

DEFENCE ACCOUNTS DEPARTMENT

INTERNAL AUDIT MANUAL



सत्यमेव जयते

CHIEF INTERNAL AUDITOR (OFs)
KOLKATA

ISSUED UNDER THE AUTHORITY OF
CONTROLLER GENERAL OF DEFENCE ACCOUNTS
DELHI
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Disclaimer : This manual is intended for guidance of officers and staff of the department and should not be quoted in correspondence with offices outside the Department. Nothing in this manual will be held to supersede any standing rule or order of Govt. of India with which it may be at variance.

Preface

This manual contains instructions, drills and procedures for conducting internal audit in Ordnance Factories by Chief Internal Auditor (Factories).

2. Internal Audit practice is moving away from the traditional role of mere assurance audit which takes the form of transaction and compliance audit and reporting control deficiencies to the management. Focus is now on providing a cost-effective and useful service. Audits are becoming more useful because they are oriented to identifying problems, working with management to solve them, providing overall ratings on the adequacy of controls and finding new and better ways to do things. It is a continuous process. It serves as an aid to management to achieve its goals and objectives.
3. In line with the above, the Manual has placed due focus on risk based audit, IT audit and audit of internal control mechanisms etc. It also contains detailed audit drills for major risk areas in Ordnance Factories keeping in view the recent modifications made to OM-VI.
4. This Manual is a departmental publication. The instructions contained therein are supplementary to the rules in the Civil and Defence Audit and Account Codes, Fundamental and Supplementary Rules, General Financial Regulation, Pay and Allowances Regulations, Pension and Financial Regulations, etc.
5. Any additions or alterations which may be necessary to the Manual will be notified periodically by the Chief Internal Auditor (Factories) with the prior approval of the CGDA.



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New Delhi

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ABBREVIATIONS

A.O	Accounts Office/ Accounts Officer
A.C.I.A (O.Fs)	Assistant Controller of Internal Audit (Ordnance Factories)
AAP	Annual Audit Programme
ACP	Assured Career Progression
Addl. GM	Additional General Manager
AFL	Agreement Form of Labour
AFMSD	Armed Forces Medical Stores Depot
AHSP	Authority Holding Sealed Particulars
AIAO	Assistant Internal Audit Officer
AMC	Annual Maintenance Contract
ASD	Additional Security Deposit
Asstt.	Assistant
AV (HQ)	Armoured Vehicle(Headquarters)
B.C	Bin Cards
Br. AO	Branch Accounts Office
BE	Bachelor of Engineering
BER	Beyond Economic Repair
BG	Bank Guarantee
BIS	Bureau of Indian Standards
BOE	Board of Enquiry
BPR	Business Process Re-engineering
CAAT	Computer Aided Audit Tool
C & AG	Comptroller and Auditor General
C of F	Controller of Finance
C.D.A	Controller of Defence Accounts
CBC	Central Budget Committee
CCS	Central Civil Services
CE	Chief Engineer
CEA	Children Educational Assistance
CF & A	Controller of Finance and Accounts
CFA	Competent Financial Authority
CGDA	Controller General of Defence Accounts
CGEGIS	Central Government Employees Group Insurance Scheme
CIA (OFs)	Chief Internal Auditor (Ordnance Factories)
CIF	Carriage Inward Freight
CNC	Computerised Numerical Control
COP	Cost Of Production
COTS	Commercially Of The Shelf
CP	Central Purchase
CPC	Central Pay Commission
CsF&A	Controllers of Finance and Accounts
CST	Comparative Statement of Tenders

CSV	Completed Stores Voucher
CVC	Central Vigilance Commission
D.C	Disbursement Certificate
D.R	Discrepancy Report
D.S	Deposit Stock
D.W	Daily Wages
DA	Dearness Allowance
DAD	Defence Accounts Department
DAVP	Directorate of Advertising and Visual Publicity
DBT	Direct Bank Transfer
DDO	Drawing and Disbursing Officer
DDP	Distributed Data Processing
DDs	Demand Drafts
DEO	Defence Estates Office
DFPR	Delegation of Financial Power Rules
DGM	Deputy General Manager
DGOF	Director General of Ordnance Factories
DGQA	Director General of Quality Assurance
DGS&D	Director General of Supplies and Disposals
DOT	Departmental Over Time
DP	Dearness Pay/Delivery Period
DPS	Daily Payment Sheet
DRDO	Defence Research and Development Organisation
DSC	Defence Security Corps
DV	Discrepancy Voucher
DW	Daily Wages
E-in-C	Engineer in Chief
EARS	Electronic Attendance Recording System
ECPA	Efficiency Cum Performance Audit
EDP	Electronic Data Processing
EL	Earned Leave
EMD	Earnest Money Deposit
EP	End Product
FOB	Freight On Board
FOH	Fixed Over Head
FP	Foreign Purchase
FR Part-I	Financial Regulations Part - I
FSN	Fast Slow Non-Moving
Fys	Factories
GOI	Government of India
G. Pay	Grade Pay
GFR	General Financial Rules
GM	General Manager
GO	Gazetted Officer
GOI	Government of India
GOs	Gazetted Officers

Govt.	Government
GP	Grade Pay
GPF	General Provident Fund
GPW	Gang Piece Worker
GTE	Global Tender Enquiry
HAG+	Higher Administrative Grade +
HOO	Head Of Office
Hqrs.	Headquarters
HRA	House Rent Allowance
HS-I	High Skilled-I
HS-II	High Skilled-II
HSR	Hospital Stoppage Roll
HTML	Hyper Text Mark up Language
HVF	Heavy Vehicle Factory
I.N	Inspection Note
IA	Internal Audit
IA Cell	Internal Audit Cell
IAO	Internal Audit Officer
IB	Inspection Bungalow
ID Schedule	Inter Departmental Schedule
IDEA	Interactive Data Extraction and Analysis (CAAT)
IEs	Industrial Employees
IFA	Integrated Financial Advice
IFD	Inter Factory Demand
IFD Items	Inter Factory Demand Items
IGP	Inward Gate Pass
IIA	Institute of Internal Auditor
INTOSAI	International Organization of Supreme Audit Institutions
IPO	Indian Postal Order
IPOs	Indian Postal Orders
IPW	Individual Piece Worker
IRR	Internal Rate of Return
IS	Information System
ISO	International Organization for Standardization
Issue Vr.	Issue Voucher
IT	Information Technology
ITC	Information Technology Centre
JAG	Junior Administrative Grade
Jt. GM	Joint General Manager
KOD	Kind Of Document
KPL	Kilometer Per Litre
KVIC	Khadi and Village Industries Commission

LAN	Local Area Network
LAO	Local Accounts Office
LC	Letter of Credit
LCD	Liquid Crystal Display
LD	Liquidated Damages
LP	Local Purchase
LP Bills	Local Purchase Bills
LPC	Local Purchase Committee/Last Pay Certificate
LPG	Liquefied Petroleum Gas
LPR	Last Purchase Rate
LT	Low Tension / Late Tender
LTC	Leave Travel Concession
LTE	Limited Tender Enquiry
MACP	Modified Assured Career Progression
MCO	Material Control Office
MES	Military Engineering Service
MHA	Ministry of Home Affairs
MIS	Material Inward Slip/Management Information System
MM	Material Management
MOD	Ministry of Defence
MOF	Ministry of Finance
MP	Material Planning
MP SHEET	Material Planning Sheet
MRO	Military Receivable Order
MT	Mechanical Transport
N.M.S	Non Moving Stores
N.V	Nominal Voucher
NADP	National Academy of Defence Production
NC	New Capital
NDA	Night Duty Allowance
NFSG	Non Functional Selection Grade
NGOs	Non Gazetted Officers
NIEs	Non Industrial Employees
NSB	Night Shift Bonus
NSIC	National Small Industries Corporation
ODCs	Ordnance Development Centres
OEF (HQ)	Ordnance Equipment Factory(Head Quarter)
OEM	Original Equipment Manufacturer
OFB	Ordnance Factory Board
OFH	Ordnance Factory Hospitals
OFIL	Ordnance Factory Institute of Learning.
OFs	Ordnance Factories

OM VI	Office Manual Part VI
OT	Over time
OTA	Over Time Allowance
OTB	Over Time Bonus
OTE	Open Tender Enquiry
P & M	Plant & Machinery
P & MM	Planning and Material Management
P.W. E	Piece Work Earning
PAC	Propriety Article Certificate
PAN	Permanent Account Number
PAO	Pay Accounts Office
PB	Pay Band
PBG	Performance Bank Guarantee
PC	Personal Computer
PCA (Fys)	Principal Controller of Accounts(Fys)
PDA	Principal Director of Audit
PDC	Probable date of Completion
PDF	Portable Document Format
PFC	Plan Finalization Committee
PIC	Periodical Increment Certificate
PIS	Periodical Increment Statement
PL CARD	Production Ledger Card
PM	Punching Medium
PO	Purchase Order
POL	Petrol Oil & Lubricant
PPC	Production, Planning and Control
PPL	Priced Production Ledger
PSA	Price Store Accounts
PSL	Price Store Ledger
PSS	Priced Stores Schedule
PSU	Public Sector Undertaking
PV	Provisioning
PW	Piece Work
PWCs	Piece Work Cards
PWP %	Piece Work Profit Percentage
PWR	Piece Work Rate
QC	Quality Control
QIAR	Quarterly Internal Audit Report
Qty.	Quantity
R&D	Research And Development
RBIA	Risk Based Internal Audit
RC	Rate Contract
RFP	Request For Proposal

RIAO	Regional Internal Audit Officer
RMC	Regional Marketing Centre
RR	Renewal and Replacement
Rt. Vr.	Receipt Voucher
S.B	Service Book
S.E	Spot Estimate
SAG	Senior Administrative Grade
SBC	Shop Budget Committee
SD	Security Deposit
SFC	Store Finalization Committee
SHIS	Store Holder Inability Sheet
SIH	Store in Hand
SIT	Store in Transit
SKS	Single Known Source
SMH	Standard Man-Hour
SO	Supply Order
SOP	Standard Operating Procedure
SOs	Supply Orders
Sr. GM	Senior General Manager
SRO	Sale Release Order
STE	Single Tender Enquiry
SV	Stock Verification
SVC	Sectional Variable Charges
SWOD	Supplementary Work Order Draft
T&C	Terms and Condition
TAN	Tax Deduction Account Number
TC	Term Contract
TE	Tender Enquiry
TEC	Technical Evaluation Committee.
TOT	Transfer of Technology
TPC	Tender Purchase Committee.
TS	Technical Sanction
TV	Transfer Voucher
U.O.	Un-official
UAR	Unavoidable rejection
VFM	Value for Money
VOH	Variable Overhead
VPN	Virtual Private Network
VR	Vendor Registration
WIP	Work in Progress
WM	Works Manager
XML	Extensive Markup Language

GLOSSARY

Abnormal Rejection: There are certain manufacturing losses which are inherent in the production process. Such losses are called normal rejection. When Standard Estimates are prepared, a maximum and minimum percentage of normal rejection of losses is specified. The basis of fixation of normal rejection percentages are:

- i) the nature of the product
- ii) Expected losses in quantity due to evaporation, shrinkage etc.
- iii) method of production process
- iv) volume of expected scrap arising

When the quantum of Rejection exceeds the normal rejection provided for in a Warrant, it is treated as Abnormal Rejection. Normal Rejection is to be borne by the production by including the value in Cost of Production. Whereas value of Abnormal Rejection is to be kept out of Cost of Production and treated as cash loss. The same is required to be regularised by the CFA through loss statement. *[Source: Para 679 of OM- VI]*

Allocation Sheet: Workers, who are continuously engaged on the same job throughout the month, the shops prepare a monthly allocation sheet, instead of Day Work Card. Such allocation sheets generally relate to indirect work orders. The allocation sheets received from the shop for a month are priced by the Accounts Office by apportioning the total time wages earned by each worker, between the various jobs performed by the worker according to time spent for each job. *[Para: 200(iii) of OM – VI]*

Bin Cards: are maintained by the store holder in loose leaf forms with one Bin Card for each item of material and every receipts and issues thereof are entered in its respective columns. This is a continuous quantitative account maintained by the Factory management for all materials. Material code number is allotted to each material and is noted in the Bin Card. *[Source: Para 415 of OM-VI]*

Cancellation of Extract: When a Class- I Extract is cancelled, the entire expenditure as has already been incurred on it will be transferred to some other Warrant and any scraps or components available will be returned to store. In case of all other Extracts, such expenditure should be adjusted to general charges under the orders of PC of A (Fys). *[Para 615 of OM – VI]*

Day Work Card: Day Work Card is the record of the job done and time taken thereon by workers on daily rates of wages. *[Item No. 8 of Appendix – ‘B’ of FAR]*

Day Worker: The workers who are on monthly rates of pay and whose wages are calculated on the basis of their attendance are called Day Workers. *[Para: 120 of OM – VI]*

Deferred Revenue Expenditure: All normal repairs to Plant and Machineries to keep them in working capacity, are treated as Variable Work Head Expenditure, and charge to production of the year, in which they were incurred. If such repairs are very heavy during any year, the expenditure may be spread over to a number of years under the prior approval of Ordnance Factory Board. The portion of Revenue Expenditure, i.e., carried forward for absorption in subsequent year is Deferred Revenue Expenditure. The amount is shown as outstanding assets in the statement of Assets and Liabilities. *[Source: Para 3 of Appendix – ‘A’ of OM – VI]*

Demand Note: This is the authority to the store holder to issue store to the shop concerned as per the requisitions made by the shops. Demand notes are priced at the ALR (Average Ledger Rate). *[Source: Para 412 of OM-VI]*

Deposit Stock: Stores which are the property of other branches of Armed Forces and sent to the OFs for repair, conversion, utilization or back-up and ultimate disposal are called Deposit Stock. Such store will be kept physically separate from the normal stock which is the property of the Factory and an un-priced ledger is maintained by the Factory. *[Source: Para 511 of OM-VI]*

Development Charges: Whenever manufacture of a new product involves expenditure of developmental nature, Extract issued by OFB will be enlaced with the word Development Expenditure. It is compiled separately and accounted for in the following manner: Development Work Order is allotted to each item. The Development work is generally divided into following stages, viz.

- a) Manufacture of pilot batch
- b) Establishment of batch production having scope for further improvement in technique or manufacturing method, and
- c) Final establishment of manufacture by standardization of technique and manufacturing methods. *[Source: Para 6 of Appendix – ‘A’ of OM – VI]*

Separate Warrant is issued to mark the compilation of each stage of development. Articles which are successfully manufactured at stage I & II are priced at estimated rates in consultation with the factory management and the total amount is transferred to the regular outturn Work Order for the item by crediting the Development Work Order. The net Developmental Expenditure is charged off to the subsequent production of the item at the rate fixed by the management. The rates are so fixed, that the entire Developmental Expenditure is fully charged off within a period of seven years.

Earnest Money (EMD) or Bid Security: is taken from intending tenderers to ensure that they do not withdraw or alter its bid during the bid validity period. It is not taken from registered bidders/ National Small Industries Corporation, etc. It is to be received along with the quotation. The EMD is ordinarily vary in between 2% and 5% of the estimated value of the supply and is in the form of A/C payee Demand Draft, Fixed Deposit Receipt, Bankers Cheque, Bank Guarantee, Treasury Receipt etc. The Bid Security normally remains valid for a period of 45 days beyond the final bid validity period. In respect of unsuccessful bidders the amount may be refunded to them at the earliest after expiry of the final bid validity and latest by the 30th day after the award of the contract. No order is required for the forfeiture of Earnest Money which follows on default and should be credited to Govt. immediately. Earnest Money, once forfeited, cannot be restored without the sanction of the next higher authority. *[Authority: Rule 157 of GFR – 2005, Rule 243 FR Part –I]* EMD or bid security may not be insisted upon on the firm if the tender value is less than ₹ 2 Lakhs. Bid Securities in respect of unsuccessful bidders should be returned to them at the earliest after expiry of final bid validity and latest on or before the 30th day after the award of the contract. *[Source: Rule 157 GFR, 2005]*

Except System: Certain OFs, viz. at AF Kirkee, OF Khamaria, SAF Kanpur, OF Trichy and OF Varangaon, wherein manufacture of components for product ammunition and weapons is undertaken on a separate Work Order for each component. The components are neither transferred to stock nor accounted for in Store Ledger. The components remain on production charge and are drawn on assembly on the Assembly Work Order through Red Demand Notes. The Red Demand Notes shows the quantity, description of the components, the Work Order and the Warrant from which the issue was made. It is thus virtually a Transfer Voucher. Red Demand Notes are priced in LAO and separate component abstract is prepared. *[Source: Para 646 of OM - VI]*

Excess manufacture: There are three categories of excess manufacture, viz.:

- i) Excess manufacture covered by the Original Extract.
- ii) Not covered by the Original Extract, but exempted from covering sanction.
- iii) Not covered by the Original Extract, and requiring covering sanction.

[Source: Para 618 of OM – VI]

Excess Supply: Excess supplies are not to be treated as separate transaction. Acceptance of supplies in excess of the ordered quantities will not be held to be a modification in the condition of a contract provided that the value of excess supplies does not exceed 5% of the original value and total value of the supplies made does not exceed the financial powers of the officer originally concluded the contract. [Source: Para 368 of OM-VI]

Guarantee Pay: If the Piece work earning of an IE falls below the level of his nominal time wages, he will be remunerated to the extent of his monthly time wages. This kind of remuneration is called Guarantee Pay. [Para: 154 of OM – VI]

Idle Time: refers to the payment under certain specific circumstances to the workers who are temporarily rendered surplus and who cannot be provided with suitable alternative employment under normal manner. The G.M. is authorized to order Idle Time for the first 6 working days in respect of any workers.

Beyond this period, if the situation prevails, then necessary approval of OFB is required for declaring Idle Time. The following are the conditions when Idle Time payments are made:

- i) High atmospheric humidity hindering certain operations in the high explosive factories or unfavourable whether condition hindering specialized optical operations depending upon the sunlight.
- ii) Plant, furnace and transport breakdowns, inspection and repairs.
- iii) Temporary shortage of materials
- iv) Failure of power supply
- v) Temporary shortage of work in highly specialized sections.
- vi) Idle time payments are booked to variable overheads. [Para: 160 of OM – VI]

Incentive Bonus: Incentive Bonus is paid to the maintenance workers of a factory whose services are absolutely essential for running of a factory. As such, in order to motivate such workers and to initiate more attention and efficiency to their job, incentive bonus is admitted to them.

Maintenance workers attached to a production shop are entitled to incentive bonus at the rate of 50% of the Piece Work Profit earned by the piece workers of the relevant shop. Maintenance workers not attached to any particular production shop or maintenance workers attached to maintenance section where there is no Piece Workers, in such cases the maintenance workers are entitle to 50% of the average of Piece Work Profits of the factory as a whole. [Para: 155 of OM – VI]

Incentive Bonus Statement: It contains section number, month, year, personal no., ticket no, time wages (based on 5th Central Pay Commission), incentive bonus amount and grand total showing number of IEs to whom incentive bonus admitted for payment, time wages and incentive bonus amount.

Inspection Note: After completion of manufacture of articles they are required to be inspected by the Inspection Section of the Factory. The details of articles inspected, quantity accepted and quantity rejected are shown in a document by the factory management known as Inspection Note. One copy of the Inspection Note will be sent to the Accounts Office from which quantity accepted and quantity rejected is posted in the Production Ledger Card. Hence, Inspection Note is the authority from which quantity accepted and quantity rejected in manufacture is noted in the Production Ledger Card. [Source: Para 668 of OM – VI]

Issue of Materials:

- i) Issues to manufacturing shops.
- ii) Issues to other Ordnance factories.
- iii) Issues on payment to other Government Departments.
- iv) Issues to technical development establishment.
- v) Issues to other branches of Defence Departments.
- vi) Issues on account of sale by auction.

Issue Voucher: Materials issued to outside consigners are supported by issue vouchers quoting reference to the demand against which issues are made. They are priced at Average Ledger Rate (ALR). [*Authority: Para 455 of OM-VI*]

Labour Punching Media: For booking labour payments pertaining to leave pay, holiday pay, Over Time Bonus, DA and other allowances in cost accounts, the Accounts Office prepare a labour punching media showing the Section Code No, the Work Order and the total amount. All these punching media relate to indirect work order. [*Para: 228 of OM-VI*]

Letters of Credit:**Basic forms of Letters of Credit (LsC):**

- (a) Revocable letter of credit.
- (b) Irrevocable letter of credit.
- (c) Confirmed letter of credit.
- (d) Revolving letter of credit

Revocable Letter Of Credit: A revocable letter of credit is one which may be amended or cancelled by the issuing bank at any moment without prior notice to the beneficiary. If the letter of credit is silent as to whether it is revocable or irrevocable, the credit is deemed to be irrevocable.

Irrevocable Letter Of Credit: When the issuing Bank gives a definite, absolute and irrevocable undertaking to honour its obligations, provided the beneficiary complies with all the terms and conditions, such a credit is known as an irrevocable letter of credit. The letter of credit cannot be amended, cancelled or revoked without the consent of the parties to the letter of credit.

Confirmed Letter Of Credit: A confirmed letter of credit is one in respect of which another Bank in the beneficiary's country adds its confirmation at the request of the issuing Bank. This undertaking of the confirming Bank to pay/negotiate/accept is in addition to the undertaking of the issuing bank. ***This is not to be agreed to as it undermines the credibility of our Nationalized Banks.***

Revolving Letter Of Credit: In such Letters of Credits, the amount is restored, after it has been utilized, to the original amount. Such credits are used when the buyer is to receive partial shipment of goods at specific intervals over a long duration. It can be cumulative or non-cumulative in nature. It avoids opening letter of credit for each and every consignment.

Divisible and non-divisible LCs: The above mentioned Letters of Credit could be divisible or non-divisible. Divisible Letters of Credit could be opened when more than one beneficiary is allowed and payment has to be made as per the consignment.

[*Source: Para 9.7.13 OFB Procurement Manual, 2010*]

Manufacturing Account Statement 'A': A statement of services known as Manufacturing Account Statement 'A' showing the value of issues under different heads is to be finalised 25th of the following month for the purpose of posting in the Principal Ledger. Similarly another statement known as

Account Statement ‘B’ showing miscellaneous receipts such as recovery of license fees, sale of stores not held on stock charge etc. is to be prepared by the 25th of the following month. [Source: Para 672(A) & 672(B) of OM – VI]

Material Abstract: The Demand and Return Note pertaining to a month after they are duly priced and posted in the PSL are sent to EDP Section for preparing a Material Abstract. The Material Abstract is a listing type of tabulation in which the expenditure incurred against each Work Order and Warrant is shown Demand and Return Note wise and the net total against each Work Order / Warrant. The net expenditure for each Warrant is posted in the Cost Card pertaining to the Concerned Warrant. [Source: Para 624 of OM-VI]

Material Planning Sheet

Prior to Computerization of Ordnance Factories – This is a report generated by the Daily payment sheet and OFB on the basis of input data received from Factories concerned regarding opening balance of Stock, Estimates for materials requirement, punched cards containing information relating to primary documents related to Stores-Receipt Voucher, issue Vouchers, Demand Notes, Return Notes, Adjustments Vouchers. Based on these inputs and 4 yearly production programme computerized Material Planning sheets were prepared by OFB and sent to each factories at the beginning of the 4 years for subsequent action of provisioning. [Source: Para 348 of OM-VI]

Objective: Objective of this report is that it can become an essential tool for preparation of material budget at the Boards level as also it can be used as a control mechanism for verifying the necessity for procurement of any item.

After computerization of Factories: - The vocabulary number is allotted by OFB and 1 year in advance production plans are intimated to GMs. GMs with the same principal workout material requirement on both direct & indirect material and arrive at the value of material requirement. This becomes the basis for projection of budget estimate to OFB. After clearance of budget by OFB at the time of procurement of an article of raw material a MP Sheet for that article is enclosed for audit of requirement. Comparison with SHIS:

MP Sheet	SHIS
1) Prepared on the basis of future plan	1) Prepared on the basis past experience consumption.
2) Can take care of any change in the tune of production associated with revision of estimate.	2) No scope for estimating such changes.
3) The figure Output-consumption rate shown cannot be audited.	3) All the figures appearing are auditable.
4) Pro-active action on provisioning can be taken	4) Only action can be taken when the stock goes beyond ordinary level.
5) Faster process but need more control on the system.	5) Slow process but completely structured.
6) No audit % has been fixed yet.	6) % of audit is laid down in manual.

Night Duty Allowance: Night Duty Allowances (NDA) is admissible to both PWs & DWs. Time engaged in between 10PM & 6 A.M. Calculation on the basis of weightage of 10 minutes per hour. Payment formula: P+DA+CCA/195 + weightage of 10 minutes for each hour. [Para: 201 of OM – VI]

Night Shift Bonus: Admissible to Piece Workers only engaged from termination of Day shift to normal opening hours of the next day. Calculation: half an hour Pay for each hour of work at the rate of hourly rate under Departmental Rule. [Para: 196 of OM – VI]

Non- Moving: Non moving stores are those stores which have not been drawn for a period of three years or more prior to the date of review. [Source: Para 437 of OM-VI]

OTP & Over Time bonus: For the purpose of cost accounting OT allowances is split up in two parts. One is OT Pay (OTP) and another is OT Bonus (OTB). P/200 of each OT hour construed to mean OT Pay and the extra payment in excess of P/200 for each hour of over time is treated as Overtime Bonus. To avoid inflation of cost of article manufactured during Over Time Hours, OTB is treated as an item of OT expenditure. The extra payment of OT hours work beyond normal working hours upto 9 hours a day or 48 hours in a week will be calculated as DA+CCA/200 for each hour of OT for Day Workers and will represent OT Bonus under Departmental Rules. OTB beyond 9 hours a day or 48 hours a week will be calculated as (P+2d)/200 for each hour of OT for Day Workers and $(P+1/4^{\text{TH}} P+2d)/200$ for each hour of OT increase of Peace Workers under the Factory Act. [Para: 197-199 of OM – VI]

Piece Work Card: It is a document used for recording the operations to be carried out and the results thereof or work done by the Piece Workers at a fixed price for each completed unit. [Source: Para 223 of OM Part – VI]

Piece Workers: The workers, who are on Piece Work rates on wages, working individually or in gangs, are called individual Piece Worker or Gang Piece Workers.

Preliminary Expenses: When a new factory is plant or a new project is added to an existing factory, expenditure incurred on salaries and various other miscellaneous item including maintenance of the capital assets are required to be incurred. However, since production has not yet been started, these charges are carried forward till production is established. These charges levied and when regular production starts in the following manner:

- i) Preliminary expenses should be in terms of rupees/unit.
- ii) Rate of charging preliminary expenses should be based on the programmed production over a period which should not exceed beyond 10 years.
- iii) Rate of charging should be reviewed periodically so that the entire Preliminary Expenses incurred are liquidated within a period of 10 years. [Source: Para 8 of Appendix-A of OM Part VI]

Priced Store cum Provision Ledger (PSL) is maintained by the Ledger Group of Material Section of LAO. The purpose of the document is to account for all the receipts, issues and the closing balances of materials. PSL is maintained in a loose leaf binder wherein separate pages are maintained for each category of material. The record is maintained in both quantity and value. Receipt of materials is recorded from Receipt Vouchers, Return Note and DD Vouchers; whereas issues of materials are recorded from Demand Notes. Receipt of materials is priced as per invoice rates. Issue of materials is priced as per ALR. At the end of each month, an ALR is drawn by dividing the total value of receipts by the total value of quantity of receipts. This rate is applied to next month for pricing the issue. [Source: Para 416 of OM-VI]

Production Ledger Card: Simultaneously, with the opening of a Cost Card, the LAO opens a Production Ledger Card (PL Card) for each Warrant. The PL Card serves the purpose of a ledger folio. The receipt of articles, completed and accepted in Inspection is posted in the left side of the PL Card from the Inspection Note received from the Factory. As the completed articles are issued to the Indentors, the 'P' Issue Vouchers received from the Factory are posted in the right side of the PL Card. The balances in the PL Card represent the articles completed but not issued. The total value of all such balances (Indentor-wise) at the close of the Financial Year is exhibited in the Finished Stock Account of the Annual Production Account of the Factory. [Source: Para 668 of OM – VI]

PW Profit statement: It contains section number, month, year, personal no., ticket no., gang no., card hours, card hours including 25% built in incentive, hours worked (input hours), profit percentage, Minimum pay (5th CPC), notional time wages, profit amount, disallowed/ unpaid hours. In addition total number of PWs, and PW allowed hours are also indicated

PW Profit Summary It contains summarized figure for the section/ factory as a whole showing number of PWs, gang number, time wages, card hours, hours worked, profit amount, profit percentage, disallowed/ unpaid hours and the average PW profit percentage

Receipt Voucher Receipts Vouchers are prepared for all receipt of materials in a Factory and they are priced at the actual cost of purchase or at invoice rate. *[Source: Para 410 of OM-VI]*

Red Demand Notes and Red Return Notes: The finished components instead of being utilised directly on the Assembly Work Order or being taken on regular stock charge are sent to a component store where they remain on production charge. Thereafter, drawl and return of components to and from the Assembly Work Orders are accounted for through Demand Notes and Return Notes.

Renewal Reserve Fund: With the creation of Renewal Reserve Fund (RR Fund), all replacement of machineries is to be financed from this Revenue Head. Proforma Capital Block Register for machineries procured through RR Fund, are to be maintained separately. In this register depreciation of each year is to be worked out as per the formula adopted for this purpose, but without any reduction of the original book value. *[Source: Para 817 of OM – VI]*

Replacement Warrant: It is an authority on which work to cover manufacture of articles found defective in the course of manufacture is undertaken. *[Source: definition given in OM – VI]*

Return Note: Any unused surplus materials, scraps etc. lying in the manufacturing shops are returned to the store holder for taking back into the stock through return notes. Return notes are priced at the ALR. *[Source: Para 410 of OM-VI]*

Saturday Bonus: The total normal working hours in a week in Ordnance Factories have been fixed at 44 $\frac{3}{4}$ hours excluding recess. Whereas in terms of Factories Act – 1948, the normal working hours fixed in a week is 48 hours. As such, in Ordnance Factories, a worker for working 44 $\frac{3}{4}$ hours in a week is being remunerated wages for 48 hours. As such, the wages for 3 $\frac{1}{4}$ hours, i.e. complement of 48 hours is termed as Saturday Bonus. *[Para: 194 of OM-VI]*

SHIS: The full form is Store Holder's Inability Sheet. The name itself specifies that the same is prepared by the store holder while proposing for any procurement. This can be merely termed as Store Holders proposed justification for procurement. It contains stock in hand, dues, average consumption, liabilities in sight and hence, requirement to meet the liabilities. The requirement for next six month is calculated on the basis of the formula.

$$6 \times \frac{\text{Total consumption during the last 12 months}}{12}$$

Slow Moving: Slow moving stores are those stores which have not been drawn for a period between one to three years prior to the date of review. *[Source: Para 437 of OM-VI]*

Sources of receipt of Materials:

- i) Foreign purchase.
- ii) Central Purchase.
- iii) Local Purchase.
- iv) From other Ordnance Factories.
- v) Supplies from Departments other than Defence.
- vi) Samples from other branches of Defence Department.

Stock Pile Items: Strategic items of stores which are very difficult to procure. Resource of such stores is built up separately in order to meet the demand of production in case of failure of supplies. The purchases are made from the Capital Grant of the Factory. Separate ledgers are maintained for stock pile items and separate bin-cards are also maintained. Accounting is done through 'R' series of voucher. No stock pile item should be utilised by the Factory without the prior approval of OFB. [Source: Para 337 of OM-VI]

Transfer Vouchers: Transfer Vouchers are prepared for transfer of expenditure from one Work Order or Warrant to another. If materials are drawn against one Work Order but have been utilised for another, the Factory management will prepare a Transfer Voucher. Similarly Transfer Vouchers will also be prepared for cancellation of wrong booking of labour. These Transfer Vouchers will then be sent to LAO for regularisation in Costing Section and Transfer Vouchers from labour, to Labour Section; will then be priced by concerned section. Thereafter it will be passed to Costing Section to add the overhead charges. These Tr. Vrs. will then be sent to EDP Centres for preparation of Extract of Transfer Vouchers. [Source: Para 626(A) of OM-VI]

Un-orthodox Balance: After posting of each ledger document, balance of both quantity and value are noted in each folio. Normally it is expected that ledger balance will show as (+) quantity and (+) value and in case where entire quantity held in stock has been consumed, the ledger folio should show balance as nil quantity and nil value. But, sometimes it may not happen due to belated receipts / non-receipts of primary documents or non-posting or incorrect posting of store documents in ledger folios. As a result thereof the ledger balance may show un-orthodox position in PSL as under:

- (+) Quantity (-) Value
- (+) Quantity Nil Value
- Nil Quantity (+) Value
- Nil Quantity (-) Value
- (-) Quantity (+) Value
- (-) Quantity (-) Value
- (-) Quantity Nil Value

All such un-orthodox balances should be promptly attended and disagreement should be set right by posting wanting document adjustment as the case may be. [Source: Para 425, 426 & 427 of OM-VI]

FORMULAE & RATIOS

IRR: IRR stands for Internal Rate of Return. The rate of return that would make the present value of future cash flows plus the final market value of an investment or business opportunity equal the current market price of the investment or opportunity. The internal rate of return is an important calculation used frequently to determine if a given investment is worthwhile. In Ordnance Factories the IRR calculation is done before purchase of the Plant & Machinery. In internal Audit it should be seen that the IRR calculation is correct. Work sheet with Formula on IRR calculation on Website of CIA (OFs)]

OFB SPECIFIC INFORMATION IN RESPECT OF IRR

Hurdle Rate for IRR

- Present long term yield of government security
- A risk premium can be taken.
- The hurdled rate for OFB at present 12%
- While cut-off rate is mentioned above is a generally acceptable criterion for evaluation – there may be exceptions with clearly spelt out justification Investment > 1 Crore require IRR calculation
- IRR to be calculated as a whole and not factory-wise when it involves a project.

Method of appraisal of cases between ₹ 50 Lakhs & ₹ 1 Crore

- Turnover Ratio (incremental VOI/Cost of Investment $\geq 1:1$)
- Pay Back Period - within life of the assets as per OFB within 20 years
- Capacity Utilisation

Data requirements for Investment Appraisal

- Manpower costs
- Material Costs (Landed cost, yield)
- Rejection in percentage
- Reworks
- Energy Costs
- Consumables, Tools & Jigs
- Repairs and Maintenance costs

A. Accounting ratios to assess performance

Ratio analysis is a good way to evaluate the financial results of OFs in order to gauge its performance. Ratios allow you to compare your business against different standards using the figures on your balance sheet. Accounting ratios can offer an invaluable insight into a business' performance. Ensure that the information used for comparison is accurate - otherwise the results will be misleading.

There are four main methods of ratio analysis - liquidity, solvency, efficiency and profitability.

Profitability Ratios

These ratios tell us whether a business is making profits - and if so whether at an acceptable rate.

The key ratios are:

Ratio	Calculation	Comments
Gross Profit Margin	$[\text{Gross Profit} / \text{Revenue}] \times 100$ (expressed as a percentage)	This ratio tells us something about the business's ability consistently to control its production costs or to manage the margins it makes on products it buys and sells. Whilst sales value and volumes may move up and down significantly, the gross profit margin is usually quite stable (in percentage terms). However, a small increase (or decrease) in profit margin, however caused can produce a substantial change in overall profits.
Operating Profit Margin	$[\text{Operating Profit} / \text{Revenue}] \times 100$ (expressed as a percentage)	Assuming a constant gross profit margin, the operating profit margin tells us something about a company's ability to control its other operating costs or overheads.
Return on capital employed ("ROCE")	Net profit before tax, interest and dividends ("EBIT") / total assets (or total assets less	ROCE is sometimes referred to as the "primary ratio"; it tells us what returns management has made on the resources made available to them before making any distribution of those returns.

Efficiency ratios

These ratios give us an insight into how efficiently the business is employing those resources invested in fixed assets and working capital.

Liquidity Ratios: Liquidity ratios indicate how capable a business is of meeting its short-term obligations as they fall due:

Ratio	Calculation	Comments
Current Ratio	Current Assets / Current Liabilities	A simple measure that estimates whether the business can pay debts due within one year from assets that it expects to turn into cash within that year. A ratio of less than one is often a cause for concern, particularly if it persists for any length of time.
Quick Ratio (or "Acid Test")	Cash and near cash (short-term investments + trade debtors)	Not all assets can be turned into cash quickly or easily. Some - notably raw materials and other stocks - must first be turned into final product, then sold and the cash collected from debtors. The Quick Ratio therefore adjusts the Current Ratio to eliminate all assets that are not already in cash (or "near-cash") form. Once again, a ratio of less than one would start to send out danger signals.

Ratios applicable in OF Accounts

- Capital Turnover Ratio
- Current Ratio
- Fixed Assets Turnover Ratio
- Stock Turnover Ratio
- Net Working capital turnover Ratio

Methods of Remuneration of Industrial Workers

Workers are paid under two methods viz.

- (i) Payment on the basis of attendance (called Day Work)
- (ii) Payment by piece work rates (Piece Work)

1. Calculation of element of wages:

For Day Workers		
Sl	Elements	Formula
1	Time Wages	$[(\text{Basic Rate of Pay}) / (\text{N} - (\text{S} + \text{H}))] \times \text{No of days present}$
2	Leave Pay	$[(\text{Basic Rate of Pay}) / (\text{N} - (\text{S} + \text{H}))] \times \text{No of days on sanctioned leave}$
3	Overtime Pay	(i) $(\text{P} + \text{DA})/200$ for every hour of overtime work upto 9 hours on any day/ 48 hours in a week. (ii) $[2 (\text{P}+\text{DA})/200]$ for each hour of overtime work beyond 9 hours a day or 48 hours in a week.
4	Overtime Bonus	$[(\text{Basic Rate of Pay} + 2 \text{ DA})/200] \times \text{No of OT Bonus hours admissible}$
5	Night Duty Allowance	On the basis of weightage of 10 minutes for night duty performed between 22.00 hours to 6.00 hrs excluding the hours of overtime and recess is falling between the time at a prescribed rate.
6	DA/HRA/CCA	As per Govt. orders on the subject
7	Incentive Bonus	50% of profit earned by the Production Section or 50% of average profit earned by all Production Sections of the Factory, as the case may be.
For Piece Workers		
Sl	Elements	Formula
	Time Wages	$[(\text{Minimum of scale of Pay}) / \{\text{N} - \text{S}\}] \times \text{No of days present}$
	Overtime Pay	$[(\text{Minimum of scale of Pay})/200] \times \text{No of hours on Overtime work}$
The above two elements are not being paid separately but required for arriving out Piece Work Earning only		
1	Piece Work Earnings	$[\text{Time Wages} + \text{Overtime Pay}] + \text{Profit}\%(\text{subject to maximum } 75\%) \text{ on } [\text{Time Wages} + \text{Overtime Pay}]$
$\text{Profit}\% = [(\text{Output Hours on basis of PW Cards}) / (\text{Input Hours})] \times 100$		
2	Incremental Pay	$[(\text{Actual monthly basic rate of pay} - \text{Minimum scale of pay}) / (\text{N}-\text{S})] \times \text{Number of days present during the month}$
3	Leave Pay	$[(\text{Basic Rate of Pay}) / \{\text{N} - \text{S}\}] \times \text{No of days on sanctioned leave}$
4	Holiday Pay	$[(\text{Basic Rate of Pay}) / \{\text{N} - \text{S}\}] \times \text{No of Holidays days during a month}$
5	Overtime Bonus	$[(\text{Basic Rate of Pay} + 1/4 \text{ of Basic Rate of Pay} + 2 \text{ DA})/200] \times \text{No of OT Bonus hours admissible}$
6	Night Duty Allowance	On the basis of weightage of 10 minutes for night duty performed between 22.00 hours to 6.00 hrs excluding the hours of overtime and recess falling between the times at a prescribed rate.
7	DA/HRA/CCA	As per Govt. orders on the subject

Deductions in Wages: The period of strike/token strike resorted to by industrial employees is to be regarded as 'Dies-non'. It counts neither as service nor as break in service. Unless otherwise stated no pay and allowance will be admissible to workers for the period they are on strike/token strike, etc. Deduction of wages on account of periods of strike for a part of a day will be made as under:

For Day Workers:

$$\frac{(\text{Band Pay} + \text{Grade Pay}) + \text{DA}}{N - (S + H)} \times \frac{\text{Period of Strike (Dies non Period) in hour}}{\text{Normal working hours per day}}$$

For Piece Workers:

$$\frac{(\text{Band Pay} + \text{Grade Pay}) + \text{DA}}{N - S} \times \frac{\text{Period of Strike (Dies non Period) in hour}}{\text{Normal working hours per day}}$$

Guarantee Pay

(Time wages + Increment difference + Overtime pay) - (Earning+ Overtime Bonus) = Guarantee Pay.[Source: PC of A (Fys) Calcutta case File No. Pay/Tech-II/01050 (PWR)]

SHIS: The requirement for next six month is calculated on the basis of the formula.

$$6 \times \frac{\text{Total consumption during the last 12 months}}{12}$$

Constitute Prime Cost

Prime Cost + Indirect Expenses of the Factory Sections.(Work Overhead) =Works Cost.
 Works Cost +Indirect Expenses of Administration Sections=Cost of Production
 Cost of Production plus selling and distribution expenses =Cost of Sales.
 Cost of Sales plus Profit=Selling Price;

Labour Cost in respect of Piece Work Payment =

$$\frac{\text{Gross Wages paid to the Piece Workers}}{\text{Total SMH discharged through PW cards}} \times \frac{\text{Quantum of SMH indicated}}{\text{against Workorder \& warrant No in PW Cards}}$$

Labour Cost in respect of Day Work Payment =

$$\frac{\text{Gross Wages paid to DWs}}{\text{Total hours worked by the DWs}} \times \frac{\text{No. of hours shown against particular work order,}}{\text{warrant as per DW Card/Allocation sheet.}}$$

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1. Introduction

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1.Introduction

Organisational Setup of OFB

The organization functions under the Department of Defence Production and Supplies, under Ministry of Defence. The Management of the Ordnance and Ordnance Equipment Factories is vested in the Ordnance Factory Board. There are 9 Members of the Board in the rank of Additional DGOF. The Chairman/DGOF is the Chief Executive. In his capacity as the Director General Ordnance Factories, he is the administrative head. Ordnance Factories are divided into 5 operating divisions, depending upon the type of the main products/technologies employed. The Operative divisions and the OFs under each Operative Division are given in organization Chart of the Ordnance Factory Board at **Appendix A**. Each of the Operative Division is headed by a Member/Additional DGOF. The four remaining Members are responsible for staff functions, viz. Personnel (Per), Finance (Fin), Planning & Material Management (P&MM), Technical Services (TS).

Organisational Setup of Ordnance Factories

2. There are 39 Ordnance Factories geographically distributed all over India at 24 different locations. Two OFs are at project stage and are located at Nalanda and Korwa. The Head of the Ordnance Factory is Senior General Manager/General Manager (Sr.GM/GM). He reports to the concerned Operating Division Member of the Board at OFB. However, queries/doubts relating to functional matters like material procurement, problems affecting personnel are referred to the functional member in addition, to the concerned Operating Division Member.

- (i) The Sr. GM/GM is assisted by Additional General Manager, Jt. General Manager, Dy. General Manager, Works Manager and Assistant Works Manager. The Head of the Production and Maintenance Section is the Junior Works Manager.
- (ii) Labour Welfare Officers attached to the Ordnance Factory are deputed from the Ministry of Labour, who co-ordinates and advises the Sr.GM/GM on all issues concerning labour welfare and problems.
- (iii) There are well equipped Ordnance Factory Hospitals with Medical Officers and Specialists located at various stations, headed by Senior Medical Officer. They report to the Director Health Services at OFB Headquarters. There are 12 Ordnance Development Centres (ODCs), OF Institute of Learning, National Academy of Defence Production (NADP), OFB Mumbai & Delhi Offices, 3 Regional Marketing Centres. The location, role & functions and HOD of these offices are given at **Appendix B**.
- (iv) In each factory, there are various shops (sections), which are broadly classified as Productive and Service. The Productive Shops are directly involved in production of the articles. The Service shops e.g. Administrative Office, Planning, Gate, Store, Power, etc., render services to other shops and ensure their smooth functioning. Certain sections in OFs are partly productive and partly service viz. Tool Room, Mill Wright, and Repair Shop. Each factory and its shops are identified for purposes of mechanical accounting by specific code numbers. The code numbers of Shops are allotted by the Local Accounts Office/Branch Accounts Offices and code numbers to the factories is allotted by the PCA (Fys).
- (v) The security of the OFs is the responsibility of Defence Security Corps Personnel, which is headed by Chief Security Officer at OFB Headquarters.

Product Profile of Ordnance Factories

3. Production of military hardware in India commenced with the establishment of Gun Carriage Agency factory (presently known as Gun and Shell factory, Cossipore) by the East India Company in the year 1801. The prime customers of Indian Ordnance Factories are the Indian Armed Forces. Apart from supplying armaments to the Armed Forces, Ordnance Factories also meets the requirement of other customers viz. Central Paramilitary Forces and State Police Forces. The product range of Ordnance Factories includes Weapons, Ammunition, Explosives, Propellants & Chemicals, Military Vehicles, Armoured Vehicles, Optical Devices, Parachutes, Support Equipment, Troop Comfort & General Stores and Components & Special Purpose Machines. The Weapons range from small arms (revolvers, pistols, sporting rifles, rifles, machine guns) to high calibre artillery guns (105mm, 130mm, Kavach Launcher). Armoured Vehicles viz. T-90, T-72 Tanks, BMPs, MPVs and Military Vehicles viz. trucks, field ambulances, water browsers, LPTAs are also produced. Machines, tools are also manufactured for use in the Factories. Wherever adequate capacities are available, the Ordnance Factories also fulfill the requirements of Civil Trade and foreign customers.

Organisational Setup of Allied Establishment: DGQA

4. The Directorate General of Quality Assurance (DGQA) is under Deptt. of Defence Production, Ministry of Defence. This organisation provides Quality Assurance (QA) cover for the entire range of Arms, Ammunitions, Equipments and Ordnance Stores supplied to Armed Forces. It also ensures documentation, codification and standardisation action for minimizing the variety of components / equipments. The other services rendered are post procurement services, defect investigations and technical consultancy to the users, Ministry and the production agencies. The establishments under this organisation are spread all over the country where mainly the Ordnance Factories, Defence Public Sector undertakings and industrial base exist. DGQA organisation is responsible for Quality Assurance of Defence Stores produced by Ordnance Factories, Public & Private Sector Units as also procured Ex-Import. The organization is responsible for:

- (a) Formulation of Quality Assurance Plans.
- (b) Technical Evaluation & Final Acceptance.
- (c) Technical guidance to Manufacturers on quality related issues.
- (d) Act as interface between user & Production agency appreciating User's expectations and at the same time understanding Manufactures problems.
- (e) Pre & Post Contract services to Defence Indenters.

Organisation is divided into 12 Directorates: 10 Technical Directorates, Directorate of Administration and Directorate of Policy Planning and Training. Each Technical Directorate is responsible for a group of technologically distinct equipment. The CIA (OFs) is responsible for post audit of only those DGQA establishments which are responsible for Quality Assurance (QA) for the entire range of Arms, Ammunitions, Equipments and Stores manufactured at OFs for supply to the Armed Forces. A list of such DGQA establishments is given at Appendix C.

Organisational setup of Principal Controller of Accounts (Factories)

5. Member (Finance) Ordnance Factory Board is assisted by Principal Controller of Accounts-factories, Kolkata and Controllers of Finance (CoFs) in the Finance Division of OFB. The Organizational setup of PCA (Fys) Kolkata is given at Appendix D. Principal Controller of Accounts (Fys) is responsible for payment, accounting, compilation of expenditure, financial advice functions of Ordnance Factories and Allied Establishments. It renders pre-audit services to ensure public accountability. The accounts of Ordnance Factories are prepared and consolidated by the Principal Controller of Accounts (Fys), Kolkata on formats prepared in consultation with the OFB and approved by the Comptroller and Auditor General of India (C&AG). It also renders various reports and returns including Annual Production & Store Accounts, Quarterly Financial reports, Annual Audit Certificate to the Controller General of Defence Accounts (CGDA). CGDA renders Annual Audit Certificate and Appropriation Accounts pertaining to Ordnance Factories. PCA (Fys) submits the accounts and related reports of the Ordnance Factories to the CGDA, in consultation with Member (Finance).

Controllers of Finance & Accounts

6. There are 9 Controllers of Finance & Accounts (CF&A), also called Group Controllers, working under PCA (Fys.). The Group CF&A are administratively and functionally under the Member (Finance) through PCA (Fys). The location of the Group CF&A, Group Charge and OFs under group charge is given at Appendix D. The working of Branch Accounts Offices is supervised by the respective Group CF&A on the principle of dual accountability of finance functionaries to the management/executive on the one hand and the higher finance echelons on the other hand. Such dual accountability is an intrinsic part of the IFA scheme of the Ministry of Finance as prevailing in Ministries/Departments. The Group CF&A exercise administrative and functional supervision over the working of the Branch Accounts Offices and provide a crucial ground level interface between the Factory and the Branch Accounts Office; the PCA (Fys) Kolkata and the Branch Accounts Office; as well as the Member (Finance) OFB and the Branch Accounts Office. The Group CF&A through participation in Tender Purchase Committee advise the Sr GMs/GMs on important and high value procurement cases. The role of Group CF&A is essentially that of supervision and monitoring through periodical reports and returns and inspections and issuing clarifications to the Branch Accounts Offices, in consultation with PCA(Fys)/Member (Finance)/CGDA (wherever required), in case of doubt or difference of opinion between the Factory Management and the Branch Accounts Office. The Group CF&A also plays coordinating role so as to ensure uniform application/interpretation of rules in the Branch Accounts Offices under his Group Charge.

Branch Accounts Offices

7. The Finance & Accounting functions at each Ordnance Factory are being discharged by a dedicated Branch Accounts Office (also called Local Accounts Office or LAO) co-located with each Ordnance Factory. They are headed in most factories by Time Scale/Junior Administrative Grade (JAG)/ Non-Functional Selection Grade (NFSG) Officers. There are 41 Br. AOs, grouped geographically under 9 Controllers of Finance & Accounts (CF&A). A list of these offices is given at Appendix D. The Factory Accounts Offices are making payments, maintaining Financial and Cost Accounts and render financial advice to General Managers of Ordnance Factories.

The Branch Accounts Offices perform the following functions in an integrated manner:

- (i) Pre-audit and payment of pay & allowances, personal claims, General Provident Fund maintenance and payments to suppliers.
- (ii) Pre-Audit and payment of bills released and also post-audit of contracts/supply orders, pay & allowances, fund accounts etc.
- (iii) Finance: vetting the provisioning and procurement proposals, participations in TPCs, vetting of supply orders/contracts and post-contract amendments and issues.
- (iv) Accounting: compilation of Financial and Cost Accounts including accounting of all expenditure, booking of value of issues to indentors, inventory accounting, pricing of estimates, production review through Quarterly Financial Report (QFR) and cost analysis.
- (v) Budgeting: participation in budget formulation from shop level to OFB level, pricing of products, monitoring through periodical review of expenditure and issues.

In performance of the above functions, the Officer-In charge of Branch Accounts Office works as a dedicated Integrated Financial Advisor to the Sr. GMs/GMs of the Factory concerned and is fully empowered to take decisions at his level. A group of Branch Accounts Offices is headed by a Controller of Finance and Accounts. The participation in TPCs is in accordance with the OFB orders on Delegation of Financial Powers.

Organisational Setup of Chief Internal Auditor (OFs)

8. Chief Internal Auditor (Ordnance Factories) functions as the head of the department for Internal Audit Organization in Ordnance Factories. The structure and mandate of the Internal Audit in Ordnance Factories is in accordance with GOI Ministry of Defence letter 1(28)/2005/D (Prod) dt.11.08.2005 and 3(5)/2007/IF (DP.I) dt.21.07.2009. The CIA (OFs) is under administrative and functional control of the CGDA and reports to the Addl. CGDA (Audit) in the CGDA office. CIA (OFs) scrutinizes and consolidates the Quarterly Internal Audit Report (QIAR) and Annual Audit Certificate and submits them to the CGDA. A copy of QIAR is also given to the OFB and PCA (Fys). CGDA office compiles QIAR into Half-yearly reports and sends them to Secretary Defence/Finance. The organizational setup of CIA (OFs) is given at Appendix E. CIA (OFs) is assisted by five Regional Internal Audit Offices (RIAOs) at field level, which are at Kanpur, Avadi (presently working from Medak), Kirkee, Ishapore and Jabalpur. There are 16 Internal Audit cells that carry out internal audit and report to the RIAOs. The RIAOs are headed by Joint Controllers/ Deputy Controllers or Time Scale officers. The Internal Audit Cells are headed by a SIAO/IAO (Senior/Internal Audit Officer). The authority to audit is derived from the Audit code and government orders issued from time to time.

Definition of Internal Audit

9. Institute of Internal Auditors defines Internal Audit as follows:

'Internal auditing is an independent, objective assurance and consulting activity designed to add value and help improve the organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes'.

Internal audit provides the management with a periodical assessment of the functioning of internal controls and effectiveness of the Risk Management within the organization and recommends measures for strengthening them.

The Internal Audit of the OFB, Ordnance Factories, other establishments under them and also allied establishments is done by the CIA (OFs) Kolkata.

History of Internal Audit in Ordnance Factories

10. The Internal Auditing profession evolved steadily with the progress of management science after World War II. History of Internal audit can be traced back to medieval period in History. The theory of internal auditing was conceived primarily by Lawrence Sawyer (1911-2002), often referred to as *the father of modern internal auditing*. In 1994 saw advent of various Internal Audit standards which were based on the best practices in the field.

In Defence Accounts Department in India, the oldest reference to Internal Auditor is in 1788, when the designation of the Commissary General was changed to Military Auditor General who exercised his control over all Military Disbursements. Internal Audit in Ordnance Factories started in 1979 when OFB was constituted and the Finance, Accounts and Audit functions were integrated with it. In 2005, the Internal Audit in Ordnance Factories was strengthened and CIA was made Head of the Department and System, and management audit was introduced. In 2009, the Internal Audit was made independent of the Factory management and the accounts functions and was placed directly under CGDA office vide Ministry of Defence letter 3(5)/2007/IF (DP.I) dt.21.07.2009. In the same year Risk Based Internal Audit (RBIA) and IT audit was introduced in CIA (OFs). The RBIA is facilitated by audit software-Interactive Data Extraction and Analysis since 2011. The Internal Audit in OFs is result oriented, organized, objective and professional in its approach. In 2012, CIA (OFs) obtained Information System/International Organization for Standardization 9001 certification from Bureau of Indian Standards.

Types of Audit

11. Internal Audit in India started from Regulatory and expenditure audit. Performance audit came into existence in 1960's, parallel to the evolution of politics and public administration from one-dimensional focus on control of inputs (resource) towards broader attention to accountability for outputs and outcomes. At present there are various types of Internal audit that are carried out in Government of India. In case of Ordnance Factories, the Internal Audit started functioning in 1979. Different types of Internal Audit that are practiced in Ordnance Factories in particular are given in the following paragraphs.

Statutory Audit (External Audit)

12. Comptroller and Auditor General (C&AG) is the Supreme Audit Institution of India. The duties of the C&AG as defined by the *Duties, Powers and Conditions of Service (DPC) Act, 1971*, are to audit and report upon:

- i) All receipts into and spending from the Consolidated Fund of the Union and State Governments
- ii) All transactions relating to the Emergency expenses, called Contingency Funds and relating to the money of the public held by the Government including State levels
- iii) All trading, manufacturing, profit and loss accounts, balance sheets and other subsidiary accounts kept in any Government department
- iv) All stores and stock accounts of all Government offices and departments
- v) Accounts of all Government companies and Corporations
- vi) Accounts of all autonomous bodies and authorities receiving Government money e.g. municipal bodies, IIMs, IITs, State Health societies
- vii) Accounts of any Body or Authority on request of the President/Governor or on his own initiative (Source: india.gov.in). The main aim of statutory audit is to safeguard the financial interests of the tax-payers and assist the Parliament in exercising financial control over the expenditure. Statutory audit of OFB, OFs, allied establishments, Controller of Finance and Accounts Br. Accounts Offices is carried out by Principal Director Audit (PDA), Kolkata on behalf of C&AG. PDA is assisted by five regional offices headed by Director / Dy. Director. The audit of PC of A (Fys) is conducted by Central Test Audit Section of Regional Office, Kolkata. While internal audit is a management's tool for checking whether the internal controls and Risk Management are effective. The role and responsibility of external audit (CAG of India) is much broader in its scope and includes audit of Government of India and State Governments.

Compliance/Regulatory Audit

13. Compliance audit examines the transaction relating to expenditure, receipts, assets and liabilities of Government for compliance with the rules, regulations. Orders and instructions issued by the Competent Authority either in pursuance of the laws or by virtue of the powers formally delegated to it by a superior authority.

- (i) Audit against provision of funds: to ascertain whether the money shown as expenditure in the Accounts were authorised for the purpose for which it was spent.
- (ii) Audit against rules and regulation: to see that the expenditure incurred was in conformity with the laws, rules and regulations framed to regulate the procedure for expending public money. These include rules and orders regulating the powers to incur and sanction expenditure as well as delegation of powers to incur and sanction expenditure from the

Consolidated Fund and Contingency Fund of India; rules and orders dealing with the mode of presentation of claims against Government, withdrawing moneys from the Consolidated Fund/Contingency Fund/Public Accounts; the financial rules prescribed for dealing with government transactions and rules and orders regulating the conditions of service and pay and allowances and pensions of Government servants. Auditors' duty includes interpretation of rules and orders and bringing to the notice of the competent authority any action that is, in their opinion, contrary to the rules /orders on the subject. It is for the authority which is vested with the power to make rules to take a view in the matter and decide on the further course of action.

- (iii) Audit of Sanctions to expenditure: to see that every item of expenditure was done with the approval of the competent authority in the Government for expending the public money.
- (iv) Propriety Audit: It extends beyond scrutinising the financial prudence and economy, to improper expenditure or waste of public money. It is an essential and inherent function of Audit to bring to light not only clear and obvious irregularities but also every matter which, in the judgment of auditors, involve improper expenditure or waste of public money or stores even though the accounts themselves may be in order.
- (v) Audit of receipts: check that the rules and procedures are followed and that assessment, collection and allocation of revenue are done in accordance with the rules and there is no pilferage or misappropriation of revenue. (Source: cag.gov.in).

Performance Audit

14. Performance Audit is also called Efficiency-cum-Performance Audit (ECPA) or Value for Money (VFM) audit. It is a comprehensive review of the projects, programmes, schemes, organisations, etc. in terms of their goals and objectives aimed at ascertaining the extent to which the expected results have been achieved from the use of available resources of money, men and materials. Performance audit is an independent assessment or examination of the extent to which an organization, programme or scheme operates economically, efficiently and effectively. The three Es involved are explained below:

- i) Economy – Minimising the cost of resources used for an activity, having regard to appropriate quality. Economy issues focus on the cost of the inputs and processes. Economy occurs where equal-quality resources are acquired at least cost.
- ii) Efficiency – Efficiency is the relationship between the output, in terms of goods, services or other results and the resources used to produce them. Efficiency exists where the use of financial, human, physical and information resources is such that output is maximised for any given set of resource inputs, or input is minimised for any given quantity and quality of output.
- iii) Effectiveness: Effectiveness is the extent upto which the objectives of the activity, organization are achieved.

Risk Based Internal Audit (RBIA)

15. Risk Based Internal Audit (RBIA) is new concept in the field of Internal Audit. One important criterion in prioritizing the audit focus is based on the 'risk'. Risk is exposure to the chance of failure or loss. Risk is the possibility of occurring of an event that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood. It is related to the probability that an event

or action will occur which has potential to adversely affecting the organization or in achievement of the objectives of the organisation. Risk management is the process of measuring or assessing risk and developing strategies to manage it. The risks to the organization are identified and analysed primarily by the auditee (OFB/Factory management in case of OFs). Auditors facilitate risk management by the auditee. Internal audit analyses the risk management of the auditee and gives its feedback. Internal audit also audits the areas where there are risks involved but are not managed by the auditee.

One way of selecting areas and transactions would be based on internal auditors' assessment of risk of deviation from the norms. Areas where there is discretion exercised by the department should be considered more risky than where the rule is unambiguous and permits no deviation. Higher value transactions are not necessarily more risky, being fewer, therefore larger number of cases should be audited to check deviation from norms. Poor Internal Control environment poses a high risk area. Hence it's CAAT to categorise audit areas depending on their risk factor, which however may undergo change in case of poor control environment. The internal audit helps the management in identification of risks and gives suggestions on Risk Management (source: www.theiia.org). RBIA and Internal Control management are complimentary to each other. One of the main functions of internal control is to evaluate effectiveness of risk management and the internal controls of the auditee.

Evaluation of Internal Controls

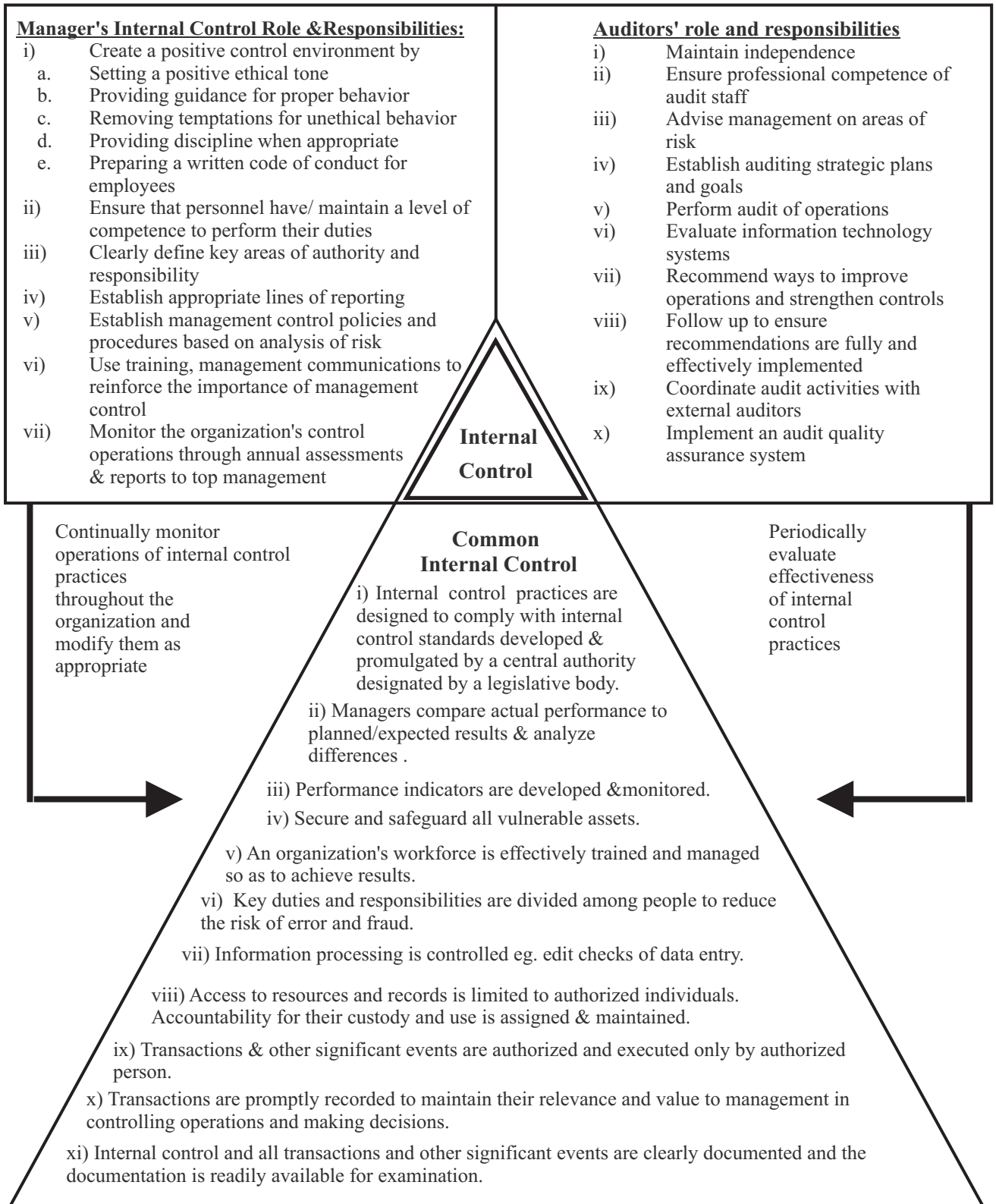
16. The internal audit evaluates the effectiveness of risk management and Internal Controls relating to the organization's governance, and information systems specifically relating to :

- i) Reliability and integrity of financial and operational information
- ii) Effectiveness and efficiency of operations and programs
- iii) Safeguarding of assets
- iv) Compliance with laws, regulations, policies, procedures and contracts
- v) The potential for the occurrence of fraud and how the organization manages fraud risk.

Internal controls are safeguards that are put in place by the management of an organisation to provide assurance that its operations are proceeding as planned. Internal Control is the responsibility of the management and the role of Internal Audit is to assess and evaluate them. Evaluation of Internal control helps to provide reasonable assurance that the organization:

- i) Adheres to laws, regulations and management directives;
 - ii) Promotes orderly, economical, efficient & effective operations & achieves planned outcomes;
 - iii) Safeguards resources against fraud, waste, abuse and mismanagement;
 - iv) Provides quality products and services consistent with the organization's mission;
 - v) Develops & maintains reliable financial & management information and timely reporting.
- The management and the internal audit have well defined roles and responsibilities, which are explained in the Chart below. (Source: Internal Control evaluation manual by C&AG; Guidelines for Internal Control standards for the Public Sectors –INTOSAI).

Chart 2A] Internal Control Roles and Responsibilities of Auditors and Auditee



Information System Audit

17. Information System (IS) Audit is also called Information Technology (IT) audit, the the former is a broader concept, which is lately being used in internal audit. It is defined in the IT Audit Manual of C&AG as:

‘the process of collecting and evaluating evidence to determine whether the computer system safeguards assets, maintains data integrity, allows organizational goals to be achieved effectively and uses resources effectively’.

The biggest challenge for auditors is the extensive application of information technology in offices that come under their audit purview. Both Ordnance Factories & Branch Accounts Offices have computerized their operations making IT Audit indispensable. The processes of IT Audit are given in Chapter 6 of this manual

Financial Audit

18. Financial audit provides reasonable assurance that the financial statements of the organization present a true and fair view. In conducting financial audits, auditor determines whether financial information is presented in accordance with the applicable accounting standards including specific requirements of financial disclosure and whether the organization has complied with laws and regulations applicable to it.

Audit Standards

19. Adoption of professional standards enhances the effectiveness of internal audit. International Standards for audit are issued by Institute of Internal Auditors (IIA). In India the audit standards has been compiled by C&AG which is the statutory auditor. Standards by IIA (<http://www.theiia.org>) consist of one set of attribute and performance standards and multiple sets of implementation standards (one each of major activity). The gist of these standards is given below:

a) Attribute standards

- i) The internal audit activity should be independent and internal auditors should be objective in performing their work.
- ii) Audit should be performed with proficiency and due professional care.
- iii) The Chief Audit Executive should develop and maintain a quality assurance and improvement programme that covers all aspects of internal audit activity and continuously monitors its effectiveness. The programme should be designed to help the internal auditing activity add value and improve the organization’s operations.

b) Performance Standards

- i) The Chief Internal Audit executive should effectively manage the internal audit activity to ensure it adds value to the organization (of auditee).

- ii) The internal audit activity evaluates and contributes to the improvement of risk management control and governance systems.
- iii) Internal auditors should develop an audit plan.
- iv) Internal auditors should identify, analyze, evaluate and record information to meet their audit objectives.
- v) Internal auditors should communicate the audit results promptly.
- vi) The chief audit executive should establish and maintain a system to monitor the disposition of results communicated to management.

Audit Standards in India:

20. Based on the international standards, C&AG have prescribed auditing standards. Auditing standards provide the framework for performing high quality audit. The gist of these standards is given below:

- A) General Standards:** General Standards are related to conduct and reporting of audit findings in a competent and effective manner. They include:
 - i) **Independence of audit:** So that their opinion and reports are impartial.
 - ii) **Professional competence:** The audit institution should assess skill needs to consider whether its workplace has the essential skills that match those necessary to fulfill the audit mandate.
 - iii) **Due care:** Auditors should exercise due care and caution in planning, gathering and evaluating evidence reporting conclusion and recommendations.
 - iv) **Professional Judgement:** it represents the application of the collective knowledge, skills and experience, of all personnel involved with assignment as well as the professional judgement of the individual auditors.
 - v) **Quality Control:** The system of quality control encompasses the audit institution's emphasis on performing high quality work.

- B) Field Standards:** These standards provide an overall framework for conducting an audit. Main features are:
 - i) **Planning:** The audit should be planned in a manner which ensures high quality in an economic, efficient and effective auditing manner.
 - ii) **Supervision and Review:** The work of audit staff at each phase should be properly supervised and reviewed.
 - iii) **Examination and evaluation of internal control:** The auditor should obtain sufficient understanding of the internal controls of the OFs/OFB to facilitate their evaluation.
 - iv) **Compliance:** The auditor should verify compliance with applicable laws, rules and regulations and highlight deviations.
 - v) **Audit evidence:** evidence should be given in support of the objection/conclusion in the report.

- C) Reporting standards:** provide framework for reporting the results of audit which include:
 - i) The report should be complete, objective, convincing, clear, constructive and timely.

- ii) The follow up of recommendations is necessary. The auditor should maintain objectivity and independence and focus on whether identified weaknesses have been corrected.
- iii) Systems of procedures should be in place to assess whether adequate, prompt and proper follow up- action has been taken on audit report.

Outcome Budget

21. Budget management plays a crucial role in the Public Financial Management system. Management, *inter-alia*, involves budget formulation, budget execution and budget reporting. Traditionally, the budget was viewed merely as a statement of receipt and expenditure in terms of outlays which were financial in nature. On the expenditure side, the projected expenditures on different heads were often used to analyse the priorities of the organization.

The 'Outcome Budget' is an endeavour of the Government to convert the 'outlays' into 'outcome' by planning the expenditure, fixing appropriate targets, quantifying the deliverables in each scheme and bringing to the knowledge of all, the 'outcomes' of the Budget outlays provided for each scheme/programme. The Outcome Budget facilitates accountability and transparency. Outcome budget is required to be prepared by each Ministry/Department in respect of all Demands/Appropriations controlled by them except those exempted by Department of Expenditure. Every year Ministry of Finance, Department of Expenditure gives guidelines for preparation of outcome budget. Outcome budgets have become an integral part of the budgeting process since 2005-06. It reflects the purposes and objections for which funds were provided; the cost of various activities proposed for achieving these objectives and quantitative projection of the work performed and services rendered under each activity. It also contains information on the monitoring mechanism and the public information system that have been put in place by each Ministry/Department to regularly monitor physical and financial progress during the course of the year and inform the general public about it (Source : <http://finmin.nic.in>)

Appendix A

Operating Division Members

Member/A&E

1. C.F. Aruvankadu
2. H.E.F. Kirkee
3. O.F. Bhandara
4. O.F. Itarsi
5. A.F. Kirkee
6. O.F. Varangaon
7. O.F. Khamaria
8. O.F. Chanda
9. O.F. Dehuroad
10. O.F. Bolangir
11. O.F. (P) Nalanda

Member/WV&E

1. R.F. Ishapore
2. S. A. F. Kanpur
3. G.S.F. Cossipore
4. O.F. Dumdum
5. O.F. Trichy
6. O.F. Kanpur
7. F. G. F. Kanpur
8. G. C. F. Jabalpur
9. V.F. Jabalpur
10. G. I. F. Jabalpur
11. O.F.(P) Korwa

Member/M&C

1. O.F. Katni
2. O.F. Ambarnath
3. M.S.F. Ishapore
4. O.F. Muradnagar
5. O.F. Bhusawal
6. O.F. Ambajhari
7. M.T.P.F. Ambarnath
8. H.A.P.P. Trichy

ADGOF/OEF HQRS

1. O.E.F. Kanpur
2. O.P.F. Kanpur
3. O.C.F. Shahjahanpur
4. O.C.F. Avadi
5. O.E.F. Hazratpur

ADGOF/ AV HQRS

1. H.V.F. Avadi
2. O.F. Medak
3. E.F. Avadi
4. O.L.F. Dehradun
5. O.F. Dehradun
6. O.C.F. Chandigarh

List of Establishments under OFB: Locations, HOO and Role

	Establishment	Location(s)	Head of Office	Role & Functions
1.	National Academy of Defence Production (NADP)	Ambajhari	Principal Director	Impart training to IOFS Officers
2.	Ordnance Factory Institute of Learning (OFIL)	Ambajhari, Ambarnath Avadi, Dehradun Ishapore, Khamaria Kanpur, Medak	Principal Director /Director	To meet training needs of the Ordnance Factories
3.	Ordnance Development Centre (ODCs)	Ishapore Kirkee, Jabalpur (GCF & VFJ), Kanpur, Medak, Bhandara, Ishapore, Ambajhari Dehradun Ambarnath, Chanda.	Independent entity. Headed by Director who reports to Member/ TS(OFB) Authority:OFB no. 295/TS/ R&D/ Dev. Labs dated 04.02.2008.	Created vide OFB no. 295/TS/ R&D/Dev. Labs dated 04.02.2008 Purpose: 1.New product development / upgrades of existing products in-house 2. Development/upgradation in collaboration with Indian/ foreign partners 3. Improvement in existing process 4. Support OFs in absorption of TOT 5. Act as technology watch group 6. Interaction with other ODCs, 7. Interaction with institutions for developmental activities.
4.	Regional Marketing Centre(RMCs)	Avadi, Delhi Pune	Headed by Regional Directors	Promote the products of Ordnance Factories
5.	Ordnance Factory Board Office, New Delhi	New Delhi	Headed by DDG level Officer. Autho.:OFB OO no.83 dt. 8.11.11.	Liasion with Ministry of Defence
6.	Ordnance Factory Board Office, Mumbai	Mumbai	Headed by DDG level Officer Authority: OFB Off.O. number 83 dated 08.11.2011.	Clearance of Shipment at Mumbai Port
7.	Regional Controllate of Safety	HVF Avadi OF Ambajhari OF Kanpur AF Khadki	Headed by DDG level Officer	Monitoring the Safety measures adopted in Ordnance Factories
8.	Ordnance Factory Hospitals	Attached with all Ordnance Factories	Chief Medical Officer	Provide medical facilities to staff & officers of OFs provided they are not availing CGHS facilities

List of DG Quality Assurance Establishments for Internal Audit

List of Units/Formations of Director General Quality Assurance placed under the Audit coverage of the Chief Internal Auditor (Ordnance Factories) Kolkata, with effect from 01.04.2012. (Authority: CGDA, New Delhi letter No. AT/VII-C/7300/Pt.-II dated 07.10.2011)

OFs co-located	DGQA Units	IA Cell
RFI	1. SQAE(SA) Ishapore 2. CQA (SA) Ishapore	RF Ishapore
MSF Ishapore	1. CQA(MET) Ishapore 2. SQAE(MET) Ishapore	
OF Bolangir	1. SQAE(A) Bolangir	
GSF Cossipore	1. SQAE(A) Cossipore 2. Detachment Aeronautical Quality Assurance (Armament), Cossipore	GSF Cossipore
HVF Avadi	1. CQA(HV) Avadi 2. CQA(AVA) Avadi 3. CQA(AVL) Avadi	HVF Avadi
OF T	1. SQAE(A) Tiruchirapally 2. OCRI Tiruchirapally	OF Trichy
HAPP Trichy	1. QAE(A/ HAPP) Trichy	
CF Aruvan	1. SQAE(ME) Aruvankadu	
OF Medak	1. CQA(ICV) Medak 2. SQAE(L) Medak 3. SQAE(A) Medak	OF Medak
VF Jabalpur	1. CQA(OFV) Jabalpur	VF Jabalpur
OF Khamaria	1. SQAE(A) Khamaria 2. QAE(ME) Khamaria 3. Aeronautical Quality Assurance (Armament) Khamaria	OF Khamaria
OF Itarsi	1. QAE(ME) Itarsi 2. CPE Itarsi 3. Detachment Aeronautical Quality Assurance (Armament), Itarsi	
OF Katni	1. QAE(MET) Katni	
GCF Jabalpur	1. CQA (W) Jabalpur 2. SQAE(L) Jabalpur 3. SQAE(A) Jabalpur 4. Detachment Aeronautical Quality Assurance (Armament), Jabalpur	GCF Jabalpur
FGF Kanpur	1. QAE FGF Kanpur	FGF Kanpur
OF Kanpur	1. SQAE(A) OF Kanpur 2. NAI Kanpur 3. Detachment Aeronautical Quality Assurance (Armament), Kanpur	
SAF Kanpur	1. SQAE(V) SAF Kanpur 2. QAE(V) Kanpur	
OCF Shahj	1. SQAE(GS) Shahjahanpur	OEF Kanpur
AF Kirkee	1. CQA(AMN) Kirkee 2. SQAE(A) Kirkee 3.CQA(ME) Kirkee 4. AQAW(A) Detachment Kirkee	AF Kirkee
HEF Kirkee	1. QAE(ME) HEF Kirkee	
OF Ambe	1. QAE (MET)Ambernath	
MTPF Amb	1. QAE(W) Ambernath	OF Ambajhari
OF Dehu	1. QAE(ME) Dehu Road	
OF Ambajhari	1. SQAE(ME) Ambajhari 2. Detachment Aeronautical Quality Assurance (Armament), Amabjhari	
OF Bhandara	1. QAE(ME) Bhandara 2. Dett. Aeronautical QA (Armament), Bhandara	OF Ambajhari
OF Chanda	1. SQAE(A) Chanda 2. Detachment Aeronautical Quality Assurance (Armament), Chandrapur	
OF Varan	1. QAE (A) Varangaon	
OF Dehradun	1. CQA(I) Dehradun 2. CRI(DTD&P) Air Dehradun	OLF Dehradun
OCF Chan	1. QAE(ME) Detachment Chandigarh	
OF Muradnagar	1. SQAE(MET) Muradnagar 2. Detachment Aeronautical Quality Assurance (Armament), Muradnagar. 3. AQAW(A) Detachment Delhi	
CIA(Fys)Kolkata	1. ADTD(I&QC) Kolkata 2.SQAE(A) Hastings Kolkata 3. SQAE(V) Hastings Kolkata 4. SQAE(L) Hastings Kolkata 5.QAE(MET) Rourkella 6. Vehicle Quality Assurance Wing Jamshedpur	CIA(Fys) Main Office, Kolkata

Member Finance



Principal Controller of Accounts (Factories)

C of F & A(Fys)/Avadi Group	C of F & A(Fys)/Jabalpur Group	C of F & A(Fys)/Kanpur Group	C of F & A(Fys)/Ambajhari Group	C of F & A(Fys) Medak
A.Os	A.Os	A.Os	A.Os	AO
O. C.F. Avadi	Vehicle Fy. Jabalpur	Ordnance Fy. Kanpur	Ordnance.Fy. Ambajhari	OF Medak
Cordite Fy. Aruvankadu	Grey Iron Foundry Jabalpur	Small Arms Fy. Kanpur	Ordnance Fy. Bhandara	
Ordnance Fy. Trichy	Gun Carriage Fy. Jabalpur	Field Gun Fy. Kanpur	Ordnance Fy. Chanda	
H.A.P. P. Trichy	Ordnance Fy. Khamaria	Ordnance Equipment Fy. Kanpur	Ordnance Fy. Bhusawal	
H.V.F. Avadi	Ordnance Fy. Katni	Ordnance Parachute Fy. Kanpur	Ordnance Fy. Varangaon	
Engine Fy. Avadi	Ordnance Fy. Itarsi	Ordnance Clothing Fy. Shahjahanpr		
	Ordnance Equipment Fy. Hazratpur	Ordnance Equipment Fy. Hazratpur		
C of F & A(Fys)/Bolangir	C of F & A(Fys) Dehradun	C of F & A(Fys) Kirkee Group	C of F & A(Fys) Bengal Group	C of F & A(Fys) Medak
AO	AO	AO	AO	AO
Ordnance Fy., Bolangir	O.L.F. Dehradun	Ammunition Fy., Kirkee	MS Fy., Ishapore	
	Ordnance Fy., Dehradun	High Explosives Fy., Kirkee	Rifle Fy., Ishapore	
	Ordnance Fy., Muradnagar	Ordnance Factory. Dehu Road	Gun & Shell Fy., Cossipore	
	Ordnance Cable Fy. Chandigarh	Ordnance Fy., Ambernath	Ordnance Fy. Dum Dum	
		Machine Tools Prototype Fy. Ambernath	Cantt.	

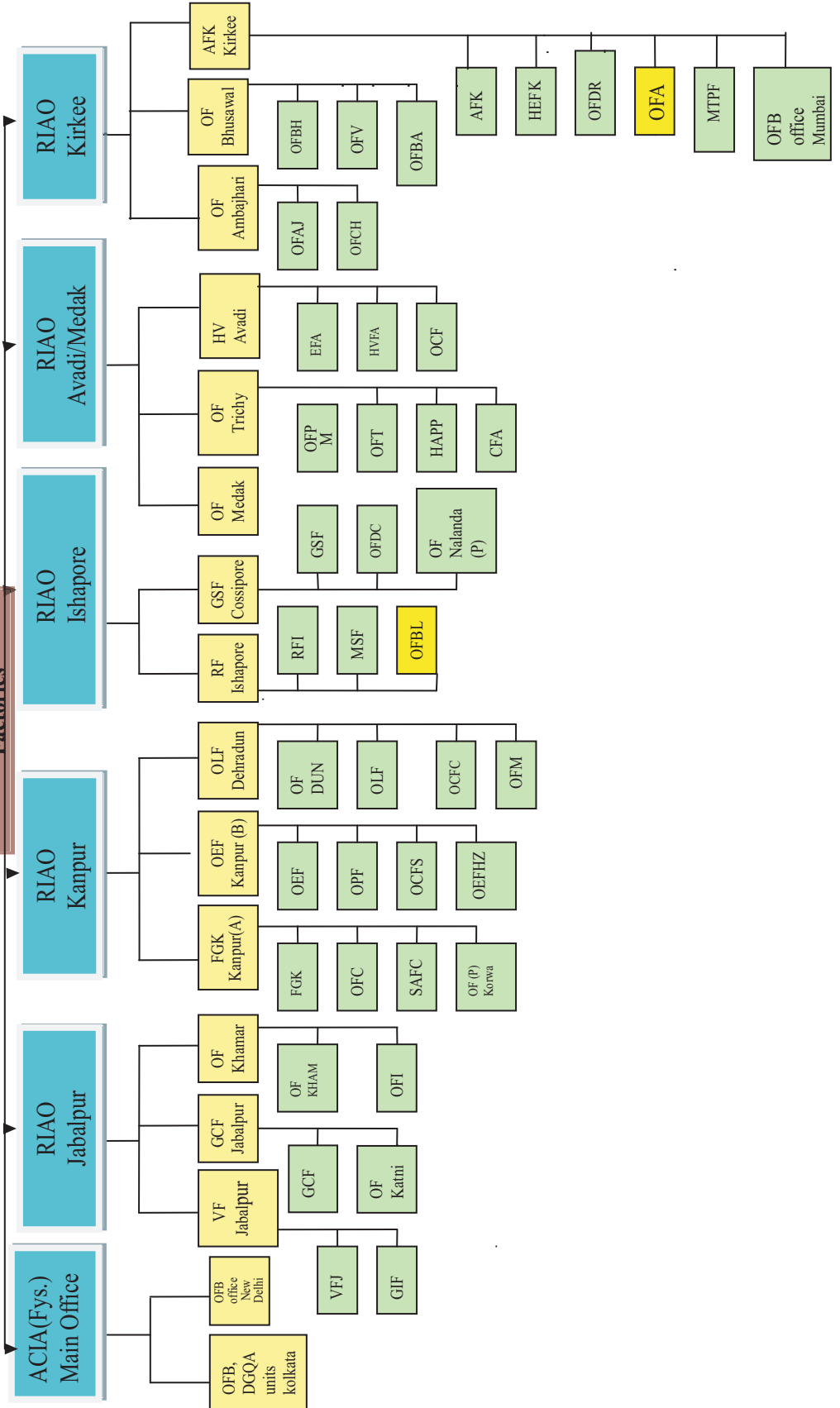
Appendix E

CGDA

Addl. CGDA (AT)

CIA (OFs) Ordnance

Factories



2. Internal Audit of OFs: Jurisdiction, Mandate & Methodology

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2. Internal Audit of OFs: Jurisdiction, Mandate & Methodology

Jurisdiction of Internal Audit in Ordnance Factories

22. The audit jurisdiction of the CIA (OFs) includes:

- a) Ordnance equipment Factory (Head Quarter) & Armoured Vehicle(Head Quarter)
- b) 39 Ordnance Factories and 2 projects.
- c) OFB Offices at New Delhi & Mumbai
- d) NADP & Ordnance Factory Institutes of Learning (OFIL)
- e) 12 Ordnance Development Centres (ODCs)
- f) Quality Assurance Establishments (w.e.f.01.04.2012)
- g) Regional Marketing Centres (RMCs),
- h) All OF Hospitals, Estate, Schools, Inspection Bunglow, Factory canteen etc.
- i) Cash audit of Br. AOs.

Mandate of Internal Audit in Ordnance Factories

23. Internal audit in Ordnance is done in accordance with percentage checks prescribed in the GOI, MOD, Department of Defence Production letter no.1(28)/2005/D(Prod) dated 11.08.2005 and as per Risk Areas identified every year in the Annual Audit Programme , alist of auditable documents is given at **Annexure I**. The list is indicative and not exhaustive. Many documents may be available in digital form on computers only as many areas have been computerized in OFs. The Internal Audit in the Ordnance Factories essentially carries out the following audit:

- a) Percentage checks, service book audit and Cash audit as laid down in the GOI, Ministry of Defence Department of Defence Production letter number 1(28)/2005/D(Prod), dated 11.08.2005
- b) Risk Based Internal Audit & Information System Audit
- c) Evaluation of effectiveness of Internal Controls and Risk Management.
- d) Any area specifically given by CGDA or the management.

The need of the hour is to strengthen and re-orient internal audit system in the organization both in terms of professional expertise and in terms of focus. There is an immediate need that effective institution in the form of Internal Audit may be roped in to render an independent, objective opinion to add value and improve the operation of various outlays. An effective internal audit could help the organization to accomplish their objectives by bringing a systematic disciplined approach to evaluate and improve risk management, control and governance processes.

Internal Audit is conducted generally after the events had occurred. Internal Audit can prevent recurrence of the irregularity and in improvement of internal controls. Internal Audit is an instrument of financial control. It checks whether the rules and orders framed by competent authority in regard to financial matters have been followed and the expenditure has been incurred with due care and propriety. The main objective of an Internal Audit (OFs) is to assure the factory management and the Ministry of Defence that internal checks and Risk Management are adequate and effective and the systems and procedures are not ambiguous and are followed by the management. The Internal Audit facilitates internal managerial control and imparts suggestions and

advice on economy measures, risk management and internal controls. Internal Audit in OFB/OFs is required to ensure that:

- i) Rule & Regulation framed by Competent Authority have been complied with both in letter and spirit.
- ii) Expenditure has been incurred with due care and propriety and as the occasion demanded.
- iii) There is no extravagance, wastage, misappropriation, fraud in realization and utilization of Public money.
- iv) Check that accounting as well as the Internal Control systems is adequate and effective and that Risk Management System is in place and is effective.
- v) Internal Audit is also required to render suggestion/advice for improvement of the systems and procedures.

Internal Audit exercises control by percentage checks and Risk Based Internal Audit of different items of Defence expenditure and other Management activities. The overall objective of the Internal Audit function is to provide all levels of Ordnance Factory Management, the Board, the CGDA and the Ministry of Defence with an independent assessment of the quality of the internal controls and administrative processes, and provide recommendations and suggestions for continuous improvements.

Percentage checks prescribed by the Ministry

24. GOI, MOD, Department of Defence Production letter number 1(28)/2005/D (Prod), dated 11.08.2005 defines the percentage checks. The audit areas for Regulatory Audit as given in the government letter are:

A. Cash Inspection, service Books and other sections

- i) Audit of Cash Book in respect of OFs & other units under OFB & Br Accounts Offices.
- ii) Internal Audit of OFs including Hospitals, Wet Canteen, Factory Estate, Schools, MT, Petrol Oil & Lubricant, Training Institutes, revenue/receipt etc.
- iii) Audit of Service Books of Industrial Employees/NIEs/Non Gazetted Officers/GOs.

B. Labour

- i) Random checking of pay entitlement of Industrial Employees, NIEs, NGOs & GOs – Random test check of payment and recoveries of one individual from each category of workers/ staff/ officers to be carried out to ensure the correctness of the system.
- ii) Review of overtime and incentives including PW earnings vis-à-vis production.
- iii) Review the requirement of outsourced labour including contact labour and service related contracts e.g. conservancy, quality testing, housekeeping etc.

C. Material

- i) Review and scrutiny of supply orders placed by Factory on a percentage basis based on value as determined appropriate by CIA.

- ii) Checking /review of receipt including inspection, accounting and issue of stores.
- iii) Checking/review of selected vetted high value SHIS based on value as determined by CIA.
- iv) Credit verification in r/o LP, CP and FP.
- v) Checking/review of disposal/ sale of surplus, waste and obsolete stores including losses.
- vi) Checking/review of paid bills in r/o all third party payments from LP, CP, FP and other heads based on value as determined by CIA.
- vii) Review of inventory holding including slow moving and non-moving stores.
- viii) Review of IFD and SIT.
Review of outsource procurement of stores relating to productions and also due to failure of IFD's supplies.

D. Costing

- i) Review of principal ledger.
- ii) Review of capital assets including procurement/provisioning, installation and utilisation of plant and machinery and maintenance of capital block registers.
- iii) Review of rejections in manufacture and proof.
- iv) Review of estimate including revision.
 - v) Random checking of drawal and utilisation of material and labour uses against warrants based on related estimates and audit of high value cost card exceeding ₹10 Lakhs specifically the actual cost with reference to estimated cost and OFB issue price.
- vi) Scrutiny of basic cost accounting function.
- vii) Scrutiny of priced production account.
- viii) New Items of Internal Audit work proposed
- ix) Review of spot payments, provisional payments and advance payments.
- x) Review of warrants (outstanding for more than prescribed life, issues not commensurating with labour and material booking, excess manufacture etc.

E. Miscellaneous

- i) Review of civil works under GM's power both capital and revenue.
- ii) Review of in-house R&D projects, ongoing projects and scheme.
- iii) Review of consumption of energy and water.
- iv) Review of civil trade of the OFs including costing & issue price of Civil Trade.
- v) Audit of Sanctions at OFB & unit level

Areas for Audit	%/ Quantum/Periodicity	
A.1) Audit of Cash Book in respect of OFs & other units under OFB & Br Accounts Offices.	One month detailed audit half yearly.	
A.2) Audit of OFs including Hospital, Wet Canteen, Factory Estate, Schools, MT, POL, NADP, OFIL, Revenue/receipt audit etc.	16 ½ % Half yearly	
A.3) Audit of Service Books of IEs/NIEs/NGOs/GOs.	25 % annually	
B.) Labour: B.1) Random checking of pay entitlement of IEs/NIEs/NGOs/GOs. Randomly test checks payment and recoveries of one individual from each category of workers/staff/officers to ensure the correctness of the system.	1 case of each category monthly	
	Minimum	Maximum
B.2) Review of requirement of out source labour including contract labour and service related contracts eg. conservancy, quality testing, housekeeping etc.	15 % 15 Contracts/ orders Qtrly.	15 % 15 Contracts/ orders Qtrly.
B.3) Review of overtime and incentives including P.W. earnings vis-à-vis production	2 to 4 production Section	

Areas for Audit	%/Quantum/Periodicity	
C.) Material: C.1) Review/scrutiny of Supply Orders placed by Factory on a percentage basis based on value as determined by RIAO/CIA	10 % 50 SOs Quarterly.	20 % 100 SOs Quarterly
C.2) Checking /review of receipt including inspection, accounting and issue of stores.	1 % 50 SOs Qtrly.	5 % 250 SOs Qtrly.
C.3) Checking/review selected vetted high value SHIS based on value as determined by heads of Regional Internal Audit Offices/ CIA.	1 % 50 SHIS Qtrly.	5 % 250 SHIS Qtrly.
C.4) Credit verification in reference of LP,CP and FP.	2 % 100 cases Qtrly.	10 % 500 cases Qtrly.
C.5) Checking/review of disposal/ sale of surplus waste and obsolete stores including losses.	10 % 100 Items Qtrly.	30 % 300 Items Qtrly.
C.6) Check/review of paid bills of all third party payments from LP/ CP/FP/ other heads based on value as determined by RIAO/CIA.	5 % 150 bills Qtrly.	10 % 300 bills Qtrly.
C.7) Review of inventory holding including slow-moving & non- moving stores.	10 % 100 Qtrly.	20 % 200 Qtrly.
C.8) Review of IFD and SIT.	10 % 100 Qtrly.	20 % 200 Qtrly.
C.9) Review of outsource procurement of stores relating to productions and also due to failure of IFD supplies.	10 % 30 cases	Qtrly. 20 % 60 cases Qtrly.
C.10) Review of spot payments, provisional payments and advance payments.	10 % 100 cases.	20 % 200 cases.
D.) Costing: D.1) Review of principal ledger.	4 to 8 Main Accounts Annually	
D.2) Review of capital assets including procurement/ provisioning/ installation/utilisation of Plant & Machinery and maintenance of capital block registers.	10 % 50 Cases Qtrly.	20 % 100 Cases Qtrly.
D.3) Review of rejections in manufacture and proof.		
D.4) Review of estimate including revision.	10 %	20 %
D.5) Random checking of drawal/utilisation of material/labour against warrants based on estimates and audit of high value cost card exceeding ₹10 lakhs specifically actual cost with reference to the estimated cost and OFB issue price.	30 Principal items Qtrly.	60 Principal items Qtrly.
D.6) Scrutiny of basic cost accounting function.	Scrutiny to be covered up to a fair & reasonable extent.	
D.7) Scrutiny of priced production account.		
D.8) Review of warrants: outstanding for more than prescribed life, issues not commensurating with labour and material booking, excess manufacture etc.	10 % 30 warrants Qtrly.	20 % 60 warrants Qtrly.
E.) Miscellaneous E.1) Review of civil works under GM's power both capital and revenue.	10% 6 Cases Qtrly.	20% 12 cases Qtrly.
E.2) Review of in-house R&D projects, ongoing projects/scheme.	Review to be covered to a fair & reasonable extent	
E.3) Review of consumption of energy and water.		
E.4) Review of civil trade efforts of the factory including costing and issue price of Civil Trade items.	10 % 5 cases Qtrly.	20 % 15 cases Qtrly.
E.5) Audit of Sanctions at OFB & unit level.	10 % 30 sanctions Qtrly.	20 % 60 sanctions Qtrly.

Evaluating Effectiveness of Internal Controls in Ordnance Factories

25. Internal Control or management controls are established by the management (OFB/GM in case of Ordnance Factories) and the main responsibility of Internal Audit is to assess/evaluate them and give feedback and suggest improvement to the management. The role of Internal Audit is to audit internal control policies, practices and procedures to assure that controls are adequate to achieve the organisation's mission International Organization of Supreme Audit Institutions Internal control help strengthen public accountability. Internal control consists of five interrelated components:

- a) Control environment
- b) Risk assessment
- c) Control activities
- d) Information and communication
- e) Monitoring

Internal Control components have direct relationship with the objectives/targets, which represent what the Factories strive to achieve. Questionnaire for evaluation of the Internal Controls in the OFB/ OFs is given at **Appendix F**. Once in a year Internal Audit should fill up the questionnaire to evaluate the establishment and effectiveness of Internal Control mechanism in OFB/OFs.

Evaluating Management of Risk by OFB/OFs

26. Risk Based Internal Audit (RBIA) was introduced in Ordnance Factories in the year 2009 to evaluate the effectiveness of the Risk Management by the OFB/OFs. To be able to conduct RBIA, Internal Audit is required to understand organization's risk management processes and determine their effectiveness. When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks. Internal Audit assesses that:

- i) Organizational objectives support and align with the organization's mission
- ii) Significant risks are identified and assessed
- iii) Appropriate risk responses are selected that align risks with the organization's risk appetite
- iv) Relevant risk information is captured and communicated in a timely manner across the organization, enabling staff, management, and the board to carry out their responsibilities.

CIA (OFs) identifies potential Risk areas and includes them in the Annual Audit Programme (AAP) for audit. A list of potential Risk Areas in OFs is given at **Appendix G**. On approval of the AAP, the instructions are prepared in CIA (OFs) for audit of each risk area. These instructions are given to the RIAO/IA Cells for audit.

The RBIA in OFs: Steps involved

27.(i) Review operations, policies and procedures: The auditor should have in depth understanding of the operations, policy and procedures of the Ordnance Factories to be able to identify potential risks.

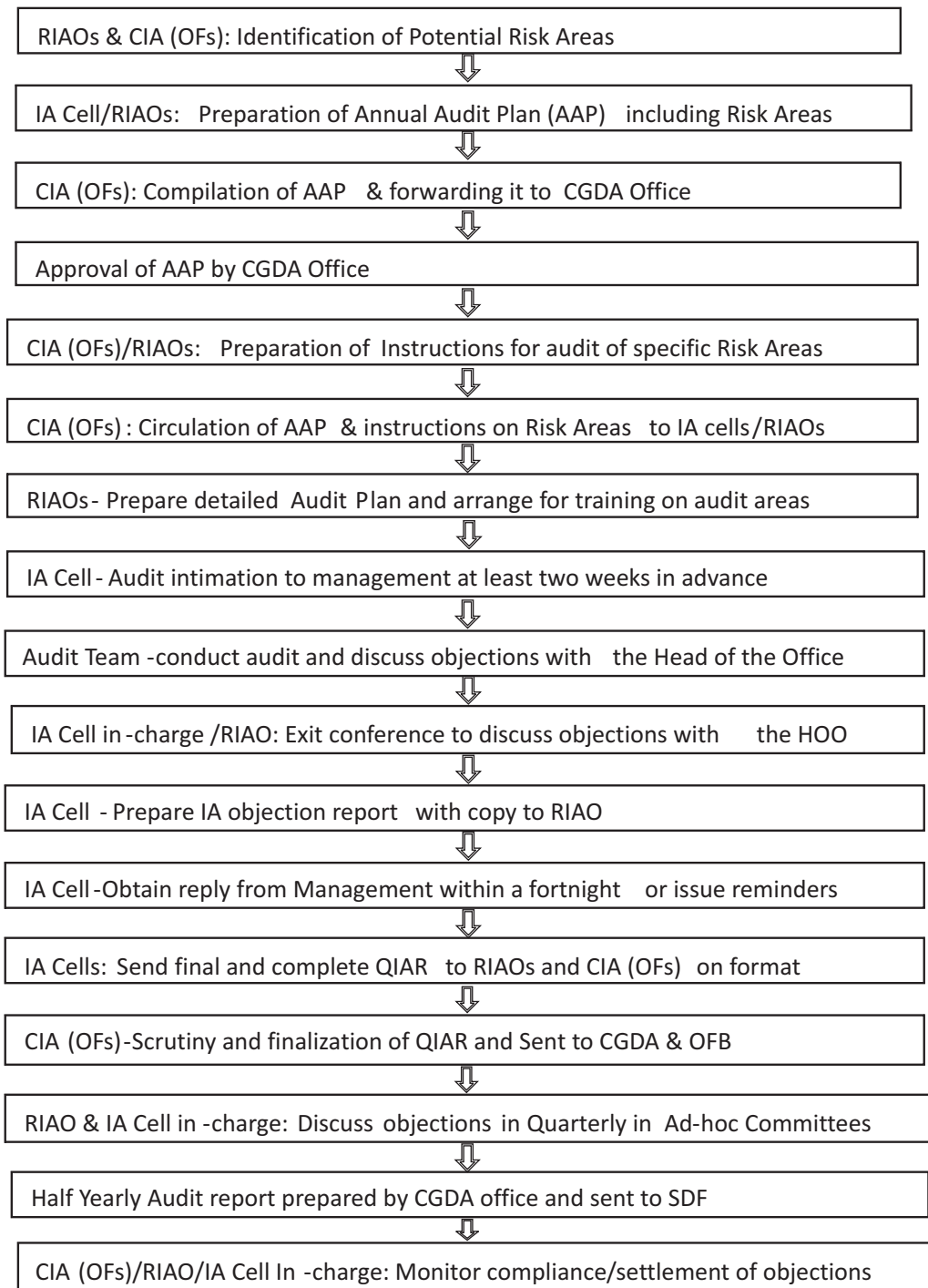
(ii) The potential risks areas are identified based on following steps:

- a. Extract data from Factory database/Annual Accounts carryout data analysis using CAAT to see the trend, frequency and magnitude of the transactions/irregularities.
- b. Clue can also be taken from past objections in same or similar Factory(s),
- c. Sample-check the cases from the related documents maintained by the Factory or the Branch Accounts Office.
- d. Identify the specific area for audit based on the priority and gravity.
- e. Check Rules, orders circulars on the subject .
- f. Include the area in the Annual Audit Plan.
- g. Prepare instructions for audit and format on which the supporting details are required to be submitted as evidence.
- h. Audit according to instructions.

- (iii) Identify priorities:** High risk areas are those irregularities which are high in value as well as frequent in occurrence. Risk is measured in terms of impact, likelihood of occurrence. A large portion of audit resources should be allocated to high risk areas. The high risk area is not the money value alone; it is also the procedural irregularity that can hamper achievement of objectives by OFs. A stray case of heavy overpayment may not pose a risk but a small overpayment occurring frequently may hint at risk of system loophole. The priority risk areas are identified by the CIA (OFs), the RIAO/IA Cells are also free to take up any risk areas that come to notice during audit.
- (iv) Training:** After receiving the AAP, the RIAO should work out plan to train the staff on risk areas and to get work allocation for staff and officers of the IA-Cell with the help of the IA Cell in-charge.
- (v) Tour programme:** The audit tour programme should be so prepared that within the available resources the audit team should be able to audit the identified risk areas, percentage checks and also do sample checking data analysis to identify risk areas for next Financial Year.
- (vi) Audit & Monitoring:** Audit should be carried out in accordance with protocol given at chapter. The work of the audit staff at each level and audit phase should be properly supervised during the audit by the team leader. On completion of the audit the review should be carried out by the RIAO.
- (vii) Reporting:** Once the audit is complete the audit reports should be sent to the management. On receipt of reply from management report should be routed through RIAO to the CIA (OFs) Kolkata. The CIA office would then consolidate the report operation division-wise and bring it to the notice of the OFB and CGDA. The list of some of the potential high and medium Risk areas in Ordnance Factories is given at **Appendix G.**

Procedure for Internal Audit in Ordnance Factories

28. The Internal auditors should not be negative in their approach. Internal Audit should not only point out mistake/irregularities, but also suggest how to rectify, prevent recurrence and improve the system. Thus, the Internal Audit acts as an instrument of financial control to carry out routine examination/percentage checks on regulatory and propriety of transaction to detect irregularities, improprieties and departures from prescribed rules/regulations and orders. It also conducts sample review/objective examination of financial matters, system, production activities and other performance to render proper economic suggestion and advice to factory management to exercise proper cost and financial control over the expenditure.



The flow chart shows the flow of work involved in carrying out Internal Audit. On completion of the Internal Audit of specific section, the audit objections will be discussed with the in-charge of the section and then with Jt.GM. When the Internal Audit is completed, the main objections are summarised and discussed in an exit conference with Sr.GM/GM/Addl.GM or Head of the Office in case of other organisations. The HOO for various establishments is given at **Appendix B**. The exit conference is required to be attended by the RIAO who will also review the quality of audit and also attended by the IA Cell in-charge. The IA Cell in-charge will discuss the objections with the Joint General Manager/Deputy General Manager in detail before the exit conference.

Responsibilities of the CIA (Ordnance Factories)

29. i) Identify high risk areas and include them in AAP for audit during the Financial Year.
- ii) Prepare Annual Audit Plan (AAP) and get it approved by Additional CGDA (AT).
- iii) Issue directions/instructions on Internal Audit relating to Risk Areas identified in AAP and circulate them to RIAO/IA Cells.
- iv) Internal Audit of OFB, OFB Office New Delhi & DGQA establishments at Kolkata.
- v) Monitor the progress of Internal Audit through reports.
- vi) Inspect RIAO offices and IA Cells to ensure efficiency.
- vii) On receipt of Internal Audit reports compile them Operative Division-wise and send the Quarterly Internal Audit Report (QIAR) to CGDA with a copy to secretary-OFB. Subsequently a copy may be sent to PCA (Fys) for information.
- viii) Prepare Annual Audit Certificate and send to CGDA office.
- ix) Monitor Progress of internal audit objections.
- x) Hold discussions with Member Finance/Chairman from time to time on the Risk areas and serious objections compiled.
- xi) Ensure that QIAR are placed before the OFB in its monthly meetings.
- xii) Prepare annual budget and monitor expenditure.
- xiii) Skill up-gradation of Officers and staff.
- xiv) Timely rendition of reports and returns to CGDA office.
- xv) Updation of IA Manual.

Responsibilities of RIAOs

- 30 i) Prepare Annual Audit Plan (AAP) for each IA cell under its jurisdiction and send it to CIA (OFs).
- ii) On receipt of approved AAP, distribute the task and train the staff and officers on the Risk Areas selected for audit.
- iii) Monitor Progress and quality of audit objections. Settle local objections and send recommendation for other objections where compliance action has been taken.
- iv) Attend Ad-hoc committee meetings called by GM/Sr.GM of the OFs and discuss all IA objections. Update CIA (OFs) of the progress.
- v) Attend exit conference at OFs at the end of the Internal Audit each quarter.
- vi) Monitor progress of expenditure against the funds allotted to IA Cells.
- vii) Get Prepared AAC for the IA Cells under its jurisdiction and submit to CIA (OFs).
- viii) Ensure timely submission of all reports and returns to CIA (OFs) office.
- ix) Inspect IA cells Half-yearly and prepare report and follow-up.
- x) Organize training to officers/staff on Risk area audit, CAAT and report writing.
- xi) Hold regular meetings with the IA Cells and get minutes recorded.

Responsibilities of IA Cell In-charge

31. i) Prepare AAP for audit and send it to RIAO/CIA (OFs).
 ii) Carry out audit as per AAP.
 iii) Discuss Audit objections with Factory management.
 iv) Monitor compliance of IA objections by management and send recommendation for settlement of objections to RIAO.
 v) Submit QIAR to RIAO/CIA(OFs) in time.
 vi) Timely submit all reports and returns to CIA (OFs) with copy to RIAO.
 vii) Access Virtual Private Network of CIA (OFs) on daily basis. Ensure percolation of the given information to staff on regular basis. Keep record of minutes of weekly meetings with the staff
 viii) Submit all possible reports through VPN and reduce avoidable expenditure on paper and stationery.
 ix) Ensure upkeep, security and efficient utilization of all office equipments.
 x) IA Cell in-charge will monitor the status of the objections and create a table of all the objections on word-table on format given below:

Sl.	Obj. no./ Qtr/year/ QI AR	Title of Objections & details	Value of objection/ procedural	Letter no. & date under which objection raised	Reply of the management	Correspon dence/ reminders	Remarks/ status. Authority for settlement
	1	2	3	4	5	6	7

Protocol and Methodology for Conducting Internal Audit in OFs

32. Internal audit in Ordnance Factories should critically review the internal controls with reference to the General Financial Regulations, Audit code, OFB Regulation, OFB procurement Manual, C&AG Internal Control Evaluation Manual and other guidelines issued by Government of India and CVC. In order to carry out audit of Ordnance Factories, Internal Audit should familiarize itself with the business processes of the OFB and the OFs. The protocol to be observed by Internal Audit Team while dealing with the Auditee organization during the course of the Internal Audit is given below.

Entry Conference

33. Internal Audit must convey the Audit Programme at least 15 days in advance to the OF or the organization to be audited. Internal Audit commences with an entry conference, by meeting the key personnel of the auditee organization including the Head of the Office. The Head of the Offices of all establishments under OFB with whom the Audit objections are required to be discussed are given at **Appendix B**. The scope and flow of activities of the audit are communicated, so that auditee makes necessary arrangements for effective conduct of audit. The plan and the methodology of the audit may be discussed for better communication and required support from the auditee.

During the entry conference, the team leader (IA Cell in-Charge) should:

- (I) Introduce the team members and explain the scope and methodology of the audit.
- (ii) Describe the process of raising the audit queries and their finalization including the time line for replies to be received from OFs;
- (iii) Request for the support (production of records, prompt response to audit queries, etc.) that is needed;
- (iv) Identify the information / records that would be needed and ask management to give details of Nodal Officer and contact officers for each establishment/section;
- (v) Elicit the concerns, questions and suggestions of the auditee.

The entry conference sets the tone for effective audit by establishing effective communication lines with the auditee unit. It also helps the internal auditor to validate the information he had gathered during the planning stage and assess the attitude and perception of the key personnel towards controls. The IA Cell in-charge should also submit a list of records that they would like the OFs to submit. This may be supplemented by subsequent requirement of documents that may arise during conduct of audit. Internal auditors should collect additional information that would enhance their understanding of the organization. The team leader should divide the audit work among his colleagues and himself and according to the work distribution they should proceed with the audit. The work distribution should be recorded. The minutes of the Entry Conference should be recorded. The team leader should review the progress of audit and also review the audit plan.

Gathering Evidence and Information

34. The following are the methods for gathering information and evidence:

- i. **Inspection:** Examination of the documents underlying transactions most commonly known as vouching. Physical verification generally applied in case of assets to assert that asset exists.
- ii. **Observation:** Seeing or watching activities or facility. Generally assets and processes are observed. Examples include entry of unauthorized persons into computer room, checking log entry of e-procurement package. Written or oral replies from the management.
- iii. **Sampling:** There are various methods for sampling. CAAT software should be used for sampling, data extraction and analysis. These methods are defined and explained at Chapter 6 of this manual under Para on CAAT.
- iv. **Analysis and Review:** A principal means through which internal auditor conducts the audit function is through careful analysis and critical review of both financial and operating data. Comparison of current account figures with past period will alert auditor to unusual variances.
- v. **Confirmation:** Refers to the response directly obtained from external organization with which auditee deals with. This is considered highly reliable, but may not provide evidence for completeness and valuation.
- vi. **Scanning:** This is a process of quickly but carefully scrutinizing a ledger account, document, or any other record for questionable, unusual or improper items. This is the most useful technique while examining accounting records and information.

Use of statistical sampling in audit & Risk Assessment

35. The auditors would initially check the Internal Controls by conducting what is known as a compliance testing, that is, testing to assess compliance with the internal control. The internal auditor would first check whether there is compliance with this control measure. If it is seen that the control measure is operating without fail in practice, the auditor would stop further examination. Since it is not possible to verify all the transactions, events, records, etc., the auditors use risk assessment to narrow down to areas or groups of transactions with higher risk for audit. Once the area or group is selected based on risk, auditors may select transactions for audit using a sampling technique so that the audit conclusions would apply to the entire population. The Sampling can be done using CAAT software by Random selection, Systematic Record sampling, Stratified Random Sampling or Attribute Sampling methods. These methods are given in detail under Chapter 6 on IT Audit in this manual.

Assessment of inherent risk depends on auditor's professional judgment and may be judged at two levels i.e. macro level (environmental factors) and micro (account balance) level. Macro level includes integrity of the management (lower the integrity levels, higher the risk), misinterpretation of Rules, Unrealistic deadlines may cause management to take short cuts, make false claims. For example spill over production. Micro level includes quality of accounting system (poor quality accounting is prone to more misstatements), asset management etc.

Concluding Audit

36. The audit is concluded once all the audit procedures and checks are completed. The internal audit team leader and RIAO should finally review the working papers to see that the audit has been conducted according to plan and it has achieved its objectives. He should make note of any audit procedures that could not be completed because records were not produced by the auditee or due to lack of time. It is time to decide finally whether all audit observations would find place in the report or some would be dropped in view of the replies received during the course of audit. Team leader should check the supporting evidence for each observation that is proposed to be put in the report.

Draft Internal Audit Report

37. RIAOs/CIA (Fys) should satisfy himself about the sufficiency and relevance of the evidence. He should then prepare a draft report (a format is given in *Para 31*) which will include his report on Effectiveness of controls and any major / minor weaknesses in them; Non-compliance with law, codes and government orders with assessment of possible loss and any matters relating to propriety of transactions. The format of the draft report shall be same as final report and all the applicable quality checks equally hold good for draft report also except that the title of the report shall be “Draft Internal Audit Report”.

Exit Conference

38. RIAO/ACIA should seek appointment for an exit conference with the head of the department (Sr. GM/GM as the case may be) once the final draft report is ready. A copy of the draft report should be given to the HoD at least a couple of days in advance so that he and his team have time to study it and prepare themselves for the meeting. The purpose of exit conference is to give the department an opportunity to place additional facts, its views, etc. on the audit findings. Essentially, it is an opportunity for internal auditor to seek confirmation of facts given in the audit report and the department’s views on the audit recommendations. If the exit conference takes place in right spirit, the audit report becomes an agreed document between the auditee and the internal audit. Request for exit conference can be made through a formal letter to the management enclosing the draft audit report. Auditees should be given opportunity to initiate the discussions and offer their views on the report. In case of disagreement, auditee and audit team should be able to substantiate their views with supporting evidence. RIAO/SIAO//IAO may take final decision in the light of the information provided by the management. Minutes of the exit conference should be recorded and a copy may be given to the department for their information.

Ad-hoc Committee meetings to discuss Objections

39. In most of the cases the internal audit is concluded by an Ad-hoc committee meeting. They are chaired by Sr.GM/GM. In case the Ad-hoc committee meetings are held at the much later date, the meetings should be attended by RIAO, accompanied by IA Cell in-charge and concerned Assistant Internal Audit Officers In case, there is no RIAO posted, an IDAS officer should be detailed by the CIA (OFs) from the nearby offices. The RIAO/ACIA should read the new objections, all the old outstanding objections and minutes of the last meeting before attending the meeting.

Internal Audit Report Drafting

40. Audit Report is the written communication of the results of the audit. It is the manifestation of the quality of all audit processes done by the audit team.

Purpose of Audit Report

- 41.** i) To communicate the results consistently to the auditee and to the government.
ii) It helps the policy makers in identifying the problems in the system and in improving the systems.
iii) It is a feedback mechanism for the management which helps them in Risk management and making internal controls more effective. It gives suggestion on improvement of the system and for economy.
iv) It facilitates follow-up to determine whether appropriate corrective actions have been taken to prevent recurrence.

Auditing standards suggest standardization of report to the extent possible. The audit reports are prepared by the IA Cells and finalized by RIAOs. These reports are sent to the CIA (OFs) for scrutiny and inclusion in QIAR. Minor issues that are pertaining to low risk areas are monitored/settled by RIAO and not sent to CIA (OFs).

The Format for Audit Report submitted to CIA (OFs)

42. The QIAR should be submitted by RIAO/IA Cells to CIA (OFs) on the given format. The format for submitting QIAR is given at **Appendix H**. The reports should be addressed to the HoD/HOO. The QIAR will be in two parts. The Format is also available on the website of CIA (OFs) (www.ciaof.nic.in). The contents of the QIAR are:

42.1 Part I of QIAR

- A) QIAR number with Quarter Ending and Year of Report.
B) Title: Report should have appropriate title. Title the report should be appropriate that should give it identity and help in identifying the main thrust of the report.
C) Name of the Factory/Organisation(s).
D) Nature of the Irregularity: Procedural, Financial irregularity, system failure, Internal Control failure, Fraud, Loss etc.
E) Financial Value of the Objection .
F) Executive summary: Should mention period covered under audit and give concise information regarding the aberrations/irregularities noticed as well as recommendations in brief.
G) Audit Objection
a) Objective for which particular area audited, scope of audit (Source and period of data etc.) and method of sampling.
b) Background: Brief about the procedure and the irregularities noticed
c) Irregularities Involved: mention the non-compliance, violation, overpayments, loss, incorrect action, abstinence from action.
d) Relevant Rules & Orders on the subject.
e) Audit Suggestions for improvement of the system and remedial action required to prevent re-occurrence.

- H) Letter no. and date under which objection referred to the management
- I) Gist of reply received from the management. Their letter number & Date.
- J) Assessment of Internal Controls, Risk Management, Cash Management and documents/Records management.
- K) Risk Grading : The objection may be categorized in to High, Medium and Low Risk depending upon the financial value (magnitude) and the number of times the irregularity has occurred in a system, in a quarter (Occurrence).
 - a. High – Issue is high priority and should be given immediate attention and considered imperative to ensure that auditee is not exposed to high risks (i.e. failure to take action could result in major consequences and issues)..
 - b. Medium – Issue is medium priority and considered necessary to avoid exposure to significant risks (i.e. failure to take action could result in significant consequences).
 - c. Low – Issue is not critical and considered desirable and should result in enhanced control or better value for money.

42.2 Part II of the QIAR

Miscellaneous Information about the Auditee (This part will not be sent to CGDA as this information is required for monitoring by RIAO/CIA (OFs))

- A. Audit team members and Reviewing Officer.
- B. Check list of Annexures .
- C. Budget allotment and percentage expenditure till the end of the quarter.
- D. Whether the documents called for by the audit team were given by the auditee in time and in proper condition.
- E. Status of Old Objection.
 - a. Total number (QIAR & Local Objections) .
 - b. Oldest Quarter/year.

Characteristics of a Good Audit Report

43. A good Audit Report should be:

- All the instructions given for audit of each Risk Areas in the AAP should be complied with.
- i) Complete: The audit report should contain all information needed to satisfy audit objectives. The QIAR should contain annexure required as evidence to enable the factory management identify and link. The report must give the details of the irregularity and the correct procedure/rule position and it should be complete in itself.
- ii) Clarity: The report should be unambiguous and make the results less susceptible to misunderstanding. The report should be written in language which is clear and as simple as the subject permits.
- iii) Accurate - Evidences should be presented clearly and findings correctly projected.

- iv) Objective - The entire report should be balanced in content and tone should be fair. The internal auditor should not be subjective. The objections should be aimed at system flaws and not to target an individual.
- v) Convincing: The report should be sufficient to convince the readers to recognize the validity of the findings.
- vi) Concise: The report should be to the point and should be long enough to convey the message.
- vii) Timely: The report adds value to the entity, if it is prepared timely.
- viii) Constructive: The report should manifest a remedial approach and include appropriate recommendation.
- ix) It is necessary to obtain the comments of the factory management before forwarding the QIAR.
- x) The report must have analysis, trends, and graphs where necessary.

43.1. A good audit report SHOULD NOT be:

- i) Should not be longer than necessary to convey & support the message and should not be monotonous.
- ii) Exaggerated or overemphasize as it may lead to deficient performance.
- iii) The approach should not be critical. The tone of the objection should not be fault finding.
- iv) Language should not be harsh.
- v) The findings should not be hypothetical and they should be based on evidence and rules.

Follow- up of Audit Report

44. Follow-up of the Internal Audit Reports is required to be carried out by the IA Cells and monitored by RIAO.

Action Time frame	Activity Time Frame
Issue of Draft Report to HoD /HOO	Immediately on completion of Audit work
Issue of Final Quarterly Internal Audit Report	After discussing objections with the management and receipt of reply. The management should be given minimum 10 days to submit written reply. Reminders should be issued weekly once the 10 days, period is over.
Follow up - Reply of the management	Management should be given three weeks, time from the date of the issue of Audit report for reply.
Reminders every Monday/Reporting cases to higher authorities	In Internal Audit, every Monday is treaded as Reminder Day. Reminders for all letters/audit reports for which reply has not been received for last three weeks, should be issued on every following Monday. Serial number to be allotted to every reminder. After two reminders, the matter should be reported to the RIAO. RIAO to take up all pending issues at ad-hoc committee meetings. If reply not received after six weeks of issue of report the matter should be reported to CIA (OFs) to report to Member (Finance). CIA(OFs) should consolidate all such cases where the management is not responding and write to Member (Finance), OFB.
Sending QIAR to CIA (OFs)	The QIAR should be sent to CIA(OFs) after review by RIAO by 10th of the following month of the quarter

Evaluation of performance of IA Cell/RIAOs

45. The performance of the IA Cells will be monitored and they will be allotted point. The Annual performance of the staff/officers will be assessed based on this criteria:

	CriteriaPoints	Point
1	Complete IA reports with detailed analysis on given QIAR format	50
2	Timely rendition of IA reports and other reports	10
3	Follow-up of IA objections, monitoring compliance, recoveries/ savings achieved as a result of IA Objection	
4	Points given by inspection team during the last inspection	15
	Total	100

More than 80 points	:	Outstanding Performance
Between 60-79 points	:	Satisfactory Performance
Between 40-59 points	:	Average Performance
Below 39 points	:	Poor Performance

The working of IA Cells and quality of audit will also be monitored through inspections. RIAO will inspect IA Cell every six months. The inspection report will be prepared and followed-up. The CIA(OFs) will inspect IA Cells and RIAO offices once a year by sending teams. Teams will prepare inspection reports and also evaluate the performance of the sub-offices. The criteria for evaluation of performance of the IA cells are given in the next para.

Inspection drill & evaluation procedure

46. In order to ensure effective functioning of field Audit offices RIAO will carry out audit of the IA Cells once in six months. CIA (Fys), Main Office shall carry out Annual Inspection of all the Regional Internal Audit Offices and IA Cells. CIA (OFs) will form Inspection teams at the beginning of the year. The inspection teams will check among other things, the following areas and submit report on this format within 5 working days of completion of inspection to CIA (OFs).

S1. No.	Areas to be inspected	Marks out of 10	Remarks
1.	a) Whether all the Risk Areas reflected in the Annual Audit Plan have been properly audited and QIAR forwarded to CIA (Ofs) in time, as per instructions. b) Whether Mandays utilised are as per approval in Annual Audit Programme		
2.	(a) Whether ad-hoc committee meeting held every quarter with the Factory Management. (b) Action taken by the IA Cell to ensure that meetings are held every quarter.		
3.	Whether IA Cell maintains Reminder Chart and issues reminders every Monday as per instructions issued by CIA (OFs)?		
4.	Whether all letters diarised through Computerised / Manual Dak Diary system are replied to, within one month. Whether computerised Dak Diary system as given by CIA (OFs) reflects correct picture?		

5.	a) Whether all reports and returns submitted to CIA (OFs) within the due dates as per report & return chart circulated by Main Office? b) Whether Reports submitted depict the true picture may be checked with reference to records available in the IA Cell?		
6.	Whether stock verification carried out at the end of the Financial Year?		
7.	a) Whether 25% of the total Service Books have been audited during the last one year? b) Whether nominal roll of all the employees of OFs /SQAE are maintained in 'Service Book software' given by the CIA (OFs)? c) Whether Service Book database of auditee units updated?		
8.	RecordsSample checks may be carried out to ensure that records maintained properly. List of old records is maintained and they can be retracted within reasonable time.		
9.	Cash InspectionWhether Cash Inspection of all units / formation under the audit jurisdiction is upto date		
	Total score		
	Other observations		

The inspection teams will also be responsible for training of the staff officers on audit of risk areas selected for that year, audit software, computerized dak diary package, service book database creation/updation and other MIS for monitoring.

Settlement of Internal Audit Objections

47. The Internal Audit Objections can be categorized into three types based on their gravity. The objections are raised by the IA Cells. The objections which are serious in nature are included in the Quarterly Internal Audit Report (QIAR) sent to the CIA (OFs). The CIA (OFs) scrutinizes the QIAR and includes only selected objections in the QIAR sent to the CGDA. CGDA office selects objections for inclusion in the Half Yearly Internal Audit Report that is sent to the Ministry. The objections that are not included in CIA (OFs) QIAR are called local objections as they are settled locally. The objections included in QIAR by CIA (OFs) but not included in Half Yearly Report by the CGDA office are called CIA – objections and are settled by CIA (OFs) on recommendations of the RIAO. The objections that are included in the Half Yearly Internal Audit Report by the CGDA are settled by Additional CGDA (AT) on recommendations of the CIA (OFs).

Settlement of Objections:

Objection	Raising of Objection			Settlement of Objection			
	Identity of the objection	Raised by	Compiled by	Incorporated in	Recommended for settlement by	Further Recommended by	Settled by
Local Objections	IA Cell	IA Cell	IA Report	IA Cell	IA Cell	IAO	IAO
CIA (OFs) QIAR	IA Cell	CIA(OFs)	QIAR	IA Cell	IAO	CIA(OFs)	CIA(OFs)
Half Yearly -IAR	IA Cell	CIA(OFs)	CGDA's HYR	IA Cell/IAO	CIA(OFs)	Addl.CGDA (AT)	Addl.CGDA (AT)

The Objections on the Risk Areas are consolidated for all the OFs as one objection. The irregularity is shown Operative Division-wise and OF-wise. In a consolidated objection pertaining to more than one OF, the objection will be 'provisionally settled' by the CIA(OFs) so that there is incentive for an individual Factory to take early action and IA Cell may not pursue it every time with it. The objection in HY-IAR will be however settled finally with the approval of the Addl. CGDA (AT).

Questionnaire for evaluation of Internal Controls in OFB/OFs

Areas	Check list
OFB/Top management in OFs	<ul style="list-style-type: none"> i) Whether there exists a formal mechanism in shape of Act/Policy statement in respect of standards and processes for internal controls. ii) Whether OF/OFB structure provides clear reporting lines that establish links between accountability, responsibility and authorization of various activities relating to main activities viz production, administration and procurement? iii) Whether hierarchical chart of the organization is Weak/confusing and responsibility for lapses are hard to define? iv) Government policies set out in Acts, Rules, Regulations, orders, poorly understood/ not-followed/ not brought into notice of all concerned? v) Is delegation of powers well defined and based on functional requirements and delegation is not beyond the budget for that item of expenditure of the factory? vi) Separation of duties is such that more than one individual is involved in a transaction. vii) Whether targets given to the Sr.GM/GM each year and whether the achievement of targets is monitored by Sr.GM/GM? Whether correct information uploaded on the COMNET or placed before the Board relating to outstanding indents and production achieved/issued? viii) Whether office procedures are laid down in a manual or orders? Whether Office Procedure manual updated regularly? ix) Whether a system exists for sequential numbering of important documents, receipts, vouchers? Whether records retention period clearly defined and record management is being done as per norms? x) Whether Staff Inspection Unit/Internal Work Study/O&M Unit per formed O&M studies and Work Measurement Study for prescribing appropriate work norms and standards of output in terms of quality and quantity and whether their recommendations were complied with? xi) Whether report submitted to OFB/GM on revision of estimates within stipulated time, based on SIU study? xii) Whether inspection of sections in the office is carried out. Whether these findings are acted upon? xiii) Whether cost-benefit analysis carried out before undertaking major activities?
Risk Management	<ul style="list-style-type: none"> i) Whether Risk management carried out by OFB/OFs? ii) Whether External and Internal Risk are being identified and drill exists to manage/ control the risks? iii) Whether action taken to manage the Risk areas identified in the Annual Audit Plan/reported through Internal Audit reports?
Budget	<ul style="list-style-type: none"> i) Whether there are Rules & instructions for formulation of budget and revised estimates and whether it is done in accordance to them? ii) Whether instructions issued by Ministry of finance, Department of Expenditure on austerity measures and outcome budget are complied with? iii) Whether wrong budgetary assumptions exist. The budget is inflated causing rush of expenditure at the end of the year to exhaust funds? Whether pre-control

	<p>systems for budget is improper?</p> <p>iv) Whether appropriation or re-appropriation from Plan heads to non-Plan heads are made only with the approval of Ministry of Finance (Rule 10(6)(d) of Delegation of Powers Rules)?</p> <p>v) Whether any mechanism exists to control unauthorized re-appropriation/ purchase from wrong code head?</p>
Risk management	i) Whether OFs/OFB devised procedures and strategies for Risk Assessment/risk identification, grading of risk, plan for risk management?
Administration	<p>i) Procedure manuals exist for staff recruitment, training.</p> <p>ii) Whether Administrative control registers (including computer generated) are maintained and updated regularly: Advance/TA/DA/LTD Registers, Medical claim expenditure register, library books/issue register, stationary, consumables, hardware, software, sanction register?</p> <p>iii) Whether any induction/seniority list is maintained. Whether list of sanctioned posts/posted strength exists?</p> <p>iv) Whether there is transfer policy of officers at various levels. Whether there is policy of rotating the duties of the staff to prevent development of vested interests and enlarge the range of skills?</p> <p>v) Whether 10 % cut in number of posts and abolition of posts lying vacant for more than one year was ensured as per Ministry of Finance OM no. 7(5) E. Coord/2004, dated 24.09.04 & 7(2) E. Coord/2005 dated 23.11.05.?</p> <p>vi) Whether clear demarcation of functional responsibilities exist among the personnel? Whether job description is spelt out?</p>
Cash	i) Whether DDO nominated by competent authority?
Service Book	i) Incomplete documents, delay in forwarding SB for audit. Non-compliance of objections. Delay in recovery.
Procurements & contract management	<p>i) Procedure manual for purchases, contracts, and outsourcing.</p> <p>ii) Whether there is mechanism to prevent rush of expenditure and for ensuring uniformity in expenditure in every quarter?</p> <p>iii) Whether there is well devised instructions/regulations/manual on purchase, receipts, inspection, custody/ issue, condemnation, sale/disposal and stock verification of stores?</p> <p>iv) Whether items listed in DGS&D rate contract purchased only under such rate contract?</p> <p>v) Check whether provisions of GFR are followed.</p>
Inventory	<p>i) Whether adequate precautions taken to protect stores from damage and theft? Whether action taken on discrepancies in stock verification reports? Whether all receipts are promptly taken on stock and bin cards contain chronology of issues and receipts? Whether a particular official responsible for the custody of stores for prolonged periods and whether safeguards were taken to prevent misuse of his position? Whether there is mechanism to ensure that issues of stores is supported by prescribed documents?</p> <p>ii) Whether adequate and prompt efforts made to transfer surplus stores to other</p>

	factories, departments, where they could be utilized. Whether stock limits for different categories of stores is fixed?
IS Audit	<ul style="list-style-type: none"> (i) Whether provisions exist for generating Management Information System reports for the control purposes? (ii) Whether various reports generated are authenticated/used for the purpose for which they were developed? (iii) Whether adequate security exists for authorized modifications and for reviewing all log-in details by un-authorized personnel? (iv) Whether there is a continuity plan to deal with any kind of risk to the system (v) Whether there is manual on taking and storing of backups of data? (vi) Check whether the Risk is being managed effectively. The risks involved in the IT environment relate to Inherent Risks to the IT resources through material theft, destruction, disclosure, unauthorized modifications and other impairments or Control risks. (vii) IT acquisitions are as per requirement and as per laid down procedures. Whether procurement of Personal computers Laptops is as per the entitlement and the approved specifications. (viii) The Rate contracts of DGS&D are given preference (ix) Check the reliability and integrity of the data. (x) Whether there is system for preventive maintenance of Hardware as well as software/computer systems? (xi) Whether there are adequate detective controls to check and rectify errors in the system. (xii) Whether corrective action are being taken on system errors, failures or complaints by the users? The Corrective action should involve: <ul style="list-style-type: none"> a. Record of errors/complaints. b. Action to minimize impact. c. Resolve problem discovered by detective controls. d. Corrective action recorded. e. Review system and modify processes to prevent their occurrence. (xiii) Expenditure control mechanism. (xiv) Documentation and user Manual exist and are updated regularly for each system.
Cash audit	Internal Controls on cash are given at Chapter 8 of the manual

List of potential Risk Areas in OFB/OFs

Risks involved	Possible impact
A. Weak Internal Control (High Risk)	
Lack of regular monitoring of key areas by OFB/OFs	System Failure, Frauds, losses. Problems in achieving targets, efficiency & economy. Impact on monitoring the functioning of OFB as well as OFs.
Rejections in Production and also rejections and complains from end users	Leads to non-detection of deficiencies in production process, loss of public money. The new Procedure for self-certification should also be reviewed to check is rejections have increased due to it.
Non-review of Estimates/ upward revision of estimates without justification	Leads to non-realisation of benefits of latest technology in P&M (CNC machines), non-achievement of reduction in rejection, deployment of excess labour. Upward revision of estimates and not meeting the IRR criteria after commissioning. This leads to wastage of SMH and material.
Advance issue of PIV & lack of monitoring by OFB on delays in physical issue of items	Often final issue done without inspection. Leads to compromise of quality. The actual Cost of production often increases (beyond original COP) when items issued at later date leading to loss.
Wrong budgetary assumptions, inadequate treasury controls	Improper pre-control systems often leads to wasteful expenditure towards end of the Financial Years or insufficient funds for completion of project in time.
Government orders not followed /circulated or misinterpreted	This leads to non-compliance and thus in many cases result in loss, overpayments, system failure.
Cost-benefit activities not carried out.	The outsourcing ignoring IFD, make or buy decision, Modernization of technology, construction of accommodation to utilize funds when existing accommodation are still vacant . These are a few examples where cost – benefit analysis needs to be done and they may lead to infructuous expenditure.
Non-assessment / non-management of Risk factors (both internal and external).	The Risk Factors should be identified and action plan to deal with such situation should be available. Lack of plan to deal with emergencies or failures in system hamper the productivity and meeting of targets and even result in loss. Eg. Machine break down, delay in receipt of material in time, theft, frauds, delay in damage control, lack of second line of action , irregular procedures, lack of quality control.
Weak/confusing hierarchical chart of the organization	If the responsibilities is not clearly laid down, it may affect accountability and efficiency.
Cash Functions	Cash is received on behalf of the government but not deposited in government account; Cash received by the Department is utilized to meet the expenditure against the rules leading to loss and frauds.
Payment Functions	Cheques are mishandled, stolen, drawn in favour of a wrong person. Cash received under Permanent Advance / imprest is spent for other expenditure than the approved purpose leading to loss of funds and frauds.
Cash purchases	without sufficient justification often made to favour the vendors. Payments released without inspection of goods leading to loss. Final claims pending for a long time.
Misuse of delegated powers	Excess procurement. Procurement of slow/non-moving items. Splitting of SOs. Extension of DP without justification.

Lack of System for Detection of Frauds & damage control mechanism	Transactions not recorded on timely manner, Discrepancies or unsupported transactions, Unexplained reconciliations, Denial of access to records, Undue pressure to clear bills, intentional override of internal control by those in authority to the detriment of the overall objectives of the system; failure to perform tasks that are part of internal control, such as reconciliation not prepared or not timely prepared, lack of control consciousness within the utilization 2. Delay or Failure to rectify previously identified deficiencies in internal control.
Production Activities (High Risks)	
Production without indent/ extract	Unrealistic production target, excess production leads to excess procurement, excess holding of inventory, blockade of Govt. Fund, unfruitful expenditure on labour and material.
Transfer of rejections to other warrants.	Loss of material, rise in Cost of Production, excess labour payment, Variation in Cost Analysis because of concealment of overheads.
Outsourcing & under-utilization of production capacity	Loss of inventory, under utilization of P&M, Guarantee Pay.
Spill over production	Not meeting of targets and advance issue of PIV. Leading to increase in COP in the subsequent years. Unrealistic booking of expenditure.
IFD (High Risk Areas)	
Store in Transit	Huge inventory lying unaccounted for, unrealistic cost of production. Items issued on nominal vouchers.
Ignoring IFD, preference to trade	Wasteful expenditure and non -utilisation of installed capacity.
SIT	SIT being operated as suspense head. Expenditure not booked to proper head. Nominal vouchers operated for issuing IFD items to sister Factory. Back-loading of items by consignee factory. Loss not regularized.
Costing activities (High Risk)	
Keeping warrants open for a long time after issue of items	Delays in production, delay in finalization of BOE often result in outstanding warrants. This results in increase in WIP, blockage of funds, system failure.
Unjustified Piece Work profit and incorrect estimates	Provision of 25% built –in profit in the estimates as built-in incentive for PW profit to IEs leads to excess payments. Over estimates leads to wastage of SMH and material.
Overhead Charges:	Abnormal increase in cost of production, no proper monitoring of overhead charges,
Procurement Procedures (High Risk Areas)	
Stores procured without proper sanction /without requisite powers of the CFA	Leading to unauthorized purchases and even frauds, blockade of Govt. Fund.
Incorrect tendering procedures.	Leads procuring goods in emergency deviating from the rules of procurement laid in manuals/codes; Stores are procured unnecessarily to avoid lapse of the budget grant; Vested interest. Inferior quality goods/services received.
Excess procurement	Huge inventory, misuse of Govt. fund, faulty estimate, withdrawal of indent leads to loss of money spent on such excess procurement.
Improper Foreign Purchase procedures	Irregular payment of custom duty, delays, casual Pre-delivery inspection at site, loss due to FOREX fluctuations due to insufficient hedging or forward contracts.

Vendor registration and de-registration / blacklisting procedure	Purchases may not be at competitive rates .Loss to the government. Even quality of stores may be compromised. Reduces bargaining power of the OFs.
Cartel formation, purchasing from single vendor, lacunae in source development	Leading to unauthorized purchases and even frauds, blockade of Govt. Fund and lack of competition.
e-procurement software implementation	Leads to non-compliance of procurement rules as laid down through the system. Blockage of Govt. money by not implementing e-procurement, Inferior quality goods/services received.
Inventory management (high Risks areas)	
Slow moving / Non-moving inventory, High level of inventory	Blockade of public money, Poor control over the maintenance of the assets may lead to the asset deteriorating in value; and obsolescence of assets. Inventory has heavy carrying cost also.
Outstanding Supply Orders beyond the date of delivery	This may add to slow moving & non-moving items. The material that is no longer required or procured from IFD or other sources, these outstanding SOs if not short-closed, lead to excess inventory and blockage of funds.
Stock Verification/Stock Register	Stores procured but not taken on charge, Stock verification not done properly and discrepancies not reflected or reflected but not rectified. This leads to loss and increases chances of failure of internal controls particularly when responsibilities of stock verification have been delegated from OFB to OFs.
Maintenance of Block Register	Buildings constructed/being used/maintained but not taken on Block Register/charge from MES, procedural irregularity leading to incorrect accounting.
Plant & machinery , Mordernisation (High Risk Areas)	
Use of P&M beyond normal life Using old estimates in spite of introducing new CNC machines.	Blocking of Govt. money. Delay in modernization, losses, delay in achieving production targets. Risk on safety of labour. Life of machine needs to be reassessed in case it is used and not disposed off. New machine not put to use. Estimates not revised after purchase of CNC machines. Loss due to expected saving on labour and rejections that the new machine was expected to achieve is lost.
Un-installed /un-commissioned P&M	P&M procured but not installed/commissioned leading to blockade of Govt. money, incorrect IRR calculation/ justification for purchase leads to loss to Govt. Sometimes new machine does not give the expected output therefore, old machines continue to be used.
P&M, modernization plan: delay in procurement/under-utilization of installed capacity.	Blocking of Govt. money. Delay in modernization, losses, delay in achieving production targets. Purchase of outdated technology may lead to problems in maintenance, non-achievement of desired results. Purchase from trade in spite of installed/spare capacity may lead to wasteful expenditure.
Information System (High Risk Areas)	
Data integrity of PPC package of Factories and that of Br. Accounts office data.	Since most of the processes are based on the database maintained in OFs. Failure/corruption of data/ delay in updation /unauthorized access may result in Procedural irregularities or even system collapse. Data manipulated may lead to data corruption and overpayments.
Physical security & accounting of assets	May result in damage/loss of data and assets.

R&D projects (High Risk Areas)	
Cost and Time over run, monitoring of R&D activities	Unfruitful expenditure on projects, time overrun leads to cost over- run due to increase in price of raw materials, technology becoming outdated, withdrawal of indents by end user.
Misc. areas of high to medium Risk	
Non-regularization of leave for IEs for long time, irregularities in Profit on EL, Guarantee Pay, extra leave credited	Overpayment on account of wrong interpretation of rules regarding leave of IEs. Incorrect payment of arrears in large number of cases. System failure or may result in incomplete master records in database. In case of retirees it may lead to excess encashment of leave.
Irregularities in SD/PBG/EMD/LD, customs duty payment	Inferior quality goods/services received; Govt. dues not recovered giving undue advantage to third party at the cost of the Govt. money.
Fictitious booking of labour, Irregular booking of piece work cards	Overpayment, abnormal profit, unrealistic Cost of production.
Accounting of Sales & Scrap/ Condemned P& M: Procedures not followed	Delay or Irregularities in disposal, undue favour to private parties. loss to Govt.
Advance payment / Outstanding dues /Demand Register	Misuse of Govt. Funds, non-realisation of Govt. dues leads to loss. lack of monitoring, may lead to system failure if not monitored properly.
Civil Work procedural irregularities	Misuse of Govt. Funds, buildings constructed without use.
OF Estate used for commercial purposes	Non-realisation of Govt. dues, misuse of Govt. land, unauthorized occupancy, undue advantage to private parties.
Personal Claims-system errors/overpayments/wrong interpretation	Double/Duplicate claims. TA final claims not submitted. Improper medical reimbursement claims may lead to errors in system and over payments.
Irregularities in procedure for utilization of Contingent Expenditure & procurements	Cash payments, Sanctions split, The standards of financial propriety are not observed. May lead to infructuous expenditure, losses to government , purchase of sub-standard items.
Lack /non-updation of control registers, improper documentation/ filing system	Maintenance of various control registers is an important element of internal control structure to ensure that the system of checks and reviews is functioning.
Lack of Management Information System	Reports for control purposes should reach timely and should contain correct information. It is an important tool for internal control and monitoring.

Format for Quarterly Internal Audit Report (QIAR)

Part A: IA Objection details	
1.	
A	Quarterly Internal Audit Report for QE
B	Title of the Objection:
C	Name of the Establishment/ Factory(s) & Operative Division
D	Nature of Irregularity :
E	Financial value / Loss etc.(If any):
F	Executive Summary
G	Objection
	a) Objective: Scope, approach :
	b) Background:
	c) Irregularities involved: i) ii) iii)
	Relevant Rules / Orders :
H	Audit Suggestions: i) ii)
I	Letter number. & date under which objection referred to Sr.GM/GM :
J	Gist of reply /remarks of the Management and their letter number & date:
K	Assessment of Internal Controls, Risk Management, Cash Management and documents/Records management.
L	Risk Grading : High, Medium and Low Risk
	Signatures: IA Cell in-Charge
	Signature RIAO

Part II: Introduction & Misc. Information

Srl	Title of the objections	Factory(s)/Office including Op. Div	Annexures enclosed	Audit team & review officer
1.				
2.				
3.				
4.				
(i)	Budget allotment of each Factory/office for the year & percentage expenditure till end of last quarter			
(ii)	Assessment on the Internal Controls, Risk management and Comments on Cash Inspection: i) Internal Controls: (Give details of weak Internal controls from the list given at Chapter 2 of IA Manual) ii) Risk management: iii) Cash Inspection: iv) Documentation			
(iii)	Whether documents as called for by audit team, were given by the factory management/office?			
iv)	Status of old Objections: a) Total number of Objections outstanding against Factory(s): b) Oldest quarter/Year:			
	Date		Signature IA Cell in-charge	
				Signature RIAO
Note: Only Part I will be submitted to CGDA in a consolidated form. Part II is for monitoring by RIAO & CIA (OFs)				

3. Labour, NIEs and Officers

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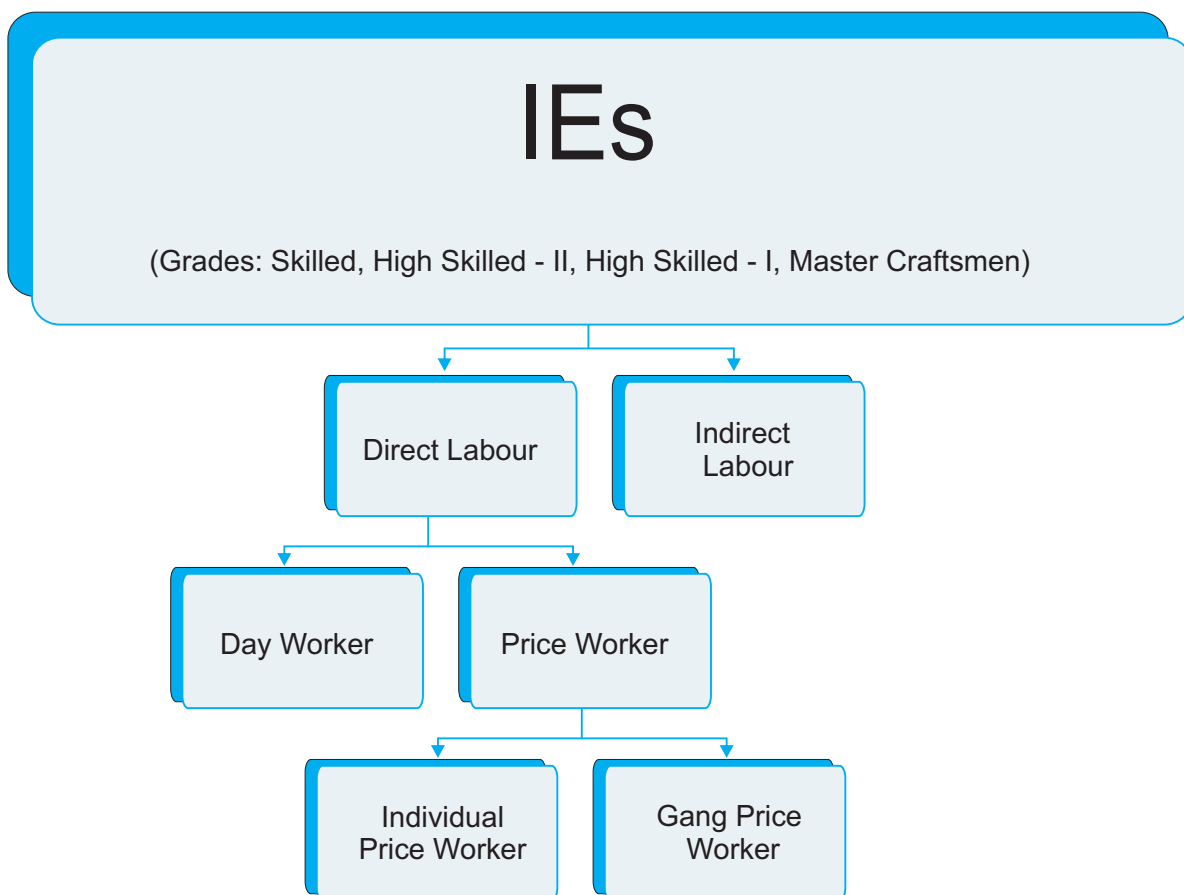
3. Labour, NIEs and Officers

Introduction

48. The expenditure on Human Resource constitutes more than **one third of the total COP**, taken as an average from Annual Accounts from 2006-07 to 2010-2011 therefore mandays should be suitably deployed for audit of labour payments. The labour cost is an area of concern for the organization and this should be within limits so that the items produced by the OFB are competitive in terms of cost. Therefore, internal audit would play a major role in this area of audit of pay entitlements.

The IEs in Ordnance Factories are classified as Skilled, High Skilled -II, High Skilled -I and Master Craftsman. The jobs have been grouped trade-wise as Black smith, Carpenters, Electrician etc. and the type of worker under each group viz. skilled, high skilled are notified in Government Orders. 45% of the sanctioned post may be granted the pay scale of skilled workers. 25% of the remaining 55% may be granted the pay scale of Master Craftsman. The remaining posts may be divided in the ratio of 50:50 and re-designated as Highly Skilled worker grade – II and Highly Skilled worker grade – I. The promotional hierarchy of the IEs is given at **Appendix J**. (Authority: G.O.I. M.O.D No: 11(5)/2009-D (Civ – I) dated 14/06/2010). Chart 3/A shows the classification of IEs:

Chart A: Classification of IEs.



In the Ordnance Factories, the wages paid to Industrial Employees are treated as labour charges. The labour charges that are incurred for converting raw materials into finished products and which can be measured conveniently and accurately are classified as direct labour charges. The rest are treated as indirect labour charges and included as part of the overhead charges. The generation of wages bill/pay bills to different categories of Factory Employees/Officers is computersied. The different types of pay/wage generated and audited are given at Chart A.

Chart B Wages & Pay Bills processing:

Employee	Factory Management	Branch Accounts Office	Role of IA
IEs	Muster Roll is prepared in Labour Bureau of the Factory based on the attendance.	Muster Roll audited, Pay bill/Arrears bills prepared & payment released by Labour Section in Br. AO.	Check at least one case in each category of IE/NIE/NGO/GO in each month's wage/pay
Non-IEs	Pay Bill prepared based on attendance, leave Pt. II orders etc., in Bill Group	Pre audited and payment released by Pay Section in Br. Accounts offices or PCA (Fys.) In case of OFB.	
NGO GO	Pay Bill prepared based on pay-scale and entitlements.		

Strength Check/Scale audit.

49. The Scale Audit should be carried out to ensure that the effective paid strength in each Grade of the IEs as shown in the Nominal Roll is within the number authorized in the concerned Establishment. In case of NIEs/ NGOs/GOs the posted strength should be compared with the authorised strength to check that the posted strength does not exceed the authorised strength. The overall strength of each Ordnance Factory is sanctioned by the Ordnance Factory Board and the trade- wise strength is decided by the General Manager. Following checks are to be carried out by the Internal Auditors:

- (i) Verify whether the ratio of different grade and trade of Industrial Employees are as per GoI, MoD No. 11(5)/2009-D(Civ-I), Dated 14-06-2010 vide which the restructuring of artisan are classified into four grade as given at *Para 48* above. The orders were circulated vide OFB no.01/CR/A-I/658 dated 13.12.2010 converting the percentage as reproduced in Chart C:

Chart C: Classification of Artisans:

Grade	Percentage of sanctioned for labour	Grade Pay
Master Craftsman	13.75%	Pay Band PB-2 ₹ 9,300-34,800, Grade Pay ₹ 4,200
Highly Skilled Grade I	20.625%	Pay Band PB-1 ₹ 5,200-20,200, GP ₹ 2,800
Highly Skilled Grade II	20.625%	Pay Band PB-1 ₹ 5,200-20,200, GP ₹ 2,400
Skilled	45%	Pay Band PB-1 ₹ 5,200-20,200, GP ₹ 1,900

- (ii) Scale audit is subject to revisions notified through subsequent Govt. Orders.
- (iii) Check whether 60:40 ratio has been maintained by OF, in respect of Direct and Indirect labour. This ratio specific to each OF is intimated by the OFB from time to time.
- (iv) Carry out a test check of 10% cases in each grade of the Factory promotion/placement orders to verify whether the IEs in a trade in particular grades have been promoted/ placed as per the laid down guidelines.
- (v) In case of NIEs/ NGOs/GOs the posted strength should be compared with the authorised strength to check that the posted strength does not exceed the authorised strength.

Audit Drill: Muster Roll (IEs) & Attendance

50. Under the Factories Act 1948, no adult worker is required to work in a Factory for more than 48 hours in any Week. The total normal working hours in a week in the OFs is fixed at 44¾ hours (44 hours 45 minutes) excluding intervals for recess. The normal working hours are Monday to Friday -8 hours and Saturdays 4 hours and 45 minutes. Over Time is admissible for work beyond 9 hours in a day or beyond 48 hrs in a week excluding the intervals for recess. Departmental Overtime (DOT) also called Saturday Bonus is admissible only to Day workers for work between 44 hours 45minutes to 48 hours in a week. Night Shift Hours are between 22:00 hours & 06:00 hours excluding overtime and recess. The flow of documents for preparation of Wage Roll is given **Appendix I**. The GMs have full discretion in respect of fixing the working hours for week days and Saturdays and in prescribing the opening and closing hours and time for recess. The Gate Office (or the Labour Bureau) maintains service records for workman.

- a) Each worker is allotted a ticket number. Ticket numbers are Shop/Section specific and changes with the transfer between shop/section whereas Personal numbers are fixed.
- b) The gate opens half an hour before the time fixed for commencement of work. Soon after the closing time, the Gate Office prepares, for each shop, a list of absent ticket numbers, for the purpose of mustering.
- c) With the introduction of Electronic Attendance Recording System (EARS) in OFs the procedure of marking late attendance of IEs have been changed from 15 minutes slot to minute to minute basis and IEs are being paid on actual attendance. The IN time and OUT time of the IEs are captured electronically and based on these punch data and some other files like Shift allotment, OT detentions, Factory hours etc., the primary documents like casualty report, OT note, Gate pass, Short leave are also generated by factory in magnetic media.
- d) Consequent on installation of Electronic Attendance Record system (EARS) employee swipe the cards and the attendance data is required to be given to factory management and Br. Accounts Office daily. Check that the EARS system is functional and Carry out the following checks on the EARS data:
 - (i) Test check the late attendance shown in the EARS data had been condoned by the factory management before making payment for that late coming.
 - (ii) Test check correctness of the progressive total of the weekly attendance of each worker as shown by Gate Office (or labour bureau) in Muster Roll.
 - (iii) Check the hours of overtime paid under Departmental Rules and Factories Act.
 - (iv) Test check whether the absence shown against particular employee in EARS data has been regularized through sanction of leave and Factory part II orders published.

- (v) Check 10% cases of total number of IEs, the total number of days of each worker, selected at random from data input sheet of attendance in each month to cover the posted strength within a year to ensure correctness of attendance with respect to primary documents.
- (vi) Test check monthly EARS data for attendance of IEs with the casualty memo available in labour section of Br. AO to find out discrepancy, if any.
- e) When a worker is granted short leave, a leave pass is issued. When workers are employed on overtime, Overtime Memos /leave Orders signed by authorized officers are issued, notifying grant of leave with or without pay. Test check OT Memos for calculation of Over Time.
- f) The daily attendance of each worker is marked by the Gate Office with reference to the late attendance boxes, Short Leave Passes, Sections examine the tickets deposited by the workers in the section and also take attendance by personal counting and a Presentee or casualty report, whichever is convenient signed by the JWM/Foreman of the Section, is sent to the Account Office. Test check Casualty Reports with Reference to attendance taken at gate.
- g) The main attendance record of the worker is maintained by the factory (gate office or the labour bureau) and is known as Muster Roll. The Muster Roll is maintained in a separate monthly volume for each shop in the factory.
- h) The extra hours i.e. 13/32 (there are 32 quarters in 8 hours – the normal working hours) hours is called Saturday Bonus. Test check cases of Saturday bonus.

Audit Drill: Pay Entitlements (IEs)

51. The IEs are placed in a running Pay Band and Grade Pay according to their Grades i.e. Skilled, High Skilled etc. which constitutes their basic monthly rate of Pay. The IEs are entitled to yearly increment on basic pay. Wages payable to IEs includes Duty pay, Personal Pay and Special Pay as per Government orders issued from time to time. Allowances like DA, House Rent Allowance, Transport allowance, Children Educational Assistance, Remote Locality Allowance, Night Shift Allowance etc. at the prescribed rates are also admissible as notified by the Govt. from time to time. Incentive Bonus (for Maintenance workers only), Overtime Bonus, Night Shift Bonus, Idle Time Pay, Leave Pay, Holiday Pay (for PW), Injury Pay and Segregation Pay etc. also form the part of pay entitlements of the IEs. The documents relating to casualties affecting pay of industrial employees as notified in factory orders, increment sheets, leave memos etc. are auditable documents. The workers, those who are paid on the basis of attendance are called Day Workers. Workers on piece work rates of wages, working individually or in gangs are called individual/gang piece workers. For all recurring items of production, appropriate Piece Work Rates are fixed by the Factory Management and a worker is paid for the number of articles completed by him and certified by the Inspecting Authority as accepted at the rate fixed for the article, without reference to the time taken by him for the quantity completed.

(i) Check for Day Workers, the basic wages are calculated for each month on the basis of actual attendance for the month according to the following formula:

$$\frac{\text{(P x No. of days present)}}{\text{[No. of days in the month – (No. of Sundays + No. of Holidays)]}}$$

(Where P stands for Pay)

- (ii) Check that deductions for absence for part of a day are made at 1/8th of a day's pay for each hour of absence. The minimum unit of time for which deductions are made is 15 minutes or 1/4 hour.
- (iii) In the case of Piece Workers the amount earned by each Piece Worker on the various items of work completed by him during the month at the rates fixed by the Management is paid to him. Check that the collective piece work output hours of each gang are calculated for the month with reference to the number of articles completed by the gang and the piece work hours applicable to each item of production. From 1.4.2000, the Piece Work Rate has been fixed in terms of Time (Out Put Hours). Piece Work Profit Percentage is worked out on the basis of out-put and input hours and using the formula:

$$\text{Profit percentage} = [1 - (\text{Output hours} / \text{Input hours}) \times 100]$$

- (iv) Check that Piece work rate correlated to the minimum of the pay scales of the worker deployed as against the existing correlation to the minimum of the pay scale of each grade(s) of worker(s) specified in job estimates. Pay in respect of each paid holiday, is separately calculated and paid to Piece Workers according to the formula prescribed. An incentive bonus is paid to essential maintenance workers employed in the maintenance of plant and services within the Factory, The bonus which is linked with the profit percentage earned by the piece workers and paid at the following rates.
 - (a) For essential maintenance workers attached to a production section at 50% of the Piece Work Profit Percentage earned in the month by all the Piece Worker of the Production Section.
 - (b) For essential maintenance workers not attached to any Production Section at 50% of the average piece work profit percentage earned in the month by all the Piece Workers in the whole Factory.
- (v) Check that the Guarantee pay is admissible to all IEs when their piece work earning during the period of their duty falls below the actual basic time wages applicable for that period and that the following method of calculation has been adopted:

$$\text{(Time wages + Increment difference + Overtime pay) - (Earning + Overtime Bonus)} \\ = \text{Guarantee Pay.}$$

- (vii) Check that Idle Time payment for causes other than those enumerated in OM Part VI Vol. I Para 160 are covered by separate Govt. sanction. Also check that idle time payment has not been on the occasion when it is due to wrongful action or misconduct of the employees.
- (viii) Verify the Personal information Report of the IEs in respect of the primary documents (e.g. Periodical Increment Certificate/ Factory Orders etc.) and check 100% of the changes in pay in respect of IEs in each month.
- (ix) Check the correctness of leave account in respect of 10% of total IEs granted leave during a quarter w.r.t. leave order published by the OF.
- (x) Carry out 5% test check of all types of advances paid during the months to ensure that the same are correctly recovered in the pay bill and also to check with respect to the paid vouchers to ensure posting of all advances are correctly made & Demand Registers are maintained properly. As well as to check that non-recovery of any advances intimated by the Fy. Mgt. has been correctly effected and subsequent action taken to realize/ recover the outstanding.
- (xi) Check the correctness of different elements of payment viz. time wage/ earning/ LP/DA/ HRA/TA/ OT/ OTB/ NDA/ Night shift Bonus etc. and also net pay entitlement after deductions (if any) admitted in respect of 1% of total IEs.
- (xii) Carry out test check of 1% of Supplementary Acquittance Rolls and relevant Factory orders in respect of those IEs included in the roll, to ensure correctness of the Payment at the appropriate rate and no payment had been made earlier on the same account.
Select 10% of the total PW Cards at random in each month and to verify that all the PW Cards

have been properly accounted for and correctly valued and no profit beyond the ceiling limit has been admitted.

- (xiv) Verify that, the total earnings in respect of each PW Cards as shown in the profit statement agree with the check list amount and to verify that the profit element shown in the pay bill is reconciled with the individual profit Statement amount.
- (xv) Check the correctness of PW rates w.r.t. standard estimates/ manufacturing warrants and ensure that the pricing has been done correctly with reference to quantity/ No. of operation in the PW Cards.
- (xvi) The Day Work card are to be verified with respect to relevant manufacturing warrants, supplementary work orders/drafts etc. concerned to see that the work shown on the day work card has been authorized. The total time for which each workman present on duty including OT hours during the period according to the muster roll should agree with the total time booked to jobs through day work card for each workman. Discrepancy if any is brought to the notice of management and necessary reconciliation is made. The debit to each job will be calculated on the basis of time spent by the workmen and his rate of pay .
- (xv) Verification of last month's wages of one IE in each category with that of current month (Last charge verification) would be carried out and whether variations, if any, are supported with proper documents.
- (xvi) Annual increment in July every year should be verified with reference to the minimum qualifying service required. Check that no penalty has been imposed for stoppage of increment.
- (xvii) Verify whether the sanction of OT hours is equal to the OT hours admitted in the pay bill and also to check that overtime hours are as per the guidelines of the State Labour Commission and in consonance with Factory Act 1948.
- (xviii) Check that transport allowance is not paid to the employees, who are absent or on leave during the entire calendar month.
- (xix) To ensure that checking of PW/Daily Wages cards with reference to Manufacturing warrants, their posting in respective warrants and pricing of PW/DW cards is being carried out by the Accounts Office before final calculation of monthly wages. Booking of labour in warrant after final Issue of Item should also be verified.
- (xx) All industrial employees in service as on 31st March of the year are entitled to PL Bonus. Bonus is calculated by excluding the period of un-regularized absence and EOL. For new entrants who have not completed one year of service as on 31st March, bonus is paid on proportionate basis for the number of days present. Audit would verify the PLB amount with respect to related primary documents.
- (xxi) Check that pay and allowances not admitted to IEs beyond the date of attaining the age of superannuation.
- (xxii) Check that the claims on account of payment to IEs on account of personal injury caused by accident arising out of and in the course of his employment are made in accordance with the provisions in the Workmen's Compensation Act 1923.
- (xxiii) Check the factory orders notifying appointment, promotion, Pay fixation, Assured Career Progression/MACP (Modified Assured Career Progression), retirement; resignation, section transfer, leave etc.

(xxiv) Pay entitlements of IEs should be checked by randomly selecting IEs in each type/grade in each month of the quarter under audit to ensure that System is functioning correctly. It would also be effective to select one IE randomly in each category for each month of the quarter where advances have been sanctioned and check that the recoveries are noted and monitored properly. The audit of deduction file in respect of Industrial employees prepared by the factory management and forwarded to accounts office would also be carried out. Audit would also check that in cases where the total quantum of monthly recovery could not be recovered due to less gross earning of the employee, whether balance outstanding amount is recovered invariably in the next or subsequent months.

Audit would verify whether PW profit percentage is restricted up to 75 % only or not. Further to this, if the profit percentage of a particular section is at high for consecutive months, the factory management can be advised for review of estimates. It will be the internal audit report which would point out the discrepancies, under/over Payment irregular/ fraudulent payments as well as non-recovery/less recovery noticed in the above checking and advice for eventual recovery/ realization/ regularization. It would also point out the discrepancy, excess pricing/ less pricing and cases of irregular, booking/ payment beyond the prescribed maximum profit % etc.

(xxvii) Check that piece workers only be deployed for production and the payment booked in direct series of work orders. Even in case of piece workers deployed in the tool room or section where tools are produced, labour cost should be booked in the direct series of work order. As a practice piece workers are booked against indirect series work orders by most of the ordnance factories to earn PW profit. These type bookings are carried out for various reasons. For audit of the same following procedure may be followed:

i. The monthly card files of last 2/3 years, which consists of the work order, warrants, estimate number, quantity produced, total hours involved and amount would be verified. This has to be verified with respect to respective labour estimates.

ii. Audit should verify the different production section booked PW in 02 series work order and cross check with related estimate mentioned in the card file against the warrant. Sometimes factories book PW for repair of furnace, cleaning, shifting of material etc, which can be established on verification with estimate. This can be objected to as the above type of work is carried out by maintenance worker or maintenance contract. Therefore parallel check of maintenance workers records/contracts also has to be carried out.

iii. Similarly, from the estimate it can also be established that some tools have been produced through 02 series work orders. As per the procedure, other than the General tools and specific tools required for a particular item should be booked in the same warrant. It has financial repercussion of over-casting of overhead charges of the factory and under casting the cost of the items.

(xxviii) The bills for terminal benefits like encashment of Earned Leave (unavailed Leave Salary) and Central Govt. Employees Group Insurance Scheme are prepared by factory management and sent to Accounts Office for pre-audit and payment. These bills are audited with reference to the entries in the service book, qualifying service, quantum of leave in the leave account duly audited by IA and emoluments drawn on the first working day of the following month.

(xxix) Audit of Disbursement Certificate is carried out by AIAO/SIAO during the Cash inspection of the OFs. The audit drill is given along with cash inspection drill.

- (xxx) On transfer in/out of the IEs see that statement showing rate of pay, date upto which paid, outstanding demands are correctly prepared and sent to Accounts Offices for verification and counter signature.
- (xxxi) Audit of certain areas using CAAT software:

A. Audit excess leave availed using CAAT (more than 8 days CL).

Step 1. *Import* IE_Hist File

Step 2. *Direct Extract* from (IEhist) file data of one year with *criteria year = (any year)*

Step 3. *Summarise* data with field Per number, Name, month, year with numeric field (CL)

Step 4. *Extract* from Summarised data with *criteria CL days =>* (greater than and equal to) 9. Similar exercise can also be done for NIEs/NGOs/GOs.

B. Audit of Unauthorised absence: non-regularisation for long time & payments. Master files required:

a) *IEhist* (from labour package of Br.AO)

b) *ATTFY* file (monthly for one Year) from Accounts office database.

Step 1. *Import* IEHist File

Step 2. *Summarise* on the fields Per No, Name, Month, Year with numerical total of absent days.

Step 3. *Extract* from the Summarised file with equation, Absent days greater than and equal to 1. Test check the payments for the unauthorized absence periods in pay-bills particularly in Supplementary pay-bills, arrears bills. Audit can ask for regularization of the absent shown in the resultant data base. In the past it has been observed that the payments have been released without regularization of the unauthorised absence. Audit can ask for regularization of the absent shown in the resultant data.

C. Similarly CAAT should be used to extract the data relating to labour booking after issue of Items to indentor, cases where excess Earned leave (More than 18 days) has been credited to IEs whereas he had opted for leave under Factories' Act. CAAT can also be used to extract data on transport allowance being paid for NGO/GOs who are on leave for the whole of calendar month.

Over Time

52. Industrial Employees are entitled to additional pay for work beyond the normal working hours. For work beyond normal working hours and up to 9 hours a day or beyond 44¾ hours up to 48 hours in a week, overtime is paid under Departmental Rules.

- (i) Check that in case of day workers the overtime is paid on the basis of following formula $OT = [(Band\ Pay + GP) / 200] \times OT\ Hrs.$
The hourly rate is the same for work in Night Shift.
- (ii) Check that in case of Piece Workers no separate payment for Over Time under Departmental Rule worked in day shift is made. They are entitled to Piece Work Earnings only. For work in Night Shift, an extra half hour pay is admitted for each hour of overtime worked under Departmental Rules, the hourly rate is the same as for Day Workers.

- (iii) Check for work beyond 9 hours a day or 48 hours in week, payment is admissible at twice the rate of pay plus all allowances. The extra payment over and above the ordinary rate is called bonus. For Piece Workers, basic pay is taken as Pay + 25% of pay (incentive element).

$$\text{OT Pay} = [\text{Min. Pay (as per V-CPC)} \times \text{OT Hrs. (upto 48 hrs.)}] / 200 + [(\text{Band Pay} + \text{GP}) \times \text{OT Hrs. (beyond 48 hrs.)}] / 200$$

Audit drill: Pay entitlements of NIEs/NGOs

- 53.i) Check that the number of NIEs/NGOs paid in different categories agrees with the sanctioned strength of each category of personnel.
- ii) From the Personal Information Report and Monthly paid bill select one case in each grade of NIEs /NGOs at random in each month covering from all grades and all scales of Pay and verify the correctness of basic Pay entitlement with reference to Service Books / Pay fixation proforma/ Fy. Orders/ Periodical Increment sheet Last Pay Certificate etc.
- iii) Check that allowances like OT, DA, HRA, TA have been correctly admitted in the Paybill.
- iv) Check correctness of basic pay of NIEs/NGOs where it changes in the month due to annual increment/promotion etc., with reference to PIC/Fy.Order/Pay fixation proforma etc., in 25% cases in a quarter.
- v) Check one case where advance is outstanding in each category in each month to check that recoveries of advances/demands have been correctly made with reference to relevant authentic documents.
- vi) Check that pay and allowances not admitted beyond the date of attaining the age of superannuation.
- vii) Test check the Transport Allowance payments as per the leave part II orders and that it is not paid where individual is absent for the complete calendar month. This information relating to individuals who were on leave for the whole calendar month can be obtained from the Master file using CAAT and then test check can be carried out on the payment of Transport Allowance.

Audit drill: Pay entitlements of Gazetted Officers.

- 54.i) Check the sanctioned strength of each category of officer. In case of new the post for which the pay and allowances are admitted, check that the post is sanctioned by the competent authority.
- ii) From the monthly pay-bill/or the database in respect of gazetted officer select one case from each grade of gazetted officer at random in each month covering all grades and scales of pay.
- iii) See that the leave salary admitted for the period of leave which has been granted by the competent authority and availed of by the officer are covered by the rules governing the case and has not been exceeded.
- iv) Check that all allowances such as DA/HRA/TA etc. have been paid correctly and where necessary, are duly supported by the requisite certificates.
- v) Ensure that the recoveries on account of Fund subscription, rent and allied charges, income tax, professional tax, CGHS and other demands have been correctly made in the bill.
- vi) Check that the net pay entitlement of the officer has been correctly arrived at and that pay and allowances not admitted beyond the date of attaining the age of superannuation.

- vii) The CGEGIS bills (GO/NGO) are received in the event of retirement and audited to see that the amount of subscription credited to the savings fund along with interest thereon has been correctly worked out as per the standard reckoner published from time to time. Particular care should be given whenever the grades of the employee were changed due to promotion with reference to endorsement recorded in the service book.
- viii) The CGEGIS bills in case of death are audited to see that the amount of subscription credited to savings fund along with interest thereon and amount of insurance cover of the group to which he belongs on the date of death has been correctly worked out as per the standard reckoner for CGEGIS.

Audit Drill: Booking of PW in indirect series (01& 02) Work Orders

55. Direct labour works as gang piece workers or individual piece workers and payment is made to them accordingly. Generally, the piece workers should only be deployed for production and the payment should be booked in direct series of work orders even in case of piece workers deployed in the tool room or section where tools are produced. For following checks should be carried out:

- i) Ask for the monthly card files (soft copy) of last 2/3 years, which consists of the work order, warrants, estimate number, quantity produced, total hours involved and amount.
Card files are available in the Electronic Data Processing Section/labour section of the Accounts Office. Similarly obtain data related to labour estimate issued till date by factory. Audit should verify the different production section booked PW in 02 series work order and cross check with related estimate mentioned in the card file against the warrant. Sometimes factories book PW for repair of furnace, cleaning, shifting of material etc, which can be established on verification with estimate. Above can be objected to as the above type of work is carried out by maintenance worker or maintenance contract. Therefore check maintenance workers records/contracts also.
- ii) Similarly, from the estimate it can also be established that some tools have been produced through 02 series work orders. As per the procedure, other than the General tools and specific tools required for a particular item, should booked in the same warrant. Financial repercussion on above is that over casting of overhead charges of the factory and under casting the cost of the items.

Audit Drill: Cost Accounting of Labour Charges

56. The cost accounting documents are:

- a) Piece work card.
- b) Day work card.
- c) Allocation sheet.

- d) Labour punching media. Generation of labour abstract by Accounts Office.
- e) Cost punching medium and cost accounting of the wages paid to direct and indirect workers of the factories.
Information relating to Priced PW/DW cards, Allocation Sheets, Labour Cost Punching Medium, Labour cost per Standard Man Hour in respect of PWs and Labour cost per MH in respect of DWs are used for cost accounting purposes. Thus the correctness should be checked in audit. The flow of documents and the processes of cost accounting are shown in Flow Chart at **Appendix J** to this manual.

Checking of Pricing of Piece Work Cards

- 57.** (i) Select 2 to 4 Piece Work Cards per Production Section randomly for each month for audit.
- (ii) Check that all the PW Cards have been properly accounted for and correctly valued and no profit beyond the ceiling limit admitted. Maximum profit percentage allowed is 75%.
 - (iii) Check that the total earnings in respect of each PW Cards as shown in the profit statement agree with the check list amount.
 - (iv) Verify the profit element shown in the pay bill with the individual profit Statement amount.
 - (v) Check the correctness of rates with reference to standard estimates/ manufacturing warrants and ensure that the pricing has been done correctly with reference to quantity/ Number of operation in the PW Cards where it is worked out manually.
 - (vi) Point out the discrepancy, excess pricing/ less pricing and cases of irregular, booking/ payment beyond the prescribed maximum profit percentage.
 - (vii) Review of overtime and incentives including PW earnings vis-à-vis production in 2 to 4 production sections.
 - (viii) For each Production Section, each month there is labour cost rate per SMH for piece workers which is worked out based on the total gross wages paid to all piece workers (both Individual Piece Worker and Gang Piece Worker) of the section and total Standard Man Hour (PW card hours) of the section.

Formula for calculation:

$$\text{Labour cost per SMH (PW)} = \frac{\text{Gross wages paid to PW}}{\text{Total SMH discharged through PW cards}}$$

Audit drill: Day Work Cards

58. For Day Workers, who are paid by attendance, the shops prepare Day Work Cards showing the ticket number of the worker, the work order, Warrant Number and the time spent on the job. Normally one card is prepared for each week showing the various job times for a worker. The audit of Day Work card is carried out in the following lines:

- (i) Check that the Cards are first posted on relevant manufacturing warrants, supplementary work orders/drafts etc. concerned to see that the work shown on the day work card has been authorized.

- (ii) Check that the total time for which each workman present on duty including OT hours during the period according to the muster roll should agree with the total time booked to jobs through day work card for each workman. Discrepancy if any is brought to the notice of management and necessary reconciliation is made.
- (iii) Check that the debit to each job will be calculated on the basis of time spent by the workmen and his rate of pay.
- (iv) Check that the day work card which is prepared in the Kind of Document (KOD-17) does not furnish the particulars such as operations performed or the quantity passed for inspection.
- (v) Check that if any job for which piece work rate has already been fixed should not be carried out on daily basis.
- (vi) Check that for workers, who are continuously engaged on the same job throughout the month, the shops prepare a monthly allocation sheet, instead of Day Work Cards. Such Allocation Sheets generally relate to indirect work orders. The total time for which each workman is present on duty including OT hours during the period according to the muster roll should agree with the total time booked to job in the allocation sheet. The Day work Cards and the Allocation Sheets received from the Shops for the month are priced by the Accounts Office by apportioning the total time wages earned by each worker, between the various jobs performed by him according to time spent on each job. Test check allocation sheets to check the time /wages earned by IE.
- (vii) Check that for each Section, each month there is labour cost rate per man hour for day workers which are worked out based on the total gross wages paid to all day workers of the section and total hours worked by day workers (DW card hours and allocation sheet hours) of the Section.

Formula for calculation:

$$\text{Labour cost per SMH (DW)} = \frac{\text{Gross wages paid to DW}}{\text{Total MH as per DW cards \& allocation sheet}}$$

- (viii) Partly DW partly PW: When an worker is deployed partly on Piece work basis and partly on Day work basis his duty pay is to be bifurcated prorata applying the formula :

$$\frac{\text{(Band Pay + Grade Pay)}}{\text{N-S}} \times \text{Duty Days on piece work/day work}$$

Piecowork profit is paid for work done during piecowork period. Other elements of pay like DA, HRA, TA, OT, OTB, NSA, NSB, Leave Pay etc. are to be bifurcated pro-rata of PW and DW days. Thus, portion of wages relevant to piece work system/day-work is included in the gross wages of PWs/DWs.

Note: all pay elements are included in gross wages except:

- a) Productivity Linked bonus.
- b) Arrears of Pay and allowances.
- c) Idle time Pay beyond control.

Audit drill: Service Books

59. The rules governing the maintenance of service books in respect of Government servants are contained in the FRs & SRs and the GFRs. A Service Book should be maintained by the Head of Office for every Government Servant (Gazetted and Non-Gazetted) holding a substantive post on a permanent establishment or officiating in a post or holding a temporary post likely to last for more than one year [SR 197].

The Head of Office can delegate, to a subordinate gazetted officer under him, powers to attest entries in the service books of all gazetted officers (except his own) for the maintenance of which he is responsible. The Head of Office should however scrutinize at least ten per cent of these documents every year and initial the same in token of having done so. [Government of India decision (1) below SR 199.

Entries in service book are made

- i. At the time of initial appointment.
- ii. At time of change in the post, office, station, scale of pay, or nature of appointment, including-appointment, promotion, reversion, deputation, transfer, transfer on foreign service, increment, leave, suspension and other forms of interruption in service.
- iii. At time of stoppage of increment, enforcement of Efficiency Bar.
- iv. At time of availing Leave Travel Concession for self or members of his family.

Checks to be carried out in the Service Book

60. The nominal roll of the employees should be obtained from the computer centre in order to monitor progress of audit. The following details should be obtained:

Srl	Name of the employee	Designation & Account number /ID	Service book number	Date of birth
	1	2	3	4

- i. These details should be fed into the MS Access database, the format of which has been provided by CIA (OFs). The data base should be updated on daily basis with details of transfer/death cases, date of last audit, details of objections, recovery, reminders etc. This database will be checked by the inspection team of CIA (OFs), Kolkata.
- ii. It is seen that certain service books not sent for audit for a very long time. Such cases of ten come to light at the time of the superannuation of the employee. Select the Service Books @ 2% of total IEs in each month for audit so as to cover 100% in a cycle of 4 years. Select those service books which have not been audited for last four years and send the list of such cases to the factory management for forwarding SBs.
- iii. The retiree and transfer cases should also be audited without delay.
- iv. Verify that every step in a Government servant's official life should be recorded in his service book and each entry attested by the Head of Office (HOO) or if he himself is the HOO, by his immediate superior. All entries are duly made and attested and that the service book contains no erasure or over-writing, all corrections being neatly made and properly attested. [SR 199].
- v. The entries regarding increments, and fixation of pay should be based on the Increment Certificates, and Pay fixation statements.
- vi. The declaration of Home-Town for purpose of Leave Travel Concession duly accepted by the competent authority should be pasted in the service book. [Rule 4 of the Leave Travel Concession Rules].
- vii. Every period of suspension and every other interruption in service must be noted promptly with full details of its duration and be properly attested. (SR 200).
- viii. The provisions of Rules Note 5 below FR 56, 79 and 80 of GFRs should be observed with regard to the entry of the date of birth in the service book.

- ix. A clear note should be made in the service book regarding the receipt of nomination for DCR Gratuity and Family Pension and related notices from the Government servant and where they have been lodged for safe custody. [*Government of India Decision No. 1 below Rule 53 of Central Civil Services (Pension) Rules, 1972*].
- x. The orders of the competent authority regarding the counting or otherwise of periods of extraordinary leave or periods preceding breaks in service or qualifying service for pension should be obtained immediately. [*Government of India Decision (7) below GFR 81*].
- xi. Carry out detailed audit check on the entries in the Service Books particularly in of Pay column and Service continuity with reference to Fy. Order/ DO Pt. II Orders and balance leave at credit.
- xii. Check Certificates recorded in the Service Book at time of appointment
 - a) Employee has been medically examined and found fit.
 - b) His/ her character and antecedents have been verified.
 - c) He/she has furnished declaration of his/her not having contracted bigamous marriage.
 - d) He/she has taken the oath of allegiance/affirmation to the Constitution.
 - e) He/she has furnished the declaration of home town which has been accepted.
- xiii. Check correctness of the entries against the following items of Part-I 'Bio-data' has been verified from original certificates furnished as valid documentary evidence for the respective purpose:-
 - a) Caste certificate enclosed where required.
 - b) Date of Birth by Christian era (wherever possible also in Saka era) (Both in Words & figures).
 - c) Educational qualifications:
 - 1. At the time of appointment; (to be attested by HOO/authorised officer)
 - 2. Subsequently acquired. (should be attested by HOO/authorised officer))
 - d) He/she has filed nomination for GPF and the related notices are been forwarded to the Accounts Officer on various dates.
 - e) He/she has furnished details of the family members.
 - f) He/she has filed nomination for Death/Retirement Gratuity.
 - g) CGEGIS form (Form No.13) is pasted in the Service Book.
 - h) If the individual is of CGHS beneficiary and living in an area covered by the same should be noted in the Service Book
- xiv) Check that leave account is maintained entries should be made distinctly and attested. [Rule 15 of CCS (Leave) Rules]. Verify the correctness of the leave account with reference to Fy. Orders/ DO Pt. II Orders etc. and balance leave at credit. Discrepancies to be objected to.
- xv) Earned Leave can be availed upto 180 days at any one time. EL account of the employee will be debited to the extent EL is availed of and/or period of dies non during the previous half-year subject to a maximum of the credit to be afforded for the next half year (i.e. 15 days).
- xvi) Credit to the HPL account made in advance. Debit to the HPL account is made-
 - a. When half pay leave availed- to the extent it is availed;
 - b. When the employees avails leave not due;
 - c. 1/18th of the period of dies non in a half-year, subject to a maximum of 10 days, shall be reduced from the half pay leave to be credited for the next half-year.
- xvii) On entering the service 5/3 days per month for each completed calendar month from the date of joining to the immediately following 1st January/1st July , rounding up to the nearest full day.

Thereafter 10 days HPL on each 1st July and 1st January every year. On the date of retirement/resignation/removal from service/dismissal/death while in service, at the rate of 5/3 days per month for each completed calendar month in the relevant half year, rounding up to the nearest full day.

xviii) Check documents that should be placed in Volume-II of the Service Book:

1. Relaxation of age, educational qualifications (authenticated/attested copy)
2. Report regarding verification of character and antecedents (original).
3. Medical certificate of fitness (original).
4. Certificates of age and educational qualifications (attested copies).
5. Declarations regarding marital status (original).
6. Oath/affirmation of allegiance to the Constitution (original).
7. Declaration and acceptance of home town (signed/attested copy).
8. Nomination for GPF (signed/attested copy).
9. Nomination for retirement/death gratuity.
10. Details of family (signed/attested copy).
11. Exercise of options in service matters (signed/attested copy).
12. Condone of break in service (authenticated/ attested copy).
13. Order regarding change of date of birth (authenticated/attested).
14. Collateral evidence in respect of past service (original).
15. Change of name (original).

xix) Check entries for LTC claims:

- a) Home town declaration by the Government Servant is signed and accepted by the Controlling Officer. The declaration is to be made to the authority who had been declared to be the Controlling Officer in respect of the Government servant for T.A. claims, before six months from the date of entry into service.
- b) Service Book entries are made for the Leave Travel Concession availed with details of family members mentioning the block year for home town (two years/All India concession (four years)).
- c) Check endorsement of EL encashment during LTC from Factory Orders

xx) Annual verification of Service & grant of Annual Increment: At a fixed time early in the year, the Service Books is taken up for verification by the Head of the Office who after satisfying himself that the services of the Government servants concerned are correctly recorded in each o the Service Books shall record in each case a certificate in the following form over his signature:

'Services verified from —— (date) & up to (the record from which the verification is made).'

A similar certificate will also be endorsed if an annual increment is granted to the official showing the amount after granting of increment.

xxi) Check Gazetted officer endorse suitable audit enfacement with dated initial.

xxii) Checking various entries in the Service Book:

- a) **Joining/Transfer in:** Verify that the following information is correct with reference to

relevant documents as per service book/documents concerned. Name, date of birth, date of joining, Ticket no, Section No, Personal No, Trade, Grade, Pay band, Band pay, Grade Pay, HRA Admissibility, TA admissibility, Physically handicapped, Permanent pension A/c No, Home town, Leave type i.e. whether under factories Act or Departmental Rule.

- b) **Yearly Increment Certificate:** As per extant orders annual increments are due only with effect from 1st July each year. An employee is normally entitled to his/ her annual increment due on 1st July each year provided he/ she has at least 6 month's qualifying service on the crucial day i.e. between 1st July to 30th June of the year and he/she is not undergoing penalty or not on suspension. Check penalty ordered (if any) withholding increment, Name, Ticket No, Personal No., Trade, Grade, Section, Date of Last Increment, Period of non-qualifying service towards increment, Date of Present Increment, Pre-revised Pay Scales (4th & 5th CPC) and Basic Pay before and after increment, Revised Pay Structure (6th CPC) Pay in Pay Band and Grade Pay before increment, Rate of Increment, Pay in Pay Band and Grade Pay after increment .
- c) **Death/Retirement:-** Verify that date of struck off strength/retirement is correctly mentioned as per part II orders .
- d) **Transfer Out/ In:** Name, personal number, section no, ticket no, trade, grade, date of transfer/struck off strength and place of posting, entitlement of TA/DA, joining time will be verified with reference to Factory Order, Periodical Increment Statement and Accounts records.
- e) In the following cases, it may be ensured that the entries have been made with reference to Factory Part II Order:
1. **Suspension:** Verify date of suspension and percentage of subsistence allowance as notified in Factory Order.
 2. **Penalty:** Verify correctness of data with reference to service book, PIS and Accounts record effective date of penalty, type of penalty with details and period to be verified with reference to Factory Order.
 3. **Revocation of Penalty/Suspension** Verify correctness of data/information with reference to service book, Accounts record and other relevant documents. Name, personal number, section no, ticket no, trade, grade, date of revocation of penalty/suspension. Procedure for regularization of absence during suspension period i.e. whether period will be treated as spent on duty or not. Date of resumption of duty as directed. Entitlement of difference of Pay & Allowances for the suspension period, if any, as mentioned in the revocation order .
 4. **Promotion/Pay Fixation:** Verify correctness of data with reference to service book; pay structure, PIS and Accounts record. Name, personal number, section no, ticket no, trade and grade before and after promotion, band pay, grade pay before and after promotion, Pre-revised Pay Scales (4th & 5th CPC) and Basic Pay before and after promotion, date of promotion/date of next increment, date of option.
 5. **Physically Handicapped:** Verify authenticity of data with reference to medical certificate issued by competent medical authority and as recorded and authenticated in the service book. Name, personal number, section no, ticket no, trade, grade. Type of disability with percentage, Effective date from which benefit is payable .
 6. **Revocation of Penalty/Suspension:**
 7. **Promotion/Pay Fixation:-**
 8. **Occupation/Vacation of Government Accommodation:-** Verify date of admissibility/stoppage of HRA.
 9. **Physically Handicapped.**

10. **Leave:** Verify whether leave is actually due and balance of leave available for the type of leave sanctioned and it covers the period of absence. That leave has been debited in Leave Account. Check that unauthorised absence is regularised without delay.
11. **Leave under Factories Act** to be checked as under:

Industrial Employees (IEs) on Ordnance Factories are governed by two sets of Rules viz. Factories Act 1948 and CDS (IE) Leave Rules, 1954 (Department Rules). Both these Rules differ in the total EL entitlement and leave wages. Under Factory Act (Sec 79) an IE is entitled for leave @ 1 day for every 20 days of work done on minimum of 240 days of work during the calendar year. As per sec. 80 of the Factories Act an IE is entitled to leave wages at the rate equal to the daily average of his total fulltime earning for the days on which the worker actually worked during the month immediately preceding his leave, exclusive of any OT & bonus but including DA and cash equivalent of other profits.

As per the MOD OM No. 20(2)/82/D (Civ-II) dated 03.06.1983 and letter no. II (I)/2001/D/ (Civ-II) dt 05.08.2005 every Industrial Employee is required to exercise an option for leave. IE's can either avail 30 days EL under CDS(IE), or avail 18 days EL plus Profit on EL under Factories Act, whichever, is beneficial to them. However, it is found that the IEs who have opted for leave under the Factories Act are availing 30 days leave. Whereas 30 days EL in a year is permitted only as per the rule 6 of CDS (IE) leave rule, 1954. But CDS (IE) leave rules do not entitle them for Profit on E.L.

Audit drill: Pay Fixation

61. Audit should verify the pay fixation has been carried out with reference to extant orders and entries have been made in the service book. Generally, pay fixations are required to be made in the following situations:

- i. On promotion.
- ii. If the employee is appointed to a lower post at his own request.
- iii. Re-employed pensioners.
- iv. Appointment on deputation basis.
- v. On deputation to a lower post.
- vi. Grant of modified assured career progression scheme.
- vii. Redeployment of surplus employees.
- viii. Change of government policy.

Audit Drill: Pay Fixation on Promotion

62. In the case of promotion from one grade pay to another in the revised pay structure, the fixation will be done as follows:

- i. One increment equal to 3% of the sum of the pay in the pay band & the existing grade pay will be computed & rounded off to the next multiple of 10. This will be added to the existing pay in the pay band. The grade pay corresponding to the promotion post will thereafter be granted in addition to this pay in the pay band. However, if the pay in the pay band after adding the increment is less than the minimum of the higher pay band to which promotion is taking place, pay in the pay band will be stepped up to such minimum.

- ii. The employee may opt to get the pay fixed from the date of promotion or from the date of next increment. Such option is required to be exercised within one month of promotion.

Example:

Mr. X, IOFS, AWM was selected for promotion to the senior time scale of IOFS cadre (WM) with effect from 18.04.2012 or from the date of assumption of higher charge whichever is later. Mr. X assumed higher charge on 18.04.2012 itself. On the date of promotion, Mr. X was in receipt of basic pay in pay band-3 (₹ 15600-39100) @ ₹ 26,810/ with grade pay of ₹ 5400/ p.m. With effect from 1. July, 2011. The pay band of senior time scale is pay band-3 (₹ 15600-39,100) with grade pay @ ₹ 6600/ p.m. Mr. X exercised option for fixation of pay in the higher grade with effect from the date of promotion itself. Calculate the pay of Mr. X.

- i. Existing pay & grade pay: ₹15600-39,100/ Grade Pay @ ₹ 5400/.
- ii. Revised pay & grade pay: ₹ 15600-39,100/ Grade Pay @ ₹ 6600/.
- iii. Existing basic pay & the date from which drawn: ₹ 26810/ w.e.f. 01.07.2011.
- iv. Date of promotion/date of assumption of higher charge: 18.04.2012.
- v. 3% of basic Pay + Grade Pay rounded off to multiply of 10.
- iii. i.e. $3\% (26810+5400) = ₹ 966.30 = ₹ 970/$
- iv. Pay in the higher grade will be fixed @ ₹ $(26810+970) + ₹ 6600/ = ₹ 27,780/ + ₹ 6000$ with effect from 18.04.2012.
- viii. His date of next increment would be 1st July, 2013.

Audit Drill: Fixation of pay in case of appointment in lower post on own request

63. If the employee is appointed to a lower post at his own request, then his pay will be fixed at a stage equal to the pay in pay band drawn by him prior to his appointment against the lower post plus grade pay of the lower post. He will draw increments based on his band pay plus grade pay (lower post).

Audit Drill: Fixation of pay in case of re-employed pensioners

- 64.**
- i. Re-employed pensioners shall draw pay only in pay scale of the post in which they are employed. No protection of pay scale /pay structure of the post held before retirement will be allowed.
 - ii. If pension is fully ignored, initial pay will be as per the entry pay in the pay structure of the re-employed post.
 - iii. If the entire pension is not ignored, initial pay will be at the same stage as last basic pay drawn plus grade pay of the re-employed post.
 - iv. Maximum basic pay cannot exceed grade pay of the re-employed post plus pay in pay band ₹ 67,000/. Non-ignorable pension shall be reduced.
 - v. Annual increments shall be allowed as per the normal provisions.
 - vi. Various allowances shall be allowed with reference to the grade pay of the re-employed post or the basic pay.

Audit Drill: Pay Fixation on deputation

65. The employee will have two options, which is to be exercised within one month of joining the deputation department, either;
- i. To draw the pay in the pay scale of the deputation post, the pay being fixed under the normal rules for those appointed from one post to another in government, or
 - ii. To draw basic pay in the parent cadre plus deputation allowance plus personal pay, if any. The option can be revised only when:
 - a) The status of the employee changes in the parent cadre by way of proforma promotion, or appointment to a non-functional selection grade or reversion a lower grade in the parent cadre, or
 - b) The pay scale of the post in his parent cadre or the borrowing department is revised, or
 - c) When he is appointed to another grade in the borrowing department.
 - d) Based on the above option, the pay of the deputationists will be re-fixed with reference to the revised entitlement of pay in the parent cadre.

Audit Drill: Fixation of Pay on deputation to a lower post

66. i. The employee's pay in pay band will remain unchanged. He will get grade pay of deputation post.
- ii. If an employee in Higher Administrative Grade + scale goes on deputation to a post in PB-4, his basic pay on deputation post will be fixed equal to basic pay in cadre post, but the total pay in pay band & grade pay shall not exceed ₹ 79000/.
- iii. If an employee in apex scale goes on deputation to a post in PB-4, his pay in pay band will be fixed @ ₹ 67000/ & given grade pay of deputation post, but, will not exceed ₹ 79000/
- iv. In case of deputation from Apex scale to HAG+, his basic pay will be protected.

Audit Drill: Fixation of Pay on MACP

67. i. The revised scheme ensures three financial up gradations on completion of 10, 20 & 30 years of service & counted from the direct entry grade.
- ii. The scheme is operational since 01.09.2008.
- iii. Financial up gradation will be allowed whenever a person has spent 10 years continuously in the same grade.
- vi. MACP envisages merely placement in the immediate next higher grade pay.
- v. This scheme is applicable up to hag scale i.e. ₹ 67000-₹ 79000.
- vi. Benefit of pay fixation (i.e. 3% increase in pay band + grade pay) rounded off to multiple of next ₹ 10.

Audit Drill: Fixation of Pay for redeployed surplus employee

68. i. To the extent possible, a surplus employee will be deployed in a post having pay scale matching his current pay scale.
- ii. When a person cannot be redeployed to a post carrying matching scale, then the deployed post:

- a. Should not have more than the maximum of his current post plus 10% of the same.
- b. Should not be lower than the immediately next lower post in the promotional ladder.
- iii. A person redeployed to a post with higher maximum pay, should have either the educational qualifications for the post or should have been performing the duties of such a post.
- iv. A person appointed to a lower scale can carry his current pay scale along with him provided such a posting was not at his own request.
- v. Normally, a person will not be redeployed to a lower post within first three months.

Audit Drill: Change of Government Policy CCS (Revised Pay Rules), 2008

69. i. Basic pay drawn in the pre-revised scale as on 01.01.2006 will be multiplied by a factor of 1.86 & rounded off to next multiple of 10.
- ii. If minimum of pay band /scale is more than the figures arrived at as above, the minimum of pay band /scale will be fixed as band pay.
- iii. In addition to pay in the pay band, an employee will be given the corresponding grade pay.

Example:

Existing scale of pay	₹ 4000-100-6000
Revised pay band	PB-1 ₹ 5200-20200
Existing basic pay as 01.01.2006	₹ 4800
Pay after multiplication of factor of 1.86 rounded off to next multiple of 10	₹ 8928/ rounded off to ₹ 8930
Pay in the pay band-1	₹ 8930
Grade pay attached to the scale	₹ 2400
Revised basic pay	₹ (8930+2400) = ₹ 11330

Note: Pay of an IE is fixed after promotion and publication of necessary Factory order and submission of option form for fixation of pay and subsequent vetting of Pay fixation by Accounts Office. The difference between old pay and new pay after fixation during the period from the date of promotion to the date on which his new pay has been implemented is calculated and paid. Check calculation of difference amount arising due to fixation of pay on promotion/ up gradation under MACP Scheme.

List of Auditable Documents

A.) Ordnance Factory Hospitals		
(i) Hospital Admission & Discharge Book (ii) Wards Diet Sheets (iii) Ration and Packing Material Return (iv) Daily Requisition for Diet & Extras (v) Monthly Summary of Diets & Extras (vi) Hospital Stoppage Roll (vii) Medical Stores Exp. & Non-exp. Ledgers (viii) Medicines Ledger (ix) Expense books of medicines & Exp. Stores (x) Locally purchased medicine ledger.	(xi) Central Register of Receipt & Issue Vouchers. (xii) Loss statement register (xiii) Ordnance stores ledger (xiv) Ordnance clothing ledger (xv) Register of short life stores (xvi) Gift store ledger (xvii) Red Cross stores ledger (xviii) Packing Materials Ledger (xix) Condemnation Board Proceeding (xx) Medical & Surgical Equipments Ledger	(xxi) Anti Malaria stores Ledgers (xxii) Laboratory medical Equipment. & stores ledger (xxiii) X-Ray film expense books. (xxiv) X-Ray medical Equipment. Ledger (xxv) Register of Non-entitled cases (xxvi) Register for ambulance (xxvii) Car Diaries/log books (xxviii) Referral Cases Register
B.) Section: Cash Office		
(i) Cash Book (ii) Contingent Register (Imprest) (iii) Money Order register (iv) Cash receipt book register	(v) Security Deposit Register/Fidelity Bond Register (vi) Fine Fund Account (vii) Bank Draft Register	(viii) Absentee Payment Register (ix) Stamp Account Register/ Franking Machine (x) Cheque Book & Cheque Slips T.R. Register
(C) Section:- Estate/Yard etc.		
(i) Estate Fund Accounts (ii) Estate Ledger (iii) Register of Trees (iv) Market Coupon Books Register (v) Grazing charge Register (vi) Usufructs Register (vii) Land & Lease Register (viii) Stores-in-Hand Ledger	(ix) Conservancy Register (x) Cinema Hall/ Auditorium/Community Hall/Temporary Allotment of Quarter Register (xi) Furniture Register (xii) Register of earnest money (xiii) Quarter. Allotment Register (xiv) Register for rent & recovery of charges	(xv) Eviction Register (xvi) Soap Account (xvii) Reg. of Security Deposits (xviii) Inventory register
(D) Establishment/Bill Group/Labour Bureau Section		
(i) Court attachment Register (ii) Provisional Payment Register (iii) Register of L.P.C. Service Books	(iv) Register of Payment of Books to apprentices (v) Register of Stationary articles (vi) Register of Books & Forms (vii) Register of Non-official Publication	(viii) Cash Award Register (ix) Liveries Register of Class IV staff (x) TADA/LTC/Medical Advance and Final Adj. Register (xi) Demand Register for advances of HBA/Car/Scooter/Motor Cycle/Computer etc
E) IB/Guest House	F) Building Section	G) Electric Maintenance (EM) Section
(i) Visitor Book for Inspection Bungalow/Guest house	(i) Register of Buildings (ii) Barrack Damage	(i) Stores-in-Hand Ledger (ii) Fan & Meter Register

(ii) Inspection Bungalow Furniture & Crockeries Register (iii) Register of Furniture on Hire	Register (iii) Stores-in-Hand Ledger (iv) Complain Register (v) Work Order Register for TCs (vi) Demolition Register	(iii) Bulb Account (iv) Meter Reading Books (v) inventory register (vi) Complaint Register
H) Section: M.T.	D) Section: Factory schools	J) Store Section
(i) Unit Vehicle Register (ii) Log Books (iii) Mileage Cards (iv) Car Diaries (v) P. O. L. Ledger (vi) Spare Parts Register (vii) M. T. Stores Ledger (viii) inventory register (ix) Payment amenity register (x) Hire charges of School Bus Register (xi) Requisition and Duty slip of Hire Car	(i) Cash Book (ii) Cash receipt books (iii) Tuition Fees Register (iv) Register of Library Books (v) Prize books register (vi) Sports Goods Register (vii) Fund account of extra-curricular activities (viii) Inventory register of Furniture, Musical instruments, Biology & Science Equipments. (ix) Annual Balance Sheet.	i) Stores-in-hand ledger ii) Deposit ledger iii) Loan register iv) Free Issue of cold drinks v) Register of MC Notes & Rly. warrants vi) Soap register. vii) Sale accounts & auction Bid sheets. viii) Register of protective clothing ix) Defence ledger x) Discrepancy register xi) Scrap sale register xii) Timber and Saw dust register xiii) Warf age Register xiv) Demurrage Register xv) Nominal issues, receipt, return registers xvi) Milk issue register to the entitled personnel
K) Provisioning Section	L) Section: Fire Fighting	M) Section: Security Gate
(i) Tender Fees Register (ii) Spot Payment (iii) Provisional payment (iv) Security Deposit (v) Supply Order Register (vi) EMD Register (vii) Black Listed/Debbared Firms Register	(i) Liveries register of Fire Fighting personnel (ii) Soap Accounts (iii) Protective clothing register (iv) MT Accounts for Vehicle held group. (v) Register of expendable items.	(i) Stock register of identity passes (ii) Issue register of identity passes (iii) Register of recovery for loss of identity passes Cash receipts. (iv) Stock and issue of Liveries & Warm clothing Register of Durwans. (v) Returnable and non-returnable Gate Pass Register
N) Quality Control	O) Engg. Office (Civil)	P) Engg. Office (P&M)
(i) Register or database of inspection note ii) Register of material issued for proof iii) Inventory register	(i) Contract Agreement Register (ii) Tender Fee Register (iii) Bill Register (iv) EMD Register (v) Security Deposit Register (vi) Building Voucher Register (vii) Building Block Register (viii) Road Register (ix) Register of Debarred/Black Listed vendor	(i) Supply Order Register (ii) Tender Fee Register (iii) Bill Register (iv) EMD Register (v) Security Deposit Register (vi) NC/RR Demand Register (vii) Disposal/Sale of Condemned P&M Register (viii) Machinery Voucher Register (ix) Machinery Block Register (x) Register of Debarred/Black Listed vendor
Q) Quality Control	R) DGQA Establishments	
(i) Register or database of inspection note (ii) Register of material issued for proof	(i) Unit Equipment Ledger (ii) Filter Tool Ledger	

(iii) Inventory register	(iii) Clothing Ledger
S) Stock godown of Maintenance Section (Electric/machine)	(i) MT Spare Ledger
(i) Stores-in-hand ledger	(ii) Vehicle Tool Ledger (Car & M/C)
(ii) Demand note and return note register	(iii) Inspection Seal Ledger
(iii) Inventory register	(iv) Stationery Ledger
T) Section: Telephone Exchange	(v) POL Ledger
(i) Inventory Register	(vi) Expendable Store Ledger
(ii) Stock Register(Receipt and Issue)	(vii) Machinery Ledger
	(viii) Vehicle Ledger
	(ix) Chemical Exp.Ledger
	(x) Receipt Central Register
	(xi) LP Register
	(xii) Issue Central Reg.
	(xiii) MC Note
	(xiv) Mileage Card
	(xv) Log Books for vehicles
	(xvi) Driver car Diary
	(xvii) Service Books
U) Industrial Wet Canteen	(xviii) Demand Registers(TA/DA/LTC)
(i) Token Sale Register	(xix) Franking Machine Register
(ii) Inventory Register	(xx) Register of Rly.Warrants
(iii) Crockery Register	(xxi) Telephone Register
(iv) Register of use of LPG	(xxii) Books register
	(xxiii) Specifications Ledger

NOTE : Inventory Register is maintained in each Section/Office/Shop in the Factory

Besides above, any document related to payment and procedure and involved in irregularity can be called for from the management for audit purpose.

Promotional Hierarchy of IEs

The grade structure in the industrial as well as in the non-industrial trades wherever already available and the pay scales of the Defence artisan staff shall stand modified w.e.f. 1.1.2006

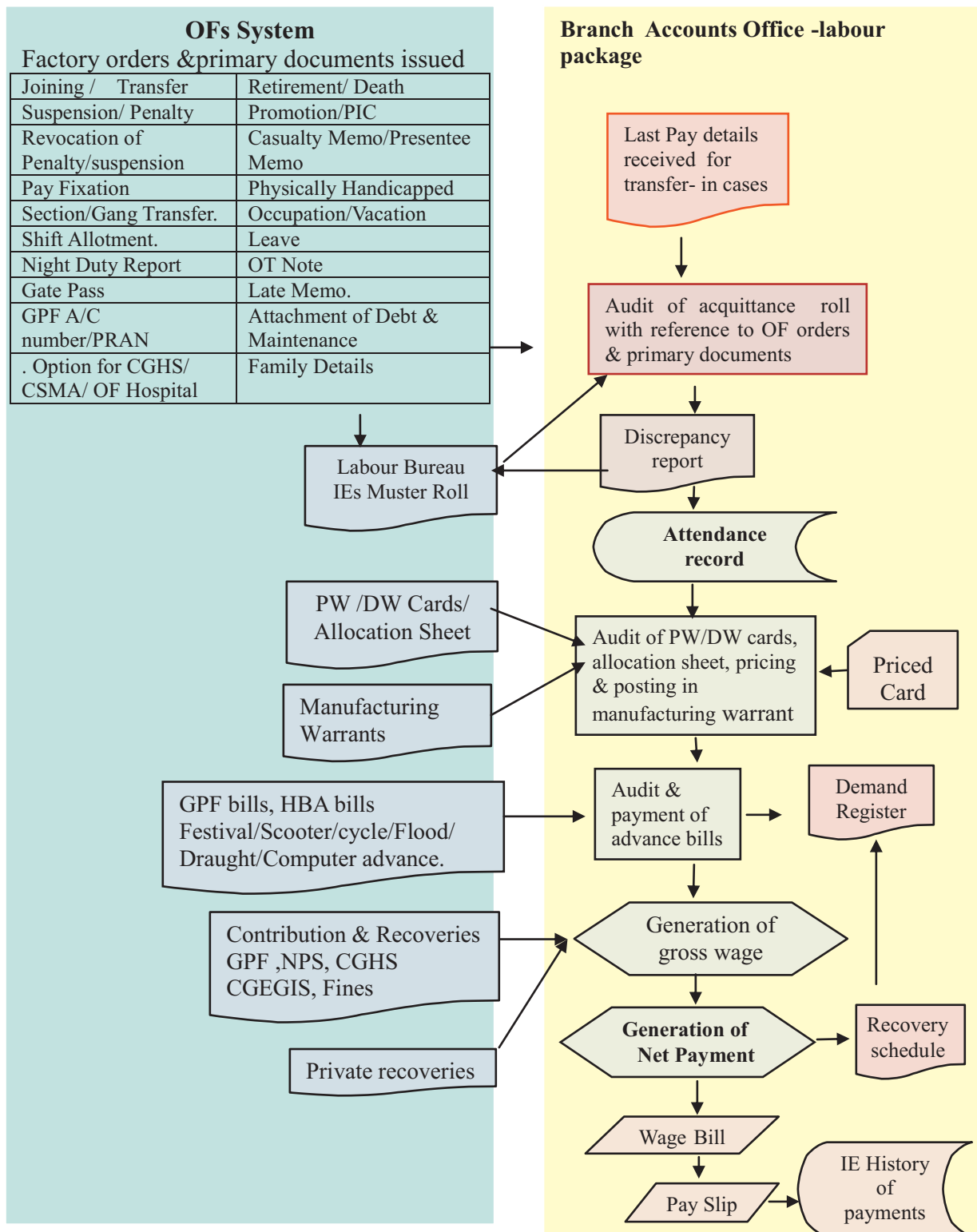
as under:

- (i) Skilled -Pay Band PB-1 Grade Pay ₹1900
- (ii) Highly Skilled Grade II - Pay Band PB-1 Grade Pay ₹ 2400
- (iii) Highly Skilled Grade I -Pay Band PB-1 Grade Pay ₹ 2800
- (iv) Master Craftsman -Pay Band PB-2 Grade Pay ₹ 4200

(a) Wherever the grade structure in the Industrial as well as Non-Industrial trades is already existing in the ratio of 45:55, the erstwhile Skilled and Highly Skilled, and 25% of Highly Skilled in the grade of Master Craftsman, the following will apply:

- (i) 45% of the posts may be granted the pay scale of MCM (Grade Pay of ₹1900 in the Pay Band PB - 1); (i) 45% of the posts may be granted the pay scale of MCM (Grade Pay of ₹1900 in the Pay Band PB - 1);
 - (ii) 25% of the remaining 55% may be granted the pay scale of MCM (Grade Pay of ₹ 4200 in the Pay Band PB - 2);
 - (iii) The remaining posts may be divided in a ratio 50:50 and re-designated as Highly Skilled Worker Grade - II (Grade Pay of ₹ 2400 in the Pay Band PB - 1) and Highly Skilled Worker Grade-I(Grade Pay of ₹ 2400 in the Pay Band PB- 1).
- (b) The placement of the individuals in the posts resulting from the restructuring shall be made w.e.f. 1.1.2006, in relaxation of the conditions, if any, i.e. trade test etc. as on e time measure.
- (c) Highly Skilled Grade I shall be en-bloc senior to Highly Skilled Grade II.
- (d) The post of Master Craftsman shall be part of the hierarchy and the placement of Highly Skilled Grade I in the grade of Master Craftsman will be treated as promotion.
- (e) For promotion to a higher grade in the same trade or transfer to a different grade as also appointment as Tradesman passing the prescribed trade test is necessary.
- (f) A Trade Test Board will conduct the tests as per details of a specification approved by the DGOF for each trade and grade.
- (g) In the case of Defence Establishments, where there is no category of Skilled Workers and direct recruitment is made 100% at the level of Highly Skilled, the posts of Master Craftsman existing as no 1.1.2006 will be placed in PB-2 + GP-4200 and the remaining posts of Highly Skilled Workers may be bifurcated in HS -I and HS-II in the ratio of 50:50.
- Authority: GoI, Ministry of Defence No. 11(5) /2009-D(Civ.I), Dated: 14-06-2010*

Flow of Documents and generation of IEs wage bill



4. Material Management & Inventory

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4. Material Management & Inventory

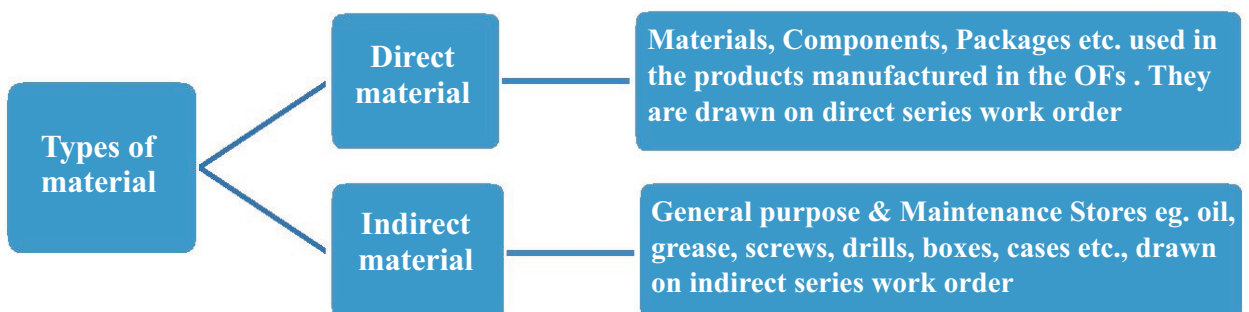
Introduction to Material Procurement

70. The total material cost is approximately **60% of total COP**, taken as an average from Annual Accounts of the period 2006-07 to 2010-2011. Therefore, material is an important area for audit. The Manual and guidelines that are important for audit of material management are:

- a) Procurement Manual of OFB
- b) Delegation of Financial Powers of OFB
- c) GFR
- d) CVC guidelines & circulars
- e) Government orders and OFB SOP or instructions issued from time to time
- f) Accounting procedures in OM Pt. VI (OM should be referred to while drafting objection, but it should not be quoted as authority to the Factory Management in the QIAR)

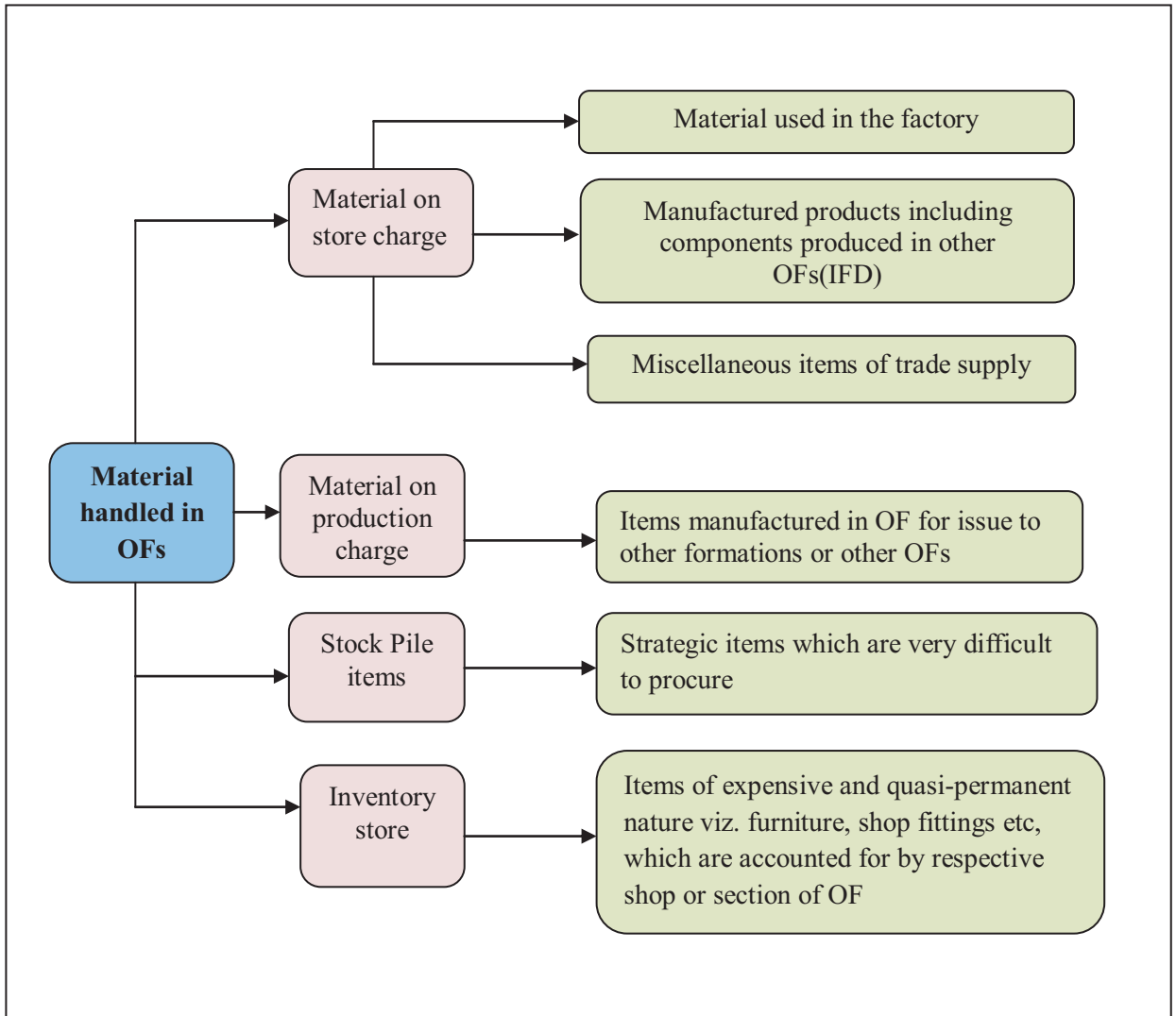
70.1 It is important to see that the transactions are done according to the orders/instructions, but at the same time the audit should see special circumstances noted in the files. In certain emergent situations it may not be possible for manufacturing organisations to go strictly according to the rules but, at the same time, repeated or deliberate cases of non-compliance cannot be ignored. OFs use a variety of stores in production processes.

- (i) Stores are received from various sources in OFs. These are:
 - 1) Foreign purchase,
 - 2) Central purchase,
 - 3) Local purchase,
 - 4) Supplies from Departments other than Defence,
 - 5) Supplies from Defence PSUs,
 - 6) Internal receipts:
 - a) Receipts from production from other OFs,
 - b) Receipts from the surplus of materials returned to store by production shop,
 - c) Receipts from surpluses at stock taking at the factory,
 - d) Receipts on account of transfer from capital asset,
 - e) Receipts from other sources i.e. estate produce, inventory etc.
- (ii) Broad classification of material types of stores handled in OFs are shown at Chart A and B respectively.



There are various types of material that is handled in OFs. The details are given at Chart B.

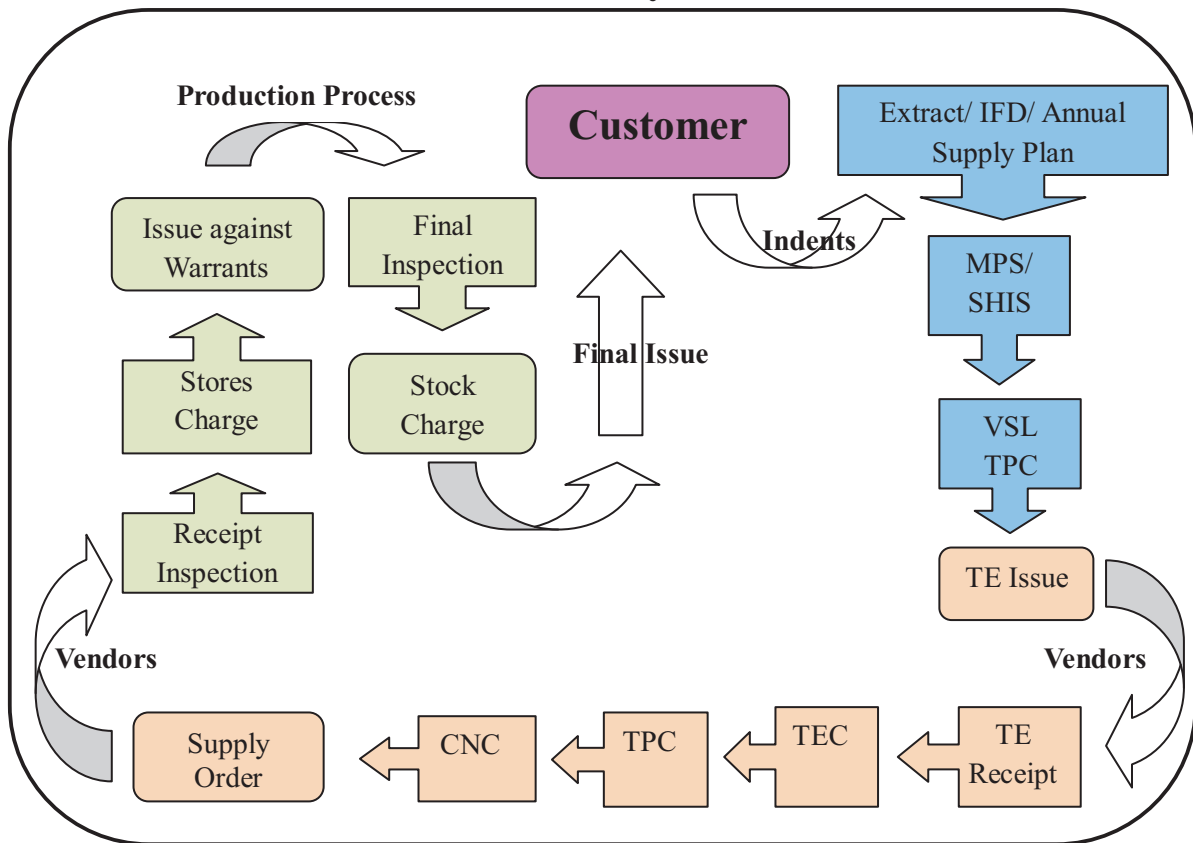
Chart B: Classification of Materials handled in Ordnance factories



(iii) The Procurement Cycle :

On receipt of firm indents/extracts/IFD from sister factory, provisioning plan starts within the factories. Accordingly in case of production items, Material Planning Sheets are generated in the planning section and in its absence SHIS is generated. Further, in respect of inventory item i.e. indirect materials SHIS are floated by the respective store section showing stock in hand, dues, average consumption, liability insight and requirement to meet the liabilities. (Audit drill for MP Sheet is at Para 72). The procurement procedure ends with supply, inspection and taking of material on stock charge. The procurement cycle followed in OFs for material is given at Chart C.

Chart C: Stores Procurement Cycle



- (iv) The authority for purchase of material are:
- a) Indents
 - b) Extracts
 - c) IFD
 - d) Annual Supply Plan given by OFB for Direct Material
 - e) Supplementary Work Orders
 - f) Purchase Requisitions

Audit Drill: Procurement Procedure

71. Ordnance factories procure material from open market and certain items are obtained through Inter Factory Demand. The best way to audit procurements from open market is to obtain list of sanctions and supply orders placed during a specified period of time. Audit should *extract* data from OF PPC package (Purchase Orders master file) and *import* on CAAT software. Supply order numbers are serially maintained by the factory provisioning section. This consists of Supply Order number, SO date, Item, Quantity, Unit, rate, Value, Name of the supplier, delivery period, with other details. Each quarter 10% with minimum 50 number high value SOs should be selected for internal audit. The high value SO selected for audit should normally be above ₹1 crs. The audit of selected SOs should be carried after calling for the related documents/files. The audit report must contain the details of sanction, item procured, SO number and date etc., as evidence and also to facilitate linking of the case by the factory management at a later date. The report must also contain the provisions violated. IFD audit is covered in a separate audit drill at Para 82. The procurement from third party/open market should be audited following the audit drill:

- i) Audit should check that OFB has its **Procurement Procedure** manual updated at regular intervals. It should also be checked that the manual promotes transparency, systematic and uniform approach in decision making process for procurement. The manual should identify and demarcate accountability centres. It should also be checked that manual prescribes appropriate time frames for each stage of procurement, to reduce delays in meeting the operational, production and maintenance requirements.
- ii) Check that manual tenders are not received with effect from 1st July 2007 in terms of General Financial Rules Rule 162, Government of India Order (3). A separate drill on e-procurement is given under Chapter-6 on IT audit.
- iii) Check that the **delegation of Powers** is based on the functional requirements and depending on the size of the Factory and not uniform irrespective of the requirement and the Budget of the Factory.
- iv) Check that the procurement is done as per delegated powers. The latest orders on the delegations are available on the VPN.
- v) Adequacy of the documentation and filing system: It should be checked that there is detailed recording/documentation procedure of all procurements and that proper documentation is done. Part files which are opened when new action is initiated, is merged with the main file so as to ensure continuity and prevent arbitrariness in decision making. Check that procurement related files are properly paginated.
- vi) Check that quantities purchased were not in excess/less than the actual requirement. In case of excess procurements and excess inventory, objection should be taken on wasteful expenditure and avoidable inventory carrying cost. It should also be checked that the procurement was not less than the actual requirement merely to bring it within the financial power of lower Competent Financial Authority as it might have adversely affected the progress of works and resulted in subsequent procurement at additional and may be higher costs.
- vii) Audit should verify, whether any **IFD** has **also been placed** on any sister factories for the item that was purchased through trade, from the data base maintained by Material Control Section of the factory for direct materials. It should be checked that the stores are first obtained through IFDs wherever possible and non-availability certificate has been obtained from the sister factory before purchasing from open market. In this case the guideline under OFB order No.903/policy/(P) dated 11/12/2006 may be followed strictly.
- viii) After preparation of MP Sheets (for direct material) and receipt of purchase requisition, Store/MCO section prepares a **Store Holders Inability sheet (SHIS)**. SHIS will show the availability of the Material and Audit drill for SHIS is at Para 74.
- ix) Check that the **estimated rates** were worked out realistically so as to establish the reasonableness of prices. Check that rate analysis done in a realistic and objective manner on the basis of prevailing market rate, last purchase prices, economic indices for raw material/labour and other input costs etc. applying uniform yearly compounded escalation over prices of last Purchase.
- x) Procurement is made through various **tendering modes**, check that the procedure selected by management ensured wide publicity, generated competition and obviated favouritism. Audit drill on various modes of tendering is given at Para 76.
- xi) Check that correct procedures are followed for **vendor registration**. Audit Drill on Vendor registration and vendor selection is given at Para 75.
- xii) Check whether the **tender documents** were comprehensive to safeguard interest of the Government and ensure evaluation of bids on equitable and fair basis and in a transparent manner. They should include clause/instructions on date, time and place of opening the bid, general and special conditions of contract, specifications, schedule giving particulars of stores to be supplied,

format for quoting prices, agreement form to be signed, Earnest Money, Delivery Schedule, payment terms, Performance Warranty, Bank Guarantee, Pre-despatch inspection, Arbitration, LD/penalty for the delayed supplies, Risk purchases, settlement of disputes/arbitration. If the tender documents are incomplete or vague it will result in wrong interpretation, disputes and delays. In case of two bid system it should be checked that it is specified in the tender documents to give separate sealed covers for Technical and Financial bid.

- xiii) Check that the tender documents are not issued to firms which failed to supply/quote in the past/item not in its product profile/black listed firm. Audit should check that such firms are removed from the vendor database for that item. Check that documents have been issued on receipt of prescribed cost of tender from the firm (where ever cost had been laid down) and that amount so collected has been deposited through Military Receivable Order in time.
- xiv) Check that Earnest Money Deposit/Tender amount fixed by management was 3% of the estimated value or maximum of ₹ 50 Lakhs (OFB Proc. Man. Para 4.9.2.2) and not a percentage of the bid. Check that EMD was reasonable and justifiable to establish the earnestness of the bidder and eliminate frivolous/ speculative bidding.
- xv) Whether any correction/changes made in the tender document have been notified to all the bidders sufficiently in time. It should be ensured that all the firms are given equal opportunities and last date for receipt of tender is adhered to and there is no favouritism for any firm.
- xvi) Check that the system for Receipt of Tenders is in place and is tamper proof. Check whether EMD has been given by the firm as per the requirement of the tender document. Audit should also check that the EMD instrument is not dated before the date of publication of Tenders as it would reflect on favour/unequal treatment to firm.
- xvii) Check that the constitution of the **Tender Purchase Committee** is as per the Delegation of Financial Powers of the OFB. Audit drill for TPC procedures is given at Para 77.
- xviii) Check that the bids were opened by authorized officers on specified dated. Audit Drill for **processing of the tender documents** is given at Para 76.
- xix) Check the criteria for selection of L1 with reference to the Tender Enquiry conditions. Check that the SO placed on the L1 and in case given to other than L1, then sufficient justification recorded in the TPC minutes (authority: CVC guidelines & Para 302 Audit code).
- xx) Apportionment of quantity: In case of global and limited tender enquiry cases, if there is an apprehension that the L1 may not have the capacity to supply the entire required quantity, it should be mentioned in the TE that the order may be placed on L2, L3 and so on for the balance quantity at L1 rates, provided this is acceptable to them. Even if there was no prior decision to split the quantities and it is discovered that the quantity to be ordered is far more than what L1 has quoted for, the order may be distributed as above among L2, L3, etc. at the L1 rate in a fair and equitable manner. Where it is decided in advance to have more than one source of supply (due to vital or critical nature of the item) the ratio of splitting should be indicated in the TE. (Auth: Para 7.16.1 of OFBPM, 2010)
- xxi) It is the responsibility of the management to ensure that there is no **cartel** formation of different vendors and that healthy competition is maintained. Audit Drill on Cartel is given at *Para 79*.
- xxii) According to CVC circular no. 4/3/07 dated 03.03.2007, post tender **negotiations** with L1 should not be there, except in certain exceptional circumstances. Audit should check that such exceptional circumstances are recorded in TPC minutes.
- xxiii) It should be checked that the capital items are not purchased through Local Purchase Heads. As per the extant orders, if the value of the item/tool is more than ₹40,000 (subject to review from time to time by OFB) and life is more than 2 years, then the same should be capitalized. Capital items have separate procedures for procurement as compared to LP. (*Authority: OFB Circular no. P&P/014/Tool AC dt.12.01.2007*).

This can also be checked using CAAT by following steps:

Step 1: Import Purchase Order details from PO Master of Accounts office,

Step 2: Direct extraction the data with the criteria that price of item is more than equal to ₹ 40,000 (or as per the latest orders on the subject approved by MOD/issued by OFB) purchased from LP head & quantity is equal to or less than 10(to reduce the list of cases extracted using CAAT and to make it more manageable).

- xxiv) Check if there was rush of expenditure on procurement at the close of the financial year. The percentage of value of purchases made in the last quarter of the Financial Year may be compared with the expenditure during the other quarter by using CAAT. The value of the SOs placed between 1st January to 31 March can be compared to the value of SO issued during rest of the Financial Year.
- xxv) Freak rates (30 % less or more than the average of the rate of last three years) can be rejected by TPC by citing reasons.
- xxvi) Spot payment cases during the month of March may be critically reviewed to examine the facts that cheque has not been prepared only to avoid lapse of budget.
- xxvii) Whenever procurement is done for future years' commitment, staggered delivery schedule has been incorporated in the supply order according to production programme.
Audit should carry out above checks and also some special checks on audit of Sanctions and SOs, given in a separate Chapter in this Manual.

Audit Drill: MP Sheet

- 72.** MP Sheet is an essential tool to control and verify the necessity for procuring any item. MP Sheet contains details of MPS number, Date, Item Code, Item Description, Production plan, Estimate number, Output-Consumption Ratio, Total quantity required, Quantity required for next six months, Quantity on Stock, Dues, Net quantity required.
- i) Check that the MPS contain details of requirement considering stock and dues. Check 1% to 5 % or 50 to 250 high value MPS in a Quarter. Check that requirement of items to be procured is clearly linked to the end store issue plan.
 - ii) Check that MP Sheets are serially numbered and there are no blank numbers.
 - iii) Check that the balance in-hand and dues are reflected correctly. The closing balance/ opening balance of an article reflected in subsequent MP Sheet.
 - iv) Check that MP Sheet is not prepared both for original material and for alternative item at the same time.
 - v) Check that procurement is as per Lead time and limitations on stock. Audit Drill on lead time and stock limits is given at *Para 73*.
 - vi) Check that MPS has been initiated/generated taking the make and buy policy duly approved by the Competent Authority / Board of Officers.
 - vii) Requirement should be as per production programme, usage factor, relevant estimate, average monthly requirement, stock/consumption as reflected in the SHIS duly pre-audited by the respective Branch Accounts Office taking into account stock, dues, WIP etc. Check that quantity worked out on this basis only has been procured. Check that finished components held in stock had also been taken into consideration before procurement action is initiated for raw material.
 - viii) Check that procurement action has been initiated well in advance catering to the lead time for procurement to ensure unhindered supply for production.
 - ix) Check that the factory has taken prompt and timely action for both indigenous as well as imported items in such a way that stock-out situations are avoided and at the same time maintaining the overall Store in Hand (SIH) inventory within the authorized limit.

- x) Provisioning Review is an annual exercise based on Annual Production Plan. Apart from this annual review, any change in production programme of any end product due to increase or decrease in demand or any other reason will necessitate midcourse review. Check that such review had been carried out.
- xi) Check that item procured was not slow-moving/non-moving. Check that new item codes had been approved by the General Manager and were operated with concurrence of Accounts Office and that store is not given new Item code just to facilitate purchase for existing slow/non-moving item. Check that new item code had been included in the estimate master maintained by Accounts office.
- xii) Check that there is no excess procurement. This check can be carried out using CAAT software. To find out excess procurement following method may be followed. Summarize the total issue or target fixed by End Product (EP) Code-wise for quantity field.
 - Step 1: Import masters on a) Issue voucher master, b) Material estimate and c) SO (Purchase Order Master) of the financial year
 - Step 2: Summarise the End Product (EP) code-wise Issue Voucher data.
 - Step 3: Join summarization with material estimate with common filed of EP Code.
 - Step 4: Then calculate the actual requirement add a virtual numeric field with (material required/estimated Qty) X Quantity issued).
 - Step 5: Now summarize the data with the item code of stores required for the particular end product.
 - Step 6: Summarise the PO details item –wise. Join with summarization of step 5.
 - Step 7: Calculate the excess material as compared to the requirement for that EP by adding a virtual field. Subtract results of step 4 from results of step 6. This will give the difference between the quantity required and quantity procured for an EP. In case there is alarming difference between the two, the case file of procurement and MP sheet can be consulted for material in hand at the time of procurement.

Audit Drill: Procurement Lead Time & Inventory Holding Limits

73. a) Quantity to be Tendered is calculated as below:

Total Requirement say R = (A X B) + C

Where: A = Quantity of Item to be Manufactured
 B = Scale of Requirement
 C = Rejection Percentage (as per Estimate)

Tendered Quantity = R – (Stock + Dues + WIP*)

(*Consider WIP in case EP is being phased out)

(Authority: Para 2.2.9 OFB Procurement Manual, 2010)

- b) Lead time: Procurement action is required to be initiated by OFs well in advance catering to the lead time for procurement and production to ensure uninterrupted supply of end products as per demand given by the indenter. *(Authority: Para 2.2.2, OFB Procurement Manual, 2010)*. The lead time is given at Chart D. It should be checked that the lead time is adhered to by OFs in procurement.

Chart D: Provisioning Period (Period in months)

Source	Direct Material			Indirect Material		
	Lead Time	Period of utilization	Total requirement upto	Lead Time	Period of utilization	Total requirement upto
Imported	12	12	24	06	12	18
Indigenous	06	12	18	06	12	18

[Authority: Para 2.2.8, OFBP Procurement Manual, 2010]

- c) The authorization for Stockpile items is generally as under :
- (i) Imported materials shall be built upto 6 months requirements.
 - (ii) Indigenous materials difficult to obtain upto 3 months requirements. The audit should check that the procurement of stock pile items is as per authorisation.

[Authority: Para 2.2.4 (b) OFB Procurement Manual, 2010]

- d) Stock holding/Authorised inventory

The levels of Store-In-Hand /authorized Inventory held by a Factory at any time in respect of imported stores as well as indigenous items, will depend upon the criticality of the items in maintaining the continuity of production, lead time required to procure the item, availability of alternate capacity verified and established sources, availability of storage space etc. Audit should check that the optimum level of SIH/ inventory should not normally exceed the maximum level as indicated at Chart 4E.

Group of Factories	Overall SIH/ Inventory Level (Maximum)
AV	6 Months
OEF	3 Months
Others	4 Months

[Authority: Para 2.2.3 OFB Procurement Manual, 2010]

- e) In absence of indents, OFs can procure 25% of input materials for the annual target subject to the conditions that a communication is received from indenter that indent will follow. The supply of end product is within the issue budget. The end product is not likely to be phased out.

Audit drill: Store Holder’s Inability Sheet (SHIS)

74. SHIS is the basic document required for initiating procurement. It is prepared by the Store Holder when the stock of a particular store goes below the fixed limit. It is prepared stating the requirement, present stock, dues, net requirement, WIP etc. It is vetted after verification with PSL. It contains following details:

- a. Total Requirement of Store
- b. Stock in hand (balance shown in the stock-cum-provisioning ledger on the date from which provisioning period commences, duly reconciled with the ground balance, taking into account the latest drawals as well as receipts)
- c. Dues (Unsupplied quantities against Supply Orders/IFDs/surplus list circulated by the sister Factories, which are expected to materialize) are checked by Accounts office.
- d. Average Consumption
- e. Liabilities in sight
- f. Net Requirement for which procurement action is to be taken.

74.1 Audit should check 1% to 5% or 50 to 250 high value SHIS in a quarter, depending upon the size of the factory and the number of transactions. The SHIS for audit will be selected from the database of the OFs using CAAT based on the value of the items.

- (i) Check that the SHIS had been vetted by Accounts Office in respect of quantity, technical specifications. Financial vetting of SHIS is not done for the cases below a value of ₹ One Lakh
- (ii) Requirement of store should be based upon 6 monthly program (or as per the OFB orders)

Requirement = 6 X Average of Total Consumption during the last 24 Months

- (iii) It should be checked that SHIS is not in duplicate and quantity of Store-in-hand is shown correctly in the inability sheet.
- (iv) Check that the expenditure Code Head is correct.
- (v) Check that the SHIS was not more than 6 months old at the time of initiating procurement procedure.
- (vi) The net quantity for provisioning adheres to the following formula:

$$\text{Net Quantity} = \text{Total Requirement} - \text{Stock (Store in Hand)} - \text{Dues}$$

SHIS quantity may not be split up to avoid the sanction of higher authority.

Audit Drill: Vendor Registration

75. As per the Standard Operating Procedure ver.2.2 of the OFB for vendor registration, GM is the competent authority for capacity verification and vendor registration. The registration involves the following steps:

- (i) Assessment, registration on given form, renewal and de-registration/removal of suppliers.
- (ii) Monitoring of vendor performance .
- (iii) Suspension/banning of business dealings with errant firms.
- (iv) Compilation of compendium of Established suppliers.

75.1 Categories of Vendors:

Established vendors: A vendor shall be considered as an established source for a particular item if he has successfully delivered at least 95% of ordered quantity against one supply order and the same has been accepted on meeting the desired qualitative requirements satisfactorily at the Factory.

In addition he should meet the following criteria:

- a) Factory should float tender for 50% of Annual requirement through one Open Tender Enquiry
- b) Firm should quote for supply of at least 20% of Tender quantity on OTE.
- c) Firm should successfully supply the material in respect of quantity (with (+)/ (-) 5% quantity tolerance) and desired quality under one source development supply order against OTE/GTE.
- d) The firm should have valid registration from Ordnance Factory for the item and capacity to meet at least 50% of the Annual requirement of the subject store.
- e) Supplier overall Vendor rating as per SOP against the Source Development supply should be equal to or more than 70%. (*Authority: Para 9.6.1 of Vendor Registration SOP Version 2.2*).
- f) Registered Vendors may or may not be established. A vendor who applies for registration and is given registration certificate on the basis of the capacity verification and other formalities. He can be given: Source generation Tender Enquiry.
- g) Defence Research and Development Organisation /Authority Holding Sealed Particulars recommended vendors for new items: Tender Enquiry for Source Generation can be given but the Firm is to get Registered with AHSP etc. (*Authority: Vendor Registration SOP Version 2.2*)
- h) Deemed registration: Past established vendors and who also qualify to supply material under their Self Certification. They need not apply for registration, but may be considered as “Deemed Registered” vendors on discretion of the GM. Check that proper record and justification to accord such status has been maintained. The registration of these Firms shall also be renewed every three years. (*Authority: Para 15.2 of Vendor Registration SOP Version 2.2*). In case of foreign firms only authorized agent/dealer can be considered for registration.
- i) Self-certification status: This status is awarded to firms securing more than 95% vendor rating apart from other requirements as per SOP.

75.2 The registered vendor list is available on COMNET and on e-procurement system. The audit drill for audit of e-procurement system of OFs is given under Chapter 7 on IT audit at *Para 113*.

- (i) For the purpose of auditing, Vendor Registration Form can be checked, which contains information about the nature of the organisation, details of personnel, plant, equipment, quality control facilities, product profile, licensed capacity, financial status and product for which registration is sought.
- (ii) Check that the registration of the vendors is done in accordance with the SOP issued by OFB and as per e-procurement manual.
- (iii) In case there are less number of established sources, to ensure proper competition, appropriate action for source development had been taken, if not, then suggestion to the effect has been made.
- (iv) Check that registration/renewal fees charged from the vendors is deposited in government account. (The fees as per SOP ver.2.2 is ₹ 2000 for small scale/authorised dealers of foreign firm and ₹ 5000 for large & medium industries).
- (v) Check that list of vendors rejected or barred in sister OFs is considered and those vendors are not registered.
- (vi) Check that registration of firms is done carefully, after assessing the capacity cum capability and financial standing, credentials, manufacturing capability, quality control systems, past performance, after sales service, financial background etc. of the firm.

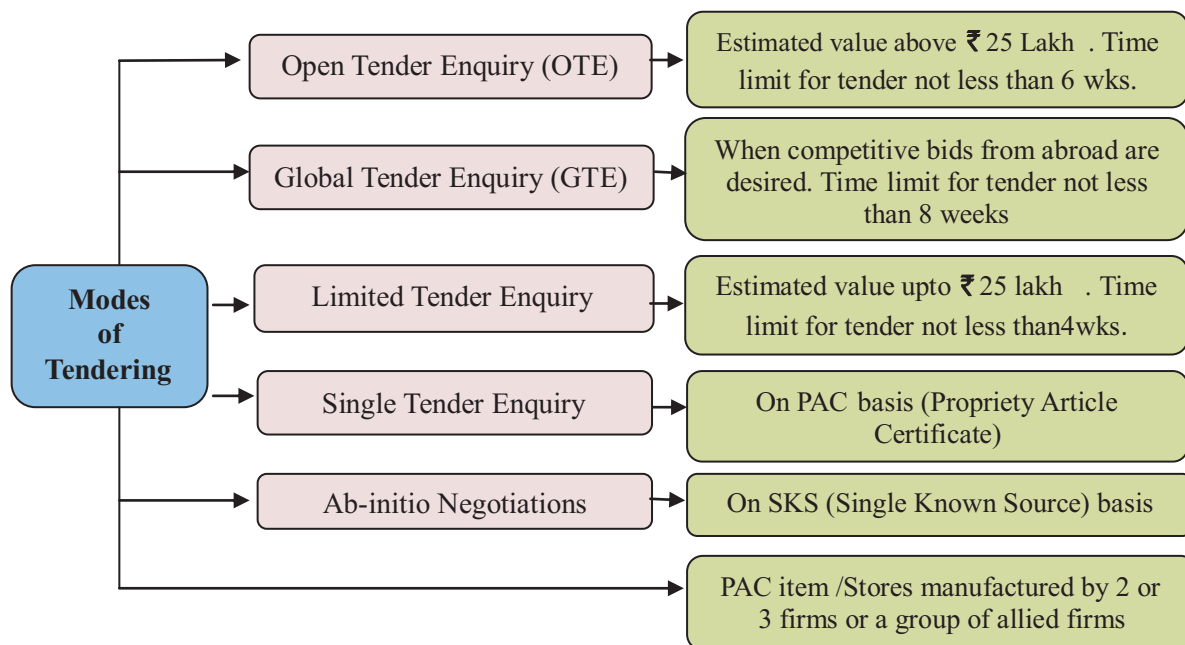
There is a marking system which is given in the SOP and the vendor has to score minimum 50% marks in both part –I & II of the form.

- (vii) Check that the tender enquiry for source development is issued to firms that have been qualified by the capacity verification team or to those who are registered with DGS&D.
- (viii) A vendor who is supplying an item in more than one factory is required to apply to only one factory.
- (ix) Check whether the performance and conduct of a supplier was regularly monitored and whether addition/deletion of suppliers from the approved list was effected every year in consideration of their performance and conduct.
- (x) Check that renewal of registration and capacity verification is done every three years unless validity of registration extended.
- (xi) Check that registration certificate indicates the item specifications and the financial limits for which the firm is registered.
- (xii) Check that firm is removed from compendium of registered suppliers in case of:
 - a. Fails to execute the contract. (two months show cause notice is required).
 - b. If composite rating falls below 70% (on two moths show cause notice).
 - c. In case vendor is declared insolvent/ has wound up the business, he will be debarred for all the items and notice will not be required.

Audit Drill: Tendering Procedure

76. The minimum estimated value of purchase at which the mode of tendering is selected should be in accordance with the Procurement Manual or various orders issued from time to time. It should also be checked that OFB orders do not drastically vary from the provisions of GFR or any Government Orders issued.

Chart F: Modes of tendering:



(Authority: Chapter 4, OFB Procurement Manual, 2010 & GFR)

A. Open Tender Enquiry (OTE)

Open Tender Enquiry is a preferred mode for procurement of goods of estimated value ₹ 25 lakhs and above. (*Authority: Rule 150 (i), GFR*)

- (i) For made to order (other than commercially of the shelf) items the following procedure may be followed for Procurement:
 - (a) 50 % of the total requirement can be procured through Limited Tender Enquiry (LTE) with option / repeat order clause of equal quantity.
 - (b) Balance 50% of the total requirement must be procured through Open Tender Enquiry (OTE) as per laid down procedure in two-bid system with 50 % option/ repeat order clause. However, LTE may be resorted to prevent stock out situations and cater to unforeseen requirements of the armed forces/MHA. In such cases, approval of the next higher CFA will be taken.
- (ii) Check whether wide publicity had been made as stipulated in Rule 150, GFR
- (iii) Also check that OTE has been floated for the percentage of the net total requirement approved for developing new source (which is 50 % and is subject to amendment by OFB from time to time).
- (iv) Check that minimum time of six weeks has been given for submission of bids from date of publication of tender notice or availability of bidding document for sale, whichever is later. (GFR)
- (v) Check whether tender forms had been sent to all registered suppliers for the particular range of items.
- (vi) Check that two bid systems was followed and the technical bids had been opened first. Financial bids were opened only for those firms, whose technical bids were found technically correct by the competent authority. [*Authority: Rule 152 of GFR-2005, OFB Vendor Registration SOP*].

B. Global Tenders Enquiry (GTE): Global Tender Enquiry is resorted to when OFB/OFs feel that the goods of the required quality/ specifications may not be available in India and suitable competitive offers are sought from abroad.

- (i) Check that the publication of tender notice was made in the media of the country and also through Indian Mission/Embassy of the selected countries.
- (ii) Check that a circular letter has been sent to the Embassies abroad by diplomatic bag indicating the store demanded specification, quantity, delivery period etc., along with a copy of the tender documents,
- (iii) Check that minimum of 8 weeks had been given to the firms for submission of their quotes.

C. Single Tender Enquiry (STE):

- (i) Check that the supplier was the sole manufacturer of the required goods.
- (ii) Check that the reason for decision to purchase from STE is recorded and approval of competent authority was obtained.
- (iii) In cases of PAC purchases audit will check the following:

- a. Check that that Proprietary Article Certificate in the prescribed form had been obtained before procuring the goods from a single firm.
[Authority: Rule 154 of GFR- 2005]
 - b. PAC once issued is valid for the specific case of procurement.
 - c. PAC for items valuing more than ₹ 10 Lakhs is to be approved by the concerned operating member.
- (iv) In case of Single Tender on grounds of urgency check that case of urgency or operational or technical requirements, approved by the CFA prior to tendering was obtained and reasons recorded. Check that purchases on STE basis were made only from reputed firms after determining reasonableness of rates. Check that in case the urgency/emergency recorded and established, the processing was also quick and fast.
- (v) Check that in case of Single Tender being Single Known Source of Supply (SKS), the Single Known Source (SKS) certificate is available along with by supporting documents e.g. design requirement. Check that efforts had been made to know other sources in the past by floating OTE.
- D) Limited Tender Enquiry (LTE):** Limited Tender Enquiry is adopted when estimated value of the goods to be procured is up to ₹ 25 lakhs.
- i) Check that source approval has been done by appropriate level of TPC as per TE conditions. Procurement through Limited Tender Enquiry (LTE) may be resorted to even where the estimated value of the procurement is more than ₹ 25 Lakhs in the following circumstances:
 - (a) When the competent authority certifies that the demand is urgent. The competent authority should also put on record the nature of urgency and reasons why the procurement could not be anticipated.
 - (b) There are sufficient reasons to be recorded in writing by the competent authority, indicating that it will not be in public interest to procure the goods through advertised tender enquiry.
 - (c) The sources of supply are definitely known and possibility of fresh source (s) beyond those being tapped is remote.
[Authority: Rule 151, GFR 2005 & Para 4.6.1, OFB Procurement Manual]
 - (ii) Check that the bidding documents had been sent directly by post /e-mail to the firms which are borne on the list of registered suppliers for the goods in question.
 - (iii) Check that the reasons for selecting LTE are noted and are justified.
 - (iv) That the minimum number of suppliers to whom LTE should be sent is more than three.
[Authority: Rule 151, GFR 2005]
 - (v) Check sufficient time had been given for submission of quotes.
 - (vi) Check that where the established supplier(s) are less, genuine efforts have been made to develop the new sources as per the extent provisions.

Audit Drill: Audit of TPC documents

77. The filing system for TPCs should be proper. If the decisions / deliberations of the individuals or the Tender Committees are not properly documented it dilutes the accountability of the TPC members. There should be single file system with proper page numbering. Part files, if opened due to unavoidable circumstances, should be merged into the Main File.

- (i) Check that the constitution of TEC/TPC at OFs is in accordance with the extant OFB Orders and Delegation of Financial Powers.
- (ii) The level of TPC is decided based on the value arrived at after taking into account TE Quantity plus Option clause quantity, if any.

- (iii) TPC is not required in the following cases:
 - a. Where value of the case is less than the specified amount (₹ 2 lakhs at present) as laid down in the Delegation of the Financial Powers.
 - b. Where Canalized items (those items in which both the price and source are determined by Govt. and Semi Govt. Agencies) are being procured.
- (iv) Check whether Ordnance Factories have got the capacity to manufacture the item for which TPC gave recommendations for purchase (i.e., if the item is an IFD item), and on what basis procurement was done from an outside agency.
- (v) Check whether quantity/quality required was properly calculated and vetted by the Accounts and sanctioned by Competent Financial Authority.
- (vi) Check that bids were evaluated in accordance with the tender documents and no new criteria is added at the time of evaluation of the bids.
- (vii) Check whether proper procedures for processing of bid documents were followed (see also audit drill on processing of bid documents at *Para 78*).
- (viii) The TPC is a recommendatory body. To check that the TPC recommendations are accepted on file and sanction of Competent Financial Authority obtained particularly in cases where CFA is not chairman of TPC.
- (ix) Check that Extension of Tender Opening Date was given by the Competent Financial Authority and that such extension did not exceed the total delivery period envisaged in the Request For Proposal
- (x) Check that in two bid system, the technical evaluation is to be carried out by the Technical Evaluation Committee, before opening of the price bid (*Authority: Rule 174 GFR, 2005 & Para 4.14.3 OFB Procurement Manual, 2010*) and constitution of TEC is given in the Delegation of Financial Powers. In case falling beyond OFB's financial powers, only TEC recommendations may be accepted by Chairman, OFB In case falling beyond OFB's financial powers, the case is required to be forwarded to MoD for approval with the due recommendations of OFB/TEC-I.
- (xi) Check that re-tendering had been approved by the CFA under the following circumstances:
 - a. Offer(s) did not conform to qualitative requirements and other terms and conditions set out in the RFP/TE.
 - b. Prices quoted were unreasonably high with reference to assessed reasonable price or there was evidence of a sudden slump in prices after receipt of the bids.
 - c. Where offers did not conform to essential specifications and which may have impact on the price.
 - d. Withdrawal of offer by L1. While retendering, RFP may not be issued to the vendor who had backed out. EMD, if any, of such a firm should be forfeited. (*Authority: Para 4.17 OFB Procurement Manual, 2010*).
 - e. There is lack of competition due to restrictive specifications or there is a cartel.
- (xii) Check that rate analysis done in a realistic and objective manner on the basis of prevailing market rate, last purchase prices, economic indices for raw material/labour and other input costs etc.
- (xiii) To check that all due deliberations during the TPC meeting have been recorded clearly and expeditiously in the TPC minutes. Further, if there is any difference of opinion, the same has been recorded. However, the same may be overruled by the Chairman/TPC with suitable reasons duly recorded. Chairman of TPC shall be fully responsible for such decisions. After the decision is taken in such cases, the matter must be brought to the notice of next higher authority.

Audit Drill: Processing of Bid Documents

78. (i) Check that the bids were opened by authorised officers/committee. Extension of tender opening date after due date of opening in exceptional circumstances by recording reasons and with the approval of the higher CFA and in consultation with the IFA, where financial powers are to be exercised with the concurrence of integrated finance. *[Authority: Para 4.12.3 OFB Procurement Manual, 2010].*
- (ii) Check whether the pages of the tender documents were numbered and particularly important items like prices, important terms and conditions etc. been encircled and initialled. Check whether detailed instructions in respect of two-bid system were indicated in the document inviting tender as to the requirements of submitting technical bid and financial bid separately. It should be checked that technical bids were opened first by the TPC and the financial bids had been opened only for those firms whose technical bid had been accepted/qualified. It should be checked in audit that selection of technical bids is as per specifications finalised by the management before calling for tenders. Technical requirements can not be modified after receipt/opening of tenders. (Audit drill on two bid system is given at *Para 78*).
- (iii) Check whether 'On the Spot Statement' was recorded by the tender opening officer/ Committee giving details of the quotations received and other particulars like prices, taxes, duties and EMD etc, as read out in the opening of tender been recorded.
- (iv) Alteration in tender if any, made by the tenderer should also be initialled with date by the authorised officers.
- (v) Check that late tenders have not been opened but the same have been kept sealed in their original envelope and returned to the firm.
- (vi) Check whether Comparative Statement of Tenders (CST) was prepared properly taking into account taxes/duties, transportation, packaging etc. Ranking Statement was prepared for determining the L-I firm. Check arithmetical accuracy of the CST. Check whether bank details and Permanent Account Number/TAN number were mentioned as desired in tender documents.
- Check that while issuing any clarification on tender documents to a prospective bidder, copy was endorsed to all other firms who were issued tender documents so as to give them equal opportunities.
- Ranking Statement was prepared for determining the L-I firm. Check that TPC examined financial status, past performance and load factor of the lowest bidder.
- Check whether during post tender negotiation CVC guidelines were followed. Negotiations are discouraged. In case there are justifiable reasons to hold negotiations, they should be recorded in the minutes and check that the negotiation done with L-1.
- Check that in case the quantity to be ordered was much more than what L-I alone could supply, the quantity order was distributed in a fair, transparent and equitable manner.
- Check that advance payment was made to successful bidder/supplier only against appropriate Bank Guarantee Also check that mobilization advance paid was not interest-free, as per CVC guidelines.
- Check that the validity of the Bank Guarantee monitored, and in case of extensions in delivery period, whether the BG was appropriately extended and whether timely action for encashment of the Bank Guarantee was taken so as to protect Government interests in case of default supply.
- Check that the bids were valid till placement of SO otherwise extension of validity period had been called for.

- (xiv) Audit should check that there was no loss while selecting L1 where bid had been called for more than one item. Firms offer their price against each item. The L1 can be assessed item-wise or on the basis of total value of all items quoted in the bid. It may happen that offer for one item a firm is L1 and for other item another firm may be L1. A firm may be lowest on consolidated total of the items, but certain valuable items may be quoted at a very high rate in the same bid in comparison to other items. Audit should calculate the loss depending on each case and the value of the single item.
- (xv) Check that TPC examined the reasonability of the rates particularly where L1 was much higher than the last supply price. Reasonability is examined with regard to Vetted estimated cost/ budgetary quote/Last Purchase Rate and cost break-up of the firm.
- (xvi) Check that no conditional discount was taken cognizance of while finalizing the Ranking statement. Such discounts, however, may be availed if offered by the firm after selection of L1 and subject to the condition if they do not affect the basic specifications and quantity.
- (xvii) Sometimes the quoted price in the present tender enquiry is less than the last supply order which is still outstanding and continuing. Audit should verify whether the last supplier has been asked to supply in the present price or short closed or not. Verify whether there was any increase and decrease in quantity by TPC before placement of supply order, in such cases, if the reasons are not mentioned in the minutes of the TPC, the same should be objected to.
- (xviii) In case the lowest tenderer withdraws his offer, re-tendering should be resorted to as per the instructions issued by the Central Vigilance Commission. While retendering RFP may not be issued to the vendor who had backed out and EMD, if any, of such a firm should be forfeited.
[Authority: Para 4.17.2 OFB Procurement Manual, 2010]
- (xix) Check that Re-tendering approved by the CFA with the concurrence of integrated finance, and the reasons recorded. Retendering is done under circumstances:
 - a) Offer(s) did not conform to qualitative requirements and other terms and conditions set out in the RFP/TE.
 - b) There are major changes in specifications and quantity, which may have considerable impact on the price.
 - c) Prices quoted are unreasonably high with reference to assessed reasonable price or there is evidence of a sudden slump in prices after receipt of the bids.
 - d) Where there is lack of competition and there are clear and reasonable grounds to believe that the lack of competition was due to restrictive specifications, which did not permit many vendors to participate. In such cases, which should, however, be rare as the specifications should normally be formulated with due care and after pre-bid conference, wherever required, CFA should consider if there is a possibility of reviewing the specifications to facilitate wider and adequate competition.
[Authority: Para 4.17.1 OFB Procurement Manual, 2010]

Audit Drill: Cartel Formation

- 79. (i) During procurement of a particular item from the open market by the OFs, some firms try to make of ring (Cartel) from the tendering stage to supply of material which leads to less competition and increase in price of the store than the last supply.

- (ii) Audit can have a detailed scrutiny of the tendering system and vendor selection in case of limited tender enquiry. Sometimes the address and other communication details, tax registration no. etc. of more than 2 to 3 firms found to be same and the firms are selected as vendor for a particular order.
- (iii) In case of open tender enquiry also, audit may verify the postal details of the firm through which the quotation and request for tender paper has been asked by the firms. The IPOs or Demand Drafts used by the different firms for a particular order are found to be in consecutive serial number.
- (iv) Cartel can be detected through vendor database and also by uniform rate quoted in the bids by two to three firms or all the firms for a particular product. Audit can ask for the case file and go through the details of the vendor selection and vendor rating for details.
- (v) Check can also be done on the documents relating to Supply of material from the IGP and MIS prepared by the firm, Firms even supply the material on a particular day and in same vehicle, such evidences can be used to establish Cartel.
- (vi) During procurement of a particular item when firms with different name quote single rate, factory management divide the same amongst the firms. In case of a cartel, it leads to distribution of majority of SO quantity among sister firms. This helps the firm to avoid the excise duty.
- (vii) Often it is justified that the documentation of bids of a few firms are outsourced to the same vendor which leads to common FAX number, address etc. As per CVC guidelines one agent cannot represent two suppliers or quote on their behalf in the same tender enquiry. Check that such bids had been rejected.
- (viii) CAAT audit software can be used in identifying Cartel formation. Databases required for this purpose are PPC package Purchase Order Master (POMAST)

Step 1. *Import* the PO Details data in CAAT

Step 2. *Duplicate Key*: Detect Duplicate Key with field name Item Code & Rate. The result may be verified to see whether consecutive Supply Orders on the same date have been placed on different firms. The Supply Orders may be verified to find out the Cartel between firms. The files relating to purchases may be verified for further evidences.

Also check the vendor registration master file from PPC package of OFs: Master file required: Vendor Details (VENDMAST)

Step 1. Import the file into CAAT

Step 2. Duplicate Key: Detect Duplicate Key on Address, Telephone/CST/ED/PAN/TAN numbers, E-mail etc. of the registered vendors. The result may highlight those different firms having the same address, telephone numbers etc. Based on this the PO Master transactions can be cross-checked.

Audit Drill: Source Development

80. For procurement of direct material for Defence requirement, 80% of the total requirement is procured through established sources and 20% is kept for new sources. Source development is to be made through OTE, but sometime, OTE may result in a single source only. In such situation, pending development of new sources, 50% of the requirement may be procured on SKS basis (SKS certificate should be issued by Senior General Manager/GM/Head of the establishment) and balance 50% through OTE. For made to order items (other than COTs), the procedure of procurement is followed in this manner:

- a) 50% of the total requirement can be procured through LTE with option or repeat order clause of equal quantity.
- b) Balance 50% must be procured through OTE as per the laid down procedure in two bid system with 50% option/repeat order clause.

In that case if OTE is floated for developing new sources, the sources already established for the item shall not be eligible to participate in the OTE. Moreover, if the number of established sources is less than six, one of the OFs other than the nodal factory for the item, should take action for further source development through OTE. Source development may not be resorted on PAC items.

- (i) Check that in case items are procured on PAC on SKS basis for prolonged period, source development should be done through OTE
- (ii) In case of development order, L2 may be given 30% of the order at L1 prices if it agrees for the same so that there will be two firms trying to develop the items. If both the companies are not able to develop the item in the given time frame decided in the pre-bid meeting, extension of time shall not be more than 50% of the time given originally and if the item is not developed even in the extended period then order will be cancelled and retendering may be resorted to.
- (iii) Firm is not allowed to participate more than twice in development attempt of a particular item.
- (iv) Method-I for identification of probable cases
 - a) Using CAAT From the Tender Enquiry Module, obtain all STE cases. Where TE Type is STE. Result will show all STE cases (except Resultant Single Tender.)
 - b) Obtain database on Purchase Orders for the same period and remove cases where value of single purchase is less than ₹ 5 lakhs.
 - c) Join the TE database with PO file with key as TE code and Item Code. Take data of purchases above ₹ 5 lakhs for the same period as TE data.
 - d) The created joint file will show the number of cases purchased on STE.
 - e) Sort duplicate cases with 'item code' and 'firm's name' 'vendor code'. Identify 20 frequent purchase cases, where an item purchased frequently from single vendor and total value of purchases is very high in a year and audit in detail with reference to the documents in OF.
- (v) Method II for identification of probable cases
 - a) Import- purchase order file of three years in CAAT.
 - b) Use duplicate key and select key with field name item code.
 - c) Direct extract the purchase order value >(more than) ₹ 5 lakhs

Sort the data item code wise. The duplicate file will show that a single item procured more than once a year. Resultant data will show cases where frequent purchases made from single vendor (STE or Resultant Single Tender).

After identifying 15 high value, frequent purchases from single vendor cases, check the action taken for development of new sources from the files/documents maintained by the factory. Once it is established that OF had not taken serious action on source development, objection may be raised.

Provisioning of Stores (Other than Direct Tendering): Inter Factory Demand

81. After receipt of SHIS duly vetted by the Local Accounts Office, PV Section of the Factory initiates procurement action through Tendering process. The following methods for provisioning are adopted for procurement other than tendering:

- (i) Inter Factory Demand (IFD)
- (ii) DGS&D Rate Contract (RC)
- (iii) Other Military Departments (OMDs)
- (iv) Other than Military Departments

[Source: Para 340 OMPart VI, Vol. –I]

The quantity to be tendered is calculated as given below:

$$\text{Total Requirement say } R = (A \times B) + C$$

Where: A = Quantity of Item to be Manufactured
 B = Scale of Requirement
 C = Rejection Percentage (as per Estimate)

Tendered Quantity= R-(Stock + Dues + WIP) [Authority: Para 2.2.9 OFB Procurement Manual,

Provisioning Period = Lead Time + Period of Utilization.

The bids are not required for this type of procurement. The audit drill for IFD items is given at *Para 82*.

Audit Drill: IFD and Store-in-Transit (SIT)

82. There are two types of IFD supply: (1) supply from Production, (2) Supply from stock. Issue Vouchers are accordingly classified under “P” or “S” series. Store in Transit (SIT) is becoming a serious issue as a large quantity of stores have been issued from consignor factories but the same has not been received or has not been accounted for in consignee factories even after lapse of 20 years. Against an Inter Factory Demand Consignor factory supply the material through regular issue voucher (either Production Series Issue Voucher if the item is a product of the consignor factory or store series issue voucher) to the indenting factories. On despatch of the material to the indenting factory, consignor factory takes it on charge and the consignor accounts office send the priced issue voucher to the consignee accounts office. Consignee accounts office shows the amount/transaction as store-in-transit till receipt voucher prepared by the consignee and priced issue voucher from consignor accounts office. The main reasons for increasing SIT are:

- (1) To check that life of IFD beyond two years for normal targeted programmes and three years for items which are under development have been revalidated with the approval of the member of operating division. (Authority: OFB no.71/PC/2003 dated 07.08.2003).
- (2) Delay in taking the stores on charge mostly due to defects in quality or quantity.
- (3) Back loading of defective/deficit stores, without first taking the IFD stores on charge on regular receipt vouchers and thereafter return (back loaded) the defective stores along with ‘defect note’.
- (4) Non-preparation of receipt vouchers by consignee ordnance factory, resulting in non-receipt and non-linking of IFD stores by Consignee’s AO.
- (5) Lapses / omission in not watching / calling for Receipt vouchers from factory on receipt of ‘P’ issue vouchers / debit accounting voucher from consignor LAO.
- (6) Non receipt of Issue voucher at Consignee’s end resulting in non-preparation of Receipt Voucher and also non-linking of IFD stores by Accounts Office of the Consignee Factory.
- (7) Wrong/incomplete documentation by Consignee factory & delay in settlement.
- (8) Cases of spillover production where Issue Vouchers are raised by the Consignor factory without physical issue of stores resulting in non-preparation of Receipt Voucher at Consignee Factory’s end.

82.1 The following checks should be carried out on SIT and IFD:

- i) Audit 10 to 20 % or 100 to 200 IFD and SIT cases in a quarter.
- ii) Audit Review outsource of procurement of stores relating to production and also due to failure of IFD. Check 10 to 20 % or 100 to 200 such cases.
- iii) Check details on SIT are available on Store-in-Transit Register maintained in the material section of the Branch Accounts office. Obtain list of the vouchers with date which have not been regularised with year-wise break up. Check for the reasons for old outstanding cases.
- iv) The other IA Cells should also be contacted for obtaining necessary details from consignor/consignee factories or Accounts offices.
- v) Check that the IFD was not issued on the Nominal Voucher by the Factory. Transactions through nominal vouchers are posted in BIN Cards under the authority of nominal receipts and issue vouchers and they are not to be posted in PSL. For reconciliation of ledger and BIN Card, transactions through nominal vouchers are ignored. The correctness of nominal vouchers is checked through Loan Register maintained in Ordnance Factories.
- vi) Check that IFD items received are promptly taken on charge by the consignee Factory. Discrepancy in quality and quantity should be addressed after taking the stores in stock charge. Check that IFD items were not rejected and back-loaded. As per extant rules, there is no provision to back-load defective stores by the Consignee factory. If any defective stores are received at the Consignee's end, it should be taken in stock through preparation of regular Receipt Vouchers against MIS. In case of deficiency (In quality and quantity), the Consignee Factory is required to prepare a Discrepancy Voucher ('D' Voucher) for the short/defective quantity and regularize the loss unless the defects are rectifiable and consignor Factory takes the initiative to rectify the defects. In case of any dispute between two Factories, the Consignee factory is required to bring on charge the material as per Issue Voucher and a raise a 'D' Voucher cum loss statement and refer the case to OFB for deciding as to which Factory should bear the loss.
- vii) Check that for the defective/loss of stores, Discrepancy Report (DR) is being prepared by consignee factory. According to Para 4481 (pg. No.1279) of Director General of Ordnance Factories Procedure Manual, a Discrepancy Report, where necessary, must be issued within one month from the date of receipt of stores or in case of consignment lost in transit, from the date on which it becomes apparent that the consignment has been lost.
- viii) Check that cases where Factory is consignor, replies to the DR are issued within one month from the date of receipt of the DR. As per the DGOF Procedure Manual, there is no scope of replacement of stores declared rejected at consignee's end.
 - ix) Check that the loss statement is prepared without any delay and sent to CFA for regularization.
 - x) Audit may verify IFD indent details from MCO Section of indenting OFs. Audit should examine reasons for delay and defaults given by consignee OF.
 - xi) Check details of transactions where item is indented through IFD but procured from open market through tender enquiry.
 - xii) Audit to obtain the details of outstanding IFD placed on sister factories from the PPC package of factory management. Clarification may be asked from the MCO section for the non-receipt of material from the sister factory and action taken in this regard by them.
- xiii) Check that the Asset and Liabilities side of the SIT are shown separately in the Asset & Liabilities statement of annual accounts and schedule showing year-wise SIT is enclosed so that same can be monitored by OFB/OFs/PCA (Fys). The major reasons for SIT are the unlinked vouchers, which are assets at the end of a year, i.e. material issued but not yet accounted for. In exceptional cases, liabilities also arise when Issue vouchers are not received at Accounts Offices but on the basis of copy of issue voucher with the Railway Receipt, the factory management prepares Receipt vouchers. In Annual Accounts, however, only net asset is being shown.

- xiv) IFD is a Class III Extract which is an authority for undertaking production in the consignor factory. Check that IFD items are issued as per Extracts.
- xv) As per the existing rule, obtaining material from sister Factories should be given priority before resorting to trade sources to maintain the quality of Production. The document prepared for placing demand on Sister Factories is called Inter Factory Demand (IFD). Two copies of the IFD will be received in Accounts Office of the Indenting Factory. After post audit, one copy of the IFD is forwarded to the Accounts Office of the Consignee Factory for record and monitoring the supply.
- xvi) Check whether at the end of financial year consolidated Inter Departmental (ID) list has been received by the consignee Accounts Officer. If there is any discrepancy same has been sorted out with consultation of respective Ord. Fys. and the consigner A.O.
(Authority: OFB Important Circular No. IFD/1/95/FM – VI dated 26.06.2007)

Audit Drill: Foreign Procurement

83. The audit of foreign procurement includes the same check as mentioned in *Para 71* and in addition few more checks are given below:

- (i) Registration of Original Equipment manufacturers and Vendors is to be done by OFB. The vendor registration should be checked at the time of OFB audit.
- (ii) The procurement procedures should be checked in the OF.
- (iii) Mode of Tendering should be as below:
 - a. GTE: Where competition from more than 1 source from different countries is envisaged. (Through Indian High Commission / Embassies).
 - b. LTE: Preferred mode of tendering from OEMs / Authorised Stockists.
 - c. STE:(Without PAC) for specific make, for undertaking trials, only source but PAC not approved by CFA, for operational / technical reasons which should be recorded and approval of competent authority obtained before resorting to this mode.
 - d. PAC: For Propriety articles or for reasons of standardization of Machinery / Spare Parts. Full justification and approval of competent authority obtained before resorting to this mode.
- (iv) Check that sufficient time has been given to the firms to respond to the Request for Proposal (RFP), which should be normally 6-12 weeks.
- (v) Check that reasons for selecting a particular mode are recorded, technical Specifications were clear and unambiguous and inspection and payment terms are clearly mentioned.
- (vi) Check that the Testing norms and methodology were specified in TE (Special conditions).
- (vii) Check that mode and term of delivery and transportation were specified viz. Carriage inward Freight, CIP or Freight on Board basis.
- (viii) Check that Mode of Payment is as decided by TPC, through Letter of Credit (LC) or Direct Bank Transfer (DBT).

Audit Drill: Cash Purchase

84. Ordnance Factories are resorting to Cash purchase against the spirit of OFB order. As per Order No. 400/BS dated 06.09.2000, GM may invoke this power in case he finds production of particular item is held up for want of certain raw materials, semi shed items and he can make deliveries demanded by the indenters and he shall reason for. (OFB Order No.400/BS dt.6.9.2000 &439/BS dated 11.04.2007. Powers for cash purchase are: Works Manager- ₹ 500; DGM- ₹ 5000; JGM- ₹ 5000; AGM- ₹ 10000; GM- ₹ 20,000.)

- (i) Check that correct procedure is adopted for cash purchase. Items not relating to production eg. AC, PC, car tyres are not purchased.
- (ii) Check if there is, variation in price of purchase of same item in a short period of time, i.e. splitting of purchase quantity in order to prevent sanction of higher authorities.
- (iii) Check item which are of recurring nature which could be procured by tender enquiry/contract are not purchased.
- (iv) Check through sampling that cash purchase items are taken on charge in the inventory register and consumed within reasonable time.

84.1 Methodology to be adopted in audit:

- 1) Obtain data from factory on cash purchase made in last three years - item code wise and section wise, the MIS no & date, Item code, Item, Qty, value for last three years.
- 2) Sort the data item-wise and date-wise to find out piece meal procurements Check for items which are purchased on regular basis and examine whether they could be purchased on tender purchase.
- 3) From the sorted item code-wise data, check procurement at different rates of same item in short period of time.
- 4) Check splitting of PO cases in same month or in very short period.

84.2 Audit of cash purchase using audit software-CAAT

Database of cash purchase with following details asked for from PPC package:

Cash pur req no, Req date, item code, item, qty, rate, value, Inward Gate Pass no, IGP date, MIS no, MIS date, Receipt voucher no, Receipt vr dt,

- 1) Import the above data base to CAAT
- 2) Use duplicate key detection with field requisition dt and item code
- 3) The resultant data is the case where a particular item has been procured by splitting.
- 4) Use duplicate key with field itemcode
- 5) The result data will highlight the recurrence of purchase of a particular item.
- 6) From the data audit can verify the item of same nature procured by factory having price variation from each other, even items procured within a week or a month.
- 7) Create a virtual field in the data base and find out the date difference between receipt voucher dt and cash purchase req dt (**Rt vr dt-Cash pur req dt**)
- 8) From the above data audit can find out whether there is delay in preparation of receipt voucher i.e more than 60 days. Audit can ask for the reason of delay where factory resorted to the cash purchase route for early action.
- 9) Do direct extraction with parameter of rate and quantity field by giving qty as 1 or 2 and the rate as more than ₹ 5000.

From the above extraction file, audit can find out the inventory items from the nomenclature of the store and inventory register, Extract list of cases where there are irregularities. Select 10 cases of each type of irregularity and check them in detail with reference to the documents.

Audit Drill: Procurement of capital items through LP head

85. Sometimes factory management procures capital nature of items of capital nature through local purchase head. This is normally done to avoid the laid down procurement processes. Due to this the cost of the machine is not amortised over the life of the machine and there is no depreciation charged. Cases where capital items have been purchased through LP head should be brought to the notice of the OFB through CIA (OFs).

- 1) Expenditure fulfilling the following criteria should be capitalized;
 - a) The item to be purchased should have a life of 7 years or more
 - b) Cost of item should be ₹ 10 lakhs or more.
 - c) An item has to be viewed as capital or revenue keeping in view the guidelines given in Rules 90 & 91 of General Financial Rule.
 - d) Subject to an item being capital in nature as per these guidelines, the cost of such an item has to be booked to capital budget if it costs more than ₹ 10 Lakhs and has a life of more than 7 years, in which case the proposal has to be processed accordingly. If the cost is less than ₹ 10 lakhs and the life is less than 7 years, it may be booked to revenue head.
 - e) Any replacement of such items is booked to revenue head unless the replacement results in enhancements of capabilities.

[Authority: Controller General of Defence Accounts New Delhi Letter No. PIFA/RDFP/2006/Vol.II, Dated: 09.03.2007]

- 2) As regards capitalization and amortization of tools the following procedure should be followed:
 - a) All tools, gauges etc. of ₹ 40,000/- and above, whether manufactured in-house or bought out from trade should be capitalized, provided their life is not shorter than 2 years. No financial compilation needs to be made for the same.
 - b) All tools, gauges etc of the value of ₹ 40000/- or more but the life is shorter than 2 years, whether manufactured in-house or bought out from trade should be treated as revenue and cost thereof charged to production in the year of incurring the expenditure, as variable overhead through indirect WO 02/00008/00.
 - c) All tools, gauges etc of the value of which is less than ₹ 40,000/- whether manufactured in-house or bought out from trade, irrespective of their life, should be treated as revenue and cost thereof charged to production in the year of incurring the expenditure as variable overhead through indirect W.O. 02/00008/00.

[Authority: OFB Letter No. P & P/014/TOOL AC.Dated: 12.01.2007]

As factory issues more than thousand numbers of supply/purchase orders, audit should minimize the same through extracting particular type of data.

- 3)
 - a) After importing **the P.O details of last three years through CAAT**, a direct extraction should be done giving the criteria that Qty is (less than equal to) 3 or 2 and rate is more than equal to ₹ 10 lakh, then a limited number of data can be extracted. This will reflect cases of purchase of machines and audit can verify the same taking into account the nomenclature. Call for the details of the heads from which the machines were purchased from their procurement files maintained in factory.
 - b) Take objection on cases where machines purchased from LP head.
 - c) Also take objection if the capital items not regularized by obtaining ex-post facto approval of OFB in the same year in which they were purchased (LP items can not be capitalized after close of the FY).
 - d) Also extract cases of spares which were required to be capitalized.

- e) Direct extraction can be done in the name of the item as SPARE. All such supply orders related to procurement of spares will appear in the screen and audit should ask for the original supply order file from the provisioning or MM section.
 - f) All the P.O. details can be called for and audit should verify whether there exists any machine exists for which the spare parts have been procured.
 - g) Sometimes spare procured for the machinery which has reach nil value and declared Beyond Economical Repair, but spares have been procured for the same. Audit the list of machines available in engineering office to verify whether machine is condemned or working.
 - h) Check whether high value spares procured more than 7 years back have been utilized. Also check old spares lying in stock even after disposal of machine as scrap. Give details of spares procured more than 7 years back and not utilized at all.
- 4) Take data relating to Transfer vouchers available at M-1(Material store) section of branch accounts office, prepared to transfer expenditure incurred on items procured through store head/LP head to capital head. It may be verified from the transfer vouchers. Following queries may be made in this regard:
- (a) Whether approval of competent authority (OFB) has been taken for such transfers.
 - (b) Whether amount has been transferred from LP to capital head in the same FY in which it was procured.
 - (c) Whether budget was available under the capital when amount was transferred. All the cases should be verified from the procurement file before raising the objection.

Audit Drill: Spot payment

86. Spot payments are resorted to in case of urgent requirement and on the T&C of the contract. (Pr.CA (Fys) circular dated 14.1.2013 on spot payments). Firms may ask for spot payment upto 95% to 100% of the total value of the supply order. Spot payment cases are outstanding in all the OFs due to the following reasons:

- a) as adjustment bills have not been not submitted by the firm;
- b) material not received or received in damaged condition,
- c) RV not prepared;
- d) court cases/ arbitration;
- e) loss statement not prepared;
- f) rejection of material at factory site after receipt.

86.1 (i) Obtain the spot payment register from the accounts office and prepare a list of outstanding cases which have not been regularised for more than one month. Spot payment register maintained by Branch Accounts office has following details: Supply order no and date, Spot payment bill no and date, Item nomenclature, total value of the supply order, Name of the Supplier, Receipt voucher nos. Audit to find out reasons for non-regularisation of each case in the list.

- (ii) Check that the proper procedure is followed in the spot payment.
- (iii) Provision of spot payment should be approved in the appropriate TPC level and SO should be audited before handing over cheque.
- (iv) The GM to prefer a bill on behalf of the contractor duly supported by related supply order and concerned Accounts office to hand over the cheque for the payment of the bill to the GM/Fy authorities after audit of supply order/purchase order.

- (v) Check that Factory management hands over the cheque to the firm after inspection and delivery of stores. Factory management collects a bill from the firm duly receipted for the amount. Firm to indicate description of stores, units of quantity, total quantity delivered, receipt vouchers, Inspection notes and forward the same to the Accounts office for updating their records with 15 days.
- (vi) Whether receipt voucher has been prepared for the above cases may be verified.
- (vii) Audit may raise objection for the long outstanding cases where receipt voucher has not been prepared for regularization, and where material has been taken into stock charge/ not utilised.
- (viii) Audit can use CAAT to find out whether the material procured through spot payment has been used promptly or not.
 - a) Data base requirement: CONPAYT.DBF and ITEMMAST.DBF maintained by Branch Accounts office.
 - b) Import both the files to CAAT.
 - c) Click on CONPAYT.DBF.
 - d) Direct extract data for one financial year by equation PAYTVRDT.
 - e) Direct extract with field and equation as SPOTPT="T".
 - f) One extraction file will be created.
 - g) Join the extracted file with the itemmast.dbf with common field as **itemcode**.
 - h) One join file will be created.
 - i) To find out the date difference of date of last transaction with the payment date.
 - j) Create a new field clicking in any cell of the join file and append and one field will be created, name the field as "difference".
 - k) Click on parameter and give the equation as @age(lsttrdt,paytvrdt)
 - l) Difference of days will be highlighted in the difference column.
 - m) Audit can raise an objection for the transaction where difference of days are more than 90 days after verifying the original documents i.e Bincard etc.
- (ix) Also check whether spot payment is as per delegation of Financial powers and whether decision taken at TPC level and included in the Terms and conditions of the tender.
- (x) In the audit report, enclose the age analysis and reason for each case.
- (xi) In many cases the material received on spot payment is not utilised for a long time. This defeats the purpose for which the spot payments is made. In some cases, spot payments are made to give benefit to the firm and the laid down conditions are not fulfilled.

Audit Drill: Contract Management

- 87.** All the items of stores received in the factory are inspected and Material Inward Slip (MIS) is prepared in each case. MIS have consecutive serial numbers.
- (i) Whether the contract terms and conditions were comprehensively drawn up, and whether they are unambiguous, free from uncertainties, indefinite liability and misinterpretation and serve to protect Govt. interest (*Authority: GFR Rule 204*)
 - (ii) As time is the essence of any contract, check that the period for delivery of the ordered goods, and completion of allied services e.g. installation, commissioning, operators. training etc., been properly specified with definite dates (*Authority: C&AG guidelines*).
 - (iii) Where a price variation clause is provided in long term contracts, check that the price agreed upon has specified the base level viz. the month and year to which the price is linked, to enable variations being calculated with reference to the price levels prevailing in that month and year and that formula for calculation of the price variation has been incorporated (*Authority: C&AG guidelines*).

- (iv) Repeat Order and Option Clauses: While exercising any one or both of these clauses, the overall ceiling of fifty percent of the originally contracted quantity will not be exceeded. Repeat Order and/or Option Clause may be exercised more than once, provided altogether these orders do not exceed 50% of the original order quantity. (*Auth: Para 7.14.1 OFBPM 2010*)
- (v) Sometimes firm fails to deliver the item within the scheduled time, but supply the item without asking for Dearness Pay/Delivery Period extension and factory management extend the delivery on the date of receipt. It should be checked that the case for extension of DP was processed on or before the last DP date. Check that DP had been extendeds on bonafide request and not in a routine manner citing absence of production loss.
- (vi) Check that Liquidated Damages imposed for delays and defaults and not waived as a matter of routine. If waived, whether the reason given for waiver is proper. After conclusion of the contract, any relaxation in the contract terms / specifications should be severely discouraged. However, in exceptional case where modifications / amendments are considered to be absolutely essential, the same should be allowed after taking into account the financial implications for the same.
- (vii) Security Deposit (SD): Both factory management and bill section of Branch Accounts Office keeps the record of security deposit recovered from the firms. As per the laid down procedure, firms has to submit the security deposit within 30 days from the date of placement/receipt of supply order, whichever is later. However, it is found that firms are not depositing the same within the specified time and factory management is deducting the security deposit amount from the first claim/bill of the contractor, which is not as per the rule. Audit should check that the date of receipt of security deposit is within 30 days of issue of supply order. If S.D. is receive after 30 days of placement of S.O., audit should make queries.
- (viii) Check that every time fresh SD is obtained and same SD does not exist for two contracts /SOs. Audits should also check that the release of security deposit was supported with no demand certificate.
- (ix) Check that spot payment of 90 to 98% of the supply order value is authorized in accordance with terms and conditions of contract and they are being monitored through spot payment register in Accounts Offices. Check the non-regularisation of spot payment cases.
- (x) Branch Accounts Office maintains a register for all Provisional payment made to third parties with sanction of General Manager. Audit should check that action is being taken for all outstanding provisional payment cases.
- (xi) Check that the implementation of the contract was strictly monitored and notices were issued promptly wherever a breach of provisions occurred.
- (xii) Check that all articles subjected to inspection before acceptance conformed to specifications and/or satisfied the prescribed tests as per the inspection report. Check that the specifications were not diluted to accept the consignment.
- (xiii) Check that in case of rejection of supplies, supplier has been informed that such stores would lie at his own risk and that he should arrange for their removal within specified days from the date of issue of rejection memo and in case the stores have not been removed within the specified period, whether the Department has exercised its rights to dispose of such stores at the contractor's risk and recover ground rent and demurrage charges.
- (xiv) Check that in order to safeguard Govt. interest, a reasonable amount of Performance B a n k Guarantee (PBG) was taken with validity upto the Warranty Period for due performance of the contract. Whenever, extension in the delivery period is granted, the validity of the PBG should also be appropriately extended.
- (xv) Check that validity of the PBG is not expired at all times during the contract.

- (xvi) Check that detailed Guarantee/Warranty clause embodying all the safeguards had been incorporated in the contract.

Audit Drill: Inventory Management

88. The Inventory in OFs consists of WIP, Store in Hand (SIH), Completed Articles and Components. The physical balances of all stores are verified by actual count to ensure that stock as per accounting record exists. This verification is done by stock verification group of OF. Bin card as well as ground balances are recorded in the stock taking sheets and a copy thereof is sent to Account Office for recording PSL balances on that particular date. As soon as a discrepancy occurs between bin card balance and actual stock or in between bin card balance and PSL balance, a discrepancy voucher, surplus or deficiency voucher is prepared and posted in the Ledger with a view to keep the Ledger balance at any time in agreement with the physical ground balance. The discrepancy is subsequently investigated and settled. Price Store Accounts is prepared monthly by Material Section of the Accounts Office; it records all receipts and issue transactions made from the stock. The closing stock value of material shown in PSA is agreed with that of PSL balance. (Source: Para 93 OM Part VI, Vol. I).

- (i) Audit 10 to 20 % or 100 to 200 items of slow/non-moving nature.
- (ii) Audit 2 to 10 % or 100 to 500 cases of credit verification of LP/Central Purchase/Foreign Purchase stores in each quarter.
- (iii) Check that the Stock Verification group in the factory has carried out physical verification of stock (including stock pile) deposit stock, inventory books, machines, electrical installation and buildings every year and discrepancies examined.
- (iv) Check from the inventory package whether the ground balance and bin card balance is matching with PSL balance.
- (v) The details of slow/non-moving items are available in the *m_stkitm* of the PPC package. The master data should be obtained from the factory for analysis. It should be checked that such items are not being procured and that outstanding SOs do not pertain to these items. CAAT audit drill in this regard is given under SO audit drill.
- (vi) Check the reasons for Slow/non-moving and surplus items and that action has been taken by OF to utilize or transfer to other OFs who require them.
- (vii) Select high value slow moving/non-moving items of stores using CAAT software and Consult relevant ledger folios and find out receipt voucher nos. and dates pertaining to last receipt. Obtain relevant extract nos. against which IFD's or supply orders were placed and check whether extracts are alive and items are being produced as per regular production programme. Collect relevant files and ascertain, reasons for non-drawal of the materials. If alternative material has been utilized, find out the financial effect and put it under objection.
- (viii) Often slow moving and non-moving items are drawn at the end of financial year and returned in subsequent month. Check that items drawn in the last month of the Financial Year are not returned in the subsequent month to show lesser quantity of slow/non-moving items thereby bringing down the value of stock-in-hand.
- (ix) Check that the inventory holding is within the authorized limits.
- (x) Check that the item codes are not allotted without approval of the Accounts office and that new item codes are not allotted as a matter of routine. One item with small variation can be purchased by showing nil stock by allotting new item code. This should be checked in audit.
- (xi) Check that deliveries against the Supply Orders/IFDs have been staggered so that as far as possible the actual stock at the factory is restricted within the maximum levels in consonance with the production/issue plan of the factory. For this purpose the staggered delivery schedule should have been included in the Tender Notice/IFD.

Using Computer Aided Audit Tool (CAAT) for audit of procurement

89. A) To verify whether procurement has been made when the items are available in PPL/Component or **Slow moving and non-moving items**, following procedure to be followed in CAAT.

Master files required:

Purchase order detail with all fields for a year (source: PPC)

Material estimate of Factory (source PPC)

Total production target fixed/material extract for a year (source PPC)

Details of slow moving and non-moving of the year (source: Br.AO) Details of outstanding PPL/Component (PPC).

Step 1. *Import* the master files to CAAT.

Step 2. *Summarize* the Purchase Order details database item code wise.

Step 3. *Join* the summarization with PPL database with *common field* as item code and join with *matches only*.

If any data is found where though there is outstanding PPL/Component and procurement has been made, then the same can be verified in audit.

Similarly slow moving and non-moving data base can be verified with PO details by *joining*, taking item code as *common field*.

Comparison can also be made between Purchase Order quantity of a particular item and comparison with the material estimate based on the extracts/targets for that year.

B. Procurement of capital items through LP head.

Sometimes factory management procures items of capital nature through Local Purchase Head. As factory issues more than thousand numbers of supply/purchase orders, audit should minimize the same through *extracting* particular type of data.

Step 1. *Import* the Purchase Order file for a year (PPC)

Step 2. *Extract* the data with the criteria that Quantity is \leq (less than equal to) 3 or 2 and rate is (more than equal to) ₹ 5 lakh or ₹10 lakh (a limited No. of data will come in the screen). Audit can verify the same after checking the nomenclature, whether any item of capital nature is procured through LP Head. The nature of the item can also be checked from the Item Master (From Branch Accounts office or PPC). The capital items (their life and value) are defined by OFB from time to time based on the Govt. orders. By purchasing capital items or spares from LP head, the procedures are bye-passed and it also affects the depreciation.

Alternatively: *Extraction* can be made from the Branch accounts office data base on the Budget Head.

C. To find out excess procurement following method may be followed. Master file required from PPC:

Total Issue (TOTISSUE)

Material Estimate (MATEST)

Item Code (ITEM MAST)

Purchase Order Details (POMAST)

Step 1. Summarise the total issue or Target fixed by EP code wise for Quantity field.

Step 2. Join Summarisation with Material Estimate with *common field* as EP Code

Step 3. Field Manipulation – Add a virtual numeric field as (Material Estimates X production Target for that year)

Step 4. Summarise on the Item Code of Stores required.

Step 5. Join with the summarization of Purchase Order Details.

Step 6. Field Manipulation – create a virtual field as (Actual requirement – qty procured)

From the resultant duplicate database, audit can find, where item of the same item code has been procured during a month more than once and having different supply/purchase order no.

Audit Drill: Loss of Stores

90. Losses may occur due to discrepancy in inventory, transit, theft, damage and various other reasons. Loss statement is required to be prepared by the Factory Management and written off or sanctioned for the net loss by the CFA as per the delegated powers.

- (i) Audit 10 to 30 % or 100 to 300 items in a quarter relating to disposal/sale of surplus, waste and obsolete stores including losses.
- (ii) Check that the loss statement had been correctly prepared and priced.
- (iii) Check that the loss has been properly investigated according to rules.
- (iv) Check that action has been taken by factory management to prevent such losses in future and responsibility of the losses fixed where ever applicable.
- (v) Check that loss was regularized by the authority that possesses financial powers.
- (vi) Check that prompt action is taken to regularize losses.
- (vii) The losses in case of IFD rejection/short supply or damage is required to be prepared by the consignee factory. Check that loss statements are prepared and the items are not back loaded and in case of dispute that same is referred to the Member, OFB of the Operating Division concerned.

Audit Drill: Disposal of Surplus/Scrap.

91. In Ordnance Factories, surplus stores and waste stores are sold through auction. The entire mechanism of sales is controlled jointly by the factory management and LAO. The following categories of stores are sold to external agencies:

- a) Waste product
 - b) Scraps
 - c) Surplus stores
 - d) Obsolete stores
- (i) Check that the disposal of stores is done by obtaining bids through advertised tender or by public auction. (*Authority: as per GFR Rule 197*)
 - (ii) Check that scrap items are taken on stock on Return Note and are utilized/disposed off without delays.
 - (iii) Check that disposal procedures are as laid down in the GFR Rule 197.
 - (iv) Check that a guiding /reserve price for stores was fixed which was at book value plus the packing and incidental charges incurred plus 5% of the sale value.
 - (v) Check that in case of transfer of surplus stores and waste products to any priority indentors free of charge, 2% of the book value of the stores was levied for the incidental charges to cover packing, loading, cartage charges etc. Such incidental charges are not be recovered if arrangements are made by the priority indentors.

- (vi) Check that the Reserve prices were fixed by the Factory management with the concurrence of LAO and that they were not fixed more than two days before the auction.
- (vii) Check that reserve price was kept confidential by auction supervisor.
- (viii) Check that in case of stores disposed of by DGS&D, credit for sale proceeds are passed on by the Pay Accounts Office concerned on the location of auction and credits compiled to the final factory head of accounts and sale accounts are forwarded to the Stores Section.
- (ix) Check that correct procedure is adopted for accounting of sale proceeds for this purpose sale register and a sale account is audited with supporting details in respect of quantity, value, purchases etc. MRO receipt for sale value is adjusted for sale value, sale Tax etc. after verification of monthly statement. The MROs are forwarded to Accounts Section of the PCA (Fys).

5. Production and Cost Accounting

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5. Production and Cost accounting

Introduction: Production and Costing

92. Cost accounting is control over utilization of labour and material expenditure on each job through pre-determined estimates. In the OFs the production planning and control process comprise of a macro planning at OFB level and micro planning at the factory level. Based on the indents, extracts are issued by OFB to each factory. To undertake the work by the various Ordnance Factories, OFB issues the following types of extracts which are the authority for initiating production in the factory.

- 1) Class I for outturn and other services for the Army and free services like repair to Air Force & Navy.
- 2) Class II for payment orders (Including orders for MES or Non-Military Departments.
- 3) Class III for services rendered to other Ordnance, H & S or clothing factories
- 4) Class IV Stock
- 5) Class V for Capital-Services

Based on extracts work orders and then manufacture warrants are prepared. Manufacture warrant is issued by the planning department to the production section. Warrant shows the quantity required to be produced and the labour hour authorized as per the estimate. Simultaneously, material warrant is also issued showing the quantities that can be drawn. Materials are issued by stores department to shop against Demand Notes. Demand Notes and Return Notes are given to Br. Accounts Office where they are priced, posted in Priced Store Ledger and entered in material extract. Material abstract shows expenditure incurred against each work order and warrant & demand/return note-wise. It also shows net total against each work order/warrant. The net expenditure of each warrant is posted by opening Cost Card pertaining to the concerned warrant. Cost cards are posted monthly, under various elements of costs viz. Material, Labour and Over Heads abstracts. On completion of warrant, the expenditure posted in the cost card is totalled and the total quantity manufactured, quantity accepted/rejected, which are noted in shop's copy of manufacturing warrant, are also noted in the cost card after verification by accounts with the copy of inspection and supporting documents received in Br. AO.

Further a Superintendent's order in the shape of warrant or SWOD is issued for minor repairs to machinery, plant and shop tools, repair and maintenance of tramways, departmental store orders and similar minor internal factory services. Standard estimates or rate forms of labour and material are maintained for all important standard items manufactured in each factory. These estimates are prepared after proper time and motion studies and with due allowance for wastage and rejection affording credit for any standard recoveries etc. The percentage of rejections is indicated as 'minimum' and 'maximum' percentage. The estimates are priced at least twice in a year in LAO. Important estimates are required to be re-priced more frequently as and when there is any variation in the cost of the material or percentage of overheads or change of labour operations. In Clothing Factories, it is known as Garniture List. Standard estimates are not prepared for a work of a casual nature for which spot estimate or SWOD is prepared in the same way as estimate. The documents and processes of cost accounting activities are explained through a flow chart at **Appendix L**.

Audit drill: Targets, Extract & Planning

93. Indents for manufactured items are received from customers of OFs, viz. Army, Navy, Air Force, MHA and others. In the beginning of the financial year targets are fixed by the Ordnance Factory Board for each factory as per the indents received and the production capacity. Extract is an authority from the OFB to an Ordnance Factory to carry out production for the indented items.

- (i) As the targets fixed by the OFB for each Ordnance Factory (including roll over indent), Factory management carries out procurement action of direct materials as per the requirement given in the estimate for the items shown in the target.
- (ii) During audit of the targets for procurement of stores, audit should verify whether target shown in the ensuing year is inclusive of the roll over indent of the factory.
- (iii) If it includes roll over indent, audit should check that material had not been procured for the roll over indent in the previous years.
- (iv) Sometimes factory management takes policy decision on make or buy and certain items (component/PPL) are procured from trade. Audit should check that stores are not purchased for the items that are procured from trade.
- (v) It may be checked in audit that the production is not done without Extract.
- (vi) It may be checked in audit whether old o/s IFDs have been re-validated.
- (vii) It may be checked in audit that at the end of the year a list of all outstanding extracts have been prepared for each class of extract showing the extract no. and the quantities outstanding.
- (viii) To check when a class I extract is cancelled as much of the expenditure has already been incurred on it will be transferred to some other warrant if possible and any scrap or component returned to the store.

Audit drill: Audit of Estimates

94. Standard estimates are prepared for each operation for each product after time and motion studies. Estimates show the quantum of different material to be drawn for a product in each operation, quantum of different grade of labour deployed in each operation of a production percentage of minimum and maximum rejection allowed in all operation to carryout production. In other terms it can be said that standard estimate is an authority to use the quantity of material and labour for carry out production. Even estimate shows the nomenclature & item code of material with Quantity and grades of labour with man-hours thereof for production of certain quantity. Estimate elaborately shows the above details for each operation with different states of production and also provides the percentage of rejection in each stage.

Estimates are prepared with time and motion studies, for audit of revision of estimates; audit should select some estimates of principal items. Copies of the same are available with Accounts Office as well as planning office of the factory. During verification audit should give more stress to the review and revision of estimates.

- (i) Up-gradation of Estimate files in the Costing package.
- (ii) Sometimes factory management produced item with provisional estimates. Asks for list of provisional estimate from the planning sections. Verify the date, when it is prepared and also check out no of provisional estimate are there. Reason of delay in finalizing the estimate may be asked for & should impress upon the factory management for early finalization of estimate.
- (iii) Whether any down ward or upward revision has been made to the revision. If any estimate post revision cost is 10% or more, then the same should kept under objection and necessary clarification and justification may be asked. Further, in case of upward revision also check whether the same has been reported to the OFB.
- (iv) To check that there is unrealistic exhibition of Unavoidable rejection percentage, though in actual it is much less. Such cases may be highlighted to the Fy. Mgt. for downward revision of UAR percentage.

- (v) To check that there is no loose fixation in operational hours resulting in high Piece Work Profit percentage constantly. The same may be analysed from the PW profit percentage earned by the section or individual piece worker. Such findings may be referred to the management for downward revision of SMH (Standard Man Hrs.)
- (vi) To check whenever excess/less drawl of material has been booked, justification may be asked from the management and accordingly material estimate may be revised.
- (vii) To check that consequent upon installation of highly sophisticated/Computerised Numerical Control machines in the Factory Estimates have been revised with reference to forecasted savings on account of labour, material and UAR percentage.
- (viii) There may be estimates where similar two sets of materials have been used alternatively from the two sources i.e. in-house and trade sources. In such cases management. may be insisted for making two sets of estimates based on the source of material for better variance analysis.
- (ix) To check that consequent upon cadre restructuring of industrial employees, provision of unskilled and semi-skilled have also been replaced in the original estimates, number of unskilled, semi-skilled, skille employees employees and there is an increase in high skilled and master craftsmen. But most of the estimates are old. After cadre restructuring OFs are deploying high skilled and master craftsman against the provision of unskilled, semi-skilled and skilled IE's due to shortage of the same resulting over payment of PW earning, which needs downward revision of estimate.

Audit drill: Audit of Warrants

- 95.**
- (i) To check that separate warrants have been opened against each extract. Where large quantity exists against the particular abstract qty. has been divided conveniently in the warrant so that warrant may be completed within the normal duration/life of warrant i.e. six months. Warrants for Ordnance and carriage components which take longer than six months may be issued for one year without reference to OFB.
 - (ii) To check that a manufacture warrant has been prepared by the factory quoting there in the original authority for doing the work, drawing no., estimate no., the work ordered, warrant no., detailed labour operations etc. has been noted (the rates of labour operation are taken from standard estimate).
 - (iii) To check that in a material warrant has been issued authorizing the quantity of each kind of material required and showing other identification particulars as on the manufacture warrant.
 - (iv) Audit should verify whether the material booked against the warrant shown in the material abstract has been included in the respective warrant or not.
 - (v) Check that there is no fictitious booking. Booking of material without issue of warrant may be verified from the warrants master (*m_wts*) maintained on PPC in OFs.
 - (vi) Check that no excess material has been booked in the closed warrant beyond the authorisation.
 - (vii) To check that there is no labour/ material booking after completion of warrant for quantity specified therein.
 - (viii) To check that there no labour/material booking against the untouched warrants, however in exceptional circumstances material has been drawn the same has been returned to store by Return Note.
 - (ix) To check that whenever Transfer voucher has been prepared the work order is common and suitable justification has been recorded on the transfer voucher.

- (x) To check that valid reasons have been given for short closure of warrants and after closure of warrants transfer voucher has been prepared against the same work order and warrant. In the absence of the same, whether the actual loss has been regularised.
- (xi) Verify whether the quantity for which cost of production worked out by the Accounts Office against the warrant tallies with the accepted quantity shown in the production ledger card.

Audit Drill: Cost Card & Production Ledger Card

- 96.** On receipt of a copy of open warrant, Cost Card and Production Ledger Cards (PLC) are opened by the Costing Section of the Branch Accounts Office so that expenditure incurred under different elements of cost is collected warrant wise. Particulars like Extract no./IFD No./SWOD number, Work Order number, Warrant number, Nomenclature of the material, Quantity ordered, Estimate number etc., are filled in the Cost Card. The basic primary documents for allocation/posting of cost of elements in Cost Cards are Labour Abstracts, Material Abstract, Transfer Voucher Abstract and Component abstracts wherever applicable. The following checks should be exercised during the audit of Cost cards & PLC
- (i) Check the correctness of the posting of cost from the abstract of Principal.
 - (ii) Check that opening semi has been transferred correctly element wise in the Cost Card.
 - (iii) Check that all the postings from the primary documents have been made in the Cost Card.
 - (iv) Check that total actual cost (opening semi + Expenditure during the year-closing semi- Cost of abnormal rejection if any) is compared element wise with the estimated cost & variation.
 - (v) Check if variation between actual and estimated cost is more than 10% either in total or under the element of direct cost.
 - (vi) Check when an alternative material is actually used, the estimated costs as exhibited in the Cost Card has been re-priced and check any unusual cost variance.
 - (vii) Check that the postings in PLC have been carried out from the primary documents i.e. Inspection Notes & Production Issue Vouchers.
 - (viii) Check that there is no discrepancy between ordered quantity, accepted and issued quantity.
 - (ix) Check that the value of un-issued quantity reflected in the Finished Stock Account and if there is any discrepancy objection may be raised.
 - (x) The following areas should be objected to:
 - 1) Abnormal rejection due to failure in proof.
 - 2) Concealment of rejection losses.
 - 3) Abnormal delay in Issue / Non-issue of finished article,
 - 4) Shortfall in Target of Issues,
 - 5) Cases of advance / belated document of issues (Spill Over).
 - 6) Incorrect reflection of Finished Semi statement,
 - 7) Issue of stores to private parties in civil trade without advance payment, wherever applicable.

Audit Drill: Work-in- Progress

97. Expenditure incurred in manufacture of an item or a batch of item with reference to the Order / Indent / Extract is booked to Cost Cards maintained in the Costing Section of the LAO. Till the time, the manufacture is complete and passed in Inspection, the expenditure so booked is known as Unfinished Semi or Work in Progress (WIP). Semis are of two types viz.

- (a) Unfinished Semi: Represents value of Stores of the processed material.

(b) Finished Semi: Represents products passed in Inspection but yet to be issued.

97.1 WIP at the end of each year is necessary so that the total Cost of Production of the Factory for the particular year can be ascertained. For this purpose, each Production Section takes stock of WIP (*Indenter-wise*) as on 31st March and prepares the Semi Statement and sends it to Accounts Office for pricing. The LAO, after checking with reference to Production Ledger Cards and Cost Cards, the Semis are priced and an Abstract is prepared showing value of WIP for each Work Order & warrant under each element of Cost. Pricing is required to be made with reference to actual bookings.

- i. Materials – will be priced at the rate at which bulk of material drawn on the warrant has been priced.
- ii. Labour – The accuracy of Semi statement should be checked with reference to posting in the relevant Manufacturing Warrants and value of Semi to be worked out proportionately.
- iii. Proportionate Overhead is worked out at the pre-determined percentage worked out for the respective Financial Year.

97.2 Audit should follow the following method for audit of Work in Progress shown in the Annual Account.

- (i) A list of warrants shown in the WIP as on 31st March of the year from Branch Accounts office as well factory may be obtained. It may happen factory has shown some warrants as WIP but not included in the branch Accounts WIP list and vice versa. This type of discrepancy may be highlighted first.
- (ii) Reason of discrepancy may be verified and the correctness of Annual A/C prepared by Accounts vetted by Factory management may be brought to the notice of the Factory Management.

Audit Drill: PPL & Component

98. Under 40/41 series of Work Order, the Component Warrants are opened with respect to firm Indents / Extracts. GMs are also empowered to manufacture the component under the Delegation of Financial Powers. But, eventually it is noticed that Warrants under 40/41 series are opened to cover payment to labour and drawal of material for rejected material against Outturn Warrant(s) and year to year Transfer Vouchers are being prepared to transfer the same without any specific reason. Priced Production Ledger (PPL) is maintained in the Accounts Office and posting is made therein from the Completed Store Voucher (CSV) and respective Demand Note and Return Note. While scrutinizing the Priced Production Ledger (PPL), the following checks may be exercised-

- (i) High Value Components may be extracted to check that when Demand Note was last placed for drawal of Component and last Return Note was prepared for return of Component. If it is noticed that either there is no Demand Note for a Component for its Drawal, though it is lying in the stock for a considerable period or Components were though drawn were returned to stock subsequently, the same may be objected in Internal Audit.

High Inventory Holding on account of components for year to year may critically be reviewed with respect to extract / pending IFD. If there is no corresponding outstanding extract / IFD, management may be insisted for ultimate use or disposal thereof.

Audit Drill: Abnormal rejection

99. During production of an item in ordnance factories there is an estimated provision of rejection percentage in production of the item. Permissible limit percentage of rejection in an estimate is known as UAR (Un-avoidable rejection). Beyond UAR the rejection has to be regularized through loss statement after conducting board of enquiry to assess the value of scrap, amount of loss and the reason of rejection. Delegation of financial power issued by OFB (Modified time to time) fixes the power to regularize the loss.

Carry out detail review of the quantity ordered, quantity processed, quantity accepted and actual rejection shown in cost cards, P.L. Cards w.r.t. Issue Notes/DA Notes/View shots/ 'P' Issue Vrs. & Manufacturing Warrants and Material Warrants and UAR percentage included in the estimate to Point out:

- (i) Abnormal/high rejection in U.A.R. percentage is due to bad material, use of sub- standard or substitute indigenous materials, bad workmanship, failure in proof etc. with its value indicating whether correctly assessed and kept out of production.
- (ii) All items manufactured by Ordnance Factories should be issued on Regular 'P' series issue voucher. But, Ordnance Factories at times issue their regular production items on nominal issue voucher, which is highly irregular. In such cases, Regular Vouchers are prepared only after acceptance of the item by the Consignee Factory. In case, there is any rejection at the consignee's end, it is back-loaded. In such cases, if the back-loaded item(s) are not rectifiable, the loss on account of this is suppressed. Copies of all despatches on Nominal Vouchers & correspondence pertaining to the transactions should invariably be asked for by the IA Cells. Those Nominal Vouchers should be taken up for audit which are used for issue of regular production item to find out whether all such items have been accepted by the concerned consignees' or any loss is suppressed.
- (iii) All cases of abnormal rejection should be scrutinized intelligently taking into account the UAR percentage to see that the reasons for rejections have been properly investigated by the Board of Enquiry (BOE) and action taken for regularization of loss worked out and kept out of production correctly, under the sanction of C.F.A with remedial measures.
- iv) It may be examined that all the replacement Warrants are issued for replacement of avoidable rejected Qty. to cover the difference between the ordered and accepted quantity only under proper authority after investigation of the reasons for rejections. The drawls of materials for such replacement are invariably be supported by Non-Recurring Materials (NRMs) but these should not include stores not authorized in the estimates.
- v) It should be ensured that the cost of repair/rectification has been booked in original outturn of warrant and the same has not been covered through the warrant under '01' and '02' series of work order or as the case may be to suppress the abnormal rejections.
- vi) Before any item manufactured by Ordnance Factories are issued to the indentor(s), it is inspected in lots by the Director General of Supplies and Disposals The lots sent to DGQA through Nominal Vouchers and record thereof is maintained by the Quality Control (QC) Section of the Factory. On successful proof, the lots are issued to indentors along with proof certificate issued by the DGQA. In case of rejection of such lots in proof test by the DGQA, audit should raise objection and watch the regularization of the lot.
- vii) It may be verified that Transfer Vouchers are not used to suppress abnormal rejections by transferring labour and material from a Warrant of a particular Extract / IFD to a Warrant of another Extract / IFD, where that particular Extract / IFD is still open.

viii) In steel melting factories, where job is carried out through furnaces, the production section maintains a database/Register for every charge/Job carried out. If the work/charge is not carried out successfully, the same is not booked in the warrant to suppress rejection. From the database/Register maintained by the production Section, it may be ascertained whether any charge/job is left to be booked in the Warrant. Reasons for the same may be asked in audit. Loss, if any, may be pointed out for taking regularization action.

Audit Drill: Overhead Accounting

100. Overhead Charges constitute a Class of Cost, which cannot be directly charged to the Product. To arrive at a true Cost of the Product it is essential that a proper system of accounting of charges incurred by the Service Sections or by the Production Section itself in the shape of supervision, security, welfare, power, steam, water etc. are collected and distributed to the Products of the Shop. Service Charges of the above nature, which are common to all the Production Sections but cannot be charged directly to the output of that Section/Shop, are called Indirect Charges or Overheads. The indirect expenditure is divided into two classes Viz., (i) the fixed charges and (ii) the variable charges. The variable charges comprise items of expenditure which generally vary in sympathy with the load of the factories, though not necessary in direct proportion. The fixed charges are items of Overhead expenditure which do not mainly depend on the volume of manufacture but generally remain constant irrespective of the load involved. Item of expenditure classified as Fixed and Variable are detailed in '01' & '02' Series of the Syllabus of Work Orders respectively.

1. Fixation of leviabale percentage of fixed charges is done as given below:

- a) On the basis of the quantities required to be manufactured as per the production programme for the year total, direct labour charges should be worked out with reference to the standard estimates.
- b) The leviabale fixed charges in respect of service and non-productive sections will be allocated to the production sections as at present based on the percentages of allocation fixed by the GM.
- c) The chargeable fixed charges estimated for each production shop and share of services and non-productive sections will form the basis for fixing the leviabale charges.
- d) The percentage which the chargeable fixed charges bear to the direct labour charges will be determined separately for each productive/semi- Productive sections for the year as a whole.
- e) The above exercise should be intimated sufficiently in advance of the commencement of the financial year so that the leviabale percentage of fixed charges is available by the beginning of the new financial year. The percentage should ordinarily be operative for a whole year.

2. Estimation and Fixation of Overhead Percentages: Before the commencement of each financial year, estimation of Direct Labour, Fixed and Variable Expenses for Production, Non-Production (Service) Section is made keeping in view the Production Programme for the ensuing year by the CBCS (Central Budget Committee) with General Manager as Chairman and DGM/WM and Accounts Officer as Member. This Committee decides percentage for levy of Fixed and Variable Overheads for the financial year for different Production and Service Sections. Review of actual expenditure with reference to the Estimates is also done by the Shop Budget Committee (SBC) on receipt of the monthly Mechanized Tabulation known as SVC (Sectional Variable Charges) and SFC (Sectional Fixed Charges) Statements.

- 3. Levy of Overhead Charges:** The expenditure under '01' and '02' Series of Work Order are allocated to the various jobs by changing pre-determined percentages on 'Direct Labour. These percentages vary from Shop to Shop. The difference between the actual expenditure and those levied at pre-determined percentages is called Unabsorbed Fixed and Variable Charges. If the actual are more than the amount levied, then there is under absorption. If the levied amount is more than the actual, then there is over absorption. These under/over absorption should not exceed (+) or (-) 5%. If so, the difference should be charged to the production by re-allocating it over all the work orders in proportion to the value of Direct Labour.

Audit drill for checking Overheads

- 101.** i) Check whether the CBC & SBC constituted or not.
ii) Check the Documentation & Accounting of overheads.
iii) Check whether there are any abnormal variations. If any difference between the estimated OH percentage sent and actual compiled, whether action has been taken for wiping out of gap between the actual and estimated has been recorded or not.
iv) Check whether the Analytical data for Loss /Profit on sale of Stores, Surplus on Stock taking, & relief of some expenditures such as DA, HRA etc; (which could not forecast accurately at beginning of the financial year), has been prepared or not .
v) Check whether the reasons of variation is due to bulk booking of Scraps (generated at shop floor) Returned by the Sections to the Main Store Section. The reasons of bulk booking may be due to Return of accumulated Scraps by the production shop.
vi) Check whether the over/under absorption of overhead charges (i.e. levy pay, holiday pay etc;) has been pointed out or not by SBC during quarterly meeting , brought to the notice of CBC, stating reasons & action, if any proposed to be taken to avoid over/under absorption of overheads during subsequent quarters.
vii) The high incidence of overheads which results in much higher price of the product as provided in the estimates should be identified to bring-out the adverse commercial implication of such high incidence of overhead/uneconomical production cost.

Audit Drill: Civil Trade & Export

102. The policy of the Government is to utilize the spare capacity available after meeting service demands for the manufacture of store etc. for sale to civil trade, other non-military departments including Central and State Governments, Public bodies, Municipalities, Local Board and other semi Government Institutions and Foreign Governments. Manufacture is undertaken against 80, 82, 83, 84 and 88 series work orders. The Ordnance Factory Board / General Manager are authorized to fix the quotation price as per Delegation of Financial Powers. However, trend shows that OFB/ Ordnance Factories are entering into Civil Trade activities without taking their own production capacity w.r.t. commitment to Services already made. Internal Audit check is required to be carried out to see that:

- (i) Whether financial concurrence has been obtained.
(ii) No items were issued without obtaining the Advance Payment.
'P' Issue Vouchers in respect of Civil Trade items were priced at the price fixed by the OFB for the respective years. Instances may arise where proforma invoices were issued to the indenter in advance without taking into account the Annual Production Programme at the rate fixed by the OFB during the year. But, these items were issued in the subsequent year(s) where the prices of the items were revised on the higher side by the OFB. Hence, merely due to issuance of Proforma Invoice in advance, OFB / Fy. (s) Incurred the loss.

- (iv) In no circumstances, items have been issued to the Indenter (s) on Nominal Issue Vouchers.
- (v) Whenever additional items are issued to Indenter (s) against discrepancy in quantity through Nominal Voucher the same has been regularized as loss.

Audit Drill: Regularisation of additional quantity issued

103. In Ordnance Factories, Sections related to the production planning maintains a customer complaint register/database. This contains the details of complaints received from the customers i.e. Army, Navy, Air Force, civil trade, sister factories, etc. This register may be verified in Audit as under:

- (i) Qualitative and Quantitative discrepancy complaints relates to the quality of the material supplied by the factories and short receipt of material with regards to the quantity shown in the receipt voucher respectively.
- (ii) The correspondences received may be verified to assess the gravity of complaint as well as the settlement action taken by the factory
- (iii) The settlement of Qualitative deficiency may be verified in Audit. If the store has been rejected at indentors end, and the quality complaints fulfilled through any rectification, the expenditure involved in this regard may be assessed. It may be verified whether drawls of material for such rectification or replacement are supported by NRM or not.
- (iv) The quantity supplied against the quantitative deficiency may be examined and loss regularization thereof.
- (v) Utilisation/disposal and accounting of rejected material may be verified
- (vi) Whether there is any incidence of avoidable rejection which lead to suspension of production. If such rejection is due to a fault in technology, the entire production process may be reviewed by experts and their recommendations may be implemented.

Audit drill: Outsourcing

104. Outsourcing is permissible when the production target is beyond capacity. Sometimes Ordnance factories out source certain job/material, even where manpower/ machines are available for the production. Outsourcing in production is resorted to by OFs particularly where there is shortage of manpower. The trade assistance is of three types a) Fabrication contract b) contract labour deployed in indirect/non production jobs and c) contract labour employed in production job within factory premises. At times, it is seen that the outsourcing is being resorted to even where there is manpower and production capacity is also available. This leads to excess expenditure in the form of salary of employees and under utilisation of installed capacity. This should be particularly seen in the Clothing Factories.

104.1 Method-I

Audit can check through CAAT whether job has been carried out earlier in the OFs. To find out the same audit may use warrant data base of the factory, where item code should be a field and purchase order details of different budget head of the factory. Warrant data should consists all the warrants issued by factory till date irrespective of its status (closed/short closed/open)

- 1) Import both the files to CAAT.
- 2) Join both the files with common field of matching item code.
- 3) And go for match only.

- 4) The resultant data are the cases where work/job has been outsourced, where the source is available with the factory to carry out the job. Audit should verify the original documents i.e. supply order case file related to job work/procurement found through CAAT.
- 5) A careful scrutiny should be carried out to find out the justification given by factory management for procurement/carrying out the job through outsourcing.
- 6) Audit should go through the man and machine capability of the factory while auditing the outsourcing or other points given in the supply order case file justifying the outsourcing.

104.2 Method-II: Manual method

As per OFB letter dt. 6.7.2009, calculation of manpower requirement is calculated by taking 100% strength, 54 hrs/week, 15 % absentee, 296 working days and with 50 % profit. Thus total total 3396 working hours ($1 \times 9 \times .85 \times 296 \times 1.5 = 3396$) available for a direct worker during a year. The details of SMH of direct IEs available, utilized and overtime may be checked.

- a) Check the total number of shortage of manpower in the factory in each category.
- b) Check the manpower requirement for the work that has been outsourced, from the file relating to outsourcing contract.
- c) See if there is genuine shortage of staff or production capacity.

Raise objection if OF is outsourcing the work in routine manner without making effort toward capacity enhancement, optimum utilization of resources. After identifying frequent outsourcing contracts the documents should be verified. It is important to work out the financial loss. Loss involved is towards under utilisation of existing production capacity and salary of staff. Check the action taken for development of capacity.

Audit Drill: Transfer Vouchers

105. If materials drawn against one order are unavoidably used for another, transfer vouchers are prepared. Foreman prepares transfer voucher crediting the order on which materials were drawn and debiting the order for which materials were actually utilized. Similarly, transfer vouchers are prepared for correction of wrong booking of labour, for rectification of mistakes and transfer of expenditure from one work order to another. All transfer vouchers are en faced with a certificate of necessity of their preparation signed by Asstt. WM and sent to the Br.AO. Where they are registered in the costing section and given a serial number and passed on to labour and material sections for checking and posting. Various types of irregularities have been observed in transfer vouchers:

- a) Though material and/or labour may have been transferred, the Warrant No. from which transfers have been carried out does not exist in the Warrant Database.
- b) There may not be valid order/indent for the warrant to which transfers have been carried out.
- c) Transfers may have been carried out from direct work order series to PPL/Component
- d) Transfers may have been carried out from Warrants already completed & closed etc.

105.1 To highlight the irregularities involved in the preparation of transfer vouchers, details of transfer vouchers prepared by factory management, available in PPC Package of Information Technology Centre/factory should be called for. On receipt of data, the following steps may be followed:

1. Monthly Transfer Voucher Abstracts may be imported to CAAT.

NOTE: [Minus as well as Positive figures may be seen in the file imported. (-)ve values represent the Warrant no. from which material and / or Labour have been transferred while (+)ve values represent the Warrant no. to which material and / or Labour have been transferred.]

2. Warrant database may be imported to CAAT.
3. M_Order file may be imported to CAAT.
4. Warrant database (secondary) may be joined with transfer voucher abstract (primary) with Work Order and Warrant as common field (in the primary and the secondary data).
5. The database as at 4 above may be joined with M_Order file with order no. as common field and it may be ascertained whether firm indent / order exists in the Warrant to which transfers have been carried out or not. Non-existence of firm indent / order may be brought to the notice of the factory Management.
6. It may also be checked whether the warrant from which transfers have been carried out is completed and closed by direct extraction with the equation editor "Status = 3" (3 denote closed Warrants).
7. Transfers ordered from direct series work order to component/PPL Series of work order may be checked. Such transfers are not acceptable since it would lead to unauthorized production and unnecessary blockage of Govt. Money in PPL/component. It has been observed that such transfers are carried out to conceal rejection.

105.2 Irregularities:

In certain cases, either labour or material may have been transferred to other warrants. The justification for such transfers may be wrong booking of labour or excess drawl of material. The related estimates may be referred to find out the difference of the required quantity and the quantity drawn. If the Qty. transferred is not equal to the difference between the required quantity and the quantity drawn, observation may be raised and clarification obtained from management. In case of labour, it may be verified whether estimate of both the warrants are same or not. Reasons for transferring labour between warrants of different estimates may be questioned.

Audit Drill: Spillover Production

106. When the Factory is unable to complete the production of the targeted items before 31st March, management issues advance PIV to the indenter (particularly MHA). The booking of expenditure in cost cards (material, labour & OH) on these items is subsequent to 31st of March of that year. Thus, indentors are being debited based on the advance Issue voucher without any physical stores issued to them.

Spill over is not permitted in any case not even for IFD. CGDA circular no. AT/III/11133/AA/2006-07 dt.19.10.07. Latest circular issued by CGDA no. AT/IIIA/11167/Misc/corr. Dated 19.3.2013 and PCA (Fys) Kolkata to Br. AO/CFA on 12.3.2013 is enclosed.

It is observed that advance PIV is issued at the end of the financial year even before the production is complete. Advance booking leads to accounting/costing errors and inflated profits. It also leads to production of same item at higher cost in the subsequent years. It leads to distortion of COP & unit price as pricing policy is based on actual COP of last two years.

106.1 First identify probable cases of Spill over:

- (a) Where expenditure on material and labour is nil or much below the estimate
- (b) Cases where Inspection date is after issue date / gate pass date ;
- (c) Where documents relating to inspection and gate pass not endorsed to LAO;
- (d) Excess booking of expenditure in cost card in the following year as the items are already shown Issued in the previous year;
- (e) Issue of articles on Nominal Issue Voucher. Reflection of abnormal profit or loss in the accounts.

106.2 Method -I

Identifying probable spill over cases through CAAT: Cases where inspection date greater than issue date/gate pass

- 1) Import P Issue voucher database for one Financial Year to CAAT
- 2) Direct extract with equation editor date of Inspection > (greater than) the last date of the financial year.
- 3) Similar action may be taken for IGP also.
- 4) The resultant cases may be audited with Cost card and PL Card in Branch Accounts office
- 5) With the P issue voucher data base, direct extract with equation editor issue voucher date > IGP date. Steps 1) to 3) above may be repeated with Inspection date.

In some cases, fake Inspection notes and gate passes are given. Such cases however, cannot be detected by this method.

106.3 Method-II: Audit of PL Cards:

Verify the receipt and issue side of PL card in accounts section (manual method).

To ascertain the correctness of the entry, verify whether supporting inspection notes against the accepted quantity. If no supporting documents are available against the issue/production then these could be possible cases of spill over production.

106.4 Method –III: Through CAAT, find out spill over cases where PIV are issued with non-booking/less booking of labour. Data base requirement:

- a) Details of all P Issue vouchers of the financial year to be audited (PPC Package)
- b) Labour estimate (From PPC).
- c) Monthly Card file of Piece work payment for the whole year (From Branch Accounts). Steps using CAAT:
 - 1) Import P Issue voucher file to CAAT.
 - 2) Do summarizations of work order, warrant and estimate.
 - 3) Numeric field to be totaled - issue quantity and value.
 - 4) Import card file of different month.
 - 5) Append the data base of 12 months (click append and add month one after another into one append file).
 - 6) Summarize the append file with work order, warrant and summarisation1 file will be created
 - 7) Click on summarization file. Now click join database icon, select summarization 1 as secondary file.
 - 8) Match work order and warrant of both database and opt for all record of primary file click OK.
 - 9) 'Joint file' will be created.
 - 10) Import labour estimate data to CAAT.
 - 11) Join 'joint file' with estimate database.
 - 12) Match with estimate number of both files keeping all the records of primary file. Create Joint-1 file.
 - 13) In the 'joint-1' file, create a virtual field by clicking on any cell.
 - 14) Click append, give field name actual man hours, click parameter & give equation(SMH/Est Qty) * Sum of issue quantity and than click OK
 - 15) Create another virtual field by clicking on any cell. Append and name the field as 'different'.
 - 16) Click parameters & write equation on as (Total Oprnhr-actmnhrs). Click OK.
 - 17) The cases that show negative (-) booking are possible spill over cases and related cost card may be consulted to ensure the correctness of the findings.

106.5 Method –IV: Through CAAT, find out spill over cases where PIV issued with non booking/less booking of material.

Data base requirement:

- a) Details of all P Issue vouchers of the financial year to be audited (PPC Package).
- b) Material estimate (From PPC).
- c) Demand Note and Return note file.

106.5.1 Steps involved

- 1) Import P Issue voucher file to CAAT.
- 2) Do summarizations of work order, warrant and estimate. Summarization file will be created.
- 3) Numeric field to be totaled is issue quantity and value.
- 4) Import CONPSL file.
- 5) Direct extraction of demand note (record 15).
- 6) Summarize with work order, warrant with numeric field of qty. drawn and summerisation1 file will be created.
- 7) Click on summarization file. Now click join database icon, select summarization1 as secondary file.
- 8) Match work order and warrant of both database and opt for all record of primary file, click OK.
- 9) Jointed file will be created.
- 10) Import material estimate data to CAAT.
- 11) Joined with joint file with estimate database with estimate as common field and field in secondary file to be selected estimated EP qty, unit and material required.
- 12) Joint1 file will be created.
- 13) In the joint1 file create a virtual field by clicking in any cell.
- 14) Click append, give field actual material required, click parameter & give equation $(MAT_REQUIRED / ESTMATE_QTY) * QUANTITY_SUM$ click OK.
Find out the quantity shown in the actual material required with the sum of material drawn. If the sum of drawn material is less than the actual material required then cost card may be consulted.

106.6 Method V: Issue with non-booking/less booking of labour

1. Import P Issue voucher file to CAAT.
2. Do summarizations of work order, warrant and estimate.
3. Numeric field to be totaled is issue quantity and value.
4. Import card file of different month.
5. Append the data base of all 12 months (click append and add data of one month after another and 'Appended' file will be created).
6. Summarize the appended file with work order, warrant and summerisation1 file will be created.
7. Click on summarization file.
8. Now click join database icon, select summarization 1 as secondary file.
9. Match work order and warrant of both data bases and opt for all record of primary file, click OK. Joint file will be created.
10. Import labour estimate data to CAAT.
11. Join with joint file with estimate database.
12. Match with estimate no of both files keep all the record of primary file. Joint1 file will be created.
13. In the joint1 files create a virtual field by clicking in any cell.
14. Click append, give field name, actual man hours, click parameter & give equation $(SMH/Est Qty) * Sum\ of\ issue\ quantity$, click OK.
15. Create another virtual field by clicking on any cell. Append and name the field as different.
16. Click parameters & equation will be $(Total\ Oprnhr - actmnhrs)$. Click OK.

The negative (-) results are possible spill over cases. Confirm spill over by consulting the relevant cost card.

After identifying possible cases where PIV has been issued in advance, take 25 cases. Check their details from PL card, inspection note, gate pass. Verify the 'P' issue voucher to find out the mode of transport of product. Cross check the vehicle, wagon, hired vehicle used for transportation of the item. Consult the log book, Car diary if factory vehicle has been used/Consult the transporters bill/Consult the document related to wagon booking through railways. If spill over is confirmed draft an objection giving evidence.

Using CAAT for audit of Cost Accounting

107. A. Fictitious booking of labour

It is to notice that labour booked in t on the warrant which is cancelled warrant. To find out the same, the following procedure to be adopted in CAAT.

1. Import Warrant file and monthly he warrant without opening the warrant, or after closing/short closing orlabour abstract database.
2. Summarize the labour abstract data base, work order and warrant wise.
3. Join the summarized data with warrant database with common matching field-work order and warrant.
4. Sort the date of issue of warrant and find out: issue date of warrant greater than the last date of the month of labour abstract.
5. Use direct extraction of the above data at Sl. No. 3 with field status of the warrant (close, short closed, untouched and cancelled) separately.

Audit should verify the fictitious booking may by differentiating the month of booking labour and date of short closed, cancel, untouched and closed of the warrants.

B. False booking of labour/wrong estimate

Sometimes factory management opens the warrant on the last working day of the month and these is leage hours of labour. To find out the false booking, following method may be followed in CAAT

Master files required:

Monthly Card files

(CARDTRANS) Warrant

(WARRANT)

Attendance files (ATTFY)

- Step 1. Import the Monthly Card file.
- Step 2. SummariseSummarize the file, work order and warrant wise with sum of total operation hours.
- Step 3. Join the Summarised data with Warrant data with matching field as Work Order and Warrant.
- Step 4. Sort the data on screen in ascending order for the field warrant date of issue. Verify the number of warrant opened on last two days of month. Verify the section and gang workers for the same and verify the no. of labour in the gang from the ATTFY file of the month.
- Step 5. Extract the data with criteria (warrant issue date for last two days)
- Step 6. Import the ATTFY file
- Step 7. Extract the Section and Gang to get the total number of labour in the gang. With the help of the direct extraction data at step no. 5 and total number of labour of

the gang, auditor can find the input hours and profit percentage earned by the gang for the said warrant. It may be possible that profit is more than 100% and even up to 1000% and if output hours of other warrant taken into account of the month, profit will be negative.

C. **Audit of Warrants that are open even after issue of Items to indentor**

Step 1. Import files (Cost Card file (COST CARD), PL detail (PLDETL) and Demand Note/Return Note (DNRNMAST) from Branch Accounts office database.
From file COST CARD
Extract database for which ordered quantity had been completed/issued
Criteria - QTY_ORD = QTY_COMP
Give file name as “complete”

Step 2. Join
Primary file – (pldetl)
Fields: WO, Wt, Vr No, VrDt
Secondary file – complete.
Fields: Work Order (WO), Warrant (Wt)
Match- Warrant & Work Order
Give file name as “issued”

Now we have obtained the Completed Stores (CS)/ Production Issue voucher in respect of warrants where ordered qty had been completed and issued.

Step 3. Join
Primary file – dnrnmast
Fields: VRNO, VRDT, WO,
WT Secondary file – issued
Fields: WO, WT, VR_NO,
VR_DT Match: Work Order
& Warrant Give file name
as ‘Demand’
Now we have obtained data where materials have been demanded in respect of completed /issued warrants.

Step 4. Extract from Demand cases where material have been drawn after preparation of CS voucher Give file name as ‘overdrawn’
Criteria: Demand Voucher date (VRDT)>Issue Voucher date (VR_DATE)
To substantiate the irregularity we can use criteria @Age (VRDT, VR_DATE) > 90 instead of the above. Conclusion: materials have been drawn even after issues are completed.

D. Audit of spillover: check the cases where the P-Issue Voucher have been prepared at the end of the year without actual completion of production/final operation or booking of labour and material for it in subsequent years. Data base required:

1. Details of production Issue Voucher (with details of issues inspection and delivery during the financial year (PPC).
2. Labour estimate (source: PPC) from *m_estlabmaster* file or material estimate (*m_estmtl*).

3. Labour abstract (labour hours) of the financial year (Source :Branch AO) or material abstract .

- Step 1. Import the files into CAAT.
- Step 2. Direct Extract with Criteria as Issue Vr Date > Inspection Date: It will show cases the where inspection date is after the issue date. The data obtained can be considered as Spill Over. Secondly, check whether the labour had been booked in the same year as per labour estimate. Step 1: Import master on P. Issue Vouchers.
- Step 3: Summarise on Work Order, warrant and estimate wise for quantity and value of product
- Step 4: Import labour estimate.
- Step 5: join with the summarization at step 2 with common field as estimate number.
- Step 6: create a virtual field to calculate actual SMH required for the issued quantity (SMH/ Estimated quantity) X quantity issued.
- Step 7: Import the labourabstract (labour hours sum). First import the monthly labour abstract of the year. Append the monthly files into one file. Then summarize the append file, work order & Warrant wise with field total of labour hours.
- Step 8: Join output file of Step 5 and step 6 with common key as work order and warrant number
- Step 9: After getting the actual labour hours, another virtual numeric field to be created to find out the less labour hours employed in the warrants. Virtual field with equation editor as [actual labour hours (as calculated at step 5) subtracting labour hours sum]

To find out the spillover quantity, another *virtual field* to be created with equation editor as (actual hrs/Qty_sum (issued). Result should be examined for spillover after checking semi-finished/WIP. Similarly, same steps should be followed for checked non-booking/ very low booking of material. Except the material abstract would be required (in place of labour abstract), the material estimated would be required *m_estmtl* (in place of labour estimates).

E. Similarly CAAT should be used to extract the data relating to labour booking after issue of Items to indentor, cases where excess Earned leave (More than 18 days) is being credited to IEs where as option has been exercise for leave under Factories' Act. CAAT can also be used to extract data on transport allowance being paid for NGO/GOs who are on leave for the whole calendar month.

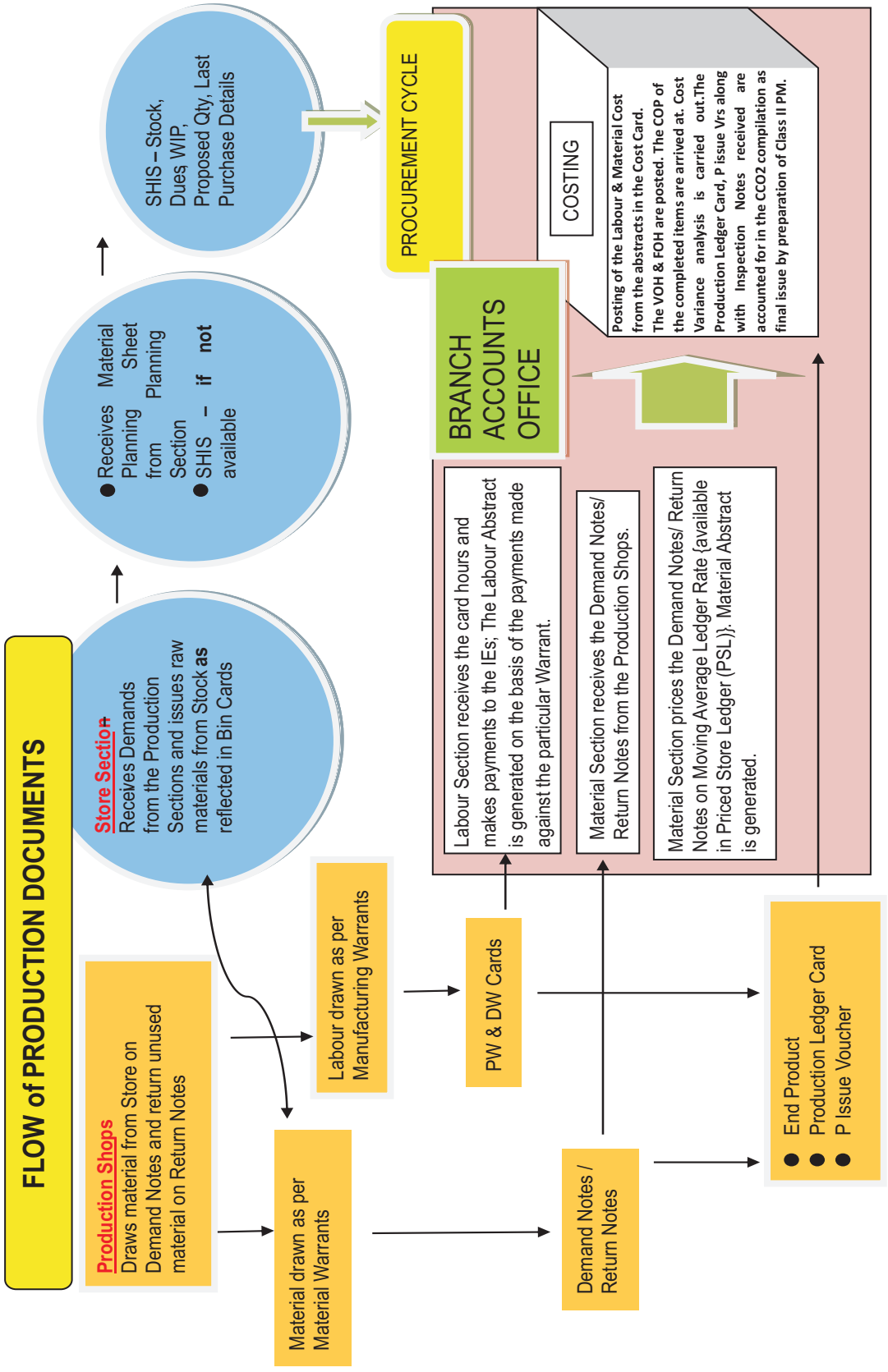
F. **WARRANTS OPEN BEYOND NORMAL LIFE**

Master Files /Databases to be consulted

- 1. *DNRNMAST*
- 2. *WARRANT*

- Step 1. Import all the files mentioned
- Step 2. Join
Primary file: warrant
Fields: WO, Wt, PDC
Secondary file: dnrnmast
Fields: ITEMCD, VRNO, VRDT, WO, Wt
Match: Warrant & Work Order
Give file name as 'demand1'
- Step 3. Extract from demand1 data for which difference between VRDT and PDC is more than one year (or specified life of the Warrant)
Criteria: @Age (VRDT,PDC) > 365
Give file name as 'Beyond cases'

Appendix L



6. IS Audit & Audit Software

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6. Information System Audit (IS Audit) & use of CAAT

Definition & Necessity for IS Audit

108. Information System Audit is also called Information Technology Audit. IS Audit is defined in IT Audit Manual of C&AG) as:

'the process of collecting and evaluating evidence to determine whether the computer system safeguards assets, maintains data integrity, allows organizational goals to be achieved effectively and uses resources effectively'.

Traditionally Internal Audit in Ordnance Factories was concerned with compliance with policies, regulations, rules, procedures and safeguarding the assets and resources of the organization. However, it now increasingly covers performance, economy in using resources, efficiency of operation and effectiveness in achieving operational objectives. With great deal of computerization and delegation of financial powers, the Role of Internal Audit has undergone a change:

The new challenges facing the internal audit are:

- 1) Shed negative approach to audit and become proactive to the needs of the organization (Ordnance Factories) and management. The output of internal audit should be of such quality that it becomes input for the management and policy makers.
- 2) As the manpower in audit is reducing progressively there is need to allocate more resources to risk areas.
- 3) Audit to get involved at early stages in the design, development and implementation stages of systems and procedures. Internal Audit should facilitate management by working as a consultant for setting systems and procedures.
- 4) Need to adopt new technologies for example; use of audit software, use of statistical sampling.
- 5) Adoption of audit standards and best practices in audit. There is need to expose the auditors to internal audit in other organizations also.

Most of the data has been computerised in OFs and all the information is available only in digital media. In this changed scenario, auditors have to adapt their methodology to changed circumstances. The approach and methodology to audit is required to be changed to evaluate the new types of risks involved.

Objectives of IS audit

109. The objective of undertaking an IS audit is to evaluate OF/OFB computerised information system (CIS) in order to ascertain whether the CIS produces timely, accurate, complete and reliable information outputs, as well as ensuring confidentiality, integrity, availability and reliability of data and adherence to relevant legal and regulatory requirements. Objectives include:

- a) Ensure asset safeguarding:
 - (i) Assets are: Data
 - (ii) Application systems and programs
 - (iii) Technology: Hardware, operating system, database etc.

- (iv) Faculties at IT Centre
- (v) People: Skills, safety, awareness etc.
- b) Main attributes of data or information:
 - (i) Effectiveness: Data should be relevant and correct, usable and delivered timely.
 - (ii) Efficient utilization of resources
 - (iii) Integrity of data: Valid, accurate and complete data.
 - (iv) Availability: Data available to those authorized and is safeguarded against theft fire, virus, unauthorized access, tempering, hacking etc.
 - (v) Compliance: System within ambit of rules and regulations.
 - (vi) Reliability of information: Appropriate information to users.

Audit is required to examine whether IS processes & IS resources combine together to fulfill intended objective of the organization and ensure Effectiveness, Efficiency and Economy in its operations while compiling with the extant rules.

Adequacy and effectiveness of the Internal Controls of the management are also required to be evaluated by the Internal Auditors. There are various Internal Control checks that the Internal Audit should carry out. The Internal Controls are listed at **Appendix F**.

Steps involved in IS Audit:

- 110.** 1. **Planning:** While conducting IT Audit, it is very important to work out an audit plan. The auditors should have a very good knowledge of all the computerized systems being run in OFs and in Branch Accounts Office. The system that the audit team intends to audit should be identified and studied. The areas/controls that the audit team intends to audit should be listed.
2. **Organize audit:** The team should have at least one person who have sound knowledge of OF/Br.AO database and also the source documents from which the data is captured. Evaluate Internal Controls and Risk Management. Due to implementation of various packages in Ordnance Factories and in Accounts office, Internal Audit is dependent more on electronic data rather than manual records.

The computerized systems in Ordnance Factories:

111. The following are the computerized systems in OFs:

1. **Production Planning and Control (PPC)** package was developed by OFB on Informix. It is important for the audit teams to know the layout of the database so as to know which data is relevant for audit. The table structure of the database is given on the Virtual Private Network (VPN) of the CIA (OFs). PPC package has the following modules. Some OFs make some changes in the system locally, therefore, some modules may have been joined or name of the module may have been changed. The purpose is to understand the modules, the information contained and sources for Internal Audit:
 - i) **Purchase order planning and control:** Determines gross requirement of direct material based on production target and bill of material. It computes net requirement based on available stock and outstanding SOs. It processes purchase requisitions, monitors supply orders, processes indents for material, cash purchase, rate contracts, budget, CST etc.
 - ii) **Material requirement and planning:** It helps in procurement planning, prepares MP sheet, estimates and requirement for material for end product.
 - iii) **Forecasting:** It is for indirect items which do not find place in estimates. Depending on

- last 18 months consumption and demand notes the demand for material is calculated.
- iv) Inventory maintenance: On-line stock status is maintained. It contains issues, Railway receipt/lorry waybill, unloading report, material inward book, material inward slip, receipt voucher, stock verification, Receipt Vouchers. Receipts/issue of raw materials/components/finished products at factory store, material movement within factory, inter factory receipts/issues, issue to customers, pricing of stock (price store ledger and production store accounting etc.
 - v) Inventory analysis: It is extension of inventory maintenance. It contains ABC analysis, XYZ, VED & FSN analysis (Fast slow non-moving). It generates stock status, consumption pattern, stock holding, pending receipt, nil balance etc.
 - vi) Vendor analysis: For performance analysis price rating, quality rating, quantity rating and delivery rating are calculated.
 - vii) Payment analysis: It deals with bill maintenance. A bill is raised against SO, payment advise is generated, receipts are captured and payment is monitored. It gives status of bills and recoveries from vendors. It contains head-wise expenditure.
 - viii) Shop order release: It deals release of warrants and also indirect and SWOD (supplementary work order draft). Estimates for labour and material and constraints relating to storage facility, testing facility are given. It also captures transfer vouchers (labour, EP and material) etc.
 - ix) Work in Progress (WIP): This module helps in tracking WIP in shops at any given point. It gives daily production detail shift-wise, red demand notes. Piece Work Cards are also captured.
 - x) Quality control: It gives stage-wise, line wise submission and sentencing of lot batches. Preparing I-notes or DA notes. Maintains proof details of lots.
 - xi) Costing: Calculates unit cost of warrant, WIP, production losses for warrants, material abstract, labour extract, transfer voucher extract, cost card, comparative statement, production ledger card, estimate price, overhead calculation (step ladder method).
 - xii) Tool control and gauge control. Monitors tool life, tool consumption, tool requirement. It also deals in life cycle of the gauge, issue-return-calibration of gauge.
 - xiii) Maintenance management: It contains details of breakdown transaction, preventive maintenance schedule, spare inventory (shop-wise), depreciation and utilization of machine, SWOD of machine and maintaining machine and spare master.
2. **E- procurement:** The package has been procured and implemented by m-junction. The modules are required to be implemented in all the OFs along with supply of hardware. The system is required to take care of the procurement and vendor registration. After implementation of e-procurement the relevant modules of PPC package are required to be integrated with it. Ordnance Factory Board e-procurement system was procured with the objective of providing a platform for the collaborative procurement of goods, works and services using electronic methods for procurement of goods/services The system transacts confidential procurement data and is subject to several security threats therefore, it is required to be audited to see that the system is put to use and that the system has all the security measures of the manual system and makes the procurement process more transparent, efficient and fair. Audit Drill on e-procurement are given at *Para 113*.
 3. **Personnel Information System (PIS)** contains personnel information, of officers and staff, their leave records and service details. The master files contained in PIS .
 4. **Communication Network (COMNET)** is an intranet used for the uploading information on various orders and circulars from OFB. OFB also uses it to monitor status of various activities in the OFs. OFs are required to upload information on various formats on regular basis.

Audit Drill: IS Audit

112. The following checks should be carried out on the computerized system commissioned in OFs.

- 1) Check that the computerized System is functional and are giving desired results.
- 2) There are operational manuals and system documentation for each system and they are up to date.
- 3) There is clear policy laid down by OFB/OF on
 - a) Separation of duty & organizational hierarchy
 - b) Access of data is controlled.
 - c) Timely updation of data is done.
 - d) Security of data and back up policy exists.
 - e) Reports/output is being generated timely and accurately.
 - f) Critical System (Failure of which would have serious impact) are identified and procedures are laid down for their safety.
 - g) Entry to EDP/IT Centre is restricted.
 - h) Sufficient measures adopted to safeguard against theft, fire, virus, unauthorized access, tempering of data, hacking.
- 4) Hardware is being sued as intended stock register exists for hardware and software. Annual verification carried out results recorded
- 5) IT- acquisition: Proper procurement procedures are adopted for hardwares software and consumables. Director General of Quality Assurance contract rates are utilized wherever possible.
- 6) Losses on non-utilization of hardware /software or due to failure of computerized system.
- 7) The COMNET intranet is being utilized properly. The data/MIS are updated regularly.
- 8) COMNET & LAN security: Networks open up an organisation's computer systems to a wide, potentially anonymous user base. Where the organisation's systems are connected to networks there is potentially a greater risk of unauthorised access by outsiders (hackers) and non-authorized employees, leading to:
 - a) Data Loss: data may be intentionally deleted or lost in transmission
 - b) Data Corruption: data can be corrupted by users or data errors can occur during transmission
 - c) Virus and Worm Infections: Worm infections are specifically designed to spread over net works
 - d) Network Security Policy: this may be a part of the overall IT security policy;
 - e) Network Standards, Procedures and Operating Instructions: these should be based on the network security policy and should be documented. Copies of the documentation should be available to relevant staff;
 - f) Network Documentation: the organisation should have copies of documentation describing the logical and physical layout of the network, e.g. network wiring diagrams for security reasons; these are usually treated as confidential.
- 9.) OFB/OFs develop or outsource their own applications rather than using established packages which are tested and cost effective, e.g. Outsourcing anti-virus software.
- 10) Since database created by OFs is utilized for financial compilation by branch accounts office and also used for internal audit, it is necessary to check that the data in the database is accurate and upto date. For this reason the auditor must test check the data with reference to the input documents viz. SOs, indents, warrants, bin card etc.

- 11) Development of new system: Computerization of given processes gives an opportunity to review and implement new methods, practical goals and develop improved systems and procedures. Check that while implementing any IT Project, review has been carried out of relevant procedures and procedures streamlined (Business Process Re-engineering (BPR)).The objective of computerization is not merely to convert manual activity into electronic activity.

12) Special checks for Inventory Management Module:

The purpose of this module is to handle the information regarding different inventory activities, material receipt, issue to sections for internal consumption and issue of finished product to the customers. There is mechanism for verification, detection and regularization of stock anomalies with proper documents like expense voucher, certified vouchers etc. Receipt of material starts with the logging of transport activities.

- i) Demand notes are used to draw materials from stores against warrants. There are two mechanisms available to process demand notes in PPC.
 - a. Production sections raises the demand notes from their terminals. Only those items that are authorized against the warrant are allowed to be drawn. Quantity is limited to the quantity less the quantity already drawn and quantity already authorized against other demand notes for the same item. If there is any alternate material given in the warrant then that is also taken care of in the calculation of the allowable quantity. This demand note goes to MCO for authorization. MCO determines whether there is any crisis of the material, seeing the stock situation, demand position and criticality of different demand notes; they authorize the suitable amount to the section. This demand note is posted in the stores so that stock and warrant are updated. Stock quantity and value are reduced by the drawn amount. The same is enhanced in the drawn quantity and value in the warrant. The above requires that the demand notes are raised only against valid warrants issued through the computer. But this situation may take some time to be implemented. Therefore this procedure is not followed in most of the cases.
 - b. Temporarily there is a parallel mechanism for raising demand notes. In this, only the warrant numbers is available in a file. At the time of raising the demand note, this file is consulted for the existence of valid warrant numbers only. Section produces the demand note to MCO. MCO raises the demand note. The two operations of raising and authorizing are clubbed together so that no further authorisation is required. The mechanism of posting the demand note is same as before but the warrants are not updated since they do not exist in the computer. The mechanism for processing return note is exactly same as that used for the demand notes.

Mostly in the Factories the second method is adopted. It should be seen in audit that the Warrants are updated and the material drawn in properly accounted for.
 - ii) When material from the factory is to be issued outside the factory an Issue Voucher needs to be prepared. Issue Vouchers can be of several types:
 - a) Production Issue Vouchers are prepared to issue items manufactured in the factory against warrants. It reduces the item held in the manufactured item master and increases the issued quantity in warrant and order files.
 - b) Nominal issue vouchers are prepared to send material without affecting the stock. Actual issue voucher as is appropriate will be issued later.
 - c) Stores issue vouchers are prepared for issue of store from purchase item master.

- d) COD issues are required to take care of transaction of material outside the factory. Sometimes materials will be despatched from the vendor to the indentor directly without any involvement of FY in between. But since the order for the material was received by FY and in turn FY placed the purchase order to the vendor, the order masters are required to be updated but this system does not affect the store. Only the masters of received orders and purchase orders are updated. If there is any anomaly in the physical balance and the documented balance then that is required to be detected during stock verifications. These and any other anomalies can be rectified using discrepancy vouchers. Sometimes, it may be required to adjust the stock value without altering the stock quantity to take care of depreciation or inflation. This is done through Adjustment vouchers.

Audit Drill: E-Procurement

113. Electronic procurement is a WEB based process that enables enterprises/departments to manage their purchases online, across the entire requisition to payment cycle. Ordnance Factories are using E-procurements software *ProcureEasy*, which was purchased from M/S M Junction. E-procurement system in OFB has been launched on 09.05.2011 for the purchase/procurement of goods /services valuing more than ₹ 10 lakhs and above by the Ordnance Factories in case of all procurements except for material procurement for which the minimum value of purchase is ₹ 5 Lakhs as decided by OFB. The firm was also required to ensure commissioning and maintenance. It should be checked whether e-procurement software is being used and obtain details of vendors' registration and procurement processes on the software.

- (i) Check that e-procurement is fully operational and maintenance is being carried out as per 5 years contract with m-junction.
- (ii) Check that the vendor registration is done using e-procurement and not continued using COMNET. The procedure for registration should be checked. (iii) Check whether the SOP has been prepared and circulated to all OFs.
- (iv) it should be seen whether all the technicalities for LTE, GTE/OTE are being implemented in the system.
- (v) In cases of E-Procurements for Limited Tender Enquiry (Single Bid System), the audit will ensure the following points:
 - a) Whether existing vendor data base has been ported to the "Suppliers' Registration Module".
 - b) Verify that after internal approval, through a workflow module, the tender document had been published and made available for view only to selected vendors.
 - c) Check whether system of E-mail alert to vendors is activated.
 - d) Ensure that the selected vendors had only submitted the bid.
 - e) Ensure that at the cut off time only, the bids have been opened by the tender opening officers through Bid Opening Module.
 - f) Ensure that the Comparative Statement of Tenders (CST) had been automatically generated through the System.
- (vi) In cases of GTE /OTE (two bid system) the audit will ensure:
 - a) Whether tender documents displayed to all.
 - b) Check that existing vendors have participated through their login, password, digital signature etc.
 - c) Whether, for the new vendors, the system has diverted to registration module wherein he has got one provisional registration to enable participation in the GTE /OTE with digital token & certificates.

- d) Ensure that the offers which were accepted in the technical evaluations were only considered during commercial evaluation as per limited tender procedure.
 - e) Check data access authorization and security. The log-in is required to be done by authorized people. Check that the list of authorized people is maintained and the log-in details are checked daily by the administrator.
 - f) Check that the checks on e-procurement prescribed in Central Vigilance Commission circular no. 29/0/09 dated 17.9.2009 is complied with.
- vii) Limited TE (Single Bid system)
- a) Check that existing vendor database ported to the “Suppliers Registration Module” of e-procurement.
 - b) After internal approval through a workflow module the tender will get published and can be viewed only the selected vendors. Check the past LTE cases on e-procurement for procedural irregularities
 - c) Only the selected vendors can submit the bid. He can bid as many times he likes within the closing time but only the last bid will be valid. Check that at the cut off time the tender opening officers open the tenders through Bid Opening Module which does decryption and verification for any malpractice.
 - d) System automatically generates the CST, check that it is not prepared manually.

Computerisation in Branch Accounts Offices:

114. The branch accounts offices have the following legacy packages:

- a) Wage Roll,
- b) Inventory and
- c) Costing Packages
- d) And minor packages like GPF, TPC, Financial, Revenue Ledger, Capital Account and Principal Ledger and NPS package.

Without knowledge of the structure of the database it is not possible to extract the required data for audit. The database table structure and the list of the source documents are given on the VPN.

IT Controls in a computer information system are all the manual and programmed methods, policies and procedures that ensure the protection of the entity’s assets, the accuracy and reliability of its records and the operational adherence to the management standards. General controls that an auditor should consider are:

- Organisation and Management Controls;
- IT Operation Controls;
- Physical Controls;
- Logical Access Controls;
- IT Acquisition Controls;
- Programme Change Controls;
- Business Continuity and Disaster Recovery Controls.

The details of some of the major packages and the layout of the database of the Ordnance factories and Branch Accounts offices are given at **Appendix M**
IT auditor should be aware of the common areas that present potential risks in a computing environment that are relied upon to produce financial data.

Basic Commands of audit software- CAAT (Computer Aided Audit Tool)

115. There is an increasing emphasis on digitization of office records/data in most of the Ministries/Departments. In such a situation, manual audit has its limitations in terms of the amount of data that can be accessed and analyzed by the Internal Auditors. Further, focus of internal audit also has widened over years. From mere compliance audit, expectations from Internal Audit have widened to a great extent and now they are expected to evaluate effectiveness of Risk management and Internal Controls. They are expected to provide vital inputs for policy making. Risk based approach to internal audit looks at internal audit as a tool to identify risks and ascertain if controls to deal with those risks are functioning effectively or not. Drawing such inferences requires a careful and systematic analysis of data. An effective use of Technology can enhance effectiveness and efficiency of the process of Internal Audit. Computer Aided Audit involves an examination and analysis of electronic records. Use of Computer Aided Audit can enable the testing of 100% records or transactions in a short span of time and with relatively less efforts. 100% check of important transactions would enable an Audit Team to come up with a robust opinion about the adequacy of Internal Controls or lack of it in the office being audited. Use of Computer Aided Audit will also help Audit Team in focusing on high risk areas or on transactions which involve high risk. Computer Aided Audit is a step towards professionalization and standardization of the Internal Audit Activity.

Internal Audit in Ordnance Factories has started using (CAAT), audit software since 2011. CAAT is a computer-based file interrogation tool that can be used by Auditors, Accountants, Investigators, and IT staff. It analyzes data in a multitude of ways and allows for the extraction, sampling, and manipulation of data in order to identify errors, problems, specific issues, and trends. With CAAT, data can be read, displayed, analyzed and samples can be extracted. CAAT performs the following tasks:

1. (i) Extract data files from almost any source - mainframe to personal computer and import data from a wide variety of file formats viz. Spreadsheet, Text, Dbase, Report, Portable Document Format, Hyper Text Marked Language and Extensive Markup Language formats including direct database connectivity.
- (ii) Compares data,
- (iii) Joins data from various files,
- (iv) Appends files, and
- (v) Connects different files from different sources.
- (vi) Extracts specific transactions, identifies gaps (for example, in a check number sequence), or duplicates.
- (vii) Profiles data by summarizing, stratifying, or aging the files.
- (viii) Creates useful file statistics automatically.
- (ix) Displays the data and the results graphically.
- (x) Creates samples using several different sampling methods.
- (xi) Log of User Entries- Analysis of Log On and Log Off data can help Auditors in identifying unauthorized entry of users into the System.
- (xii) Engagement Details- Allows to store the information about the Office/Client which is being audited. These details can come handy at the time of next Audit and can also help in Audit Planning.
- (xiii) Exception Reporting- Cases which fulfill or violate certain specified criteria can be extracted. E.g. all inventory items as per Bill of Materials which have not moved in last 6 months plus.
- (xiv) File Comparison- allows finding out changes in data over a period of time. E.g. Deviations in defence pension payments in 4 quarters of the financial year.

- (xv) Duplicate Checks- facilitates identification and analysis of duplicates in a given file, e.g. duplicate invoice, payments.
- (xvi) Gap Detection- Identifying Gaps, e.g. Cheque numbers.
- (xvii) Analytical audit procedures like Trend Analysis (Pattern of expenditure under Office Expenses), Ratio Analysis (Ratio of Plan and Non Plan expenditure), Proportional Analysis which can help in highlighting areas of Audit Concern.

2. Data Extraction

Extraction means sorting of particular data from a large database. Selection of files with possible irregularities from a heave of files is called Extraction. Equation Editor – Criteria – it is the logic /equation on which basis CAAT will extract the desired data. Algebraic functions e.g., =, >, <, +, -, * , / and logical functions e.g., AND. , not equal to , can be used. Besides, there are many logical functions in the side pane. The use and the syntax are shown with selecting the functions. Equations must involve any one or more Fields of the database.

3. Joining

Joining means comparing two databases having a common field. The common field should be identified first. The type and data in this field should be the same in the two databases. While selecting the fields in the primary and secondary databases, the common field /fields should be selected in both the cases.

Match: databases can be joined only on the basis of common field/fields. They should be defined as ‘match’ in both the databases. Joining can be done by viewing

- i) Matches only: in this option, CAAT processes each record in the primary database, cross matching with the secondary database.
- ii) Records with no secondary match: in this option, CAAT processes each record in the primary database in turn, cross matching with the secondary database on the key.
- iii) All records in primary file: CAAT processes all records in the primary database in turn, cross matching with the secondary database on the key.
- iv) Records with no primary match: CAAT processes each record in the secondary database in turn, cross matching the key with the primary database.
- v) All records in both files: In this option, CAAT processes the database in key order, writing a record to the output database for every record in each database matching the records on the key where there is a match.

Criteria can also be given while joining. This will allow joining an extracted data from a database.

However there are following restrictions:

- vi) Only two databases can be joined at a time. If more than two databases are to be joined, two databases must be combined and a third one joined to the resultant one, and so on.
- vii) The common fields do not need to have the same name but they should be of identical type. Use Field Manipulation task to change the field type, if necessary.
- viii) The databases must be in the same location. If necessary, change database locations in order to allow the databases to be joined.

- ix) **Append Databases:** Means adding a number of databases one after another to form a single database. Example: databases of several months/ years, same databases of different factories. This is used when the auditor wants to see the trend of a certain transaction over a few months or years. The restrictions are:
 CAAT will not append databases if they contain one or more fields that have the same names but are of different types. If necessary, change field types in order to match fields.
 The same database cannot be used more than once.
- a. Up to 32,768 databases can be appended into a single database.
 - b. The databases will be appended in the order they are selected.
 - c. Databases that are stored in different locations cannot be appended. If necessary, change database locations in order to allow the databases to be appended.
 Extraction can be done from these appended databases; appended databases can be joined with another database.
- x) **Duplicate Key Detection:** This is used to find whether any data occurs in duplicate in a database. In every database, there should be a field called “UNIQUE” which cannot have the same value on two occasions e.g., Account No of an employee, Personal no of an IE, ITEM Code, invoice numbers, etc. Duplicate Key Detection task can be used to identify duplicate items in such fields. Data can be obtained of i) only the duplicate records ii) other than then duplicate records.
- xi) **Field Manipulation:** This task is used to modify the layout of the fields in a database. A new field can be added to the database. Four general types of fields are available: Character, Numeric, Date and Time. There are restrictions relating to: the length of a field or the number of decimals cannot be changed unless the information in the Type column has been modified.
- xii) **Summarization:** This is used to summarise a particular item on fields. As for example; the total number of CL availed by IEs can be found out by taking the numeric total of CL_DAYS and summarizing by the fields PERS_NO and NAME.
- xiii) **Gap Detection:** This is used to identify missing items in a numerical sequence or a range of dates in Numeric, Character, or Date fields in a database. A gap indicates missing items and could include one or more missing items. The Gap Detection task is commonly used to test for completeness.
- xvi) **Aging:** Aging task may be used to age a selected database from a particular date for up to six specified intervals. These intervals can be days, months, or years. Aging can be used on inventory databases to find date of last movement.
- xvi) **Random Sampling:** Random Record Sampling can be used to generate a database of random records taken from an input database. Random Record Sampling is a common means of sampling. With this method, you enter the sample size as well as the range of records from which the sample is to be extracted to a separate database. Then, using a random number seed, CAAT generates a list of random numbers and selects the appropriate records associated with these numbers.
- xvi) **Systematic Record Sampling** is a method of sampling used to extract a number of records from a database at equal intervals (for example, every 1000th record)
- xvii) **Stratified random Sampling** is used to extract a random sample with a specified number of records from each of a series of bands. This method requires the database to first be stratified into a series of numeric, character or date bands.

- xviii) Attribute Sampling refers to the examination of a subset of a population (a sample) in order to assess how frequently a particular event or attribute occurs in the population as a whole. An attribute has only two possible values: true or false. In auditing, typical attributes are: if an item is in error or not; if a particular control is exercised when it should be; if the entity complied with a particular law.
- xix) Sort: Sort task may be used to create a new database in which its records are physically sorted in a specified order. If you require the records in a database to be sorted but do not wish to create a new database, use the Indices task.
- xx) Group Records: Group Records task may be used to organize matching records in indexed fields (keys) into expandable/collapsible groups.

Production Planning and Control package: Modules, lay out and Mater file information

The details of all the master files and the fields in each file in PPC package- and E-adman are given. This will facilitate the auditors in identifying the master files and the fields which they want to extract to audit software –CAAT. Knowledge of the master files and their fields is necessary to carry out computerized audit. In some factories the name of the file or the field may have been changed according to their local requirement. Auditors can consult the computer centre in this regard.

Modules in PPC Package

1. PURCHASE ORDER PLANNING AND CONTROL

Procurement action starts from MP Sheet, SI Sheet, forwarded to MPO. Depending on the type of purchase MPO processes the requirement accordingly. Tender enquiry is made & quotation is raised and evaluated by the user on order drawn and monitored on the receipt of the accepted material and the pending quantity on the S.O is reduced. Besides this there is provision for processing Indents, Cash Purchase, Rate Contract, Head Budget, etc.

2. MATERIAL REQUIREMENT AND PLANNING

This module helps in better procurement planning based on the yearly/4 production plan captured in this module. It generates MP Sheet for all direct and indirect Items, which find place in estimates. Other valuable provision available to the users is, what are the different raw materials and how much is required for producing the given quantity of the End product (EXPLOSION) and the different End Products, which requires the given raw Material (IMPLOSION).

3. FORECASTING

This module is for all the indirect items(which do not find any space in the estimates). Depending on past 18 months consumption. Further demand for the material is calculated. This Uses demand notes for its calculation.

4. INVENTORY MAINTENANCE

On line Stock status so an item is the main features of this module. Other functions of these modules:-

- 1) Issues
- 2) Railway receipt/Lorry way Bill.
- 3) Unloading Report.
- 4) Material Inward Book.
- 5) Material Inward Slip.
- 6) Receipt Voucher.
- 7) Stock Verifications.
- 8) CIV/CRV's.
- 9) Discrepancy report etc..

5. INVENTORY ANALYSIS

This is an extension of inventory maintenance. This module uses the information captured in maintenance for analysis like ABC, XYZ, FSN (fast slow non moving items). It generates timely report on stock status, consumption pattern, stock holding, pending receipts, Nil balance etc.

6. VENDOR ANALYSIS

This module calculates following ratings for analyzing performance:-

1. Price rating.
2. Quality Rating.
3. Quantity Rating.
4. Delivery Rating.

7. PAYMENT ANALYSIS

This module mainly deals with the bill maintenance. A bill is raised against a S.O., passed, Payment Advices are generated, bill is regularized, Cheque details are captured. If the payment is a part payment then details of all the receipts are captured and after the complete payment is done then only that bill is allowed to be regularized. On line query on the status of the Bill is also provided.

8. SHOP ORDER RELEASE

This module deals with warrant release for production and monitoring the warrant status in the shop floor. The shop order (Warrants) is issued to the shop authorizing them to draw material and book labour for production as per estimate (bill of labour) is used. Besides releasing warrants of main/component type, it also caters for indirect and SWOD (Supplementary Work Order Draft). This module also captures Transfer vouchers (Labour, EP & Material), NRM/NRR, etc.

9. WORK IN PROGRESS

This module helps in tracking the work Progress in the shop at given time. Daily production details shift wise, red Demand Notes and PWCS are also captured.

10. QUALITY CONTROL

Stage Wise, line wise submission and sentencing of lot batches, Preparing- I-notes or DA Notes. Maintaining proof details of the lots. Whenever I-notes are prepared the produced quantity against the warrant goes up. Pending warrant quantity reduces. Even the completed quantity against the extract (order) increases.

11. COSTING FEATURES:-

1. Calculating unit cost of warrant.
2. Calculating work in progress for warrant (s)
3. Calculating production losses for warrant.
4. Material Abstract (Warrant wise section wise material Transaction)
5. Labour extract (Warrant wise section wise labour)
6. Transfer voucher Abstract.
7. Cost Card with comparative statement.
8. Production Ledger Card
9. Estimate Pricing
10. Overhead Calculation (Step Ladder Method)

12. TOOL CONTROL AND GAUGE CONTROL

Monitoring tool life, tool consumption, tool requirement planning and forecasting.

Gauge Control

It gives details with the life cycle of the gauge which includes issue of gauge to various Sections, returned for calibration.

13. MAINTENANCE MANAGEMENT

1. Breakdown Transaction.
2. Preventive Maintenance Schedule.
3. Spares Inventory (Shop wise)
4. Depreciation & utilization of machine.
5. SWOD for machine.
6. Maintaining machine and spares master.

Master Tables in PPC

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m_stkitm			(table1)		
SL	FIELD NAME	DESCRIPTION	SL	FIELD NAME	DESCRIPTION
1	iitm_cd	Item Code	36	ytd_rec_q	Year to Date Receipt Qty
2	itm_des	Item Description	37	ytd_rec_v	Year to Dt. Receipt val.
3	uq	Unit Quantity	38	ytd_drw_q	Year to Date Receipt Qty
4	est_no	Estimate Number	39	ytd_drw_v	Year to Dt. Drawn Value
5	Rev_no	Revision Number	40	mtd_rec_q	Month to Dt. Receipt Qty
6	Part_no	Part Number	41	mtd_rec_v	Month to Dt.Receipt val.
7	drg_no	Drawing Number	42	mtd_drw_q	Month to Date Drawn qty
8	m_p ind	Manufacture/Procurement	43	mtd_drw_v	Month to Date Drawn Value
9	iitm_tec-cl	Item Tech. Class	44	due_qty	Due Quantity
10	itm_com_cl	Item Commercial Class	45	due_val	Due Value
11	itm_typ	Item type	46	ib_qty	Inability Quantity
12	alt_ind	Alternate Indentor	47	l_rec_dt	Last receipt quantity
13	Stk_qty	Stock Quantity	48	l_drw_dt	Last draw date
14	mv_rt	Moving Rate	49	l_iss_dt	Last issue Date
15	stk_val	Value of Stock	50	usr_sec	User section
16	drw_qty	Draw Quantity	51	ahsp	Authority Holding Sealed Particulars
17	gdn_cd	Godown Code	52	gdn_kpr	Godown Keeper
18	bin_no	Bin Number	53	pur_resp	Purchase Responsibility
19	pur_typ	Purchase Type	54	dgr_cd	Danger Code
20	stkpil	Stock Pile Item	55	iIns_resp	Inspection Responsibility
21	abc_cd	ABC Code	56	pck_cd	Package Code
22	fsn_cd	Fast/Slow/Non Moving	57	intr_dt	Introduction Date
23	ved_cd	Vital/Essential/Dangerous	58	stk_v_dt	Stock Verification date
24	xyz_cd	XYZ	59	stk_vta	Stock Value tallied
25	eoq	Economic Order Quantity	60	1 st _so_no	Last Supply Oeder No
26	rord_qty	Reorder Quantity	61	1 st _so_dt	Last Supply Order Date
27	stk_v_dt	Stock Verification date	62	1 st _paid_rt	Last Supply Order Rate
28	stk_vtal	Stock Verification tallied	63	1 st _paid_rt	Last Paid Rate
29	mop_bal	Month Opening Balance			
30	mop_val	Month Opening Value			
31	yop_bal	Year Opening Balance			
32	yop_val	Year Opening Value			
33	mis_qty	Mis Quantity			
34	max_stk	Maximum Stock			
35	min_stk	Minimum Stock			

m_itmspc		(table 2)
SL	FIELD NAME	DESCRIPTION
1	Itm_cd	Item Code
2	Itm_spc1	Item Specification
3	Itm_spc2	Item Specification
4	Itm_spc3	Item Specification
5	Itm_spc4	Item Specification
6	Itm_spc5	Item Specification

m_param (table 3)		
SL	FIELD NAME	DESCRIPTION
1	Typ	Type
2	Cd	Code
3	des	Description

m_party			(table 4)		
SL	FIELD NAME	DESCRIPTION			
			17	ag_com_pct	Agent Commission Percentage
1	pty_cd	Party Code	18	pty_bnk	Party's Bank
2	pty_nam	Party	19	no_of_itms	No. of Items
3	pty_typ	Party	20	pty_reg_cd	Party Registration Code
4	sis_fact_cd	Sister Factory	21	pty_reg_dt	Party Registration date
5	pty_add1	Party	22	sus_cd	Suspended Code
6	pty_add2	Party	23	due_dt	Due Date
7	pty_add3	Party	24	rsn_sus	Reasons
8	pty_state	Party	25	telegm_cd	Telegram Code
9	pin_cd	Pincode	26	itax_no	Income Tax No.
10	telex_no	Telex	27	stax_cd	Service Tax Code
11	phone_no	Phone Number	28	sysfy_cd	Sister Factory Code
12	con_pers	Contact Person	29	it_ok_dt	Item OK Date
13	cp_desg	Contract Person Designation	30	fax_no	Fax Number
14	country	Country	31	email_no	E-mail no.
15	currency	Currency	32	itms1	Item Serial No. 1
16	agent_cd	Agent Code	33	itms2	Item Serial No. 2

t_purreq (table 5)					
SL	FIELD NAME	DESCRIPTION			
			8	pur_val	Purchase Value
1	preq_no	Purchase Requisition Number	9	del_dt	Delivery Date
2	ref_req_no	Reference Purchase Requisition Number	10	remark	Remarks
3	preq_dt	Purchase Requisition Date	11	remark1	Remarks
4	sec_cd	Section Code	12	Stat_cd	Status Code
5	itm_cd	Item Code	13	Sis_no	SIS Number
6	uq	Unit Quantity	14	Sis_qty	SIS Quantity
7	reqn_dty	Requisition Quantity			

t_sis			(table 6)		
SL	FIELD NAME	DESCRIPTION			
1	sis_no	SIS Number	8	1 st _po_no	Last Supply Order Number
2	sis_dt	SIS Date	9	1 st _vend_cd	Last Vendor Code
3	itm_cd	Item Code	10	itm_stk	Item Stock
4	uq	Unit Quantity	11	1 st _sply_rt	Last Supply Order Rate
5	reqd_qty	Required Quantity	12	itm_dues	Item Dues
6	del_dt	Delivery Date	13	act_cd	Action Code
7	del_mod	Mode of Delivery	14	te_no	Render Enquiry Number
			15	sis_typ	SIS Type

t_te (table 7)		
SL	FIELD NAME	DESCRIPTION
1	te_no	Tender Enquiry Number
2	te_dt	Tender Enquiry Date
3	erns_amt	Earnest Amount
4	te_opn_tm	Tender Enquiry Opening Date
5	te_opn_tm	Tender Enquiry Opening Time
6	te_rete_no	Tender Enquiry Re-Tender Number
7	te_stat	Tender Enquiry Status
8	te_typ	Tender Enquiry Type

t_tepart (table 8)		
SL	FIELD NAME	DESCRIPTION
1	te_no	Tender Enquiry
2	itm_cd	Item Code
3	reqd_qty	Required Quantity
4	act_cd	Activity Code

t_quot (table 9)					
SL	FIELD NAME	DESCRIPTION			
1	quot_no	Quotation Number	19	pck_chgs	Packaging Charges
2	te_no	TE Number	20	fwd_chgs	Forwarding Charges
3	quot_dt	Quotation Date	21	oth_chsg1	Other Charges
4	itm_cd	Item Code	22	oth_chsg2	Other Charges
5	pty_cd	Party Code	23	exc_amt	Excise Amount
6	uq	Unit Quantity	24	tot_rate	Total Rate
7	offer_no	Offer Number	25	pay_cd	Pay Code
8	quot_qty	Quantity Quoted	26	trans_cd	Transport Code
9	erns_amt	Earnest Amount	27	packg_cd	Packaging Code
10	unit_rt	Unit rate	28	del_sch	Delivery schedule
11	st_pct	Sates Tax Percent	29	del_prem	Delivery Premises
12	exc_pct	Excise Percent	30	validity	Validity
13	disc_pct	Discount Percent	31	rmk1	Remark 1
14	cust_pct	Customs Duty	32	rmk2	Remark 2
15	freight	Freight Charges	33	rmk3	Remark 3
16	oct_pct	Octroi Percent			
17	specc_pct	Special Excise Percent			
18	tot_pct	Total Percentage			

m_po (table 10)					
SL	FIELD NAME	DESCRIPTION			
1	po_no	Supply Order Number	8	disc_pct	Discount
2	po_dt	Supply Order Date	9	no_of_itms	Number of Items
3	po_typ	Supply Order Type	10	tot_val	Total Value
4	pty_cd	Party Code	11	amt_pd	Amount Paid
5	head_cd	Head Budget Code	12	stat_cd	Status Code
6	imp_cd	Imprest Code	13	cap_cd	Capital Code
7	lc_no	Letter of Credit No.	14	pen_pct	Penalty
			15	rsn_cd	Reason Code

m_popt			(table 11)		
SL	FIELD NAME	DESCRIPTION			
1	po_no	Supply Order Number	19	pck_chgs	Packing Charges
2	rd_no	Tender Enquiry Number	20	fwd_chgs	Forwarding Charges
3	sis_no	SIS Number	21	oth_chsg1	Other Charges
4	itm_cd	Item Code	22	oth_chsg2	Other Charges
5	offer_no	Offer Number	23	pay_cd	Pay Code
6	uq	Unit Quantity	24	trans_cd	Transport Code
7	reqd_qty	Required Quantity	25	packg_cd	Packaging Code
8	vend_uq	Vendor Unit Code	26	recd_qty	Received Quantity
9	vend_itm	Vendor Item Code	27	act_qty	Accepted Quantity
10	con_fact	Conversion Factor	28	tot_val	Total Value
11	unit_rt	Unit Rate	29	amt_pd	Amount Paid
12	st_pct	Sales Tax Percent	30	stat_cd	Status Code
13	exc_pct	Excise Percent	31	insp_cd	Inspection Code
14	disc_pct	Discount Percent	32	insp_auth	Inspection Authority
15	cust_pct	Customs Duty	33	del_prem	Delivery Premises
16	freight	Freight Charges	34	rsn_cd	Reason Code
17	oct_pct	Octroi Percent	35	exc_amt	Excise Amount
18	spexc_pct	Special Excise Percent	36	po_cl	Purchase Order Clause

m_podel (table 12)		
SL	FIELD NAME	DESCRIPTION
1	p_no	Supply Order Number
2	itm_cd	Item Code
3	del_dt	Delivery Date
4	del_qty	Delivery quantity

m_vitm (table 13)					
SL	FIELD NAME	DESCRIPTION			
1	pty_cd	Party Code	8	sus_cd	Suspense Code
2	itm_cd	Item Code	9	due_dt	Due Date
3	lst_rate	Last Rate	10	rsn_sus	Reason of Suspension
4	qlt_rtg	Quantity Rating	11	vend_uq	Vendor Unit Code
5	qty_rtg	Quantity Rating	12	con_fact	Conversion Factor
6	del_rtg	Delivery Rating	13	no_del	Number of Deliveries
7	prc_rtg	Price Rating	14	no_po	Number of Supply order
			15	vend_itm	Vendor Item

gate3_igp			(table 14)		
SL	FIELD NAME	DESCRIPTION			
1	igp_no	Inward Gate Pass Number	13	uq	Unit Quantity
2	igp_dt	Inward Gate Pass Date	14	cash_memo_no	Cash Memo Number
3	igp_sln0	Inward Gate Pass Serial Number	15	cash_memo_dt	Cash Memo Date
4	chal_no	Challan Number	16	pty_nam	Party Name
5	chal_dt	Challan Date	17	no_pack	Number of Packages
6	lw_pwb_no	Way Bill Number	18	comp_rep	Company Representatives
7	lw_pwb_dt	Way Bill Date	19	del_dt	Delivery Date
8	wagon_no	Wagon Number	20	del_time	Delivery Time
9	po_no	Supply Order Number	21	comp_name	Company Name
10	itm_cd	Item Code	22	name_esc	Name of Escort
11	itm_des	Item Description	23	sent_date	Sentence Date
12	qty	Quantity	24	sent_time	Sentence Time
			25	name_security	Name of Security Personnel
			26	stat_cd	Status Code
			27	mis_no	Material Inward Slip Number

t_mis			(table 15)		
SL	FIELD NAME	DESCRIPTION			
1	mis_no	Material Inward Slip Number	16	tst_qty	Tested Quantity
2	mis_dt	Material Inward Slip Date	17	insp_auth	Inspection Authority
3	po_no	Supply Order Number	18	insp_dt	Inspection Date
4	vend_cd	Vendor Code	19	rr_lr_no	Railway Receipt Letter No.
5	itm_cd	Item Code	20	rr_lr_dt	Railway Receipt Date
6	uq	Unit Quantity	21	char_dem	Demurrage Charges
7	uq_des	Unit Description	22	freight	Freight
8	chal_qty	Challan Quantity	23	mc_nt_no	MC Note Number
9	venduq_qty	Vendor Quantity	24	mc_nt_dt	MC Note Date
10	rec_qty	Received Quantity	25	stat_cd	Status Code
11	chal_no	Challan Number	26	mvd_qty	Moved Quantity
12	chal_dt	Challan Date	27	rv_no	Receipt Voucher
13	act_qty	Accepted Quantity	28	rv_dt	Receipt Voucher Date
14	dev_qty	Deviated Quantity	29	kod	Kind of Document
15	rej_rfr_qty	Rejected Quantity	30	cost_cl	Class of Cost
			31	psa_cd	PSA Code
			32	bpln_no	Bin Page Line Number
			33	rej_cd	Rejection Code

m- bill			(table 16)		
SL	FIELD NAME	DESCRIPTION			
1	bil_no	Bill Nimber	15	bl_ln_st	Bill Link Status
2	Bil_dt	Bill Date	16	amt_pass	Amount Pass
3	Vend_bilno	Vendor Bill Number	17	chq_no	Cheque Number
4	Vend_bil_dt	Vendor Bill Date	18	chq_amt	Cheque Amount
5	Vend_cd	Vendor Code	19	chq_dt	Cheque Date
6	Po_no	Supply Order Number	20	pay_adv_dt	Advance Payment Date
7	Bil_typ	Bill Type	21	amt_rev_ac	Amount received A/c
8	Chal_no	Challan Number	22	net_amt_pass	Net Amount Pass
9	Chal_dt	Challan Date	23	mro_no	Diary Number
10	Inv_no	Invoice Number	24	mro_dt	Diary Date
11	Inv_dt	Invoice Date	25	mro_val	Diary value
12	tot_bil_amt	Total Bill Amount	26	rmk1	Remarks
13	bil_st	Bill Status	27	rmk2	Remarks
14	head_cd	Head Code	28	rmk3	Remarks

m_manitm (table 17)					
SL	FIELD NAME	DESCRIPTION			
1	ep_cd	End Product Code	22	cum_mw_v	Cummulative Monthly Wt. Value
2	ep_des	End Product Description	23	cum_yp_q	Cummulative Yearly prod. Quantity
3	uq_	Unit Quantity	24	cum_yp_v	Cummulative Yearly prod. Value
4	est_no	Estimate Number	25	cum_mp_q	Cummulative Monthly Prod. Qty
5	rev_no	Revision Number	26	cum_mp_v	Cummulative Monthly Prod. Value
6	part_no	Part Number	27	cum_wp_q	Cummulative warrant Prod. Qty
7	drg_no	Drawing Number	28	cum_wp_v	Cummulative warrant Prod. Value
8	m_p_ind	Manufacture/Purchase Indicator	29	gdn_kpr	Godown Keeper
9	itm_tec_cl	Item Tech. Class	30	insp_resp	Inspection Responsibility
10	itm_com_cl	Item Commercial Class	31	ytd_iss	Year To Date issue Qty.
11	itm_typ	Item Type	32	ytd_iss_v	Year To Date issue Value.
12	alt_ind	Alternative Indicator	33	mtd_iss	Month to Date Issue Qty.
13	man_l_tm	Manufacturing Lead Time	34	mtd_iss_v	Month To Date Issue Value.
14	oh_qty	On Hand Quantity	35	int_dt	Introduction Date
15	oh_val	On Hand Value	36	l_man_dt	Last Manufacture Date
16	dgr_cd	Danger Code	37	l_drw_dt	Last Draw Date
17	dgr_qty	Danger Quantity	38	l_iss_dt	Last Issue Date
18	man_lot	Manufacture Lot Quantity	39	mv_on_rt	Moving on Rate.
19	cum_yw_q	Cummulative Yearly Wt. Quantity	40	fsn_cd	Fast Slow Moving Code
20	cum_yw_v	Cummulative Yearly Wt. Value	41	bin_no	Bin Number
21	cum_mw_q	Cummulative Monthly Wt. Qty			

m_order			(table 18)		
SL	FIELD NAME	DESCRIPTION			
1	ord_no	Order Number	24	mtd_iss	Month To Date Issue
2	ord_typ	Order Type	25	wt_iss	Warrant issue
3	ext_no	Extract Number	26	wt_qty	Warrant Quantity
4	est_no	Estimate Number	27	cum_wt_qty	Cumulative Warrant Quantity
5	rev_no	Revision Number	28	pt_no	Part Number
6	itm_cd	Item code	29	alt_itm_cd	Alternate item code
7	uq	Unit Quantity	30	ep_cd	End Product Code
8	ord_qty	Order Quantity	31	cnsngn_cd	Consignee Code
9	ord_dt	Order Date	32	insp_auth	Inspection Authority
10	ord_due_dt	Order Due Date	33	DGOF_ref	DGOF Reference
11	indt_no	Indent Number	34	sp_ind	Spare indication
12	indt_dt	Indent Date	35	rems	Remarks
13	indr	Indentor	36	unit_rt	Unit Rate
14	ord_stat	Order Status	37	emd_amt	Earnest Money Deposit Amount
15	sch_qty1	Sheduled Quantity 1			
16	sch_qty2	Sheduled Quantity 2			
17	sch_qty3	Sheduled Quantity 3			
18	sch_qty4	Sheduled Quantity 4			
19	iss_qty1	Issue Quantity 1			
20	iss_qty2	Issue Quantity 2			
21	iss_qty3	Issue Quantity 3			
22	iss_qty4	Issue Quantity 4			
23	cum_iss	Cumulative Issue			

m_plan (table 19)		
SL	FIELD NAME	DESCRIPTION
1	ep_cd	End Product Code
2	yr	Year
3	qtr	Quarter
4	s_qty	Plan Quarter
5	iss_qty	Issue Quantity
6	wt_pnd-qty	Pending Quantity

m_wts			(table 20)		
SL	FIELD NAME	DESCRIPTION			
1	wo_no	Work Order Number	17	est_lab_val	Estimated Labour Value
2	wt_no	Warrant Number	18	est_tot_val	Estimated Total Value
3	itm_cd	Item Code	19	mtl_val_drn	Material Value Drawn
4	ext_no	Extract Number	20	lab_val_drn	Labour Value Drawn
5	sec_cd	Section Code	21	wt_stat	Warrant Status
6	wt_qty	Warrant Quantity	22	wt_adc	Warrant Actual Date of Completion
7	wt_typ	Warrant Type	23	wt_xfr_cd	Warrant Transfer Code
8	est_no	Estimate Number	24	cum_qty_iss	Cumulative Quantity Issued
9	rev_no	Revision Number	25	nr_cd	Non Recurring Code
10	wt_iss_dt	Warrant issue Date	26	foh_amt	Fixed Overhead Amount
11	wt_pdc	Warrant Completion Date	27	voh_amt	Variable Overhead Amount
12	wt_insp	Warrant Inspection	28	da_amt	Dearness Allowance Amount
13	qty_prd	Quantity Produced	29	rej_val	Rejection Value
14	qty_act	Quantity Accepted	30	xfr_frm_val	Transfer from Value
15	qty_rej	Quantity Rejected	31	sfr_to_val	Transfer to Value
16	est_mtl_val	Estimated Material Value	32	no_of_subwt	Number of Sub Warrant
			33	nrm_dt	Non Recurring Material Date
			34	nrr_dt	NRR date

m_wts			(table 21)		
SL	FIELD NAME	DESCRIPTION			
1	wo_no	Work Order Number	9	qty_act	Quantity Accepted
2	wt_no	Warrant Number	10	qty_rej	Quantity Rejected
3	opn_no	Operation Number	11	qty_rfr	Quantity Referred for rectification
4	opn_typ	Operation Type	12	qty_dev	Quantity Deviated
5	tgt_opn_no	Target Operation	13	qty_tst	Quantity Tested
6	lab_auth	Labour Authorized	14	wip_ind	Work in Progress
7	lab_drn	Labour Drawn	15	sec_cd	Section Code
8	qty_prd	Quantity Produced	16	qty_pwd	Piece Work Quantity
			17	val_pwd	Piece Work Value

m_mlwts (table 22)		
SL	FIELD NAME	DESCRIPTION
1	wo_no	Work Order Number
2	wt_no	Warrant Number
3	cmp_itm_no	Component Item Number
4	est_sl	Estimate Serial
5	alt_mtl	Alternate Material
6	Cmp_itm_typ	Component item type
7	qty_auth	Quantity Authorised
8	qty_drn	Quantity Drawn
9	Val_drn	Value Drawn

m_estim			(table 23)		
SL	FIELD NAME	DESCRIPTION			
			10	ug	Unit Quantity
1	est_no	Estimate Number	11	qty_set	Set Quantity
2	rev_no	Revision Number	12	lab_cost	Labour Cost
3	est_dt	Estimate Date	13	est_cost	Estimated Cost
4	l_rev_dt	Last Revision Date	14	mtl_cost	Material Cost
5	dt_efct	Date of effect	15	ep_rej	End Product Rejection %
6	l_opn_no	Last Operation Number	16	rej_all	Rejection Allowance
7	wo_no	Work Order Number	17	sec_cd	Section Code
8	itm_cd	Item Code	18	man_l_tm	Manufacturing Lead Time
9	drg_no	Drawing Number			

m_estlab			(Table 24)		
SL	FIELD NAME	DESCRIPTION			
			12	lab_cl	Labour Class
1	est_no	Estimate Number	13	lab_hr	Labour Hour
2	rev_no	Revision Number	14	cum_rat	Cumulative rate
3	ep_cd	End Product Code	15	crit	Critical
4	opn_no	Operation Number	16	tgt_opn_no	Target Operation Number
5	alt_opn_no	Alternate Operation Number	17	price_qty	Price Quantity
6	sec_cd	Section Code			
7	mc_typ	M/c Type			
8	nxt_sec	Next Section			
9	opn_typ	Operation Type			
10	opn_des	Operation Description			
11	lab_cd	Labour Code			

m_estmtl			(table 25)		
SL	FIELD NAME	DESCRIPTION			
1	ep_cd	End Product Code	7	Uq	Unit Quantity
2	itm_cd	Item Code	8	Qty_req	Quantity Required
3	est_sl	Estimate Serial	9	Rej_all	Rejection Allowance
4	est_no	Estimate Number	10	Iss_stor	Issue Store
5	rev_no	Revision Number	11	Src	Source
6	alt_mtl	Alternate Material	12	Cmp_itm_typ	Component Item Type

m_pwcs			(Table 26)		
SL	FIELD NAME	DESCRIPTION			
1	pwc_no	Piece Work Card Number	10	to_opn_no	To Operation Number
2	pwc_typ	Piece Work Card Type	11	dem_sec	Section Code
3	gang_no	Gang Number	12	pwd_qty	Piece Work Quantity
4	gang_sl_no	Gang Serial Number	13	pwc_val	Piece Work Value
5	pwc_yr	Piece Work Card Year	14	foh_val	Fixed Overhead Value
6	pwc_mth	Piece Work Card Month	15	voh_val	Variable Overhead Value
7	wo_no	Work Order Number	16	pwc_stat	Piece Work Status
8	wt_no	Warrant Number	17	pwc_hrs	Piece Work Hours
9	fr_opn_no	From Operation Number	18	unt_pwc_hrs	Unit Piece Work Hours

T_inspnt			(table 27)		
SL	FIELD NAME	DESCRIPTION			
1	i_note_no	Inspection Note Number	8	opn_no	Operation Number
2	i_note_dt	Inspection Note Date	9	sub_qty	Submitted Quantity
3	i_note_typ	Inspection Note Type	10	act_qty	Accepted Quantity
4	itm_cd	Item Code	11	dev_qty	Deviated Quantity
5	lot_no.	Lot Number	12	rfr_qty	Referred for rectification
6	Wo_no	Work Order Number	13	rej_qty	Rejected Quantity
7	Wt_no	Warrant Number	14	tst_qty	Rested Quantity
			15	insp_nt_stat	Inspection Note Status
			16	xfrd_qty	Transferred Quantity
			17	qty_iss	Quantity Issued

t_issues			(Table 28)		
SL	FIELD NAME	DESCRIPTION			
1	vr_no	Issue Voucher Number	11	rr_lwb_no	Railway Receipt, Lorry/Wagon No.
2	niv_no	Nominal Issue Voucher Number	12	cnsgn_cd	Consignee Code
3	vr_typ	Voucher Type	13	bpln	Bin Page Line Number
4	vr_dt	Voucher Date	14	insp_nt_no	Inspection Note Number
5	itm_cd	Item Code	15	insp_nt_dt	Inspection Note Date
6	iss_qty	Issue Quantity	16	lot_no	Lot Number
7	uq	Unit Quantity	17	lot_iss_qty	Lot Issue Quantity
8	ext_no	Extract Number	18	piv_no	Production Issue Voucher Number
9	iss_rate	Issue Rate			
10	psa_cd	PSA Code			

stmtltre			(Table 29)		
SL	FIELD NAME	DESCRIPTION			
1	epcode	End Product Code	8	crvitflg	Flag
2	partsr1	Part Serial	9	qtyset	Quantity Set
3	pstmtno	Primary Estimate Number	10	qtysetuq	Unit of Quantity Set
4	pstrvno	Primary Revision Number	11	rqqdqty	Required Quantity
5	sstmtno	Secondary Estimate Number	12	rqqdqtyuq	Unit of Required Quantity
6	sstrvno	Secondary Revision Number	13	qty1000	Quantity Per 1000
7	cstitno	Estimate number			

t_dn rn			(table 30)		
SL	FIELD NAME	DESCRIPTION			
1	du_rn_no	Demand Note/Return Note Number	10	dn_rn_val	Demand Note/return Note Value
2	dn_rn_dt	Demand Note/Return Note Date	11	dem_ret_qty	Demand Note/return Note Qty
3	nt_typ	Note Type	12	auth_qty	Authorised Quantity
4	itm_cd	Item Code	13	iss_qty	Issue Quantity
5	est_sl	Estimate Serial	14	stat	Status
6	ast_mtl	Alternate Material	15	kod	Kind of Document
7	uq_cd	Unit Code	16	cost_cl	Class of Cost
8	wo_no	Work Order Number	17	sec_cd	Section Code
9	wt_no	Warrant Number	18	bpl_no	Bin Page Line number
			19	psa_cd	PSA Code

m_machin			(table 31)		
SL	FIELD NAME	DESCRIPTION			
1	mc_no	Machine Number	17	mt_stat	Maintenance Status
2	mc_des	Machine Description	18	mc_ter_dt	Machine Price
3	sec_cd	Section Code	19	mc_prc	Cost of Machine
4	loc	Location	20	res_val	Residual Value
5	mc_typ	Machine Type	21	sal_val	Salvage Value
6	shiftytt	Shift Type	22	y_bk_val	Yearly Book Value
7	model	Model	23	bk_val	Book Value
8	grant	Grant (NC/RR)	24	l_m_shft	Last Month Shift
9	mc_rec_dt	Machine Receive Date	25	l_m_dep	Depreciation for last month
10	mc_inst_dt	Machine Installation Date	26	dep_ldat	Date of updaton
11	mc_comm_dt	Machine Commission Date	27	dep_pct	Depreciation Percentage
12	pty_cd	Party Code	28	cum_hr_wk	Cumulative Hour Work
13	s_mc_no	Machine Serial Number	29	cum_bkdn	Cumulative Breakdown
14	mc_stat	Machine Status	30	ytd_bkdn	Year to Day Breakdown
15	country	Country	31	no_bkdn	Number of Breakdown
16	crit	Critical (Y/N)	32	cum_sp_v	Cost of Spare
			33	l_mt_updt	Maintenance Status Date

m_macmnt			(Table 32)		
SL	FIELD NAME	DESCRIPTION			
1	maintid	Maintenance ID	11	stat_cd	Status Code
2	mc_no	Machine Number	12	restr_dt	Restoration Date
3	sec_cd	Section Code	13	restr_tm	Restoration Time
4	mc_typ	Machine Type	14	mt_typ	Maintenance Type
5	bkdn_dt	Breakdown Date	15	mt_cat	Maintenance Category
6	bkdn_tm	Breakdown Time	16	mtl_cost	Material Cost
7	hndor_dt	Handover Date	17	lab_cost	Labour Cost
8	hndor_tm	Handover Time	18	rem1	Handover Remarks
9	pdc	Probable Date of Completion	19	rem2	Handover Remarks
10	bkdn_cd	Breakdown Code	20	rem3	Handover Remarks
			21	rem4	Handover Remarks
			22	idle_hrs	Idle Hours
			23	remark1	Restoration Remarks
			24	remark2	Restoration Remarks
			25	remark3	Restoration Remarks
			26	remark4	Restoration Remarks
			27	rework1	Restoration Remarks
			28	rework2	Restoration Remarks

m- proesh (table 33)		
SL	FIELD NAME	DESCRIPTION
1	fy_cd	Factory Code
2	prc_sch_no	Process Schedule Number
3	store	End Product
4	st_drg_no	End Product Drawing Number
5	component	Component
6	cmpOdrg_no	Component Drawing Number
7	mfg_sec	Manufacturing Section
8	upd_dt	Update Date
9	stat	Status
10	entr_dt	Entry Date
11	entr_by	Entered by

m- procsh1 (table 34)		
SL	FIELD NAME	DESCRIPTION
1	prc_sch_no	Process Schedule Number
2	st_drg_no	End Product Drawing Number
3	cmp_drg_no	Component Drawing Number
4	opn_no	Operation Number
5	mc_des	Machine Description
6	opn_des	Operation Description
7	jft	Jigs/Fixtures/Tools Number
8	jft_des	Jigs/Fixtures/Tools Description
9	alt_jft_no	Alternate Jigs/fixtures/Tools Indicator
10	alt_jft	Alternate Jigs/Fixtures/Tools Number
11	alt_jft_des	Alternate Jigs/Fixtures/Tools Description

m- procsh2 (table 34 A)		
SL	FIELD NAME	DESCRIPTION
1	prc_sch_no	Process Schedule Number
2	st_drg_no	End Product Number
3	cmp_drg_no	Component Drawing
4	opn_no	Operation Number
5	opn_des	Operation Description
6	gage	Gauge Drawing Number
7	gage_des	Gauge Description

Personnel Information System :Pis mas

SL	Field name	Description			
1	emp_idn	Employees Identification Number	41	rev_50_55	Date of Rev.at the age of 50/55
2	group	Group of employee	42	rev_qtr_55	Date of Revision at the age of 55
3	per_no	Personnel Number	43	dli	Date of Last Increment
4	link_per_no	Link Personal Number	44	dni	Date of Next Increment
5	pan_no	Permanent Account Number	45	inc_stp	Increment Stop Code
6	sec_cd	Section code	46	rcurt_cd	Recruitment code
7	tkr_no	Ticket Number	47	prevscal_cd	4 th Pay Comm. Pay Scale
8	rank	Designation	48	lscal_ced	Last Pay Scale
9	grade	Grade	49	scal_cd	Current Pay Scale
10	trade	Trade	50	entry_trade	Entry Trade/Description Code
11	sex	Sex	51	dt_ent_trd	Date of enter in the Trade Qtr
12	ssm_ck	Prefix code of name	52	qtr	Indicator QtrGetting HRA/N-NA
13	per_nam	Personal Name	53	qtr_typ	Quarter Type [1-7]
14	f_name	First Name	54	qtr_no	Quarter No.
15	fa_hu_name	Father/Husband Name	55	jt_photo	Joint Photograph
16	l_name	Last Name	56	fp_op	Family Planning Op.Indicator
17	mari_stat	Marital Status	57	fp_date	Date of Such Operation
18	prsnt_add1	Present address First	58	fp_h_w	Who Opereted [S-Self, P-Spouse]
19	prsnt_add2	Present address Second	59	fp_perpay	FP allowance indicator
20	prmnt_ddd1	Permanent Address First	60	fp_wef	Start date of FPA
21	prmnt_ddd	Permanent Address second	61	pf_cat_cd	PF Category Code
22	district	District	62	pf_ac_no	PF A/C No.
23	state_cd	State Code	63	egeis_grp	CGEIS Group
24	hometown	Hometown	64	egeis_dt	CGEIS Date
25	cast_cd	Cast code	65	new_basic	5 th Pay Comm. Basic
26	scast_cd	Sub cast code	66	per_pay	Personnel Pay
27	relign_cd	Religion code	67	sp_pay	Special pay
28	dt_of_bth	Date of birth	68	old_basi	4 th Pay Comm. Basic
29	bth_place	Birth place	69	iiird_basic	3 rd Pay Comm. Basic
30	blood_gr	Blood Group	70	stg_pay	Stagnation Pay
31	mothertong	Mother Tongue	71	acp	ACP Indicator
32	csma	Central Service Medical Attendant	72	acpl	ACP – 1 Indicator
33	dt_jng_gs	Date of joining Govt. Service	73	acpl_dt	ACP Date
34	dt_jng_fy	Date of joining OFAJ	74	acp2	ACP – 2 Indicator
35	cong_cd	Confirmation code	75	acp2_dt	ACP – 2 Date
36	dt_confirm	Date of Confirmation	76	struck_dt	Struck of strength Date
37	conf_trd	Confirmation Trade	77	bank_cd	Bank Code
38	dt_last_prm	Date of last promotion	78	bank_ac_no	Bank A/C No.
39	retire_cd	Retirement code	79	updt_dt	Update Date
40	dt_retire	Date of Retirement	80	stat	status

Data base of Branch Accounts Offices Wage Package

SL NO	MODULE	MASTER FILES	CONTENTS
1	Regular Wage Module	1. IEs MASTER 2. RDTOU 3. SUSP 4. PROM 5. INTSEC 6. FO_Master 7. IE_HIST 8. SARTRNS 9. ATTFY 10. Code Master 11. FO Join 12. Join Mast 13. IE Net Pay 14. Card_trans 15. Earn_dedns	1. Details of IEs 2. Details of Retired out cases 3. Details of suspension cases 4. Details of promotion cases 5. Details of Inter-section transfer 6. Details of Factory Order 7. History of IEs 8. Supplementary datasheet 9. Attendance 10. Details of Section Code 11. Joining Factory Order 12. Joining Master 13. Net Pay of IEs 14. Piece Work Cards 15. Earning & Deductions
2	Arrear Payment Module	1. DTPRM 2. Arrear_Hist 3. Pay 4. Acc_tis	1. Date of promotion 2. History of Arrears 3. Details of Pay 4. Acquittance
3	PLB Payment Module	1. PLBDATA 2. PLB_EOL 3. PLB Pay	1. Data on PLB 2. EOL for PLB 3. Pay for PLB
4	Negative Attendance Module	1. ACT_ROLL 2. Short leave 3. Extra Work 4. Att_cfg 5. Casualty 6. Night	1. Acquittance Roll 2. Short Leave 3. Extra Work 4. Attendance 5. Casualty 6. Night Shift
5	Leave Module	1. LEAVMAST 2. Leave-FO 3. Leave_Trans 4. Leave_Tr 5. Leave_Hist	1. Leave Master 2. Leave Factory order 3. Leave cum transfer 4. Leave cum Tour 5. Leave History

INVENTORY PACKAGE

SL NO	MODULE	MASTER FILES	CONTENTS
1	SUPPLY ORDER MODULE	i) Vendor Master ii) Supply Order Master iii) Security Deposit Master	i) Details of vendors ii) Details of Supply Orders iii) Details of Security Deposit

2	INTER FACTORY DEMANDS MODULE	i) IFD Master ii) IFD Rate Master iii) IFD Issue Vouchers iv) IFD Receipt Vouchers	i) Details of Extract/orders on IFD ii) Rate of IFD items iii) Details of IFD items issued iv) Details of IFD items received
3	PRICED STORE LEDGER MODULE	i) Stock Item Master ii) Other than IFD vouchers iii) Issue Adjustment master iv) PSA Adjustment voucher v) Receipt Adjustment voucher	i) Details of stock ii) Details of vouchers other than IFD iii) Adjustment of issue vouchers iv) Adjustment of PSA v) Adjustment of Receipt vouchers
4	ASSET AND LIABILITIES MODULE	i) Asset Master ii) Liability Master iii) Contractor Payment	i) Details of assets ii) Details of liability iii) Payment to contractors

COSTING PACKAGE

SL NO	MODULE	MASTER FILES	CONTENTS
1	Addition	1. Warrant 2. Estimate 3. order	1. details of warrant 2. details of estimate 3. details of extract/order
2	Process	1. PPL 2. Process costing 3. Foundry costing 4. Process of warrant	1. PPL component 2. Process costing 3. Foundry costing 4. Processing of warrant
3	Abstract	1. Lab_abs 2. Mat_abs	1. Labour abstract 2. Material abstract
4	Updation	1. Cost card 2. PL card 3. Warrant 4. Levy percentage	1. Cost card 2. Production Ledger card 3. Warrant 4. Percentage of levy of overheads
5	Utility	1. Reports 2. Pricing of estimate 3. Adjustment 4. PW earning	1. Reports 2. Pricing of estimates 3. Adjustment in pricing 4. Piece Work earning

Note: Some EDP Centres may have changed the file names locally.

7. Other Establishments under OFB & DGQA

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118	Audit Drill: Procurement Procedure for Plant & Machinery	159
119	Audit Drill: Receipt, Erection & Commissioning of P&M	161
120	Audit Drill: Verification of Capacity	162
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7. Other Establishments under OFB & DGQA

Introduction: Procurement of Capital Items & its utilisation

116. In the present scenario to meet the challenges and reduce the process cost as well as to get quantum/quality output modernization of Plant & Machinery is the basic need of any organization. Keeping this in view, the OFB is constantly revamping the Plant & Machinery at the Ordnance Factories so as to get the best results on time with best quality.

In light of the above, the Ordnance Factories procure machines, cranes, weigh bridges and other machinery items either by replacing old machines or as a new item or project.

In Ordnance Factories, Plant & Machinery are procured under the following Heads:

- (1) Renewal and Replacement grant (RR)
- (2) New Capital Grant (NC)
- (3) Project or Franking Project (either NC or RR)

Procurement Procedure: Plant & Machinery

117. A. Modes of Tender:

There are four modes of tendering:

- (i) Single Tender
- (ii) Limited Tender: This can be followed in cases of purchases of Plant & Machinery worth less than ₹ 1 Crore. It is also followed in cases:
 - (a) Where it is not in the public interest to issue advertised tender enquiry
 - (b) For recorded reasons that the demand is urgent, duly mentioning the nature of urgency and
 - (c) When the sources of supply are definitely known and further sources beyond known sources are unlikely to yield results.
- (iii) Open Advertisement: To be followed in all cases as a general rule in cases of purchase worth ₹ 1 Crore or more. Tender is issued to the firms on receipt of request received against advertisement in the form of "Tender Notice" published in the leading newspapers.
- (iv) Global Tender: Tender is issued to the firms on receipt of request received against advertisement in the form "Tender Notice" published in the leading Newspapers, Indian Trade Journal and the foreign newspapers through Indian embassy etc.

B. Two Bid System:

All capital items are purchased against two bid systems. Quotations are called for from the firm in two separate sealed covers indicating "Technical bid" and "Price bid". In technical bid cost of the item is not mentioned.

C. Issue of Enquiries:

The advertised Tender Enquiry should contain brief details of the machine to be purchased and the location where required. The purchaser may apply his discretion in mentioning the quantity so as not to adversely affect the prices. Normally the standard medium of publishing advertised tender enquiry is the

India Trade Journal published by Director General of Commercial Intelligence and Statistics. Tender notices may also be published in national or local dailies through Directorate of Advertising and Visual Publicity to give wider publicity. Copies of notice may also be sent to the known/registered suppliers.

The limited and single tender enquiries are sent to the suppliers under Certificate of Posting to respond. The limited tender enquiry will be issued under certificate of posting to all likely sources. They will include:

- (i) Registered Suppliers
- (ii) Past Suppliers
- (iii) Likely suppliers as informed by the User.
- (iv) Firms who are known to have the capacity to supply.

117.1 Preparation and Issue of Tender Enquiry:

The tender documents should be prepared with due care mentioning clearly the specifications, capacity parameters of quality and quantum output expected from the machine. It will in general consist of an Invitation to tender, Schedule to tender giving description of stores, delivery, quantity etc Documents are to be signed by tenderer agreeing to general conditions governing the enquiry and resultant contract(s), Questionnaires so required.

The tenders should remain valid for a particular period after tender opening, which is known as the period of validity. The period of validity is to be indicated in the tender document.

Firms engaged in manufacturing, stocking, selling of Plant & Machinery or offering services required by the purchaser's organization are eligible for registration. The application forms can be obtained from the respective units on payment of cost of forms.

117.2 Removal of a firm from the list of registered suppliers:

A firm may be removed from the list of approved contractors if any of the information furnished during registration is found not to be correct or due to changed conditions like bankruptcy or lack of technical capability, it no longer fulfills the conditions based on which such approval was granted. They may also be removed if they supplied inferior/uninspected goods, or they fail to abide by the terms and conditions under which such registration was given, or failed to execute a contract or failure to execute a contract satisfactorily, or for any other reason considered necessary by the GM/Head of the Unit.

117.3 Receipt, Custody and Opening of Tenders:

Tenders are received by post/courier or dropped in the tender box. Tenders, which are received by hand are to be received by an officer who would sign with the date and time of receipt. Tenders will be received before the date and time indicated on the tenders. Tenders received through post will be entered in a register and sent to purchase section well before opening time.

Tenders will be opened at the time on date stipulated, by two officers nominated. The purchase officer should not open the tenders on his own. Tenders should be opened in the presence of firm's representative. The details of tenders will be read out in the presence of the representatives. A spot comparative statement of tenders will be made out including the particulars read out during tender opening.

117.4 Earnest Money Deposits & Security Deposits:

As per General Financial Rule No 273, Earnest Money Deposits should be called for from tenderers, who are participating against tender enquiry, unless they are registered with DGS & D, NSIC or the purchasing department. Organisations like Khadi and Village Industries Commission/National Small Industries Corporation are also exempt from submission of EMD. It should be charged at 2% of the estimated value of the Plant & Machine subject to a ceiling of ₹ 2 Lakh, at the time of tender enquiry itself. EMD may be submitted in the forms of demand draft, fixed deposit receipts, bankers' cheque and bank guarantee in specified format. The EMD that is submitted in the form of bank guarantee should be valid for 45 days beyond the period of validity of offer. Offers received without EMD are to be summarily rejected. It will be returned to unsuccessful tenderers soon after the expiry of tender validity, but not later than 30 days after the award of the contract. EMD of the successful tenderers may be returned after submission of performance security. EMD shall be forfeited if the tenderer withdraws, amends, impairs or resiles from the tender in any respect within the validity of the tender. EMD may be forfeited if successful tenderer fails to submit the performance security.

117.5 Performance Security:

All successful tenderers, irrespective of their registration status with DGS&D/NSIC/Purchasing Department have to submit performance security within 30 days of contract for due performance of the contract. The amount of the security deposit should be of 10% of the values of the contract in Indian rupees.

117.6 Technical Evaluation at factory:

On opening of tenders, a Comparative Statement of Tenders is made, on each technical parameter. It should record in a tabular presentation the technical compliance with specifications, confirmed in the tender and subsequent clarifications received. It should also contain the following, without mentioning the costs:

- (i) Special technical features
- (ii) Scope of supply that is the basic machine, accessories, Spares etc.
- (iii) If price quoted is ex-works or at destination.
- (iv) If freight is charged extra
- (v) If packing and forwarding charges are extra
- (vi) If erection and commissioning charges are extra
- (vii) Payment terms
- (viii) Taxes and duties etc
- (ix) Pre-despatch inspection terms offered by the firms
- (x) Final acceptance terms as accepted by the firms
- (xi) Warranty/Guarantee etc
- (xii) Delivery schedule, acceptance of LD etc
- (xiii) Validity
- (xiv) Submission of EMD with the tender document.
- (xv) Acceptance of the Arbitration clause etc.

117.7 Price Bid:

CST is to be prepared based on the scope of supply already furnished by the user section or as decided by the Engineering office.

Reasonableness of the price quoted by the lowest technically acceptable tender is to be checked based on certain data viz. LPR, Budgetary Quotation based on which the estimated cost was assessed or recent orders placed by some reputed firm for similar machines etc.

117.8 Placement of order:

The general conditions shall apply suitably to a particular contract may be taken mutatis-mutandis from this list and appended to the supply order. The lowest technically acceptable offer is to be recommended for placement of order. The Case where only one valid and technically acceptable offer is received has to be treated as single tender. For foreign items purchased through Indian dealers, they should have submitted proper Import license and copy of their agreement with the principal suppliers. Delivery period as per tender enquiry or as per the firm's quotation (in case they have given some other completion time) is to be mentioned in the supply order.

117.9 Payment terms:

The firms may be persuaded to accept a payment term of 80% or less against pre-despatch inspection and receipt of stores. Factory should also insist upon a Performance Security of maximum 10% of contract value, especially for those machines requiring extensive trials and providing of tools. In case the contractor insists upon 90% payment against inspection and receipt of stores, he will have to submit an additional 10% performance guarantee in the form of Bank Guarantee, at the time of release payment of 90% of Contract value, valid for warrantee period. No advance payment is acceptable to private parties. As a general rule no payment of advance can be made by OFB to any private firms and foreign firms. If the payment of advance to foreign firms is inescapable, the case may be examined by OFB and forwarded to Ministry of Defence with due recommendation for approval before any payment of advance is made.

Audit Drill: Procurement Procedure for Plant & Machinery

118. Details of Plant and machinery in the Ordnance factories are given in Machine Block Register. High value supply orders case files may be selected for audit. The case files may be audited on the following lines:

- (i) Check whether the requisition of P&M has been made by the user section with supportive justifications.
- (ii) Check whether the machine that has been declared BER has completed its life and satisfies the criteria's laid down for condemnation. To verify this report of Condemnation Board may be verified.
- (iii) Check whether RR demand is initiated on the requisite format. It should be concurred by the finance (LAO) and demand above 1 crore should be vetted by the CFA.
- (iv) Check whether Budgetary Quotations for the machine have been called for to justify the budget required for procurement.
- (v) If machines are procured on like to like basis then whether they are procured under the RR head and if the machines of higher capacity with improvement in design and production techniques then whether they are procured under the New Capital (NC) Grant.
- (vi) Whether the above demand on the requisite format along with all concerned documents are sent to the concerned division under OFB.

- (vii) Verify the approval for procurement of machines received under the sanction of Plan Finalization Committee (PFC) which forms the basis for initiating the procurement process by floating of GTE/OTE/LTE.
- (viii) Check whether obsolescence factor has been taken into account by ensuring that the P&M to be purchased conformed to the latest specifications and technology available in the market.
- (ix) Check from the file that specifications were drawn up with emphasis on factors like reduction in cost of labour, reduction in rejection, efficiency, optimum fuel/power consumption, use of environmental friendly materials, reduced noise and emission levels, low maintenance cost.
- (x) Where Indian Standards exist, which carried the Bureau of Indian Standards (BIS) whether the same was adopted. Where Indian standards do not exist or, alternatively, decision was taken to try the foreign market also, whether International Standards (e.g. ISO etc) was adopted.
- (xi) Check that cost benefit analysis done to establish justification for procurement and Internal Rate of Return calculation done in the statement of case. IRR calculation in r/o Plant & Machinery may not be insisted in audit.
- (xii) Check the rates were estimated in a professional manner and not simply by extrapolating prices of low capacity equipment or by applying uniform yearly compounded escalation over prices of similar equipment purchased earlier.
- (xiii) Check the proposal for procurement of machines as regards to the source of Fund viz. NC, RR or New Project .
- (xiv) If procurement is under RR, it may be verified that the replaced / condemned machine has been disposed within six months of receipt of new machine.
- (xv) In case of New Machines procured from NC or Project Grant, the necessity for procurement may be verified.
- (xvi) Consequent on commissioning of new machines, revision of relevant estimates may be verified with reference to the Statement of Case / Proposal for the purchase.
- (xvii) Audit will ensure that each purchase proposal has been approved by the Competent Financial Authority and correct mode of Tender Enquiry has been resorted to.
- (xviii) Check whether in case of OTE, established norms have been followed or not.
- (xix) Tender documents issued and the cost of tender paper deposited may be checked. During audit verification of Technical Bid and price bid, audit should verify the technical aspect given in the tender enquiry and specification given in the quotation of the different firm. Verify the TEC approval and acceptance of the offer, whether the specification given by the firms are at par with the requirement given by the factory in the tender enquiry.
- (xx) Check that the commercial offer/bids have been opened for those vendors who have been recommended as technically compliant by the TEC.
- (xxi) Verify whether EMD has been asked for in the tender enquiry and whether the same has been given by firm or not.
- (xxii) Verify the Price bid and whether the prepared CST vetted by Accounts Office is as per the price bid given by the firm.
- (xxiii) Other than basic rate, audit should verify the taxes, packing charge, transportation and erection & commissioning charge given by the firm and included in the CST.
- (xxiv) Audit should verify whether standard format of supply order has been prepared with all payment and technical details and whether copies of supply order has been issued to different agencies involved, including the tax authority of the area to which the firm belongs to.
- (xxv) Verify whether Supply order placed is within the validity period given by the firm or not.
- (xxvi) Check S.D. charged from the firm and the subsequent deposit by the firm within 30 days may be watched.

- (xxvii) Audit should verify the all chronological events from placement of supply order to the receipt and commissioning of the machine to watch whether any delay in supply and commissioning is attributable to firm or not.
- (xxviii) Verify the date of receipt of machine and delivery date of machine as per supply order. If any delay occurred whether extension of delivery period has been taken by the firm and approved by the TPC before lapse of DP and receipt of machine.
- (xxix) Check any L.D. has been charged for the delay or not may be verified. If not then whether sufficient justification has been given regarding the same.
- (xxx) Check whether Factory management deploys its expert for inspection of the machine before dispatch of the same, which is known as pre-dispatch inspection. Audit should verify the inspection note of the factory representative. Whether serial No. of the machine and other details of the machine has been mentioned in the inspection note or not. Same should be verified with MIS and if any discrepancy occurs it may be highlighted in audit. Audit also highlights the case, if serial no and other details of machine not reflected in the inspection note.
- (xxxi) It is often found that the entire document related to payment, MIS, receipt Voucher etc. are not found enclosed in the file. Audit should impress upon the same that as per CVC guide lines all the documents related to a particular case should be found enclosed in the case file.
- (xxxii) Check after receipt of machine that whether there is an inordinate delay in commissioning and machine brought on charge. Audit should verify the reason of delay from the correspondence available in the file and establish whether the reason of delay is attributable to the firm or factory.
- (xxxiii) In case of postdated extension of D.P. considered by TPC due to various reasons. Audit should consult with delegation of financial power regarding extension of D.P taking into a/c the periodicity of delay.
- (xxxiv) Check whether guarantee/warranty clause has been incorporated and proper safeguard have been adopted so that in case of delay in commissioning of P & M the period of guarantee/warranty is effective from the date of commissioning.
- (xxxv) Check whether M-series receipt voucher has been prepared after successful installation of machine and only thereafter the final bill has been admitted for payment.
- (xxxvi) Check that cost of machine procured under RR head is not exceeded by 15% of the original sanctioned amount or ₹ 1 crore whichever is less. In such case upto 15%, GM can sanction the amount with financial concurrence provided that:
 - a) Value of order falls within the financial power of the Sr.GM/GM
 - b) Requisite fund is available and
 - c) The purchase is not resultant Single tender case

All payment (first and final) made to the firm should be verified in audit with the supporting documents.

Audit Drill: Receipt, Erection & Commissioning of P&M

119. For audit of commissioning of Plant and Machines, Internal Audit should verify the following points:

- (i) Check whether civil work if any was completed before erection of the machine and that commissioning was carried out immediately after erection.
- (ii) Check whether the items purchased have been tallied consignment-wise with the invoices/packing slips to ascertain that no shortages remain to be recovered within the Contract price.
- (iii) Whether all alignments of the equipment were checked.
- (iv) Check that the plant was erected to the satisfaction, preliminary runs taken and the plant is running normal to take the processing materials into the plant.

- (v) Verify register/database maintained by the Accounts Office for commissioned machines. Check the 'M' series receipt voucher prepared by Factory management for the same. Verify whether any discrepancy in value exists between voucher and register.
- vi) Check whether depreciations charged as per the laid down procedure and the authority for changing the rate of depreciation, if any, may be verified.
- vi) Check whether P & M is procured through New Capital (NC) or Replacement and Renewal (RR) grant. If the machine is procured through RR grant, disposal action of the old machine may be verified in audit. Please ensure whether there is any inordinate delay in commissioning of machine after part payment. Detailed audit procedure of procurement of Plant & machineries may be referred.
- vii) Factory prepares active & idle statement of each machine section wise, which shows the Registration No. of machine, Machine name, Section, Hours/Shift run, whether breaks down or condemned.
Depreciation should not be charged on Machines lying idle for a long time.
- (viii) Audit should make a list of all machines which have outlived their lives and still in running condition. Re-assessment of value of such machines may be asked for
 - ix) Trial run: The plant is run initially to adjust all parameters of operation. When the operating conditions are adjusted the plant is run continuously for a period mutually agreed to, in the steady condition of the plant. The operators also will get a feel of the plant during this period.
 - x) Check whether the guarantee run was taken and the results were tabulated to compare with the assured figures as per the supply order for taking over the plant.
 - xi) Check that the Final Acceptance tests were taken including accuracy tests, generally measured in terms of process capability ratio.
 - ix) In the event of the performance figures falling short, the contractor shall at his own cost carry out modification, replacements and effect additional supplies to achieve the guaranteed performance. Subsequently a second guarantee run will be carried out. All components, parts etc damaged/broken during the erection and commissioning of the equipment was supplied free of cost by the supplier.
 - xiii) In case the fall in capacity and performance figures was above 10% the plant was rejected and consequently purchased alternatively at the risk and cost of supplier.
 - xiv) In case of failure to commission the machines: Audit should ensure that no machine is commissioned without carrying out performance tests and acceptance tests. If a machine fails these tests the Plant & machinery should be rejected and this power is exercised only by the GMs.
 - xv) The procedure of supply of P&M is scrupulously followed so that the firms after supply of Plant & machinery/equipment can't keep on dilly dallying till the warranty period is over and then escape any penal provision of the contract. (Ref: OFB letter no: 122/E/M dated.9.10.87)

Audit Drill: Verification of Capacity

120. Factory procures machines showing the demand of product and how they can produce the quantity demanded on procurement of new machines. At the time of procurement, factory proposes the capacity of the machine that how much a particular/ different item can be produced on procurement of the machine. Similarly factory also exhibits the saving i.e. less drawl of labour, material and less rejection. All these things found in the form of proposal/purchase requisition/statement of case. To verify the capacity of the machines procured by factory, audit should select some high value CNC machines commissioned during last 2/3 years.

On receipt of the files audit should verify the capacity highlighted in the proposal and in the quotation by the firm. Audit should calculate the Nos. of item produced during the period.

The data could be found from PPC package, planning office or from Branch Accounts Office. Calculate the annual production achieved with the statement of case. If the machine is achieving less, same could be highlighted. Similarly, whether saving in the form of downward revision of estimate has been done may be verified and if no downward revision has been carried out at par with the proposal, same could be highlighted in the form of loss.

Capital Assets taken on charge: Plant & Machinery

121. Two types of Block Registers are maintained by Branch Accounts Office viz. Machine Block Register and Building Block Register. While the Machine Block Register shows only the Book Value of the machinery, a complete record of the building accounts of the Factory will be maintained showing the depreciated value of the buildings at the year end. Building Block Register will show:

- (i) Original purchase value
- (ii) First year's depreciation charges
- (iii) Opening balance of the book value of Capital Assets (other than Plant & Machineries)
- (iv) Additions during the year
- (v) Reduction during the year (including annual depreciation)
- (vi) The closing depreciated Book Value at the end of the year.

All uninstalled P & M will be entered in the 'Suspense Section' of the Block Register. An index will be maintained at the beginning of each Register indicating the relevant page number for each type of building or for each Section in case of machinery items in the respective Block Registers.

121.1 In audit following points may be verified:

- (i) Verify register/database maintained by the Accounts Office for commissioned machines. Check the 'M' series receipt voucher prepared by Factory management for the same. Verify whether any discrepancy in value exists between voucher and register.
- (ii) Whether depreciations charged as per the laid down procedure and ask for the authority for changing the rate of depreciation, if any, may be verified.
- (iii) Whether P & M is procured through New Capital (NC) or Replacement and Renewal (RR) grant. If the machine is procured through RR grant, disposal action of the old machine may be verified in audit. Please ensure whether there is any inordinate delay in commissioning of machine after part payment Detailed audit procedure of procurement of Plant & machineries may be referred.
- (iv) Whether Factory has prepared active & idle statement of each machine section wise, which shows the Registration No. of machine, Machine name, Section, Hours/Shift run, whether breaks down or condemned. Depreciation should not be charged on Machines lying idle for a long time.
- (v) Audit should make a list of all machines which have outlived their lives and still in running condition. Re-assessment of value of such machines may be asked for.
Non-utilization/Under utilization of Plant & machineries may be verified. The technical capability and capacity of the machine proposed in the Case file may be verified from the documents given by the supplier. Qty. output given in the proposal per hour, shift or per annum by the machine may be verified.

Audit Drill: Sale & disposal of P&M

122. During the audit of disposal of P & M the following checks may be exercised:

- (i) Check the sale register has been maintained and sale proceeds have been deposited into the Govt. Account.
- (ii) Check whether sale has been carried out through e-auction or not. Whether Board of enquiry declared the machine as condemned and Beyond Economic Repair.
- (iii) Check whether Reserve price has been fixed by the committee with finance member involvement.
- (iv) Check whether any expenditure has been incurred by factory for the condemned machine after declaring BER and before disposal. Above information is available in the engineering office and booked in maintenance head.
- (v) Check out whether reserve price fixed is justifiable. Say a machine is made of iron weighing 500 ton. But the reserve price fixed as per the residual value, which is much less than the actual cost of iron of weighing 500 ton, which can be put under observation in audit.
- (vi) Check whether TPC for the above disposal fixed the PDC for lifting machine and ground rent thereof in case of delay whether any ground rent has been charged for the delay. If not, whether TPC waived the ground rent for delay in lifting with proper justification.
- (vii) Check whether the sale release order (SRO) has been issued after receipt of sale value from the contractor or not.
- (viii) Check whether loss or profit is made on sale of the machine.
- (ix) Check whether the factory management condemned machines after assessing financial aspect with recommendation of Board of Officer/enquiry with finance member. It happens that most of the condemned machines are not disposed off even after 05 years of its condemnation. A list of the same may be asked from the factory along with condemnation factory order. Non-disposal of condemned machine may be put under observation.

Capital Assets: Building

123. Block Register (Building): A separate Block Register is maintained by Costing Section of Branch Accounts Office for all the building (residential and industrial) of an Ordnance Factory. This register contains the registration number of building, year and date of possessions, name /location, value etc. Another separate register known as Building suspense block register is maintained by Branch Accounts Office. It contains information on the expenditure incurred for new building or for original work done by MES or Factory for which payment has been made but either building has not been taken over by the factory or no 'B' series receipt voucher prepared for the same.

During audit the following points may be covered:

Expenditure of items not completed during the year i.e. these which are in progress will be shown separately in the Block Register under 'Suspense' and when the works are completed in subsequent years, the total upto date expenditure will be transferred from suspense to the section in which they should be borne. No depreciation is charged on incomplete works shown under 'Suspense'.

Audit Drill: Building Block Register & Suspense block register

124. Check the entries in the Block Register, whether all the columns have been properly filled or not.

- (i) Check whether new entries /addition in the Block Register have been made supported by a 'B' series receipt voucher.
- (ii) Check whether Depreciation has been properly checked or not.
- (iii) Check whether any buildings are declared condemned or sub standard.
- (iv) Check whether there is any delay in demolition and disposal of condemned building . If yes, the same may be questioned.
- (v) Check whether any expenditure incurred for any original work (addition to the building) against the building in the Block Register. If any expenditure incurred on original work against any building but not added to the capital value of the building, the same may be objected to.
- (vi) Check the list of contract made for civil water and electrical maintenance as well as periodical service during last two years. It may happen that expenditure incurred for civil and electrical maintenance of a building, but after six months or one year the building has been condemned and demolished. This type of cases can be highlighted, if audit list out the buildings condemned and demolished during the year. It may happen that the building has been condemned and expenditure incurred in the condemned building.
- (vii) Check that on demolition/disposal of old condemned building, the entries should be strike out from the Block Register supported with a building issue voucher. This should be verified in audit.
- (viii) Check the case of re-appropriation of building by the factory management for purpose other than for which it was built up. Audit should verify the same in consultation with the Delegation of Financial Power Rules of OFB to find out the action taken by factory management is as per the laid down procedure or not. In some cases, Government residential accommodations are re-appropriated as transit house/guest house. As per the laid down procedure, GM has the power to re-appropriate the residential accommodation to a transit/guest house if there is no expenditure is involved.

Audit Drill: Factory Estate

125. Estate or yard in Ordnance factories and matter relating to land are dealt with in estate office. It keeps the record of land, its leasing, allotment of quarter, eviction of un-authorized occupation, maintenance of estate and collection of fund generated from estate.

- (i) Encroachments/un-authorized Occupancy: Some ordnance factories have huge estate without boundary wall and thus have encroachments. As per the recommendation of 5th standing committee report all the defence lands should be demarked and fenced. Audit should verify the same by asking the relevant record regarding the land available with the factory. Whether the same has been demarked and fenced or not.
- (ii) Audit should verify the details of land available in the Ordnance Factories. Total area of land as shown by the estate office should be invariably checked with five year data of annual accounts of Branch Accounts office where the total area of land is available. If there is any addition or deletion found, then the same should be enquired.

- (iii) Check the result of any eviction carried out in past and action taken in that regard should be verified to establish that there is no un-authorized occupancy. Audit should highlight the post eviction action taken by the estate office to ensure that no encroachment has been made after eviction.
- (iv) Estate funds are generated from the leasing of land, pond, community hall, playground etc. for commercial purposes. The detail guidelines issued and procedure prescribed in M of D letter No. 4(3)/87/I/D (Fy-II) dated 10.08.1990 for licensing/leasing out of sites, lands, buildings of Ordnance Factories Estate for different purposes. Whether above guidelines are followed by the Ordnance Factories should be ensured in audit.
- (v) Check that the approval of MOD for retail outlets of Petrol, Diesel Service station, Liquefied Petroleum Gas, Kerosene Oil obtained and lease agreement is valid.
- (vi) Check whether the license fee for such capital assets has been fixed in consultation with Defence Estate Office/LAO and local land Revenue authority as envisaged in MOD letter.
- (vii) Check the register or database maintained for all the shops and leasable land of the estate maintained by the estate office.
- (viii) Check the recovery of license fees and renewal of lease agreement are made correctly and regularly and credited to govt. account/utilized as per MOD letter ibid. Income should not be credited to local funds created eg.GM fund etc. which are not authorized.
- (ix) Check whether any land/shops still under occupation after lapse of lease period may be verified.
- (x) Check whether the govt. buildings, shopping complexes built for commercial purposes in Ordnance Factory Estate has been properly classified into following three broad categories as envisaged in Govt. Order dated 04.01.2001.
 - (a) Commercial complex created out of non-Public Fund.
 - (b) Commercial complex may be created out of Public Fund by re-appropriation of Govt. buildings.
- (xi) Commercial complexes may be created by using non Public Fund as well.
- (xii) It is to be ensured that the recovery of 50% of net revenue in r/o category (xi) above and 100% of net revenue in r/o category (x) (a) and (b) above made from the lease agreement is credited to Govt. Account.
- (xiii) Check whether leased out cost is as per the guideline of the OFB/MOD i.e. 25% increase in each 5 years.
- (xiv) Estate office maintains the tree register of the trees in the estate and within factory. Whether proper numbering with details has been maintained or not to be verified in audit. Check that sale of wood/trees has been accounted for, procedure of sale of wood may also be verified.
- (xv) Contracts for cutting of grass and cleaning of fish pond should be audited.
- (xvi) Audit may suggest sale of grass in the place of giving grass cutting contracts (if feasible and economical), and planting of Poplar trees (G48 and W22 variety are grown in India) on barren land. These trees generate a lot of revenue as they are used in plywood and matchsticks. It takes two years to grow and does not require maintenance.
- (xvii) Check that rates charged for facilities like Community Hall, Cinema hall are fixed in consultation with accounts/finance and are accounted for. All receipt columns of the estate fund accounts should be linked with the lease register and cash receipt and copies of MRO available with estate office. Arithmetical accuracy of the income and expenditure accounts should be verified by audit.

- (xviii) Allotment of government accommodation is as per circular, entitlement of allotment, time gap of occupancy and vacant etc. may be verified. Loss for vacant accommodation to be calculated. It should be checked that construction of new accommodation is not being approved when there are vacant quarters and there is no demand for government accommodation.
- (xix) Loss may be calculated taking into the account of non-recovery of license fees and house rent allowance paid to the employees of this category. Factory management may be impressed upon to regularize the loss.
- (xx) Rent bill should be checked to verify whether license fee, conservancy and electricity charges as forwarded by electric section have been accurately included. License fees are as per the guidelines issued by Ministry of Urban development, Govt. of India from time to time.
- (xxi) Un-authorized occupation after transfer, retirement, death, compulsory retirement and retirement etc. and charging of market rent in such cases should be checked.

Audit Drill: Ordnance Factory Hospitals (OFH)

126. Ordnance factory hospitals are attached to most of the ordnance factories. OFH have separate budgets. The following are the auditable documents:

- (i) Budget register should be verified to watch that the expenditure has been incurred as per the allotment made to OFH in different heads and as per the delegated financial powers.
- (ii) Sometimes ordnance factories are procuring medicine locally through cash purchase or through tender. However, some medicines are supplied by the Armed Forces Medical Stored Depot or some other central agencies. Audit may check whether the amount of medicines, equipments received from central agency has been taken into account and whether the expenditures are within the allotment.
- (iii) In the similar fashion rations/condiments are procured from the open market in addition to the supply made by the supply depots. Whether hospital authorities are keeping track of the same may be verified.
- (iv) Hospital Stoppage Roll: OFH charges hospital charges from patients for in house treatment/patient admitted to the hospital. Verify whether monthly hospital stoppage has been prepared correctly.
- (v) Check whether prevailing HSR Hospital stoppage Roll. (As it changes time to time) has been charged to the entitled and non-entitled patients correctly or not. Verify whether there is prolonged delay in forwarding the HSR. Whether copies of the same have been sent to respective administrative/billing authority and accounts office for recovery and acknowledgement thereof watched. Recovery action also should be verified from the respective bill groups.
- (vi) Present practice of forwarding of HSR as a hard copy of the HSR list may be queried as to why transfer of above data through E-admin package available in the factories is not resorted.
- (vii) Check the inventory register; verify whether stock verification has been carried out by the Stock Verification group and report recorded. Check discrepancy report. Check new addition/deletion of any inventory item.
- (viii) Check details of items condemned and their disposal procedure.
- (ix) From Register of expendable store/Non-expendable store for daily consumables and medicines, verify the items that are lying un-utilized for a long time check justification for purchase and reason for non-utilisation.
- (x) Medicine stock registers to be checked.

Medicines are received from AFMSD, Lucknow, Pune and other central agency on the basis of indents or procured through tender or cash purchase. All the record maintained by the Central Medicine Store/Central Dispensary of OFH.

- (xi) Verify the indent forwarded by the OFH to the central agency for supply of the medicine and check whether the demand is justified.
- (xii) Verify that expired medicines are weeded out properly. Date of expiry of the medicines should be mentioned in the register.
- (xiii) During audit of medicine procured through tender purchases, verify that non-availability certificate has been received from central agency.
- (xiv) For medicine purchased verify locally the price variation in AFMSD and cash purchase and tender purchase medicine.
- (xv) Verify the register whether receipt and issue are properly endorsed (verify the respective receipt and issue vouchers).
- (xvi) It has come to notice that certain medicine are not issued for a long time and suddenly all the medicine are issued to avoid loss statement due to expiry of date. The issue of the medicine could be verified and checked to find the authenticity of issue of the medicine. Consumption can also be verified in dispensary and OPD with the registration of patients.
- (xvii) Verify whether any medicine has been issued to any non-entitled patients or CGHS beneficiary.
- (xviii) Often highest level prescription has been made by the specialist for a particular brand of medicine regularly, where dishonest nexus exists.
- (xix) Different medicines have different tax slabs. However, on cash purchase, supplier supplies medicine with a consolidated tax with highest slab of 8/9%, even if some medicine is inclusive of taxes. Same may be verified.
- (xx) In some cases, patients receive cash purchase medicines after lapse of one week or more, which defeat the purpose of cash purchase. Reason of the same should be verified.
- (xxi) Hospital authorities should be advised to maintain medicine stock in computerized data base. Computerisation from registration of patients to issue of medicine.
- (xxii) Check loss statement for expired medicine and ask for regularisation the loss.
- (xxiii) Hospital rations store/diet register to be checked. Ordnance Factory hospital issues diet to the admitted patients for in house treatment. Ration store of the hospital deals with the issue of ration to the kitchen for diet as per entitlement of the patients. There are different types of diet like O, C, F and N diet. Ration drawal is made calculating the type of diets with the admitted patients. Rations like wheat, rice, dal etc are fixed per patient per each diet. The order on above subject is available with the storekeeper of the ration store.
- (xxiv) Stock register of ration should be verified for the receipt and issue. Receipt of ration should be verified from the priced receipt voucher forwarded by supply depot or any other agency.
- (xxv) Issues should be verified from the register of rate of diet multiplied by patients.
- (xxvi) Whether monthly stock has been verified may be checked. Where excess stock has been indented than the actual requirement may be questioned. Excess issue of rations than the actual may be objected to.
- (xxvii) Justification for procurement of rations, vegetables and condiments from open market other than the supply depots should be checked. Also loss due to purchase from open market in case prices are higher from supply depot should be questioned
Linen register contains details of stores issued to the wards for the in-house patients. Check whether all receipts are entered in the register.

Audit Drill: Electric supply contract & Consumption in OFs

127. Electric Repair Sections in OFs looks after the maintenance & supply of electricity to production and estate. During audit of electric repair section following may be verified. Audit of contract for supply of electricity by power supplying agency should be carried out. Often OFs enter into contract for maximum demand load in a month. But consequent on commissioning of new CNC machine against number of old conventional machines and due to condemnation of residential building also, there is drastic decrease in consumption of electric energy.

- (i) Check whether the factories are reviewing / renewing the old contract/memorandum of understanding with the power supplying agency.
- (ii) Verify the maximum demand load contracted by the factory (Contract/ memorandum of understanding). Check the last one year electricity bills of contract & different contracts, if more than one substation exists. Check if maximum demand load in the bills given by the supply agencies is less than the contracted demand load. Object to non-revision of demand load. Loss can be calculated taking into consideration the rent fixed for the maximum load and rent of the actual demand load.
- (iii) Verify the rent paid for the contracted demand load.
- (iv) Some of the ordnance factories follow the practice of supplying electricity to the estate and street light or offices like estate, IB, Guest House located outside factory from the production line. Rates of power supplied for production/commercial purpose are often more than the rate for supply to the domestic purpose. Check whether Factory recovers at domestic rate from occupants and pay at higher rate in turn. Advise for separate supply/meter for domestic and other than production use. Details are available in meter reading section of the factory.
- (v) Audit the Fan/Meter Account Register maintained by Electric repair section/Engineering office. Check whether registers are maintained properly and stock verification has been carried out. The details of items shown in the register should be compared with the items shown in the machine block register maintained by Branch Accounts Office.
- (vi) Check whether air conditioner and meter etc. procured through LP head are as per rule. Electric godown of store section can be consulted and transaction/drawl made during the year may be verified to have a better CAAT about the new procurement of the item but not reflected in the block register.
- (vii) Electric repair sections in the factory gives electrical maintenance help to the production section of the factory and the estate. For attending electrical maintenance, the section draws material from the main store and carries out the maintenance work through the available manpower. It is also seen that ER section enters into the Term Contract (TC) for electrical repair service, also through cash purchase. Audit should verify the consumption of material drawn by ER section from store, consulting the demand note and issues. Similarly audit check should be carried out whether work order from the term contract issued for any work against any electrical complaint or not. It should be checked whether work has been done through cash purchase while there exists a term contract.
- (viii) Where the electricity connection has been provided by the factories, the consumption of electricity in each quarter and section etc. has been recorded by meter readers. The meter reader book shows the name of the occupant with details like no. of meter, month, initial reading, cumulative reading and unit consumed during the month. On the basis of this electric bill is prepared and recovered through pay bill or otherwise from the occupant. Verify that the calculation in the meter reader's book for different quarters is free of discrepancy and as per the rate prevailing at that point of time. Verify that the factory has published the rate slab for the unit.

Check defective meters are acted upon and average consumption charged during this period is correct.

- (ix) As per laid down Govt. rules the service personnel including Defence Security Corps are entitled for 100 units free so far electricity use is concern irrespective of their grade, place of posting etc. Audit should verify whether the bill has been prepared by the meter readers section, strictly following the above rule.

Audit Drill: Building maintenance

128. Building sections of ordnance factories are responsible for the maintenance of buildings of factory and residential buildings of the estate & roads inside the factory estate. For maintenance purposed building section indents items related to the maintenance work and draws it through demand note from the main store of the factory. Store keeper of the building section maintains stock register for the same. During the half yearly audit the following should be checked:

- i. Check proper maintenance of stock register.
- ii. Verify the receipts with demand note (sometimes gate pass) and issues with Issue Voucher or issue through register.
- iii. Verify whether the issues are made against any complaint made by the occupant or any agency in occupation of the building. If the section fails to show any complaint against which the material issued, the matter should be examined further.
- iv. Item which are lying in the stock for more than 3 to 6 months in huge quantity, the matter should be examined.
- v. Sometimes slow moving & non-moving items are drawn. On drawl of the material the stock becomes active. The material drawn by the building section is booked to the expenditure of the same year without any gainful utilization and at times, further procurement is also made. Such drawn items should be examined and procurement be objected to.
- vi. Term contracts are made by the factories for civil & water for maintenance of the building. For carrying out the work, building section issues work order on the basis of complaints. Check user certificate held in record for the work.

129. Audit Drill: Civil Works

- (i) No works/services will be executed without obtaining Admin Approval, Technical sanction and availability of sufficient funds. Sometimes Admin. Approval & Technical Estimates/Sanctions are approved by same authority, which is not correct.
- (ii) Contract amount should not exceed the amount of Admin Approval.
- (iii) In case of Limited Tender Enquiry (LTE) minimum six firms should have been participated for healthy competition. If sufficient vendors are not available, the reasons for issuing of Tender Enquiry to the fewer number of vendors are to be recorded.
- (iv) Further, the reasons of inadequate response of the contractors should have recorded in the CST. The action taken/proposed to be taken to stimulate better competition and the reasons for not going for Re-tendering may also to be recorded.
- (v) In case of Re-tendering, the copies of previous tender documents if any (duly stating the reasons of Re-tendering) may also to be submitted along with the Contract agreement.
- (vi) Confirm the submission of Security Deposits by the Contractors during the prescribed time limit.
- (vii) Endorse a Reduction Statement if the contracted amount is less than 15% of the Administrative Approval.

- (viii) Similarly, if the contract amount exceeds by 5% of the Admin. Approval amount, verify whether the action for Revision of Admin. Approval has been initiated or not by the executive authorities and concurrence of the CFA, has also been obtained or not before the acceptance of contract.
- (ix) In some cases Freak Rate are also accepted, hence, verify and confirm whether the reasons for quoting the freak rates (quoting abnormal high/low rates as against the estimated rates indicated in CST), has been called-for or not by the factories from the contractors.
- (x) Verify and confirm whether the CST, has been prepared properly or not and the same has been approved by the executive in token of having the confirmation regarding the correctness and acceptance of Rates.
- (xi) The Reasons for Rejections of Applications for issue of Tender documents should have been recorded.
- (xii) Confirm the Correctness in Code heads against which the expenditure is to be booked.
- (xiii) The reasons for Variations in Contracted amount and the Technical Sanction are to be recorded.
- (xiv) Verify and confirm the Correctness in Percentages of Deviations if any fixed. Ensure that the deviation limit is not fixed as a routine manner instead of fixing of lower percentage of deviation.
- (xv) The details/list of Buildings/Roads for which capital works are carried out, to be furnished in the Contract Agreement.
- (xvi) Confirm that the contractor has submitted his Willingness Certificate for drawl of Water from the Factories/MES, & water charges are recovered from the contractor as per extent rates.
- (xvii) Confirm the Buildings which are included in the Contract agreements are not hired/leased-out.
- (xviii) Confirm that the cost of Repair Works do not exceeds 50% of the Original Estimated cost of construction of the same building.
- (xix) Contract amount should not exceed the powers of Accepting Officer and if so the sanction of the next higher authority is to be obtained.
- (xx) Term Contract should not be concluded for more than the authorised period (i.e. One year).
- (xxi) The details of earlier Contracts should also to be furnished if the similar type of work proposed to be executed through the current contract.
- (xxii) Since the heavy expenditure is involved against these heads, these works/services may be reviewed from the point of view of Cost Benefit Analysis.
- (xxiii) In most of the Ordnance Factories due to non-availability of Civil Engineers (Bachelor of Engineering Civil) post, Technical Examination of Civil Works is not carried-out; this aspect is to be seen.
- (xxiv) Contract's amount should be based on the SSR (Standard Scheduled Rates), notified by concerned Engineer in Chief/ Chief Engineer, of the area.
- (xxv) For Capitalisation of work, confirm that the Job/Work Completion Certificate issued and 'B' Series Receipt Voucher has also been prepared by the executive authority before releasing of final bills.
- (xxvi) Confirm that the Demands for execution of work have been approved by the OFB, against the yearly plan.
- (xxvii) Verification of Contractor's Capacity: Contract amount should not exceed the financial limit of the contractor and if so the contractor has to lodge Additional Security Deposits (ASD) within 30 days of the receipts of acceptance letter.

Audit Drill: Motor transport expenditure and contracts

130. Motor transport section in ordnance factory looks after the transport facility of the factory, both man and material and maintenance of vehicles by Mechanical Transport garage. Following audit check to be carried:

- (i) During half early audit of MT section of an ordnance Factory, verify the unit vehicle register. This register shows the details of vehicle maintained by the factory.
- (ii) Verify the authorization of vehicles and the staff cars being utilized. Also check authorized strength and posted strength of staff car drivers.
- (iii) Verify no. of vehicle condemned but still in use. Vehicles which are condemned should have run 1, 00,000 Km. or for 7 years whichever is earlier. Reason of non-disposal of condemned vehicle as well as use of condemned vehicle may be asked. Expenditure if incurred for repair & maintenance from the MT garage or from outside for the condemned vehicle can be questioned.
- (iv) Verify no other vehicles maintained by the MT section.
- (v) MT section maintains logbook, car diary and mileage card for each & every vehicle mentioned in the unit vehicle register. Also register of POL and spare parts register where receipt and issue of POL & spare parts to different vehicle are recorded. Verify their proper maintenance.
- (vi) Whether requisition has been given by the user for the use of vehicle with place & purpose with approval of competent authority. Similarly whether requisition has been received duly accepted/approved by competent authority for Lorry, Battery Track and other vehicle also.
- (vii) Check the calculation of Kilometer per liter (KPL) of each vehicle noted in the log book. If there is any downward trend, much less than the KPL, shown at the time of procurement of vehicle should be brought into the notice of authority.
- (viii) Verify the drawl of fuel (POL) by a particular vehicle as mentioned in the log book, car diary with POL issue register.
- (ix) Spare parts issued to a vehicle have been entered in the spare parts register, but the same has not been shown in the log book of the vehicle could be highlighted.
- (x) Used tyres, tubes and batteries should be returned to the store on return note.

Audit Drill: Contracts for hiring of vehicles

131. OFs are enter into the transport contract for supply of car/staff car due to restrictions on purchase of new staff cars, jeeps etc.

- i. Verify the justification of hiring staff car. Whether it is as per authorization.
- ii. Verify whether contract for hired car has been made for fixed number of vehicles every day or on requirement basis (on call basis).
- iii. Verify whether vehicle called for use by factory against any requisition or not.
- iv. Verify whether the requisition has been sanctioned by the competent authority and not been misused other than the official purpose.
- v. A sample check of the bill submitted by the contractor may be carried out with the requisition and duty slip (duty slip is issued by the MT Section to the transporter against each requisition) which shows the details of vehicle, user, user sign, Date, time & place of use, Km & time at the start of journey, Km and time at the end of journey and total hour & total Km used in the trip.
- vi. It has come to notice of some of the audit offices that some manipulation is carried out by the transporter.

- vii. Verify 2 to 3 vehicles in a month and catch hold of the Km noted in the start and end of the journey of all the duty slip of that month in respect of the these vehicles. It may happen that in a particular vehicle whose kilometer reading in the next is less than the closing kilometer reading of the previous day.
- viii. Suppose audit verifying the duty slip of vehicle no. NL-01-0672. On 13th Aug 2007 the last Kilometer reading was 14950, so on 14th Aug 2007 the Kilometer reading should start from 14951 or more as the vehicle is not staying inside the factory. But some times transporter was showing the starting kilometer reading as 14920 or less on 14th Aug 2007. In this case, the transporters are charging 30 Km more for the trip. This type of sample check may be carried out to highlight the dishonest practices.
- ix. It is also observed that for a particular place, the Km reading is different than the actual and this may also be questioned.

Audit drill: Central registry

132. Central registry of Ordnance Factory looks after the diarising and dispatch of different types of communication. It maintains the account of postal stamps used by factory. During audit of central Registry ask for the Account postal stamp register verify the opening balance during last audit on a particular period.

- i) Addition of post stamp during the year (some OFs are having franking machines)
- ii) Verify randomly the daily transactions of stamps for ordinary, Registry or Speed Post, use. Verify the receipt against the same maintained by the central registry in separate folder.
- iii) Very the accuracy of daily account.
- iv) Verify whether commission from Dept of post has been received by OF as per the laid down rules OF is entitle to get certain % (presently 3%) of commission for the consumption of postal charge through use of franking machine.
- v) Verify whether above commission has been claimed or not and its timely deposit in the public fund.
- vi) Sometimes franking machine fails to work with huge balance therein, but the OF resorted to the stamp mode again. Audit should point out if the franking machine has not been rectified for a long time. Loss may be calculated in terms of non-receipt of commission due to failure of franking machine.

Audit drill: Fire Brigade and security office

- 133.** (i) Fire brigade section looks after the fire safety of Ordnance Factory and its Estates. Audit log book and car diary for the fire engine. Audit should verify the KPL even taking into a/c the static run of the Fire engine, which is carried out every day.
- (ii) Stock & issue of uniform to fire-man. Verify whether issue has been made as per entitlement with periodicity. Whether issue register has been properly signed by the fireman to whom it has been issued.
 - (iii) Inventory register of the Fire Brigade Section to be verified. Audit should watch, whether verification has been carried out by SV group.
 - (iv) Security office: In security office of ordnance factory, audit the POL register if it is maintaining any vehicle (four wheeler/two wheeler) for security purpose.
 - (v) Inventory register should be verified as per the procedure.
 - (vi) Stock & issue of uniform to Durwan should be verified with entitlement and date of issue.
 - (vii) Stock & issue of permanent passes to employees should be verified with the available document.

Audit drill: Inspection Bungalow & Guest Houses

134. Inspection Bungalow and guest houses maintained by the OF as a transit accommodation for the officers, staffs, and others visiting the OF for official or non-official purpose.

- i) It is often found that rooms of the IB & Guest House are occupied by officers & Staffs for months together without sanction of the competent authority. Audit Occupation/vacation register. In-charge of IB/Guest houses maintains it, which is also known as checking in/out register, which shows the details of the office person staying, purpose of visit, check-in/check-out time, days stayed etc.
- ii) Verify the register with the room rent collected from the visitor and deposited in the cash office. Verify whether collection of rent has been made correctly.
- iii) Verify whether there is any undue delay i.e. more than 20/30 days between collection of rent from occupant and its deposit into Govt. treasury.
- iv) Verify whether occupant is a govt. servant and whether he is on/off duty or not as different rates apply in such cases. Rate chart is available with the in-charge of guest house/IB which is issued by Ministry of Urban development and circulated by OFB/OF from time to time.
- v) Verify the relevant document against which the room in the guest house has been allotted as in-charge is not competent authority to allot room. If no correspondence or authority is available, same could be highlighted.
- vi) It is often noticed that an officer on permanent transfer, has reported to the station and occupies a room in the guest house and does not leave the same after 10 days which is the normal period of stay. It is also found that no sanction of overstay in guest house has been accorded by the competent authority. Same can be questioned and also check whether HRA is being claimed by them.
- vii) It is observed that though the rooms are furnished with Air Condition & geysers, it is found that guest houses are not charging anything towards the same, which could be questioned in audit.
- viii) In some OFs, service charges recovered from the occupant with a particular rate per day. In most of the Ordnance Factories, above service charges are not shown in the public fund. During audit, it can be verified. Whether the facilities inside guest room like mosquito repellent, soap and other bathing articles are purchased from public fund may be checked and management should be asked to deposit the service charges.
- ix) Inventory register should be verified to find out whether any new addition has been made to the inventory list. If any item not returned to store may be audited about its use. Sometime OFs are using estate fund for procurement of Television, Refrigerator, etc. for IB. During audit verify the sources of procurement. If the item procured through estate fund, same could be questioned in audit.
- x) Check whether stock verification carried out annually and all items particularly, high value items such as Liquid Crystal Display/TV/Sofa, Chairs are taken on charge.
- xi) Audit crockery register: Procurement and condemnation and subsequent disposal of crockery may be verified in audit.

Audit drill: Ordnance Factory Institute of Learning (OFIL) & Hostel

135. Documents to be verified are given at **Appendix G** to this manual. Vide *OFB Policy letter no. P/10/05/16/A/HRD dated 20.03.1996* detailed instructions were issued regarding restructuring of Ordnance Factories Training Institute and brought them under administrative control of SAG level officers and instructions regarding transfer of manpower, budget, administration, office equipment, buildings, etc., issued. Vide *OFB letter no. 07/09/03/A-HRD dated 22.09.2003* and further letter dated 11.02.2004, the said institutes were renamed as Ordnance Factories Institute of Learning (OFILs) and vide *OFB letter dated 08.09.1997*, the head of the OFILs were now called Principal Directors (PD) and declared as competent authority in the respective formation under the relevant rules.

- (i) Check that expenditure made by the OFIL is according to budgetary sanction for the particular financial year.
- (ii) Verify Inventory Register for Immovable items along with the stock verification certificate in terms of MOD letter no. 11(9)/2005-D (Prod) dated 14.05.2007. See that all entries in the register are countersigned by the head of the section and duly verified by the stock verification group. Check the condemnation and disposal action of old inventory items.
- (iii) Verify Expense book for consumable items to check the issue and receipt of consumable items. Simultaneously issue vouchers and receipt vouchers of the items may be linked with the entry made in the register.
- (iv) OFB allots expenditure for different training programmes to its employees through OFIL. Audit should verify the allotment and the expenditure incurred for the specific training. Expenditure in the form of stationery for the training, honorarium paid to the faculties for the training and other expenditure incurred in the training should be verified. Verify whether the expenditure is within the allotment or not.
- (v) Audit should verify whether any payment is made to any faculty without drawing the amount from the allotted fund for the particular course.
- (vi) OFIL appoints faculties for the training programmes. Audit should verify the number of classes taken by the permanent faculties during the year. Similarly audit should verify whether OFIL is often inviting guest faculty on payment basis for the regular course, inspite of having permanent faculties.
- (vii) OFILs are granted separate budgetary allotment for procurement through supply orders. For verification of the same, see audit drill for audit of supply order in this manual.
- (viii) For civil works in favour of repairing of buildings, restoration of water supply and electricity, separate budgetary allotment has to be granted to each OFIL. It may be ensured that sanction against the civil work was made by the competent authority and budget was allotted for the particular civil work. Also see drill on audit of civil work.
- (ix) It is found that most of the OFILs are situated nearer to an ordnance factory and the building is either re-appropriated to OFIL or may be on the control of the Ordnance Factory. It may happen that for a single building both the agencies are incurring expenditure for civil and electrical works.
- (x) Separate Imprest Fund for each OFIL is to be maintained by the head of the office to deal with the petty nature of expenditure of the institute. Verify whether proper procedure has been followed to deal with the Imprest Fund. In some OFIL, it is found that due to delay in recoupment of imprest, OFIL uses the rent collected from their hostel. To establish the same the cash book maintained by the OFIL should be verified properly.

- (xi) Documents to be verified in audit at OFIL Hostel
 - a) Arrival and Departure Book/Register for transients/boarders
 - b) Rent Account
 - c) Expense Book for consumable items
 - d) Inventory Register
- (xii) Check that arrival and departure register is being maintained by the Hostel authority to watch the boarders, turnout in the hostel. It may be checked from this register along with the rent accounts that accurate amount of rental fees have been recovered from the occupants of the hostel.
- (xiii) Check the authority for allotment of rooms in the hostel for the participant/govt. employee. Any allotment without any authority should be objected to.
- (xiv) It is also to be watched in audit that the recovered amount is being deposited into the Govt. account through MRO within the stipulated period. In many cases, it has been observed that amount recovered from the occupants has been deposited in cash office by means of MRO after lapse of 40 to 45 days which is highly irregular and should be objected to.
- (xv) Sometimes it is found that hostel rooms are allotted to other than the participants of the course and who stay for an indefinite period. This should be objected to as un-authorized occupancy and Damage rate of rent recovery should be suggested
- (xvi) Inventory Register for OFIL Hostel along with the stock verification certificate in terms of MOD letter no. 11(9)/2005-D (Prod) dated 14.05.2007 should be verified in audit and the discrepancies must be highlighted in audit.
- (xvii) Expense Book for Consumable items should be verified to check the receipt and issue of consumable items at OFIL Hostel.

Audit drill: Ordnance Development Centers (ODCs)

- 136.** (i) The ODCs were created to develop new products and upgrade in a focused manner under independent units in collaboration with Indian/Foreign partners. It has been observed that a large number of Research and Development projects are outstanding with time/cost over-run and also projects are being abandoned / foreclosed without meeting the objectives.
- (ii) It is observed that work assigned to the ODCs is being carried out by the respective R&D due to infrastructural problem of ODCs. In some ODCs that the expenditure is being incurred on the publicity of products rather than on Research & Development. Check that expenditure on these ODCs is as per their objectives.
- (iii) Accounting of capital assets between Factory and the ODC after creation of these centers may be verified in audit.
- (iv) Audit should verify the project-wise details of the ODC from the allotment stage to the final outcome of the project. Verification should be carried regarding booking of expenditure in different head under the project.
- (v) Outcome of the completed projects and whether objectives achieved should be verified in audit.
- (vi) Sometimes it is noticed that indenters cancel the indent/order due to abnormal delay in R&D project such infructuous expenditure on R&D projects should be highlighted.
- (vii) In many cases projects either short closed or cancelled due to various reasons. The reasons for closing/cancellation of the projects should be verified and audit should exhibit the lapses in this regard.
- (viii) Examine the procedures adopted in all transfer of technology case (completed or in-progress) for irregularities. Often in Transfer of Technology contract the development of product is assigned to a different Public Sector Undertaking rather than OFB. OFB is used only for transfer of funds/payments for contract.

- (ix) When the projects fail to achieve the objectives, how the expenditure incurred has been regularized may be verified.
- (x) At the time of assigning a project, the agency gives a probable date of completion of the project with the value of the project thereof. In most of the cases ODCs are not able to complete the same and expenditure on the project increased manifold, resulting in time overrun/cost overrun. Audit should highlight the same in the audit and calculate loss due to delay.

Audit drill: DGQA Establishments

137. The Directorate General of Quality Assurance (DGQA) is under Deptt. Of Defence Production , Ministry of Defence. This organisation provides Quality Assurance (QA) cover for the entire range of Arms, Ammunitions, Equipments and Stores supplied to Armed Forces. Apart from QA activities, the organisation is responsible for import substitution and associated with Defence Research and Development Organisation (DRDO) in the development projects. It also ensures Documentation, Codification and Standardisation Action for minimizing the variety of components / equipments. The other services rendered are Defect Investigations and Technical Consultancy to the users, Ministry and the Production Agencies.

DGQA also renders technical services like: (a) Specification control and act as Authority Holding Sealed Particulars. (b) Preparation, Revision, Updating & Issue of Drawings, specifications, Technical publications & Quality related instructions. (c) Issue of DGQA approvals/assignment lists & cataloguing of Defence Stores. (d) Associating with design / production agency during developmental / trial stages. (e) Standardisation & codification. Responsibility of quality assurance of the products of Ordnance Factories vests with inspectorates. The quantities manufactured are inspected for quality assurance as indicated below:

- (a) In-stage Inspection: - This is the inspection carried out by factory or service inspector of “Components” and “Assembled” Stores during manufacture before being submitted to the service (DGQA) inspector for final inspection.
- (b) Final inspection of items manufactured is carried out by Authority Holding Sealed particulars:
 - (i) For Army Stores- Director of Technical Development.
 - (ii) For Naval Armament Stores- Director of Naval Armament (Inspection).
 - (iii) Naval Stores - Director of Stores (Production).
 - (iv) Air Force Stores- D.T.D.P. & A.

Number of samples to be inspected at final inspection is entirely a matter for Inspecting Authority to decide and may range from 1 per cent to 100 per cent.

The list of DGQA units under audit jurisdiction is given at **Appendix G**

Role: DGQA organisation is responsible for Quality Assurance of Defence Stores produced by Ordnance Factories, Public & Private Sector Units as also procured Ex-Import.

137.1 Quality Assurance

- (i) Quality Assurance of Defence Stores on behalf of Users Ex Ordinance Factories, Public & Private Sector Units as also procured Ex-import.
- (ii) Formulation of Quality Assurance Plans.
- (iii) Technical Evaluation & Final Acceptance.
- (iv) Technical guidance to Manufactures on quality related issues.
- (v) Act as interface between user & Production agency appreciating User's expectations and at the same time understanding Manufactures problems.
- (vi) Pre & Post Contract services to Defence Indenters.

137.2 Technical Services / Guidance

- i. Specification control and act as Authority Holding Sealed Particulars
- ii. Preparation, Revision, Updating & Issue of Drawings, specifications, Technical publications & Quality related instructions.
- iii. Provides technical product related services to Users in Field / Fmn HQs / Training Institutes / Service HQs. (ad) Render Technical advice to Service HQs.
- iv. Issue of DGQA approvals / assignment lists & cataloguing of Defence Stores.
- v. Associating with design / production agency during developmental / trial stages.
- vi. Standardisation & codification.

137.3 Defect Investigation Evaluation of User's feedback to include defect investigation & advice remedial measures & product improvement

- i) Cash audit: As per cash drill for OFs
- ii) Service Book Audit: As per drill for OFs
- iii) Procurement: Delegation of Financial powers to DGQA circulated vide Ministry of Defence No.63921/Delegation/ DGQA/ADM/RMD/ Budget/1352 /D(QA) dt. 31st May 2005 and further amended vide letter dated. 20.10.2005.
- iv) Check whether correct procurement procedures are being followed.
- v) The procurements are not beyond the delegated powers of the CFA
- vi) Check whether items procured were taken on charge and utilized
- vii) Stock taking at the end of the financial year. Any discrepancy in stock.
- viii) Check the details of lots rejected by QA units and reasons for rejection. This will give clue to heavy rejections in OF.
- ix) Check the investigations carried out by QA units. The lots that lead to accidents in the Army units are investigated by QA units. The reasons/responsibility should be checked from the file and the losses to the government should be calculated.
- x) In case of IFD often a lot cleared by QA unit of consignor factory is rejected by the Consignee factory. Such cases should be examined with help of the counterpart IA cell in-charge.
- xi) In case of spill over production, the issue vouchers are issued even before completion of the production. In such cases the role of QA officers in clearing the lot in inspection should also be seen. It should be checked how clearance was given by QA when the production was not complete by 31st March.
- xii) The staff/officers strength, work load and outsourcing of work should be examined.

8. Cash Audit, Energy & Environment Audit and Post Audit of Sanctions Supply Orders & Paid Bills

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8. Cash, Energy & Environment Audit and Post Audit of Sanctions Supply Orders & Paid Bills

Drill for audit of Cash Book

- 138.** (i) Ensure that the G.M has properly delegated the duties of maintaining Cash Book to a Cash Officer or to a Cashier.
- (ii) Check whether the Cash Officer is a Gazetted Officer or not since as per existing orders the Cash Officer should be a Gazetted Officer.
- (iii) Ensure that the Cashier has correctly deposited the Security Deposit/Indemnity Bond/Fidelity Bond etc. in terms of Rule 200, FR part I, vol-I & it is in correct form & amount.
- (iv) DGO is the competent authority in case he wants to exempt deposit of such security deposit from any Cashier in any particular case.
- (v) Ensure that such delegation will not absolve the G.M from his responsibilities towards financial responsibilities. Find out whether he is conducting surprise check of Cash Book /Cash at least once in a month or not.
- (vi) Find out whether the Cash Officer is exercising direct supervision over all monetary transactions & personally check & initials all entries in the Cash Book on a day to day basis or not.
- (vii) Ensure that all receipts & payments of money in the form of coins, currency notes, cheques, pay orders/demand drafts, electronic transfers etc. are invariably been posted in the Cash Book on a day to day basis; receipts being posted on the debit side & payments on the credit side.
- (viii) Check that when bulk amount has been drawn, each transaction has been posted separately in the column “particulars” showing cheque No. & date and the same have been posted in credit side & debit side under Bank & Cash columns respectively.
- (ix) Ensure that transactions occurring during the course of the day are invariably entered in the Cash Book on the same day & must not be left over for posting in some other day.
- (x) Check that cash received or realized in satisfaction of Government dues, must be remitted into the treasury at the very first opportunity on a Military receivable order (MRO) receivable order & on no account will such amount be utilized or spent on any other purpose. Ensure that such receipts are invariably been deposited in Banks/Treasuries within the next working day.
- (xi) Ensure that sums drawn for a specific purpose but not required subsequently for that purpose must be remitted into Banks/Treasuries for credit to the Government. No spending should be met from that saving/excess drawn amount.
- (xii) Ensure that no money should be drawn from the current account of the Factory unless there is any prospect of disbursement of that amount.
- (xiii) Check that for all cash recoveries being effected by the Cashier, the concerned individual is being issued a proper pre-printed receipt in IAFA-175 & the counterfoil thereof must be retained in the safe custody of the Cash Officer for requirements of the audit authorities.
- (xiv) Check that in case of vernacular receipt signature, other than in Hindi, on bills /Vouchers, the signatures have been transliterated & check whether the thumb impressions have been duly attested by the disbursing officers & not by his subordinates.
- (xv) Ensure that private deposits are not kept, under any circumstances, in the Treasure Chest.
- (xvi) In case manual system of maintenance of Cash Book is replaced by computerized system of cash book maintenance. Check that all columns available in the printed form i.e. IAFO-1887

are available in the computerized format. Ensure that the existing Heads of Accounts in the Cash Book remain unchanged & if any changes have been made therein, it must have to be concurred by the LAO.

- (xvii) Check that entries on the debit & credit sides on any side of page of the Cash Book pertains to the same date i.e. payments for the 10th of a month should be posted on the credit side of the Cash Book on which the receipts are posted on the debit side and vice versa.
- (xviii) Verify the entries in the cash book on a particular date & ensure that the difference between the totals of Cash & Bank on the debit side & credit side should always be equal to the differences of the totals of the detailed headings on those sides.
- (xix) Ensure that the balance as per Cash Book at the end of the day is checked & agreed with physical cash balance in the cash box/chest. Any discrepancy on no account is left over to be reconciled later on. Any actual deficiency in cash must be reported to the G.M for necessary action.
- (xx) Ensure that entries in the Cash Book are serially numbered, separately for debit entries & credit entries, for each month. These serial numbers must be entered on the bill, voucher, check slip etc. to which the entry may relate.
- (xxi) Check whether the statement of assets & liabilities (balance sheet) has been prepared & incorporated at the end of each month in the Cash Book or not. The asset side (right hand side) will exhibit the unexpended balance remaining in hand & the amount due from the LAO & the liability side (left hand side) will exhibit what this balances are i.e. those items for which funds have been drawn but the amount has not been disbursed.
- (xxii) If incorrect posting or any mistake after a lapse of time (when correction may involve alteration of figures in several consecutive pages) should be corrected by preparing adjustment vouchers debiting or crediting as the case may be & brief narration to be given in the adjustment vouchers itself. In no case, erasing or alteration of figures is permissible.
- (xxiii) Check that at the end of each month a bank reconciliation statement has been prepared in order to reconcile the bank balance as per Cash Book with the balance held in the bank at the credit of the Factory's account on that date.
- (xxiv) The closing balance on the credit side at the end of the month should be carried over to the next month on the debit side in their respective columns as the opening balance. Ensure that those balances have been correctly brought forward.
- (xxv) Ensure that the cash in hand with the cashier should be kept down to the minimum (consistent with meriting claims in a reasonable time.)
- (xxvi) Figures once written in the cash book must on no account be erased or over written. Incorrect entries, if any, should be neatly scored through & the correct figures written above, must be attested under dated initial.
- (xxvii) Every G.M is having one Imprest Account to meet day to day miscellaneous expenses.
- (xxviii) Ensure that imprest account is maintained in the Cash Book under the Column "Contingency". Ensure that expenses met from this account are posted on day to day basis in the relevant column.
- (xxix) Ensure that whenever any cheque for recoupment of the imprest is received from the LAO, it is included in the main cash book on the debit side under the column "Contingency".
- (xxx) In the balance sheet of the Factory, the sanctioned amount of Contingency will appear on the liability side & the balance of the cash, in hand, & the amount spent but not yet claimed/recouped will appear on the asset side.
- (xxxi) Ensure that the Cash Book is audited by the concerned IAO at least once in every six months.
- (xxxii) The IAO will also be responsible to physically count the cash in hand in the cash box and tally with the closing balance as per Cash Book.
- (xxxiii) Ensure that whenever there is any change of the Cash Officer or the Cashier, proper handing over/taking over is invariably be carried out under the proper supervision/orders of the G.M.
- (xxxiv) Ensure that the requisite certificate in this regard is duly incorporated in the Cash Book & duly signed by all concerned officers.

- (xxxv) As per the revised list of functions to be discharged by the Internal Audit (Annexure-B attached to Ministry of Defence, Department of Defence Production No. 1 (28)/2005/D (Prod) dated 11th. August, 2005), audit of Cash Book in respect of Ordnance Factories & other Units under Ordnance Factory Board & respective Branch Accounts Offices are required to be carried out by the concerned Internal Audit Cell.
- (xxxvi) Accordingly, while carrying out cash audit of the Branch Accounts Offices, the provisions contained in the aforesaid audit drill are also to be followed mutatis mutandis.

Audit Drill: Disbursement Certificate

139. Audit of this issue to be audited by the Internal Audit Officer/Sr. Internal Audit Officer during the Cash inspection of the factory management.

- i) Check that the total amount passed for payment during the month agrees with that in Agreement Form of Labour.
- ii) The total recoveries made agree with that in Agreement Form of Labour.
- iii) The amount of advance drawn agrees with the cash taken through requisition.
- iv) The absentee payment made during the month is supported with Extract of Absentee payment in. Arithmetical calculation is balanced Un-disbursed amount shown agrees with the extract of absentee payment register.
- v) Deductions to be checked with relevant schedules.
- vi) Licence fee recoveries shown in disbursement certificate should be checked with Rent Rolls.
- vii) Total amount of deductions as noted in disbursement certificate will agree with the total shown in Agreement Form of Labour.
- viii) Amount payable as shown in the disbursement certificate is checked with the total amount shown as payable in the Agreement Form of Labour should agree.
- ix) The arrear wages paid as shown in the disbursement certificate will be verified with list as well as the entries in the Absentee Payment Register.
- x) The amount of undisbursed wages which can be worked out from the details of disbursement certificate to be checked with grand total of Absentee Payment Register to check that they agree.
- xi) Agreement Form of Labour: In this document checking is done to see that the amount shown as passed for payment during the month agrees with the total of Monthly Acquittance Roll of all employees and Supplementary Acquittance Roll for amount not claimed in regular payment. The recoveries effected during the month agrees with the total amount shown in the schedule. Undisbursed amount shown agrees with the extract of absentee payment register.
[Source: Para 214 OMPart VI, Vol. –I]
- xii) Extract of Absentee payment: It contains the name of individual who were absent on the date of regular payment. This will also contain the amount paid during the month to those individual who were absent during the regular payment day of the same month or previous months.

Checklist: Evaluation of Internal Controls in OFB/OFs relating to Cash Management.

140. (Authority: C&AG manual on evaluation of Internal Controls)

- i) Whether cash book is maintained in prescribed form ?
- ii) Whether cash book pages are machine numbered
- iii) Whether cash book contains a certificate on the first page regarding the number of pages duly signed by Competent Authority

- iv) Whether entries of receipts and expenditure are made promptly every day in the Cash Book and attested by Defence Estate Office every day after verification of receipts and payments with challans and vouchers ?
- v) Whether pre-numbered receipts are issued in case of cash receipts?
- vi) Whether the entries in the cash book are checked by an officer not connected with the writing of cash book?
- vii) Whether certificate to the effect that the cash balance found during physical verifications agreed with the balance is recorded in the cash book?
- viii) Whether surprise check of cash balance is conducted periodically by authorities not responsible for maintenance of cash book and a certificate to the effect that the cash balance found during physical verification agreed with the book balance is recorded?
- ix) Whether a report of surprise check is maintained?
- x) Whether huge cash balance is maintained, in comparison with requirements for immediate disbursement. (*As per Rule 100 (2) of Receipt & Payments Rules, 1983*) money shall not be drawn from Government accounts unless it is required for immediate disbursement?
- xi) Whether payments are preferably made by cheque only and whether payment of large amounts (exceeding prescribed value) is made in cash and not by cheque (Payment of amount exceeding ₹ 10, 000 should be made by cheque, as required by *Receipt and Payment Rules, 1983*)?
- xii) Whether the book balances are periodically checked with physical balances and tallied?
- xiii) Whether receipts are correctly posted in chronological order from all receipts book?
- xiv) Whether bank reconciliation is prepared regularly and differences between balances as per bank pass book and cash book are being investigated and cleared?
- xv) Whether cash receipt are not diverted to meet day to day expenditure?
- xvi) Where subsidiary cash books are maintained, the transactions therein are accounted for in the main cash book promptly?
- xvii) Whether cashier has furnished fidelity bonds?
- xviii) Where cash balances are kept within limits prescribed and not excessive?
- xix) Whether all receipts (including cheques, drafts, etc.) were posted in accounts and deposited into Government account on the same day or next working day. (*As per Receipt and Payment Rules, 1983*) ?
- xx) Whether Bank accounts have been opened with proper approval?
- xxi) Whether there is a need and justification of having more than one bank account?
- xxii) Whether the payments are properly authorised and recorded immediately in the accounts?
- xxiii) Whether counterfoils of pay in slips or cash receipts are on record?
- xxiv) Whether cheque books are kept in safe custody and the prescribed procedure is duly observed?
- xxv) Whether the paid cheques accompanying the Bank Scroll are examined to find out that there are authorised alterations in the names of the payees and the amounts payable. In cases where such alterations are found even under attestation of the DDO, the cases are checked with reference to the related paid vouchers and sanction?
- xxvi) Whether adequate care is taken in using cheques in lieu of cancelled / time barred cheques with reference to relevant records?

Audit Drill: Energy Audit in OFs

141. Energy Audit is an effective energy management tool. By identifying and implementing the means to achieve energy efficiency and conservation, not only can energy savings be achieved, but also equipment/system services life can be extended. All these mean savings in money and protection of environment. An Energy Audit is an examination of an energy consuming equipment/system to ensure that energy is being used efficiently. In many ways, this is similar to financial accounting. Building manager examines the energy account of an energy consuming equipment/system, checks the way energy is used in its various components, checks for areas of inefficiency or that less energy can be used and identifies the means for improvement. *MOD (Directorate of Planning and co-ordination) vide their*

letter no. 4(75)/Energy audit/2005/TP (Plg-IV) dt. 18.04.2006 issued directions on energy audit. Based on these directions, OFB formulated SOP on energy audit in Ordnance Factories. SOP provides for two types of audit:

1. Energy audit through internal sources on annual basis
2. Energy audit through external energy auditor, once in 5 years by accredited auditor selected on OTE basis

141.1 It may be seen in audit:

- i) That the SOP is implemented in the Factories.
- ii) Whether Annual Energy Audit is being carried out by the OFs.
- iii) Whether 5 yearly Energy Audit is being carried out by hiring external energy auditor
- iv) SOP provides that to facilitate the energy audit factory management has to maintain following data with drawings where applicable. Audit should check that these documents are being maintained.
 - a. Electrical distribution line/cable layout,
 - b. Boiler and steam distribution layout,
 - c. Compressed air system layout,
 - d. Refrigeration system layout,
 - e. Water line network for potable water & fire fighting line
 - f. Energy consumption data,
 - g. List of equipments/plants/machinery with standard energy consumption data.
- v) It should be checked whether any system to ensure conservation/optimum use of energy exist in factory.
- vi) Energy/fuel consumed directly into production need to be booked in direct charge and energy Fuel consumed on other service as over head. It should be checked whether such data is being maintained to book the expenditure correctly in Annual expenditure as per the following proforma.

Years	Total Energy		On production		On paying consumer		Others	
	Unit	Exp	Unit	Exp	Unit	Exp	Unit	Exp

- vii) It should be ensured that electricity meter are installed for residential and commercial establishments and recoveries are made.
- viii) Electric supply contract should be audited to check that the same is as per the actual consumption and excess payments are not being made on account of penalty etc.
- ix) Energy efficiency check list:
 - a) Is your facility using the most energy efficient lighting options (fluorescent mercury vapor, etc.)?
 - b) Are you making effective use of available lighting, such as solar energy lamps in parks, estate.
 - c) Have OFs installed lighting management equipment such as dimmers, timers and sensors?
 - d) Are furnaces, boilers and air conditioning systems operating efficiently and complaints acted upon in time ? Is there a regular maintenance and update schedule for these systems ?

- e) Are Motors and Equipment maintained so that it is operating at maximum efficiency ?
- f) Whether equipment load compatible with manufacturer specifications. Is there drill to shut down machines when not in use ?
- g) Are there any instructions/drill for turned off lights, fans and equipment, computer, printers, etc., when not in use?

Audit Drill: Environment Audit in OFs

142. ‘Environmental Audit’ is an important area of emerging audit. According to World Bank, environment audit is a methodical examination of environmental information about an organization, a facility or a site, to verify whether, or to what extent, they conform to specified audit criteria. The criteria may be based on local, national or global environmental standards. Thus, it is a systematic process of obtaining and evaluating information about environmental aspects. According to International Organisation of Supreme Audit Institutions (INTOSAI) framework, Environment auditing can encompass all types of audit, i.e., financial, compliance and performance audits. The C&AG has brought out guidelines on Environmental Audit and climate change. The Ministry of Environment and Forest has details of Act and Rules on the subject. The main statutory provisions relevant for OFs audit are :*The Forest Conservation) Act,1980; The Water (Prevention & Control of Pollution) Act,1974; The Water (Prevention & Control of Pollution) Cess Act,1977; The Air (Pollution and Control of Pollution) Act,1981 and The Environment (Protection) Act,1986.*

Audit Drill: Post Audit of Financial Sanction

143. Sanctions and orders which are applicable to Defence Services issued by the Government of India and various Defence Organisations with the concurrence of the Ministry of Defence (Finance) are communicated by them. Such sanctions should indicate that the order/memorandum/letter issues with the concurrence of Ministry of Defence (Finance) vide their UO number. These are not audited by Internal Audit. Sanctions and orders issued by authorities lower than the Government of India are communicated by the OFB or CGDA by the Ministry of Defence. Such sanctions will be viewed as sanctions issued by authorities lower than Government of India and will be subjected to Internal Audit. These do not apply to sanctions of a general nature including those involving delegation of powers.

- (i) One of the important functions of audit in relation to the audit of expenditure is to see that each item of expenditure is covered by the sanction of the authority competent to sanction it. Here, audit has not only to see that the expenditure is covered by a sanction, either general or special, but it has also to satisfy itself (i) that the authority sanctioning it is competent to do so by virtue of the powers vested in it by the provisions of appropriate orders or Regulations and that the sanction is definite and thus needs no reference either to the sanctioning authority itself or to any higher authority.
- (ii) The sanctions are issued by the OFB as per R.N. no Genl/BS dt.20.05.1980. The sanctions of the Board, Members of the Board are issued on specified format and countersigned by Finance Division. There is no central database on sanctions issued by OFB, however separate control serial numbers are given in each section. In case of OFs the sanctions are received in IA Cells from different sections of OF. Many times they have reference number of File from which they are issued instead of serial number. While auditing sections of OFB and OFs, the audit should check that all the sanctions are contained in the guard file maintained (preferably centrally) by each section and that sanctions are as per delegation of financial powers.
- (iii) Check that copies of all sanctions issued by OFB are sent to CIA (OFs) Main Office. In case of OFs it should be checked that the sanctions are serially numbered and that one copy is endorsed to IA Cell invariably.
- (iv) Check that the sanctions were within the delegated powers and that there were sufficient funds available.
- (v) The role of TPC is recommendatory in nature, check that the recommendations had been approved on file and financial sanction of the Competent Financial Authority as per the delegated financial powers had been obtained.
- (vi) Check that decisions/deliberations of individuals /Tender Committee have been properly documented so that accountability can be fixed if serious lapses are established.
- (vii) Check that part files which were opened for specific procurements were merged with the main file so as to ensure continuity and prevent arbitrariness in decision making.
- (viii) Check whether obsolescence factor taken into account by ensuring that the equipment to be purchased conformed to the latest specifications and technology available in the market.
- (ix) Check that there is no rush of expenditure on procurement at the close of the financial year or fictitious booking merely with the view to utilize budget grants .

- (x) Check whether the rates were estimated in a professional manner and not simply by extrapolating prices of low capacity equipment or by applying uniform yearly compounded escalation over prices of similar equipment purchased earlier.
- (xi) Check whether Rate analysis has been done in a realistic and objective manner on the basis of prevailing market rate, last purchase prices, economic indices for raw material/labour and other input costs etc.
Whether comparison of rates vis-a-vis other departments/Factories procuring similar commodities was done through exchange of information? Was last purchase price (LPP) of past successfully executed orders of similar magnitude and scope of supply, used as an input for assessing rates ?
- (xii) Check whether in respect of standard type, common user items, needed on a recurring basis for which DGS&D has concluded rate contracts, the Department has operated such rate contracts, in order to save time, effort and other related costs in repetitive tendering and reduce lead time in procurement.
- (xiii) Check that at the time of placing repeat order, power of the CFA have been reckoned keeping in view original quantity plus repeat quantity.
- (xiv) Check if there is sufficient evidence to indicate sanction was not given to split requirement to avoid sanction of the next CFA. This analysis can be done using CAAT software and to find out the Splitting of sanction following procedure may be followed :
Master File required from Br. AO (it can also be obtained from PPC package of OFs):
 - Item Code (*ITEMMAST*)
 - Purchase Order (*POMAST*)

Steps involved:

Step 1. *Import* the Purchase Order Details of the Factory for a year.

Step 2. *Duplicate Key Detection*: detect Duplicate key on Item Code. From the resulted duplicate database obtained, audit can find, where item of the same item code has been procured during a month more than once and having different supply/purchase order numbers. Purchase of same item at short intervals at different rates should also be identified and objected to.

(Authority against splitting: GFR, OFB procurement Manual & C&AG practice guide on audit of procurement)

Audit Drill: Post Audit of Supply Orders

144. Based on the recommendation of TPC, PV section of the Factory prepares the Supply Order on the prescribed format and thereafter the entire case file containing the Supply Order, CST, Ranking Statement and other documents are forwarded to the Accounts Office along with draft SO for post-audit. Draft S.O. in respect of non-TPC cases are forwarded to A. O. for pre-audit along with CST, RS & other documents.

Audit of SOs is required to be done along with the supporting document like sanction, bill, TPC minutes etc. The audit should check minimum 10% to 20% or 50 to 250 high value (above ₹ 10 lakhs) SOs in a quarter depending upon the size of the factory and the number of transactions. The exact number of SOs for audit will be decided by the IA Cell in-charge. The SOs should be selected for audit using CAAT on the basis of the value of SO. Apart from auditing single SO audit is also required to check the PO master in PPC package of OFs in order to check the system failures.

While auditing SOs, the checks mentioned in audit drill for sanctions and procurement procedures as mentioned at Para 72 and 82 should also be carried out in addition to those mentioned below:

- i) Audit should verify that all the standard clauses are included in the SO, like Budget code head depending upon the nature of the item, Security Deposit, Delivery Period, Qty, Basic Rate, Value, Rate Of Liquidated Damage, Tax And Payment Terms, Nomenclature Of Stores, Inspection authority, Secruiti Deposits etc.
- ii) It may be checked that there is no inordinate delay between date of TPC and placement of supply order.
- iii) Check whether Security Deposit, if not waived has been deposited by the firm within the specified time by the firm.
- iv) Check whether copies of SOs have been issued to concerned tax authority under whose jurisdiction the firm falls.
- v) Highlight the discrepancies, cases of procurement under the sanction of lower authority, in-judicious/ irregular/ improper procurement leading to blocked inventory, cases of extra expenditure/ avoidable expenditure and cases of failure/ breach of contract; resulting in loss to the State, cases of unintended benefit extened to the firm etc.
- vi) To check that payment terms have been agreed to and are as per the standard terms/spot payment and advance payment terms.
- vii) Audit should check that SO are not placed on slow/non-moving items. This check can be carried out using CAAT. To verify whether procurement has been made when the items are available in Priced Production Ledger/component or Slow moving and non-moving items, following procedure to be followed in CAAT.

Step 1: Obtain Purchase Order detail with all fields (source: PPC) from PO master for a year.

Step 2: Obtain master file on stock items (*m_stkitm*) which has details of inventory items along with details of slow moving and non moving items. Obtain master as on 31st March of the previous year (Source: PPC).

Step 4: Obtain details of outstanding PPL/Component (source PPC or Br.AO).

Step 5. *Import* the above master files to CAAT.

Step 6. *Summarize* the Purchase order details item code-wise.

Step 7. *Join* the summarization with PPL data with *common field* as item code and join with *matches only*.

If any data is found where though there is outstanding PPL/component and procurement has been made, then the same can be verified in audit. Similarly slow moving and non-moving data base can be verified with PO details by *joining*, taking item code as *common field*.

- viii) Audit to check that the SOs are not outstanding beyond delivery date unless extension has been granted. The can be done by using CAAT.

Step 1: Import data from PO master (*m_po* & *m_popt* and *m_podel*) file of PPC package for a specified period of last few years. Append it into one file.

Step 2: Create a virtual field subtracting quantity ordered (*m_po* and *m_popt*) and quantity delivered (*m_podel*) item code -wise.

Step 3: Direct extract data relating to SO where quantity delivered is lesser than quantity ordered.

Step 4: Extract all the cases where delivery date is over more than a month.

The factory management may be asked to review the cases and close or extend the SOs. The list of outstanding items should also be compared with the list of slow/non-moving items in the inventory master file (*m_stkitm*). The information is available in the file *fsn_cd*.

Audit Drill: Suppliers' Bills

145. The suppliers' paid bills cannot be audited in isolation. These are required to be audited with reference to supporting documents. The paid bills in respect of the Sanctions/SOs already selected for audit as per para 82 may be checked with reference to the check list given below:

- (i) Audit paid bills of third party payments, LP/CP/FP in 5% to 10 % or 150 to 300 bills per quarter. Using CAAT extract high value bills above ₹ 10 lakhs from the master database of Branch Accounts Office for audit. In case of small factories that do not have such large number of high value bills, RIAOs should take appropriate decision regarding minimum value of paid bills to be audited. 10% to 20 % or 100 to 200 cases of the spot/provisional payments and advances should also be audited.
- (ii) Check that the bills are complete in all respect and in the prescribed form duly stamped and & signed in ink by the appropriate authority.
- (iii) Check that the mode of payment viz. Advance Payment, Spot Payment etc. is as per terms and condition of the SOs. Check that payment is within the financial power of the sanctioning authority and the details of such payment suitably noted in the relevant register for follow up action.
- (iv) Check that whenever provisional payment has been admitted the sanction of the competent authority has been obtained duly concurred by the associated finance. In audit provisional payment register may be audited to see that the same has been regularized promptly.
- (v) Check that the necessary Credit Verification Certificates regarding receipt of stores is endorsed in the bills with supporting Receipt Vouchers number.
- (vi) Carry out detail review of the paid bills as per rules & orders regarding the Nomenclature Of The Stores, Rates, Quantity, Delivery Period, Amount Claimed, Amount Passed w.r.t. relevant SO and sanction.
- (vii) Highlight the cases of Over Payment, Procedural Irregularities exceeding of Annual Budget Allotment and cases of Out Of Turn Payments.

