



# ISSUE BRIEF

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## Delegation of Financial Powers to Defence Services (DFPDS) 2015 Needs A Review



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*We also have to bear in mind that we are quintessentially a contingency organisation in that our peace-time rates of effort, in many respects, are markedly less than what they would be in war. If we are faced with the prospect of an operation, when rates of effort will accelerate quite significantly, then clearly consumption will accelerate and the issue of having enough depth in our stocks, or in terms of what we would describe as 'reserve stocks', is fundamental if we are to be able to sustain those rates of effort until the procurement pipeline actually comes on stream.*

- Major General Desmond Maurice Mueller,  
Command Support Australia,  
Department of Defence, Victoria Barracks,  
in his testimony before the Joint Committee of  
Public Accounts, General Accounts Office,  
Commonwealth of Australia.

### General

Policies emanating from the Government of India, to be executed by the armed forces, are issued by the Ministry of Defence (MoD) from time to time, duly scrutinised and cleared from the financial angle by its integral Finance Division. The DFPDS 2015, laying down the

### Key Points

1. The DFPDS 2015 which lays down the procurement and non-procurement powers primarily for military officers has been issued by the Finance Division of the MoD. The policy was last issued in 2006 after consultations with the Service HQ. The DFPDS 2015, however, does not follow a consultative mechanism and has largely ignored the representations and concerns of the Army.
2. Even though there is no IFA framework in place at all levels to execute the provisions of the policy, it has been made effective since May 01, 2015, and is already affecting critical procurements, especially at the field formation level and military hospitals.
3. The inherent financial powers of military CFAs have been withdrawn through this policy and they can now exercise any financial power, irrespective of the amount or urgency, only after concurrence of the IFAs, staffed by the officials of the IDAS or Group B staff of the DAD. The requirement of IFAs only for the Army to execute the provision of this policy will be in thousands, given the quantum of procurement cases, which the DAD is not in a position to provide and, therefore, its accounts officers from the Group B cadre will function as Finance Officers after a week of orientation training.
4. There is an urgent need to review the policy to prevent hollowness of equipment at the cutting edge of the Army and effect judicious expenditure of the budget.

The Centre for Land Warfare Studies (CLAWS), New Delhi, is an autonomous think-tank dealing with national security and conceptual aspects of land warfare, including conventional and sub-conventional conflict and terrorism. CLAWS conducts research that is futuristic in outlook and policy-oriented in approach.

## Delegation of Financial Powers ...

charter and mandate of the Defence Accounts Department (DAD) as well as delegated powers for military officers as Competent Financial Authorities (CFAs) for revenue and capital expenditure has, in keeping with the past practice, been issued under the signatures of a Joint Secretary and Additional Financial Advisor of the Finance Division of the MoD rather than the MoD itself. The MoD (Finance Division), the Controller General of Defence Accounts (CGDA) and its affiliated organisations are staffed by the Indian Defence Accounts Service (IDAS) cadre responsible for the overall financial management of the defence Services. Last promulgated in 2006, the DFPDS was under revision for the last few years and after intense deliberations spread over years, has been notified despite disagreement from the largest stakeholder, namely, the Army, reportedly having conveyed its dissent towards implementing the policy in its present form. The Finance Division of the MoD, through this policy effective from May 01, 2015, has laid out explicit provisions encapsulating a number of accounting and financial best practices in the defence Services.

The rationale behind the issue of this policy, as highlighted in its provisions, is to embed an oversight mechanism over decentralisation of decision-making, based on the principle of reasonable assurance to the executive at the highest level, in this case, the Raksha Mantri (RM) in whom the financial powers are vested. All financial delegation and decentralisation of powers through this policy are subject to three lines of defence to hedge against the attendant risks of decentralisation of financial powers. The policy majorly stresses on managing risks, especially those created by the splitting of financial powers by lower military CFAs.

### Positives

The provisions of the policy will indeed usher in fiscal prudence in the revenue budget expenditure of the Army and bring in more value for money for the budget spent. The formation of an Audit Advisory Committee (AAC) to effect risk management, control

and governance processes is a welcome step that will enable an oversight mechanism on the revenue budget. The AAC will also provide consultancy services, in addition to effecting “improvement in organisation operations”. This provision shall help in addressing the risk assessment and mitigation in the overall management of the defence budget. However, the composition of the committee is flawed by the inclusion of the Deputy Chief of the Army Staff (DCOAS) Planning & Systems (P&S) or a Principle Staff Officer (PSO) as one of the members. The DCOAS is intricately involved in capital acquisition and has many more pressing charters and will have no time to contribute meaningfully to this committee. Instead, the Director General or Additional Director General Financial Planning, who is seized of the overall financial picture and is dealing with the MoD (Finance) as well as with the lower formations, should have been made a member of this committee.

The policy talks of strengthening the Integrated Financial Advisor (IFA) system from the “service availability” and “service delivery” concept which is again a very positive thought provided actual delivery of, and by, the IFA staff takes place. Presently, the IFA staff is woefully inadequate to handle procurement cases at all levels which, without exception, leads to delays due to sequential observations<sup>1</sup>. In many instances, where no dedicated IFA staff has been provided, the Controllers of Defence Accounts (CDA) primarily trained and mandated for accounting and audit functions, are performing the duties of the IFA. In such case, the financial scrutiny is more from the ‘*audit and account*’ angle rather than ‘*advice*’ mode which gives rise to sequential observations and eventually causes delay in finalisation of cases. The IFA systems at Command Headquarters (HQ) have become so complex and unmanageable that the Army has appointed its own higher Defence Management Course (HDMC) qualified officers as Colonels (Financial Planning) to assist the CFAs and those very IFAs who have been placed in Command HQ to advise the Army Commanders. The requirement of trained IFAs to execute this policy will run into

thousands which the IDAS will not be able to meet from their meagre cadre strength.

The command and control of IFAs has been changed through this policy and their Annual Performance Assessment Reports (APARs) will now be initiated by the CFAs. This is a welcome step but is unlikely to have any significant effect on the ground, given the accommodative cadre structure of the IDAS. Interestingly, an audit report on the Army Commanders' special financial powers carried out by the DAD in 2012, attributed the IFAs' inability to raise critical observations in procurement cases to their APARs being raised by the Army Commanders<sup>2</sup>.

Similarly, the annual revenue procurement plan and long-term equipment support plan, proposed with a computerised budgetary management system, comprise a welcome policy measure. The policy proposes a collegiate mechanism to speed up the various stages of all procurement cases to hasten the procurement cycle (para 5.1), which is indeed a better system from the prolonged movement of files between the IFA and the CFA being currently followed. The timeline for the implementation of the above, given the past experience is, however, unrealistic. A Procurement Committee (PC) is proposed to be formed by all CFAs within their domain for carrying out procurement, with the IFA or his representative as a part of this committee. This experiment will not be a success at both Service HQ level as also at lower formations namely Divisional and Brigade HQ because of the sheer quantum of cases and the time required to deliberate upon these cases, an aspect which the policy surprisingly discounts. In operationally committed formations, the CFA who is the Commanding Officer or an officer who is one rank lower, will have no time to devote to only procurement matters due to operational commitments and training. Nor will the IFA be able to attend multiple PC meetings. In case, there is no Deputy Commander posted in a Brigade HQ, the procurement will be halted or, similarly, if the IFA proceeds on leave, the procurements will again be affected. In addition, since the trained and dedicated

IFA staff has not been put in place, the IFA functions will be performed by Group B staff of the DAD who are neither numerically nor attitudinally equipped to handle the quantum of cases in the lower formations. The provision of the PC also by implication embeds the IFA into the Technical Evaluation Committee (TEC) which hithertofore was not a part of his domain.

The policy is alive to the fact that in its present form, the CFAs will be constrained by operational exigencies to resort to overruling of the IFAs' advice. Accordingly, the provisions regarding overruling have been made less cumbersome (para 12.4). Overruling, however, should not be treated as a matter of routine but should be used with great caution or it will render the whole mechanism ineffective.

### Implications

In effect, the DFPDS 2015, instead of "Delegation of Financial Powers to the Defence Services," will result in centralisation of delegated financial powers from the lower CFAs. The manner in which the DFPDS 2015 has been issued lacks transparency as, unlike its previous version, the minutes of deliberations leading to the issue of this policy have not been made public. In the earlier version of DFPDS, issued in 2006, before the actual financial schedules have been described, the full record of deliberations that went into formulating the policy had been laid out, duly authenticated and signed as correct by representatives of the various Services as well as the concerned officers from the MoD (Finance) before being finally countersigned by the Financial Adviser Defence Services (FADS). No such record of deliberations has been promulgated along with the present version of the DFPDS. In case a committee<sup>3</sup> comprising all stakeholders has indeed deliberated in a consultative manner, leading to the issue of such a policy, the users and stakeholders to whom the budget has been allocated have the right to know the details of the deliberations based on which such a policy has been issued. What is more alarming is that this policy which has the potential to exponentially increase the equipment hollowness

of the field Army and result in budget surrenders, has been authored, instituted and promulgated with uncharacteristic alacrity by the very organisation whose major charter is to “render financial advice to the armed forces”<sup>4</sup>. It is also worth a mention that a matching efficiency is conspicuously absent in handling the other charters mandated to the IDAS, namely, accounting and payments, manifested in the services provided, for instance, by, say, the Principal Controller of Defence Accounts PCDA (Pensions) which suffer from major functional inefficiencies and a minimal application of Information Technology (IT).

One of the compelling provisions of the DFPDS involves striking down the inherent financial powers for procurement delegated to military officers across the board which now stand withdrawn. Military officers can now exercise the financial powers for procurement vested in them, irrespective of the monetary value, only in consultation with the ‘integrated finance’ staffed by the IDAS or the subordinate cadre of the Defence Accounts Department (DAD). The more perilous provisions inserted in the policy define the new scope of a “single transaction” linked to the “same prospective bidders” which will make the powers of lower CFAs redundant and whose full impact the Army has not even fathomed as yet.

The singular provision of withdrawal of the inherent powers of military officers has resulted in the clock being set back by almost two decades since the New Financial Management Strategy (NFMS) was first implemented post the Arun Singh Committee report. The NFMS first recommended delegation of financial powers to the executives at the “functional level” to cut down delays in routine procurement. The provision for withdrawal of the inherent financial powers of military officers, coupled with flawed bidding formats, successfully institutes the same level of bureaucratic red tape in revenue procurement that the government has been trying without much success to undo in the capital acquisition process for years. The major implications of this policy are given below.

*Firstly*, no unit or formation commander at Brigade, Division, Corps or Command level, their staff or their logistic stocking echelons, even hospitals, shall be able to procure routine requirements without passing the scrutiny of an archaic IFA system involving multiple sequential sanctions from an official from the IDAS or the subordinate cadre of the DAD designated by the office of the CGDA. Emergent requirements of critical spares of armament, ammunition, vehicles and move of troops necessitated by an actual operation or a natural disaster will no longer be executed directly. In the most emergent of situations, the executive authorities will raise an Acceptance of Necessity (AoN) with the IFA in a proposed procurement committee and will wait for the system to deliver, which can take anything from weeks to months at peak efficiency for an item required urgently which may cost just a few rupees. The concept of ‘emergent procurement’ enshrined in the Defence Procurement manuals again authored by the IDAS has, thus, been given a silent burial through the implementation of this policy. The effects of the provisions of the DFPDS 2015, when applied to areas critical to the well-being and morale of the armed forces such as the military hospitals and Ex-Servicemen Contributory Health Scheme (ECHS), already reeling under the budget deficit, will be catastrophic.

*Secondly*, the values indicated in the procurement powers are in reference to a single transaction, in a particular sub-schedule. This means that at any given time, a single AoN will have to be obtained by any CFA for “all the items whose requirement is known at that point of time” which will be floated in a single Request for Proposal (RFP) and will be supplied by the same prospective bidder. To quote a very mundane and routine example, the Commanding Officer of an Infantry Battalion will have to obtain an AoN sanction from the IFA, if at all co-located, for all the items of stationery or Annual Contingency Grant/Annual Training Grant/Information Technology (ACG/ATG/IT) grants whose requirement exists at that particular

time, say, three months, which can be supplied by the “same supplier”. This requirement, when totalled for all the Infantry Battalions, Artillery and Armoured regiments co-located in a particular jurisdiction of a designated IFA to prevent splitting, will run into crores and will in all probability fall into the powers of the Army Commander or even the MoD. Given the geographical dispositions, operational commitments and priority of work, the Battalion Commanders will only keep busy in obtaining sanctions for routine items from the higher HQ. Hence, this policy encourages “centralisation” of delegated powers. Even if the inherent powers of military officers at the cutting edge are restored without the IFA’s concurrence, they will be rendered ineffective till the new interpretation of linking a single transaction to the same prospective bidders remains. The Financial Regulations for the Army, Part I Volume I, has always linked procurement powers to the “purpose” served by the item and not “bidders” as has been given in the DFPDS 2015.

*Thirdly*, the much hyped provision that the military CFAs will continue to exercise inherent powers up to Rs one lakh in case the IFA is not co-located has no meaning in view of the overarching provision of obtaining RFP-wise combined sanction for a single transaction of requirements known at a particular time, supplied by the same prospective bidder. Moreover, the exact connotation of co-location of the IFA is not clearly elucidated in the policy.

*Fourthly*, The policy professes involvement of the IFAs in the budgeting and planning process of the Services (para 2.5) thereby embedding the IFAs as an approving authority in the process of the planning and monitoring mechanism of the defence Services to include provisioning, procurement, maintenance planning and modernisation plans at all levels. The delays will be greater at the lower levels where procurement agencies in the divisional levels will have to get their provision reviews and procurement plans vetted by the IFA at every stage, causing sequential observations and resultantly delayed

stocking, which the lower formations can ill afford. Traditionally, the domain of the executive in this entire process will have to be handled with extreme diligence to avoid any delay in the planning process due to increase of an additional layer in the system.

*Fifthly*, The benchmarking methodology promulgated by this policy consists of a range of methods, namely, the analogy method which uses past records, sources of procurement histories, researching historical procurement pricing information through trends in supply and demand, pattern of demand, trend in prices, start-up costs and pricing strategy, sources of supplies or services; The engineering or Professional Officers Valuation (POV) method and parametric or statistical method which establishes a cost estimation relationship in pricing, etc has also been suggested. The policy further goes on to add that a combination of these methods can be applied to benchmark the pricing by the Procurement Committee (PC). The disconnect of this policy with the ground situation is evident from the fact that, firstly, all these benchmarking methodologies are expected to be applied in remote areas at Battalion levels; secondly, these are to be applied for emergent procurements to service operational requirement or requirements arising out of natural disasters or critical patient care in hospitals; thirdly, these are supposed to be applied by a PC headed by the Battalion Commander of the rank of a Colonel or an officer one rank junior to him *viz* the second in command or the Company / Battery Commander, heading an operational sub-unit; fourthly, these benchmarking methods are also expected to be applied in situations where the CGDA cannot provide the services of an IFA.

*Sixthly*, The combined effects of the policy as listed above have the potential to adversely affect the careers of Commanding Officers of logistics stocking echelons at Divisional, Corps and Command levels due to the exponential rise in inability percentage resulting from a non-performing central procurement system and now truncated local procurement powers.

### Performance of the Central Procurement System

The critical hollowness being suffered by the Army, referred to by Gen VK Singh, then Chief of the Army Staff (COAS) in 2012, in his letter to the Prime Minister, continues<sup>5</sup>. Even routine items of clothing, sports shoes, and critical items like Bullet Proof Jackets (BPJs) are in extremely short supply<sup>6</sup>. The Comptroller and Auditor General (C&AG) has recently castigated the MoD and the Army for severe deficiency of ammunition<sup>7</sup>. The obsolete fleet of utility helicopters with the Army continues to be flogged despite 191 crashes having claimed the lives of 294 pilots in the last two decades, prompting the wives of Army pilots to form pressure groups to plead with the government for induction of new machines<sup>8</sup>. The stakeholders of our capital and revenue procurement systems at the MoD and Service HQ need to introspect seriously on why the satisfaction level of central revenue procurement at the Service HQ and MoD levels, despite all CFAs and IFAs being present in Delhi, is in such a poor state. Most of the War Wastage Reserves (WWR) of the Indian Army have been expended in raising the Mountain Strike Corps<sup>9</sup> and the availability in the Central Ordnance Depots (CODs) responsible to hold major stocks of Army inventory is abysmally low. The performance of the revenue procurement system can be gauged from the statement of the erstwhile Chief of the Naval Staff (CNS) who has been quoted as saying that failure to procure batteries for submarines contributed to his decision to resign<sup>10</sup>. The leadership at the apex level needs to jointly work towards strengthening the revenue procurement system and the structures dealing with procurement at the MoD, Service HQ as well as Defence Finance need to be made more user friendly and responsive. The three lines of defence and risk management mentioned in the DFPDS 2015 need to be undertaken at the level of the MoD and Service HQ where 95 percent of the revenue budget is expended rather than at the lower formations level where the entire inherent powers are able to service just 5 percent of the entire revenue budget. Casualty to a maladaptive central procurement system, the field Army at present is being sustained for the requirement

of its equipment, clothing and spares by the inherent powers of various CFAs at the lower formations level and certain powers in consultation with IFAs which they are able to handle thanks to a well established pattern that has been in place through decades of experience. Curtailment of the inherent powers of military CFAs coupled with unrealistic bidding and sanction formats will cripple the system at the cutting edge.

### Recommendations

*Para 5* of Part A of the policy clearly stipulates that the provisions of the DFPDS 2015 are subject to implementation of macro issues such as placement of sufficient IFA staff at all levels or stations, elucidated in detail in the initial paragraphs of Part A of the policy. Conditions which have led to Service HQ promulgating this policy despite the absence of these macro issues e.g. integrated finance framework at the lower formations, must be examined afresh and reviewed. There is a need to take a relook at this policy based on data collected in the Service HQ and lower formations on the losses caused in the last five years due to delay in finalisation of cases under the existing IFA system. A study by the College of Defence Management (CDM) should be ordered to compare the IFA system of the Railways and Para-Military Forces (PMFs) and other suitable government organisations like the Delhi Metro Rail Corporation with the IFA system authored by the IDAS so that positives from other systems can be incorporated in the IFA system followed in the Army.

**Staffing.** The IDAS is one of the Group A civil services of the country and its staffing is managed by the Department of Personnel and Training (DoPT) similar to other services such as the Indian Defence Estates Service (IDES), Indian Ordnance Factories Service (IOFS), Indian Civil Accounts Service (ICAS), Indian Railway Accounts Service (IRAS), etc. The total cadre strength of the IDAS is approximately 500 officers. Of this number, approximately 40 are Apex, Higher Administrative Grade (HAG) and HAG plus

officers who man the finance division of the MoD and the CGDA office and also are on central deputation with other ministries and departments under the Central Staffing Scheme (CSS) of the DoPT. There are 86 Senior Administrative Grade (SAG) level officers conforming to a Joint Secretary to the Government of India who tenet the position of IFAs at HQ Command. Approximately 200 officers form the Junior / Senior Time Scale (JTS/STS) level, conforming to Captain / Major in the Army, designated as Deputy IFAs, are performing the IFA function at the Corps level and independent static establishments<sup>11</sup>. Going by the same analogy, the General Officer Commanding (GOC) of a Division / Sub-Area will have Group B cadre officers from the DAD comprising senior accounts officers, accounts officers and those at Brigade / Battalion level will have assistant accounts officers who have been designated as senior / junior finance officers in their IFA avatar through a departmental instruction. Given the backdrop of a failed central revenue procurement system, consigning the responsibility of equipping the Army's crack formations into the hands of DAD Group B staff essentially trained in audit and accounts duty rather than finance, is ill advised. Moreover, the mass designation of the accounts staff of DAD as IFAs will result in blurring the lines between audits, accounts and advice, as the same officials will be providing financial advice as well as auditing their own advice at a later date which is against the canons of financial propriety. The DFPDS 2015, given these complexities, fails *ab-initio* in the "service delivery" aspect even before the full ramifications of its effects have been felt. The policy recommends attaching support staff from the Services to help the DAD tide over manpower problems (para 2.2). Instead of seeking support staff from the Army for doing clerical work for the IFAs, which ideally should be outsourced, it would be a better proposition to post on deputation logistics officers from the Army who are adept at financial management and from the accounts branch of the Indian Air Force (IAF) to work as IFAs at all levels on deputation after a one week orientation training aptly recommended in the policy. This will not only make

up the shortage of manpower in the IDAS cadre but will also generate much needed synergy between the Services and the DAD. Similarly, officers from the DAD can be deputed as grade two staff appointments in Divisional and Brigade HQ in counter-insurgency operations to enhance coordination between the stakeholders. A model to this effect is already in practice wherein young IDAS officers don the Army fatigues and serve in Indian Infantry Battalions and Brigades in UN missions abroad.

**Best Practices.** The DAD should strive for all round efficiency in the complete bouquet of services that it provides to the armed forces. In no domain is there a greater application of IT than in the field of accounting and finance. Unfortunately, CGDA's ambitious Mission Excel Information Technology (MEIT) project designed to automate every function of the DAD, ensuring online transaction processing, and computerisation of over 900 offices of the DAD at 200 locations has been derailed from its path despite incurring expenditure of Rs. 20.47 crore<sup>12</sup>. In this backdrop, the timelines suggested in the policy for implementation of an e-concurrence module and a budget monitoring system for the entire armed forces are unrealistic and should be worked out afresh.

In keeping with the suggestion of para 2.2 of the policy, outsourcing as one of the measures for making up the deficient manpower in the DAD should be implemented. The MoD (Finance Division) itself should call for a C&AG performance audit of the CGDA's offices such as PCDA(Officers), Pune, and PCDA (Pensions), Allahabad, which have a direct bearing on the morale of the Army and recommend their outsourcing. In the present times, professional accredited Human Resource (HR) agencies offer fully information technology enabled end to end solutions for managing the complete spectrum of HR services for a number of progressive organisations in the corporate sector and will improve the credibility of the DAD as a service provider to the Army and bring in the "value for money" for the nation which the DFPDS 2015 strives to achieve.

## ... 2015 Needs A Review

### Conclusion

The DFPDS 2015, weighed down with inaccuracies and a disconnect with the ground realities, is reminiscent of a Pay Commission award where an anomaly committee is constituted simultaneously with the announcement of the report. It is, therefore, highly advisable that this policy be examined in detail by experts and representations to the MoD be made through a single point nodal agency before its prolonged implementation totally incapacitates the equipping and readiness state of the Army at the cutting edge. Full implementation of this policy in the present form should be considered only after a pilot

implementation on a test-bed not below the level of a Command HQ and only after the entire IFA framework comprising trained IDAS officers and selected defence Service officers on deputation is in place in the lower formations. In the interim, a consultative committee of professionals from the Indian Audit and Accounts Service, Indian Railway Accounts Service and finance and accounts professionals from the private sector may be commissioned by the Army, Navy and Indian Air Force on payment basis to study the policy and the full ramifications of its implementation, and suggest a simpler and responsive IFA system for the armed forces within the framework of the General Financial Rules.

### Notes

1. The CGDA's office, in a number of communications has advised IFAs against raising piecemeal observations against the cases submitted to avoid delay in cases. Refer Instruction Order (IO) number 03 of 2007 and IO number 13 of 2010.
2. Times news network, "Army Chief Top Generals Wasted Over Rs 100 Crores," *The Times of India*, October 24, 2012.
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5. CNN, IBN, "Army Lacks Ammunition to Defeat the Enemy: General VK Singh to PM," March 28, 2012.
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8. Ganesh N, "Army Wives Seek Meeting With PM After 'Flying Coffin' Helicopters Claim 294 Lives," Mail Online India, November 24, 2014.
9. Vijay Mohan, "Raising of Mountain Strike Corps Depletes Army's War Reserves," Tribune News Service, December 24, 2014.
10. TNN, "Quit Due to Dysfunctional Environment in Navy, Admiral Joshi Says," October 15, 2014.
11. CGDA IO number 04 of 2014, dated November 10, 2014.
12. CAG Audit Report No. 24 of 2011-12, Union Government (Defence Services) – Compliance Audit of "Army and Ordnance Factories" [http://saiindia.gov.in/english/home/our\\_products/audit\\_report/government\\_wise/union\\_audit/recent\\_reports/union\\_compliance/2011\\_12/Defence\\_Services/report\\_24/report\\_24.html](http://saiindia.gov.in/english/home/our_products/audit_report/government_wise/union_audit/recent_reports/union_compliance/2011_12/Defence_Services/report_24/report_24.html)

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