

## **STANDARDS OF FINANCIAL PROPRIETY**

Every Officer incurring or authorizing expenditure from public money should be guided by high standards of financial propriety. Every Officer should also enforce financial order and strict economy at every step and see that all relevant financial rules and regulations are observed, by his own office and by subordinate disbursing officers. Among the principles on which emphasis is generally laid are the following:

- (I) Every officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.
- (II) The expenditure should not be prima facie more than the occasion demands.
- (III) No authority should exercise its powers of sanctioning expenditure to pass an order which will be directly or indirectly to its own advantage.
- (IV) Expenditure from public moneys should not be incurred for the benefit of a particular person or section of the people, unless:
  - (1) A claim for the amount could be enforced in a Court of Law,  
OR
  - (2) The expenditure is in pursuance of a recognized policy or custom.
- (V) The amount of allowances granted to meet expenditure of a particular type, should be so regulated that the allowances are not on the whole a source of profit to the recipient.
- (VI) The responsibility and accountability of every authority delegated with financial powers to procure any item or services on Government account is total and indivisible. Government expects that the authority concerned will have the public interest uppermost in its mind while making a procurement decision. This responsibility is not discharged merely by the selection of the cheapest offer but must conform to the following yardsticks of financial propriety

- (1) Whether the offers have been invited in accordance with governing rules and after following a fair and reasonable procedure in the prevailing circumstances.
- (2) Whether the authority is satisfied that the selected offer will adequately meet the requirement for which it is being procured.
- (3) Whether the price on offer is reasonable and consistent with the quality required.
- (4) Above all, whether the offer being accepted is the most appropriate one taking all relevant factors into account and in keeping with the standards of financial propriety

(vii) Whenever called for, the concerned authority must place on record in precise terms, the considerations which weighed with it while taking the procurement decision. Audit Officers shall also be responsible for watching that the above principles are strictly observed.

*Authority: Rule (6) Financial Regulations- Part-I- volume-I [FR-Part-I, Vol-I (DSR)]  
General Financial Rule [GFR] 2005– Chapter-2 General System of Financial Management.  
Rule (21)*

**IFA SYSTEM  
IN  
DEFENCE ACCOUNTS DEPARTMENT (DAD)**

**Evolution of IFA System in Govt. of India**

The Integrated financial Advice system was introduced in various Ministries of Govt. of India after October 1975. The basic aim of the scheme is to expedite decision making by delegation of financial powers to the executive authorities which are to be exercised in consultation with the Integrated Financial Advisors to bring in the concept of authority with responsibility and accountability. The IFA system was introduced in the Department of Defence Production in 1976 and in the Department of Defence in August 1983.

**Introduction of IFA System in Service Headquarters**

In the light of recommendations of a sub Committee of the Committee on Defence Expenditure, the Ministry of Defence decided in Nov. 1991 that exercise of delegated financial powers by the authorities lower than Ministry of Defence should also be with the advice of local financial advisors. The 19th Estimate Committee of Parliament was also assured in this regard in 1992-93. These developments culminated in the introduction of IFA system in the three Service Headquarters, Headquarters Maintenance Command and Director General Border Roads as follows:

- |      |                 |   |                |
|------|-----------------|---|----------------|
| i.   | IFA Naval HQrs  | - | March 1994     |
| ii.  | IFA Air HQrs    | - | April 1994     |
| iii. | IFA Army HQrs   | - | August 1994    |
| iv.  | IFA (BR)        | - | March 1995     |
| v.   | IFA (MC) Nagpur | - | September 1995 |

**Objective of IFA System**

The objective of IFA system is to provide independent financial inputs to the competent financial authorities (CFAs) in exercise of delegated financial powers to expedite decision making thereby providing greater satisfaction to the troops deployed in the field as well as enhancing operational preparedness.

## Historical Overview

- IFA system introduced in Ministries in 1975
- Introduced in Ministry of Defence in 1983
- Introduced in three Services HQs. in 1994
- Prior to April 2002, Commands & below had limited powers for procurements.
- Delegation of Financial Powers to Commands & below from April 2002
- IFA system created to help the lower formations in exercise of enhanced financial powers.

## Evolution of IFA System in DAD:

### *First Phase: -*

- IFA Naval HQ :March 1994
- IFA Air HQ :April 1994
- IFA Army HQ :August 1994
- IFA(BR) :March 1995
- IFA(MC) Nagpur :September 1995

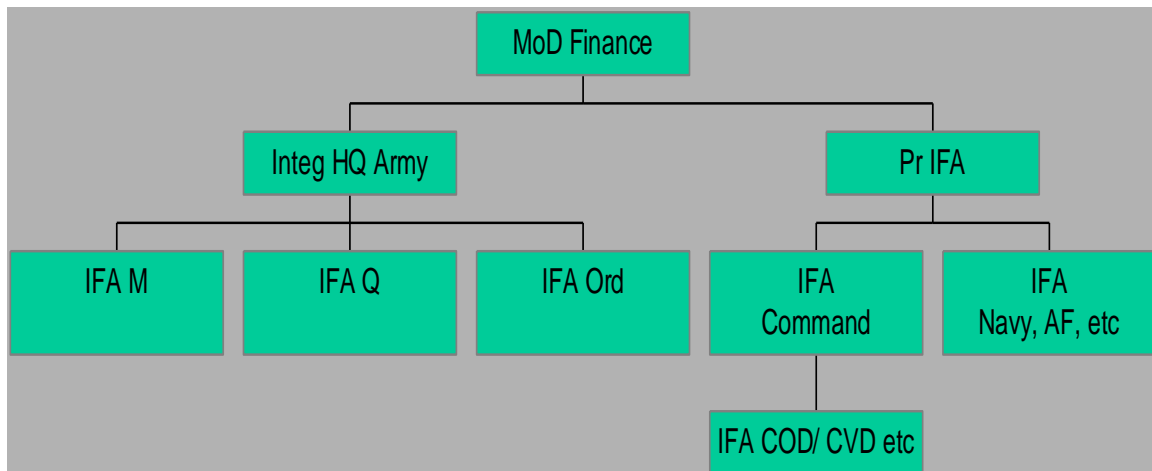
### *Present position: -*

- Three IFAs at Army HQ : (JS level 18400-22400)
- Seven IFAs at Command HQ : (JS Level 18400-22400)
- IFA AT CORPS HQ (13) : (Accredited Joint CDA)
- Tri –service institutions : (Accredited Joint CDA)
- IFA AT DEPOTS (6)

## Financial Advice

- IFAs available to provide financial advice to TLBH & HLBH at Army HQ and also at Command HQ
- Seek their advice for
  - To ensure that appropriate financial accounting and procedures have been established
  - Instructions and guidance on financial matters issued to all, including plans & projects formulation
  - Intermediate & lower BH receive guidance in budget preparation and review of expenditure
- IFAs primarily accountable to HLBH for advice given / action taken on expenditure proposals or budget management- also accountable to MoD Finance and CGDA for integrity of financial system in their AOR

### Structure of IFA



## POSITIONING OF IFAs IN THREE SERVICES

- (i) ARMY
- (ii) NAVY and
- (iii) AIR FORCE

### (i) ARMY

Dedicated IFAs in the Army HQrs. and Command Hqrs. have been posted at the level of senior administrative Grade (SAG) level whereas IFAs in CODs have been posted at the level of Senior/Junior Time Scale STS/JTS officers as per details given below:

Army HQrs.	Command Headquarters	Other Formations
IFA Army/O	IFA Western Command (Chandimandir).	COD Kandivali
IFA Army/Q	IFA Southern Command (Pune)	COD Dehu Road
IFA Army/M	IFA Central Command (Lucknow)	COD Delhi Cantt.
	IFA (Northern Command) Udhampur	COD Agra
	IFA (Eastern Command) Kolkatta	CAFVD Kirkee
	IFA South Western Command (Jaipur)	COD Chheoki
	IFA Army Training Command (Simla)	

**(ii) NAVY**

IFAs at SAG level have been posted at Naval Hqrs., Western Naval Command Mumbai and Southern Naval command Kochi and an Officer at Junior Administrative Grade (JAG) level has been posted as IFA at ENC. IFAs have been provided in ASDs/MS depots at Vizag and Mumbai at JAG/STS/JTS level

<b>Sr. No.</b>	<b>Naval Headquarters and Command Hqrs.</b>	<b>Naval Depots/Dockyards</b>
i	IFA Naval Hqrs (SAG).	FA to MS Mumbai (STS)
ii	IFA WNC(SAG)	FA to ASD Mumbai (JAG)
iii	IFA SNC(SAG)	FA to ASD Vizag(JTS)
	IFA ENC (JAG)	FA to MS Vizag (JTS)
iv		FA to Flag officer of Goa Area. And Flag officer of naval aviation (STS)

**(iii) AIR FORCE**

IFAs at SAG level have been posted at Air Hqrs. New Delhi and Maintenance Command, Nagpur. The IFAs at other Commands are at JAG/STS level. Dedicated IFAs have been positioned to provide finance cover to nine BRDs / EDs. IFAs have also been nominated for providing IFA cover to Air Force Wings, and other Units and formations numbering 133.

<b>Sr. No.</b>	<b>Air Headquarters</b>	<b>Command Hqrs.</b>	<b>IFA to Depots</b>
I	IFA (Air Hqrs.) (SAG)	IFA MC(SAG)	9 IFAs (STS/JTS)in EDs/BRDs
ii		IFA WAC (JAG)	IFAs Nominated for 133 units & formations of Air Force at JTS& STS level
iii		IFA SWAC (JTS)	
iv		IFA CAC (JAG)	
v		IFA EAC (JAG)	
vi		IFA SAC (JAG)	
		IFA Training Command (JAG)	

**(iv) OTHERS**

In DGBR, an IFA of SAG level has been posted. IFA at CIDS HQrs New Delhi is also an SAG level officer and the IFA Andaman Nicobar Command (ANC) is a JAG level officer. SAG level officers have also been positioned as IFA (R&D) and IFA Project 75.

**(V) Principal CsDA and CsDA working as IFAs**

The following PCsDA / CsDA are also functioning as IFAs in addition to their normal functions of payment and audit:

PCDA (CC) Lucknow	CDA (Army) Meerut	CDA Bangalore
PCDA (SC) Pune	CDA Jabalpur	CDA Patna
PCDA (AF) Dehradun	CDA Chennai	CDA Guwahati
PCDA (Navy) Mumbai	CDA Secunderabad	CDA (SWC) Jaipur
PCDA (NC) Jammu		



**CONTRACT**

**GLOSSARY**

<b>Appropriation Act</b>	<p>When appropriation bill has been passed by the Parliament, it is presented to the President. After the assent by the President to the bill, it becomes an Act.</p>
<b>Appropriation Bill</b>	<p>As soon as may be after the grants under article 113 have been made by Lok Sabha, a bill to provide for the appropriation out of the Consolidated Fund of India of all money required to meet (a) the grants so made by Lok Sabha (b) the expenditure charged upon Consolidated Fund of India but not exceeding in any case the amount shown in the statement previously laid before the Parliament is introduced.</p>
<b>Capital Expenditure</b>	<p>It consists of payment for acquisition of assets, investment in shares, and loans and advances given by the government.</p>
<b>Capital Receipts</b>	<p>Capital receipts comprise loans raised by the government from the public, borrowing from the Reserve Bank of India and loans taken from foreign governments, recoveries of loans by the government, proceeds of disinvestments etc.</p>
<b>Charged Appropriation</b>	<p>Sum required to meet expenditure ‘Charged’ on Consolidated Fund under Article 112 (3) of the Constitution is called charged Appropriation.</p>
<b>Consolidated Fund of India (CFI)</b>	<p>The fund constituted under Article 266 (1) of the Constitution of India into which all receipts, revenues and loans flow. All expenditure from the CFI is by appropriation voted or charged. It consists of two main divisions namely Revenue Account (Revenue Receipts and Revenue Expenditure) and Capital Account (Public Debt and Loans, etc.).</p>

**Contingency Fund of India**

Parliament has by law established a Contingency Fund in the nature of an imprest into which is paid from time to time such sums as may be determined by such law, and the said fund is placed at the disposal of the President to enable advances to be made by him out of it for the purpose of meeting unforeseen expenditure pending authorisation of such expenditure by Parliament by law under Article 115 or Article 116 of the Constitution.

**Debt service**

Payments to creditor(s) of matured principal and of interest. It, usually, includes service charges, etc.

**Demand for Grants**

Demand for Grants is for gross amount of expenditure to be incurred and shows recoveries to be taken in reduction of expenditure separately by way of foot notes, presented to Parliament at two levels. The main Demands for Grants are presented by the Ministry of Finance along with the Annual Financial Statement. The detailed Demands for Grants are laid on the table of Lok Sabha by the concerned ministries a few days in advance of the discussion of respective ministry's demand in that House. As the Demands for Grants are for gross expenditure and the Annual Financial Statement gives the net amount to be expended under each head, the total of the two should be reconciled after adjustment of the recoveries taken in accounts in reduction of gross expenditure.

**Excess Grant**

In cases, where expenditure in individual 'segment' of grant/appropriation, i.e. Revenue (Charged), Revenue (Voted), Capital (Charged) and Capital (Voted) exceeds the authorisation as such, the grant/appropriation is termed as excess grant.

<b>External Debt</b>	Debt contracted by the Government from abroad, mostly in foreign currency viz., loan from World Bank, IBRD, IDA, etc.
<b>Fiscal Deficit</b>	It is the excess of total expenditure including loans net of repayments over revenue receipts and non debt capital receipts. It also indicates the total borrowing of the government, and the increment to its outstanding debt.
<b>GDP at factor cost</b>	Gross domestic product at factor cost measures GDP at the cost of the factors used to produce it, i.e. At the incomes earned by those factors. It is obtained from the GDP at market prices by deducting indirect taxes and adding subsidies.
<b>GDP at market Prices</b>	Gross domestic product at market prices indicates the value of all final expenditure on the goods and services produced within the country. It is equal to the value of all final goods and services produced in the country in a given period. The evaluation can be done at current prices or at prices prevailing in a base year.
<b>Internal Debt</b>	Internal Debt comprises regular loans from the public in India, also termed 'Debt raised in India'. It is confined to loans credited to the Consolidated Fund.
<b>M3</b>	This is broad money defined as the sum of currency with the public, demand deposits and time deposits with the banks, and 'other' deposits with the RBI.
<b>Major Head</b>	The main unit of classification in accounts is known as Major Head. A four digit code has been allotted to the Major Head, the first digit indicating whether the major head is a Receipt head or Revenue expenditure head or Capital expenditure head or Loan head.

**Minor Head**

Three digit codes have been allotted to the Minor Head starting from “001” under each Sub Major head/Major Head (where there is no Sub Major Head).

## **CONTRACT MANAGEMENT (PRE-CONTRACT)**

### **How a contract is formed...**

- When one entity signifies to another his willingness to do or to abstain from doing anything, with a view to obtaining the assent of that other to such act or abstinence, he is said to make a proposal
- When the person to whom the proposal is made signifies his assent thereto, the proposal is said to be accepted. A proposal, when accepted, becomes a promise

(1) Every promise forming the consideration for each other is an agreement.

(2) An agreement is enforceable when:

- Parties are competent
- There is freedom of consent
- When object and consideration is lawful

### ***AN AGREEMENT ENFORCEABLE BY LAW IS A CONTRACT***

### **ESSENTIAL ELEMENTS OF A VALID CONTRACT**

- Offer and acceptance
- Legal relationship borne out of Lawful consideration
- Capacity of parties (competency)
- Free and genuine consent
- Certainty and possibility of performance
- Legal formalities

### **Types of Contracts**

- Purchase order for stores, spares or equipment
- Rate Contract
- Service Contract
- Annual Maintenance Contract
- Works Contract
- Consultancy Contract

## **Statutory Provisions Governing Purchase Transaction**

- The Indian Contract Act 1872
- India Sale of Goods Act 1930
- Arbitration and Conciliation Act 1996

*[Government Contracts, including those for Defence Procurement, are governed by the same law, which are applicable to private contracts]*

## **Constitutional Provisions**

Article-298: GOI may make a contract

Article-299: (i) executed only by person authorised by the president.  
(ii) executed by such person on behalf of the president.  
*(Contract after approval of CFA may be signed by a duly authorised staff officer)*

Article-300: The govt may sue or may be sued.

Article-14: The state shall not deny to any person equality before the law.

Article-19 (1) (g): All citizens shall have the right to practice, any profession or to carry on any occupation, trade or business.

Article-32: Right to constitutional **remedy**.

## **Important Provisions of FR/GFR on Contracts**

Rule 15 (1) GFR: Generally contracts should be only after tenders have been invited openly.

FR- 233: No contract will be concluded without calling for tenders

Rule 240 FR-1 vol-1: Reasons to be recorded when CFA not in agreement with financial advice / TPC

Rule 247 (iv): Financial concurrence of IFA required for enhancement of contract rates

## **General Principles for Contract**

- The terms of contract must be precise, definite and without any ambiguities.
- Standard forms of contracts should be adopted wherever possible, if not, legal and financial advice should be taken in drafting the clauses.
- Price Variation Clause to be provided only in long-term contracts, where the delivery period extends beyond 18 months
- The contract should also contain the mode and terms of payment.
- The terms of a contract, including the scope and specification once entered into, should not be materially varied.
- All contracts shall contain a provision for recovery of liquidated damages for defaults on the part of the contractor.
- A warranty clause should be incorporated in every contract
- Suitable provision for settlement of disputes to be incorporated

### **TENDER CONDITIONS PROVIDE THE BASIC CLAUSES OF A CONTRACT**

## **Acceptance of Contract**

- Contract is deemed to come in to force with the acceptance of the tender, as per mutually agreed terms and conditions contained in the Tender Enquiry and the Firm's offer.
- Acceptance of the same is to be conveyed by the supplier within seven days of receipt of the supply order.
- If the contract is not received within the stipulated period, the supply order is deemed to have been fully accepted by the firm.

*Authority: Para-6.4 of D.P.M*

### **Effective Date– Main Conditions**

The Effective date of the Contract will be the date on which the last of the following conditions is complied with:-

- (a) Date of signing the contract
- (b) Performance Bond is furnished by the SELLER in requisite format.
- (c) Receipt of Bank Guarantee to be issued by SELLER.

### **Amendment to Contract**

- For enhancement of contract rates, concurrence of IFA has to be sought unless price variation clause is already incorporated in the contract
- Price Variation Clauses/ Exchange Rate variation clauses have necessarily to be vetted by the IFA
- Any amendment has to be approved by the authority which had approved the original contract

### **Termination of Contract**

Contract may be terminated when:-

1. The supplier fails to honour any part of the contract
2. The contractor is found to have made any false or fraudulent declaration or statement to get the contract or he is found to be indulging in unethical or unfair trade practices.
3. Both parties mutually agree to terminate the contract.
4. The item offered by the supplier repeatedly fails in the quality inspection

Any other special circumstances leading to justify the cancellation or termination of a contract must be justified and duly recorded.



## **Need For Caution**

- Govt. procurement is governed by plethora of Rules/ Regulations, procedures/manuals orders etc. Hence, abundant care needs to be exercised while deciding on contractual matters.
- Only matter written on paper is of any value

## **Pre Contract Stages**

- Acceptance of necessity
- Determining the mode of tendering
- Vetting of draft tender enquiry
- Maintenance of Register of approved vendors
- Issue of Tender Notice
- Tender Opening
- Scrutiny and preparation of Comparative Statement
- Technical Evaluation Committee/ Tender Purchase Committee
- Price Negotiation Committee
- Vetting of draft Supply Order recording U.O. and date

## **MANAGEMENT OF CONTRACTS: GFR Guidelines**

- Implementation of the contract should be strictly monitored and notices issued promptly whenever a breach of provisions occurs.
- Proper procedure for safe custody and monitoring of Bank Guarantees or other Instruments should be laid down.
- Monthly review of all Bank Guarantees or other instruments expiring after three months.
- Monitoring the progress of supply or work. Extensions of bank guarantees or other instruments, where warranted, should be sought immediately.
- Wherever disputes arise during implementation of a contract, legal advice should be sought before initiating action
- Documents to be filed in the matter of resolution of dispute, if any, should be carefully scrutinized before filing to safeguard government interest.

**POST CONTRACT MANAGEMENT  
(As per DPM 2006)**

1. Any relaxation in the contract terms / conditions should be severely discouraged. In exceptional cases where the modification / amendments are absolutely essential, the same should be allowed only after taking into account the financial implications for the same.
2. Contracts to be closely monitored and all follow up actions should be taken promptly
3. Delivery Period extension should be granted only on bonafide request. In case of delay in supply of item, the LD, to the extent possible, should be recovered.

**Points To Be Considered For DP Extension**

- Purchase Officer has to balance time factor involved in repurchase and the urgency of material.
- Whether alternative source at same or cheaper rate is available.
- Extension would be granted when the procurement officer is convinced that supplies would be made during the extended period.
- Where chances of receipt of material in the extended period appear to be remote, then DP is not to be extended.
- DP Extensions should be granted by reserving the rights of the purchaser to levy LD

**Risk Purchase & Claim for General Damages against Contractor**

- If the contractor fails to deliver stores or any installment thereof within stipulated -the govt is entitled to cancel the contract and repurchase the undelivered stores at risk & cost of the defaulting contractor
- In risk purchase, the defaulting contractor is liable for any loss which the govt may sustain on that account provided the purchase *is made within six months from the date of such default.*

**Risk Purchase is not legally permissible in case of following: -**

- 1) Purchase of Stores to different specification;
- 2) Purchase on the basis of substantially different terms and conditions and  
Post Contract Management: Common Flaws

### **Post Contract Management: Common Flaws**

- ❖ While granting delivery period extensions the Performance Bank guarantee was not extended properly.
- ❖ Non stipulation of proper delivery period in the contract for supply as per the terms of delivery.
- ❖ Non incorporation of proper guarantee/warranty terms.
- ❖ Modifications of contract terms/specifications after award of the contract giving undue benefit to the supplier.
- ❖ Non imposition of Liquidated damages for delay in supplies and recovery of the same from the suppliers.
- ❖ Non recovery of LC extension charges from the suppliers for extending the letter of credit.
- ❖ Interest on advance payments- not recovered
- ❖ Non invocation of Risk Purchase
- ❖ Defective equipments received after warranty
- ❖ Delay in lodging claim for insurance – Damage – Bad storage

***Case Study: Delay in lodging claims***

Thirty-one sets of indicators valuing Rs.24.61 lakhs were received from a foreign supplier in August 1992.

- Package was opened after 90 days in November 1992,
- Indicators received were different from those contracted for
- Efforts made to obtain replacement did not succeed
- It had become time barred as per conditions of contract.

*This resulted in pointless expenditure of Rs.24.61 lakhs.*

Certain spares in one package were received from a foreign firm in April 1985.

- The package contained only one item and other two items costing Rs.13.52 lakhs were not received.
- The department took about four months to report the discrepancy to Air India in December 1987
- Air India turned down the claim stating that the claim was “time barred” as per conditions of contract of carriage, since it was not preferred within 90 days.

Delay in raising discrepancy reports for short receipt of stores, in disregard to terms of contract resulted in a loss of Rs.38.13 lakhs.

*[AR0 9 of 1996; 1994-95 Union Government (Def. Services AF & Navy)]*

***Case Study: Delay in Termination***

Motor boat workshops were authorized for the Army in 1972 to provide repair cover to vessels developing faults while in midstream.

- A contract was concluded in July 1981 with a firm for supply of two boat workshop by September 1985 at cost of Rs.31 lakhs
- The firm failed to supply them, even though extensions for delivery were given up to December 1986.
- After a lapse of over four years (1989) the Department had neither cancelled the contract for making risk and expense purchase nor encashed the bank guarantees (within the validity period) obtained for “on account” payment of Rs.8.28 lakhs made to the firm.

The Department’s failure in implementation of the contract in right spirit resulted in avoidable loss of Rs.8.28 lakhs.

*[AR 12 of 1990, Union Government (Def. Services Army & OF)]*

### **Failure of Contracts:**

- (i) Why do Contracts fail? Contracts fail primarily due to
- (ii) Multiplicity of agencies
- (iii) Delays
- (iv) Lack of clarity in decision making

### **Failure in implementation: common areas**

- Poor selection of vendors
- Vendor pre qualification not stringent
- Unrealistic rates quoted
- Elimination of weak vendor is difficult within the framework of existing rules

### **Outcome:**

1. Supplier may fail to comply
2. Re-tendering would be required
3. Loss of valuable time

### **Flawed tender document**

- Technical requirements not appropriately specified
- Information on technical upgradation availed from vendors
- Shortcoming in the tender document leaves scope for misinterpretation

### **Lack of adequate preparation and violation of procedures**

- Lack of sufficient knowledge of General Financial Rules and procurement manual
- Oversight in incorporation of relevant clauses
- Violation of laid down guidelines

### **Other areas**

- Predisposition
  - Contracting authority is known to favour a vendor, hence design of document is made accordingly  
(Technical specifications are sometimes based on readily available material without any research)
- Poor Follow up of obligations
  - Contract comprises of a set of processes where government is required to fulfil certain obligations
  - In case of delay on part of government, besides time over run, vendors may seek compensation since the profit margins are adversely affected
- Delay in payment
  - Results in higher rates being quoted
- Administrative delays
  - Inaction during the validity period
- Extension of validity period
  - Delay in issuance of formal contract
- Indents issued –not followed up with a formal contract
- Non enforcement of clauses
  - Due to oversight or connivance

### **Suggested Remedies:**

- Adequate focus at the time of drafting tender document
- Clarity of purpose
- Legal safeguards to be incorporated
- Vendor's interests also should be safeguarded
- Responsibility centres to be identified
- Processing for payment in prescribed time frame
- While framing the pre-qualification conditions, it should be kept in view that the purpose of any selection procedure is to attract the participation of reputed and capable firms with proven track-records. The PQ conditions should be exhaustive, yet specific. The factors that may be kept in view while framing the **PQ criteria are namely:**
  - (a) The nature of the work;
  - (b) The scope of work involved in the project;
  - (c) Likelihood of availability/experience of firms for such works;
  - (d) Volume/amount of the work;
  - (e) Financial status.

## **Common irregularities in store contracts- CVC (DT. 04/02/2002)**

### *Post contract monitoring:*

- 1 Lack of coordination → time & cost overrun
- 2 Non recovery of L/D
- 3 Extension of L/C & payment by organization though delay attributable to suppliers
- 4 Making Advance without safeguarding public money;
- 5 Advance payment/ Mobilization Advance even up to 30% / 40% without interest – which is against CVC guidelines;
- 6 Expiry of validity of Bank Guarantee due to lack of timely review.
- 7 Post contract modification of terms & conditions;
- 8 Lack of post contract monitoring.

### **Important CVC observations**

- Vague qualification criteria incorporated
- Evaluation procedure not outlined
- Category wise units not specified leading to comparative evaluation of bids on the basis of conjectures
- In respect of experience of vendors nature of “similar work” not explained
- The orders were allegedly split in order to bring it within the powers of junior officers
- It should be ensured that pre-qualification criteria, performance criteria and evaluation criteria are incorporated in the bid documents in clear and unambiguous terms
- Should have follow two-bid system, i.e. technical bid and price bid.
- Rejection of tenders should not be arbitrary and reasons should clearly be noted
- Tender notices to be posted on websites, to give wide publicity
- Negotiations to be resorted to only when considered absolutely necessary
- The basic premise of the CVC guidelines is to ensure
- Transparency
- Equity and
- Fairness

## **SAFEGUARDS AGAINST COMMON IRREGULARITIES**

1. Before according administrative approval for any project
  - it is necessary to establish **techno commercial viability** in terms of rate of return
  - evaluate the available **alternatives** to ensure an optimum utilisation of public funds
  - One time purchase of capital plant and machinery should be justified by reference to actual intended use. The equipments must conform to the **latest specification** and technology available in the market
  - The **obsolescence factor the life of the equipment**, availability of spares, etc. should be kept in view while deciding the procurements
  - **Gross over-designing cannot be justified** on the basis of unpredictable long-term futuristic demands.
2. Preparation of estimates for contracts is an area, which needs special emphasis. A **well-defined scope of work** and a realistic market rate estimate can prove to be a vital input for successful execution of a contract with high standards of quality.
3. **Wide publicity** should be generated for better competition and to avoid cartel formation and favouritism to select firms. Tender notice should be published in select ‘national’ and ‘local’ dailies with a large circulation. Tender notices may also be displayed on the notice boards of other organisations.
4. In order to **generate fair and adequate competition**, it is important that sufficient time, depending upon the magnitude and complexity of the project should be given to the bidders to submit their bids.

### **ROLE – Defined in DPM**

- **Indenting stage:** - IFA should vet indented quantity to ensure there is no infructuous procurement he must have access to all inputs relevant to the projected qty.
- **Tendering stage:** - Tendering methodology and vendor selection in STE/LTE. If approved list forwarded by AHSP, then IFA need not be consulted.



- Procurement stage: - IFA to advise CFA regarding propriety of procedures and practices, ranking of bids, determination of L-1, bench-marking reasonable price and conduct of effective negotiations
- Post contract management: - Amendments to contract with financial implications like waiver of LD.

## **Stages of IFA consultation in sanction of proposals**

### **Pre-Tender stage**

- Acceptance of Necessity (AON)

Concur with proposed OTE/LTE/Single TENDER/PAC, Vetting of RFP/TE and vendor **List**

- concurrence of purchase order/ contract

1. Participation In TPC/PNC
2. Financial Concurrence
3. Vetting Of Draft SO

### **Post-Tender stage**

4. Contract Management
5. DP Extension
6. waiver of Liquidated Damages

**DELEGATION OF FINANCIAL POWERS TO ARMY AUTHORITIES FOR  
REVENUE AND CAPITAL EXPENDITURE VIDE MoD LETTER DATED  
26-7-2006**

No A/89591/FP-1/1974 /2006/D (GS-I)  
Government of India  
Ministry of Defence  
New Delhi  
Dated 26 July 2006

To

**The Chief of the Army Staff**

DELEGATION OF FINANCIAL POWERS TO ARMY AUTHORITIES FOR  
REVENUE AND CAPITAL EXPENDITURE

Sir,

I am directed to convey the sanction of the President for delegation of financial powers to the Army Authorities as contained in the Schedules to this letter for incurring expenditure under the Revenue and Capital heads of account.

2. The delegated financial powers in respect of the authorities specified in the Schedules will supersede the financial powers laid down in respect of the authorities for the specified purpose in the FRs and Schedules to MoD letter No A/89591/693/FP-1/2002/D (GS-I) dt 22 Apr 2002 or any other previous orders/ instructions on the subject. Any delegated powers conferred by Regulations other than Financial Regulations or Government or Army Instructions will, however, continue to remain in force. Powers conferred for Projects specifically sanctioned by the Government will also continue to be operative for the duration of such projects.

3. The delegation of financial powers for Capital procurements is to be exercised as per the procedures laid down in DPP 2005, as amended from time to time. The Competent authority to accord various stage approvals as per DPP procedure and the composition of Contract Negotiation Committees will be laid down separately by Army HQ with the approval of MoD.
4. The exercise of the financial powers will be governed by existing orders and instructions on the subject, as amended by the Government from time to time, and instructions /guidelines contained in the enclosed Appendix as also those given in Notes in the Schedules. Standard Operating Procedures (SOPs) relating to the exercise of the financial powers as issued and amended from time to time will be strictly followed. However, where SOPs conflict with the Govt. Rules / Instructions, the latter will prevail. Cases not covered by the delegated financial powers will be referred for sanction of the Ministry of Defence.
5. The expenditure incurred in exercise of financial powers contained in Schedules I to XXII (except for Capital Works) will be debited to Major Head 2076, and relevant Minor Heads under this Major Head i.e. the expenditure covered by the delegated financial powers in these Schedules largely relates to Revenue Expenditure of the Army. The delegation of financial powers to the Army CFAs and DGAFMS given in Schedule XXIII pertains to Capital acquisitions / procurements and expenditure thereon will be debited to Major Head 4076, Sub Major Head 01- Army and relevant Minor Heads there under.
6. All purchases exceeding Rupees five lakhs in value will be made on the advice of the Tender Purchase Committee to be constituted by the CFA and will include the IFA or his rep as a member. The composition of the TPCs in

conformity with the foregoing will be specified in relevant SOPs/AIs. Further, the TPC / PNC will only be a recommendatory body for procurements which will be sanctioned at the next higher level by the CFAs in the Services, with the concurrence of respective IFA.

7. The requirement of TPCs does not apply to procurement of equipment/items made against DG S & D Rate Contracts or Rate Contracts finalised by the nominated Services authorities or DGAFMS under their delegated powers. All CFAs delegated financial powers to incur expenditure as indicated in the Schedules will be Direct Demanding Officers for placement of orders against DGS & D rate contracts to the extent of the respective financial powers and in respect of the items for which the financial powers have been delegated.

8. The powers to sanction indents, contracts and purchases in respect of central procurement of revenue stores on PAC basis and on non PAC single tender basis have been laid down in Schedule XIV C and D. The powers to purchase items/services on PAC basis in respect of Schedules I, XIX and XX will be 50 % of the powers provided to CFAs in the respective Schedules. The PAC certificate is, however, to be given at the level of PSO/APSO /DG /ADG at Army HQ and by the GOC-in-C/Corps Commander and Heads of Establishment /Formations or Units not below the rank of Maj Gen in the Commands. In the case of purchase on single tender basis for non-proprietary items, the financial limits in the Schedules (other than Schedule XIV) will be Rs.15,000/- per transaction without consultation of IFA and Rs.1,20, 000/- with the consultation of IFA.

9. Purchase of goods up to the value of Rs.15.000/- (Rupees Fifteen thousand only) on each occasion may be made without inviting quotations or bids on the basis of a certificate to be recorded by the competent authority in terms of Rule 145 of GFR 2005.

10. The financial powers to be exercised in consultation with CDA/ IFA shall be exercised by authorities in Army Headquarters in prior consultation with the IFAs and by authorities below Services Headquarters in prior consultation with accredited PCsDA/CsDA/ officers specified by CGDA till IFAs are placed in the Commands at the level of Corps Commanders and below and the requisite structure for rendition of financial advice is created.

11. Financial advice/ concurrence will be provided in writing and will be based on regular noting on file. However, in cases of extreme urgency, where time does not permit floating of regular files, decision could be taken in meetings/discussions for which detailed deliberations/minutes will be recorded. Proper briefing papers with the approval of the CFA will be made available to the IFA / CDA sufficiently in advance of the meeting/discussions. All such cases should be followed up immediately by regular noting on file where the decisions taken during meetings/discussions will be recorded and financial advice recorded in writing. With a view to avoid or reduce cross-noting and back references, the proposals initiated on files should be comprehensive and self contained and include all relevant facts and data pertaining to the case. The administrative authorities are required to make available any information, data or documents relevant to the case as asked for by the IFA / CDA for rendition of financial advice in the proper perspective.

12. In matters within the delegated powers, it is open to the CFA to overrule the advice of the CDA/IFA by an order recorded in writing containing a gist of the objection of CDA/IFA and reasons for overruling the advice. A copy of the order overruling the financial advice will be endorsed to the next higher CFA and the IFA. In such cases it will be open to the IFA to report the matter to the next higher IFA for pursuing the matter further with the higher CFA or dropping it as deemed fit.

13. The financial powers contained in the Schedules are in respect of each transaction and may cover procurement of one or more items within the financial powers specified. Further the purchase orders will not be split up in order to bring them within the delegated financial powers of a lower CFA. The exercise of the financial powers is also subject to availability of funds in the sanctioned budgetary allotment under the relevant Budget Head.

14. Powers delegated to specified Army Authorities for exercise during war, hostilities and special operations without consultation of IFAs will become operative only on the issue of a Govt. order declaring such a situation or ordering of a Special Operation by the Army HQ, inter-alia indicating the overall ceiling of funds for this purpose.

15. In the case of import purchases under various Schedules (Capital and Revenue) separate approval for release of FFE will not be required and release of FFE will only be noted at Addl Directorate General of Financial Planning/FP-3 at Army HQ after expenditure angle approval for the purchase has been granted by the CFA.

16. CVC guidelines issued from time to time on purchase/procurements/other financial dealings by Central Govt. Departments **will be strictly complied**

**with while processing cases in exercise of the delegated financial powers.**

17. **The financial powers contained in the Schedules will take effect from the date of issue of this letter. However, in respect of powers for 'Write off of Losses' given in Schedules V, VI & VII and 'Regularization of Audit Objections' given in Schedule XVI the cases / objections outstanding as on date of issue of this letter may be settled under the enhanced financial powers conferred herein.** This will be subject to the concerned CDA submitting an audit report to the CFA.

18. Further amendments, if any, to the provisions of various Schedules will be processed by the concerned administrative sections in the MoD dealing with the subject matter.

19. This issues with the concurrence of Ministry of Defence (Fin) vide their Dy No 4894/ Addl FA (M) dated 18 Jul 2006.

Yours faithfully,

-SD-

(T Rajeswari)

Director

- Encls. 1. Detailed Guidelines for Exercise of Delegated Financial Powers  
2. Twenty three Schedules (Pages 1 to 76)

Copy to:-

CGDA: - 20 copies including one ink signed copy for dissemination to CsDA

DG ADS - 5 copies

S.O. to Def Secy

PPS to Secy (Def Fin)

PPS to Spl Secy (Acq)

PPS to Addl Secy (P)/ Addl Secy (T)

All Joint Secretaries in MOD

All Addl FAs & JSs in MoD (Fin)

All IFAs

All HQ Commands

All PSOs

**Detailed Guidelines:** Appendix to the Govt. letter dated 26-7-2006 (Refers to Para 4 of GOI MoD letter No A/89591/FP-1/1974/D (GS-I) Dated 26 Jul 2006)



**Appendix**

(Refers to Para 4 of GOI MoD letter No A/89591/FP-1/1974/D (GS-I)  
Dated 26 Jul 2006)

**DETAILED GUIDELINES FOR EXERCISE OF DELEGATED  
FINANCIAL POWERS IN THE ARMY**

**General**

1. The Committee on Defence Expenditure in 1990 had recommended substantial delegation of financial powers to the Services in a number of areas of functioning. In line with these recommendations, the New Financial Management Strategy was implemented in the Services during the period 1995 to 1997 and the concept of Authority cum Responsibility Centres introduced selectively for the Field Logistics units. Subsequently, a major review of the financial powers of the three Services was undertaken by the Committee on Delegation of Financial Powers set up in 2001, based on the recommendations of the Group of Minister (GoM) Report on Higher Defence Management. The outcome of their recommendations was the Govt of India, Min of Def letter issued on Enhanced Delegation of Financial Powers to Army Authorities vide MoD letter No A/89591/693/FP-1/2002/D(GS-I) dt 22 Apr 2002. With a view to further decentralize the process of decision making, remove any anomalies and inadequacies to make the system more effective, the powers delegated vide the above orders and other Govt letters delegating financial powers to the Services CFAs, as amended to date, have been reviewed.

2. The Revised Delegation of Financial Powers is based on the recommendations of the Committee set up by the RM under FA (DS) in Dec 2005, as a sequel to the PMOs directions to Review the Delegation of Financial Powers to the three Service. The general principles and policy guidelines given by this Committee have been kept in view while further enhancing the financial powers of various CFAs, as well as delegating powers to authorities who were overlooked in the earlier review of 2002. The provisions of DPM 2005 and GFRs 2005 have also been kept in view.

3. Delegation emphasizes 'Value for Money' which encompasses economy, efficiency and effectiveness. The above concern will be reflected by the budget allottees by preparation of suitably prioritized Annual Procurement Plans on the Revenue side, through more detailed planning and the establishment of priorities, supplemented by proper and planned utilisation of allocated resources. The enhanced delegation of financial powers has linkage with the budget allotment, placed with the respective CFAs and would optimize its utilisation.

### **Budget Management**

4. The Vice Chief of the Army Staff is the Top Level Budget Holder (TLBH) of the Army under the New Financial Management Strategy. The Revenue budget of the Army will be allocated by the TLBH among the Authority-cum-Accountability Centres (High Level Budget Holders) at Army HQ, namely DCOAS (IS&T), DCOAS (P&S) AG, QMG, MGO and E-in-C etc. The HLBHs will allocate funds to the Intermediate Level Budget Holders (ILBH) i.e., DGs

and ADGs who will in turn sub- allot funds to the budget centres. The allocated budgets and the outcomes will be used as a tool for monitoring the performance of such centres.

### **Budget Centres**

5. The present Revenue budget management places emphasis on centralised control of expenditure and resource inputs. To fit in with the outcome-oriented budgetary system of New Financial Management Strategy, budget centres will acquire the management responsibility for the whole range of expenditure and receipts that fall within their areas. Within the limits of their delegated authority, budget centres will have the freedom to manage their budgets so that objectives and targets are achieved in the most economic, efficient and effective manner.

### **Financial Powers**

6. Schedules I to XXIII (Army) enclosed with the Govt Letter stipulate the financial powers and other instructions/restrictions that have to be followed by the CFAs with reference to the particular purpose for which the powers stand delegated therein.

### **Financial Advice**

7. The Integrated Financial Advisors are available to provide financial advice to the TLBH and HLBHs at Army HQ and also at HQ Commands. As such, their advice/expertise should be sought for ensuring that:-

(a) Appropriate financial accounting systems as well as procedures have been established and are functioning properly in accordance with the accounting procedures laid down by the Government.

(b) Instructions and guidance on financial matters are issued to all concerned including that relevant to formulation of Plans and Projects.

(c) Intermediate and Lower Level Budget Holders receive guidance in the preparation of budgetary estimates and monitoring as well as review of expenditure.

8. The IFAs are primarily accountable to the HLBHs for advice given or action taken on their behalf on expenditure proposals or budget management that is needed by the former to meet his objectives. In addition, they are accountable to the MOD (Finance) and to the CGDA for the integrity of the financial system in respect of areas of their responsibility.

### **Authority of Executive**

9. In matters within the delegated financial powers, the CFA is recognized as the ultimate decision maker. It will be open to the CFA to overrule the advice of the CDA/IFA by an order recorded in writing containing a gist of the objection of IFA / CDA and reasons for overruling the advice. A copy of the order overruling the financial advice will be endorsed to the next higher CFA and the IFA. In such cases it will be open to the IFA to report the matter to the next higher IFA for pursuing the matter with the higher CFA or dropping it as deemed fit.

**Manner of Exercise of Financial Powers**

10. The financial powers delegated in the Schedules are personal to the officer and cannot be delegated to any subordinate officer except as indicated in Para 11 (b) to (e) below, in terms of Rule 65 (a) and (b), FR Pt I, 1983 Edition.

11. (a) The officer possessing financial powers is personally and unreservedly responsible for any orders purporting to be issued in accordance with the degree of relaxation permitted by this paragraph whether the communication conveying the orders is signed by himself or by an officer subordinate to him.

(b) On the strict understanding that the sole responsibility rests on him, an officer possessing financial powers may authorise a staff officer to sign communication and documents of a financial character on his behalf, provided that the name of the officer who is authorised to sign is communicated to the audit officer concerned and that concurrent authorization to several officers to the full limit of powers is not made. In such cases, it shall not be necessary for the officer possessing financial powers himself to sanction and sign communications and financial documents in respect of each item personally.

(c) When an officer possessing financial powers is absent on leave and no officer has been formally appointed in his place, financial responsibility will rest on the officer actually performing his duties who

will for the time being exercise the full powers of the absentee. The subordinate officer's signature in these cases should, however, indicate that he signs "for ..... absent on ....."

(d) When an officer possessing financial powers is absent on temporary duty or tour, he may permit in writing another officer to sign letters on his behalf. An audit officer will accept the subordinate officer's signature as implying that the orders have been approved by the superior officer, provided that the signing officer signs "for .....absent on tour/ temporary duty".

(e) When an officer possessing financial powers has been posted out and no officer has been formally appointed in his place, financial responsibility will rest on the officer actually performing his duties who will for the time being exercise the full powers of the appointment.

12. **Monetary Limits.** The monetary limit, which has been set in each case, extends to each separate sanction. The criterion in every case is the total cost of a measure and no measure which requires the sanction of higher authority shall be sanctioned by a lower authority in installments.

### **Purchases/ Mode of Tendering**

13. **Open/Limited Tendering.** Open Tender Enquiry/Limited Tender Enquiry (OTE / LTE) up to laid down financial limits of respective CFAs will be resorted to in consultation with IFA as per norms laid down in Chapter IV, Para 4.3 of DPM 2005. There is a need to make broad based specifications to ensure competition for common user items. Vendor registration and Vendor Listing should be availed for issue of LTE. Vendor registration should be periodically updated and such data base shared both intra-service and inter-services. Towards this end, electronic networking of such data base between the Services CFAs, IFAs, the MoD and MoD (Fin) needs to be established in a time bound manner.

14. **Single Tender Purchases.** Keeping in view the fact that procurements should ideally be through competitive bids with broad-based QRs, **greater care needs to be exercised in regard to Single Tender and PAC purchase cases.** Single tendering for non-PAC items is to be resorted to only on grounds of urgency or operational or technical requirements. The reasons for single tender enquiry (STE) and selection of a particular firm must be recorded and approved by the CFA prior to single tendering as stipulated in Chapter 4.2 of DPM 2005 and provisions of Rule 154 of GFR kept in view. **Further, purchase on STE basis should be made from reputed firms after determining the reasonableness of rates.**

15. **PAC Procurements.** PAC status will be assigned as per procedure laid down in the DPM 2005 (Para 4.1.1 & 9.7 refers) in consultation with the IFA. The PAC Certificate has to be given at a level not below that of PSO / APSO / DG /ADG at Army HQ and by the GOC-in-C/Corps Commander and Heads of Establishment /Formations or Units not below the rank of Maj Gen in the Commands. CFAs will keep the following in mind:-

(a) **Bought Out Item Analysis.** PAC bestows a monopoly status on the Supplier and reduces the Buyer's leverage. In order to minimise the disadvantage, PAC status should be awarded with great care.

(b) **Availability.** No other manufacturer is available.

(c) **Standardization.** The need to minimise spares support problems.

(d) **Price Analysis.** In some cases, PAC items could be bought cheaper from distributors, stockists and trade than from OEMs. However, in such cases the former may be asked to show necessary authorization/ certification from the OEM with regard to quality of the items.

16. **Items Developed by Defence PSUs.** When Defence PSUs / OFB have specifically developed an item for the Department of Defence or have taken TOT, such sources could be treated at par with the PAC firms. However, this will not be applicable to procurements based on provision reviews / scales.

17. **Rate Contracts.** Rate Contracts may be concluded by CFAs to whom powers have been delegated in this regard for items required by several



users on recurring basis within the Army or for the three Services as per provisions of Chapter VIII of DPM.

18. **Post Contract Management.** Post Contract Management is a neglected area and must be undertaken carefully in consultation with the respective IFA. In particular the following aspects need to be watched closely:-

- (a) Extension of Delivery Period.
- (b) LC Extension.
- (c) Waiver of Liquidated Damages.

19. **Inventory Holding.** There should be a periodic review of the inventory holding of the Army. The Automation Programmes of the Army e.g. CICP to inter-link all the inventory holding/ Ordnance Stores depots should be urgently made operational for this purpose.

### **Issue of SOPs**

20. **Powers during Hostilities /War/Special Operations.** Powers delegated to Army Authorities for exercise during war, hostilities and special operations without consultation of IFAs will become operative only on the issue of a Govt order declaring such a situation or ordering of a Special Operation by the Army, inter alia indicating the overall ceiling of funds for this purpose. Detailed procedural guidelines will be evolved for procurement of stores/equipment to meet such operational requirements, by way of a Fast Track Procedure (FTP) to be put in place in consultation with the Min of Defence (Finance).

21. **Powers to MAs/ DAs for Urgent Procurements from Abroad.** An SOP will be put in place in consultation with the Min of Defence (Finance) for procurement of stores/spares by MAs/DAs ex-import under their delegated powers to meet operational or technical requirements on grounds of urgency, with appropriate checks and balances as regards initial grant of acceptance of necessity by the MGO.

### **Rules / Manuals**

22. The powers contained in the Schedules will be exercised as per provisions/principles given in the following Manuals, as updated from time to time:-

- (a) DSRs, FR Part I & II
- (b) DPM 2006
- (c) GFR 2005.
- (d) Instruction issued by Govt Deptts like Deptt of Public Sector Enterprises e.g. Purchase Price Preference for PSUs and Small Scale Industries (SSIs) and other guidelines issued by the Min of Finance.

### **Endorsement of Sanction to CDA**

23. A copy of every sanction issued by the CFA shall be forwarded to the concerned PCDA/CDA quoting the authority under which such sanction has been accorded. Further, it shall be ensured that all sanctions issued by the CFA in consultation with the IFA must bear the U.O No and date allotted by the IFA office.

### **Key Areas of Monitoring**

24. In order to ensure that the enhanced delegation of financial powers does actually lead to **better fiscal management** in the Army, resulting in **tangible benefits by way of timely procurements, time bound implementation of schemes / projects, improved availability and enhanced serviceability state of major weapon systems/platforms/equipment** in the hands of the field functionaries and optimum utilization of in-house capabilities built up over the years, the following checks and balances are being instituted :-

(a) **Priority Procurement Plan.** A clear Revenue Priority Procurement Plan will be formulated in all major areas of central procurement, to indicate the carry forward liabilities and new schemes during the FY, indicating those to be sanctioned under delegated powers of the Services and under MoD powers separately. The progress of schemes under the delegated powers of Army CFAs and those to be executed under MoD powers will be monitored separately by MOD to see the results achieved vis-à-vis targets set. **For this purpose, Army HQ is to submit a monthly return to MoD on the progress of the Prioritised Procurement Plan and the progressive utilisation** of revenue budget. Army HQ is also to prepare a PERT chart for all major schemes under revenue head for close monitoring of the progress of such schemes.

(b) **Link between Revenue and Capital Plans.** The DPB should preferably be apprised of the Priority Procurement Plans of the Army on

the Revenue side so that these are duly harmonized with the Annual Acquisition Plans for Capital Equipment and the maintenance requirements are duly factored into our budgeting process.

(c) **Accountability.** Budget has to be an efficiency indicator and the enhanced financial powers should ensure higher efficiency level, in terms of serviceability and maintainability of equipment/ machinery/ platform/ weapon system. A comprehensive data base will be built up for CFAs to review performance.

(d) **Use of In-house Capability.** The in-house capacity of Ordnance Factories, Army Base Workshops and Advance Base Workshops must get utilised optimally.

(e) **Capital.**

(i) The delegation of financial powers for Capital procurement is to be exercised as per the procedures laid down in DPP 2005. The Competent authority to accord various stage approvals as per DPP procedure and the composition of CNCs will be laid down separately by Army HQ with the approval of MoD.

(ii) Army HQ has to render a Quarterly Report to DG Acquisition on the progress of various Capital schemes under delegated powers, indicating the actual cash out go against the budgetary projections in the AAPs

(f) **MIS.** Army HQ is also to put in place a system for data sharing and data networking, both within Army and Inter-Services in order to widen the procurement sources and obviate different rates being paid for the same item by the Army Commands/different Services.

**Highlights/ objectives of Government letter:**

- 46% of revenue procurement budget (Rs.9628cr is Revenue Stores budget Army) utilized by Service HQ and below against present 30%
- Number of cases dealt by Service HQ and below increases from 82% to 85%
- For TLBH in Service HQ, both scaled and non-scaled items powers increased by 50% - 100%
- Enhanced powers will allow 35% - 45% utilization of Import budget against existing 20% - 25%

**Principles governing the delegated powers:**

- Use the powers as per instructions / guidelines in enclosed appendix and SOP- where SOP in conflict with Govt. orders, latter prevails
- Delegated powers mainly for revenue expenditure,
- Purchases above Rs.5.00Lakh on advice of TPC **constituted by CFA**, to be sanctioned by CFA with respective IFA **except DGS&D RC**
- All CFAs mentioned in various schedules can be DDO for DGS&D RC
- Powers for contracts/ purchases on PAC and single tender basis mentioned in Schedule XIV; **for schedules I, XIX & XX**, powers is 50% of powers in that schedule;
- PAC certificate by Head of Establishment not below the rank of Major General
- Purchase up to Rs.15,000/- without quotations recording a certificate under Rule 145 of GFR
- Powers with IFA concurrence with IFA in Army HQ and Commands; **with accredited IFAs below Command**
- Financial advice/ concurrence **by regular file noting**
- Proposals to be comprehensive and admin authorities to provide all relevant data/ documents to IFA/CDA
- CFA may over-rule IFA by an order in writing containing gist of IFA's objections and reasons for over-rule, endorsing the same to next higher CFA and IFA
- Financial powers for each transaction of one or more items- no splitting to bring within powers of lower CFA
- Financial powers subject to **availability of funds**
- Powers during war, hostilities etc without IFA concurrence, only after formal Govt. order
- For imports, no FE release approval required, only noting by FP-3
- CVC guidelines on procurement etc to be strictly followed
- Financial powers take effect from 26-7-06; for objections/ losses cases o/s on this date can be written off also.

## **BUDGET**

### **Who is Budget Holders (BH)?**

- ∞ **VCOAS** is the Top Level Budget Holder
- ∞ **DCOAS (IS&T), DCOAS (P&S), AG, QMG, MGO, E-in-C** etc are High Level Budget Holder in Army HQ
  - Intermediate Budget Holders are DG & ADG who will sub-allot funds to budget centres
  - Budget centres will acquire management responsibility for all expenditure and receipts falling in their areas. Within the delegated powers, freedom to manage their budget to achieve targets most economically, efficiently and effectively

### **Manner of exercising the powers:**

Powers are personal to each CFA and cannot be re-delegated except in terms of Rule 65 of FR Pt-I

1. CFA personally and unreservedly responsible whether orders are conveyed under his signature or a subordinate officer
2. CFA can authorise staff officer to sign financial documents subject to intimating the audit officer and not concurrently authorizing several officers
3. When CFA is absent on leave or posted, officer performing his duties can exercise powers on his behalf
4. When CFA on TD/ tour, he may permit another officer to sign letters on his behalf
5. When CFA is posted out, without formal replacement, officer actually performing his duties will exercise full powers of his appointment

### **Purchases/ mode of Tendering:**

- Open/ Limited Tendering as per limits in Para 4.3 of DPM –2006 in consultation with IFA
- Vendor registration & listing for limited tendering
- Vendor data-base to be shared inter and intra-service
- Exercise greater care in PAC and STE purchase as per Rule 154 of GFR and clause 4(1) DPM-2006

### **Rules /Manuals:**

- Powers will be exercised as per provisions / principles in
  - DSR, FR Part I & II
  - DPM 2005 (2006)
  - GFR 2005
  - Govt. instructions from DPE etc regarding price preference for PSU/ SSI
  - Other guidelines issued by Min. of Finance

### **Tender Enquiry Committee (TEC) – Constitution, Role, functions:**

- Constituted by CFA to examine technical bids received
- Comprises user rep, EME rep, CFA rep , expert
- Should Prepare technical compliance matrix against essential & desirable GSQR
- Prepare TEC report showing bids qualified and **bids disqualified with reasons;**
- Should only disqualify a bid if it does not fulfill any essential condition in TE
- **Should not suggest or implement new QRs**
- Not give any undue opportunity for any bidder to make his offer QR compliant
- Set up by CFA for all purchases above Rs.5.00 Lakh to recommend a purchase
- Comprise CFA rep, user rep, IFA/representatives
- *Examine TEC report and comment on the QRs fixed and competition generated if necessary*
- Examine financial bids of qualified bidders
- Ratify the CST and evaluated L1
- Examine reasonableness of L1, after benchmarking
- Recommendation to the CFA and IFA **including negotiations**



## **ROLE AND FUNCTIONS OF FINANCE MEMBER IN TPCs**

### **ROLE / OBJECTIVES**

- Buying the right QQPTS
- Government Procurement Policy
- To arrive at reasonable Rate
- Negotiate to arrive at acceptable reasonable price
- Ensure guidelines/procedures on procurement by Govt. of India is followed
- Ensure maximum economy
- Acceptance of necessity
- Competent sanctioning authority
- Availability of Funds
- Adherence of current purchase
- Economy
- Tendering conditions. viz., payment terms, ATP, DP, LD, AMC etc.

### **Approach of finance member in TPCs**

#### **Active:**

- Negative - reject
- Positive - discuss alternatives & solution

#### **Passive:**

- Approve with marginal observation, lack of involvement [non confident approach due to lack of background / data / knowledge / rule position / alternatives]

## **Basic orders on procurement and contracts**

1. Financial regulation
2. General Financial Regulation
3. Constitution of India
4. The Indian contracts act, 1872
5. Sale of goods act, 1930
6. General conditions of contract
7. Other relevant Government of India letters / orders

## **Negotiations:**

### **CVC letter November 1998 & Ministry of Defence order of December 1998**

- No post-tender negotiations, only with L-1
- Supreme Court order on kamdhenu vs. FCI verdict, dated.03.11.92 Negotiation for cogent reasons
- Inadequacy of price
- When offers remain open
- Only when significant reduction
- If not, then accept the original

### **Where Concessions are to be given:**

- Assurances of speedy payment
- Quiz - can we offer increase in quantity, stage wise payments, Advance payments?

### **Concessions to be demanded:**

- Increase in warranty period.
- Post warranty maintenance.
- Contract transit insurance, BGBs for items sent for repairs.
- Free training.
- Free spares.

## **10 (Ten) points to see in purchase**

1. Acceptance of necessity.
2. Competence of sanction.
3. Availability of funds.
4. Mode of purchase.
5. Procedural aspects.
6. Technical evaluation.
7. Commercial evaluation.
8. Financial evaluation.
9. Decision-making process.
10. Drafting & signing of minutes.

## **ROLE OF IFA ON PROCUREMENT UNDER IT, TAG**

- Introduction & Delegated Financial Powers
- IT Equipments-expenditure head and categorization
- Procurement Procedure
  - (a) Priority Procurement Plan
  - (b) Preparatory Activities for procurement
  - (c) Actual procurement process
  - (d) Post contractual activities
- Conclusion

## **FINANCIAL POWERS WITHOUT CONSULTATION WITH IFA / CDA**

- Procurements will be affected with CFA sanction following the laid down procedure.

## **FINANCIAL POWERS IN CONSULTATION WITH IFA / CDA**

In the following stages-:

- Prior to approval of the CFA for AON and vetting of financial terms and conditions of draft tenders,
- At the TPC/PNC stage.
- Financial concurrence and vetting of DSO.
- Post contractual monitoring

### **Expenditure head & categorization**

- Purchase of computer systems [**IT Hardware-: 433**]
- Access Network & media connectivity [**IT Hardware-: 433**]
- Purchase of system & application software [**IT Software-: 434**]
- Software development, technical consultancy and IT training [**IT Software 434 & IT Training 437**]
- Computer's peripherals and ancillaries [**IT Hardware-: 433**]
- Computer Stationeries and consumables [**IT Sty & Cons.-: 436**]

### **PRIORITY PROCUREMENT PLAN (PPP)**

- Should cover all major projects and procurements.
- Prepared by CFAs and approved by Army HQ at the beginning of each financial year.
- Projects to be executed under the powers of DCOAS will be fwd to ADGIT for processing and sanction.

### **Preparatory Activities for procurement**

- *Important aspects to be included in the Statement of case-:*
  - Present system,
  - Existing Resources and their uses,
  - Proposed System including up gradation if any with broad system architecture,
  - Benefits likely to accrue,
  - Outputs desired from the system,
  - Software required to be developed / procured / upgraded,
  - Feasibility of buy back provision,
  - Requirement of system study by vendors,
  - Requirement of training of users,

- ***Technical Vetting and Approval***
  - Done by an officer nominated by CFA based on the specs given by ADGIT from time to time
- ***Technical Vetting at DDG IT-:***
  - Turnkey Projects involving Application software development
  - Application software development
  - Technical consultancy
  - Access Network and media connectivity {DG signals}
  - Higher Level IT training
- ***Concurrence of IFA / CDA. Acceptance of necessity and vetting of draft tender.***
- ***Approval of CFA***

## ACTUAL PROCUREMENT PROCESS

- Empanelment of vendors
- Tender preparation
  - Total costs for the full qty
  - Costs should be landed cost inclusive of all taxes ,levies and freight etc
  - Bids will be asked in two parts
- Technical bids
- Commercial bids in separate sealed envelopes
  
- Tender document to include the following
  - Delivery and Implementation Schedule
  - Warranty and Maintenance backup
  - Conditions during warranty
  - Uptime and software updates
  - Delivery and Implementation schedule
  - AMC
  - Acceptance Testing
  - Training
  - Payment terms
  - 5% performance bank guarantee
  - Liquidated damages and mode of payment
  - Submission of offer
  - Proprietary Items
- Procurement based on furnishing of certificate by CFA
  - For expansion / replacement of existing in-use hardware, software OEM may be resorted to on a single vendor
  - Statement of case should clearly state these aspects
- Technical Evaluation Committee Members nominated by the CFA
- Calling for Quotations from empanelled vendors
- Opening of Quotations
- Technical Evaluation of the quotations by TEC
- TEC for consumables / std peripherals can be dispensed with at the discretion of CFA
- **Tender Purchase Committees/ PNC**
  - **Constituted by CFA for all IT projects in excess of Rs.5.00 lakh**

### **Opening of Commercial bids**

- Commercial bids only in respect of vendors approved by TEC
- Independent board of officers will open the commercial bids and put up the CST to the TPC.
- Several proposals can be clubbed and considered on a specified date
- TPC will satisfy itself with the CST
- May negotiate with the lowest bidder
- Make recommendations to CFA after due concurrence of IFA / CDA
- Concurrence of CDA / IFA including vetting of S.O is mandatory where projects are to be executed in consultation with CDA / IFA.
- Sanction of CFA will clearly specify the name of the firm and the final price of the project.
- Sanction is to be signed by CFA
- Supply order to be signed by the officer authorized by CFA
- Supply order must highlight –
  - Scope of project
  - Items / Services to be provided
  - Overall Project Cost
  - Delivery Period
  - Payment terms
  - Acceptance testing methodology
  - Liquidated damages
  - Supply order must highlight
  - Warranty and maintenance cover during warranty period
  - AMC or maintenance of software
  - Spares and consumables
  - Software updates / upgrades if applicable

### **ACCEPTANCE**

- The user would issue an acceptance certificate on successful completion of ATP.
- The date of issuing the acceptance certificate would be deemed to be the date on which the warranty will commence.

## **REPEAT ORDERS**

- The original order was not against an urgent demand.
- Repeat order may be placed within six month.
- No downward trends in prices.
- Quantity not exceed than 50% of originally ordered.

## **PERFORMANCE BANK GUARANTEE**

- Turnkey solution including hardware, and n/w, 5% of the complete cost of project shall remain under BGB till the expiry of the warranty
- The vendor shall furnish a performance bank guarantee equal to 10%of the total value of the contract within seven days of the receipt of supply order.
- In case of non-adherence to the DP for all deliverables of the project L.D. will be deducted.
- Bank guarantee will be valid till expiry of the warranty.

## **OUTSOURCING OF IT, TRG**

- Training at vendors' location. Vendor can provide instructors, hardware, software, courseware, infrastructure and ancillaries
- Training at user location. Same except infrastructure provided by user. Vendor provides instructors and courseware only.

## **COMPUTER STATIONARY AND CONSUMABLES**

- Can be procured only from IT funds
- Requirements will be consolidated by CFA
- Sanction of CFA will be obtained by concerned org following laid down procedures
- Subsequent placing of order, procurement of items and forwarding of bills for payment will be done by user org



**CHECK LIST FOR TPC FOR PROCUREMENT OF STORES.**

- Description of the item
- Estimated cost
- Sanction of the competent authority is available
- Fund availability
- What is the mode of tendering:
  - I) OPEN TENDER
  - II) LIMITED TENDER
  - III) SINGLE TENDER
- If other than open tender reasons for the same may be furnished
- In case of proprietary article, proprietary article certificate duly completed is attached
- Do all firms quoting confirm specifications laid down?
- Date on which the demand for the item was accepted by the Comdt./CO of the unit/formation
- Are the technical specifications in tender enquiries unambiguous and clear?
- technical suitability of the offers

## **Getting full value for time**

### ***Philosophy of IFA System***

- Peculiarity of such procs.
- Introduction – scope
- Unique Features
- Stages of procurement
- IFA involvement at each stage
- Case File
- Areas of concern
- Open session
- As envisaged by New Management Strategy of GOI
  - To make defence efforts more effective & efficient
  - To ensure “value for money” which includes achieving maximum possible benefits without losing sight of prioritized requirement of services
- Means to achieve this goal
  - Greater delegation of financial powers
  - Creation of accountability and responsibility centre
  - Expert advice to CFA through integrated financial advisors
- Role of IFA
  - Part of management in decision making
  - Active involvement at all stages

### **Peculiarity of such procurements:**

- Specialized usage inc. technical nature
- Restricted source of supply
- Maintenance as a dominant concept
- “Project “orientation
- Fits into “technical infrastructure” category
- Extreme Change Orientation

## **Common Features of IFA System**

- IFA involvement at all stages
- No further delegation of powers
- Officiating incumbents to exercise full powers
- Financial advice to be rendered only in writing except extreme urgency
- Over ruling of IFA advice possible
- TPCs/PNC mandatory for process above Rs.5.00 lacs
- PNC may be done for less than Rs.5.00 lacs if CFA feels so
- TPCs not necessary for items procured through DGS &D
- Framing of elaborate SOPs
- Time bound disposals by IFA

## **Preparatory Activities Essential for Procurement**

- Step-1** Statement of Case along with the draft Tender Enquiry [DTE), giving all the Qualitative Requirements (QRs) and/or Operational Requirements (ORs) will be put up by the user to the CFA with full details
- Step-2** Approval of the requirement in principle by the CFA after the necessity and DTE is concurred by the IFA/CDA,
- Step-3** Issue of RFP/tender enquiry, inviting quotes in two parts as under:
- (i) Technical offer with detailed technical specifications.
  - (ii) Commercial offer.
- Step-4** Opening of technical offer only and preparation of technical Compliance Statement

***Evaluation of technical offer/bid by duly constituted Technical Evaluation Committee (TEC). The TEC shall prepare minutes and give its clear-cut recommendations***

## **STAGES OF PROCUREMENT**

- Constitution of TPC/PNC by CFA
- Opening of commercial quotes of the firms short listed by the TEC by an Independent Board of Officers on a date & time notified in advance.
- Preparation of CST (Comparative Statement Tender) by the Board of officers duly signed
- The file along with copy of CST and a brief for TPC to be sent to IFA/CDA and convening of TPC/ PNC. The date & time for holding the TPC shall be notified well in advance
- Negotiation with the vendor with the lowest quotes i.e. with L1, (Lowest bidder) if required by the TPC
- All proceeding of TPC meeting should be documented in detail. Adequate notice should be given to all members of TPC. All members including finance should sign the TPC minutes.
- Issue of letter of Intent or Supply Order by the user after it is duly vetted by IFA/CDA

## **POST-CONTRACTUAL MONITORING**

### **Involvement of IFA at different stages**

- Acceptance of necessity
- Decision regarding mode of procurement
- Vetting of DTE and its terms & conditions
- TPC & PNC – through representative
- Vetting of Supply Orders
- Post contractual monitoring
  - *Having financial implications such as Delivery Period (DP) extension, waiving of liquidity damages, risk purchases and issue of corrigendum to the supply orders etc.*

## **AREAS OF CONCERN**

- Furnishing of SOC to IFA
- Framing of Technical Specs in DTE
- Jurisdiction of IFA
- Role of Technical Vetting Officers
- Preparation of Vendors List
- Turn key projects
- TEC Proceedings
- Proprietary procurements
- Procurement through central agencies DGS&D, NCCF etc
- Repeat Orders
- Single vendor cases
- Procedural propriety

## **Reference material**

- Defence Procurement Manual-2006
- Standard Operating Procedure-IT
- Government of India, MoD letter dt: 22nd Apr'2002 and subsequent amendments
- General Financial Rules-2005
- Policy issued by GOI time to time.

## ***CASE STUDIES***

### **Information Technology Grant (IT Grant)**

MITIS Pune submitted a proposal for procurement of quantity 50nos PCs during the scrutiny of the technical specifications of the PCs it was found that 15 Nos. TPT was proposed as display on observing the necessity of TPT monitor for use in classrooms. It was stated by the Estt that due to space constraints & aesthetic view the same has been proposed. Since the justification does not fall under ambit of financial rules. It was viewed that the purchase of PCs with TPT monitors is not acceptable. The Estt then deleted the TPT monitor from the specifications. This resulted in the sayings Rs.6, 00, 000/-at the acceptance of necessity stage.

MITIS Pune submitted a proposal for procurement of Qty 50nos Laptops for Instructors. The direction of Min of Fin. on purchase of Laptops was brought to the notice of CFA duly enclosing copies of O.M. The Estt deleted the proposal from the Statement of case in view of the directives issued by Min of Fin. The resulted in a savings of Rs.410, 000/-

### **INTERNET**

The Annual Recurring expenditure on Internet connectivity i.e. Port charges Local loop charges etc. are payable under Code Head 437/01 from year 2003-04. This falls under the head “Training” as per Schedule- XIX of Govt. letter Dt. 22.04.02 on delegation of financial powers. Since the expenditure under this head can be incurred by CFA only in consultation with IFA, the Audit, so returned the bills received by them directly from the Cat “A” establishment contended that since the leased line connectivity is sanctioned by MoD and concurrence has been obtained at the time of initial installation every year for renewal concurrence need not be obtained.

The matter has been referred to all IFAs and Regional CsDA to know the Practice followed by them to have uniformity and to refer the matter to Pr.IFA if necessary.

### **Important Observations**

The proposals for procurement of Laptops were received in this office from various units/estts. On a scrutiny, it was found that the purchases were being proposed as a matter of routine and for the sake of convenience to the officers of all levels. The proposals were not concurred, in the light of provisions contained in GOI, M o D, .O.M. No: (29)/EII (A)/2000 dated 06-09-2000. When the units insisted on procurement, they were advised to do so, invoking the provisions of Para 7 of GOI, MoD letter no. A/89591/FP/I/693/2002/D-(GPS-I) dated 22-04-2002.

However, the under mentioned Formations/Estts overruled the advice of IFA and obtained sanction of the GFA.

HQrs. 12 Coros	15 Nos	}	Procurement Completed in 2003-04
HQrs 11 Inf. Div	04 Nos		
ACC & S A.nagar	10 Nos		

HQrs. 41 Arty Div	07 Nos	}	Procurement not materialized in2003-04
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### **CDA (EC) & IFA**

The Proposal relates to procurement of 15 Nos Direction Finders at an estimated cost of Rs.60.00 lakhs

The proposal has been examined in depth and the following remarks are offered:-

Scrutiny of QR reveals that “Direction Finders” and “Automatic Bearing Processor” are identical items.

6nos Automatic Bearing Processors were purchased earlier @ Rs.2.50 Lakhs from Messrs capital overseas (P) Ltd. And now the rate of the same item under the nomenclature of “Direction Finder” has been quoted as Rs.4, 00,000 per piece by the same firm

The reasons for concealing correct information by proposing a misnomer for an item purchased earlier at 60 & inflated price may please be elucidated.

Past and proposed distribution of the items may also please be furnished.

*Leased Line*:-The renewal leased line charges from VSNL were found very high in comparison with the rates offered by BSNL Since VSNL is no longer a Govt. Company, the establishment was advised to analyze the cost vis-à-vis the charges incurred by other Cat 'A' establishments in Pune As a result, after negotiation, VSNL reduced the rates by 20 % which resulted in a savings of Rs.17, 000/-

### **HQ 12 Replied**

Multi Screen Projection System: The proposal for procurement of Multi Screen Projection System for Rs.16, 49,000/- from M/s Pan Telecom (P) Ltd. New Delhi was submitted during Mar 2005. While scrutinizing the Proposal it was found that the same equipment was also procured by HQ Northern Command in August 2004 at a total cost of Rs.15,91,200/-. Therefore, the unit authorities were advised to negotiate rate with the firm. The firm agreed to supply the equipment at a total cost of Rs.15, 92.000/-. This resulted in a saving of Rs.57, 000/-.

One of the units has submitted the case for Procurement of laser colour printers for vetting of Draft Supply Order. It was found that the cost variation between the rate achieved and DGS & D Rates was Rs.3.00 lakhs for Qty 1 no. There was no substantial technical advantage for the Estt, for procurement of the equipment, as it was found that the high cost was due to additional memory, dpt. no. of pages to be handled. The same was brought to the notice of the CFA and it was suggested to procure the item through Rate Contract by which additional Qty can also be purchased, being cost effective. The suggestion was accepted as valid by the CFA and the procurement was done through DGS & D. This resulted in a saving of Rs.5, 78,484/-.

While Vetting the Draft Supply Order for Procurement of High End Server submitted by CMA, Pune, it was found the TEC disqualified certain vendors arbitrarily. It was found on detailed scrutiny that the Technical Specifications tailored to match a particular brand, which resulted in disqualification of certain vendors. Since this was against the CVA guidelines, the Estt was asked to justify and it was simultaneously



suggested that technical compatibility of Server available through DGS & D may be examined. The suggestion was accepted and the Estt procured the item through DGS & D. This resulted in a saving of Rs.6, 97,493/-

Any other advice rendered on major system reforms

The proposals for procurement of high value IT. Equipments ranging from Rs.15 lacs to Rs.44 lacs through NCCF/Kendriya Bhandar were received in this office. In the opinion of this office, it was observed that M/s NCCF/KB is not a stockiest/QEM for such items and neither has expertise to deal with such hi-tech equipments nor subsequent service support. It was also opined that such purchases through NCCF/KB are not protected by proper BG and warranty. Hence, procurements of high value, hi-tech equipments should be through competitive tendering in the light of the provisions of GFR Rule 102 (i) 27 & 28, which states that items worth more than Rs.5.00 lacs value need to be procured through Open Tender.

The proposals were not vetted and the matter was referred to Pr. IFA, who in turn got the matter examined by Additional DG IS, AHQrs through IFA (Army/M) (Copy enclosed). As per the remarks of IFA (Army/M), suitable action incorporate the final decision of ADG IS in the SOP on IT, is being taken separately.

## **DISPOSAL OF STORES**

### **REVISED PROCEDURE FOR FIXATION OF RESERVE GUIDING PRICE FOR DISPOSAL OF STORES**

**Authority:** - Govt. of India, Min of Def letter No.9360I/OS-ID/D (O-II)/98 dt.25/9198

A revised procedure for fixation of reserved guiding price (RGP) for disposal of surplus stores including current obsolescent and obsolete stores held by Central Ordnance Depots (COD) having salvage sub depots/stores sub depots has been introduced and laid down under the above quoted Govt. orders. The detailed procedure is contained in the Appendix attached to the Govt. letter.

2. The salient features of the revised procedure are:

a) The procedure as revised is to be followed by CODs having salvage sub depots/stores sub depots,

b) The procedure will apply to disposal of surplus stores including current obsolescent and obsolete stores.,

c) The RGP for surplus stores will now be fixed by the MG AOCs respective command as per the instructions contained in Govt. of India Min. of Def. letter No.3 (2)/89/D (O-II) dt.10/11/89 laying clown the procedure for fixation of RGP of salvage.

d) To enable the 1VIG AOC to fix the RGP, a Board of Officers comprising of the following members will be convened every time an auction tender/tender cure auction is proposed to be Held.

- A rep of MG AOC
- A rep of the concerned depot
- A rep of CDA
- A rep of the I & BC Cell if posted in the depot.
- Any other officers from local unit.

e) The Board of officers will assess the physical condition of the stores and recommend to the MG AOC the RGP on the basis of criteria laid down in DGOS Technical Instruction No. 010 which are:

- Condition of stores.
- Prevailing market rate as published in National Dailies like Economic Times/Financial Express.
- Book value of stores where applicable.
- Utility of the stores as such or in a modified condition to civilian users.
- Value fetched by similar stores in past auctions.
- Rates fetched by similar, stores in neighbouring depots of the same command as well as neighbouring commands may also be kept in view.

f) In respect of metals like pure brass, the prevalent system as applicable for fixation of RGP will continue; pure copper will also be disposed of on the basis of RGP fixed on similar lines as for brass.

g) In respect of other metals including mixed metals, guidelines mentioned at (e) above will be followed,

h) Powers to accept bids below the RGP and the authorities who can exercise these powers are:

<b>Authority</b>	<b>Extent up to which bids below RGP can be accepted</b>
Sale Supervising Officers	Up to 10% lower than RGP
Commandant	Up to 20 % lower than the RGP without assigning any reasons. - Up to 30% below RGP - after recording reasons for doing so, in writing

i) In cases where the offer is more than 30% below the RGP, the RGP will be reviewed and refixed by the Board of Officers.

j) A rep of the CU\ will be included in the entire, auction proceedings and his participation will be as a rep of Min. of Def: (Fin)

k) Other provisions in UGOS Tech Inst. No.010 will be followed for disposal of stores through auction.

l) Sale result will continue to be sent to Min. of Def.

3. The problem of accumulated inventories particularly those obsolete and obsolescent and hence devoid of any real utility/usage is a major one and a serious one in all the store holding depots. The accumulation or the unwanted items has resulted in blockade of valuable public funds leading to other priority requirements being starved for funds and in addition these occupy precious space in the depots. The inventory carrying cost of these items is also substantial and the entire cost is unproductive and infructuous. This area therefore needs immediate and, continuous action to identify these items and dispose them of without delay so that these do not deteriorate any further adversely affecting the realizable value. The IFA has ample scope to play a positive role and make positive contributions by virtue of his skill and expertise and experience. It has however to be remembered that while the anxiety to dispose of the surplus items could be appreciated and also understandable it has to be ensured that it does not lead to distress disposals and we do not succumb to pressures to this direction.

## **GUIDELINES**

### **General**

4. a) Keeping in view what has been mentioned in part 3 which should be borne in mind it is necessary for the IFAs to ensure that all cases for fixation of RGP are handled with care, caution and promptitude.

b) Govt. orders have already been promulgated vide Min of Defence letter No.48503/, ST -II/4810-B/D (QS) dt.23/9/92 laying down the manner of initiations, processing clearance etc of proposals for financial concurrence. These have to be observed. The main provisions of these orders are:-

- Proposals will be detailed; comprehensive and self contained and will be on files with regular and proper notings.
- Financial concurrence will be accorded in writing and will be with reference to notings.
- While meetings/discussions are not substitutes to notings on files, in cases of extreme urgency when time does not permit flotation of files, decisions could be taken in meetings/discussions but these would be followed immediately by notings and financial concurrence will be recorded in writing.
- IFA can ask for any additional information/data relevant to the case and these would be provided to him.

c) While ICA has to ensure adherence and compliance with tile various Govt. orders and basic financial principles wherever occasion demands. IFA need to be flexible and pragmatic in approach depending on the merits of the case and circumstances connected therewith so long as tile same is within tile overall ambit of. Govt. orders and policies and none of the financial principles are violated in the process. .

#### **4.1. Specifics**

In addition to the general guidelines as above, the following points which are more specific and in relation to the Govt. orders dt.25/9/98 have to be followed while dealing with cases coming up under these Govt. orders.

a) In as much as the manner of fixation of tile RGP and tile parameters relevant thereto and also the authority to fix tile RGI have all been laid down in details in the Govt. Orders, the IFA has basically to see and ensure that these have been followed and complied with fully.

b) Whether the items in respect of which RGP is proposed have been declared as surplus/current obsolescent/obsolete as tile case may be, have been categorized as such by competent authorities and these have been approved by them?

- c) What is the quantum of each item involved and does it represent the total stock held and if not what are the reasons for proposing disposal of part quantity and what are the proposals for the balance quantity. Is it not desirable and advantageous to dispose of the entire quantity?
- d) What is the age and vintage of the items proposed for disposal?
- e) An important point to be reckoned while considering RGP is that unlike salvage items which are curly scrap the items in question are serviceable partly or fully and this should be given adequate weightage
- f) Condition of the stores - whether this has been assessed by technical authorities competent to assess and whether the method adopted for the assessment has been brought out. If this has been done by a Board of Officers, whether there is unanimity between the members and if not there may be need for review/reassessment.
- g) What is the book value of the item where applicable and available?
- h) Whether the possibility of transferring the items to other Ministries/Departments considered and attempted and what are the results?
- i) In the case of pure metals like brass, copper etc why not these be offered to ordnance factories, naval dockyards etc which will result in savings in their expenditure and realisation to Army.
- j) What is the trend in realisation from such items disposed of in the past in that depot and nearby depots and how do they compare with the officers received at wide variations and when was the last disposal carried out?
- k) What is the mode of tendering carried out and is it satisfactory? Is there adequate response and enough competition? How do the offers compare with the book values rates published in economic dailies and market rates suitably depressed for change in condition, if any?
- l) Has the credibility, past performance and financial standing of tenderers been checked up and have they deposited the prescribed earnest money?

- m) Whether the terms and conditions or disposal through tenders or auction are as per the Govt. orders on the subject?
- n) Though powers have been given for accepting bids below RGP this may not be resorted to as a matter of course during auction as the credibility of the RGP will be open to question in that event. Hence this should be discouraged as far as possible.
- o) Where offers/bids are below RGP for no. reason or where collusion between tenderers or formation of cartels is suspected the better alternative may be to go in for retender or re- auction subsequently?
- p) Such Cases for review/refixation of RGP should be discouraged as far as possible and this course, merely-to ensure that offers /bids do not go beyond 30% below RGP may -not be healthy and may in fact undermine the system of RGP such cases should be subjected to very critical scrutiny.
- q) The IFA has an integrated role cut out (or him and he are representing Min. of Def. (fin) in these cases and this should always be borne in mind. His association and concurrence at every stage is necessary.

## **DISCARD POLICY OF B VEHICLESE**

**Authority:** Govt. of India. Min of Defence letter No G (20)/87/D (GS-IV) dated 7/12/90 as amended by letter dated 27/1/97 and No. 1(27)/91/D (01) dated 21/4/93.

The above mentioned Govt. orders lay clown the discard policy to be followed in respect of 'B' vehicles with immediate effect as per policy laid down, the 'B' vehicles are to be discarded on completion of a certain number of kilometers or a certain number of years of service. It is to be noted that this discard policy is applicable only to the already introduced makes of the vehicles with the Army at the time of issue of these Govt. orders. For futuristic vehicles and Marutis being procured for NFF a separate discard policy is to be formulated and notified by tire Govt. As such the present discard policy will not be applicable to the vehicles held by the NFF unless otherwise provided for in these Govt. orders.

2. As per the discard policy laid clown, the B vehicles ale to be discarded on their completing the prescribed kilometers run or the prescribed dumber of years service as shown below

<b>Types of vehicle</b>	<b>Parameters for discard-on completion of</b>
a) Motor cycle	45,000 kms or 7 years whichever is later
b) Staff car	Field formation: 80,000 kms or 8 years whichever is later AHQ Tpt. COY: 2, 00,000 kms or 8 years whichever is later Other unit: 1, 00,000 kms or 12 years whichever is later
c) LCVs 1 Ton/3 Ton	2, 00,000 kms or 15 years whichever is later.
d) Specialist vehicles	Specialist Vehicles, less the following, shall qualify for discard either when it reached the overhaul conditions of 100% stripping and rebuilding i.e. classified in Category V (B) car in case the same is of an obsolescent make/model (Incl. G.S. tractor). The following Specialist Vehicles will he discarded After 65,000 kms or 7 years whichever is later.



Car 250 kg 4x4 Ambulances  
Truck 1 Ton Ambulance 4x4(4 Stretchers)  
Truck 1 Ton 4x4 Water 1000 ltrs  
Truck 1 Ton Mail carriage 4x4  
Truck I Tote 4x4 Comm Patch in panel  
Truck 1 Ton 40 Radio Receiver.  
Buses civil pattern  
Lorry 3 Ton 4x4 (LRV)  
Lorry 3 Ton 4x4 Petrol 4000 Ltrs  
Lorry 3 'ton 40 3000/4000 ltrs water  
Lorry 3 Tom 4x4/4x2 Tipping  
Other specialist vehicles

2.1 In terms of the amendment to GFR 1963 Rule 124 vide Min of Finance (Expdr) OM No. 23(4) EII (A)/90 dated 16/4/91, relating to declaration of an item of store as obsolete, surplus or unserviceable and order their disposal, a Board of officers will be convened when 'B' vehicles are to be declared unserviceable care to any of the following reasons:

- i) A vehicle having met the twin conditions of discard as laid down in the Discard Policy issued vide Min of Defence above quoted letter 7/12/90
- ii) A vehicle having met one of the twin conditions of discard but considered for down gradation as a non runner/unserviceable;
- iii) Downgrading of vehicle as lion runner/unserviceable clue to accident.

The Board of officers referred to above shall consist not less than 3 members of whom one will be from Administration, one will be a representative of EME as Technical Member having knowledge of stoic and a representative from CDA as Finance Member in terms of Note 1 under GFR 124 ibid as amended as referred to MOD letter No. 1(27)/91 D (O-1) dt 21/4/93.

## **GUIDELINES**

3. Keeping in view what has been mentioned above the following further guidelines are laid down to help and guide the IFA to discharge his role in the Board of Officers.

## General

(a) The cases/proposals should be approached and examined dispassionately with an open mind and dealt with on the basis of merits of the case.

(b) It has to be seen whether the proposals have been floated on the lines specified in Govt. of India Min. of Defence letter No. 48503/ST-II/4810-B/D (QS) dated 23/9/92, laying down the method of initiation, processing, clearance etc. of proposals for financial concurrence. These have to be observed. The main provisions of these orders are:-

- Proposals will be detailed; comprehensive and self contained and will be on files with regular notings.
- Financial concurrence will be accorded in writing and will be with reference to notings.
- IFA is free to call for additional data/information relevant to the case and these will be provided to him
- Meetings and discussions are not precluded but these are substitutes to regular notings on files.
- In cases of extreme urgency when time does not permit flotation of regular files, decisions could be taken in meetings/discussions but these should be followed immediately by regular notings and financial concurrence will be recorded in the notings.

c) Any problem faced by the IFA which he is unable to sort out himself will be taken up by him with CDA for advice/directions.

d) Proposals/cases have to be dealt with and processed with promptitude as delay may hold up the replacement affecting the functioning of the Army.

## Specifics

3.1 In addition to the general guidelines as above, the following further guidelines which are more specific in relation to the Govt. orders dated 7/12/90 and 21/4/93 have to be followed while dealing with cases coming up under these.

a) As the parameters governing the discard of the vehicles under the policy and the procedure to be followed in the matter have all been laid down in detail in the Govt. orders, handling and dealing with such cases should not pose any serious or insurmountable problems for the IFA. In view of the specific and pointed nature of the procedure and parameters, the IFA has basically to see whether these have been fulfilled and complied with.

b) Whether the Board of Officers has been constituted by the competent authority and the composition of the Board is strictly in terms of Govt. orders dated 21/4/93 and necessary convening order signed by the appropriate authority have been issued?

c) Whether the terms of reference have been stipulated in clear and unambiguous terms also indicating details of the vehicles (with make type BA No. Chassis No., Engine No, and Tyre No. etc.) to be considered by the Board for discard. If not, the convening orders and the terms of reference should be brought suitably amended/amplified?

d) The Board of Officers has no authority to go beyond the convening order and as such discard of any vehicle not covered by the convening order should not be considered by the Board.

e) Whether regular notings have been initiated supported by statement of case containing full facts and details with data and documents in support?

f) Whether the vehicle whose discard has been proposed falls within the ambit of the Govt. orders dated 7/12/90 as amended dated 21/4/93?

g) Whether the facts relating to kilometers run and no. of years completed mentioned in the proposal are with reference to documentary support available on the files, if not the relevant car diaries/log books etc. have to be called for to establish facts?

h) Whether the vehicles proposal has been inspected by EME authorities as to their condition and the proposal for discard is on the basis of their reports?

i) There may be vehicles which may have completed the prescribed kilometer and/or no. of years and qualify for discard under the policy but EME authorities may find that these could be used some more in view of their conditions. Such cases have to be dealt with carefully keeping in view the overall economics to Govt. by deferring its discard and a well judged decision has to be taken in which the IFAs role will be significant,

j) Cases for discard of vehicles which, have fulfilled only one of the conditions of discard but are to be condemned for other reasons like accident etc. (Para 2.1 refers) have to be examined critically to ascertain specific reasons/circumstances leading to the conditions of the vehicle, whether these have been fully investigated and whether it is possible, advisable and economical to use them for some more time after repair/overhaul, what is the estimated cost of repair/Overhaul etc. this would be particularly in cases where the km. run/no. of years completed is too low vis-à-vis parameters given in the discard policy.

## **ROLE OF IFA IN DISPOSAL ACTIVITIES**

If the obsolete and unserviceable stores are not disposed off it would cause heavy accumulation of unwanted stores in all the store holding depots. Thus it will result in blockade of public Funds affecting the other priority requirements and also occupy the precious space in the Depots. Due to delay in disposal of such stores it will reduce in realizing the residual value owing to deterioration in condition.

For disposal of any salvaged/obsolete stores, the first action is to fix the RGP i.e. Reserve Guidance Price.

What is RGP and how it is fixed?

RGP means Reserve Guiding price. This is an assessed price of obsolete/ condemned / salvaged/surplus stores of CODs/Vehicle Depot/SalvageDepots etc arrived at by the board of officers before such stores are proposed to be auctioned on the sanction of competent authority empowered as such.

For this similar type of obsolete/salvaged store received from the various units/formations in the Depots are to be arranged in different lots. After this the RGP of each lot is got fixed by the Board of officers detailed for the purpose. In the board, the following member's will be associated:

- a) A rep. of MG AOC
- b) A rep. of the concerned Depot
- c) A rep. of CDA
- d) A rep. of I & BC Cell of the Depot is posted
- e) An officer from any local unit.

The Board of officers will assess the condition of the stores and recommend to the MG AOC, the RGP assessed by them for his acceptance. While assessing the RGP, the board of officers will take into account the following points as per tech. instructions of DGOS. No c/o:-

- a) Condition of stores
- b) Prevailing Market rate at published in National Dailies like Economic Times/Financial express.

- c) Book Value of stores where applicable
- d) Utility of the stores as such or in modified conditions to civilian users
- e) Value fetched for similar stores in the past auctions.
- f) Rates fetched for similar stores in Depots of the same Command/neighboring Command.

After the RGP has been assessed and recommended, by the Board of officers the same would be put up before MG AOC for his perusal and approval. On approval/fixation of RGP by the MG AOC of the Commands, action will be taken for disposal of these stores through Auction. For this Govt. approval Auctioneer would be intimated for conducting of auction on the date fixed for this auction. Before this tender would be floated to the registered bidders/ advertisement would be made in the National Dailies/all leading local papers for participation in the auction bid on the fixed date by those who are desirous for this.

During Auction cum Tender Committee, the following officers will be detailed for conducting the auction.

- 1) Supervisor officer (appointed by the MG AOG)
- 2) Commandant of the concerned Depot
- 3) A representative of CDA.

### **Powers of acceptance of bids**

- a) Sales Supervisor Office can accept the Auction bids up to 10% lower than the Reserve Guiding Price:
- b) Commandant of the Depot up to
  - i) 20% of the lower than RGP
  - ii) Up to 30% of the lower than the RGP with mentioning suitable reason for going so much down of the RGP.
  - iii) If the bids are below 30% of the RGP then the fixation of RGP done already would be reviewed and if considered the re auction may be done. Even on reaction the bids are still coming down below 30% of RGP, the action would be taken to review the whole episode and re-fix /revise the RGP suitably.

After auction is over, the sale result will be sent to Min. of Defence quickly.