standard provisions being part of contracts.

(b) Mechanism to penalize the defaulting agencies exists as given above and the mechanism has an IFA rep and other stakeholders to analyse the case and arrive at an informed decision to suitably deter such defaulting behaviour by suppliers within the provisions of DPM 2009 and its supplement.”

3.25 On the steps taken by the Ministry to ensure timely supply of orders from DGOF and DPSUs, both of which are under their control, the Ministry stated the following:-

“Steps undertaken to ensure timely supplies from DGOF & DPSUs are as under:

(a) Re-conciliation of 100% outstanding indents on DGOF (including 19 years old) & conversion of these into standard deemed contract with supplies to be completed in next three years for revenue items & maximum five years for capital items from the date of signing of contracts.

(b) All contracts post 01 Oct 2022 with new DPSUs(including erstwhile OFB) have been concluded with all mandatory provisions to ensure timely supplies.

(c) Delayed supplies in case of DPSUs (including erstwhile OFB), Trade & Foreign vendors will be imposed LD and where required Risk & Expense purchase or even Blacklisting/Holiday listing is also resorted to.”

IV Issues in procurement of stores

A. Extra expenditure of Rs. 6.75 crore due to failure to accept the tender within validity period

3.26 As per Appendix 'A of paragraph 2.6.1 of DPM, for procurement through two bids system, the laid down timeframe from opening of technical bid to signing of contract is 15 weeks. Audit observed that non-adherence to stage-wise laid down timeframe for acceptance of contract led to extra expenditure of Rs. 6.75 crore.

3.27 The Request for Proposal (RFP) for procurement of Truck Tanker under two bids system was floated in April, 2017 with validity of tender up to 2 September, 2017. The date of opening of the bid was 3 May, 2017. Technical bids were opened on 4 May, 2017. Technical Evaluation Committee (TEC) meetings were held on 11 May, 2017 and 3 August 2017, and TEC recommended a firm (M/s IPWT) after 12 weeks against the laid down three weeks' time frame.

3.28 Commercial bid was opened on 1 September, 2017 i.e. One day before the expiry of validity. M/s IPWT, Mumbai had quoted price of Rs. 39 lakh per item excluding tax. However, the firm intimated Army HQ on 6 September, 2017 that the validity of the offer for the tender had expired on 2 September, 2017 and hence put certain conditions not forming party of the RFP. Commercial Negotiation Committee (CNC) meetings were held thrice in September, 2017. Procurement Committee (PC) recommended that the case be closed and retendered, as the firm refused to attend the CNC.

3.29 Army HQ again floated RFP in November, 2017 and supply order was placed in April, 2018 for procurement of 18 Truck Tankers on M/s Ashok Leyland Limited at a total cost of Rs. 17.63 crore at the rate of Rs. 76.50 lakh per item excluding tax. Thus, in the first bid, against the stipulated timeframe of 15 weeks from opening of technical bid to signing of contract, Army HQ took approximately 20 weeks till conduct of CNC. Non-adherence of timeframe of tender process resulted in retendering and placement of supply order at higher rate resulting in extra expenditure of Rs. 6.75 crore.

3.30 Ministry stated that the process of procurement was hampered due to capacity verification and firm's reluctance to participate in CNC as the firm was insisting on cabinet chassis as well, along with payment terms which were not as per RFP. Ministry stated that this indicated that quoted price by the bidder was only for fabrication and superstructure and cost of chassis, which is the major part of any vehicle, was not included in price. The reply is not tenable as the firm was declared technically compliant by TEC. The CNC meeting was scheduled on a date falling after bid validity period and hence the firm placed new conditions beyond terms of RFP. The Ministry, therefore, could not derive the advantage of lower price.

3.31 In their background note, the Ministry submitted the following:-

"Whenever capacity verification is required to be undertaken at TEC stage, the laid down timeframe of 03 weeks for TEC approval cannot be achieved by DGQA. In this case too it took three months for TEC approval as it involved capacity verification.

The loss pointed out by audit is only a notional loss."

3.32 When asked what action was taken by the Ministry to ensure finalising of the tendering process in time to avoid such situations in future, the Ministry replied thus:-

“As brought out in the reply of the instant case, the matter was processed as per DPM 2009 and its supplement. Capacity verification by DGQA was necessary and it is a time consuming process. No undue delay which can be attributed to any agency involved in the procurement process took place in the instant case and it had to be retendered due to firms’ insistence on inclusion of additional terms and conditions (which were not in RFP and thus, not in order) and non-participation in the CNC despite three reminders. To ensure that all procurement cases are processed without undue delay, various advisories are issued from time to time and monitoring of ongoing cases is done by procurement agency.”

3.33 On being asked if any action had been taken against the erring officials, the Ministry submitted the following written reply:-

“The case has been examined and it is revealed that no individual official can be blamed for non finalization of the contract, as various circumstances were beyond their control.”

B. Extra expenditure of Rs. 4.36 crore in central procurement vis-à-vis local procurement

3.34 Audit analysed data of supply orders, as furnished by COD Dehu road and COD Agra for years 2017-18 and 2018-19 and observed that procurement rates under Tender Purchase Committee (TPC) mode of procurement were higher than the last purchase price of local purchases made within the last one to six months. The rate of items purchased under TPC was as high as 17 per cent and extra expenditure of Rs. 4.36 crore at COD Agra and COD Dehu road due to central procurement rates being higher than the local purchase rates in respect of 10 supply orders.

3.35 In their background note the Ministry submitted the following:-

“Central purchase involves vendors/firms to go under various procurement stages viz registration, capacity verification, stringent quality checks by DGQA, etc which was not the case with local purchase. However, DGOS assured that the point was well taken and noted for future.

Price variation between Tender Purchase Committee (TPC) and Local Purchase Committee (LPC) mode of procurement can be attributed to :-

(a) ‘Economy of Scale’ i.e. only if qty is huge, as then they setup initial infrastructure/assembly line.

(b) Capacity Assessment (CA)/Capability verification (CV) of vendors for central procurement.

- (c) Inspection by DGQA.
- (d) Advance sample approvals and its trials.

To curb large variations in LPP, stringent measures are being taken to closely watch escalation over LPP to prevent any abnormal/unjustified variation. With enhanced visibility due to implementation of CICP in all CODs, these aspects will be monitored more closely by superior officers.

Improvement Proposed

- (a) Greater transparency and concurrent alignment of rates in CP & LP through ERP being available with all stakeholders.
- (b) Procurement of items through GeM has already been implemented for better price discovery and enhanced vendor base.”

3.36 When asked why in the instant case, there was no economy of scale in central procurement, the Ministry responded thus:-

“(a) In the instant case, it is clarified that the rates quoted by M/s Ashok Leyland were an aberration as a result of the special prices quoted for certain tenders as stated by the audit. M/s Ashok Leyland has clarified the under mentioned vide letter No D&SV:2391 dt 06 Oct 2022:-

- (i) The rates offered by them were the rates at the special discounted price in consonance with their half yearly clearance policy as the quantity is less and the same should not be treated as bench mark prices.
- (ii) In addition, M/s Ashok Leyland has further certified that the market rates of the items under discussion were as under: -

SNo	Item	Ashok Leyland Discounted Price (in consonance with their half yearly clearance policy)	Ashok Leyland Actual Mkt Price (as certified by M/s Ashok Leyland)	COD Purchase Price
(aa)	LV7/STLN(VF) X-7493800 Turbocharger Re-Entrant	18839.00	34640.00	31900.00
(ab)	LV7/STLN(VF) B-3205901 S/A of Rear Spring	16735.00	36720.00	32004.00
(ac)	LV7/STLN(VF) 14683760174 AR Distributor Head	7212.61	15070.00	9675.00

SNo	Item	Ashok Leyland Discounted Price (in consonance with their half yearly clearance policy)	Ashok Leyland Actual Mkt Price (as certified by M/s Ashok Leyland)	COD Purchase Price
(ad)	LV7/STLN(VF) X-0205310 Release Bearing Butee DM 86P	1911.00	4079.00	3800.00
(ae)	LV7/STLN 2520- 72-0000552 / B- 1301701 Driven Plate for Clutch	1400.00	3180.00	2445.00
(af)	LV7/STLN(VF) F-6N00600 Indicator Water in fuel	718.25	1260.00	1149.00
(ag)	LV7/STLN(VF) F-2215200 Low Oil Pressure Switch	155.00	235.00	220.00
(ah)	LV7/STLN (VF) F-8283900 Air Filter Primary	2094.00	4625.00	4115.00

(b) **Release Bearing Butee BM 86P.** In this context, it is evident that LP rates quoted by the OEM were an aberration to the market rates with the aim of stock clearance and should not be treated as a benchmark price. Being L-1 in the said tenders, the firm was awarded the contract for said item. The price trend of the said item for few years is tabulated below:-

S No	Year	Central Procurement Rate	Local Purchase rate
(i)	2013	No procurement	Rs 3496/-
(ii)	2014	Rs 3750/-	Rs 3750/-
(iii)	2015	No procurement	Rs 3500/-
(iv)	2016	No procurement	Rs 3750/-
(v)	2017	Rs 3800/-	Rs 1911/-
(vi)	2018	Rs 3800/-	No procurement

3.37 The Committee desired to know how procurement is carried out in the organisation and on what basis items are procured locally or centrally. The Ministry responded with the following written reply:-

"Procurement of stores by the CODs is carried out as per provisions of GFR 2017, DPM and its supplement of 2010. Provision review is carried out by the

CODs annually to ascertain the requirements of Army in the subsequent years. Based on the APR outcome, cases are processed to procurement. Such procurement cases come under the purview of central procurement. The central procurement caters to maintenance requirements, reserves, initial requirements of new raisings, special requirements like overhauls etc. Since quantities involved are large, it involves strict quality assurance agency, DG QA and delivery periods vary from six months to eighteen months. In addition to this, inabilities (dues out) exist for items wherein stocks are not available but are required to meet the urgent/ special requirements of the Army which may be covered by central procurement supply orders (dues in) but the stores are likely to be supplied in future. In such cases, an enabling provision of DPM 2009 empowers the CODs/ other Ordnance echelons to undertake procurement of such emergent quantities locally. Such quantities procured to meet emergent requirements are termed as Local Procurement. Delivery period of local procurement items is short, generally 60 days.”

3.38 On being asked about the mechanism in place within the ordnance services to compare local rates vis-à-vis central procurement rates, the Ministry submitted as under:-

“(a) The provision review cards (PRFs) are indexed equipment and COS section wise and have endorsement of last purchase price alongwith the year of purchase. It is important to note that rates are quoted only once the supply order has successfully materialized. In case of an SO which has been placed but stores are yet to received, the rate will not be endorsed. Rates of the items irrespective of mode of procurement i.e. LPD /TPC get endorsed on PRF post delivery of stores. These rates are also vetted by I&BC/IFA while processing the cases for procurement which also serves as an internal mechanism of checks in the system for Acceptance of Necessity (AoN) concurrence.

(b) Prior to automation (i.e. during the period of audit viz 2014-15 to 2018-19), the rates of procurement of items was shared by all echelons both within Command Zone and also with IHQ of MoD (Army) in writing through dak.

(c) Ever since implementation of CICG in 2018, the procurement rates of all items are fed into legacy packages (RIMS & DIMS) which are being regularly updated through monthly updation of records in ERP for units not on CICG and centrally through the ERP for units and formations on ERP which is visible to all. Post implementation of ERP at all locations, all LP & CP rates will be available on one platform to ascertain more realistic and real time data.”

3.39 When asked about the measures that may have been taken to avoid such situations leading to extra expenditure, the Ministry responded with the following reply:-

“Post implementation of ERP SAP by CICG, visibility of rates will enable the procurement agency to ascertain the price trends. Moreover, with shift of procurement from e procurement on DPP portal to GeM has enabled the buyers to use GeM platform tools like price trends, past transaction history etc to

ascertain the price reasonability. The depots have adopted GeM platform for procurement of stores which offers enhanced vendor base and rate reasonability by automatic generation of L-1 bidder. Moreover, advisory on the issue has been issued by IHQ of MoD (Army) on the subject to re-sensitise the agencies undertaking procurement in larger interest.”

C. Procurement of stores at rates higher than last purchased price (LPP) by 147 percent.

3.40 Audit analysis of data of supply orders, as furnished by COD Dehuroad, for the period from 2014-15 to 2018-19 revealed that 22 supply orders valuing Rs. 1.87 crore were placed at rates higher than the last (three to six months old) purchase price by 17 to 147 per cent which resulted in an extra expenditure of Rs. 27.83 lakh. This indicated absence of assessment of reasonability of rates before placing of supply orders.

3.41 Ministry stated that in central procurement under TPC tendering only DGQA registered manufacturers, OEM firms, etc. participate, and the initial setup of infrastructure/assembly lines for manufacturing of items has to be vetted by DGQA for capacity verification, which get included in the development cost. Every time Manufacturer/OEM bids, they start from raw material stage to final inspection and delivery of stores. This has direct impact on rates of items, which are generally high for items supplied under TPC. In case of local purchase, only suppliers participate in bidding for items which are commercially available off the shelf. Ministry, however, added that depots were continuously making efforts to ensure that quality products are procured at reasonable rates. Further, to curb large variations from last purchase price, stringent measures were being taken and advice of Advisor (Costing) in Ministry of Defence will also be taken in cases of large variation.

3.42 The justification furnished by Ministry is not convincing as increase of up to 99 percent in rates of central procurement, within six months of local purchase, appears unjustified. Further, compared to local purchases, central purchases involve larger quantities resulting in economy of scales which should lead to realization of more competitive rates. During exit conference in February 2021, the DGOS assured that the matter was noted for future compliance.

3.43 In their background note, the Ministry submitted the following:-

“There are instances where firms quote very low rates either to enter into business or to clear their existing stocks. Such rates are subsequently not sustainable.

There have also been instances where in firms fail to supply quality stores at quoted low rates leading to cancellation of supply orders. The supply order for Hose Assy qty 172 at rate of Rs 395 was placed on firm on 03 Jun 2016. Another order for same item was placed by the Depot for qty 2500 at rate Rs 975 (147% escalation on 15 Oct 2016), as pointed out by the audit. The firm which took the first order at rate of Rs 395 failed to supply the item and the order had to be cancelled on 11 Aug 2017.

Last Purchase Price is generally taken as established only after successful completion of supplies.

With procurement being done through GeM and greater visibility and transparency post CACP implementation, likelihood of occurrences of such instances in future will be negligible.”

3.44 When asked about the justification for giving higher rates, which resulted in an extra expenditure of Rs 27.83 Lakh, the Ministry replied by stating as follows:-

“Central procurement is carried out under OTE (earlier LTE with OEM/OES/past suppliers and manufacturers). M/s Ashok Leyland has not participated in the TE directly instead it had nominated OES to participate on their behalf. OES have participated and obtained SOs accordingly. Out of total 22 SOs, five SOs had to be cancelled due to failure of firm to supply the items and no Delivery Period extension was sought by the concerned firms. These are serial numbers 9,16,18,21 & 22 of Annexure V, Para 3.4.3 of C&AG Report. Of the balance 14 SOs, pertaining to seven items, there has been an escalation of price as highlighted by audit. The SO having 147% escalation was also cancelled by the depot due to failure of firm to supply the item. At times, firms quote unrealistic low price in TEs which leads to huge price variations. These prices, though an aberration, are considered by the procurement committee which includes IFA/ I&BC Cell, CQA reps and CFA. Notwithstanding the above, the Ministry has issued an advisory to resensitise the depots on the issue.”

D. Excess expenditure of Rs. 3.89 crore due to non-placement of orders under repeat order clause/option clause by DGOS/CODs

3.45 As per Defence Procurement Manual 2009, purchaser retains the right to place orders for additional quantity up to a maximum of 50 per cent of the originally contracted quantity at the same rate and terms of the contract, under option clause and repeat order provided this clause had been incorporated in the original contract with the supplier. Procurement under option clause is available during the original period of contract. A repeat order may be placed within six months of the completion of the contract.

3.46 Audit observed that the procurement agencies did not avail the provision of repeat order clause, despite incorporating the said provision in the supply order and instead, placed a fresh supply order at rates higher than the earlier ones, which resulted in excess expenditure of Rs. 3.44 crore.

Excess expenditure due to non-availing of repeat order clause (Rs. *in lakh*)

Name of the unit	Number of cases where repeat order clause was not exercised	Loss due to non-availing benefit of the Repeat order clause
DGOS	01	95.44
COD Agra	51	234.15
COD Dehuroad	14	14.71
Total	66	344.30

3.47 Similarly, the procurement agencies did not avail the provision of option clause, and instead placed a fresh supply order at rates higher than the earlier ones, which resulted in excess expenditure of Rs. 44.59 lakh.

Excess expenditure due to not availing the option clause (Rs. *in lakh*)

Name of the unit	Number of cases where option clause was not exercised	Loss due to non-availing benefit of the option clause
COD Agra	17	13.88
COD Dehuroad	89	30.71
Total	106	44.59

3.48 Audit pointed out that that due to eschewing of the available repeat/option clause under supply orders resulted in extra expenditure of Rs. 3.89 crore. In reply, it was clarified that even IFA did not accept repeat order clause which rules out competitive bidding. Audit pointed out that the cases of repeat order brought out in the report were mainly pertaining to DPSUs where no other supplier exists. Ministry, thereafter, stated that this aspect would be examined.

3.49 The Ministry furnished the following in their background note:-

“Majority of the items pointed out by the audit pertain to DPSUs. Option clause in certain cases was not exercised due to failure of DPSUs to supply stores for prolonged periods against old supply orders.

Notwithstanding, the point has been noted for compliance and wherever possible Option / Repeat Order Clauses will be adequately exercised as per the relevant guidelines given in DPM 2009.”

3.50 On the issue as to why the Ministry did not take advantage of the repeat order and option clause and why a fresh supply order was placed at rates higher than the earlier ones, which resulted in excess expenditure, the Ministry gave the following reasons:-

(a) Deficiency of any equipment is being calculated only after Annual Provision Review which is an exercise carried out annually. While validity of option clause is till receipt of supplies as per contract and Repeat Order upto 6 months from date of last delivery of contracted quantities at times both options don't fall within currency of review.

(b) Majority of the items pointed out by the audit pertains to DPSUs. Option clause / Repeat Order in certain cases were not exercised due to failure of DPSUs to supply stores for prolonged periods against old supply orders, hence there was no point placing Repeat Order/Option Clause.

(c) Repeat order /Option clauses could not be exercised in certain cases due to numerous reasons as given below: -

(i) Delays due to deliberations on the cases between the stakeholders i.e. CFA, IFA and the depots which led to lapse of timelines.

(ii) Cases identified by the depot for comparison of subsequent procurement pertain to central and local procurement which have different clauses. In the local procurement, no repeat order /option clause is included.

(iii) The depots contend that utilization of option clause would have resulted in splitting of the quantities as the APR outcomes (quantities required) were more than the permissible quantities in previous SO for utilization of repeat order/option clause. This would have resulted in a subsequent audit objection wherein a requirement has been split and covered under two SOs.

(iv) Oversight in some cases.

(d) Notwithstanding the above, the depots have been advised to utilize the option and repeat order clauses wherever feasible. The details repeat orders / option clauses placed by COD Dehu Road are tabulated below: -

S No	Year	No. of SOs placed under Repeat Order/ Option Clause
(i)	2020-21	27
(ii)	2021-22	23
Total		50

3.51 When asked what measures have been taken to avoid such situations in future, the Ministry submitted the following:-

“(a) Though as per Para 7.13.1 of DPM it is clearly stated that Repeat Order (RO) /Option Clause (OC) should not be included as a matter of routine in the RFPs but wherever possible depending on case to case basis RO/ OC are being adequately exercised. DAD has regularly advised against including of RO/OC clause on the premise that this leads to higher price being quoted by vendor to include cost escalation due to time lapse.

(b) The depots have been advised to utilize the option and repeat order clauses wherever feasible.”

V. Procurement for UN Mission

3.52 Indian Army contingents are deployed in United Nations Peacekeeping Missions, viz., United Nations Stabilisation Mission in the Democratic Republic of Congo

(MONUSCO), United Nations Mission in South Sudan (UNMISS) (wet lease ¹⁶) and United Nations Interim Force in Lebanon (UNIFIL), United Nations Disengagement Observer Force (UNDOF) (Dry lease ¹⁷) as per Memorandum of Understanding (MOU) between the Government of India and United Nations (UN). The contingents are equipped with Individual Kit Items (IKI) including military equipment as per the Memorandum of Understanding (MOU) with United Nations (UN).

3.53 The contingent Owned Equipment (COE) system was adopted by the UN by which countries are reimbursed for providing equipment and personnel to the contingents in peacekeeping missions. Reimbursement is limited to the items of serviceable major equipment (including associated minor equipment and consumables) specifically agreed to by the UN. In case a unit provides less equipment than stipulated in the MOU, the reimbursement is only for the equipment actually provided. The reimbursement rates are based on the generic fair market value of equipment which is determined by the General Assembly.

3.54 Audit noticed that Indian Army contingents deployed to UN Mission were not adequately equipped with major equipment. Delays in meeting the demand of the units resulted in deduction in reimbursement due from the UN as discussed in the paragraphs below.

3.55 The Committee desired to have a detailed account of the terms of reference in respect of providing equipment and personnel to the UN peacekeeping missions, the agencies involved in the process and reimbursements. In response, the Ministry furnished the following information:-

"(a) Terms of Reference for Providing Equipment to UN Peacekeeping Mission.

(i) UN HQ (Department of Peace Operations, Office of Military Affairs) issues a document called Statement of Unit Requirement (SUR) which defines employment concept, capabilities, standards and tasks for the unit to be deployed in a peacekeeping operation. It lays down requirement in terms of manpower, major equipment and self sustenance capabilities.

(ii) SUR is analysed at Service HQs and certain adjustments, if required, are requested to UN HQ to include maximum equipment which is available with Indian Army or commercially available. However, not all requests are accepted by UN.

(iii) Based on SUR, a Memorandum of Understanding (MoU) is signed between India and UN. This MoU is vetted by MoD and Ministry of External Affairs.

⁶ Reimbursement system whereby the troop contributor assumes responsibility for maintaining and supporting major and minor items of equipment deployed. The troop/police contributor is entitled to reimbursement for providing this maintenance support.

⁷ Reimbursement system whereby the troop contributor provides equipment to a peace keeping mission and the United Nations either assumes responsibility for maintaining the equipment or arranges with a third party for maintenance of the equipment.

(iv) Earlier, post conclusion of MoU, a GSL was obtained from MoD for procurement of major equipment and self sustenance requirements. However, post promulgation of DFPDS-2021, MoD has stipulated that GSL is not required to be obtained and procurement can be initiated by CFAs on conclusion of MoU.

(v) Agencies Involved in the procurement process:-

(aa) SD-3B (UN Lgs) - Provision action.

(ab) Respective CFAs - VCOAS, MGS, ADG Proc (A), ADG Proc (B) for procurement of major equipment/ stores. Ordnance, Engineer, Medical CFAs under respective delegated financial powers and contingent commanders for procurement of self sustenance requirements.

(ac) Various Procurement Agencies - Directorates under MGS Proc such as MGS Proc (L&E, UN) MGS Proc (Amn), MGS Proc (GS&C), MGS Proc (Armt), MGS Proc (Vehs), ESP-2, COD Delhi Cantt, AFMSD, AFTC and ESD.

(ad) Respective IFAs such as Pr IFA (Army Ord), Pr IFA (DGAFMS) etc.

(ae) Respective budget disbursal agencies such as FP-2, OS-28, ESP-1, DG-2C etc.

(af) MoD (Fin) for procurement cases more than Rs 300 Crore or capital procurement on Single Tender Enquiry basis for more than Rs 150 Crore.

(vi) **Reimbursement Process.**

(aa) Respective COE Inspection Teams carries out quarterly inspection of major equipment and self-sustenance capabilities based on which reimbursements are admitted. Reimbursements are denied for non-serviceability. Deficiency as non-serviceability of more than 10% COE results in deduction upto 35% from troop reimbursements.

(ab) Various DAD Cells deployed with UN Contingents, UN Cell, PCDA New Delhi and Permanent Mission of India, New York are involved in reimbursement process.

A Loss due to non-availability/unserviceability of major equipment in UN Mission Area and deduction from Troop Reimbursement

3.56 Audit examination of COE reimbursements of Mission MONUSCO (Congo) and UNMIS (South Sudan) for the period 2017-18 and 2018-19 revealed (February 2020)

that deduction of US \$ 108.21 lakh was made from COE payments for major equipment not in the mission area and for unserviceability of some major equipment.

3.57 Audit noticed in February 2020 that 64.11 percent of the total deduction (US\$ 27.28 lakh of 42.56 lakh) from amount reimbursable to Mission MONUSCO (Congo) was on account of deficiency of the major equipment for Rapid Deployable Battalion (RDB) during 2017-18 and 2018-19.

3.58 UN had also deducted an amount of US \$ 440.90 lakh during the earlier period from April 2013 to December 2016 on the same account. Audit noticed that UN had deducted US \$ 98,150 on account of deploying truck not matching the required specification/capacity in the Mission Area.

3.59 Audit has cited a case study on delay in providing equipment in the Mission area. Government sanctions were accorded for procurement of five equipments in January 2017 and for one equipment in May 2018 and supply orders were placed in April 2018 and February 2019, respectively. The equipment was received in COD Mumbai in January/August 2019. Audit noticed that there were delays ranging from 27 to 83 weeks in placing supply orders as well as receipt of equipment.

3.60 Audit also noticed that moratorium on import was imposed by the Democratic Republic of Congo from December 2018 to December 2019 and the contract for transportation of equipment in the Mission area was concluded in March 2020. The equipment was received in the Mission area in August 2020.

3.61 As a result of delay in procurement and consequent late transportation of the newly procured equipment to the Mission area, reimbursement of US \$ 12.71 lakh to the Ministry for the delayed period is doubtful.

3.62 Ministry stated in February 2021 that (i) in-service vehicles (truck) readily available in the inventory of Indian Army were deployed in the Mission Area and a case had been taken up with UN to amend MOU which was done and reimbursement of these vehicles commenced from January 2017 (ii) moratorium for importing military equipment for almost twelve months from December, 2018 by the Government of Democratic Republic of Congo was the major reason for non-transportation of vehicles and other equipment to the Mission area and (iii) contract for transportation was concluded in March, 2020 and the vehicles were transported in June, 2020 and these reached the Mission area in August, 2020.

3.63 According to Audit, Ministry's reply was not tenable as the specific equipment required to be deployed in the Mission area was known and it was necessary to provide such equipment as per UN requirement. Further, timely procurement of equipment, immediately after receipt of sanction from Ministry, would have ensured transportation of equipment to the Mission area before imposition of moratorium by the Democratic Republic of Congo.

3.64 Audit examination of realization of amount towards reimbursement from UN revealed that deduction of US \$ 147.21 lakh from Troop Reimbursement at MONUSCO and UNMISS during the period from April, 2017 to March, 2019 was also made on account of non-availability of serviceable contingent owned major equipment.

3.65 Besides, an amount of US\$ 661 lakh for the earlier period from March, 2014 to January, 2017 was also disallowed towards cost of troops. Ministry incurred loss of US\$808.21 lakh during the period between April, 2013 and March, 2019 on troop reimbursement due to major equipment not being in the mission area or unserviceability of the equipment. Ministry's reply was silent on reduction from troop reimbursement.

3.66 In this regard, the Ministry submitted the following in their background note:-

"Since Mar 2019, a number of policies have been formalised to improve equipment serviceability and available in UN contingents. Due to these efforts, the equipment status in mission area has improved and reimbursement for major equipment has increased to 90% of auth. In addition, to address existing and future requirements, a roll on Plan to replace equipment in mission area before completion of its shelf life has been evolved. Deficiency in equipment is also being procured as part of this Roll On Plan. Concurrently case has been taken up with UN HQ to amend the respective MoUs and remove the equipment/ vehicles that have limited exploited or are not available for procurement in the India."

3.67 When asked about the reasons for inadequately equipping or delay in meeting the demands of Indian Army contingent deployed on UN Mission which resulted in huge deduction in reimbursement due from the UN, the Ministry submitted the following written reply :-

"(a) **Reasons for Inadequate Equipping.** UN procurement is time sensitive where failure to procure and deploy equipment results in corresponding loss of reimbursements. Few of the reasons are as under:-

(i) UN procurement is governed by provisions of GFR (amended from time to time) and DPM-2009. These provisions are more suited for procurement where there is no financial penalty due to procurement delays and focus is on following elaborate procedures and achieve most competitive rates even at cost of re-tendering a case multiple times.

(ii) Even during promulgation of DPM-2009, it was suggested by service HQ that UN procurement be kept out of scope of DPM-2009, however, the same was not agreed to by MoD (Fin) (S No 23 of supplement 2010 to DPM-2009 refers).

(iii) Since there is no procurement procedure specific to UN procurement, various CFAs and IFAs apply template of routine procurement procedures which are not suitable for time bound procurement required for UN.

(iv) In certain cases, equipment asked by UN for deployment is not commercially available in India due to unique technical specifications mandated by UN. In such cases, industry is approached to custom manufacture such equipment which results in time delays.

(v) Till 2017, for procurement of major equipment GSLs were sanctioned by MoD which used to take considerable time thus resulting in procurement delays. MoD GSL was a pre-requisite for carrying out UN related procurement.

(vi) UN stores are custom duty exempted. However, host country sanctions import of UN stores and provides custom duty exemptions. Number of times host country do not provide these exemptions in time which results in delay of transportation of equipment to mission areas.

(vii) Due to disruption in contracts, regular container movements did not take place to MONUSCO and UNMISS between 2012 and 2014. The containers started reaching the UN mission from May 2015 onwards, hence reimbursements have increased thereafter.”

3.68 On the question of what action has been taken to prevent recurrence of such situation in future, the Ministry provided the following reply:-

“(a) **Policy Changes.** Number of policy changes have been implemented to expedite UN procurement process from 2017-19. Some of these are listed below for consideration.

(i) **Fast Track Procurement Procedure.** Schedule 25 was added to the DFPDS 2016 in March 2017 wherein VCOAS was given financial powers to carryout emergency procurement of equipment for UN on urgent basis. SOP for the same was also promulgated duly concurred by all stakeholders including Pr IFA (Army-Ord) & MoD (Fin). This SOP is being further refined to factor creation of new procurement verticals in Army HQ, enhanced financial powers of CFAs and latest Government policies on public procurement.

(ii) **Permission to Procure Major Equipment in Mission Area.** MoD has approved procurement of equipment in UN mission area to reduce procurement time and cut down delay in transportation of equipment to mission area. List of equipment procured in various mission areas is given at **Appendix ‘C’**.

(iii) **Enhancement of Contingent Commanders’ Financial Power for Procurement of Minor Equipment in Mission Area.** The financial powers of the Commanding Officer (CO) of UN contingents have been enhanced from Rs 30 lacs to Rs 60 lacs per rotation. These funds are available to the CO for procurement of minor equipment, primarily stores, spares & accessories required for ensuring the serviceability of Major equipment and self sustenance capabilities in mission area. The Contingents are also allowed to procure such spares in mission area to cut

down logistics chain & thus reducing repair time of Major equipment in mission area.

(iv) **Maintenance of Spare Brick.** Each contingent has been authorised to demand a Spare Brick of medical stores, Hygiene & Chemical stores, spares of equipment, tyres, tubes & batteries to ensure continuous availability of spares in msn area.

(v) **Maintenance of Additional 10% Equipment with Contingents.** Contingents are being issued with additional 10% equipment (selected inventory/ equipment being exploited extensively for Operations) to ensure 100% equipment availability/serviceability.

(vi) **Financial Powers to DG SD for Transportation of Stores/ Equipment to UN Mission.** Financial Powers have been accorded to DG SD under ASP Sch-1 of DFPDS 2021 to conclude UN transportation contracts. This has led to reduced transportation timelines and early availability of equipment in mission area.

(b) **Procedural Improvements & Initiatives.**

(i) **Equipment Roll on Plan.** Two-year Equipment Replacement Roll on Plan has been formalised at SD Dte based on utilisation patterns in UN Missions. This will ensure timely changeover of equipment in mission area before it completes its shelf-life.

(ii) **Utilisation of Multiple Transport Options.** There is an annual sea transportation contract in place to move stores to Mission Area. In addition, aircrafts are hired from IAF/ Civil Contractors for transportation of urgently required, spares and other stores to ensure maximum serviceability of Major Equipment deployment in UN Mission.

(c) **Impact Achieved.** Due to these efforts, the equipment state in UN mission has improved resulting in more than 90% reimbursement being received.

(d) However there remains a requirement to promulgate procurement procedure specific to UN requirement to obviate procedural delays caused due to various provisions of GFR and DPM."

Chapter-4 Inventory Management

4.1 The aim of an effective inventory management is to keep inventories as low as possible and at the same time ensure responsive and focused service to the users. An efficient inventory management system encompasses timely provision, procurement, conditioning and disposal of unwanted inventory in an expeditious manner. It is also essential to ensure that critical items are always available and large scale non-moving inventories of unwanted items are avoided.

Inventory holding of the CODs

4.2 Mention was made in paragraph 7.3 (a) of Audit Report No. 7A of 2000 about valuation of ordnance inventory by converting tonnage held into money terms. A recommendation for adopting a system of maintaining price inventory instead of present system of only quantitative accounting was made. Ministry in ATN stated that once the Computer Inventory Control Project (CICP) was implemented, the audit recommendation would be met.

4.3 Audit observed that despite lapse of more than 20 years since the Ministry's long standing assurance and go-live of CICP at COD level since July, 2018, the pricing details of complete inventory had been not updated, due to which the real valuation of inventory could not be made. Audit could work out the value of just 26,950 items out of total 3,56,717 items in the inventory of the three selected central depots where last purchase price was available.

Inventory of three test-checked central depots

Name of the Depot	Total inventory (No of items authorised)	Stock held (Number of items)	Number of items in respect of which value was indicated	Percentage of items in respect of which value was indicated (C) to (B)	Value of the stock held worked out by audit
	A	B	C	D	E
CAFVD, Kirkee	83,473	Details not made available			
COD, Dehuroad	68,364	28,381#	4,925#	17.35	Rs. 162.27 crore (as of November 2019)
COD, Agra*	2,04,880	1,03,186	22,025	21.34	Rs. 1,205.72 crore (as of July 2018)
Total	3,56,717	1,31,567	26,950		Rs. 1,367.99 crore

Note: # Soft data furnished by the Depots.

* Account card soft data as of 07 July 2018 (date of switch of SAP), PRF 2018-19 soft data and total inventory.

4.4 Inventory is always stated in terms of quantity kept in stores. The Ministry were asked if they had any system of maintaining monetary value of the inventory stock at any given time and if so, details (year wise) of the same during the last 3 years. The Ministry furnished the following reply:-

“(a) The total inventory today, listed with Indian Army is 4.5 Lakh items. Pricing of this inventory and arriving at the book value was taken up in earnest during the last one year and has yielded positive results. Specific action to be taken were enumerated and all vendors have been brought on board to provide price lists and these have been updated from industry. Defence PSUs have also forwarded their price catalogues. All new purchases are being updated in real time on ERP systems. Foreign vendor purchases in Indian prices have also been updated. These efforts have ensured pricing of close to 3.5 Lakh items.

(b) In certain instances some sub-assemblies or spares have not been priced rather basket prices have been mentioned by vendors while there are also cases where items are old and new procurement in last 10-20 years have not been done. In all such cases, invoking the policy directives Professional Officers Valuation Boards (POV Boards) including technical members have been ordered. The results are encouraging and pricing is being carried out with speed and intent.”

4.5 Audit further observed that while on the one hand, the depots were unable to meet the demands of the end users as many of the critical and vital stores required by the users were not held by them, on the other hand, they held stores which were not required by the end user as discussed in the following paragraphs.

I. Holding of non-moving and surplus inventory by three central depots

4.7 The matter of serviceable stores lying in the open had also been highlighted in paragraph 14.5 (viii) of C&AG Audit Report No. 7A of 2000. However, even after 20 years, the problem of deficient storage accommodation in the depots was not resolved as stores were still held in the open.

4.8 Ministry stated in February 2021 that COD Dehuroad, CAFVD Kirkee and COD Agra hold many items, which do not have any civil end use. It was explained that an exercise had been undertaken in 2018-19 to identify surplus serviceable/obsolete/obsolescent items and after necessary approval these would be disposed. Ministry further stated that in view of deteriorating condition of existing storage accommodation, urgent necessity to create and modernize the storage infrastructure had been felt. It added that many ordnance depots had been taken under modernization plan; however, due to budget constraints, fructification of these projects takes considerable time.

4.9 In their background note, the Ministry submitted the following reply:-

“Spares pertaining to equipment being phased out are held in the depots till such time complete population of that equipment is totally out of service. These items do not have civil and use and hence unlikely to fetch substantial revenue through auctions.

Approx 80,000 items have been identified for disposal during last two years out of which 40,000 have already been removed from inventory.

More impetus is being given to dispose off non moving inventory within next two years.”

4.10 The Committee sought details of action taken for judicious disposal of obsolete, obsolescent and surplus items and present position of these items. The Ministry submitted the following response:-

“Disposal of Non Moving / Surplus inventory has been identified as a key Result Area at the Central level. More than one lakh items have been identified for disposal. Accordingly, actions taken for judicious disposal of Obsolete/ obsolescent and surplus inventory are as under:-

(i) **Board of Officers Convened to Identify Non Moving Sur Serviceable/OBT inventory for disposal.** A Board of Officers was convened by Mater General Sustenance Branch on 13 May 2019 to identify ‘Surplus Serviceable Non Moving CI ‘B’ {Current items (Non Moving since last 10 years and above) and ‘OBT’ stores (Non Moving since last 5 years and above)}.

S No	COD	Current Non Moving	OBT	Approved for Disposal	Remarks
(aa)	Delhi	10,605	8,924	19,529	Total 24,816 (30%) OBT/Non Moving CI ‘B’ stores disposed off till 30 Sep 22.
(ab)	Kirkee	6,063	4,681	10,744	
(ac)	Agra	33,513	7,196	40,709	
(ad)	Dehu Road	6,006	2,505	8,511	
(ae)	Kanpur	412	21	433	
(af)	Bombay	341	106	447	
Total		56,940	23,433	80,373	

(ii) This inventory is now being actively reduced and out of 80,373 items approved for disposal 24,816 items have been suitably disposed off as per orders/ directions in vogue.

(iii) **Revised Methodology of disposal of OBE inventory.** A study was carried out by ADG OS(A) to define a revised methodology for speedy disposal of obsolete serviceable inventory, a total of 72,130 OBE items are held with CODs and lower echelons as identified in the study. The details of OBE inventory as per the study report alongwith disposal action are as under:-

S No	COD	OBE Inventory (COD)
(aa)	Agra	40,755
(ab)	Jabalpur	5,984
(ac)	Dehu Road	6,425
(ad)	Delhi Cantt	11,338
(ae)	Bombay	482
(af)	Kanpur	6,502
(ag)	Kirkee	644
Total		72,130

Note.

(aa) Inventory identified - 72,130 items

(ab) Inventory disposed - 28,148 items.”

4.11 When asked to furnish details of progress made regarding modernisation and creation of new storage infrastructure and the timeframe of creation of the same, the Ministry provided the following reply:-

“Infrastructure as part of modernisation has been created at COD Kanpur, COD Agra and COD Jabalpur. Modernisation of CASD Delhi Cantt has been planned in the next phase. For other CODs it will be progressed as per priority and availability of funds.”

II. Low User Satisfaction

A. High outstanding demand for stores

4.12 As per existing provisions all demands from the users' units are to be honoured by the depots within 22 days of receipt of the indent. Stores which are not available for issue from stocks in that depot are maintained as dues out by the depot. Audit analysed the data of demands which depots could not honour and, therefore, were converted into dues-out.

Details of Dues-out as of March 2019 at CODs/ RODs

Unit	Total demands outstanding for more than 22 days	Demands outstanding for		
		23 days to 6 months (%)	More than 6 months and up to one year (%)	More than one year (%)
COD Agra	75,190	10,506 (14)	21,944 (29)	42,740 (57)
COD Dehuroad	60,144	22,679 (38)	8,511 (14)	28,954 (48)
9 FOD	35,488	13,601 (38)	12,903 (36)	8,984 (26)
1 FOD	1,25,901	53,864 (43)	31,077 (25)	40,960 (32)
222 ABOD	61,140	21,514 (35)	14,418 (24)	25,208 (41)
224 ABOD	1,41,118	42,383 (30)	36,645 (26)	62,090 (44)

OD Talegaon	90,812	48,530 (53)	19,964 (22)	22,318 (25)
OD Fort	3,507	1,509 (43)	996 (28)	1,002 (29)
21 DOU	29,836	18,601 (62)	4,636 (16)	6,599 (22)
26 DOU	8,054	3,804 (47)	3,528 (44)	722 (9)
11 DOU	17,855	7,351 (41)	4,512 (25)	5,992 (34)
Total	6,49,045	2,44,342	1,59,134	2,45,569
Percentage with respect to total demands outstanding for more than 22 days		37.65	24.52	37.83

Note : Data towards outstanding demands was not furnished by CAFVD Kirkee.

4.13 It could be seen that, as of March, 2019, 6,49,04 demands were outstanding where stipulated time of 22 days had already elapsed. The demands outstanding upto six months raged between 14 and 62 per cent whereas the same beyond six months was 38 and 86 per cent. This indicated inability of the depots in sourcing the required spares. Thus, inordinate delay in procurement activities and delay in delivery by the suppliers resulted in ineffectiveness of depots in meeting the users demand in time.

4.14 On this issue, the Ministry submitted the following in their background note:-

Regional Procurement. In order to arrest this situation of high outstanding dues out with the forward Ordnance echelons, an initiative has been taken in the form of decentralisation of procurement to the level of Regional Ordnance Depots. Approx 4600 fast moving items have been identified and procurement is being carried out regionally with effect from financial year 2021-22. This will enhance the availability of critical stores with field units.

Implementation of CICP Phase II. The implementation of CICP Phase-III will not only provide asset visibility pan India, it will also provide close monitoring of dues out at the managerial level for prompt action to address the issue at all levels.

With corporatisation of Ordnance Factories, indigenisation drive and procurements through GeM, supply situation is likely to improve in future.

The concern of the audit is noted for compliance and will be addressed to a large extent as brought out above.”

4.15 When asked how the Ministry justified outstanding demands to such a great extent, they furnished the following reply:-

“The high outstanding demands are not desirable but supply chain bottlenecks are a reality as highlighted by the audit. As brought out earlier, CAFVD Kirkee is dependent on DPSUs for almost 80% of its inventory which are fraught with

slippages. The slippages were to the tune of 92% in year 2021-22 against Deemed Contracts. These items are not readily available in the civil market as they have no civil end use thus, limiting the vendor base. The criticalities are highlighted at various forums by the Army to the DPSUs at various forums and some requirements are being met by emergency procurement and cannibalization of spares/assemblies from class V equipment.”

4.16 On being queried whether the Ministry / DG OS had analysed the reasons for persistently not meeting demand for stores, the Ministry submitted the following response:-

“The persistent deficiencies have been regularly analysed and highlighted by the Army during numerous institutionalized forums like Target Fixation Meetings, Spare Review Meetings, interactions of high level officials of Army and OFB. Due to limitation of source and OFB slippages, the deficiencies persisted and simultaneously, the Army tried to enhance the vendor base through developmental orders and import substitution through Department of Indigenisation.”

4.17 On the actions that have been taken by the Ministry to reduce the quantum of unmet demands, the Ministry furnished the following reply:-

“(a) The Army has made concerted efforts to develop civil vendor base to enhance the vendor base and increase availability of these spares and assemblies. Towards this, the Army is encouraging the participation of private firms for overhaul of tanks which will enhance the overhauling capacities in the nation and increase the availability of spares required for the tanks and its various assemblies like engines. The DPSUs have also tried to concurrently develop alternate indigenous sources to supply critical parts and assemblies like side gear boxes, tracks etc in the recent years. It is felt that with corporatization of Ordnance Factories, supplies are likely to increase and will make them more responsive.

(b) At the Ordnance Depot, regular interactions with DPSUs and trade/vendors are undertaken to highlight the slippages, lay down priorities for supply of critical stores, etc.

(c) An online trade procurement plan (OTPP) is also prepared and published on internet to publicise the details of items required by the Army along with their anticipated quantities and encourage private players/additional firms to participate in supply of spares. This leads to development of alternate sources for supply of critical spares/items.”

B. High inability percentage to meet users' demand

4.18 Audit also noticed that the depots were calculating the inability percentage by taking total dues-out as a percentage of the total items of inventory (i.e. live PRFs) held by the depot. Accordingly, average inability percentage reported by the depots ranged between 11 and 35 per cent. Audit further observed that the inability percentage in

respect of spares for issue to the ABWs during the period 2014-15 to 2018-19 ranged from 24 to 41 per cent at CAFVD, Kirkee, 33 to 48 per cent at COD Dehuroad and 17 to 37 per cent at COD Agra. This inability percentage against demand of ABW contributes to non-achievement of overhaul targets assigned to ABWs.

4.19 This according to Audit did not reflect the actual level of demand satisfaction as the true performance indicator would be the percentage of demands met out of the demands received by the depots. Audit analysis of the demand satisfaction level with reference to the demands received at the selected CODs/ODs revealed that the depots were unable to issue the stores demanded by the units and the average actual inability percentage for the period 2014-15 to 2018-19 ranged between 48.80 per cent and 77.05 per cent. The actual inability percentage was, therefore, much higher than the inability percentage reported by the depots.

4.20 Ministry stated that in order to arrest high dues-out with forward ordnance echelons, initiatives like procurement at regional depot level; identification of additional sources of supply; Make-in India initiative; and encouraging OEMs/OFB/PSUs to re-establish assembly lines, were being taken. It was added that implementation of CICIP Phase-II would also provide pan-India asset visibility and facilitate monitoring of dues-out.

III Inordinate delay in meeting the demands for equipment out of action (EOA) and vehicles off-road (VOR) by the depots

4.21 As per existing provisions all demands of stores for equipment out of action (EOA) and vehicles off-road (VOR) are to be honoured by the depots within 14 days.

4.22 Mention was made in paragraph 10.4 (d) of Audit Report No. 7A of 2000 regarding inordinate delay in meeting the EOA and VOR demands and it was recommended that every EOA and VOR demand may be monitored at the highest level in the depot and all efforts should be made to speed up clearance of such demand. Ministry in the Action Taken Note stated (December, 2003) that a system of monitoring the EOAVOR already existed, which had again been reiterated by Army Headquarters and the depots had been asked to closely monitor this activity.

4.23 Audit, however, observed that even after passage of two decades, the situation had not changed as 716 out of 1430 (50 per cent) of the EOAVOR demands were outstanding for more than a year as of March, 2019. Inordinate delay in meeting such demands by the depots resulted in equipment out of action (EOA) and vehicles off-road (VOR). Audit noticed that 331 Tanks were off road due to want of 279 type of spares, the demand for which were outstanding at CAFVD, Kirkee. The operational forces were, therefore, deprived of vital equipment and combat vehicles for a long period of time.

4.24 Ministry stated that most of the items of EOAVOR are of OFB/DPSU origin and sometimes remained unavailable for a long time. In such cases, action like procurement ex-trade by identifying sources and retrieval from other equipment was resorted to meet the requirement.

4.25 on this matter, the Ministry submitted the following in their background note:-

“EOA/VOR demands are being monitored on a regular basis. Items, which are of OFB/ DPSUs ex-import origin, are sometimes not available for long. In such cases actions like procurement ex trade by identifying sources and retrieval from other equipment is also resorted to in order to meet EOA / VOR requirements.

As per existing instructions laid down by the Military Operations Directorate, serviceability of vehicles and equipment must be minimum 80 to 90% for different types of equipment. This serviceability level is invariably maintained.”

4.26 The Committee sought to know the action taken to meet the outstanding demands for Equipment Out of Action (EOA) and Vehicles Off Road (VOR) by the users. The Ministry furnished the following reply:-

“Vehicle Off Road (VOR)/ Eqpt Out of Action (EOA)demands have been met through cannibalization, emergent procurement, supplies by Ordnance Factories, placement of developmental orders on private firms concurrently by the Army alongside allocating major quantities to Ordnance Factories, and import as special cases. It is agreed that the delay has persisted due to slippages from the primary source of supply for these items. However percentage of EOA/ VOR is kept below 10% of overall holdings.”

4.27 As per audit, this delay in meeting demands for EOA and VOR has persisted over the last two decades. The Committee wanted to know the reasons for the same, the action taken to improve the situation and the resultant impact. the Ministry replied with the following information:-

“(a) The persistent slippages from DPSUs (erstwhile Ordnance Factories) have led to non-liquidation of VOR/EOA demands of the users. As brought out earlier, slippages to the tune of 92% for spares of armoured fighting vehicles that are to be supplied by AVNL was observed in year 2022-23 against Deemed Contracts. The problem gets compounded by a limited civil vendor base, no civil end use of these items and issues related to Transfer of Technology.

(b) To meet these requirements, regular interactions with the DPSUs, laying down criticalities and minimum quantities required, development of alternate sources etc have been done by the depot ie CAFVD Kirkee. The depot has made considerable headway in developing alternate sources to supply spares of tanks in the last three years.

(c) With corporatization of erstwhile Ordnance Factories and introduction of penal clauses as applicable to civil vendors, it is felt that supply position is likely to improve once the system stabilizes.

(d) The Army is encouraging participation of private firms in overhauling of tanks which will improve the supply of spares of tanks and enhance overhauling capacities in the country. The DPSUs have also promoted and undertaken indigenization of critical assembly's/ sub-assemblies which will also contribute towards reduction of VOR/EOA demands.”

Chapter-5

Computerisation and Internal Controls

I Computerised Inventory Control Project (CICP)

5.1 The Committee have been given to understand that CICP with the aim to automate the inventory management functions of the AOC was sanctioned in July 1994. The entire project was planned in three phases. Phase-I was completed in December 2003 at a total cost of Rs.13.60 crore.

5.2 The delay in completion of the CICP was commented in the Audit Report No. 7A of 2000. On audit recommendation about need to set a definite time frame for implementation of CICP, Ministry in ATN in December 2003 stated that time frame to implement the project was compressed and was being executed on 'Fast Track Mode' and the final Phase-III of the project would be completed by May 2005, Audit recommendations for early implementation of all phases of CICP were also repeatedly made in other Audit Reports i.e. Report No. 3 of 2006 and No.19 of 2015 wherein it was recommended that phase III of the project needed to be sanctioned immediately, so as to reap full benefits of computerisation and to avoid further time over-run.

5.3 Audit noticed that despite assurance by the Ministry in ATN to complete Phase-III by May 2005, the sanction for Phase-II of the project itself was accorded by Ministry in November 2005 at an estimated cost of Rs.165.60 crore to be completed in five years i.e. by November 2010. The scope under Phase-II included⁸ automation of a chain of lower ordnance echelons, ammunitions depots, vehicle depots and aviation depots. The sanction accorded was for extension of customised software as developed under phase-I. In response to Expression of Interest (EOI) floated in December 2005, most of the shortlisted firms recommended in March 2006 for adoption of ERP⁹ solution instead of customised approach because it was considered to be technologically superior. Ministry in January 2008, approved the change in approach for adoption of ERP solution for the sanctioned project, without changing the scope of automation and sanctioned amount.

5.4 Finally, in July 2015, M/s L&T Infotech was awarded the contract for execution of Phase II of CICP in 18 months at an amount of Rs.358.12 crore. The contract

⁸ Units included:-

1. Ordnance echelons:- a Divisional Ordnance Unit (DOU), a Central Vehicle Depot (CVD), a Vehicle Depot, a Technical Store Section (TSS), an Ordnance Store Section (OSS).
2. Aviation:- Central Aviation Support Depot (CASD), a Regional Ordnance Depot (ROD) (Aviation), a Maintenance Flight.
3. Seven Central Ordnance Depots (CODs)/Central Armoured Fighting Vehicles Depot (CAFVD) and one ROD.
4. Management Information System (MIS)/Decision Support System (DSS) for Army Headquarters/Ministry of Defence and intermediary formation headquarters.

⁹ ERP – Enterprise Resource Planning is defined as the ability to deliver an integrated suite of business applications. ERP tools share a common process and data model, covering broad and deep operations end-to-end processes, such as those found in finance, HR, distribution, manufacturing, service and the supply chain (As per Gartner Glossary).

concluded for Phase-II of the project included, inter alia, implementation of the ERP, associated software, hardware and networking components based on centralised architecture at implementation sites which included various depots, units and Army Headquarters among others. The scope of the contract provided for Testing and Final preparation as well as GO-Live followed by maintenance and operation for seven years. Ministry approved in August 2019, partial Go-Live with effect from July 2018 in respect of Aviation, Vehicle and Ordnance verticals and start of operation and maintenance services. The Go-Live in respect of all verticals except Ammunition was achieved as of February 2020.

5.5 Audit selected two ordnance sections¹⁰ at Army Headquarters and three central depots¹¹ to assess the implementation of CICIP and observed issues from October 2019 to February 2020 that are outlined in the succeeding paragraphs.

A Implementation issues of CICIP Phase-II at Army HQ

5.6 Annual Provision Review of Class A stores was not being conducted through ERP Application of CICIP (Phase-II) owing to non-integration of all stakeholders and was being carried out manually. Besides, other activities like issue of SPRD¹² to central depots, obtaining stock position of Class A stores from the holding depots, approval of higher Competent Financial Authority (CFA) cases of Class B stores and placing of supply orders for Class A and B stores were also being performed manually i.e. through paper correspondence. The issue of non-utilisation of on-line concurrence facility by the AHQ/MoD was also raised in the Audit Report No. 3 of 2006 (paragraph 4.3.4) wherein Ministry had replied that a deliberate decision was taken to use on-line concurrence to PFRs by the AHQ/MOD in phase II after all the eight CODs got covered under CICIP. This issue was, however, still not resolved even after more than two years of implementation of Phase-II. Further, non-integration of the external agencies like MISO, Electronics and Mechanical Engineers (EME) directorate and user directorates was resulting in non-availability of crucial inputs online needed for the provisioning and procurement of stores. The end user of the project was, therefore, constrained to work manually rather than using ERP application.

5.7 In reply, Ministry stated that solution for carrying out provisioning of Class A and Class B stores had been developed and was ready for execution; provisioning activity of Class A stores in respect of 'Vehicles' had been completed; was pending in respect of Armament Engineering & Signals and Ammunition. Further, AoN for CICIP Phase-III at an estimated cost of Rs. 496.56 crore was accorded in November 2020.

¹⁰ Ordnance Section at Army HQ – 1. Combat Vehicle (CV) Wing and 2. Electronic & Engineering (L&E) Section of Technical Stores (TS) Wing.

¹¹ Central Ordnance Depots – 1. COD Delhi Cantt, 2. COD Dehuroad and 3. Central Armoured Fighting Vehicle Depot (CAFVD) Kirkee.

¹² SPRD – Supplementary Provision Review Directives (SPRD) is issued by DGOS to CODs before commencement of financial year which constitute important policy guidelines, population of vehicles, overhaul target, etc.

5.8 The fact, however, remains that even more than two years after ERP Application under Phase-II of CIGP had gone live, the provisioning activity integrated with all stakeholders had not yet been fully implemented in Army HQ. Further, various other depots/units outside the scope of Phase-II would not be brought on the ERP Application until successful completion of CIGP Phase-III.

5.9 One of the important advantages of the automation was timely asset visibility of complete range of inventory across the depots and units from lowest to highest level. However, inordinate delay in implementation of the automation project has deprived Army HQ as well as the central depots of the advantages of automation. Besides, lack of integration of MISO application and connectivity with users and other directorates would adversely affect optimum utilization of the already implemented ERP Application.

5.10 The Ministry submitted the following in their background note:-

“For speedy implementation of CIGP Phase-III, necessary measures have been taken by Service Headquarters by enhancing internal controls of the project with constitution of three additional committees viz, Empowered Committee headed by VCOAS, Oversight Committee headed by MGS and Steering Committee headed by ADG EM for progressing CIGP Phase III vide letter No 57926/ICT/DCOAS (IS&C) Sectt/CIGP dt 16 Jul 2021 in addition to governing mechanism sanctioned by CCS viz, Project Management Board headed by Secretary DMA, Executive Committee headed by Additional Secretary, DMA, as also, a Steering Committee headed by DDG OS CIGP at CIGP as per Contract of Phase II.

Remedial action taken:-

(a) Annual Provision Review of Class A Stores have been started for Armament, Engineering & Signals (AE & S) stores through ERP application of CIGP Phase II.

(b) Approval of higher CFA cases for Class B stores is being obtained via File Lifecycle Management (FLM) module in ERP application. Supply Orders for Class B stores are being generated in ERP application.

(c) Asset Visibility at all levels on ERP application for obtaining stock position of Class A stores from the holding depot is being utilised.

(d) With regard to integration with MISO, exchange of pertinent data with MISO on a weekly basis is being done. Other Directorates (MGS Branch, OL Directorate & FP Directorate) have been provided with SAP system to extract relevant data from system.”

5.11 When asked whether provisioning of Class A and Class B stores was being done through ERP, and if not, the reasons therefor, the Ministry submitted the following written reply:-

“(a) Annual Provision Review of Class A Stores to include B Vehicles, Armament, Engineering & Signal (AE&S) stores is being done through a customised SAP ERP application of CIGC Phase-II.

(b) Provision review of complete Class ‘B’ inventory is being carried out by Central Depots through the Advance Planning & Optimisation (APO) module of SAP ERP. The forecast requirement and indent generated as outcome of APO process is being vetted by various depot functionaries, I&BC, CQA and higher CFAs at Army HQ on CIGC SAP system.”

5.12 The Committee desired to know whether all the external agencies like MISO, EME Directorate and user Directorates had been integrated with CIGC. The Ministry submitted the following written reply:-

“(a) With regards to integration with external agencies, CIGC has already onboarded MISO, DGQA, CQAs, PCDA and LAO on CIGC SAP system. The functionalities of listed external agencies have already been developed and external agency users are working on CIGC SAP ERP system to perform their official activities online.

(b) Other Directorates (MGS Branch, OL Directorate & FP Directorate) have been provided with SAP system to extract relevant data from system.

(c) As per current directions of Service Headquarters, units of EME Test Bed will be integrated with CIGC Phase-III. Accordingly, 23 EME echelons have been included in RFP of CIGC Phase –III.”

5.13 The Committee also desired to be apprised of the present status of implementation of CIGC Phase-III. The Ministry furnished the following reply:-

‘Post AON for Phase-III, NISG (Technical Consultant) has been onboarded on 21 Jan 2022. RFP (OTE) prepared in consultation with NISG has been approved by the Secretary DMA (CFA). RFP (STE) has been prepared and vetted twice by RFP Vetting Committee. Further, it has been progressed for approval of CFA.’

5.14 When asked if inventory management had suffered because of lack of proper ICT application and if so, what efforts had been made by the Ministry / Army to fast track and complete the process on priority, the Ministry submitted the following written reply:-

“Between 2003 and 2011 AOC had developed and implemented customised Inventory Management Application in all its units thereby automating the Inventory Management Functions. In year 2015 CIGC Phase-II was launched to upgrade the existing automation to ERP to exploit the benefits of an Enterprise System. At present ERP is implemented at 23 AOC units/ Headquarters and 27 external entities. A Hybrid System in form of AOC Web Portal has been developed used to reap benefits of both ERP and legacy Systems. The CIGC Phase III (to extend SAP ERP to remaining units of AOC supply chain) is under progress and likely to be completed by 2025. In next phase it is planned to

upgrade the system to SAP S4 HANA. So, it is inferred that the upgradation of an automated system is an ongoing process and similarly already implemented automated Inventory Management System is also under upgradation.”

5.15 The Committee desired to know if the Ministry/ DG OS had gathered information from other developed countries' CICIP system as to how they manage their inventory. The Ministry submitted the following replies:-

“(a) The USA & UK adopt Single Service Command Logistics Structures. Logistic for operations is directed and coordinated through a Joint Logistics Command and Control node.

(b) The PLA has integrated IT into logistics equipment to support precision logistics and mobilised by employing internet of things, big data and cloud computing.

(c) SAP ERP is a robust application which is being used by Armies of several developed countries like USA, Germany, Australia, Denmark, New Zealand, Israel, France, Poland, Canada, Italy, Spain, Turkey, Sweden, Portugal, Slovakia & Slovenia etc. Accordingly, the same Enterprise Software (SAP ERP) was selected for implementation of AOC Inventory Management Application.”

5.16 In terms of Inventory Management and Automation, the Ministry submitted the following information:-

AOC constantly strives to ensure responsive and efficient inventory management system through timely provision, procurement, distribution of the required inventory, and disposal of unwanted inventory which is finally rendered obsolete and de-scaled. The aim is to achieve a very high degree of operational preparedness of the Field Army by maintaining maximum serviceability of vehicles, armaments and equipment as per the laid down policy.

The advent of automation and implementation of ERP SAP through CICIP in the inventory management functions of AOC alongwith all stake holders at the Apex level and across all ordnance echelons in a phased manner has immensely enhanced the efficiency in Inventory Management with pan India visibility and integration of all inventory management functions. Phase-II of the project has already been implemented wef the year 2018 across all CODs and concerned functionaries at Army HQ level besides the other stakeholders including Integrated Finance Advisors and has stabilised over a period of past three years.

In order to prepare for the roll out of Phase-III of the project, for which the AoN has already been accorded, ERP SAP in one field formation vertical upto a Divisional Ordnance Unit and an EME Battalion has also been implemented as a part of CICIP Phase-II as a test bed. The Phase-III of the project is now at an advanced stage of RFP formulation.”

II Internal Controls

5.17 Audit observed certain inadequacies in the prevailing internal controls and monitoring mechanism of the Ordnance Services, which are discussed below.

A Non-receipt of confirmation of receipt of stores at consignee end

5.18 Receipt of stores at the consignee end is confirmed by the consignee through return of a copy of issue voucher enclosed with the stores. Issuing depots are required to monitor such return to ensure receipt of issue voucher duly acknowledged by the consignees. In case of non-receipt of acknowledgement of stores, possibility of wrong dispatch of stores or loss of stores in transit or pilferage could not be ruled out. In C&AG Report No. 7A of 2000 (Paragraph 10.4 (F)), huge backlog in receipt of the acknowledgement from the consignees was highlighted. Audit observed that there was little improvement in the situation as of 31 March 2019.

Cases where acknowledgement was yet to be received by the issuing depot

Units	Year wise number of vouchers outstanding for acknowledgement				
	2014-15	2015-16	2016-17	2017-18	2018-19
COD Agra	23124	21850	7528	6846	4956
CAVFD Kirkee	12427	11015	11493	8131	11369
222 ABOD	869	1282	8759	123	1513
COD Dehuroad	1722	1185	466	1058	NA
OD Talegaon	Year wise outstanding vouchers not furnished			9924	8953
9 FOD	0	0	0	0	153
1 FOD	Year wise outstanding vouchers not furnished			67	549
OD Allahabad	Year wise outstanding vouchers not furnished			64	375

5.19 Outstanding acknowledgements of stores reflect that the COD/OD/ABOD had not ensured the confirmation of receipt of stores at the consignee end. This is indicative of ineffectiveness of the internal control and monitoring mechanism prevalent in the ordnance depots.

5.20 Ministry stated that backlog in confirmation was caused by various factors like (a) many stores are collected centrally by Regional ODs and distributed to the units which finally clear RV (receipt voucher) (b) moving of units to alternate locations, (c) non-availability of tracking facility in the package dispatched by Army Postal Logistics, etc. Ministry added that considerable progress had been made in receipt of confirmation of stores.

5.21 The Ministry submitted the following in their background note:-

“Considerable progress has been achieved and RV-2 has been cleared. The details of outstanding RV-2 as on date are as under: -

S No	Details	Year				
		2014-15	2015-16	2016-17	2017-18	2018-19
(a)	As per Audit	23124	21850	7525	6846	4952
(b)	Cleared	22754	21411	6724	5082	3732

Reasons for Backlog.

- (a) Stores being collected by ROD on behalf of units to aggregate piecemeal loads which is further being collected by units.
- (b) There are instances where the units move to alternate locations which during the interim period causes delay in the stores reaching the new destination.
- (c) User units are committed in various operational preparedness activities i.e. deployed in field, thus leading to time delay in processing RVs.

Improvements proposed in System.

- (a) Considerable progress made in interim period (62000 RVs cleared).
- (b) Environment sensitisation to timely clear outstanding RVs.
- (c) The concerned RODs and units were adequately expedited by CODs. As a result, all pre-ERP/SAP pending receipt vouchers have been successfully cleared by the depot.”

5.22 On being asked about the action taken by the Ministry for timely receipt of confirmation of receipt of stores at consignees end, the Ministry furnished the following reply:-

- “(a) There are many stores that are collected centrally by Regional Ordnance Depots (RODs) on behalf of the units to obviate piecemeal loads. The units thereafter collect the stores from the RODs resulting in delays in clearance of Receipt Vouchers (RV). This being a linked activity tends to get delayed.
- (b) Further, there are instances where the units move to alternate locations and owing to the same either documents are delayed or stores are left lying in previous locations.
- (c) RV copies received are delayed in updating on SAP due to acute shortage of manpower or committed in various operational preparedness activities i.e. deployed in field for major part of the year. This also accounts for the delay at times.

- (d) Concerted efforts have been made by the depots to clear the backlog of pending RVs. Details of pending RVs as on date are tabulated below: -

CAFVD Kirkee.

<u>S No</u>	<u>Yr</u>	<u>O/s as per CAG Report</u>	<u>Cleared</u>	<u>O/s as on Date</u>
(i)	2014-15	12427	12205	222
(ii)	2015-16	11015	10839	176
(iii)	2016-17	11493	11367	117
(iv)	2017-18	8131	7977	154
(v)	2018-19	11369	11368	01
Total		54435	53765	670

COD Dehu Road.

<u>S No</u>	<u>Yr</u>	<u>O/s as per CAG Report</u>	<u>Cleared</u>	<u>O/s as on Date</u>
(i)	2014-15	1722	1722	Nil
(ii)	2015-16	1185	1185	Nil
(iii)	2016-17	466	466	Nil
(iv)	2017-18	1058	1058	Nil
Total		4431	4431	Nil

(e) **Remedial Measures.**

- (i) Considerable progress has been made in clearance of RV's of outstanding cases (approx 62000 RVs have been cleared).
- (ii) RODs and units are being regularly expedited by COD's.
- (iii) Post implementation of SAP / ERP, all activities will be on one platform and receipt vouchers will be cleared by Depots within time frame.
- (iv) DO letters are also being written to fmns and units for early clearance of RVs.
- (v) Active involvement of Fmn HQs for necessary instructions to units for early clearance of RVs is also being sought.
- (vi) Stores are being collected by RODs and also stores are being dispatched to central locations directly to be collected by respective units to ensure direct delivery to avoid transshipment/double handling etc.
- (vii) Prior to moving to new location, clearance/ NOC from Depots/RODs is mandatory thus resulting in early clearance of RVs."

5.23 The Committee desired to know what action had been taken to strengthen the internal control mechanism to ensure (a) resolution of backlog in receipt of the acknowledgement from the consignees, and (b). the acknowledgment is received in time from the consignees. The Ministry gave the following written reply:-

“(a) Concerted efforts have been made by the depots to clear the linking of outstanding RVs through DO letters, interaction with concerned units and expediting by concerned officials as evident from the progress on the issue. Depots have been instructed to give due diligence to updation of RVs and has been included in the technical KRAs of the depot commandants.

(b) With implementation of CICG, the data visibility has further increased and all outstanding RVs are thereof being monitored regularly, almost on real time basis. This has ensured timely corrective actions by the depot to viz expeditors to respective consignees and personal interactions on tele between the depot Comdts and consignee unit COs.

(c) Certain pre-emptive actions have been started to ensure timely acknowledgement of receipts. These are as follows: -

(i) Withholding transactions for units for excessively delayed RVs (over 3 years).

(ii) Obtaining RVs through AOC portal to ensure faster clearance.

(iii) Designing ERP/ interim solutions to ensure RVs are being given on time.

(iv) Increase impetus on regular clearing of RVs and same being monitored during regular insp/performance audits to ensure timely clearance.

(v) Slowly transitioning to digital way of documentation & information updation (incl audit approvals).”

B Discrepancies in issue and receipt of stores

5.24 Defence Service Regulations (DSR), stipulate that on accepting the discrepancy in receipt of stores at consignee level by the consignor, the latter should replace the stores on nominal vouchers. In case of non-acceptance, the original copy of the discrepancy report should be returned to the consignee, together with a statement of reasons for not admitting responsibility and the consignee should proceed with action to obtain orders of the CFA converting the provisional loss statement into a regular one. Details of Discrepancy Report (DRs) in two central depots are given in Table below.

Details of Discrepancy Reports (DRs) in central depots during 2014-19

Sl. No.	Unit	No. of DR received by the depot	No. of DR accepted by the depot	Unaccepted cases where value was available	Value of unaccepted DRs (Rs. In lakh)
1.	CAFVD Kirkee	215	15	154	80.80
2.	COD Dehuroad	597	48	494	76.25

5.25 It could be seen from the above that, in majority of cases, the discrepancies raised by consignees were not accepted by the consignor. Audit observed that in respect of CAFVD Kirkee and COD Dehuroad, the number of unserviceable items received by consignee and reported in DR was 26 and 188 respectively. It was further observed that after investigation of the above discrepancies, the consignor depot authorities invariably stated that the stores were correctly dispatched; there was no surplus/deficiency found in the stores of the depot; and discrepancy of the stores should be regularized/settled/adjusted at the consignee's end. Accordingly, the consignee units, in accordance with the provisions of DSR, regularized the cases in a routine manner as loss without any further investigations whereas these discrepancies could have been due to theft, fraud or neglect.

5.26 Ministry stated that cases of discrepancies were centrally dealt by the depot with concerned OFs and consignee units. It was added that any deficiency in transit is clearly mentioned in the minutes of the Board of Officers meeting, based on which discrepancy is raised and that there is provision of charging loss from transit agency. Ministry contended that there was no case of damage in transit reported at CAFVD Kirkee during 2014-15 to 2018-19.

5.27 Ministry's reply was silent about unserviceable items reported in the other depot. In case of CAFVD Kirkee, it did not offer plausible reasons for the items to be reported as unserviceable by the consignee.

5.28 The Ministry submitted the following information in their background note:-

"The cases of discrepancies are centrally dealt by the depot with concerned Ordnance Factories and the consignee units. The agency for transit is only responsible for total number of packages and any change in condition of stores. Any deficiency in transit is clearly mentioned in the Board of Officers based on which discrepancy is raised and there is a provision of charging off the loss from the transit agency. There is no case of damage in transit reported at CAFVD during 2014-19.

Out of a total number of 215, the discrepancies against 15 accepted Discrepancy Reports (DRs) have already been settled by dispatching the stores to the consignee and no action is pending for settlement against them. For rest of the cases action for the settlement of provisional DR as per procedure have been initiated at consignee side.

Raising and resolution of DRs is an ongoing process due to large quantum of spares being required and despatched each yr on Pan India basis. The various reasons for these provisional discrepancies are :-

(a) In most cases, spares are received in sealed packages from Ordnance Factories only a sample check of the same is feasible.

(b) Change of condition of certain slow moving items though forming part of the scales but demanded only intermittently/ held up in transit during Advance Winter Stocking period.

(c) **Receipt Discrepancies**. There is only one receipt discrepancy against COD Jabalpur for 07 items as on date and is under resolution.

Due to concerted efforts put in by the depots, Ordnance Factories and the consignee units the trend of provisional DRs for the last three years has come down and is as under :-

(a)	2018-19	-	33
(b)	2019-20	-	22
(c)	2020-21	-	16 .”

5.29 In case of non-acceptance of discrepancy by both consignor as well as consignee, the Committee desired to know how the malpractice involved was ruled out in absence of investigation. The Ministry replied with the following:-

“Discrepancies are raised in less than one percent of transactions. It is highlighted that the stores are received in the depots in packed/ sealed boxes from DPSUs/ trade and their internal mechanisms ensure that requisite quantities are packed and supplied. The depots carry out percentage checks of the stores received and these are then stacked in the warehouses. Huge quantum of stores are received by the depots on regular basis. In addition to this, at times due to oversight or breakages during transportation or change in condition due to prolonged storage, the stores come under discrepancy when checked at consignee end. The depots supervise the dispatch of stores through a Board of Officers and whenever a discrepancy is raised, an investigation is carried out by the depots either to accept or decline the DR. All cases of discrepancies are processed further based on investigation only.”

5.30 The Ministry was asked for their comments on the Audit observation that there are number of items which have been reported as serviceable but according to the users they are unserviceable when received. The Ministry furnished the following comments:-

“A miniscule number of items when dispatched from depots are reported as unserviceable and defect reports for the same are raised. In this regard,

comments have been rendered in question No. 47 above. Changes in condition occur due to numerous reasons like prolonged storage, multiple handlings, damages during transportation etc. These are identified by the consignees during the receipt checks and processed for resolution. Quantum of such cases are negligible if compared with the overall quantity of stores despatched by CODs.”

C Discrepancy in PRFs reviewed and vetted by Inventory and Budgetary Control Cells

5.31 All PRFs with demands valued over Rs. 5,000 should be referred to the respective Inventory and Budgetary Control (I&BC¹³) cell attached to respective depot for independent assessment of liabilities and assets. DGOS in August 2013 had informed all CODs that every PRF whether demand bearing or otherwise has to be vetted by I&BC cell after completion of provision reviews.

5.32 From the details of PRFs held vis-à-vis PRFs vetted by I&BC cell at COD Agra for the period 2015-16 to 2018-19, it was noticed that there were PRFs ranging between 48 per cent and 92 per cent which were not forwarded to I&BC cell and consequently resulted in their non-vetting. Record towards submission of all PRFs valuing over Rs. 5,000 got vetted from I&BC was not maintained at CAFVD and COD Dehuroad, hence adherence of instructions of Army HQ could not be vouchsafed in Audit.

5.33 In reply, Ministry stated that the non-adherence was primarily due to the time and manpower constraints because of which only demand bearing PRSs were being vetted by I&BC cells on priority. Ministry, however, accepted the audit contention and agreed to ensure compliance.

5.34 The Ministry submitted the following in their background note:-

“The audit point is agreed to.

As per DGOS Technical instruction, all demand/ non demand bearing PRFs are to be vetted by I&BC attached with respective Depots after completion of APR for independent assessment/ re-assessment of liabilities and assets. This is a two stage activity involving vetting at first stage of I&BC and allotment of U.O. number at second stage of demand bearing indents.

Implementation of ERP where qty vetting is now being introduced online for faster completion of process.

The non adherence is primarily due to the time and manpower constraints because of which demand bearing PRFs are being vetted by the I&BC cells on priority.

The compliance is now being ensured.”

¹³ I&BC cell is an independent cell in respective depots and reports directly to DDG (Technical Finance & Budgetary Control) and DGOS. They ensure correctness of data in Provisioning Review Form (PRF).

PART-II

Observations/Recommendations of the Committee

Introduction

The Committee are not oblivious of the fact that Army Ordnance Corps (AOC) is a very integral and essential part of Indian Army and as such assumes special significance. The Committee note that Audit conducted a performance audit to assess the efficiency of the supply chain management of Central Ordnance Depots in meeting the requirements of the Indian Army between 2014-15 to 2018-19. The Committee observe from audit findings that there were instances of both deficiency and surplus in Class A stores; deduction from reimbursement by United Nations owing to non-availability / unserviceability of equipment in UN Mission Areas; holding of non-moving and surplus inventory by three central depots; high outstanding demand for stores and inordinate delay in implementation of the Computerised Inventory Control Project. The Committee also observe from audit findings that there were discrepancies in data relating to Class B Vehicles; over-provisioning of stores due to non-reduction of dues-in quantity; delay in procurement of critical items; outstanding supplies against various supply agencies; cases of extra expenditure on account of failure to accept the tender within the validity period; procurement at higher rates; non-exercise of repeat/ option clause; inordinate delay in meeting the demands for out of action equipment and vehicles off-road by the depots and non-receipt of confirmation of receipt of stores at consignee end etc.

The Committee are of the considered view that inventory management has a key role to play in the defence preparedness of the country. With the Indian Army managing a humongous inventory of approximately 4.5 lakh items, it is imperative that the lacunae ailing the inventory management be urgently plugged and the process streamlined. It is in this trajectory that the Committee have recorded their observations and recommendations on the issues in the audit report that merit consideration and after examining the subject, the findings are brought out in the succeeding paragraphs.

Provisioning- Deficiency and surplus

1. The Committee find that provisioning for Class- A stores (major and minor equipment and ammunition) is done at Army headquarters and for Class - B stores (related spares, accessories, general stores and clothing) the same is done at Central Ordnance Depots. The Committee note that out of 63 items which were deficient as per APR of 2018-19, in case of 15 items there was continuous deficiency for two to five years ranging between 24 Percent and 100 percent of respective Unit Entitlement. On the other hand, the Committee also note that 23 items were surplus in 2018-19 and out of these, Army was holding six items as surplus up to 19 times of the respective UE for two to five years. The Committee note from the Ministry's reply that deficiency existed due to upgradation of electronic equipment on account of technological obsolescence and non recommendation for procurement by the user directorate. Further, according to the Ministry, surplus arises because certain items are being replaced by new equipment and their authorization in units is reduced resulting in surplus. The Committee are not convinced with the reasons given by the Ministry for continuous presence of deficiency and surplus in important stores. The Committee, while opining that periodical review of the inventory be invariably undertaken and the deficient stocks, if any, be procured to avoid "stock-outs" impacting critical functions and the surplus stocks disposed of regularly as they have a sizeable recurring inventory holding costs, recommend that stocks that need upgradation due to technological obsolescence should be accounted for/ recorded while calculating inventory requirements. This will enable an objective and transparent analysis of the inventory.

Discrepancy in data relating to Class B Vehicles

2. The Committee note that Management Information System Organisation (MISO) of Army HQs acts as a repository of data of UE and UH of all equipment used by the Army. MISO data of UE and UH are used for carrying out provisioning by DGOS. The Committee note that in 19 Group of vehicles, the increase in unit holdings in a particular year compared to the previous year was not commensurate with the anticipated supplies against already placed supply orders. To be precise, in six cases, unit holdings increased to an extent more than the dues-in quantity of previous year, and in 13 cases, unit holdings

increased where there was no dues-in quantity in the previous year. A case in example is the number of 2.5 Ton SPL (3) vehicles increased from 0 to 99 and then 111, 182 and 222 in each successive year from 2014-15 to 2018-19 without any dues-in for the years; and Crane 5-10 Ton (501) increased to 4 in 2015-16 and to 76 in 2016-17 without any dues-in for the years.

Further, the Committee note that In APRs of 500 KG Special 4X4' vehicle, UE/Reserve figures changed every year in the period from 2014-15 to 2018-19. Further, the total holding of vehicles decreased by 645 from 1632 in 2014-15 to 987 in 2018-19 despite the fact that the total number of vehicles projected for being discarded during the above period was only 125. The Committee note from the reply of the Ministry that there were changes in the scaling (UE) of various weapons & equipment and changes in the number of units from year to year arising out of new raising/disbandment, etc. The Committee also find from the submissions that variation in data observed by Audit was of pre-computer Inventory Control Project (CICP) roll out and since 2019, the UE and UH data was being directly imported from CICP. Noting Audit's finding that integration of MISO application and connectivity with User Directorates had not been achieved, the Committee recommend that the MISO application be integrated with all the User Directorates on priority and in a strict timeframe. The Committee also recommend that the Units where there is discrepancy in Unit Holdings be identified and the entries reconciled. The Committee are dismayed to find that no explanation was forwarded by the Ministry for inconsistent changes in UH and desire to be apprised of the same.

Delay in procurement of critical items of DGOS

3. The Committee note that during the period under review, there were ten cases of delays in procurement process of Class A and Class B stores ranging between 13 and 301 weeks. The Committee further note that according to DPM 2009, every individual in the chain of the procurement process is accountable for taking action in a specified time period so that the requirements are met on time. The prescribed time frame, laid down in DPM, for placement of supply order or signing of the contract since vetting of indent under single bid and two bid system is 17 to 19 weeks and 20 to 23 weeks, respectively. The Committee note

with concern that there were inordinate delays in procurement of such critical items stretching upto 301 weeks as against the norm of approximately 20 weeks. The Committee also observe that orders for certain important items were not even placed despite the delay. The Committee find from the reply of the Ministry that in case of delays, the system has provision of reserve and stocks at various echelons, which meet the critical requirements of the field army. Further, since maximum dependency of A vehicles and technical spares was on Ordnance Factories and DPSUs, the delays were not only attributed to procedures/documentation but also to slippage in meeting targets by Ordnance Factories and DPSUs. The Committee, therefore, enjoin upon the Ministry to streamline the processes of procurement to reduce delays and recommend that strict action be taken against every echelon /individual accountable for any delays in the process of procurement particularly for fixing eligibility and technical criteria, specification changes, trials and for documentation. The Committee would also like to be apprised of the action taken against the DPSUs/ Ordnance factories for slippages in meeting the targets. The Committee desire that the existing monitoring mechanism be made more stringent and expert teams be constituted for training/ upgrading specifications to expedite procurement.

Procurement for UN Mission

4. The Committee are happy to note that the Indian Army contingents are deployed in United Nations Peacekeeping Missions in Congo, South Sudan, Lebanon etc. The Committee observe that Contingent Owned Equipment (COE) system was adopted by the UN by which countries are reimbursed for providing equipment and personnel to the contingents in peacekeeping missions. Reimbursement is limited to the items of serviceable major equipment (including associated minor equipment and consumables) specifically agreed to by the UN. In case a unit provides less equipment than stipulated in the MOU, the reimbursement is only made for the equipment actually provided. The reimbursement rates are based on the generic fair market value of equipment which is determined by the General Assembly. The Committee observe that Indian Army contingents deployed on UN Missions were not adequately equipped

with major equipment. Delays in meeting the demand of the units resulted in deduction in reimbursement due from the UN. The Committee note that the primary reason advanced by the Ministry for inadequately equipping or delay in the meeting the demands of Indian Army Contingents deployed on UN Missions was that UN procurement is governed by provisions of GFR and DPM-2009. The Committee have been informed by the Ministry that these provisions are more suited for procurement where there is no financial penalty due to procurement delays and focus is on following elaborate procedures to achieve competitive rates even by re-tendering multiple times. The Committee also note that the other reasons given for inadequately equipping etc are, non-availability of equipment asked for by UN in India and non-provision of Customs Duty exemptions by the host country. In this regard, the Committee recommend that in such cases the Ministry of Defence, in consultation with Ministry of External Affairs must negotiate with the host countries to allow customs duty exemptions for equipment being used for UN peace keeping missions. Further, India being committed to peacekeeping and peace building since the pre-independence period, the Committee earnestly recommend that a procurement procedure, specific to UN requirements may be considered to obviate procedural delays.

Monetary value of items

5. The Committee note that the issue of valuation of ordnance inventory by converting tonnage held into money terms has been raised time and again by Audit since the year 2000. They also take note of the fact that despite lapse of more than 20 years since the Ministry's long standing assurance and implementation of CICP at COD level since July, 2018, the pricing details of complete inventory have not been updated, due to which the real valuation of inventory could not be made. The Committee are concerned to note that only the value of 26,950 items out of total 3,56,717 items could be worked out by Audit in the inventory of the three selected central depots where last purchase price was available. From the reply furnished by the Ministry, the Committee find that pricing of 4.5 lakh items of inventory was taken up only in the last one year and pricing of approximately 3.5 Lakh items has been done. The Committee feel there has been inordinate delay in pricing of inventory and this should have been

carried out much before. The Committee, while opining that the Ministry have taken far too long to carry out this important process which will aid in better overall management of inventory recommend that pricing of all the remaining inventory be done on priority basis and completed in a time bound manner.

Holding of non-moving and surplus inventory

6. The Committee observe from audit findings that a whopping 31% of authorized inventory of the three central depots comprised of non-moving items (Items which have neither been demanded nor issued for more than five years) which included, obsolete/obsolescent and surplus items. The Committee are alarmed to note that the value of 22.44 % of non-moving inventory (where rates were available) in the central depots was Rs 272.05 crore along with non-moving/surplus inventory valuing Rs. 32.50 crore. As is being highlighted since 2000 by Audit, while on one hand, major resources such as storage space and manpower of these depots were engaged in maintaining a large quantum of ineffective inventory, on the other hand depots were facing shortage of accommodation and serviceable stores were lying in the open. The Committee are disappointed to note that despite a lapse of more than 23 years, the problem of deficient storage accommodation has not been resolved yet. The Committee note from the Ministry's reply that while there has been an urgent necessity to create and modernize the storage infrastructure, due to budget constraints, fructification of projects of modernization has been taking considerable time. The Committee further note that approximately 80,000 items have been identified for disposal during last two years out of which 40,000 have been removed from inventory and that impetus is being given to dispose non moving inventory within next two years. The reply of the Ministry also reveals that infrastructure as part of modernisation has been created at COD Kanpur, COD Agra and COD Jabalpur and modernisation of CASD Delhi Cantt has been planned in the next phase. The Committee urge upon the Ministry / Army to carry out an extensive review of their inventory and dispose non-moving inventory which would bring down holding costs and also free up storage space. The Committee desire that ISO certifications of storage management also be referred/adhered to and SOPs for managing stocks are prepared and followed.

Computerised Inventory Control Project (CICP)

7. The Committee learn that the Computerised Inventory Control Project or CICP was planned in 3 phases to automate the inventory management functions of the AOC. However, there have been extensive delays in execution and implementation of the project since the beginning. The Committee observe from Audit findings that Annual Provision Review of Class A stores was not being conducted through ERP Application of CICP (Phase-II) owing to non-integration of all stakeholders and was being carried out manually. Besides, other activities like issue of Supplementary Provision Review Directives (SPRD) to central depots, obtaining stock position of Class A stores from the holding depots, approval of higher Competent Financial Authority (CFA) for cases of Class B stores and placing of supply orders for Class A and B stores were also being performed manually. Further, non-integration of the external agencies like MISO, Electronics and Mechanical Engineers (EME) Directorate and user Directorates was resulting in non-availability of crucial inputs that were needed online for the provisioning and procurement of stores. The Committee note from the reply of the Ministry that for speedy implementation of CICP Phase-III, necessary measures have been taken by Service Headquarters by enhancing internal controls of the project with constitution of three empowered committees in addition to governing mechanism sanctioned by CCS. The Committee also note that in terms of integration with external agencies, CIG has on boarded MISO (Management Information System Organisation), DGQA (Directorate General of Quality Assurance), CQAs (Controllerate of Quality Assurance), PCDA (Principal Controller of Defence Accounts) and LAO (Local Audit Officer) on CIG SAP (Systems Applications and Products in Data Processing) system. The functionalities of listed external agencies have been developed and external agency users are working on CIG SAP ERP (Enterprise Resource Planning) system to perform their official activities online. The Phase-III of the project is now at an advanced stage of RFP formulation. The Committee, here, recommend that integration of the necessary systems with the CIG be carried out on war footing and desire that continuous upgradation of the related software may necessarily be made a part of the contracts during execution of the CIG. The Committee further recommend that the Ministry consider creation of a 'Combined Defence Logistics Organisation' in view of the rising trend of theaterisation of

command as is being done by the USA and UK. This would bring down the cost of inventory in all three Forces and also enable optimum usage of all items.

Internal controls- Non-receipt of confirmation of receipt of stores at consignee end

8. The Committee observe that receipt of stores at the consignee end is confirmed by the consignee through return of a copy of issue voucher enclosed with the stores. Issuing depots are required to monitor such return to ensure receipt of issue voucher duly acknowledged by the consignees. The Committee observe that there has been a huge amount of backlog in receipt of the acknowledgement from the consignees since 2000. The Committee note from the reply of the Ministry that backlog in confirmation was caused by various factors such as stores being collected centrally by Regional ODs and distributed to the units which finally clear RV (receipt voucher); moving of units to alternate locations and non-availability of tracking facility in the package dispatched by Army Postal Logistics. The Committee note that approximately 62000 RVs have been cleared and various remedial measures taken. The Committee also note Ministry's response that post implementation of SAP / ERP, all activities will be on one platform and receipt vouchers will be cleared by Depots within time frame. The Committee desire to be apprised of the details of RVs that are still pending and the timelines fixed for their clearance and recommend that the SAP/ERP be implemented urgently to obviate further increase in the pendency of receipt vouchers.

NEW DELHI:
05 February, 2024
16 Magha, 1945 (*Saka*)

ADHIR RANJAN CHOWDHURY
Chairperson,
Public Accounts Committee