

CHAPTER- 1

INTRODUCTION

1.1 Background of IFA system –

1.1.1 Origin - The concept of the Integrated Financial Advice scheme was introduced in the Ministries/Departments of Govt. of India in the wake of the decision on Departmentalization of Accounts in 1976. The main aim of the Scheme was to expedite decision-making and to ensure that all expenditure proposals are subjected to due financial scrutiny before the expenditure is sanctioned/committed. The IFA scheme was introduced in the various Ministries at different points of time and in the Ministry of Defence, this Scheme was brought into use in 1983. Basically, the concept covers that the Advisers would be integrated with the Ministry/Departments concerned and would render Financial Advice in all cases of delegated financial powers and would also be consulted in all financial proposals falling outside the delegated field. This would mean that while exercising their delegated powers, the authorities concerned are required to consult their IFAs. In so far as Defence is concerned, the delegated powers fall under two categories viz. Those which could be exercised without consulting Finance and those which are to be exercised only in consultation with Finance.

1.1.2 NMS & ARC – In 1990s, MoD mooted initiation of further studies on the concept of Authority-cum-Responsibility Centres (ARCs) on lines of those adopted by the UK Army, to be further validated in the base logistics units in peace areas since delineation of performance indicators in these units would be comparatively easier. These initiatives planted the seeds for formulation and implementation of the New Management Strategy (NMS) for the three Services, leading to the substantial delegation of financial powers in Revenue expenditure to the three Services during the period from 1996 to 2000, whereby a substantial portion of Revenue budget came under the delegated powers of Service Hqs.

1.1.3 NMS in Army - New Financial Management Strategy was introduced in MGO's Branch in 1997, with a view to introducing efficiency in performance, financial control and establishing linkages between utilization of resources allotted and targets / output achieved. Financial management strategy involved the following ;

- i. Greater decentralization of responsibilities for budget formulations and financial control together with adoption of the concept of accountability.
- ii. Creation of Authority-cum-Responsibility and Budget Centre (ARB) at MGO's Branch under the aegis of MGO.
- iii. MGO as PSO was henceforth to be a high level budget holder acting as an Authority-cum-Accountability Centre and was to be responsible for cost effective management of all equipment management activities of the Army. This centre was to monitor expenditure on various items of AOC Stores against discipline-wise budgetary allocations. It was also to be responsible for sub-allocating the budget to various Budget Centres.
- iv. The DGOs and DGEME as heads of respective directorates were to be

- intermediate budget holders and act as Responsibility and Budget Centres for their respective directorates in management of budget and achievement of objectives within a given budget, keeping economy and efficiency in mind.
- v. Additional DGOs, CODs, Base Workshops etc. were to be responsible for day to day management of the budget and monitoring of the expenditure against the budgetary allocations.
 - vi. The most important feature of the Financial management Strategy was the linkage of Provisioning and procurement activities with the availability of resources.
 - vii. IFA (Army) at AHQ and IFAs in CODs were to give financial advice to various Ordnance functionaries.

1.1.4 Creation of IFA posts - A major step was taken by the Committee on defence Expenditure constituted in 1990 which recommended substantial delegation of financial powers to the Services except for creation of posts, import of stores and introduction of new scales. The Committee had recommended that while certain enhanced powers were immediately being delegated to the services, further delegation would have to be linked to the establishment of appropriate systems of financial advice and control. In the light of the recommendations of the sub committee of the Committee on Defence Expenditure, the Ministry of Defence decided in November 1991 that the exercise of the delegated Financial Powers should be with the advice of the local Financial Advisers. The 19th Estimates Committee of Parliament was assured that the idea to establish the Scheme was being processed and senior officers of the Organization of the CGDA were being positioned at various levels for the implementation of the Scheme. Accordingly, IFAs were positioned in the Services HQrs as also HQrs DGBR vide the under mentioned Govt. orders:

- i. MOD F No. 665/Addl.FA(C) dated 4/4/94 - IFA Air HQrs
- ii. 840/Addl FA (J)/94 dated 22/3/94 - IFA Naval HQrs
- iii. AN-I/1179/1/VKPC-XXV dated 17/8/94 - IFA Army HQrs
- iv. BRDB No.F 731/C18 BBDB/BWA/94/Delegation dated 23.3.95 - IFA DGBR
- v. MOD No. Air HQ/61279/35/4/LR/1215/DO-I Air-I dated 26/9/95 Maintenance - IFA HQrs Command, IAF

1.1.5 Substantial delegation of powers in 2002 – During the post-Kargil period, a Group of Ministers was set up by the Govt to examine the national security environment and based on recommendation of the Task Force on Higher Defence Management, MoD comprehensively delegated both financial and administrative powers to the three services not only at Service Hqs level, but also to Commands, formations down to the Unit commanders. Such delegation was, however, to be preceded by the provision of the mechanism to provide Financial Advice (IFA system) to the CFAs so that proper checks and balances were exercised and expert financial inputs were available. This led to postings of several IFAs at all levels alongwith the creation of the post of Pr.IFA at CGDA's office to co-ordinate the activities of the IFAs.

1.2 Changes in MoD – Another offshoot of the GOM recommendations was setting up of the Acquisition Wing in 2002 to look into the whole gamut of processing new Capital acquisition proposals for the Services and creation of overarching decision

structures like Defence Acquisition Council and Defence Procurement Board. On the Finance side, posts of FA (Acquisition) and three Finance Managers for Army, Navy and Air Force were created. The three posts of FMs were encadred into DAD.

1.3 Latest delegation in 2006 – Financial powers to services were further delegated in 2006 with new features like delegation of Capital cases, introduction of Priority Procurement Plan, etc. Role of IFAs was increased to include involvement in Budgeting, Planning, Data-base sharing, Contract monitoring, etc.

1.4 Present structure of IFAs in Army –

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

Army HQrs.	Command Headquarters	Other Formations
IFA Army/O (i)MGO Branch (ii) Policy Issues	IFA Western Command (Chandimandir).	COD Kandivali
IFA Army/Q QMG and E-in-C Branch AG Branch (including DGAFMS)	IFA Southern Command (Pune)	COD Dehu Road
IFA Army/M (i) MI Dte (ii) DG RR (iii) ADG IT (iv) All cases pertaining to MH 800 (Misc Expenditure)	IFA Central Command (Lucknow)	COD Delhi Cantt.
	IFA (Northern Command) Udhampur	COD Agra
	IFA (Eastern Command) Kolkata	CAFVD Kirkee
	IFA South Western Command (Jaipur)	COD Chheoki
	IFA ARTRAC (Army Training Command) (Shimla)	

1.4.2 IFA coverage to all Corps Hqs is being provided by Junior Administrative Grade Grade (JAG) level officers – nominated in PCDA / CDA offices, as per orders issued by Hqs office from time to time. IFA coverage to CODs other than those mentioned in sub para above, is also being provided by officers nominated in PCDA/CDA offices. For other units / formations below Command level, IFA coverage is being provided by PCDA / CDA under whose jurisdiction the units / formation falls. **HQs letters AN/1/1179/IFA/Army dated 29.9.2006, dated 6.11.2006 and dated 17.10.2006** are relevant.

1.4.3 Role of PCDA as Principal Advisor and Coordinating Controller in all Commands has been promulgated vide **CGDA letter AT-Coord/13393/Coord-Cont (Vol II) dated 29.3.2007**. It has further been clarified vide **CGDA letter No. AT-Coord/13393/Coord-Cont.(Vol. II) dated 11th Oct. 2007** that as hithertofore, the IFA will function as Chief Financial Advisor to the Army Commander in the

exercise of his delegated financial powers and consult the Principal IFA on matters of financial advice as per the prescribed reporting chain. The PCDA will continue to be the Chief Advisor to the Army Commander in matter of budget monitoring and control, accounting and internal audit. There should be regular interaction and consultation between PCsDA/CsDA and IFAs as well as the Command HQ.

1.5 Objectives and duties of Pr. IFA Wing

1.5.1 Role of Pr. IFA is given in Chapter V of CGDA Procedure Manual (Edition 2007).

1.5.2 OBJECTIVES:

- a) Aiding and advising the Integrated Service Headquarters Ministry of Defence i.e. Army, Navy and Air Force, Headquarter Integrated Defence Staff and Secretary Defence Finance through CGDA for effective functioning of the IFA System.
- b) Overall control, supervision, direction, co-ordination and reporting in relation to the functioning of dedicated IFAs below Service Hqrs level.
- c) Financial Advice and Coordination in relation to the working of IFAs in the Integrated Service Headquarters, Integrated Defence Staff, PCsDA/CsDA entrusted with IFA Functions, IFA(Border Roads), IFA(R&D) Hqrs, IFA(R&D) Project-75 and IFA (Coast Guard)
- d) Discharging administrative responsibilities relating to the functioning of IFA system as may be assigned to him by the CGDA from time to time.
- e) Seeking directions and guidance from the CGDA in matters related to functional responsibility to be discharged by all IFAs.
- f) Positioning of IFAs and nominating leave duty relief of IFAs in consultation with CGDA. Processing of cases for the temporary duty move of concerned IFAs to places other than own Command jurisdiction.
- g) To Initiate, Review or Accept of Annual Confidential Reports (ACRs) in respect of IDAS officers and Sr. Accounts Officers/ Accounts Officers posted in the dedicated IFA set up as per instructions issued by MoD (Fin) vide its letter No. 1042/Addl.FA (V) dated 21.09.2004 amended from time to time.
- h) To institute appropriate Management Information Systems (MIS) for proper monitoring and reporting by IFAs to the CGDA and Secretary (Defence Finance).

1.5.3 Duties Pr. IFA will act as the repository for all domain knowledge and in this regard he will be responsible for the circulation of orders relevant to functioning of IFAs and delegation of financial powers, clarification on issues raised by IFAs, manpower planning for IFA coverage, periodical inspection of IFAs as per instructions issued by the CGDA from time to time, watching formulation of SOPs by the executives and monitoring of functioning of IFAs through various reports etc.

1.6 Need for Manual – In view of the substantial delegation of financial powers, now every Defence organization spends a sizeable amount of its budget for purchasing various types of goods to discharge the duties and responsibilities assigned to it. It is imperative for IFAs to ensure that these purchases are made following a uniform, systematic, efficient and cost effective procedure, in accordance with the relevant rules and regulations of the Government. To achieve what has been stated in the above paragraphs, it is essential that the IFAs be provided with all the required rules, regulations, instructions, directives, and guidance on best

practices in the form of a Manual. This Manual is intended to serve this objective. Without purporting to be a comprehensive compendium of all statutory provisions, rules, regulations, orders and guidelines on the subject of public procurement, this Manual is intended to serve as a portal to enter this vast area and draw attention to basic norms and practices governing public procurement. It contains guidelines and directives concerning purchase of goods with public funds as well as some allied areas like loss regularization, Works cases, Budgetary Management, Administrative powers, etc.

1.7 Structure of Manual –

1.7.1 Chapter 1 provides background of IFA system and structure of Manual. **Chapter 2** explains the role and scope of IFA's work. It starts from Macro level perspective mentioning IFA's role in Ministry to micro level of field IFAs. Apart from codal provisions, all the relevant orders of Ministry of Finance, MoD & CGDA instructions have been mentioned, which are the authority for undertaking IFA's job. **Chapter 3** covers the broad outlines for essential Knowledge Management for IFAs. The areas touched upon are quite diverse ranging from Legal framework, Basic Rules/Orders, Govt policies, reports, Market Intelligence, Data-base Management, Users' details, Technical issues, Materials Management techniques, Operations Research models, etc. The Chapter only briefly mentions the areas in which IFAs are expected to specialize. IFAs may have to go through specialized books / training courses to get full grasp of these areas. **Chapters 4 to 7** cover the four major stages of Procurement cycle i.e. AON, Tendering, Expenditure sanction and Post contract management. Each of these stages has been given separate chapters as they are dealt by IFAs at different periods of time. These chapters lean heavily on DPM-2006, GFR-2005 and MoF Manual on Procurement - 2006. **Chapters 8 to 24** deal with the 17 schedules pertaining to delegation of financial powers, where IFAs are involved. Peculiarity of each Schedule has been brought out in these chapters. These are mostly in form of check-lists for easier processing of cases. Importantly, references have been given at the end of each Chapter or sub-Chapter as the case may be, which are relevant for the concerned schedules of Powers. These Schedules relate to Revenue Procurements, Loss regularization, Works cases, Capital procurements, etc.

Chapter 25 deals with special financial powers in respect of OP Sadbhavana and OP Meghdoot.

Chapter 26 deals with Budgetary Management, a new area for IFAs. Essential concepts like Authority for IFA's involvement in budgeting, Budgetary structure/process, FRBM, PPBS, Zero-based budgeting, Performance Budgeting, Outcome Budgeting, Macro-goals in budgeting, references for budgeting, etc have been explained.

Chapter 27 deals with processing cases of Administrative powers.

Chapter 28 deals with common terms and terminologies relevant for IFAs in their day-to-day work.

1.7.2 Appendix 'A' deals with issues regarding market research.

Appendix 'B', 'C' & 'D' deals with Advanced issues related to four stages of Procurement dealt with in chapters 4 to 7. These issues go beyond DPM and GFR and are meant for higher level IFAs. While Chapters 4 to 7 will fall under the 'Essential' category, these chapters will come under the 'Desirable' category. However, each of these specialized topics will require much more in-depth study than what is presented here for IFAs to make full use of them.

CHAPTER- 2

Scope of IFA's work

2.1 MOF orders - The basic role of IFA has been notified by Ministry of Finance as rationalized vide OM F.No.5(6)/L&C/2006 dated 1.6.2006. As per this OM, the role of FA is now conceived to be akin to the role of Chief Financial Officer in a corporate structure, with specific responsibilities for ensuring fiscal prudence and sound financial management. They are expected to bring requisite financial expertise and overall perspective of financial management of the Govt in rendering professional advice to the administrative authorities. The role of FA is considered crucial for successful planning, implementation and monitoring of various schemes and projects. In rendering their advice, the FAs are expected to accord priority to macro management with a view to help in achieving the outcomes set by executive authorities as goals for themselves. These macro issues include schematic appraisal and concept functions, revenue management, subsidy management, fiscal resource transfer issues, defining and evaluating outcomes besides maintaining and safeguarding the budgetary integrity, etc. FAs are also expected to look at the total picture of resources for the areas in which they are functioning, and assist the executives in moving towards greater resource mobilization. FAs are not expected to do any routine administrative functions. Following are some of the specific tasks which the FAs are to be responsible for-

- a) Budget formulation
- b) Outcome budget
- c) Performance budget
- d) Fiscal responsibility and Budget management related tasks
- e) Expenditure and Cash management
- f) Project / Programme formulation, appraisal, monitoring and evaluation
- g) Screening of proposals
- h) Leveraging of non-budgetary resources for sectoral development
- i) Non-tax receipts
- j) Tax expenditure
- k) Monitoring of assets and liabilities
- l) Accounts and Audit
- m) Procurement and Contract
- n) Financial Management Systems
- o) Nominee Director on boards of PSU
- p) Use of technology

2.2 Delegation of Financial Powers Rules – Appendix 2 of DFPRs notified by Ministry of Finance gives the overall expanse of duties and responsibilities of the Integrated Financial Advisors in Ministries/Departments. As per this, IFA in Ministries/Departments will be in overall charge of Budget and Accounts in addition to the Internal Finance section. It will be his duty –

- a. To ensure that the schedule for preparation of budget is adhered to by the Ministry and the Budget is drawn up according to the instructions issued by Finance Ministry from time to time.
- b. To scrutinize budget proposals thoroughly, before sending them to Ministry of Finance.
- c. To see that complete departmental accounts are maintained in accordance

with the requirements under GFR. It should, in particular, be ensured that the Ministry not only maintains accounts of expenditure against the grants or Appropriations directly controlled by it but also obtains figures of the expenditure incurred by the subordinate offices so that the Ministry has a complete month to month picture of the entire expenditure falling within its jurisdiction.

- d. To watch and review the progress of expenditure against sanctioned grants through maintenance of necessary Control Registers and to issue timely warnings to Controlling Authorities where the progress of expenditure is not even.
- e. To ensure the proper maintenance of the Register of Liabilities and commitments as required under the GFRs to facilitate realistic preparation of budget estimates, watching of book debits and timely surrender of anticipated savings.
- f. To screen the proposals for supplementary demands for grants.
- g. To formulate the foreign exchange budget for the Ministry and to process individual cases for release of foreign exchange in accordance with the instructions issued by Department of Economic Affairs from time to time.
- h. To advise the Administrative Ministry on all matters falling within the field of delegated powers. This includes all powers other than those devolving on a Ministry in its capacity as Head of Office. It has to be ensured by I.F.A. that the sanction issued by Administrative Ministry in exercise of delegated powers clearly indicates that they issue after consultation with IFA.

2.3 Appendix B of Defence Services Estimates Vol-I – Issued by MoD, it explains organization and functions of MoD (Fin) & DAD. Following are relevant extracts from it regarding the scope of work of IFAs -

- a. The financial control by IFA is really a careful and intelligent scrutiny of all proposals involving expenditure from the public funds, the objective being the safeguarding of economy, efficiency and propriety in public finance.
- b. Before according financial concurrence to any proposal involving fresh expenditure, it is the duty of the Finance Officer to seek justification for the proposal.
- c. IFA may even challenge the necessity for spending so much money or on such a scale to secure a given object.
- d. IFA may ask
 - i. whether the proposal is really necessary;
 - ii. whether the same results could not be obtained otherwise with greater economy;
 - iii. whether the expenditure involved is justified in the circumstances;
 - iv. whether individual items are in furtherance of the general Government Policy,
- e. IFA is to see whether the canons of financial propriety have been observed –
 - (i) Every public officer should exercise the same vigilance in respect of expenditure incurred from Government revenues as a person of ordinary prudence would exercise in respect of the expenditure of his own money.
 - (ii) No authority should exercise its power of sanctioning expenditure to pass an order which will be indirectly or directly to its own advantage.
 - (iii) The amount of allowances such as traveling allowances, granted to meet expenditure of a particular type, should be so regulated that an

- allowance is not on the whole a source of profit to the recipient.
- (iv) Government revenues should not be utilized for the benefit of a particular person or section of the community unless the amount of expenditure involved is insignificant, or a claim for the amount could be enforced in a court of law or the expenditure is in pursuance of a recognized policy or custom.
 - f). In fact IFA can ask every question that might be expected from an intelligent taxpayer bent on getting the best value for his money.
 - g). The rules provide that no expenditure which has not been provided for in the Budget or which having been provided, has not been sanctioned shall be authorized without the concurrence of the Secretary (Defence/Finance) or representative. The strict observance of this rule is automatically ensured as the Controllers of Defence Accounts will not make any disbursement in respect of charges not covered by regulations or Govt orders.
 - h). The according of financial concurrence by the Finance Division of MoD falls generally in three more or less defined stages –
 - i. The examination of the proposal on its merits.
 - ii. The assessment of the financial effect.
 - iii. If the proposal is accepted. The careful examination and vetting of the final orders before issue.
 - i). Sometimes two or more of these stages are combined, but all proposals having a financial bearing inevitably follow through this process. This procedure ensures not only close and adequate control by finance, but also enables them to give constructive suggestions and advice from the financial point of view at a fairly early stage of the consideration of a proposal.

2.4. MoD orders – Govt. of India, Min of Fin Defence New Delhi letter No.F.21(2)/COORD/74 dated 10th July 1975 prescribed the role of IFAs in the exercise of the delegated financial powers. Later, **GOI Letter No: No.10(3)-E(Coord) /83 dated 16th July 1983** introduced the Integrated Financial Advise System in the Deptt of Defence. In matters within the delegated powers of the Ministry of Defence, FA(DS) or his officers was to be consulted before exercise of financial powers. In such cases, it was open to the Administrative Secretary to over-rule the advice of the Financial Adviser Defence Services, by an order in writing, but it was also open for the FA(DS) to request that the matter be placed before the Raksha Mantri. In all matters beyond the powers delegated to the Ministry, FA(DS) and his officers was to function as Associate Finance and was to be responsible to and have the right of access to the Ministry of Finance, and to the Finance Minister through Secretary (Expenditure). FA(DS) will have the right to access to RM and FM through Secretary (E) on such issues where he differs from the view of the administrative Ministry. Later, **MoD vide their letter No.48503/st-11/4810-B/D(OS) dated 23.9.92** prescribed detailed guidelines for giving financial concurrence coverage by CsDA or their reps in the capacity of Financial Advisors to various Army authorities.

2.5 MoD (Fin) letter No.AN-I/1179/1/VI(PC-XXV) dated 17.8.94 – IFA cell was created in AHQ under DCOAS (P&S) and following duties of IFA (AHQ) were prescribed –

- a. He shall be Integrated Financial Adviser at Army Headquarters.
- b. He shall render advice on financial matters which fall within the competence of various authorities at Army Headquarters within the delegated financial powers as and when sought for. Such authorities will however, continue to

- exercise these powers independently as hitherto fore.
- c. He will vet all proposals falling within the enhanced financial powers (as and when sanctioned)
 - d. He may render advice and assist in case of all proposals/cases requiring Government sanction, if called upon.
 - e. He, or his representatives, will participate in various TPCs/PNCs held at Army Headquarters.
 - f. He will monitor the processing of draft audit paras, audit paras, internal audit objections etc., concerning the Army to ensure adequate attention and speedy remedial measures. For this purpose, he will maintain close liaison with Regional CsDA, CGDA, DG ADS and MOD
 - g. He will assist in preparing and monitoring a data base on committed liabilities
 - h. Any other duties relating to finance/accounts as assigned to him by the DCOAS (P&S) and FA(DS)
 - i. In case of difference of opinion, PSOs and the DCOAS (P&S) may refer the matter to FA (DS).

2.6 Government of India, Min. of Def., New Delhi letter No. 6(1)/97/D (O-I) dt. 08.04.1997 – Para 11 of this letter prescribed the role of IFA (Army HQs). As per this, IFA (Army HQ) set up under GOI, Min. of Def. Letter No. AN/I/1179/1/VI (PC- XXV) dated 17.08.1994, was to also function as IFA for the MGO's Branch including DGOS and DGEME. He was to render advice on all financial matters pertaining to these functionaries. In all matters within delegated powers of MGO, DGOs, DGEME, IFA was to be consulted in respect of all cases of specific expenditure proposals and these powers were to be exercised with his consultation. To enable the IFA to discharge his role of rendering financial advice effectively within the delegated financial powers, all the concerned papers / case files relevant to the case as also the relevant papers in regard to tender, original quotations, comparative statement of tenders etc. were to be made available to the IFA or his representative, as and when required, for rendering such financial advice through TPC or otherwise. The IFA was to be fully associated with the post-contract stage developments having financial bearing like granting of extension of time, levy and recovery / waiver of liquidated damages and risk purchases etc.

2.7 MoD letter no 3(7)/93/D(Work) dated 26.8.98 – This letter authorized the role of IFAs in the area of Civil Works proposals as under –

- a. **IFAs to give financial concurrence for Acceptance of Necessity, Vetting of AEs and Administrative Approval for all authorities above the level of Station Hqs to Service Hqs.**
- b. **IFAs to involve themselves in watching the expenditure against the funds released, along with the executive authorities.**
- c. **The scrutiny of tender documents by IFA prior to acceptance by MES authorities was not necessary.**

2.8 AHQ letter 10074/IFA/FP 4 dated 16.1.2003 – This letter distributes the work between the three IFAs at AHQ as under –

- a. IFA 1 as IFA Army (O) – MGO Branch & policy issues.
- b. IFA II as IFA Army (Q) – QMG, E-in-C & AG Branches and DGAFMS.
- c. IFA III as IFA Army (Misc) – MI Dte, DG RR, ADG IT & all cases pertaining to MH 800: Misc expenditure.

2.9 MoD (Fin) letter F.15(1)/C/04(1646) dated 9.12.2004 – This letter delegated powers of HODs to IFAs at par with CsDA as under –

- a. Exercise all powers of Heads of Depts, as laid down in Sch V, VI & VII of DFPR, 1978.
- b. Exercise all powers of Heads of Depts, under provisions of SR.2(10) of FR&SR.
- c. **Exercise all powers of Heads of Depts, as laid down in GFR except in regard to alteration of date of birth in the case of non-gazetted Govt servants under note below Rule 79, GFR.**
- d. Exercise all powers of Heads of Depts, as laid down in various Govt letters.

2.10 Report of Committee on Delegation of Financial Powers – VK Misra Committee's report of June 2006, approved by Hon'ble RM, added few vital functions for IFAs. Para 11 (e), (f) & (o) and Appendix F of Report provide for the involvement of IFAs in Planning, Budgeting, Data-base management and Contract Management activities. These are as under –

- a. **Planning** – Priority Procurement Plans will be made both at Hqs level and Command level in respect of various budget holders in consultation with IFAs.
- b. **Budgeting** – The Budget allocation at various stages against Sub Heads and detailed heads will be notified only after consultation with IFAs.
- c. **Data-base Management** – IFAs will become part of networking of data-base along with CFAs and MoD/MoD (Fin).
- d. **Contract Management** – IFA is to be involved in Contract Monitoring of Capital cases along with Service Hqs.

2.11 MoD letter no A/89591/FP-1/2006/D(GS-1) dated 26.7.2006 – This letter conveys the latest delegation of powers to Army authorities at various levels. Following paras are relevant regarding role of IFAs –

- a. **Para 6** – IFA or rep to be member of TPCs and IFA to give concurrence to TPC's recommendations.
- b. **Para 10** – IFA's prior consultation is required for exercising financial powers.
- c. **Para 11** – Need for sending proper briefing papers in advance to IFA and his/her written concurrence has been emphasized. The administrative authorities are required to make available any information, data or documents relevant to the case as asked for by IFA for rendition of financial advice in the proper perspective.
- d. **Para 12** – In case of over-ruling by CFA, it will be open for IFA to report the matter to the next higher IFA for pursuing the matter with the higher CFA or dropping it as deemed fit.
- e. **Para 7 of Appendix** – IFA's advice should be sought for ensuring that –
 - i. 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.
 - ii. Instructions and guidance on financial matters are issued to all concerned including that relevant to formulation of Plans and Projects.
 - iii. Intermediate and Lower Level Budget Holders receive guidance in the preparation of budgetary estimates and monitoring as well as review of expenditure.
- f. **Para 8 of Appendix** – 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 (Fin) and to CGDA for the integrity of the financial system in respect of areas of their responsibility.

g. Para 18 of Appendix – IFA will be consulted for all aspects of Post Contract Management.

h. Para 23 of Appendix – All sanctions issued by the CFA in consultation with IFA must bear the U.O. number and date allotted by the IFA office.

2.12 MoD letter MoD/IC/1027/32/AS(J)/6864/2006 dated 1.9.2006 – This letter delegated enhanced Administrative powers to the three Service Hqs and made it mandatory for them to obtain IFA’s concurrence wherever financial implications are involved. This added a new dimension to the work of IFA. It may be noted that administrative powers were delegated in 2001 also by MoD to Service Hqs. However, those powers were to be exercised with the concurrence of MoD (Fin) and not IFAs.

2.13 MoD (Fin) U.O. 312/S/AF/Bud/02 dated 14.2.2007 – This UO authorized involvement of IFAs in processing FEE release cases at Service Hqs. Under both Revenue and Capital cases of delegated powers, FEE release is to be done by respective service Hqs with the concurrence of respective IFAs. Noting is to be done by IFAs with maintenance of FE Noting Register. They are to render periodical reports to MoD (Fin/Budget).

2.14 MoD letter No. 470/Dir(Acq)/07 dated 12.09.2007- This letter enhances the Capital expenditure powers of Vice Chief of Army Staff from Rs. 10 Crore to Rs 30 Crore. For details see Para 24.4.3

2.14.1 MoD(Fin) Division letter No. PC-11(1)/Bud.I/2007 dated 25.09.07. This letter lists out the items of Capital nature for which DPM-2006 procedure will be followed for procurement. For details see para 26.2.1 (xi)

2.15 Financial Regulations – Concept of IFA system was not in existence when FR was promulgated. However, it occasionally brings out the role of FA and CDAs as local FAs. **An important para is mentioned as under -**

“Para 54 - No order involving abandonment of revenue shall be issued without the concurrence of concerned Financial Advisor.”

2.16 DPM-2006 – This Manual brings out the role of IFA in Procurement activities. As mentioned in DPM-2006, particularly from para 5.13 to 5.18, Appendix A & A-1, IFA’s role in procurement cycle can be summarized as under-

(a) AON stage –

i. Necessity and clearance

ii. Vetting of quantities

iii. Competence of CFA

iv. Funds’ availability

v. Mode of tendering

vi. Vetting of Tender Enquiry

vii. Amendments to TE / Extension of tender opening date

(b) Tendering stage –

i. Procedural aspects related to Opening of tenders

ii. Vetting of CST

iii. Member of CNC for ranking L-1, holding negotiations, etc

- iv. Cost analysis of quoted rates
- v. Creation and Utilization of Data-base and Market Intelligence

(c) Expenditure sanction stage -

- i. Expenditure angle concurrence
- ii. Decision on re-tender
- iii. Apportionment of quantity, if required
- iv. Acceptance of cost over estimates
- v. Type of contracts for applying in a particular case
- vi. Vetting of Supply order / Contract
- vii. Allotment of U.O. number

(d) Post contract Management -

- i. Extension of delivery
- ii. Imposition / waiver off of Liquidated Damages
- iii. Extension of Letter of Credit
- iv. Amendment of Contract
- v. Termination of contract
- vi. Risk and Expense purchase
- vii. Price variation adjustment
- viii. **Exchange rate variation re-imburement**

2.17 CGDA Instructions on IFA system - CGDA has issued several letters, Circulars and Instructions on IFA system, starting from Instruction No 1 vide letter AT/IX/IFA/13381/Army Vol V dated 28.11.2003. IFAs should keep note of all these Circulars, letters and Instructions as they deal with IFA structure, method of working, jurisdiction, guidelines, etc. Some of important issues emerging out of these orders have been highlighted below, this being only an illustrative list -

- a) When a case has to be processed with various CFAs for different stages of procurement, the concerned IFAs will get involved in those stages according to the involvement of their respective CFAs (Instructions 3 dated 23.1.2004, 4 dated 4.2.2004, 7 dated 9.3.2004 and 11 dated 13.9.2005).
- b) The officers of PCDA/CDA, when doubling up as IFA reps in additional assignment, should report through the IFA channels in so far as their functioning is concerned. Similarly, in the eventuality of officers posted in the IFA set-up, but also doubling up with some internal audit/accounting/payment functions in offices of PCDA/CDA, they will report for those functions to PCDA/CDA (Letter AT/IX/IFA/13381-Navy dated 17.8.2004).
- c) IFAs to depots will perform the role earlier performed by LAOs in Fixation of RGP, Downgradation of class 'B' vehicles, Condemnation/valuation Boards (Instruction 8 dated 12.7.2004).
- d) PCDA/CDA should provide the necessary IFA cover in respect of units/formations located within their audit jurisdiction, irrespective of the location of the Hqs of such units/formations, till the time dedicated IFAs are posted for such units/formations (Instruction 9 dated 25.8.2004).
- e) No Supply orders under delegated powers are to be placed without having been vetted by IFA. IFAs to ensure that all Supply Orders and amendments, if any, thereto bear specific IFA numbers and date under which vetting of Supply Orders has been done (Letter PIFA/Instructions/2004/Vol-I dated 14.1.2005).

- f) All queries / points of doubt relating to IFA matters should be addressed to Principal IFA in CGDA's office for clarification (Letter AT/IX/IFA/13381/Navy Vol II dated 20.1.2005).
- g) For tender opening, LAOs/nominated AAO/AO can be deputed but IFA will need to participate or brief adequately his rep to participate in the TPC discussions, so that, as far as possible TPC decisions are honoured and entirely different view is not required to be taken (Letter AT/IX/IFA/13381/AF Vol-IV PC dated 22.7.2005).
- h) Any instructions in contravention of DPM by SOP may not be adhered to as the latter do not have the authority to overrule the former (Letter AT/IX/IFA/13381/IT Vol IX dated 31.10.2005).
- i) Raising of piecemeal queries have to be avoided by IFAs (Letter AT/IX/IFA/13381/Army Vol IX dated 25.4.2005).
- j) IFAs Command (Army) would be the IFAs for the respective Command MAP as per Table II item 2 of Works Procedure for DGMAP. The IFAs Command (Army) would also be members in the respective Command Committee (MAP) as laid down at 3(e) of Appendix to Works procedure for DGMAP (Letter 18189/AT-X/Vol IV dated 20.10.2004).
- k) IFA in an Ordnance Depot will report to Command IFA and not to IFA (O), (CGDA's Letter AT/IX/IFA/13381/Navy Vol II dated 4.10.2004).
- l) PCsDA in Command Hqs to act as Principal Advisors to GOCs-in-C and Coordinating Controllers (Letter AT-Coord/13393/Coord-Cont(Vol II) dated 29.3.2007).
- m) There is no provision under the delegated financial powers to obtain 'ex-post facto' concurrence of the IFA. Such cases where prior IFA concurrence/CFA sanction has not been/could not be obtained, would be treated as breaches of rules and regulations and referred to next higher CFA (which may or may not be Government) for regularisation as per the provisions of Rule 178 (b) FR Pt. I read in conjunction with HQ office clarification No. O/185/9/AT-5Vol dated 28.11.73. Such regularization will be subject to concurrence of IFA to the next higher CFA. Any extension sanction issued with retrospective date in cases of AMC/Tpt contracts, where the validity of the contract has already expired, would also fall under the category of 'ex-post facto' sanctions and treated as such and sanction of next higher CFA should be obtained with concurrence of IFA to the next higher CFA.

2.18 Registers & Reports –

Registers will be maintained and reports rendered as per chapter 29 of this Manual.

2.19 Training

Training requirements of IFAs are required to be projected to the nearest RTC.

2.20 Inspection

Inspection of IFA office is covered under the authority of Para 7 of **CGDA letter 13125/Ins Cell/06-07 dated 28.6.2006**. As per this, PIFA or a nominated officer of Hqs office would inspect the offices of IFAs at service HQs and Command Hqs. IFA Commands will inspect offices of lower IFAs in the respective Command Areas.

CHAPTER- 3

Knowledge Management for IFAs – What they ought to know

3.1 Grasp Basic Statutory Provisions / Rules / Govt instructions

- a. Legal Framework for Govt contracts** - At the apex of the legal framework governing public procurement is Article 299 of the Constitution, which stipulates that contracts legally binding on the Government have to be executed in writing by officers specifically authorized to do so. Further, the Indian Contract Act, 1872 and the Sale of Goods Act, 1930 are major legislations governing contracts for sale/ purchase of goods in general. There is no law exclusively governing public procurement of goods. However, comprehensive rules and directives in this regard are available in the General Financial Rules (GFR), 2005, especially chapter 6; Delegation of Financial Powers Rules (DFPR); Government orders regarding price or purchase preference or other facilities to sellers in the Handloom Sector, Cottage and Small Scale Industries and to Central Public Sector Undertakings etc. and the guidelines issued by the Central Vigilance Commission to increase transparency and objectivity in public procurement. These provide the regulatory framework for the public procurement system.
- b. Constitution of India** - Following provisions of Constitution of India are relevant for the Government Purchase System –
- i) Article 14 – The State shall not deny to any person Equality before the Law.
 - ii) Article 19 (1) (g) – All citizens shall have the right to practice any profession or to carry on any occupation, trade or business.
 - iii) Article 298 – Government of India may make contract with private parties.
 - iv) Article 299 – Government Contracts are to be executed by persons only authorized by President. All such contracts will be executed by such persons on behalf of President of India.
 - v) Article 300 – Government of India may sue or may be sued.
- c. Legal judgments on Govt Contracts** – There are several judgments of Supreme Court and High Courts on various issues related to Government Contracts. Knowledge of these judgments will give an edge to IFA's expertise. Apart from the basic issue of 'What is Govt Contract', 'How Government Contracts ought to be awarded', etc, Courts have also covered topics which call for consideration in Law relating to Government Contracts and must be given their due place. These topics are Promissory Estoppel, Executive Necessity and Legitimate Expectation. Browsing through SC website and various AIRs will help in IFAs to keep themselves updated in this area.
- d. Legislative provisions** - Parliament has passed several Acts, which have a direct and indirect bearing on government procurement system. They are mentioned below –
- i) INDIAN CONTRACT ACT 1872
 - ii) ARBITRATION & RECONCILIATION ACT 1996
 - iii) SALES OF GOODS ACT 1930 – Section 64-A
 - iv) THE CENTRAL SALES TAX ACT, 1956

- v) CENTRAL EXCISE ACT, 1944
- vi) CENTRAL EXCISE TARIFF ACT, 1985
- vii) CUSTOMS DUTY ACT, 1962
- viii) THE PATENTS ACT, 1970 & 1999
- ix) THE PATENTS RULES, 1972 & 1999
- x) THE STANDARDS OF WEIGHTS & MEASURES ACT, 1976
- xi) THE TRADE & MERCHANDISE MARKS ACT, 1958
- xii) THE BUREAU OF INDIAN STANDARDS ACT, 1986
- xiii) THE NEGOTIABLE INSTRUMENTS ACT, 1881
- xiv) THE LIMITATION ACT, 1963
- xv) THE CONTRACT LABOUR ACT, 1970

e. GFR-2005 –

- i) GFR has been issued by Department of Expenditure, Ministry of Finance under the powers of delegated legislation. It deals with general principles of Govt financial management to be followed by all offices of Government of India while dealing with matters of a financial nature. These principles are essential for IFAs to know while processing various types of cases. Following chapters are especially relevant for various areas dealt by IFAs–
 - (1) General System of Financial Management – Chapter 2
 - (2) Budget formulation and expenditure monitoring - Chapter 3
 - (3) Works cases - Chapter 5
 - (4) Procurement of goods and services - Chapter 6
 - (5) Inventory Management – Chapter 7
 - (6) Contract Management – Chapter 8
 - (7) Grants-in-aid cases - Chapter 9
- ii) Rule 137 is especially important as it contains **Fundamental principles of public buying**, and is quoted as under –
 - (1) Every authority delegated with the financial powers of procuring goods in public interest shall have the responsibility and accountability to bring efficiency, economy, transparency in matters relating to public procurement and for fair and equitable treatment of suppliers and promotion of competition in public procurement.
 - (2) The procedure to be followed in making public procurement must conform to the following yardsticks :-
 - (a) the specifications in terms of quality, type etc., as also quantity of goods to be procured, should be clearly spelt out keeping in view the specific needs of the procuring organizations. The specifications so worked out should meet the basic needs of the organization without including superfluous and non-essential features, which may result in unwarranted expenditure. Care should also be taken to avoid purchasing quantities in excess of requirement to avoid inventory carrying costs;
 - (b) offers should be invited following a fair, transparent and reasonable procedure;
 - (c) the procuring authority should be satisfied that the selected offer adequately meets the requirement in all respects;
 - (d) the procuring authority should satisfy itself that the price of the selected offer is reasonable and consistent with the quality required;
 - (e) at each stage of procurement the concerned procuring authority must place on record, in precise terms, the considerations which weighed with it while taking the procurement decision.

- f. **MoF Manual on Policies and Procedures for Purchase of Goods** – Dept of Expenditure issued this Manual on 31.8.2006, which is primarily based on GFR-2005 and DGS&D Manual. It contains broad generic guidelines, which can be seen for macro-level issues. Chapter 2 & 3 of this Manual are important for knowing the fundamental policies of Govt purchase and basic principles for entering into contracts. Chapters 8 & 12 will be handy for IFAs to deal with post-contract management issues. Paras 1.12 & 1.13 are especially important for IFAs as they contain basic objectives of Govt Procurement and are quoted as under -
- i) **Para 1.1.2.** - Transparency, Competition, Fairness and Elimination of Arbitrariness - Public buying should be conducted in a transparent manner to bring competition, fairness and elimination of arbitrariness in the system. This will enable the prospective tenderers to formulate competitive tenders with confidence. The following are some important measures to achieve the same and, thus, secure best value for money:
- (1) The text of the tender document should be user-friendly, self-contained, comprehensive, unambiguous, and relevant to the objective of the purchase. The use of terminology used in common parlance in the industry should be preferred.
 - (2) The specifications of the required goods should be framed giving sufficient details in such a manner that it is neither too elaborately restrictive as to deter potential tenderers or increase the cost of purchase nor too sketchy to leave scope for sub-standard supply. The specifications must meet the essential requirements of the user department. Efforts should also be made to use standard specifications, which are widely known to the industry.
 - (3) The tender document should clearly mention the eligibility criteria to be met by the tenderers such as minimum level of experience, past performance, technical capability, manufacturing facilities, financial position, ownership or any legal restriction etc.
 - (4) Restrictions on who is qualified to tender should conform to extant Government policies and be judiciously chosen so as not to stifle competition amongst potential tenderers.
 - (5) The procedure for preparing and submitting the tenders; deadline for submission of tenders; date, time & place of public opening of tenders; requirement of earnest money and performance security; parameters for determining responsiveness of tenders; evaluating and ranking of tenders and criteria for full or partial acceptance of tender and conclusion of contract should be incorporated in the tender enquiry in clear terms.
 - (6) Tenders should be evaluated in terms of the criteria already incorporated in the tender document, based on which tenders have been received. Any new condition, which was not incorporated in the tender document, should not be brought into consideration while evaluating the tenders.
 - (7) Sufficient time should be allowed to the tenderers to prepare and submit their tenders.
 - (8) Suitable provisions should be kept in the tender document allowing the tenderers reasonable opportunity to question the tender conditions, tendering process, and/or rejection of its tender and the

- settlement of disputes, if any, emanating from the resultant contract.
- (9) It should be made clear in the tender document that tenderers are not permitted to alter or modify their tenders after expiry of the deadline for receipt of tender till the date of validity of tenders and if they do so, their earnest money will be forfeited.
 - (10) Negotiations with the tenderers must be severely discouraged. However, in exceptional circumstances, where price negotiations are considered unavoidable, the same may be resorted to, but only with the lowest evaluated responsive tenderer, and that too with the approval of the competent authority, after duly recording the reasons for such action.
 - (11) The name of the successful tenderer to whom the supply contract is awarded should be appropriately notified by the purchase organization for the information of general public, including display at notice board, periodical bulletins, website etc.
- ii) **Para 1.1.3.** Efficiency, Economy and Accountability: Public procurement procedures must conform to exemplary norms of best practices to ensure efficiency, economy and accountability in the system. To achieve this objective, the following key areas should be taken care of:
- (1) To reduce delays, each Ministry / Department should prescribe appropriate time frame for each stage of procurement; delineate the responsibility of different officials and agencies involved in the purchase process and delegate, wherever necessary, appropriate purchase powers to the lower functionaries with due approval of the competent authority.
 - (2) Each Ministry / Department should ensure conclusion of contract within the original validity of the tenders. Extension of tender validity must be discouraged and resorted to only in absolutely unavoidable, exceptional circumstances with the approval of the competent authority after duly recording the reasons for such extension.
 - (3) The Central Purchase Organizations should bring into the rate contract system more and more common user items, which are frequently needed in bulk by various Ministries / Departments. The Central Purchase Organizations should also ensure that the rate contracts remain available without any break.
- g. **CVC guidelines** - The Central Vigilance Commission Act empowers CVC to “exercise superintendence over the vigilance administration of various Ministries of the Central Government or corporations established by or under any Central act, Government companies, societies and local authorities owned or controlled by that Government’.’ CVC have been working towards system improvements to encourage transparency and the culture off honesty. In order to achieve this objective, the Commission has issued a number of letters containing instructions and guidelines. IFAs must ensure that these guidelines are complied with while giving their financial advice. While Chapter XIV of DPM-2006 contains gist of existing CVC guidelines, it will be necessary for IFAs to keep them updated with latest CVC instructions at their site <http://cvc.nic.in>. A list of CVC orders on procurement is given below for reference –

Office Order No.	Circular No.	Date of Issue	Subject
	No.3L PRC 1	12.11.1982	● Irregularities/lapses observed in the construction works undertaken by Public sector undertakings/banks.
	No. 3L – IRC 1	10.01.1983	● Appointment of Consultants.
	No.UU/POL/19	08.10.1997	● Grant of interest free mobilization advance.
-----	8(1)(h)/98(1)	18.11.1998	● Improving Vigilance Administration (L1) (L1)
	No.98/ORD/1	15.03.1999	● Improving vigilance administration-Tenders
-----	3(v)/99/9	01.10.1999	● Applicability of CVC's instruction No.8(1)(h)/98(1) dated 18/11/98 on post-tender negotiations to Projects of the World Bank & other international funding agencies
-----	98/ORD/1	24.08.2000	● Improving Vigilance Administration-Tenders
-----	98/ORD/1	03.08.2001	● Improving Vigilance Administration-Tenders (H1)
	No 12-02-1-CTE-6	07.05.2002	● Pre-qualification Criteria (PQ).
	No.OFF1 CTE 1	25.11.2002	● Appointment of Consultants
	No 12-02-1-CTE-6	17.12.2002	● Prequalification criteria (PQ).
-----	98/ORD/1(Pt.IV)	12.03.2003	● Use of web-site in Govt. procurement or tender process
-----	98/ORD/1	05.05.2003	● Purchase of Computers by Govt. Departments/ Organisations
33/7/03	98/ORD/1	09.07.2003	● Short-comings in bid documents
44/9/03	98/ORD/1	04.09.2003	● Irregularities in the award of contracts
46/9/03	98/ORD/1	11.09.2003	● E-procurement/Reverse Auction
-----	2EE-1-CTE-3	15.10.2003	● Tender sample Clause
-----	06-03-02-CTE-34	20.10.2003	● Back to back tie up by PSUs
-----	98/ORD/1	18.12.2003	● Improving Vigilance Administration:Increasing Transparency in Procurement/Sale etc.
9/2/04	98/ORD/1	09.02.2004	● Increasing transparency(Sale)
10/2/04	98/ORD/1	11.02.2004	● Increasing transparency(Tender process)
20/4/04	98/ORD/1	06.04.2004	● Cutting Delays by e-payments and e-

			receipt by Govt. Organisations
-----	05-04-1-CTE-8	08.06.2004	● Receipt and Opening of Tenders
-----	4CC-1-CTE-2	08.06.2004	● Mobilization Advance
47/7/04	98/ORD/1	13.07.2004	● Commission's Directives on use of Website in Public Tenders
72/12/04	004/ORD/9	10.12.04	● Transparency in tendering system-Guidelines regarding
	98/DSP/3	24/12/2004	● Participation of consultants in tender
11/03/05	005/ORD/1	10/03/2005	● Delays in payments to contractors
13/3/05	005/VGL/4	16/03/05	● Details on award of tenders/contracts...
18/3/05	000/VGL/161	24/03/05	● Banning of business dealing with firms
15/3/05	OFF-1-CTE-1(Pt) V	24/03/05	● Notice inviting tenders
	No. 98/VGL/25	16.05.2005	● Intensive Examination of works by CTE's Organization- Submission of Quarterly Progress Report
46/07/05	005/VGL/4	28/07/2005	● Details on award of tenders/contracts Publishing
57/09/05	005/VGL/4	20/09/2005	● Details on award of tender
68/10/05	005/CRD/12	25/10/2005	● Tendering Process negotiation with L-1
	98/VGL/25	10/11/2005	● Intensive Examination of works by CTE's Organisation
71/12/05	005/VGL/66	09/12/2005	● Undertaking by Members of Tender Committee
21/05/06	006/VGL/29	01/05/2006	● Examination of Public Procurement Contracts by CVOs
15/05/06	005/CRD/19	09/05/2006	● Transparency in Contracts awarded on Nomination Basis
31/09/06	005/vgl/004	01/09/2006	● Posting of details on award of tenders/contracts on websites/bulletins.
37/10/06	005/crd/012	3/10/2006	● Tendering process – negotiation with L1.
	No 005/CRD/12	3.3.2007	Tendering Process ,Negotiation with L1

h. Financial Regulations I – The instructions contained therein on basic issues are essential to IFAs working. Following Paras are especially relevant for various areas dealt with by the IFAs –

- i)** Para 5 - Essential conditions governing expenditure from public funds
- ii)** Para 6 - Standards of financial propriety
- iii)** Para 13 - Earnest Money Deposits
- iv)** Para 15 - Responsibility for public funds and stores (To be used in concurring Loss cases)
- v)** Para 16-18 - Responsibility for accounting of public transactions (same as above)

- vi)** Para 19 - Internal check against irregularities, waste and fraud (same as above)
- vii)** Para 20 - Responsibility for Control of Expenditure
- viii)** Para 37 - Responsibility for Losses
- ix)** Para 39-40 - Official Rates of Exchange
- x)** Para 51-52 - Exercise of powers on behalf of President of India
- xi)** Para 53 - Conditions under which Defence expenditure can be sanctioned
- xii)** Para 54 - Proposals involving Abandonment of revenue
- xiii)** Para 55 - Powers of MoD / service Hqs
- xiv)** Para 56 - Classes of expenditure that may not be sanctioned
- xv)** Para 57 - Delegation of powers by President
- xvi)** Para 58 - Objects on which expenditure may be sanctioned
- xvii)** Para 59-60 - Financial powers of Subordinate authorities
- xviii)** Para 62 - Provision of funds necessary before financial powers can be exercised
- xix)** Para 63 - Powers are personal
- xx)** Para 64 - When lower authority cannot sanction a measure in installments
- xxi)** Para 65 - Other officers may be authorised to sign for an officer possessing financial powers
- xxii)** Para 66 - Manner of exercising financial powers
- xxiii)** Para 69 - Date of effect of sanction
- xxiv)** Para 70 - Lapse of sanction
- xxv)** Chapter IV - Budget formulation / Preparation of Budget Estimates
- xxvi)** Chapter V - Budgetary control and Re-appropriations
- xxvii)** Chapter VI - Procurement and Disposal of stores
- xxviii)** Chapter VII - Losses, Wastage and Damage to Public property
- xxix)** Chapter IX - Security Deposits
- xxx)** Chapter X - Contracts
- xxxi)** Chapter XII - Contingent and Miscellaneous charges

i. **DGS&D Manual** - This is the most exhaustive Govt Procurement Manual available to IFAs for consultation on as required basis. Due to its extensive coverage, it can provide guidance for some intricate issues in Procurement. Some of these paras are mentioned below -

- i)** Para 2.1 to 2.17 - General principles of entering into Contract
- ii)** Para 3.3 to 3.11 - Product Reservation, Purchase and Price Preference
- iii)** Para 5.17 to 5.18 - Removal, Suspension and Banning of vendors
- iv)** Para 6.1 to 6.21 - EMD and PGB
- v)** Para 9.2 to 9.3 - Preparation of CST and scrutiny of tenders
- vi)** Para 9.15 - Verification of Financial standing
- vii)** Para 9.18 - Deviation in delivery schedule
- viii)** Para 9.20 - Lack of competition
- ix)** Para 9.21 - LPP
- x)** Para 9.26 - Consideration of proposal
- xi)** Para 9.29 - Extension of validity of offers
- xii)** Para 9.32 - Intimation of Acceptance of tender
- xiii)** Para 9.34 - Intimation to unsuccessful tenderers
- xiv)** Para 9.35 - Preservation of rejected quotations

- xv)** Para 10.1 and 10.2 – Elements of Price and Variable Price
 - xvi)** Para 10.3 to 10.18 – Duties and taxes
 - xvii)** Para 12.4 – Definition of Delivery Date
 - xviii)** Para 12.11 – re-fixing the Delivery Date
 - xix)** Para 12.12 to 12.28 – Extension of DP
- j. DPM - 2006** - This is the basic manual for IFAs, dealing with the area of procurement. The provisions contained in DPM-2006 are in conformity with Govt rules like GFR, FR, other Government instructions, CVC guidelines, etc. However, wherever in doubt about the import and interpretations of any specific provision in the DPM vis-a-vis the Government rules and statutory provisions, IFAs have to abide by the latter. The Manual, though, supersedes orders and instructions issued by various wings of MoD on procurement in order to create uniformity amongst the purchase practices followed by various wings of Ministry. The Manual also has overriding powers over the provisions of Material Hand Book of OFB. It is applicable to all Committee based central provisioning and Procurement proposals of Revenue stores.
- k. DPP-2006** - This is specifically applicable to Capital procurements, where powers have been delegated to services for the first time in 2006. It covers Buy, Buy & Make and Make categories of capital acquisitions in addition to Indigenous Naval shipbuilding procedure and Fast track procedures. The Defence Procurement Procedure – 2006 (DPP-2006) covers all Capital Acquisitions, (except medical equipment) undertaken by the Ministry of Defence, Defence Services and Indian Coast Guard both from indigenous sources and ex-import. Defence Research and Development Organisation (DRDO), Ordnance Factory Board (OFB) and Defence Public Sector Undertakings (DPSUs) will, however, continue to follow their own procedures for procurement.
- l. Report of the Committee on Review of Financial Powers delegated to services 2006** - Apart from explaining the key areas of procurement, it mentions about the types of Institutional safeguards required for exercising the enhanced powers. IFAs must keep these issues in mind such as Priority Procurement Plan, Link between Revenue and Capital Plans, Accountability norms, Use of in-house capability, Multiple interface, Implementation of Transportational Model, etc.
- m. MoD Letter A/89591/FP-1/1974/2006/D(GS-1) dated 26.7.2006** This letter along with its Appendix as also Notes mentioned in Schedules contain instructions on exercise of financial powers. Important issues, relevant for IFAs, covered by various paras of this letter are mentioned as under –
 - i)** Para 2 - **Any delegated powers conferred by Regulations other than FR or Govt or Army Instructions will continue to remain in force.**
 - ii)** Para 4 - Wherever SOPs conflict with Govt Rules / Instructions, the latter shall prevail. Cases not covered by the delegated financial powers will be referred for sanction of MoD.
 - iii)** Para 6 - All purchases exceeding Rs 5 lakh will be made on advice of TPC including IFA/IFA's rep. TPC/PNC will only be a recommendatory body and sanction will be given at the next higher level by CFAs in the Services, with the IFA's concurrence.
 - iv)** Para 8 - Purchase of items upto Rs 15,000/- does not require concurrence of IFAs for schedules other than Sch XIV. Powers to

purchase item/services on PAC basis will be 50% of powers provided to CFAs in Sch. I, XIX & XX. PAC Certificate should be issued by an officer not below rank of Maj. Gen.

- v) Para 11 - Administrative authorities are required to make available any information, data or documents relevant to the case as asked by IFA for rendition of financial advice in proper perspective.
 - vi) Para 12 - In cases of overruling of IFA by CFA, it is open for IFA to report the matter to next higher IFA for pursuing the matter with the next higher CFA or dropping it as deemed fit.
 - vii) Para 13 - The financial powers are in respect of each transaction and may cover procurement of one or more items within the financial powers specified.
 - viii) Para 16 - CVC guidelines on purchase / procurements/other financial dealings will be strictly complied with while processing cases in exercise of delegated powers.
 - ix) Para 7 of Appendix - The logic for having IFAs to the executives has been explained.
 - x) Para 10 of Appendix - The manner of exercise of financial powers has been explained.
- n. **Specific Govt letters / Army Instructions covering individual schedules-** Maintenance of Subject files Schedule-wise cannot be over-emphasized for IFAs. Each Schedule is governed either by specific Government letter or Army Instructions / orders, etc. In addition, there are subsidiary instructions issued by concerned Directorate / PSO of AHQ covering specific Schedules. Knowledge of all these orders is a must. **A list of relevant references against each Schedule has been mentioned at the end of Chapters 11 to 27**, which is not exhaustive and IFAs are expected to supplement with their own compilation of orders in relevant Subject files.
- o. **SOPs** - These cover all Schedules and provide the manner in which cases are to be processed under each of these Schedules. Though they are vetted by CGDA/MoD (Fin), yet IFAs need to remember that wherever SOPs conflict with Govt Rules / Instructions, the latter will prevail over the former.
- 3.2 **Update with latest Govt Policies** - Various government policies operate in a dynamic scenario. They change from time to time depending upon the changing environment and priorities. IFAs have to keep themselves updated on all such policies, which have a bearing on government purchase decisions. They are as under –
- a. **BUDGET** – The annual Budget announcements by Central Government invariably have an impact on the various industries, which ultimately gets reflected in pricing of their products.
 - b. **EXPORT IMPORT POLICY** – This policy is relevant to Foreign Purchases.
 - c. **SALES TAX/VAT POLICY OF STATES** – The concerned State governments also present their annual Budget and decision on Sales Tax/Vat levied upon various products has a direct co-relation with pricing of those products by vendors.
 - d. **INDUSTRIAL POLICY** – Issues like providing incentives to Small Scale Industries, Purchase Preference to Public Sector etc., are decided by Ministry

in consultation with Ministry of Finance, which effect Purchase decisions in Ministries of Central Government.

- e. **WELFARE POLICY – Orders in this area are issued by Ministry of Personnel and Public Grievances.** Some of these decisions like Product reservation, Purchase preference, Price preference, Single Tender Purchase to Kendriya Bhandar / Central Government Co-operative Society, etc also affect Purchase decisions.
- f. **FOREIGN POLICY –** Government relations with other countries also have a bearing on decision on imports. Apart from the issues of sanctions, technology denial, etc, the other equally important point is signing of GATT and WTO Agreement by Government of India. All these factors influence the decision making process in government purchase.
- g. **DEFENCE POLICY –** Government decisions on issues like Industry participation for self reliance in Defence items, Offset policies, etc are important inputs in purchase decisions.

3.3 Browse through Govt Reports on purchases already done - Several reports are generated at various levels in the government, which should be regularly read by all Finance Reps. They help in providing important inputs, guidelines and pointers for the future. They are as under –

- a. Reports of Parliamentary Committee on Defence and Action taken thereon.
- b. C&AG Reports (available at <http://cag.nic.in>)
- c. Internal Audit Reports issued by CGDA
- d. Inspection Reports of Principal IFA on inspection of various IFAs

3.4 Know your Users -

(i) It is extremely important for IFAs to be fully conversant with the Users. The details of Indian Army's structure are available at Indian Army's official website at <http://indianarmy.nic.in>. The organisation structure is also explained below:

a. The Indian Army's HQ is located in New Delhi and functions under the Chief of Army Staff (COAS), who is responsible for the command, control & administration as a whole. The COAS presides over the Principal Staff Officers Committee, who all have ranks of Lieutenant General, and comprise of the following:

**Vice Chief of Army Staff (VCOAS)
Deputy Chief of Army Staff (DCOAS-the Army has two)
Adjutant General
Quartermaster General
Master General of Ordnance
Engineer-in-Chief
Military Secretary**

b. Various branches under Army HQrs. and the functions of the branches are indicated below:

I. General Staff Branch

Organisation and development of Army, Military operations, intelligence, Military Training and education, combat development, Military survey including maintenance and supply of maps and plans and Engineer staff matters. These are dealt with by VCOAS. Staff duties, selection and scale of weapons and equipment, inter-

communication services, coordination of policy regarding equipment including provisioning, training and equipment of all armored Corps units, artillery units, advice and suggestions on Infantry matters, Territorial Army and the Defence Service Corps. These are dealt with by DCOAS.

II. Adjutant General's Branch

Manpower, recruitment, leave, pay and allowances and pensions and other conditions of Service, discipline and ceremonials. It deals with welfare, health and Military law.

III. Quartermaster General's Branch

Movement of personnel, stores and equipment, provision, storage, inspection and issue of fuel, foodstuff and storage, works policy, Military farms, remount and veterinary services and technical examination of MES works bills

IV. Master General of the Ordnance Branch

All aspects of procurement policy, provision, storage recovery, repair, maintenance and issue of all store and equipment of Ordnance Supply including MT Vehicles, armaments and ammunition, signal equipment, General stores and clothing as well as supply of common-user items to the Navy and the Air Force.

V. Military Secretary's Branch

Issue of commissions in the Army, postings, transfers, promotions, release, retirement, resignation, invalidment and regular reserve of all non-medical Officers of the Army : provision of secretariat for the Selection Boards which recommend Officers for promotion to the rank of Lt. Col. and above; recommendations for grant of honours and awards to Army Officers and Honorary Commissions in the Army to civilians.

VI. Engineer-in-Chief's Branch

All matters relating to Engineer units including Transportation, Bomb Disposal and Mine Clearing and Engineer stores; administration of personnel of the Corps of Engineers and the MES; design, provision, construction and maintenance of all accommodation and works for the Defence services; work study of specific projects and cantonment planning

c. The Engineer-in-Chief heads the Corps of Engineers and advises the Chiefs of Staff of the three services (Army, Navy and Air Force) and the Director General of Ordnance Factories on all matters concerning works, including their planning and construction.

d. Commands and Areas

The Army is organised into six tactical commands and one training command known as ARTRAC under Army HQrs. Each command is further divided into Areas, Independent Sub-Areas and Sub-Areas. The Command is commanded by a General Officer Commanding-in-Chief (called the Army

Commander) of the rank of Lt. General, Areas by General officer Commanding (Major-General) and Independent Sub-Areas and Sub-Areas by Brigadiers. All these are static formations. However, each Command HQrs. conforms to a mobile tactical HQrs. for exercising operational control over its mobile formations. The latter consists of Corps. Divisions, brigade Groups, Independent Brigades and Brigades. A Corps HQrs. is placed under a Command HQrs. to command two or more Divisions or a combination of Divisions, Brigade Groups and Independent Brigades.

1. Northern Command, HQ in Udhampur (J&K)
2. Western Command, HQ in Chandimandir, Chandigarh (Punjab)
3. South-Western Command, HQ in Jaipur, Rajasthan
4. Eastern Command, HQ in Kolkata, West Bengal
5. Southern Command, HQ in Pune, Maharashtra
6. Central Command, HQ in Lucknow, Uttar Pradesh
7. ARTRAC (Army Training Command), HQ in Shimla, HP

e. **Corps**

A Corps is an army field formation responsible for a sector within a Command. There are 3 types of Corps in the Indian Army: Strike, Holding & Mixed. A Command generally consists of 2 or more Corps. A corps has Army Divisions under its command. The Corps HQ is the highest field formation in the army.

f. **Other Field Formations**

- g. **Division:** An Army Division is an intermediate between a Corps and a Brigade. It is the largest strike force in the army. Each Division is headed by [General Officer Commanding] (GOC) in the rank of Major General.
- h. **Brigade:** The Brigade is smaller than the Division and generally consists of 3 Infantry Battalions along with elements of various Combat & Support Arms & Services. It is headed by a Brigadier equivalent to a Brigadier General. Independent Brigades operate directly under the Corps Commander (GOC Corps).
- i. **Battalion:** A Battalion is commanded by a Colonel and is the Infantry's man fighting unit.
- j. **Company:** Headed by the Major.
- h. **Platoon:** An intermediate between a Company and Section, a Platoon is headed by a Lieutenant or depending on the availability of Commissioned Officers, a Junior Commissioned Officer, with the rank of Subedar or Naik-Subedar.
- i. **Section:** Smallest military outfit with a strength of 10 personnel. Commanded by a Non-commissioned officer of the rank of Havaldar or Sergeant.
- k. **Regiments:** These are Several battalions or Units under the same formation in a Regiment. All formations under a Regiment are battalions of the same arms or Corps (i.e. Infantry or Engineers). Regiments are not exactly field formations, in sense they mostly do not make a formation, all Regiments of the Gurkha's for instance would not fight together as one formation, but can be dispersed over various Brigades or Corps or even Commands.

1. **Arms:** In addition to this (not to be confused with the Field Corps mentioned above) are the Corps or Arms (Departmental) of the Indian Army. The Corps mentioned below are the functional divisions entrusted with specific pan-Army tasks.

Sl. No.	Full Title	Abbreviations
1	The Armoured Corps	ARMD CORPS
2	Regiment of Artillery	ARTILLERY
3	Corps of Engineers	ENGINEERS
4	Corps of Signals	SIGNALS
5	Infantry	INF
6	Army Service Corps	ASC
7	Army Medical Corps	AMC
8	Army Dental Corps	AD Corps
9	Military Nursing Service	MNS
10	Army Ordnance Corps	AOC
11	Corps of Electrical and Mechanical Engineers	EME
12	Remount and Veterinary Corps	RVC
13	Military Farms	MF
14	Army Educational Corps	AEC
15	Intelligence Corps	INTC
16	Corps of Military Police	CMP
17	Judge Advocate General's Department	JAG's Deptt.
18	Pioneer Corps	PNRC
19	Army Physical Training Corps	APTC
20	Recruiting Organisation	Rtg. Org.
21	Military Engineer Service	MES

In addition to the above the Defence Security Corps (DSC), though not forming part of the Regular Army is controlled by the Army HQrs.

m. Rank Structure

The various rank of the Indian Army are listed below in descending order:

Commissioned Officers

- Field Marshal* (Only two officers made Field Marshal so far)
- General (the rank held by Chief of Army Staff)
- Lieutenant-General
- Major-General
- Brigadier
- Colonel
- Lieutenant-Colonel
- Major
- Captain
- Lieutenant

n. Junior Commissioned Officers (JCOs)

- Honorary Captain – Given to Outstanding JCO's Rank and pay of a Captain, role continues to be of a JCO
- Honorary Lieutenant – Given to Outstanding JCO's Rank and pay of a Lieutenant, role continues to be of a JCO

Subedar Major
Subedar
Naib Subedar
Non Commissioned Officers (NCOs)
Company Havildar Major
Company Quarter Master Havildar
Havildar
Naik
Lance Naik
Sepoy

(ii) CGDA has already issued instructions to all IFAs to regularly visit field units/formations and CFAs located at different places. This exposure of IFAs can help them to dovetail user's concerns in their financial advice, thus making them more effective IFAs. IFAs need to familiarize with several areas of their Users. For this, they need to develop curious attitude to gain maximum inputs about their Users. Example of Ordnance Corps (being the biggest of all Users for Army IFA, as a matter of illustration, is given below to explain the relevant questions IFAs need to constantly ascertain for areas pertaining to their Users-

- a. **Organizational details** – What are duties of DGOS? How is Dte of Ordnance Services organized and what is the logic behind their structure? What is the structure of Ordnance in Command? Why MGAOC does not report to DGOS but his GOC-in-C? What is the Ordnance structure below Command and what exactly is their role in static formations? What are BOU, DOU, TSS, etc? What is the difference between ABOD and FOD? How does AD differ from these Depots? What is the structure inside all these Depots? How many CODs are there in India and what are their specific responsibilities? What is I&BC cell and how did it take over the function of FA in 1977?
- b. **Operational role / aim / objectives** – Why CODs were located at specific places and why individual CODs specialized in specific areas? What are the three top areas in which Ordnance reps advise GOC-in-C at Command Hqs? How does Ordnance ensure that units earmarked for operational role are equipped with stores, ammunition and vehicles as given in their WETs? How much CODs stock and why their period is more than ODs? How does ODs interact with CODs for meeting operational requirements of their Commands? What is the stock potential of ABODs and why? How DOUs help Infantry/Mountain and Armoured Divisions and how is their liaison done with EME battalions? How much Repair responsibility shared by Ordnance with EME?
- c. **Inventory system** – What are DGOS Instructions? What is the total inventory of ordnance and what categories they are divided into? What is Master Part Indices? What is CICIP and what are its potentialities in Ordnance? What is difference between Annual review and Special review? What are Class 'A' and Class 'B' stores? What is fixation of MMF? What is warehousing and storage system in Ordnance? What are types of Material Handling equipments bought by Ordnance? How does Ordnance preserve their stores? What are the Issue procedures and Receipt procedures in Ordnance? What are categories of Payment Issue Procedure? How does RSSDs perform Salvage functions? How do units indent stores on Ordnance depots? What type of stores is held by units in Peace and Field areas? What are Initial Scaling Guide, Maintenance Scales & Overhaul scales? What is the

stocktaking procedure in Ordnance? What are types of Indents? What is Coding, Catalogue and Classification system in Ordnance? What are Dues In, Dues Out and Stock records?

3.5 Users' current Concerns & Usage pattern – What are Fast moving items in Depots? What type of modernization is required by Depot and what are most pressing requirements in that direction? What are the areas in which Depot is economizing? Is location of depot resulting in not generating sufficient competition in tendering? What type of prioritization is being done by Depot in the limited funds allotted? What are the problems in areas of security, fire fighting, working conditions and other infrastructural problems being faced by Depot? Is storage system adequate? **Get technical** – IFAs do not have authority to either change or correct inadequate descriptions, or interpret sketchy descriptions, or make any judgment about a questionable description. Such requisitions are normally be referred back to the user for clarifications. However, IFA should have reasonable knowledge of the goods requested and know what their function is to be. With real knowledge, IFA can, at times, suggest some modification or alternative that would affect a savings without reducing the function demanded. But for this, IFAs do need to have a working knowledge of Technical issues pertaining to items being procured. This knowledge can be very handy to them while doing component-wise costing at the time of determining reasonability of rates. Some of the ways this can be done is to visit user's premises to gain first-hand knowledge of actual operations / usage of items concerned. This can be supplemented with theoretical inputs gained from Technical journals and websites.

3.6 Make and share Data-base – The Committee of Delegation of Financial powers in their 2006 report had emphasized the need for exchange of data-base among various users in Defence services. Till the time electronic exchange among various agencies in Defence takes place, IFAs may interact with their counterparts in other Defence organizations either telephonically or by visits in order to gain inputs regarding prices, sources, technology, etc for similar items. Moreover, as IFA Module under Mission IT Excel gets implemented, the electronic exchange of data-base among IFAs and with other sister organizations will have to be done by IFAs.

3.7 Develop Market Intelligence – The Committee on delegation of Financial Powers in their Report of June 2006 had recommended in para 11.1 (o) that Market Intelligence had to be an important element before taking Procurement decisions. Therefore, the domain of developing Market Intelligence through Market research can be an exciting new role for IFAs. They happen to be the only authority in any organization, which deals with all possible types of procurements being done in any Defence organization. While there would be multitude users and also several CFAs, the IFA will be one single office. This is all the more reason for IFAs to become a nodal point for generating data-base in regard to procurement parameters like Vendors, Items, Prices, etc. While data-base of current and old procurements will be a valid exercise, it needs to be supplemented with what is happening in outside world, particularly in vendors' world as the crucial parameters of procurement i.e. correct price, assured delivery, better competition, latest products, etc will emerge only from there. Market Research by IFAs can be defined as systematic gathering, classifying and analyzing data considering all relevant factors that influence the procurement of goods and services for the purpose of meeting present and future requirements in such a manner that they contribute to an optimal return.

3.7.1 Objectives of MR - There can be three basic areas of investigations -

- (i) Materials, Goods and Services** - This kind of research can aim at getting details of items being procured, which will help in having better technical appreciation, costing details, alternatives to those items, etc.
- (ii) Vendors/Suppliers** - A wide data-base of vendors for different types of items is the main aim. It can also aim at reducing the vulnerability of the buyer with regard to supply by searching for alternative sources.
- (iii) Cost / Prices** - Market prices of various categories of items is the main objective. It will help in fixing reasonable rates, assessment of reasonability of rates offered by L-1 vendor, countering L-1 vendor in negotiations, decision to re-tender, timing of purchase, etc.

Some guidelines for market intelligence and market research are given in Appendix 'A' to the Manual.

CHAPTER- 4

Acceptance of Necessity (AON) stage - General

4.1 This stage can be further divided into six distinct areas in which IFA is required to pay attention. They have been mentioned below. **For advance issues at AON stage please refer to Appendix 'B' to this Manual.**

4.2 AON stage – Why and How much?

- a. Critically examine the justification given for the item in SOC and main noting.
- b. Find out whether item pertains to scale or un-scaled category or whether it has been mentioned in the categories mentioned in various Govt rules or Army orders. Remember that an item is scaled when it is approved by CCS / its authorization has been laid down in Govt orders. Unscaled/new items necessity to be examined with reference to actual need etc.
- c. If PPP exists for the category of items being proposed, then compare the nomenclature, quantity and cost of item given in PPP and present proposal. Ask queries in case of any differences in the two.
- d. Ascertain details like authorization of item as per MoD/AHQ letters, existing holdings, and quantities already ordered but delivery awaited and deficiency to arrive at a scientifically calculated Net figure.
- e. Find out the proposed distribution of item to ensure no extravagance and over-provisioning is being done. Ensure that items are being procured for authorized personnel and offices.
- f. Ascertain whether the purpose of present proposal can be achieved by modification or up-gradation of existing items/facilities. Find out disposal of existing item in case of old vintage to get the best value to state.
- g. If existing facilities are being strengthened with additional quantities, confirm that issues like standardization and compatibility have been taken into account.
- h. In case of AON for scaled items, conduct vetting of quantities, assessment of physical requirement of various resources with respect to targets fixed and budget availability. If inventories are maintained through automated systems and you have been provided terminal on the same, restrict your action to quantity vetting only and do the same based on data available in such automated systems within five working days for the normal cases and two working days for urgent/operational cases. Where inventories are not maintained through automated system, conduct vetting of quantity for scaled items within seven working days.

4.3 AON stage – Competence of CFA

- a) Match the ceiling of powers given in schedules with the total likely expenditure given in the proposal. Carefully see if proposal has any add-ons and whether they have been taken into account for calculating the grand total.
- b) Look at the nature of item. If it is of recurring nature throughout the year, then ascertain the period for which the present case has been sent. Critically examine this issue to ensure that no splitting of expenditure is done.

- c) For processing cases of similar items but with different sizes, the relevant Govt/CGDA decision may be kept in mind as it differs from item to item. For example, in case of drugs/consumables of same nomenclature but having different sizes/strengths, MoD vide their letter dated 8.5.2006 have clarified that they will be treated as different items and will not be considered as splitting of powers, provided a certificate is given by Addl DGAFMS (E&S).
- d) Ensure that CFA's powers are being exercised by CFA himself as delegated powers cannot be re-delegated to lower authorities by CFA.
- e) Check whether or not the type of item proposed is covered under the purposes for which powers are delegated in a schedule and relevant item number of schedule, conditions given in the schedule/ govt orders / SOPs, etc.

4.4 AON stage – Funds' availability

- a) Ensure that the Minor and Detailed heads is mentioned correctly as per MoD orders and CGDA guidelines. Consult Classification Hand Book, if necessary. Also make sure that items chargeable to Capital heads are not procured under Revenue heads/powers and vice versa.
- b) Look for the confirmation given by user regarding funds' availability as per certificates given in para (c) below.
- c) Look for the progressive expenditure total given in the file and add the committed liabilities and estimated value of current case to ensure that this total does not exceed the allotment under this head. Ensure that instructions on Budget monitoring and Committed Liability, issued vide CGDA letter PIFA/Budget/15015 dated 30.5.2007 are complied with by seeking following details –
 - i. Code Head under which the expenditure is proposed.
 - ii. Total allocation under each Head.
 - iii. Committed Liability carried forwarded from previous year.
 - iv. Balance available for fresh commitments in current financial year(ii-iii).
 - v. Commitments already made during the current financial year.
 - vi. Cash outgo expected in current financial year against (v) above based on schedule of delivery and payment terms in supply orders / contracts.
 - vii. Net balance available for further concurrence (iv-vi).

Note: Committed liability/commitments are defined as value of supply orders/contracts issued/concluded but payment not yet made.

- d) In view of the fact that financial commitment is not created at the AON stage, proposals for AON may be considered for concurrence in anticipation of funds becoming available subsequently, where such proposals are included in the Priority Procurement Plan (PPP), Planned Provisioning Review, Planned Repair Programme or pertain to contract for recurring requirement such as conservancy services, AMC, etc. In other cases also, concurrence for AON may be accorded, on case to case basis, keeping in view the lead time involved for the procurement. However, in all cases, financial concurrence for expenditure sanction/issue of supply order/conclusion of contract should be accorded subject to allocation being available under the concerned budget head.

Cases of AON concurred in anticipation of allocation of funds should be closely monitored by the IFA with regard to the progress of procurement. In all cases it should be ensured that the time frame suggested in para 5.20 of DPM 2006 is adhered to so as to ensure that the bids are finalised within the validity period. Normally, after the AON has been concurred/approved and the bids have been called for, there should not be occasion for extension of bid validity, for re-tendering or for dropping of the proposal on the ground that funds have not/did not become available. In case such situation(s) occur, the position should be reviewed by the IFA with suitable advice to the CFA.[Pr.IFA Instruction No. 12 of 2007].

- e) Ask for status report in respect of all carry-over cases whenever a new case is put up by users. Ensure that the carry-over cases are finalized before new projects are taken up.
- f) Correct classification of item needs to be looked at this stage. Primary among these is classification between Capital and Revenue head. MoD (Fin) ID dated 9.2.2007 and CGDA letter PIFA/RDFP/2006/Vol II dated 9.3.2007 may be seen for guidance in the matter. Following may be complied with –
 - i. Any item has to be viewed a capital or revenue keeping in view of the guidelines given in Rules 90 & 91 GFR.
 - ii. Subject to an item being Capital in nature as per these guidelines, the first buy of such an item has to be booked to Capital budget if it costs more than Rs 10 lakhs and has a life of more than 7 years, in which case the proposal has to be processed accordingly. If the cost is less than Rs 10 lakhs and the life is less than 7 years, it may be booked to Revenue head.
 - iii. Any replacement of such items will be booked to Revenue head unless the replacement results in enhancement of capabilities.
 - iv. The fact that an item figures in PPP is not sufficient ground for treating it as a revenue item if it otherwise qualifies to be treated as Capital item.
 - v. Vehicles will not be bought under TAG as this would be in violation of Economy instructions.

4.5 AON stage – Basis of Estimated cost

- a) Ascertain the basis on which estimated cost of proposal has been worked out. Is it based on LPP, Budgetary quotes or Market survey? Ensure that estimates are realistic and that they have not been under-valued either to get over any allotment related issues or get clearance of lower CFAs at AON stage.
- b) Ask following questions –
 - i. How was the estimate made?
 - ii. What assumptions were made?
 - iii. What information and tools were used?
 - iv. Where was the information obtained?
 - v. How did previous estimates compare with prices paid?
 - vi. Can any part of the product be eliminated?
 - vii. Can a standard part replace a special part?
 - viii. Can a lower cost material or method be used?
 - ix. Can the product be packaged more economically?

4.6 AON stage – Mode of tendering

4.6.1 Open tender –

- i. Subject to exceptions mentioned in sub para (b) (ii), open tender enquiry should be used for procurement of estimated value of Rs. 25 lakh and above as per Rule 150 GFR-2005. For all common use items, which are normally available in open market with a wide range of sources, open tender enquiry should be the preferred mode.
- ii. Ensure that notifications are being sent to DGCIS, Calcutta for publication in their weekly issue of Indian Trade Journal and to DAVP, New Delhi for publication in leading newspapers.
- iii. Selection of newspapers may be seen to ensure that the same is done keeping in view the nature of item and likely sources of regions in the country.
- iv. See that the letter is also being sent to MoD, AHQ and NIC for publishing in their web-sites in addition to all registered suppliers for the particular range of items.
- v. See that User has got User Administration Account from NIC to host Open tender from the User end itself, in terms of MoD ID 4(2)/2004/D(Coord) dated 12.1.2006.

4.6.2 Limited tender –

- i. This method may be adopted when estimated value of the goods to be procured is up to Rupees Twenty-five Lakhs. Copies of the bidding document should be sent directly by speed post/registered post/courier/e-mail to firms which are borne on the list of registered suppliers for the goods in question as referred under Rule 142, GFR-2005. See that the number of supplier firms in Limited Tender Enquiry is more than three as per Rule 151(1), GFR-2005. Further, see that web based publicity should be given for limited tenders. Confirm whether efforts had been made to identify higher number of approved suppliers to obtain more responsive bids on competitive basis. Ensure that the User had done the Registration of firms as per para 3.2 to 3.5 of DPM-2006.
- ii. If purchase through Limited Tender Enquiry is being adopted even where the estimated value of the procurement is more than Rupees twenty five Lakhs, look for the following -
 - a) That the competent authority has certified that the demand is urgent and any additional expenditure involved by not procuring through advertised tender enquiry is justified in view of urgency. See that the Competent Authority has also put on record the nature of the urgency and reasons why the procurement could not be anticipated.
 - b) That there are sufficient reasons, to be recorded in writing by the competent authority, indicating that it will not be in public interest to procure the goods through advertised tender enquiry.
 - c) That the sources of supply are definitely known and possibility of fresh source(s) beyond those being tapped is remote.
- iii. If it is proposed on the grounds of urgency, then seek answers as to why the demand could not be anticipated earlier.
- iv. If it is proposed on the grounds of limited/known sources, then look for the background papers related to the work done in the past. Does it have the endorsement of agencies like DGQA, DRDO, etc?
- v. If it is proposed on the grounds of public interest, then look for the justification given to do so and ask whether other sister organizations have also done the same for that item.

- vi. If it is proposed on the grounds of items having stringent MIL specs, then a detailed justification from indenting officer should be looked into.
- vii. If it is proposed on the grounds of Govt policies, then copies of relevant Govt orders may be obtained on file and analyzed.
- viii. In case of IT equipments, registered vendors of DGS&D can be selected for Limited tenders and competitive tendering followed, in terms of para 4.12 of DPM-2006.
- ix. List of proposed vendors and reasons for including some and excluding some may be gone through to ensure that sufficient competition is generated. The list of registered vendors are to be updated every six months by DGQA and AHSPs and all Central Procurement Agencies are to be intimated of the same. It is essential that the credentials of the firms applying for registration with the defence Departments, including their financial status, the manufacturing and quality control facilities, the business ethics and their market standing are thoroughly scrutinized before registering them as an approved source of supply. In case of items of special nature, type approval by the DGQA is also required for which prototype or samples may be called for and registration of the firms for supply of these specific items should be approved only on demonstration of satisfactory performance. A vendor registered with one department of MoD can be considered for procurement by other departments of Ministry. However, specific needs of the various wings/departments are to be kept in mind and complied with. Whenever inspection by the defence inspection agency is involved type approval by the respective defence inspection authority will be essential. Whenever firm is removed from the list of vendors, their registration stands cancelled. Such removal must be promulgated to all concerned agencies so that any department of the MoD conducts no further business relation with such firms. Para 3.2, 3.4 DPM-2006.

4.6.3 PAC tendering –

- (i) Carefully see that the factors like fitness, availability, standardization and value for money have been considered by the users in PAC cases. Remember that many OEMs do not manufacture assemblies, sub--assemblies and components but out source these items. Hence, such items may be available at cheaper prices with the actual manufacturers. Confirm that users have kept themselves abreast with the proper source knowledge and are procuring items from the right source to protect the interest of the state. Remember that the spares have to be sourced from OEM or OEM approved/recommended manufacturers only in order to make the OEM responsible for the malfunctioning of the main equipment in which the spares have been fitted.
- (ii) Look for the confirmation that the said item is only available with the PAC vendor or its dealers, stockist or distributors and the detailed specifications are not available with others to manufacture the item.
- (iii) In the case of spares, ensure that the PAC is issued only to the OEM or OEM-approved manufacturers.
- (iv) Remember that when Defence PSUs/OFB have specifically developed an item for the Dept of Defence or have taken TOT, such sources could be treated at par with the PAC firms, as per Para 4.2, DPM-2006. Ensure that this is not being made applicable to procurements based on provisioning / scales.

- (v) See that PAC certificate has been issued only to OEM though the purchase can be done through the OEM's authorized distributors or dealers provided the purchase is accompanied by a proper manufacturer certification.
- (vi) Ensure that the PAC certificate date has not expired as it remains valid only for one year after the date of its issue unless cancelled earlier by the CFA.
- (vii) See that the PAC certificate contains concurrence of IFA and approval of CFA in terms of para 4.1.1.2 of DPM-2006.
- (viii) Ensure that PAC certificate has been given at a level not below the PSO / APSO/ DG / ADG at AHQ and by GOC-in-C / Corps Commander and Heads of establishments / Formations or units not below the rank of Major General in Command and below, as per Para 15, MoD letter dated 26.7.2006.

4.6.4 Single tendering –

- i. Ensure that the case for single tender i.e. for Non-PAC items is done only on the grounds of urgency or operational or technical requirements.
- ii. Detailed reasons from User may be insisted upon for justifying the reasons to go in for Single tender.
- iii. See that the selected vendor is a reputed firm.
- iv. Find out whether reasonable estimate of rates for the item has been prepared in advance by the user.
- v. Special dispensation to NCCF/Kendriya Bhandar for procuring goods on single tender basis is no longer in force vide para 2.11 of DPM-2006. However, Govt instructions exist for reserving certain items to KVIC, ACASH, CCIC and SSIs in terms of Rule 144 of GFR-2005. Look carefully to these instructions before clearing the case on single tenders.
- vi. Where many of the OEMs are not permitted to respond to RFP as per governmental rules / laws, ensure that RFP is issued only to the designated agency (Ex – M/s ROE in case of certain Russian items).

4.6.5 Rate contract –

- i. Ascertain whether the items being bought are on the DGS&D Rate contract list or not. If yes, procurement can be done by placing order against Form-131 on DGS&D Contracts.
- ii. Ascertain whether the items being bought are on the RC concluded by Central procurement agencies of MoD or Service Hqs or not. Para 8.5 of DPM-2006 may be kept in mind.
- iii. Remember that as per Amendment – I of DPM-2006, Rate contract should be concluded **for a period of up to three years with firm and fixed prices subject to application of Fall clause.**

4.6.6 Repeat Order –

- i. See that the items ordered have been delivered successfully.
- ii. See that the Original order did not cover urgent/emergent demand.
- iii. Analyze carefully the past and present order to find out whether R.O. is not being proposed to split requirement to avoid sanction of the next CFA.
- iv. Confirm that there is no downward trend in price through market intelligence.
- v. Confirm that the firm is prepared to hold the same prices terms and condition including delivery schedule as per service requirement.

- vi. Ensure that the requirement is for stores of identical nature/specification, nomenclature etc. Minor improvements in spec(s) or phasing out of products due to obsolescence may not be precluded from purview of repeat order.
- vii. Look at the date of delivery of last S.O. and ensure that proposal will be placed within **6 months** from the date of supply against previous order and only once.
- viii. Ensure that the Repeat order quantity is restricted to a maximum of **50 %** of last order quantity, both in case of indigenous procurement and import orders.
- ix. Look at the PNC minutes of last S.O. to ensure that the original order was on the basis of lowest (negotiated) price and not on delivery preference.
- x. Prefer exercising this provision only in case of PAC/Single Vendor OEM case. However, **where multiple vendors are available, necessary care should be taken in exercising the option clause.**
- x. Find out whether where option clause in last S.O. has been availed of, at may not be desirable to place further repeat orders.

4.7 AON stage – Vetting of Tender enquiry

4.7.1 Standard format –The standard format of tender enquiry for indigenous procurement of stores, spares and replacement equipments has been placed at Appendix B of DPM-2006. Ensure that the draft TE/RFP matches this format in letter and spirit. TE/RFP could also follow general principles promulgated in DPP-2006 except the provisions relating to Field trials, GS evaluation, Technical Oversight Committee. Any conflicting provisions of existing SOPs may not be adhered to since SOPs do not have the authority to overrule the DPM-2006.

4.7.2 Standard Conditions of Contract – Para 21, Appendix B, DPM-2006 specifically mentions that SCOC of MoD will be applicable for all commercial clauses. Ensure that TE does not contain a different interpretation of any Commercial clause as compared to SCOC placed at Appendix F, DPM-2006.

4.7.3 Schedule of Requirement with Technical details – As prescribed in Appendix B, DPM-2006, see this portion of TE carefully. Ensure that it contains full and clear specifications, scope of requirement and the evaluation criteria, both for technical and commercial bids.

- a. **User requirements** – See that the TE has laid down user requirements in a comprehensive, structured and concrete manner and is broad-based. TE should express the user requirements in terms of functional characteristics.
- b. **Criteria and Parameters** – See that the Criteria for determining responsiveness of bids, criteria as well as factors to be taken into account for evaluating the bids on a common platform and the criteria for awarding the contract to the responsive lowest bidder is clearly indicated in the TE. See that minimum performance level / performance criteria are specified in Tender enquiry. In two-bid system, ensure that the performance parameters are verifiable and classified as –
 - (i) Essential parameters providing for minimum essential military requirements.
 - (ii) Fulfillment of essential parameters would be the basis for further consideration by TEC.

- c. **Technical specifications** – See that the specifications of the required goods are clearly stated without any ambiguity so that the prospective bidders can send meaningful bids. In order to attract sufficient number of bidders, the specification should be broad based to the extent feasible. Ascertain whether efforts were made to use standard specifications, which are widely known to the industry. See that TE's formulations will not prejudice the technical choices by being narrow and tailor-made. In terms of MoD (Fin) ID no 3(3)/MO/2005 dated 9.1.2006, ensure that no brand name is specified and further that military specifications are not put, where civil specifications can serve the purpose.

4.7.4 Special Conditions of contract - Special conditions of contract are supplementary conditions applicable to the specific tender and contract. Such conditions become essential particularly in cases of contract for supply of services or even equipment. There may be a need to stipulate conditions like stage inspection, acceptance trials, installation, setting to work, and commissioning or pre-defined stages of payment for services. Ensure that such conditions are mentioned in the TE on the merits of case.

4.7.5 Nature of TE/RFP –

- a) **Single bid TE** – Ensure that the single bid is called for commercially off the shelf (COTS) items, where qualitative requirements and technical specifications are clear.
- b) **Two-bid TE** – Two-bid system may be insisted upon in cases of plant and machinery equipments, complex items like IT and communication systems and in turn key projects where QRs/technical specs cannot be clearly firmed up ab initio. In such cases, ensure that the TE lays down user requirements in a comprehensive, structured and concrete manner and should be broad-based and express the user requirements in terms of functional characteristics. Confirm that this formulation is not prejudicing the technical choices by being narrow and tailor-made.
- c) RFP should contain four parts, viz. Ist part elaborating general requirement of equipment, numbers required, time frame for deliveries, ESP, Training warranty and guarantee conditions etc., Second part to delineate essential and desirable parameters, the third part to outline the commercial aspects like payment terms, performance guarantee, warranty guarantee and standard contract terms and fourth part to define the criteria for evaluation and acceptance in terms of technical and commercial contents.

4.7.6 Pre -bid conference - In case of turn-key contract(s) or contract(s) of special nature for procurement of sophisticated and costly equipment, see that a suitable provision is kept in the TE for a pre-bid conference for clarifying issues and clearing doubts, if any, about the specifications and other allied technical details of the plant, equipment and machinery projected in the bidding document. Ensure that the date, time and place of pre-bid conference are indicated in TE and that this date is sufficiently ahead of bid opening date.

4.7.7 Important clauses at TE vetting stage – While format of TE has been prescribed in Appendix B, DPM-2006, yet there could be issues arising out of few important clauses, where IFA's advice will be sought. They are covered below for guidance -

- i. **EMD clause** – Ensure that Earnest money deposit has been mentioned in the case of Open or limited tender enquiry. See that EMD is being asked from the bidders except those who are registered with the Central Purchase Organization, National Small Industries Corporation (NSIC), MoD or concerned Army department. See that amount of EMD is ranging only between two percent to five percent of the estimated value of the goods to be procured. The bid security may be accepted in the form of Account Payee Demand Draft, Fixed Deposit Receipt, Banker's Cheque or Bank Guarantee from any of the commercial banks in an acceptable form, safeguarding the purchaser's interest in all respects. See that EMD is remaining valid for a period of forty-five days beyond the final bid validity period.
- ii. **Price preference and Purchase preference clause** – Ensure that for cases coming under the ambit of Para 2.12 and 2.13 of DPM-2006, Tender enquiry mentions the standing govt instructions related to Price preference to SSIs, Purchase preference to CPSEs, etc.
- iii. **Payment terms** – Ensure that the standard clause of 95% / 5% has been kept in TE. You may agree for 100% payment after delivery / accounting terms also. Depending on merits of the case, consider the part-supply payment terms also with milestones clearly notified in RFP. Do not agree for including Advance terms in TE in the first place. It can be included only in exceptional circumstances and that too only upto 15% against BGB, as per Para 7.11, DPM-2006.
- iv. **Option clause** – Agree to consider for additional quantity only up to a **maximum of 50%** of the originally contracted quantity at the same rate and terms of the contract during the original period of contract provided this clause has been incorporated in the original contract with the supplier. Ensure that the percentage being included in Option clause will not result in exceeding the powers of CFA. See the Mode of tendering being done in the case. In case of single vendor OEM, agree for option clause up to 50% subject to there being no downward trend. However, in multi vendor contracts, scrutinize carefully before agreeing for option clause up to 50%.
- v. **Risk and Expense Purchase** - Risk and expense purchase is undertaken by the purchaser in the event of the supplier failing to honour the contracted obligations within the stipulated period and where extension of delivery period is not approved. Risk purchase at the cost and expense of the supplier may not be always a practical proposition as it may not be feasible to enforce recovery without legal action. This clause is rarely invoked in case of import contract for this reason. In such cases where the item is of proprietary nature or there is only one qualified firm to supply the items and there is remote possibility of procuring the same item from an alternative source, ensure that instead of having risk and cost clause in such contract, the TE has performance guarantee clause to cover any such default. (see para 7.14 & 7.14.1 of DPM-2006)

- vi. **Force Majeure** - Present orders of the Govt. stipulate that force majeure clause should not be included in the TE or the contract. When a supplier insists on including force majeure clause, this should be included only in the Govt. approved format placed at **Appendix 'H'** of DPM-2006 in terms of para 7.15 of DPM-2006.
- vii. **DCF clause** - If DCF techniques are to be used for evaluating long-term contracts, then, a clause may be incorporated in the TE as follows: - "The buyer reserves the right to evaluate the offers received by using Discounted Cash Flow method at a discounting rate of _____%".
- viii. **Price variation clause** - Normally contract should be entered into on firm price basis. Nevertheless in the fluctuating market conditions, supplier often quotes variable prices, particularly when contract period exceed 18 months as per Para 13.12, DPM-2006. DGS&D Manual has provided Standardised Price Variation Clauses. Ensure that one of these clauses is indicated in the RFP. A sample clause is indicated below for guidance:-
P1 = P0 (a+b L1/ LO + c M1/M0) - P0
Where P1 = Adjustment amount payable to the contractor
P0 = Contract Price (Base Price)
a = Fixed element representing Profit & Overloads in contract price
b = Estimated % of labour component
c = Estimated % of Material component
LO & L1 = Labour indicates applicable to appropriate Industry on the base date & date of adjustment respectively.
MO & M1 = Material indicates for raw material on base date & date of adjustment.
The sum of the three coefficients a, b & c shall be (1)
- ix. **ERV clause** - In case delivery period is exceeding one year from the date of contract involving import (foreign exchange), ensure that Exchange Rate Variation clause has been included. Ensure that the offer is indicating import content also.
- xi. **Book examination clause** - Ensure that TE contains a 'Book Examination Clause' for high value single vendor cases.

4.7.8 Clarification of TE - If a clarification on the TE had to be issued based on a query raised by a particular vendor, then ascertain that such request, in writing, was received at least 14 days prior to the date of opening of tenders. Also, see that copies of query and clarifications given were sent to all prospective bidders who had received the bidding documents.

4.7.9 Bid validity - Ensure that the bid validity is 90 days in case of single bid system and 120 days in case of two-bid system, from the date of opening of tender.

4.7.10 Amendment to TE - In case TE was vetted and later an amendment to TE was required to be issued by the purchaser either due to change in required quantity or specification or as a result of clarification to the query of the supplier,

then ensure that it is notified in writing to all bidders and reasonable extension to last date of submission of bids is given.

4.7.11 Extension of Tender Opening period – See that time allowed for submission of tender is 3 weeks (minimum) for LTE, 4 weeks (minimum) for OTE, 6 weeks for GTE with a maximum period of 3 months. Any extension of Tender opening period beyond this would require approval of next level CFA. Ensure that such extension and amendment of tender documents is being published in Indian Trade general/National Dailies/Departmental Web sites.

4.7.12 While vetting the draft tender enquiry, it will be seen that the following requirements have been met:-

- i. Time and date of receipt and opening of tenders has been clearly indicated as per the guidelines.
- ii. The required number of copies of drawings/specifications is proposed to be made available to the tenderers in case the store is required to non-standard specifications/drawings.
- iii. The authority to whom tender sample is required to be furnished for testing and the time within which the sample should be submitted for inspection have been indicated in the enquiry. (the time required for sample inspection must invariably be factored in while fixing the delivery period)
- iv. The inspecting authority is correctly indicated.
- v. Where purchase of large quantities of stores is involved or where the shelf life of the store is limited, delivery may be specified in installments, depending on staggered requirements of indentor.
- vi. In case of purchase of imported stores the appropriate shipping causes are incorporated. Other special condition viz. payment terms for FOB/FAS contracts etc. should also be indicated in the enquiry.
- vii. The requirement of furnishing performance guarantee to cover warranty period has been indicated in respect of plant and machinery and other specified stores. (Performance bank guarantee of at least 5% of the contract value has to be provided by the firm. PBG should remain valid for a period of 60 days beyond the date of completion of contract including warranty).
- viii. The sole arbitration clause has been indicated in TE.
- ix. A clause seeking confirmation from the bidders for acceptance of part quantity has been included.
- x. Clause regarding the purchaser's right of rejection of any or all tenders without assigning any reason has been included in the TE. This clause can be invoked in cases where it is discovered after opening of tenders that the requirement is ceased to exist or there is a major change in technical specifications.
- xi. The clause about imposition of liquidated damages of 0.5% per week or a part thereof subject to a maximum of 5% of the order value of undelivered goods has been included.
- xii. Clause about hardware/software upgradation has been included in TE particularly in respect of IT items, other high technology items and EPABX systems. (this binds the bidder to provide all the upgrades free of cost if the same have been launched free of cost by the OEM as a matter of policy

otherwise the purchaser has the option to get the upgrades by making necessary payments)

- xiii. An uptime clause has been included in case of electronics items, IT items, exchanges etc. An uptime clause indicating a minimum uptime of 95% during warranty/AMC may be included in the TE. In case of non-adherence to this clause, the bidder will be subject to the payment of penalty, which may be specified in the TE.
- xiv. The AMC clause has been included in the TE where required asking the bidder to give confirmation of AMC for the life of the equipment specifying the minimum years for which AMC should be provided and the rate in terms of percentage of cost of equipment for the same.
- xv. The list of vendors has been furnished. It will be verified to see whether all past suppliers and respondents are included for floating TE. If not, reasons for the same are recorded.

CHAPTER- 5

Tendering stage

5.1 This stage can be divided into three areas which are mentioned below. **For advance issues at tendering stage please refer to Appendix 'C' to this Manual.**

5.2 Tendering stage – Opening of tenders

- a. **Transparency and fairness** – Ensure that transparent and fair methods were adopted in regard to bidders, in terms of para 6.8 (ii), (vi) and (viii) of DPM-2006.
- b. **TEC report** - In two-bid tendering, ascertain that the TEC completed the action as per Para 4.12.5 and 4.12.6 of DPM-2006 and that their report has been approved by CFA. Remember that if at TEC stage only one vendor is found complying to all the SQR parameters, then the RFP is retracted with the approval of CFA and a fresh RFP issued by suitably reformulating SQRs.
- c. **Revision of commercial bids** - In case there was a need for revision of commercial bids (para 4.12.7 & 4.12.8 of DPM-2006), then ensure that equal opportunity was given to all technically acceptable vendors to give their revised commercial bids in a sealed cover.
- d. **Bids' Opening formalities** - Confirm that the para 4.13 of DPM-2006 was complied with during opening of tenders and that vendors were given opportunity to be present during opening of commercial bids. See that the Tender opening board has serially numbered each bid and initialed with date on each page of the tender. Also, whether they have circled the prices and important terms and conditions and initialed with red ink. Any alterations in tenders made by the vendors should be initialed legibly to make it perfectly clear that such alterations were present on the tender at the time of tender opening.
- e. **Late and Delayed tenders** - Ensure that Late and delayed tenders have not been accepted for opening.
- f. **Modification of bids** - Ensure that the modification to bid by any vendor was done only after a written notice was received by the purchaser prior to deadline prescribed for submission of bids. Remember that no bid can be modified after the deadline for submission of bids.
- g. **Withdrawal of bids** - Ensure that the withdrawal of bid is not allowed in the interval between the deadline for submission of bids and expiration of bid validity period.

5.3 Tendering stage – Vetting of CST

- a) **Agents of supplier** – Ensure that one agent does not represent two suppliers or quote on their behalf in a particular tender enquiry. Reject such quote by quoting CVC guidelines no 12-02-6-CTE/Sp-I(1)-2 dated 7.1.2003 and Circular dated 21.4.2004.
- b) **Examination of CST** - Examine that the CST is exhaustive and includes all details given in the quotations.
- c) **Errors by vendors** - See whether any computational errors have been made by the bidders or not. If there is a discrepancy between unit price and total price, the unit price shall prevail. If there is discrepancy between words and figures, the amount in words shall prevail. If the supplier does not accept the

correction of the errors, its bid will be rejected and its bid security may be forfeited.

- d) **Enclosures to bids** - See whether required sureties have been furnished and whether the documents have been properly signed.
- e) **Deviations** - See that the deviations from tender enquiry have been brought out in CST.
- f) **Responsiveness of bids** - Determine the substantial responsiveness of each bid to the bid documents. A substantially responsive bid is one, which conforms to all terms and conditions of the bid documents without material deviations. Deviations from or objections or reservations to critical provision like Bid Security, Warranty and Guarantee, Applicable Law, Taxes and Duties will be deemed to be a material deviation. Ensure that Bids received are evaluated in terms of the conditions already incorporated in the bidding documents; no new condition which was not incorporated in the bidding documents should be brought in for evaluation of the bids. Remember that determination of a bid's responsiveness should be based on the contents of the bid itself without recourse to extrinsic evidence.
- g) **Clarification on bids** - If a clarification is required from any bidder, then ensure that it is done in writing and no change in prices or substance of the bid is sought, offered or permitted. Do not allow any post bid clarification at the initiative of the bidder.
- h) **Comparison of bids** - Remember that all elements of cost, including the terms and conditions with financial implications are to be taken into account while ranking quotes. Ensure that comparison of responsive bids is done on the prices of the goods offered inclusive of levies & taxes i.e., ST and ED, CDE, Packing & Forwarding, Freight and Insurance etc., as indicated in the price schedule of Bid documents but exclusive of Octroi/Entry Tax which will be paid extra as per actual, wherever applicable. The ultimate cost to the state on delivery to the consignee's premise should be the deciding factor for ranking of bids. Some factors which need to be taken into account are given below for guidance -
- i) **Duties and Taxes** - All taxes and duties to be paid in connection with the procurement of an item need to be considered including those for which exemption certificates are issued.
- j) **Delivery Period** - Delivery Period and delivery compliance are important variables for evaluation of bids.
 - a. **All Inclusive Cost on Delivery** - The ultimate cost to the state on delivery to the consignee's premise should be the deciding factor for ranking of bids.
 - b. In case of foreign suppliers, the basic cost (CIF) quoted by him should be the basis for the purpose of comparison of various tenders. In case of indigenous suppliers, ED on fully formed equipment may be offloaded. See that ST and other local levies are ignored in case of indigenous suppliers and Defence PSUs / OFs. Ensure that the payment conditions / terms are similar for domestic private suppliers, Defence PSUs / OFs and the foreign suppliers.
- k) **LPP in CST** - Ensure that LPP is mentioned, wherever available, in CST for enabling fair comparison.
- l) **Signing the CST** - Vet the CST with regard to original quotations, indents and other supporting documents for checking the calculations as well as the premises on which CST has been prepared. As an IFA rep, sign the CST

along with purchase officer, after due examination as above in terms of para 13.5, DPM-2006.

- m)** At the time of scrutiny of CST the following points should be observed/examined:-
- i. Rates received are not abnormally high or low compared with last paid rates. The offer of the lowest tenderer has been recommended for placing order. If not, specific reasons have been recorded for rejection of the lowest tenderer.
 - ii. No. of firms on whom TE was floated and No. of firms who have responded has been recorded in CST.
 - iii. Whether the firm is holding DGS&D Rate contract or not should be indicated in the CST.
 - iv. If any clause is not acceptable to the firm the same is highlighted in CST.

5.4 Tendering stage – Negotiations

- a. **Determination of L-1** – As per para 13.5 of DPM-2006, determination of L-1 has to be done by the CNC.
- b. **Reasonableness of price** - As IFA's rep in PNC, your first objective in the CNC should be to establish reasonableness of price being paid by the Govt. This is a complex task and many factors need to be considered, which are mentioned below for guidance –
 - i. Estimated value as given in the indent
 - ii. Response of the trade to tender enquiry
 - iii. Last purchase price (LPP)
 - iv. Database of past contracts for similar items
 - v. Movement of price indices of raw materials, electricity, whole sale price index and statutory changes in wage rates
 - vi. Market intelligence regarding cost of the item or similar items
 - vii. Material composition and component-wise costing
 - viii. Technological intricacies involved
 - ix. Whether of current production or otherwise
 - x. Maintenance requirements, spares and warrantee etc.
- c. **Spare items' cases** - For procurement of spare parts, consumables and small value contracts which are supplied in the past, the price reasonableness may be determined after comparing with last purchase price after factoring in changes in price indices published by the Government sources.
- d. **Cost analysis** - The reasonability of price may also be examined, by resorting to Cost Analysis in situations where there is a wide variance over the LPP not explained by corresponding changes in indices. Obtain and analyze to check cost break up details as per format placed at **Appendix 'P' of DPM-2006**, to the extent possible.
- e. **LPP** - LPP is one of the relevant factors in deciding the price reasonableness. However, following needs to be considered while comparing the quoted rates with the LPP:-
 - i. LPP of more than three years vintage is not taken as a real scale for comparison. However, such LPP could be used as an input for assessing the rates.

- ii. LPP should pertain to a past successfully executed order of similar magnitude and scope of supply.
 - iii. Factors like basket price and bulk discount offered need to be taken in to account while using LPP as a scales for comparing prices.
 - iv. Price variation clause, if any, and the final cost paid by the Govt. in respect of last purchase to which LPP pertains to be considered.
 - v. Factors like items supplied against LPP being of current production or ex-stock supply need to be taken into account.
 - vi. Market conditions and extraneous factors like re-starting production lines due to obsolescence may also have to be considered.
- f. **Analysis of Single tender cases** - In the case of single tender, analysis of the costs and price structure may be done to ensure that the price quoted is reasonable with reasonable profit margin. To assess the reasonable price the following steps could be considered for the projects supplied in the past indigenously or by an Indian vendor.
- i. In case of products, which have been supplied in the past, the actual cost of production of the completed contract or supplies may be obtained in addition to the price quotation. The current Cost of Production may be assessed keeping in view the actual cost of production duly updated to current rates.
 - ii. The break up of the material cost into the imported and indigenous material. In case of imported material, obtain break down of Foreign Exchange content, foreign currencies involved, exchange rate adopted and other costs. In respect of Direct Material, ensure that various types of material used, their spec(s), unit rates and usage factor and credit for scrap arising has been assessed by a Technical Team and vet the rates.
 - iii. Assess the man hour rate (MHR) rate and Total Standard Man Hours (SMH).
 - iv. Obtain the Cost Break up as per format placed at **Appendix 'P' of DPM-2006.**
 - iv. Analyse Balance sheets and profit and loss accounts during the last three years, wherever made available.
 - v. In case where advance or progressive payments are required to be paid, consider the advantage of advance in terms of lower cost of production. There should be clear linkage between price negotiated and quantum of advance.
 - vi. Where the order is for larger quantity, take into account the benefit of economy of scale due to higher capacity utilization and reduction of overheads particularly fixed overheads.
- g. **Inputs from vendors** - In assessing the reasonableness, general analysis of Financial/Cost ratios from published accounts and evaluation of Commercial/Technical information of the Vendor/Bidder may be undertaken. The allocation of overheads should be as per established principles of costing. Assessment should be made on the vendor's approach to controlling cost, adherence to delivery schedule, Cost Accounting System and other factors affecting contractor's ability to meet cost/schedule targets.
- h. **DCF techniques** - The Discounted Cash Flow (DCF) techniques may be used for evaluating long-term project cases. DCF procedure is to reduce both cash inflow and out-flows into net present values (NPV) through the DCF methods, which would be more scientific and reliable. The use of Net Present Value

(NPV) analysis in Cost and Price Analysis is based on the concept of time value of money. The money has a time value because of the opportunity to earn interest or the cost of paying interest on borrowed capital. This means that a sum to be paid today is worth more than a sum to be paid in a future time. The cash out flow/inflows and the average cost of capital i.e., cost of borrowing becomes an important constituent in evaluation process. The NPV of a stream of cash flows is described as follows: -

$$i. \quad NPV = \frac{C_1}{1+r} + \frac{C_2}{(1+r)^2} + \frac{C_3}{(1+r)^3} + \dots + \frac{C_n}{(1+r)^n} \quad \text{Or}$$

$$NPV = \sum_{n=1}^n \frac{C_n}{(1+r)^n}$$

In the formula **C** is the expected payoff at a period mentioned by the subscript **n**.

r is the rate of interest.

t is the period after which the payment is done.

n is payment schedule as per the payment terms and conditions.

ii. The alternative with the smallest payment of net present value in the procurement is the obvious choice. The DCF may be made use of to facilitate determination of L1 in following procurement situations: -

i. To compare different payment terms of the vendors to a common denomination for determining L1 status.

ii. To deal with the cases where entering into AMC over a period of 10 to 11 years is part of the contract for evaluating for L1 status.

iii. Ministry of Finance has also clarified that determination of L1 by merely adding arithmetic values spread over 12 to 13 years (2 years warranty and 10 to 11 year AMC) would be an incorrect procedure for determining L1 and the correct procedure would be reduced cash out flows into present values through the DCF technique for which the discount rate to be adopted should form part of the RFP.

iv. The cost of borrowing to the Government is the relevant discounting rate for the purpose of evaluation. The Ministry of Finance prescribes the lending rates of the loans to be charged by the Central Government from State Governments, Public Sector Undertakings and Financial Institutions etc.

v. In case cash flow involves more than one currency, the same has to be brought to a common denomination, say Rupees by adopting exchange rate as on the date of the opening of price bids. MS "Excel" or any standard spreadsheet has the features for carrying out this exercise.

vi. Min of Finance letter dated 11.11.2002, at Appendix Q of DPM-2006 may be read for further guidance.

i. **PNC composition** - Price negotiation is normally required to ensure that the interest of the state is fully protected and the price paid is reasonable. Ensure that such negotiations are conducted by a duly appointed Contract Negotiation Committee (CNC) including a IFA's rep unless the negotiation is carried out by the committee CFA itself. CNC is to be invariably conducted in case of single tender situations including PAC cases, or when price is considered high with reference to assessed reasonable price.

- j. **Brief of PNC** - Ensure that brief of PNC is sent in advance by the user. Examine the brief and supplement it with data-base being maintained in IFA's office.
- k. **Need for Negotiations –**
 - i. As per para 13.5.1 of DPM-2006, in multi -vendor cases, on opening of commercial offers, once L1 vendor is identified, the contract should be concluded with him and there would be no need for any further price negotiations. However, negotiations can be held in exceptional circumstances where valid logical reasons exist and such negotiations should be held only with L1. One of the major reasons could be the quoted price being higher than the estimated reasonable rate. In case of procurement of new equipment, on single vendor / resultant single vendor basis, ensure that CNC establishes a benchmark and reasonableness of price in an internal meeting before opening the commercial offer. Once the commercial offers are opened and the price of the vendor is found to be within the benchmark fixed, in the internal meeting, there should be no need to carry out any further price negotiations. Negotiations are to be conducted only with L-1 as per para 6.8 (xii), DPM-2006. However, in Rate contract tendering, where a number of firms are brought on rate contract for same item, negotiations as well as counter-offering of rates are permitted with the bidders in view as per para 6.8 (xiii), DPM-2006.
 - ii. As per CVC Circular no 4/3/07 dated 3.3.2007, post tender negotiations could often be a source of corruption, there should be no post-tender negotiations with L-1, except in certain exceptional situations. Such exceptional situations would include procurement of proprietary items, items with limited sources of supply and items where there is suspicion of a cartel formation. The justification and details of such negotiations should be duly recorded and documented without any loss of time. This means that cases of Limited/PAC/Single tendering resulting in insufficient competition, unreasonable rate of L-1, etc could be a reason for negotiations. IFAs should keep this in view.
- l. **Recording of efforts** - Assessing of reasonability may be an arduous task, especially where price data is not available or in case of overseas purchases. In such cases it is important to place on record efforts made for arriving at a price and taking procurement decision.
- m. **Complete work** – As per MoD (Fin), FA (Acq) ID No 375 dated 15.3.2005, entire terms and individual clauses of the contract has to be clearly negotiated during the CNC itself in order to avoid any ambiguity and the consequential delays in the procurement process that result.
- n. **Detailed recording of Minutes** - Ensure that detailed record of discussions regarding compliance with tendered QRs, price and contract clauses held during the CNC is prepared, signed and placed on record in the form of minutes of the meeting.
- o. **Signing of Minutes** - Ensure that PNC minutes are signed within a week of its final meeting by all its members, as per Appendix A & A-1 of DPM-2006.
- p. **Participation in TPC/PNC** - The following points are to be examined before participation in TPC/PNC:
 - i. Whether indent/provisioning has been vetted by the IFA and the sanctioned by appropriate CFA depending on value.

- ii. Validity of quotations on the date of holding TPC is verified. Validity period means valid for the period notified in enquiry excluding the date of tender opening (para 8.5.7 DGS&D Manual).
- iii. It is to be ensured that only L1 has been called for negotiations, if required. In cases, where firm other than L1 has been called adequate reasons are to be recorded and prior concurrence of IFA and approval of CFA is to be obtained.
- iv. No conditional discounts may be taken cognizance of.
- v. In case of plants/machinery, all these factors viz. maintenance spares for a specified period, AMC, guarantee/warranty clause, inspection clause, after sales service, performance guarantee for warranty period, are to be negotiated.
- vi. It is also to be ensured that financial advice, if any, offered by IFA, is correctly recorded in minutes of TPC. If not, the minutes of TPC can be modified to record the same.

CHAPTER- 6

Expenditure sanction stage

6.1 This is the stage when the case file is received from the concerned Branch along with the PNC minutes, duly recommended by the penultimate CFA. Following issues can come up at this stage, which will need to be addressed by the IFA. **For advance issues at expenditure angle sanction stage please refer to Appendix 'C' to this Manual.**

6.2 Re-tendering – Remember that re-tendering will be done only after approval of IFA and CFA in all cases in terms of para 4.18 & 4.19, DPM-2006. Ensure that Re-tendering is considered with utmost caution, and only under the following circumstances: -

- (a) When the Offers do not confirm to essential specification.
- (b) Wherever there are major changes in specification and quantity, which may have considerable impact on the price.
- (c) Prices quoted are unreasonably high with reference to assessed cost or there is evidence of a sudden slump in prices.
- (d) In case L-1 tenderer withdraws his offer.
- (e) There may be cases when the lack of competition is due to restrictive specification, which do not permit many vendors to participate. CFA must consider if there are reasons for review of specification of the item to facilitate wider competition. As per para 13.9 of DPM-2006, lack of competition can be said to exist in following conditions –
 - i. The number of acceptable offers is less than three.
 - ii. Ring prices have been quoted by all tenderers (Cartel formation).
 - iii. The product of only one manufacturer has been offered by all the tenderers irrespective of the number of quotations.
 - iv. Store under purchase is chronically in short supply against which a number of acceptable offers never exceed two.
- (f) CVC, vide Circular no 4/3/07 dated 3.3.2007, have clarified that in cases, where a decision is taken to go for re-tendering due to the unreasonableness of the quoted rates, but the requirements are urgent and a re-tender for the entire requirement would delay the availability of the item, thus jeopardizing the essential operations, maintenance and safety, negotiations would be permitted with L-1 bidder(s) for the supply of a bare minimum quantity. The balance quantity should, however, be procured expeditiously through a re-tender, following the normal tendering process.

6.3 Acceptance of Cost over Estimates - When it is proposed to accept an offer higher than the sanctioned indent price which may be based on last purchase price or assessed price, concurrence can be given provided that the increased amount is within CFA's delegated powers and after recording reasons. Whenever the increased amount exceeds the financial powers of the CFA, approval of next higher CFA, within his delegated powers, may be sought for.

6.4 Determination of L-1 on Entire Package - In Revenue procurement of Import cases where RFPs are issued item-wise, if it is decided to club these item wise requirements and float a combined RFP to avail of economy of scale etc, L1

should be considered on the cash outflow for entire package. This is as per Para 9.28 of DPM-2006. After L1 is determined, ensure that PNC initiated discussions with L1 bidder for items in which rates quoted by him are higher than those quoted by other vendors. In such case, see that negotiation with L1 vendor was done with reference to the lowest bid for that item (items). In case the L1 vendor did not match lowest bid for item(s) which happens to be high value item (items), recommend possibility of concluding fresh contract for such item(s).

6.5 Apportionment of Quantity – As per Para 5.10, DPM-2006, if L1 does not have the capacity to supply within the delivery period as per RFP, after loading L1 fully as per its capacity and past delivery, ensure that order is given to on L2, L3..... for the balance quantity only at L1's rate.

6.6 Purchase Decision - IFA must consider all aspects of the case including reasonability of offered prices, quoted terms and conditions, technical evaluation report etc. It has to be ensured that proper procedure & policies have been followed at various stages of procurement for arriving at the decision of L-1 firm. The financial implication should be considered as the all-inclusive cost to the state on delivery to the designated consignee.

6.7 Types of contracts to be considered - Govt. contracts can be of many types depending on the nature of the item being procured, work to be executed, services required to be rendered and support to be provided. Though the provisions contained in the manual may not be applicable to the contracts for works and project in totality, these will normally apply to all other types of revenue contracts. The general categories of contract could be:-

- i. Purchase order for items of stores, spares or equipment.
- ii. Rate Contract.
- iii. Price Agreement.
- iv. Service Contract.
- v. Annual Maintenance Contract (AMC).
- vi. Consultancy Contract.
- vii. Works Contract/Project.
- viii. Development Contract.

6.8 Vetting of Supply order / Contract –

- a) **SCOC in contracts** - Ensure that the draft Contract/SO is stipulating that the Standard Conditions Of Contract (**SCOC**), as given in **Appendix F of DPM-2006**, are applicable in addition to any special conditions specific to the Contract/SO, which might have been mutually agreed between the parties. The draft SCOC is exhaustive. See that the relevant clauses as applicable have been included in draft contract.
- b) **SCOC in Supply orders** - Similarly while vetting Supply Order, ensure that these general conditions, in spirit, has been made applicable. Acceptance of Supply Order by the vendors is essential to make the same as legally valid document.
- c) **Special Conditions** - Special conditions of contract are supplementary conditions applicable to the specific tender and contract. Such conditions become essential particularly in cases of contract for supply of services or even equipment. There may be a need to stipulate conditions like stage inspection, acceptance trials, installation, setting to work, and

commissioning or pre-defined stages of payment for services. Ensure that such conditions were mentioned in the Tender Enquiry before incorporating them in the contract.

- d) The following points need to be seen while vetting the supply orders:
- (i) Payment Terms : Whether Paying authority and payment terms are incorporated in the contract as per guidelines of MoD. Payment terms vary depending on nature of items as follows:
 - a) 100% payment against receipt of stores by consignee in acceptable condition.
 - b) 90% or 95% payment on proof of dispatch and balance after receipt of stores. In no case, should it be 100% payment against proof of dispatch.
 - c) 80% payment against receipt of Plant and Machinery in acceptable condition by consignee, 10% payment after successful erection and final 10% payment after successful commissioning against 10% performance bank guarantee from any Nationalized bank to be kept valid till 60 days after the expiry of warranty period.
 - (ii) Whether the prices have been correctly indicated and variation, if any, has also been stipulated on the basis of a well-defined and clear-cut price variation formula after approval from the competent authority.
 - (iii) Whether the firms have asked for sales tax/service tax separately. If so, whether it has been shown properly in the contract.
 - (iv) Whether the status of excise duty is clearly specified in the supply order.
 - (v) Whether the delivery period stipulated in the contract is in accordance with the delivery agreed to by the tenderer. Whether the terms of delivery have been correctly specified.
 - (vi) Whether the terms and conditions including specified conditions stipulated in the contract are in conformity with offer of the firm and variation, if any, has been mutually settled.
 - (vii) Whether force majeure clause is incorporated in the supply order only if specific request is made by the firm.
 - (viii) Whether dispatch and inspection instructions have been correctly incorporated. Whether inspection agency and inspecting officer have been clearly indicated in the Supply Order.
 - (ix) Whether the copies of the Supply Order have been endorsed to all concerned including inspectorate and Accounts Office.
 - (x) The stores should on no account be dispatched/delivered without getting the same inspected and passed by the Inspection Officer stipulated in the order (unless the inspection at destination is required.)
 - (xi) Whether Heads of Accounts are indicated correctly.
 - (xii) Whether the paying authority and paying officer are indicated correctly.
 - (xiii) Whether the tendering firm has accepted the standard "sole arbitration clause".
 - (xiv) Whether the contract provides for submission of advance sample. If so, whether a definite, reasonable and correct time limit has been laid down.
 - (xv) Whether the transit risk clause has been correctly stipulated.
 - (xvi) Whether the firm has asked for any assistance for clearing the raw materials and if so, whether a suitable provision has been incorporated making it clear whether it is a contractual obligation or otherwise.

- (xvii) Whether the firm has agreed to placement of additional 50% quantity under option clause. If so, whether the purchaser's right to do so has been reserved up to specified date.
- (xviii) Whether in case of Plant & Machinery, suitable provisions have been made regarding erection and commissioning, after sales service, warranty period, training of purchaser's personnel, etc.
- (xix) Whether the following documents have been specified in the supply order for submission along with contractor bills for payment viz.
 - (a) Original copy of Supply Order
 - (b) CRV in case of 100% payment
 - (c) Inspection note
 - (d) Guarantee/Warranty certificate
 - (e) Excise Invoice
 - (f) Freight receipts
 - (g) Any other document required.
- (xx) Whether in case of prorata payments, there is a provision for submission of Xerox copy of the Supply Order with each bill and original copy of supply order with the final bill.
- (xxi) Whether necessary instructions regarding Military Credit Notes have been incorporated.
- (xxii) Whether suitable packing and transit insurance instructions against loss or damage in transit have been incorporated.
- (xxiii) If materials are to be issued to contractor by the Govt., whether suitable provision has been made as regards issue price, collateral security deposit and custody, accounting etc.
- (xxiv) Whether standard Liquidated Damage (LD) clause has been suitably incorporated in the contract.
- (xxv) Whether Financial Concurrence number and date has been correctly and clearly indicated in the supply order.

6.9 Letter of Intent – Sometimes, due to urgency and need to alert vendor in advance for commencing production plan, it may become necessary to conclude the contract by issue of a Letter of Intent (LOI), which acts as an advance acceptance letter. This can be done as per Para 9, Annexure II of MoD, DDP&S Office Memorandum no 7(67)/73/D(S.II) dated 13.3.1990. In such cases, the LOI concludes the contract and it is imperative that all important and relevant clauses such as description of stores, quantity, prices, delivery period, etc are included therein and there is no variation between the LOI and the supply order, which should be issued as early as possible. The LOI should also specify that the contract is concluded therewith and that formal supply order would follow.

6.10 Allotment of U.O. number – After CFA has approved the case, communication of concurrence may be given through a formal U.O. number. Ask the user to make mention of U.O. number in the sanction letter and Supply order/contract to enable CDA to admit case in audit.

6.11 Signing of contract - All contracts concluded by the departments of the central Govt. are in the name and behalf of the President of India. However, the contract, after due approval of the CFA, may be signed by a staff officer, duly authorized by the CFA in writing. Match the specimen signature of such staff officer with the records. As for the contractor, the person signing the

offer or conveying the acceptance of the contract is deemed to have been authorized by the supplier unless otherwise stated. The contract /supply order is to be signed in each page by the firm's authorized representative and duly acknowledged as accepted.

6.12 Acceptance of contract - Any contract, when not signed by both parties, namely the purchaser and the supplier, is deemed to come in to force with the acceptance of the tender as per mutually agreed terms and conditions contained in the TE and the firm's offer. However, ensure that the vendor conveys their acceptance of the same within seven days of receipt of the supply order. If such an acceptance or communication conveying their objection to certain parts of the contract is not received within the stipulated period, the supply order is deemed to have been fully accepted by the firm. In case of foreign contract, normally both parties sign the document thus conveying their acceptance of the contract.

6.13 Contract effective date - Ensure that the contract effective date is invariably indicated in each contract as per agreed terms and conditions. The effective date will be the date on which the last of the conditions, as applicable, is complied with, viz :-

- a. Date of signing of contract.
- b. Furnishing of performance Bond in the form of PBG by the seller
- c. Obtaining the Export License for supply of stores by the seller and a confirmation in writing sent to the buyer within specified days of signing of contract.
- d. Receipt of Bank Guarantee for advance payment
- e. Date of Issue of End User Certificate. The supplies shall provide the End User Certificate within 30 days of signing of the contract.

CHAPTER- 7

Post-Contract management

7.1 Post contract activities, particularly amendment to the contract or the terms and conditions there of need to be handled with a lot of care and after proper analysis of implications. As per para 5.18 of DPM-2006, the IFA is to be consulted in post contract amendments having financial implications. However, amendments and post contractual activities as per the terms and conditions of the contract can be approved by the CFA and concurrence of IFA would not be needed unless there are deviations and financial implications.

For advance issues at post contract management stage please refer Appendix 'D' to this Manual.

7.2 Extension of delivery –

- a) Timely delivery as per DP stipulation in Contract / Purchase Order is one of the most important procurement objectives as timely availability of items is vital, particularly for the department of defence. The stores are considered to have been delivered only when these are handed over to the consignee after due inspection by the designated inspection agency. Most contracts stipulate door delivery at the consignee's end by road. In some cases, the stores are also despatched by rail, in which case the delivery is deemed to have been made on receipt of RR and inspection note. In certain cases where the contractor offers stores for inspection during the last few days of contract DP or on the last day of the contract DP, the inspector can inspect the store and sentence it as per standard franking clause. On receipt at the consignee's premise, the stores are checked for ascertaining the correctness of quantity, quality and documents. In case the stores are found deficient in any way, the consignee has the right to reject the stores even if these were inspected and cleared by the inspector. When the supplies do not materialize by the stipulated contract delivery date, see that the following options have been explored -
- i.** Extending delivery date.
 - ii.** Re-fixing delivery date.
 - iii.** Cancel the contract and repurchase non-supplied qty.
- b) For deciding on these options, you need to balance the time factor required for making repurchase and whether the supply can be arranged earlier than the period of extension sought for at cheaper rates from alternative sources and in the latter case whether the indenter can reasonably wait to take advantage of lower trend in prices. Concur Extension only where it is confirmed on file that supplier would come forward during extended DP. Detailed instructions may be taken further from chapter 12 of DGS &D Manual 1998.
- c) **General checks –**
- As a delivery period extension constitutes an important amendment to contract having definite financial and contractual ramification, at the time of considering the proposal for extension of delivery period, the status of supply position and supply order is to be reviewed keeping in view factors mentioned below:
- i.** Check for appropriateness / justifiability of reasons for seeking extension by vendor / firm.

- ii.** Check the information given in SO i.e. normally date of SO, name of the firm, qty ordered original DP, DP extension, if any.
- iii.** Check the information given in inspection note i.e. date of receipt of stores, date of dispatch of store, stores tendered for inspection and balance qty.
- iv.** Check the period of DP extension recommended with reference to original DP and requirement of the firm.
- v.** Check that recommendation of CFA for extension is with LD or without LD.
- vi.** Check the proposal is within the delegated financial powers or not.
- vii.** Check the date up to which B.G. is valid.
- viii.** Whether the user has suffered any actual or potential loss due to delay.
- ix.** Whether the requirement of the user is being reviewed.
- x.** Whether there is no downward trend in the prices.
(A certificate signed by an authorized officer clarifying the position at Sl. No. (viii) to (x) above may be insisted upon)
- xi.** Whether the state is liable to pay additional taxes/duties/levies during the proposed extension period.
- xii.** Whether delay in supply has been willful on the part of the supplier.
- xiii.** Whether option of short closure of Supply Order has been considered.
- xiv.** Whether the contract is in the nature of a developmental order.
- xv.** Whether delay has been caused by factors where the purchaser has any obligation such as providing import licence, materials or facilities etc. for production.
- xvi.** If the firm's request for DP extension is due to force majeure clause, it needs to be verified that this clause is included in the supply order.
- xvii.** Whether a specific request from the firm has been received in advance.
(The sanction for DP extension should be issued at least one week before the expiry of the DP).

7.3 Imposition of Liquidated Damages –

- a.** Compensation of loss on account of late delivery where loss is preestimated and mutually agreed to is termed as the Liquidated damage (LD). The guidelines for levying LD for delayed supplies as given in GOI Letter No. 2(5)/2000/D(Supply-II) dated 05th Nov 2004 are given at Appendix 'G'-DPM 2006. Law, allows recovery of pre-estimated loss provided such a term is included in the contract and there is no need to establish actual loss due to late supply [Mala Baux Vs. UOI (1970)]. The legal position with regard to claim for liquidated damages is as follows :-
 - i.** Whatever the quantum of the loss sustained, the claim cannot exceed the sum stipulated in the contract.
 - ii.** Only reasonable sum can be calculated as damages, which in a given situation may be less than the sum stipulated.
 - iii.** What is reasonable sum depends on fact.
 - iv.** Court may proceed on the assumption that the sum stipulated reflects the genuine pre-estimates of the parties as to the probable loss and such clause is intended to dispense with proof thereof.
 - v.** The distinction between penalty and L/D has been abolished by the Indian Contract Act and in every case, the Court is not bound to

award more than 'reasonable compensation' not exceeding the amount so named.

- b. Remember that Consequential damage is imposed over and above LD in case of time critical Turn Key Projects.
- c. Check up whether any local purchase has been done during the extension/delayed period.
- d. Check the inclusion of all relevant elements in calculation of L.D. chart w.r.t. inspection note i.e. date of dispatch and date of receipt of stores, date of inspection and Qty of stores; check for arithmetical accuracy of LD calculation.
- e. Check for correctness of overall delay calculated by executives with reference to following key dates –
 - i. Date of dispatch of stores, date of original DP etc.
 - ii. Date on which the stores tendered for inspection and date of inspection.
 - iii. Request for extension and date of issue of amendment letter for DP extension.
 - iv. Total delay – inspection delay beyond 30 days.
- f. Check for availability of DP extension.
- g. As a general rule, if the contractor fails to deliver the stores or any installment thereof within the DP or at any time repudiates the contract before expiry of such period, the CFA without prejudice to the right of the purchaser to record damages for breach of contract may recover from the contractor as agreed L/D including admin expenses and not by of penalty a sum equivalent to **0.5%** of the prices of any stores which the contractor has failed to deliver within the period agreed for delivery in the contract, for **each week or part thereof** during which the delivery of such stores may be in arrears where delivery thereof is accepted after expiry of the aforesaid period. The total damages shall not exceed **value of 5% of undelivered goods. The LD cannot exceed the amount stipulated in the contract.** [NC Sanyal Vs. Calcutta Stock Exchange (1971)].

Note: LD will be calculated on the basis of total value of the stores including elements of statutory duties and taxes viz., sales tax, customs duty, excise duty etc. as indicated in the supply order

- h. **The provisions of token LD in GoI, MoD, Deptt. of Defence Prod. & Supplies, New Delhi letter No.2(5)/2000/D(Supply-II) dated 5.11.2004 (reproduced as Appendix 'G' to DPM 2006) would no longer be applicable (MoD (Fin.) ID No. 32(1)/2004-Estt. I dated 16.01.2007 refers).**
- i. There could be cases when the delay in delivery was due to reasons not within the control of the supplier or when the supplier cannot be held responsible for the delay in delivery. In such cases, the IFAs may consider giving concurrence for waiving off the LD. However, in such cases, they must ensure that adequate reasons have been recorded to justify such a waiver of LD.

7.4 Extension of Letter of Credit - Following points should be checked before concurring the case for extension of LC :-

- a) Extension of delivery date in the contract and corresponding amendment in LC for latest date of shipment.
- b) Performance Bank Guarantee (PBG) extension.

- c) Onus of charges for LC extension.

7.5 Amendment to contract - Amendment to a contract already concluded may become essential in certain situations when either side requests for such a change and the same is acceptable to either side :-

- a. For enhancement in contract rates, ensure that user obtains the financial concurrence of IFA except in cases where the contract provides for price variation clauses or the change is due to variation in ED/Custom Duties.
- b. Ensure that Financial Advisor is consulted for vetting of price variation clauses/exchange rate variation clauses.

7.6 Termination of contract –

- a. See that the proposal for termination of contract is complying with one of the conditions mentioned below -
 - i. When the supplier fails to honour any part of the contract including failure to deliver the contracted stores in time.
 - ii. When 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.
 - iii. When both parties mutually agree to terminate the contract.
 - iv. When the item offered by the supplier repeatedly fails in the inspection and the supplier is not in a position to either rectify the defects or offer items conforming to the contracted quality standards.
 - v. Any special circumstances, which must be recorded to justify the cancellation or termination of a contract.
- b. Ensure that specific comments for cancellation of Contract and BG encashment are in order.
- c. See whether legal advice was necessary and check for positive recommendation of Legal Advice for cancellation of Contract.

7.7 Risk and Expense Purchase - Risk and expense purchase is undertaken by the purchaser in the event of the supplier failing to honour the contracted obligations within the stipulated period and where extension of delivery period is not approved. While initiating risk purchase at the cost at the expense of the supplier, satisfy yourself that the supplier had failed to deliver and he had been given adequate and proper notice. Ensure that the supplier is being asked to pay the additional amount spent by the Govt, if any as compared to the contracted amount. See that the method of recovering such amount has been considered while considering risk purchase.

7.8 Price variation adjustment – As per para 13.13 of DPM-2006, the Price Variation Clause and its implication is to be vetted by IFA. If there was a Price variation clause in Tender enquiry and the case is received to concur the case for price adjustment at execution stage, then see following points –

- a. Base dates shall be due dates of opening of Tenders.
- b. Date of adjustment shall be midpoint of Manufacture.
- c. Price adjustment will be applied only if the resulting increase or decrease is more than 2% of contract price.
- d. No price increase is allowed beyond original DP unless the delay is attributable to the buyer.
- e. Total adjustment will be a maximum of 10% of contract price.

- f. No price adjustment shall be payable on the portion of contract price paid to the contractor as an advance payment.
- g. Base price of raw material should be that of a canalizing agency, wherever available for the purpose of PRV clause in terms of para 13.13 of DPM-2006.

7.9 Exchange Rate Variation re-imbusement - In case DP is re-fixed / extended, see to it that ERV is not made admissible if this is due to default of supplier. See the Base exchange rate of each major currency used for calculating FE content of the contract. The base date for ERV would be contract date and variation on the base date can be given upto the midpoint manufacture unless firm has already indicated the time schedule within which material will be exported by the firm. Other conditions as above for price variation adjustment would be applicable. Ensure that following documentation is available in file –

- a) A bill of ERV claims enclosing worksheet.
- b) Banker's Certificate/debit advice on FE paid & Exchange rate.
- c) Copies of import orders placed on the suppliers.
- d) Invoice of supplier for the relevant import orders.

7.10 Project Monitoring - Where ever revenue spending is in the nature of a project with diverse elements like civil works, manpower induction, testing/evaluation, erection and commissioning warranting synchronized action, ensure that a formal structure is put in place to review major physical & financial milestones with reference to PERT chart with a view to avoiding time and cost overruns.

CHAPTER- 8

Check points for Sch I

Powers to sanction expenditure on any of the objects enumerated in Rule 58 (A), FR

8.1 Necessity angle

- a. Find out whether item pertains to the categories mentioned in Rule 58 (A) (i) and (ii), FR Part I Vol I. They are as under –
 - i. Each item of contingent expenditure on account of any workshop including ordnance and clothing factories, bakery, store depot, hospital, military farms or Remount unit and Army Postal Services, other units/formations and category 'A' establishments.
 - ii. Temporary establishments or labour in excess of fixed scales.
- b. Expenditure on Libraries, demurrage & extra wharfage charges and extra expenditure on dispatch of stores by other than the cheapest route or mode of carriage under Rule 146, FR-I is allowed under this schedule.
- c. Ensure that the case for temporary establishment in excess of scale is not for a period exceeding two months. Also, such cases should not involve clerical appointments of units and offices of CFAs. Concurrence for all such cases should be given only up to the period of current financial year.
- d. Ensure that items under ACG are being bought for categories as mentioned in MoD letters no 10010/AI/FP-4/448/2003-D(GS-1) dated 4.6.2003 and 10010/AI/FP-4/2421/2005-D(GS-1) dated 19.10.2005.
- e. Ascertain details like authorization of item as per MoD/AHQ letters, existing holdings and deficiency to arrive at a scientifically calculated figure.
- f. Find out the proposed distribution of item to ensure no extravagance and over-provisioning is being done.
- g. Find out disposal of existing item in case of old vintage to get the best value to state.

8.2 Competence of CFA

- a. If CFAs are MGs of Command Hqs, then ensure that they are according sanctions only for requirements of their respective units and establishments and not in respect of their own offices. The latter will be covered by the sanction of GOC-in-C.
- b. Look at the nature of item. If it is of recurring nature throughout the year, then CFA can decide about the weekly/monthly/quarterly/half-yearly basis for sanction. It will not be treated as splitting of expenditure.

8.3 Funds' availability

- a. Ensure that the code head for this schedule is mentioned as Minor Head 800B and the relevant detailed head. The exceptions to this are Military Farms and Rashtriya Rifles, for which the Minor Heads are 106 and 112 respectively.
- b. Look for the progressive expenditure total given in the file and add the committed liabilities and estimated value of current case to ensure that this total does not exceed the allotment under this head.

8.4 References

- a.** MoD letter 10010/AI/FP-4/448/2003-D(GS-1) dated 4.6.2003
- b.** MoD letter 10010/AI/FP-4/2421/2005-D(GS-1) dated 19.10.2005.
- c.** MoD letter A/89591/FP-1/1974/2006/B(GS-1) dated 26.7.2006.
- d.** Rule 58 (A), FR Part I, Vol I.

Note - The guidelines mentioned in this Chapter are additional points as applicable to items of this Schedule. For basic guidelines on various stages of procurement, Chapters 4, 5, 6 and 7 may be referred to.

CHAPTER-9

Check points for Schedule II

Sanction expenditure not precisely covered under any Rule

9.1 Check points

- a) Ensure that the expenditure is a legitimate charge against Public funds.
- b) See that the expenditure is not provided for at all by existing regulations or not precisely or adequately covered by existing regulations.
- c) See that the expenditure is reasonably charged against Defence Services Funds and would have received the sanction of Govt of India, if referred to them.
- d) See that the items purchased are not available through normal service channels.
- e) See that the canons of financial propriety are observed.
- f) See that the sanctioning of the expenditure is not contrary to any declared or known policy of Govt.
- g) Being residuary powers which were required to be infrequently used, the powers conferred on CFAs other than those in Sch II as per corresponding Schedule in Financial Regulations (1983) were withdrawn by the Govt. Therefore, analyze the case carefully.
- h) Ensure that such cases are submitted by Units/Ests through laid down channels.
- i) See that the expenditure is of non-recurring nature not falling under categories mentioned in Rule 58, FR Part I, Vol I. Where a large number of cases involving expenditure of a recurring nature are received, advise user to report the matter to Army HQ/FP-1 for considering and taking up the matter for delegation of specific powers on the basis of functional requirements.
- j) **References**
 - (i) FR Part I Vol I in general and Rules 5, 6, 53, 56 and 58 in particular.

CHAPTER-10

Check points for Schedule III

Powers to issue of stores or regularize previous issue of stores in exceptional cases

10.1 Check points

- a) Ensure that the expenditure is a legitimate charge against Public funds.
- b) See that the canons of financial propriety are observed.
- c) See that the sanctioning of the expenditure is not contrary to any declared or known policy of Government.
- d) Under this schedule, issues made in error and over issues from whatever cause, may also be regularized by the CFAs, subject to the financial limits specified.
- e) Comdt NDC can also exercise financial powers as conferred on Comdt Cat A Ests as contained in Ser No 5 in this schedule.

CHAPTER- 11

Check points for Sch V

Powers to sanction write off of Losses of stores in Reserve/Base/Advanced Base/Forward Base Supply/ Petroleum Depots and other Supply and Petroleum installations

11.1 Promptness - In dealing with cases of losses, promptitude of action is of paramount importance. Every case of loss shall be pursued vigorously to finality so that adequate action, both remedial and escape punishment by mere lapse of time.

11.2 Categories of losses - Ensure that all losses, whether of public money or of stores, were subjected to a preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and amount involved. As regards the procedure of investigation to be followed thereafter, losses may be classified as under :

- a. losses of stores,
- b. losses of public money.

Ascertain that Courts of Enquiry was invariably convened to investigate all losses which require the sanction of the Government of India to write off. The holding of a Court of Inquiry may, at the discretion of the competent financial authority, be dispensed with in cases of loss of stores where the loss is not due to theft, fraud or neglect or where the reported loss due to theft, fraud or neglect is less than Rs. 10,000.

11.3 Systems and procedural defects - When an investigation into a case of loss due to theft, fraud or gross neglect discloses a defect of procedure or system and when irrecoverable debts of units are attributable to that cause, a report shall be made to the Government of India through the usual channels and the Controller of Defence Accounts concerned together with a recommendation for rectifying the defect. Petty defalcations or petty thefts need not be reported.

11.4 Splitting of sanction - The monetary limits specified for the sanction of losses refer to each separate case of loss and it shall not be permissible to subdivide a case of loss with the object of bringing the amount within the financial powers of the authority dealing with it (see also rule 64) Losses shall not be written off without the specific approval of the competent financial authority.

11.5 General points - Look for the following details –

- a. Nature of irregularity/loss.
- b. Period involved.
- c. Check the L.S. for correctness of prescribed format and for indication of price.
- d. Check the amount given in the SOC, loss statement CDA audit report.
- e. Accounting documents affected.
- f. Modus operandi of the fraud, if it is a case of suspected fraud.
- g. How it was detected?

- h.** Whether an enquiry has been ordered and if so, with what results; or whether sanction of the competent authority has been obtained for not holding a Court/Board of Inquiry.
- i.** Whether any disciplinary action has been/is proposed to be taken and if disciplinary action has already been taken the nature of it and names and designations of the individuals affected.
- j.** Remedial measures taken to avoid recurrence of the irregularity.
- k.** Any other useful details.

11.6 Delay report - Check that the delay report covers entire period.

11.7 Audit Report - Go through the Audit report furnished by CDA and ascertain whether the comments made therein are being addressed satisfactorily by the concerned before the case is put up to CFA. Compare the recommendations regarding price, regularization action and penalty in the LS and SOC with the audit report of CDA for variance/agreement. Where audit authorities wish to satisfy themselves about the adequacy of disciplinary action in cases of loss, sufficient facts shall be given to satisfy them that whatever action was reasonable or possible has been taken. If in any particular case audit authorities consider it essential to see the actual court of inquiry proceedings, the senior audit officer of the Command concerned shall make a request to that effect. The proceedings shall then be sent to him personally.

11.8 Pricing of loss statements - Ensure that pricing of loss statements has been done as per Rule 163, FR Part I Vol I. If pricing has been done by the executives, then ensure that post-scrutiny has been done by CDA. Remember that loss statements for losses in respect of which penal recoveries from individuals are involved, has to be priced by CDA.

11.9 Investigation - It is of the greatest importance to avoid delay in the investigation of any loss due to fraud, negligence or financial irregularity. Find out that the administrative authority took the assistance of the Controller of Defence Accounts in pursuing the investigation, for all vouchers and other documents that was relevant to the investigation and if the investigation was complex and he needed the assistance of expert audit personnel to unravel it, whether written request was sent promptly to the Controller of Defence Accounts concerned, by name. Find out whether CDA provided the services of an investigation staff. Remember that the administrative authority and the audit authority are personally responsible within their respective spheres, for the expeditious conduct of the enquiry.

11.10 Fixing responsibility -

- a.** The responsibility for disciplinary action in cases of financial irregularities rests with the administrative authorities and ultimately with the Government of India. Ensure that concerned Branch has informed the CDA of the exact nature of disciplinary action taken by them. If in any particular case it has not been possible to take adequate action, the reasons for not doing so need

to be indicated. Ensure that sufficient facts have been given to satisfy audit that whatever action was reasonable or possible has been taken.

- b.** The cardinal principle governing the assessment of responsibility is that every public officer should exert the same vigilance in respect of public expenditure and public fund generally, as a person of ordinary prudence would exercise in respect of the expenditure and the custody of his own money. While, therefore, the competent authority, may in special case condone an officer's honest errors of judgment involving financial loss, if the officer can show that he has acted in good faith and done his best up to the limits of his ability and experience, personal liability must be strictly enforced against all officers who are dishonest, careless or negligent in the duties entrusted to them.
- c.** If it appears that recourse to judicial proceedings is likely, ask the Branch to get competent legal advice as soon as the possibility emerges. In the case of losses involving a reasonable suspicion of fraud or other criminal offences, advise Branch to bring the offender to trial unless the legal advisers consider that the evidence available is not such as will secure a conviction. The reasons for not launching a prosecution may be got placed on record in all such cases.
- d.** In cases where loss is due to delinquencies of subordinate officials and where it appears that this has been facilitated by laxity of supervision on the part of the superior officer, ensure that the latter was also called strictly to account and his personal liability in the matter was carefully assessed.
- e.** The question of enforcing pecuniary liability should always be considered as well as the question of other forms of disciplinary action. In deciding the degree of an officer's pecuniary liability, it will be necessary to look not only to the circumstances of the case but also to the financial circumstances of the officer, since it should be recognized that the penalty should not be such as to impair his future efficiency.
- f.** In particular, if the loss has occurred through theft, fraud and gross neglect, every endeavour should be made to recover the whole amount lost from the guilty persons and the supervising officer, if laxity of supervision has caused the loss.
- g.** Ensure that the recoveries are being made either directly or by requiring the individuals concerned to make good the loss in money or :
 - i. if the persons concerned are subject to the Army Act by enforcing recovery under the provisions of Army Act, Sections 90 (g), 91 (g) and Army Rule 205 or by award of suitable punishment by the appropriate authority under Army Act section 71 (1), 80 (i), 83 (b), 84 (c), and 85;
 - ii. if the persons concerned are subject to Navy Act by enforcing recovery under the provisions of Navy Act, Sections 28 (5) and 29 (4) or by the award of suitable punishment by the appropriate Naval Tribunal under the Navy Act;
 - iii. if the persons concerned are subject to Air Force Act, by enforcing recovery under the provisions of Air Force Act, Sections 91 (g), 92 (g) or by award of suitable punishment by the appropriate authority under Air Force Act, Sections 73 (m), 82 (h) and 86 (c); and
 - iv. if they are civilians paid from Defence Services Estimates by the award of suitable punishment by the appropriate authority under the Central Civil Services (Classification, Control and appeal) Rules, 1965.

- h.** Always consider whether the value of government property or equipment lost, damaged or destroyed by the carelessness of individuals entrusted with their care should be recovered in full up to the limit of the Government servant's capacity to pay or not.
- i.** Ensure that steps have been taken to ensure that a Government servant concerned in any loss or irregularity which is the subject of enquiry is not inadvertently allowed to be retired on pension, released or otherwise discharged from service while the enquiry is in progress. Accordingly when a Government servant is concerned in any irregularity or loss, ensure that investigating authority has promptly immediately informed the PCDA (Pensions) and the authorities competent to sanction pension/gratuity, release or discharge. The Air Force Central Accounts Office will also be informed in case of Air Force. It will be the duty of these authorities to make a note of the information and to see that the pension, gratuity, release or discharge benefits are not sanctioned before either a conclusion is arrived at as regards the Government servant's culpability, or it has been decided by the sanctioning authority that the result of investigation need not be awaited.
- j.** Remember that as a general rule, the final settlement of the dues of a Government servant suspected of having caused a loss should not be made unless the deficiency detected is made good or he is exonerated of the blame.
- k.** Ensure that the fact that some of the officers who were guilty of fraud or irregularities have been demobilized or have retired and have thus escaped punishment, should not be made a justification for absolving others who are also guilty and who still remain in service.

11.11 References

Rule 37, 155 to 160, 163 and 169, FR Part I Vol I and Appendix 1, FR Part-I, Vol.II.

CHAPTER- 12

Check points for Sch VI

Powers to sanction write off of Losses of stores in All cases other than in Stationery Depots

12.1 Promptness – In dealing with cases of losses, promptitude of action is of paramount importance. Every case of loss shall be pursued vigorously to finality so that adequate action, both remedial and escape punishment by mere lapse of time.

12.2 Categories of losses - Ensure that all losses, whether of public money or of stores, were subjected to a preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and amount involved. As regards the procedure of investigation to be followed thereafter, losses may be classified as under :

- a. losses of stores,
- b. losses of public money.
- c. Ascertain that Courts of Enquiry was invariably convened to investigate all losses which require the sanction of the Government of India to write off. The holding of a Court of Inquiry may, at the discretion of the competent financial authority, be dispensed with in cases of loss of stores where the loss is not due to theft, fraud or neglect or where the reported loss due to theft, fraud or neglect is less than Rs. 10,000.

12.3 Systems and procedural defects - When an investigation into a case of loss due to theft, fraud or gross neglect discloses a defect of procedure or system and when irrecoverable debts of units are attributable to that cause, a report shall be made to the Government of India through the usual channels and the Controller of Defence Accounts concerned together with a recommendation for rectifying the defect. Petty defalcations or petty thefts need not be reported.

12.4 Splitting of sanction - The monetary limits specified for the sanction of losses refer to each separate case of loss and it shall not be permissible to sub-divide a case of loss with the object of bringing the amount within the financial powers of the authority dealing with it (see also rule 64) Losses shall not be written off without the specific approval of the competent financial authority.

12.5 General points - Look for the following details –

- a. Nature of irregularity/loss.
- b. Period involved.
- c. Check the L.S. for correctness of prescribed format and for indication of price.
- d. Check the amount given in the SOC, loss statement and CDA audit report.
- e. Accounting documents affected.
- f. Modus operandi of the fraud, if it is a case of suspected fraud.
- g. How it was detected?

- h.** Whether an enquiry has been ordered and if so, with what results; or whether sanction of the competent authority has been obtained for not holding a Court/Board of Inquiry.
- i.** Whether any disciplinary action has been/is proposed to be taken and if disciplinary action has already been taken the nature of it and names and designations of the individuals affected.
- j.** Remedial measures taken to avoid recurrence of the irregularity.
- k.** Any other useful details.

12.6 Delay report - Check that the delay report covers entire period.

12.7 Audit Report - Go through the Audit report furnished by CDA and ascertain whether the comments made therein are being addressed satisfactorily by the concerned before the case is put up to CFA. Compare the recommendations regarding price, regularization action and penalty in the LS and SOC with the audit report of CDA for variance/agreement. Where audit authorities wish to satisfy themselves about the adequacy of disciplinary action in cases of loss, sufficient facts shall be given to satisfy them that whatever action was reasonable or possible has been taken. If in any particular case audit authorities consider it essential to see the actual court of inquiry proceedings, the senior audit officer of the Command concerned shall make a request to that effect. The proceedings shall then be sent to him personally.

12.8 Pricing of loss statements - Ensure that pricing of loss statements has been done as per Rule 163, FR Part I Vol I. If pricing has been done by the executives, then ensure that post-scrutiny has been done by CDA. Remember that loss statements for losses in respect of which penal recoveries from individuals are involved, has to be priced by CDA.

12.9 Investigation - It is of the greatest importance to avoid delay in the investigation of any loss due to fraud, negligence or financial irregularity. Find out that the administrative authority took the assistance of the Controller of Defence Accounts in pursuing the investigation, for all vouchers and other documents that was relevant to the investigation and if the investigation was complex and he needed the assistance of expert audit personnel to unravel it, whether written request was sent promptly to the Controller of Defence Accounts concerned, by name. Find out whether CDA provided the services of an investigation staff. Remember that the administrative authority and the audit authority are personally responsible within their respective spheres, for the expeditious conduct of the enquiry.

12.10 Fixing responsibility -

- a)** The responsibility for disciplinary action in cases of financial irregularities rests with the administrative authorities and ultimately with the Government of India. Ensure that concerned Branch has informed the CDA of the exact nature of disciplinary action taken by them. If in any particular case it has not been possible to take adequate action, the reasons for not doing so need

to be indicated. Ensure that sufficient facts have been given to satisfy audit that whatever action was reasonable or possible has been taken.

- b)** The cardinal principle governing the assessment of responsibility is that every public officer should exert the same vigilance in respect of public expenditure and public fund generally, as a person of ordinary prudence would exercise in respect of the expenditure and the custody of his own money. While, therefore, the competent authority, may in special case condone an officer's honest errors of judgment involving financial loss, if the officer can show that he has acted in good faith and done his best up to the limits of his ability and experience, personal liability must be strictly enforced against all officers who are dishonest, careless or negligent in the duties entrusted to them.
- c)** If it appears that recourse to judicial proceedings is likely, ask the Branch to get competent legal advice as soon as the possibility emerges. In the case of losses involving a reasonable suspicion of fraud or other criminal offences, advise Branch to bring the offender to trial unless the legal advisers consider that the evidence available is not such as will secure a conviction. The reasons for not launching a prosecution may be got placed on record in all such cases.
- d)** In cases where loss is due to delinquencies of subordinate officials and where it appears that this has been facilitated by laxity of supervision on the part of the superior officer, ensure that the latter was also called strictly to account and his personal liability in the matter was carefully assessed.
- e)** The question of enforcing pecuniary liability should always be considered as well as the question of other forms of disciplinary action. In deciding the degree of an officer's pecuniary liability, it will be necessary to look not only to the circumstances of the case but also to the financial circumstances of the officer, since it should be recognized that the penalty should not be such as to impair his future efficiency.
- f)** In particular, if the loss has occurred through theft, fraud and gross neglect, every endeavor should be made to recover the whole amount lost from the guilty persons and the supervising officer, if laxity of supervision has caused the loss.
- g)** Ensure that the recoveries are being made either directly or by requiring the individuals concerned to make good the loss in money or :
 - i.** if the persons concerned are subject to the Army Act by enforcing recovery under the provisions of Army Act, Sections 90 (g), 91 (g) and Army Rule 205 or by award of suitable punishment by the appropriate authority under Army Act section 71 (1), 80 (i), 83 (b), 84 (c), and 85;
 - ii.** If the persons concerned are subject to Navy Act by enforcing recovery under the provisions of Navy Act, Sections 28 (5) and 29 (4) or by the award of suitable punishment by the appropriate Naval Tribunal under the Navy Act;
 - iii.** If the persons concerned are subject to Air Force Act, by enforcing recovery under the provisions of Air Force Act, Sections 91 (g), 92 (g) or by award of suitable punishment by the appropriate authority under Air Force Act, Sections 73 (m), 82 (h) and 86 (c); and
 - iv.** If they are civilians paid from Defence Services Estimates by the award of suitable punishment by the appropriate authority under the Central Civil Services (Classification, Control and appeal) Rules, 1965.

- h)** Always consider whether the value of government property or equipment lost, damaged or destroyed by the carelessness of individuals entrusted with their care should be recovered in full up to the limit of the Government servant's capacity to pay or not.
- i)** Ensure that steps have been taken to ensure that a Government servant concerned in any loss or irregularity which is the subject of enquiry is not inadvertently allowed to be retired on pension, released or otherwise discharged from service while the enquiry is in progress. Accordingly when a Government servant is concerned in any irregularity or loss, ensure that investigating authority has promptly immediately informed the PCDA (Pensions) and the authorities competent to sanction pension/gratuity, release or discharge. The Air Force Central Accounts Office will also be informed in case of Air Force. It will be the duty of these authorities to make a note of the information and to see that the pension, gratuity, release or discharge benefits are not sanctioned before either a conclusion is arrived at as regards the Government servant's culpability, or it has been decided by the sanctioning authority that the result of investigation need not be awaited.
- j)** Remember that as a general rule, the final settlement of the dues of a Government servant suspected of having caused a loss should not be made unless the deficiency detected is made good or he is exonerated of the blame.
- k)** Ensure that the fact that some of the officers who were guilty of fraud or irregularities have been demobilized or have retired and have thus escaped punishment, should not be made a justification for absolving others who are also guilty and who still remain in service.

12.11 References –

Rule 37, 155 to 160, 163 and 169, FR Part I Vol I and Appendix 1,
FR Part I Vol II.

CHAPTER- 13
Check points for Sch XI

Powers to incur expenditure on Local purchase of stationery stores including printing and binding through private agencies and local purchase of stamps and other office seals

13.1 Check points

- a) These powers are to be done with concurrence of IFA only in respect of DDG MF and Dir MF.
- b) The binding work is normally to be done on contract with private binders. These powers will be exercised only if any binding work has to be got done otherwise than on contract.
- c) Maintain a record of concurrence being given for each transaction to ensure that the annual ceiling is not exceeded.

13.2 References

- a. Rule 291, FR Part I, Vol I.
- b. MoD letter 10010/A1/FP-4/2421/2005-D(GS-II) dated 19.10.2005
- c. Note 13 of schedule I

Note - The guidelines mentioned in this Chapter are additional points as applicable to items of this Schedule. For basic guidelines on various stages of procurement, Chapters 4, 5, 6 and 7 may be referred to.

CHAPTER- 14 **Check points for Sch XII**

Powers for purchase of stores (Referred to in Rule 147)

14.1 Sch XII (A) – General

- a. Keeping in view the fact that the powers delegated under these Govt. orders are to maintain adequate stocks of stores for regular and continuous supply to users, all proposals for local purchases under Schedule XII should be examined with promptitude.
- b. Whether the local purchase proposal is due to “large scale failure of as defined in the Govt. orders and substantiated by records/documents.
- c. The proposals for local purchase have to be examined and handled with all care and caution to see whether the number of days requirements projected for procurement is really necessary and justified under the circumstances because any wrong estimation of quantity for procurement involves extra expenditure in the form of higher LP rates.
- d. Assessment of quantities may be done with reference to level of maintenance stocks authorized and actually held. The dues-in may also be kept in view.
- e. Are there any communications from Central sources regarding conclusion of contract/resumption of supplies and has any action been taken to interact with them or bring the matter to the notice of higher authorities?

14.2 Sch XII (A) 5 to 9 –

- a) ASC tech Instruction 12/89 and Sec II to chapter XXII of ASC Trg Vol II may be kept in view while processing ASC local purchase cases.
- b) **General** - Army service Corps Articles enumerated in Para 49 of ASC Regulations 1950 are normally provisioned through central sources. Local purchase of centrally purchased items is undertaken to meet the requirement of troops in following conditions :-
 - (i) Contracts could not be or have not been concluded for the centrally purchased articles due to temporary and unexpected shortages in availability or when stocks are required at short notices.
 - (ii) Failure of Contract supplies.
 - (iii) After confirmation of above facts from Army HQ and with prior approval of Army HQ, MGs ASC Commands may make local purchase of centrally purchased articles (Foodstuffs, Animal grains) supplied by army Service Corps, on exhaustion of maintenance stocks only, keeping the GS reserves in-tact-at all times subject to following conditions:-
 - a) Purchases will normally be restricted to meet day-to-day requirements. In exceptional cases purchases may be to the extent of 15 days requirement at a time.
 - b) A monthly report of all such purchases together with the reasons thereof should be submitted to the DGST Army HQ.
- c) **General norms** - In order to ensure that only stocks of good quality of Centrally purchased items (when purchased locally) are procured the following guidelines will be followed:-

required basis' to meet their minimum inescapable requirement at most economical and competitive rates:-

- a. Groundnut Dry Without Shell
 - b. Groundnut Dry with Shell
 - c. Milk chocolate
 - d. Commercially prepared pelleted Rations
 - e. Vitamin & Mineral Feed Supplement
 - f. Dry Yeast
 - g. Dog Biscuits
- ii) If the stocks are not available with the above sources, the same will be purchased from local market and if stocks are not available locally in one command the same will be purchased from the nearest military station/other Command and dispatched to the station of consumption on 'Military Credit Notes'.

f) Sources of Local purchase – The main sources of Local purchase are-

- i. Canteen Stores Department (India)
- ii. Govt sponsored sources i.e. Centre/State Govt Co-operative Public Sector Undertakings, co-operative Apex Bodies and DGS & D Approved Contractors.
- iii. Private Trade (Not valid for officers, Cadets and Air Crews Rations)

g) Basis of Local purchase –

- i. The true and realistic local purchase shall be conducted based on scrutinized, correct user's demands taking into account daily off take (DOT), realistic consumption period. The quantity of local purchase shall be exactly calculated which is based on real consumption pattern. However, no excess purchases shall be made on assumption and non-justifiable future requirements.
- ii. Whenever possible all purchases are to be done ex CSD. In case an item is not available/stocked in one command it may be purchased preferably from CSD at the nearest Military Station/other Command, where available and dispatched to the stations of consumption on Military Credit Notes. If any item is still not available/stocked in CSD, a non-availability Certificate will be obtained from CSD duly signed by Depot Manager or an officer so deputed by him and thereafter local purchase can be made from Centre/State Govt Co-op Stores, Public Sector Undertakings, Co-op Apex Bodies. Private Trade will be the last resort. However, Officers Cadets and Air Crews Rations can not be bought through Private Trade.

iii. Dals –

- (a) For purchase of Dal, AHQ has issued following guidelines vide their letter No 61516/Gen/q/ST-4 dated 20.12.2005 –
 - a. LP of those varieties of Dals, which have not materialized from central sources (i.e. APO), can be carried out.
 - b. LP shall be guided by local market rates, market rates published in the local newspapers etc. for the varieties auth/not held by the depot. The restriction to procure three cheapest varieties has been removed.
 - c. Sampling of locally purchased dals for immediate consumption shall be done as per ASC Corps Order Part 1 No 12 & 13/89 and Tech Instructions 12/89.

- (b) Ensure that comparison with SBRL rates are made with Free issue rates and not payment issue rates.
 - (c) Ensure that recommendations of OC, ADST and Station Commander are specific.
- h) Inspection and sampling** - Local Purchases need special attention. Purchases except that for immediate consumption should be made only after duly declared fit verdict by the CFL concerned. Purchases for immediate consumption will also be examined in relation to respective specifications and tested by the Officer Commanding supply dept before acceptance.
- (i) Items Purchased EX CSD Depots:-** In case of processed food-stuffs provisioned through CSD, progressive deterioration in the processed foodstuffs is inevitable after six months in case of commercially sterilized food-stuffs. Therefore it shall be in fitness of things that the processed food-stuffs are of fresh manufacture and in no case older than six months when consumed. Food articles purchased from the CSD bearing Agmark or ISI which are required for immediate consumption i.e. for 15 days are not to be sampled and analyzed. However, these items are to be examined in relation to respective specifications and tested by the Officer Commanding, supply depot, before acceptance. In case of doubt, the matter is to be referred to local medical officer for his advice and IFA should ensure that purchases are made only after his approval. Purchase on a larger basis i.e. more than quantity laid down are to be subject to CFL Certification/Sampling. Special attention is to be given to the purchase of the following items and in case of slightest doubt it is required to be subject to sampling as these items can cause serious outbreaks of food poisoning:-
 - a) Pork Products
 - b) Meat Products
 - c) Fish Tinned
 - d) Milk and Milk Products.
 - (ii) Items purchased from Govt Sponsored Sources.** Instructions for purchases of items ex Govt Sponsored sources will be followed as give above. However, for items requiring storage for longer period samples are to be drawn and verdict obtained from CFLs.
 - (iii) Items Purchased from Trade** - In regard to items like dals, peas dried, beans dried, soya beans and such like items, the supply officer's verdict may be accepted if the quantity involved is small and the articles are required for immediate consumption is fortnightly indented. Where the stocks have been manufactured by a firm duly licensed and bearing FPO/VOPCI Markings of the labels under the FPO (Food Product Order) of the Ministry of Food and Civil Supplies Department of Food/VOPCI (Vegetable Oil Products Controller of India Order) and stocks are to be consumed immediately, the samples are not to be sent for laboratory test. In addition it will be ensured that all refined oil, vanaspati & whole Milk Powder bears ISI certification both for the tin and the product contained therein. In case of purchase from an unlicensed firm or the material accepted does not conform to a brand which has been previously examined and approved by the food Inspector Organization or the stocks are meant for long keeping and use, a sample invariably will be sent for laboratory test and the

item purchased only after having been duly certified fit for consumption by troops by the CFL.

- (iv) CFL Verdict** - In case any MG ASC Command concerned feels that the samples of local purchase rejected by the regional CFL should be re-examined by the appellate authority, the same is to be sent to AHQ (ST-8) along with Inspection Report (IAFS-1693 or IAFS 1580). In such cases, the samples sent are to be re-examined and the recommendations of the Appellate Authority communicated to MG ASC Command concerned. Items rejected by Appellate Laboratory for consumption are under no circumstances to be purchased even if these are for immediate consumption or bear ISI/Agmark Certification. All purchases for requirement of more than 15 days immediate consumption of bagged supplies and one month for tinned items are to be obtained only after fit verdict by CFL is given. All items are to be purchased strictly as per laid down ASC/ISI Specifications.

14.3 Sch XII (A) 17 - For direct purchase of Engineer Stores & machinery (incl spare parts) urgently required when delay is detrimental to training etc, as per GOI MoD A/03109/E 3 P&C/999/DO. I/D(W-I) dt 4 Dec 1981.

14.4 Sch XII (B) -

- a) Comdts, COD Kanput and Cheoki can place orders in respect of demands for general stores and clothing items placed by Army HQ, DDGOS(GS &C) duly concurred in by I&BC in each case.
- b) Comdts of other Depots can place orders in each case upto financial limits with concurrence of I &BC Cells attached.
- c) Where purchase cost exceeds indent estimate by not more than 25% procurement action by authorities in Ser No3 may be taken without reference to I & BC Cells or the next CFA provided purchase cost does not exceed the financial limit of the delegated powers, i.e. Rs 1 lakh.
- d) CFAs at Ser No 5 can exercise the powers in each case, subject to the condition that when the lowest acceptable offer from trade against a tender inquiry is being passed over after recording reasons, approval of the Commandant of the Depot has been obtained.

14.5 Sch XII (C) -

- a) For Sl no 6 to 12 in this schedule, the limits fixed relate to a single transaction which will be taken to mean the value of all orders placed on supplier on a particular date for all the articles based on that day or anticipated number of days requirements. Where more than one supplier is involved the transactions with each supplier will be treated as a single transaction. If, however, the purchase of one item of the ration scale is to be made from more than one supplier, the aggregate value of all orders of that item, placed on a particular date, will be taken together for the determination of the competent financial authority.
- b) For Sl No 23, 24 and 35, The powers delegated to DGOS, ADGOS, and MG AOC Commands will be only for sanctioning the procurements and the procurements will be at the point where the items are required.

- c) The DGOS and DGEME may with the concurrence of MoD (Fin) incur expenditure on the local purchase of stores in excess of the limits indicated above when such a course is necessary.
- d) Provision for Base Workshops only - For procurement of introduced as well as 'Not-in-Vocab(NIV)' and Non-Standard (NS)' items for fabrication, manufacture of spares (MOS) or other special commitments. Base workshops are required to wait for 60 days for obtaining 'Non Availability Certificate (NAC)' from normal source of supply. After 60 days, purchases can be made subject to '2' months 'requirements at a time. Emergent purchases can, however, be dealt with as provided for in existing rules. Expenditure will be limited to allocation of budget by MGO.
- e) All EME CFAs can sanction the local purchase of any spare parts, maintenance stores, material or items of equipment required to expedite repairs of all types of M.T. Vehicles/equipment/stores/engineering equipment/refrigeration equipment and medical equipment for the repair of which EME is responsible and for the manufacture of stores as ordered by Army Headquarters upto the limit stated against each for any one article or any number of similar articles purchased at the same time, when such articles are not available from the normal sources of supply or being available, time does not permit their being obtained on emergent indent.
- f) Workshops can purchase items to a maximum extent of one month's inventory level established by the average of past twelve months' consumptions.
- g) The limit for direct purchase applies to the value of each article or class of similar articles or inter-connected articles purchase at any one time.
- h) The above powers are not to be applied to EME units which are commanded by JCOs.

14.6 Sch XII (E) 1 - These powers can be exercised only after the items have been declared NA by the Supplying Depots. Look for the quarterly report of stores locally purchased against NA submitted to the supplying depots from whom NA certificate has been obtained to ensure that the supplying depot has reflected the quantity procured in the Account Cards for provisioning purposes.

14.7 Sch XII (E) 2 - The financial limits are in respect of each work order placed for one or similar articles. The powers of Comdt, CDA Pulgaon and officers at (b) and (c) are to be confined to Depot Local Manufacture items. In the case of Ammunition Depots these are to be further restricted to NES items (Sec'Q2 and 'U') of DLM.

14.8 Sch XII (E) 3 -

- a) The financial limits are in respect of any one repair order placed for any one type of store or spares. The cost of any spares/materials to be used by the contractor himself in execution of repair work is also to be taken into account in determining the CFA.
- b) Contracts for repair of stores and technical services/processes can be entered into where
 - i. Stores to be repaired or technical services/processes to be performed are of Ordnance responsibility (e.g. battery charging).

- ii. The urgency of the commitment does not permit delay in transporting the stores to another Ordnance Depot/Unit.
- iii. Facilities do not exist in Ordnance Depots/Units (OFPs/OMCs) or where available the capacity is fully occupied.
- iv. The requirements are so few and far between that it would be more economical to have the job done through private repair organizations than to provide facilities in the Ordnance Depots.
- v. The authorities responsible for technical services/processes(e.g. EME) are not in a position to undertake the work.

14.9 Sch XII (E) 5 -

- a) DG EME Workshop Grant is to be utilized for the under mentioned purposes:-
 - i. Purchase of machinery/plant/test equipment/drawing office equipment as a replacement or a modernization measure:
 - ii. Purchase/manufacture of tools, fittings, jigs, fixtures and other articles/stores/materials including those which are incidental to manufacture, production and inventory control, for which scales do not exist;
 - iii. Experimental work;
 - iv. To meet the expenditure on minor works for installation of plant and machinery and future maintenance of such minor works.
- b) DG EME Workshop Grant will consist of DGEME Workshop Monetary Grant and DG EME Workshop Cash Grant
- c) The DGEME Workshop Monetary Grant are to be debited proforma with the cost of equipment and stores which are issued from stock by Ordnance and Engineer Stores Depots. Stores, Tools, and Plant are to be invariably obtained from Ordnance and ESDs and local purchase can be resorted to only when these are not available on obtaining Non Availability Certificate from the store holding depots locally or in outstation. Local purchase against NA can be effected up to financial limits for CFAs of EME as stipulated in the part (c) of the Schedule. The DGEME Wordshop Cash Grant will comprise of -
 - i. Expenditure on local purchase of stores and equipment under delegated powers:
 - ii. Expenditure on procurement of stores under direct purchase powers; DGEME will keep adequate reserve out of the total cash grant. As and when indents are placed the total cost of the indents will be debited perform to the reserve of the year in which the expenditure is anticipated to be incurred.
 - iii. Expenditure on minor works.
- d) In assessing the CFA for sanctioning the manufacture of tools, fittings, jigs, fixtures and other articles/stores/materials the cost of labour and material will be taken into account though only the cost of material will be debited to DG EME Workshop Grant.
- e) All stores received are to be accounted for in a separate workshop grant ledger in accordance with instructions contained in Equipment Regulations Part I and A1 82 of 1955.
- f) Ensure that the expenditure relating to this grant is being debited to Major Head 2076, Minor Head 110 (c) (a) (i) of the Defence Services Estimates.

14.10 Sch XII (E) 9 –

- a. These powers are to be exercised for any one repair order placed for any one type of equipment.
- b. Repairs by local contracts with Private/Govt industries under the orders can be undertaken only when the urgency of the commitment so justifies and when repairs capacity of their own workshops is fully occupied or repair facilities are not available therein or transportation of the vehicle/equipment to any other workshop is uneconomical/not feasible.
- c. Contracts entered into for repair will also include cost of all spares/stores if used by the contractor in the repair of vehs/eqpt and no separate payment on this account is required to be made to the Contractor.
- d. The expenditure incurred will be debatable to Minor Head 110 (C) (c) 11 (417/2) of the Defence Services Estimates.

14.11 Sch XII (E) 13 –

- a. Requirement of funds are to be projected in budget estimates under the 'Ordnance Stores' head.
- b. Remember that CFAs are empowered to place supply order direct on firms up to financial limits indicated in schedule.
- c. The expenditure sanctioned are to be for those items which cannot be procured through provision review being 'Non-Standard (NS)' and 'Not-in-Vocab' (NIV) items or ordnance stores duly following stipulation regarding TPCs.

14.12 References

- a. AHQ, ADGFP Branch letter PC/A/89590/FP-1 dated 10.10.2002 for Army Procurements in general.
- b. AHQ SOP on Local repair Contract for EME repair contracts.
- c. AHQ SOP on Central Purchase of NIV/NS Plant, Machinery and Specialist Equipment for EME procurements.
- d. ASC tech Instruction 12/89 for ASC local purchase
- e. Sec II to chapter XXII of ASC Trg Vol II. For ASC local purchase.
- f. MoD letter 14(1)/98/D(Medical) dated 13.3.2000 for Local purchase of Medical stores.
- g. AHQ, DGAFMS letter 769/DGAFMS/DG-2E dated 30.9.2002 for Local purchase of Medical stores.
- h. MoD letter No63716/Q/ST-3/3642/D(QS) dated 10 Jul 87 and 63840/Q/ST4/3747/D/(QS) dated 29 Jun 88 for Officers, Cadets, Air/Naval, Air Crews Rations/Hospitals comforts.
- i. MoD letter 63716/PC-II/Q/ST-3/5986/D(QS) dated 10 Nov 87 for other ASC items.
- j. AHQ letter No 61516/Gen/q/ST-4 dated 20.12.2005 for Dals.
- k. GOI MoD A/03109/E 3 P&C/999/DO. I/D(W-I) dated 4 Dec 1981 for direct purchase of Engineer stores.
- l. Equipment Regulations Part I and A1 82 of 1955 for DGEME grants.

Note – The guidelines mentioned in this Chapter are additional points as applicable to items of this Schedule. For basic guidelines on various stages of procurement, Chapters 4, 5, 6 and 7 may be referred to.

CHAPTER- 15

Check points for Sch XIII (A)

Powers to sanction Contracts – ASC

15.1 The ASC contracts are guided by MoD letter PC/RAKSHA/63060/Q/ST5/3633/D(QS) dated 26.09.2006. This needs to be read thoroughly for participating in the Panel meeting and giving financial concurrence to ASC contracts.

15.2 In as much as the ASC Contracts are for supply of basic daily rations to the troops it has to be kept in view that it essential to ensure continuity of supplies and non conclusion or delay in conclusion of contracts may, not only lead to disruption and dislocation of supplies with the attendant complications but also result in avoidable extra expenditure of Govt. through local purchases. There is therefore, not only great urgency for these cases to be examined and dealt with, with all care and caution to safeguard the interest of troops and the financial interests of Govt. at the same time.

15.3 It is absolutely essential that all officers deputed to represent the IFA on the Panel of Officers are fully conversant with each one of the provisions in the MoD letter cited above and also the relative basic provisions contained in the relevant chapter (chapter on contracts) of FR part I, their import, application, implications etc. so that their functioning on the Panel becomes effective and meaningful to achieve the objective jointly with the executive/administrative authorities.

15.4 In as much as every detail of action to be taken and the procedure to be followed in a given situation has been spelt out in clear terms in the Contract procedure, the role and functions of rep of IFA will be essentially to ensure that each one of these as relevant and applicable has been fulfilled and complied with.

15.5 The role and functions of the IFA's rep on the Panel really commences from the stage of fixation of Reasonable Rate' right upto the sanctioning of contract by the CFA. In some cases it may become necessary for him to take a decision jointly with the other members on the Panel on the question whether or not to reckon/consider a tender not accompanied or accompanied by insufficient Earnest Money.

15.6 As the conclusion of ASC Contracts for fresh items is a continuing process and such contracts are being concluded year after year, proposals and processing them for sanction/conclusion should not create any insurmountable problems for IFA's rep except, to some extent in cases where a contract is proposed for the first time in the station.

15.7 Background papers – As per AHQ letter B/52816/ST5 dt 10.4.97, the following data will be provided one week prior to opening of tenders to IFA/CDA's rep to enable him to make meaningful contribution in the deliberations of panel :

- a. List of stations & items with period for which contracts will be concluded.
- b. Last 3 years contract rates.
- c. Scheduled quantity & quantity contracted during last 3 years.
- d. ALMR for last 3 years.
- e. Peculiarity of station.
- f. Whole price index, All India Average Weighted rates.

15.8 General – Look for the following points –

- a. **Whether a comprehensive plan for opening tenders at different formation HQrs. Was drawn by MG ASC Command well in advance and intimated to all concerned including IFA in terms of para 42 of MoD letter dated 26.09.2006.**
- b. **What is the contract for, what is the period and value, who is the CFA?**

15.9 Working of approximate requirements – The Executive Officers should be in possession of estimated requirements of articles to be contracted. The approximate requirements is to be worked out on the following basis:-

- a. Present actual feeding strength x scale x period = 'A' quantity.
- b. Average quantity actually drawn during the last three years = 'B' quantity.
- c. Quantity required based on the anticipated increase/decrease in the strength during the currency of the contract (strength x scale x period) less quantity to be obtained from soldier's garden produce and unit Dairies = 'C' quantity.
- d. Average of 'A', 'B' and 'C' will give the Approximate Requirements.
- e. Due allowance will also be made for any other factors which may effect future consumption such as permanent or temporary increase or decrease in the garrison, alternation in ratio scales, turnover of tinned items in supply depots and so on.
- f. Anticipated increase/decrease in the strength would be obtained from the staff by the Executive Officers at all levels.

15.10 Estimated value of contract – Confirm that the same has been worked out on the basis of current contract rates.

15.11 Tender Fee – Ensure that tender fee has been charged on the basis of para 45-47 of MoD letter dated 26.09.2006.

15.12 Earnest Money – Confirm that all the tenders received and proposed for consideration are accompanied by Earnest Money, which should be 1 % of contract value at Current Contract Rates and should be rounded off to nearest hundred. Cases of tenders unaccompanied by Earnest Money or accompanied by insufficient Earnest Money will be entered in the CST and should be examined and decided upon by the Panel of Officers, in the interest of Govt. on the lines indicated in Para 50 of MoD letter dated 26.09.2006. Detailed reasons will be recorded in the panel proceedings for accepting/rejecting such tenders.

15.13 Mode of tendering –

- a. It is to be done on Open tender basis as per para 37 of MoD letter dated 26.09.2006.
- b. Advertisement is to be issued in respect of each contract whose value exceeds Rs. 20 lakh in two National Newspapers and in two regional News papers. The name of the Newspapers, in which the advertisement is to be published, will be intimated to all registered contractors in writing prior to its publication. The advertisement is to be published 4 weeks in advance before the date of initial tendering through Director of Advertisement and Visual Publicity, Ministry of Information and Broadcasting. For subsequent re-tender, the advertisement is to be published 2 weeks in advance in one regional and one National Newspaper only, under their own arrangement and need not be routed through DAVP. The expenditure incurred by Commands on these advertisement is to be met out of the budget head 800 B(a) 3(a).
- c. See whether there is adequate response and competition as revealed by the no. of tender forms issued and completed tender forms received back. The position could be compared with the position in the previous contract?
- d. See whether there are any monopolistic tendencies apparent particularly in respect of high value contracts and meat contracts by a review of position during the last 2 –3 years. If yes, what action has been taken or proposed to generate more healthy competition?
- e. See whether formation of any ring between tenderers is suspected? Are the tenderers all Registered Contractors?
- f. See as to how many tenders have been rejected and are the reasons for rejection proper and valid?

15.14 Rate pattern and determination of reasonableness of rates –

- a. Confirm that OC station detailed officers to obtain monthly market rates and whether they were counter-signed by OC station. Also, whether quarterly station boards were convened for checking these rates. Ask for MR cell's formulation of average market rates for each item / station. Ensure that they evaluated all reports/data compiled and published by local / state / central govt. Deptts./agencies in respect of ASC items. Confirm whether these rates were supplied to CDA for their scrutiny and advice. The prevailing wholesale/retail rates may be ascertained from financial newspapers and journals. These are important because they are vital inputs to fix reasonable rates?
- b. Check whether the Reasonable Rates for the various items have been fixed as per the norms laid down in Para 63 of the MoD letter dated 26.09.06 read with Appendix-H thereof. See that the inputs mentioned in Appendix-H of MoD letter dated 26.09.06 have been used for determining RRs.
- c. Based on information made available by the M R Cells and other sources, the panel of officers is to deliberate on the above details and arrive at "Reasonable Rates" for each items and stations. The Reasonable Rates to be arrived at is to be in terms of the actual cost in case of meat items and in terms of percentage increase/ decrease over the CCR in case of all other items. The information about formulation of reasonable rates is to be closely guarded secret and under no circumstances is to be divulged to persons other than panel of officers. To maintain sanctity of the rates the panel of

officers is to work out reasonable rates on the same date and time when the tenders for those items/stations are being opened. In case there is a different of opinion in the panel of officers regarding fixation of RR, the matter is to be referred to the CFA for a final decision.

- d. See whether the date furnished by the executive agreeing with those as per the Data Bank information available in CDA's office? Were any variations noticed and what are the reasons? Was data relating to ALMR available in the Data Bank?
- e. The reasonable rates once determined are to be put down in writing and signed by the panel of officers and are to be kept in a sealed cover. No changes are to be made to those rates there after. Those rates are to be attached to the CST for perusal by the sanctioning authorities. Normally RR once fixed is not to be revised. However, if revision of RR has to be done because of unavoidable reasons, detailed justification is to be given in the panel proceedings. Check at FC stage as to whether Reasonable Rates were fixed by Panel of officers unanimously or was there any area of divergence and how this was sorted out?
- f. Look for any unusual or abnormal features affecting fixation of RR. What are they and how to deal with them and what is the weightage to be given and why?

15.15 CST – Confirm that the following information is being shown on the comparative statement of tenders:-

- a. Details of services/supplies tendered for
- b. Approximate requirement stated in the schedule
- c. Contract Rates for the items during last three corresponding year.
- d. Anticipated value of contract at the current contract rates to be entered in the column, periodic vocabulary rates in the CST.
- e. Rate quoted by different tenderers serial wise.
- f. Estimated Cost.
- g. Each CST is to be a complete document in itself. All decisions regarding invitation offers and orders passed for re-tendering by various authorities is to be recorded in writing on the CST so that complete flow pattern of the conclusion of the contracts can be studied. Detailed recommendations in respect of each case duly signed by members of the panel and intermediary CFA is to be pasted in the CST at relevant places and pages serially renumbered.

15.16 Composition of Panel – The tenders pertaining to ASC contracts after having been opened by the Station Board of Officers is to be examined by the panel of officers at Headquarters Command/Corps/Div/Area/ Indep Sub Area/Sub Area. As far as possible, ensure that the composition of the panel of officers should remain permanent till such time the contracts for a season are concluded. Remember that under no circumstances, the CFA rep should be from ASC. See that the Panel of Officers been constituted as per Para 60 & 61 of MoD letter dated 26.09.2006.

15.16.1 The composition of the panel of officers is to be as under:-

- a. Executive officer as specified, for different contract sanctioning authorities and as indicated in Article 299 of the constitution.
- b. Representatives of Formation Commanders at appropriate level including representatives of Air Force/Navy, where required.

b. Representatives of respective CDA/IFA.

15.16.2 Following guidelines have been laid for the rank structure of the panel of officers: -

a. Contracts to be processed at Command HQ

- (i) Executive Officer - MG ASC
- (ii) Rep of Formation Commander - An Officer not below the rank of a Major General.
- (iii) Rep of the CDA/IFA - An Officer not below the rank of ACDA/Deputy IFA.

b. Contract to be processed at Div/Area/Corps Headquarters etc.

- (i) Executive Officer - DDST Corps/Area ASC/CO ASC Bn.
- (ii) Rep of Formation Commander - An Officer not below the rank of Brig/ Col.
- (iii) Rep of the CDA/IFA - An Officer not below the rank of ACDA/Deputy IFA.

c. Contracts to be processed at Sub Area level

- (i) Executive Officer - ADST
- (ii) Rep of Formation Commander - An Officer not below the rank of Lt Col.
- (iii) Rep of the CDA /IFA- An Officer not below the rank of ACDA/Deputy IFA.

15.17 Action by Panel - The deliberations and recommendations of Panel should be on the lines indicated in Appendix-G of MoD letter dated 26.09.2006.

a. The panel of officers mentioned above will be responsible to examine the tendered rates in hand in relation to the Reasonable Rates which would have been decided earlier on by them as given in para 63, 64 & 65 of MoD letter dated 26.09.2006. Firm, date and time for meeting of the panel of officers will also be communicated by the Executive Officer to the concerned CDA/IFA well in advance to enable them to participate in the deliberations.

b. If the rates tendered at the time of opening of tenders are found to be at par or below the Reasonable Rates determined by the panel of officers, the tenders will be recommended for sanction in favour of the lowest tenderer. In such cases no invitation offer will be made.

c. If LTR is higher than RR, an invitation offer should be made only to the lowest tenderers' by calling him for negotiations with panel of officers. The panels should obtain the tenderers' revised rates in writing. If the revised rate is still higher than RR, the panel may consider recommending the rates for acceptance, if the difference is marginal. Otherwise, the panel should recommend re-tendering.

d. In case rates quoted are lower than 20% of RR the same will be treated as fictitious and rejected by panel of officers. Action should be taken against such tenderers, as per the prescribed procedure. However, the decision to reject such tenders may be taken by the panel only after discussion with tenderer and reasons for rejection/acceptance should be recorded in panel proceedings. Provision of this para will not be applicable to ice (MM)

e. In case identical lowest rates are obtained from more than one tenderer either at the time of opening of tenders or after the invitation offer, another invitation offer will be made to the tenderer who had quoted identical rates.

Thereafter tenders may be recommended in favour of the tenderer who quoted the lowest rates.

- g.** In case where the recommendations of the panel of officers are not unanimous, contracts may be sanctioned in terms of Para 240 of FR Part I by the appropriate CFA.

15.18 Retendering – Following guidelines may be seen

a. Re-tendering will be ordered by respective CFA in cases where recommendations of the panel of officers are unanimous. In cases, however, where the recommendations of panel of officers are not unanimous, re-tendering may be ordered by authority one above the CFA. In case of contracts sanctionable by GOC-in-C Command, where recommendations of the panel of officers are not unanimous, re-tendering will be ordered by next higher authority. In case panel of officers recommends the contracts for conclusion and the CFA does not agree with the recommendation he will record reasons for the same and the authority to order re-tendering in that case also will be with next CFA. In case of contracts sanctionable by QMG, re-tendering will be ordered as under :-

- (i) In case of recommendations of panel of officers are unanimous, re-tendering will be ordered by GOC-in-C Command.
- (ii) In case recommendations of panel of officers are not unanimous, re-tendering will be ordered by the QMG. However, Ministry of Defence and its Integrated Finance Division may be consulted.
- (iii) In case the panel of officers is unanimous in recommending contracts for sanction and GOC-in-C is not in agreement with the recommendations, re-tendering, if required, may be ordered by the Min of Def.

b. In case of CFA empowered to order re-tendering agrees with the recommendation of the panel of officers and intermediary CFA, recommending re-tendering, he may do so without reference to any one else.

c. In case CFA empowered to order re-tendering does not agree with the recommendation of the panel of officers and intermediary CFA he may advise the CFA to sanction the contract. Similarly in case the Panel of Officers have unanimously recommended the contract for acceptance and the intermediary CFAs have also recommended acceptance, the CFA can still order re-tender. However, reasons for going against the recommendations of the panel of officers and the intermediary CFAs in both the above mentioned contingencies will invariably be recorded in writing and attached to the CST.

d. In case, however, the panel of officer is not unanimous in their recommendations and recommendations of the intermediary CFA is at variance, the higher CFA may disregard the recommendations of Panel of Offers & intermediary CFA and order re-tendering. Reasons for ordering such re-tendering will be recorded in writing and attached to the CST.

- d. In cases where the recommendations of the panel of officers are not unanimous and the recommendation of the intermediary CFA is at variance, higher CFA may advise the appropriate CFA to sanction the contracts at rates obtained.

15.19 Combining of contracts – In order to ensure smooth running of contracts and procure better quality of fresh supplies, combining of contracts can be done by contract concluding officers. It would be advisable to combine

contracts of items of same species such as meat, MOH, fish, eggs, poultry of potatoes and onion or firewood/ charcoal/lime quick or milk and butter. Contract concluding officers can decide this aspect keeping in mind economy, administration, case of operation, strength of troops and estimated requirement for a particular station, MGASC Command can accord approval for combining of contracts based on the above facts. The principle that will form the guiding factors for combining of such contracts are listed at Appendix 'J' to MoD letter dated 26.09.06.

15.20 Extension of contracts – Contracts are not normally to be extended beyond the period for which they have been sanctioned. However, in case where reasonable rates have not been achieved in the open tendering despite best efforts by contract concluding authorities, the existing contracts can be extended with the consent of the contractor(s) at the same terms and conditions up to a maximum period of 3 months by the CFA who sanctioned the contract initially and for a further period of three months by the next higher CFA, in consultation with CDA/IFA. Sanction for such extension must be obtained prior to the expiry date of the contract.

15.21 Contracts with state / central govt sponsored bodies and co-operatives –

- a. Negotiated contracts with State level PSUs/Co-operative societies in which state Govt have some equity can be concluded with prior approval of the Govt.
- b. Price preference can be afforded to Central Government /State Government Undertakings only in terms of Bureau of Public Enterprises letter No.GL-008/80/23-I/80BPE/MM dated 15 Oct 80 as amended from time to time. The price preference can be given based on lowest rates achieved in the open tendering/invitation offer. The price preference as stated above is not applicable to co-operative societies. However before any price preference is accorded, local military authorities are to satisfy themselves that the Central/State government undertakings are partly or wholly financed by the Central/State Govt. Local military authorities are also to satisfy themselves about the genuineness of Cooperative Societies primarily being of growers and also check the availability of adequate infrastructure for operation of the contractor. See that a careful watch was kept for contractors forming such societies to obtain for themselves undue benefits.

15.22 Periodicity of contracts – All contracts for fresh supplies are to be concluded for duration of one year only. Commencement date of contracts is to be as under:-

- a. Contracts relating to Meat, Poultry, Eggs, Fish, Potatoes, Onion, Garlic, Firewood, Charcoal, Lime quick and combined items will be finalized to commence from 01 Apr each year.
- b. Vegetables, Fruits, Milk, Bread and green grass/fodder will be finalized to commence from 01 Oct each year. In case of 14 and 15 Corps sectors and hill stations of all commands, to be nominated by respective GOCs-in-C, these contracts will be finalized to commence from 01 Apr each year as was being done hither-to-fore.
- c. Date of commencement of contracts relating to ice, mineral water and any other perishable ASC items will be at the discretion of concerned CFA, Suggested periodicity is Oct to Sep.

15.23 References

- a. MoD letter PC/RAKSHA/63060/Q/ST5/3633/D(QS) dated 26.09.2006
- b. AHQ, QMG, DGST SOP for conclusion of ASC contracts.
- c. AHQ letter B/52816/ST5 dated 10.4.97
- d. Bureau of Public Enterprises letter No.GL-008/80/23-I/80BPE/MM dated 15 Oct 80
- e. Retail rates published by Ministry of Agriculture.

Note – The guidelines mentioned in this Chapter are additional points as applicable to items of this Schedule. For basic guidelines on various stages of procurement, Chapters 4, 5, 6 & 7 may be referred to.

CHAPTER- 16
Check points for Sch XIV

Powers in regard to Indents, Contracts and Purchases

16.1 Sch (A) and (B) Ordnance cases –

a. CLASS ‘A’ STORES : Scrutinize the following documents carefully –

- (i) Details of working sheet of Provision Review duly filled in all information in the prescribed format including provisioning period and date of review.
- (ii) The periodicity of Provision Review. In case of interim/special, the reasons/justification thereof in the Noting.
- (iii) Copies of Provision Review of previous three years with statement of present status of procurement action followed thereafter for each APR.
- (iv) Check the correctness of periodicity of review with reference to Technical Instructions No 307 of DGOS.
- (v) The reference of PPP (Priority Procurement Plan) / Consolidated Provisioning Programme for financial planning of the concerned financial year.
- (vi) Extract of scale of BER, BLR, and WWR etc. adopted to workout liability.
- (vii) Authority letter for special liability, if any.
- (viii) Dues-in details showing reference of contract, ordered qty, supplied qty and balance.
- (ix) The statement of “List of items in the group” with Cat Part No and status. Extract of MISO report in support of UE and UH with respecting dates citing UO of MOD (Fin) under which same stand vetted.
- (x) The Note of the proposal should indicate specific item out of list of items in the group with Cat Part No, mode of procurement and LPP. In case there are more than one current items, the reason for selection of any specific item. In case procurement is other than OTE, and DGOF, then reasons thereof.
- (xi) Check the trend of issue whether ascending or descending.
- (xii) Check to compare the assets and liabilities figures in Provision Review with the last Provision Review.

- (xiii) Check for arithmetical accuracy of total assets, net demand calculated and proposed demand.
- (xiv) Copy of extract of SO/Indent on DGOF/PSU in support of LPP.
- (xv) Extract of target fixed by DGOF for the item for loading in future indent.
- (xvi) Extract of relevant sanction of MOD for forecast requirement/liability for issue to other Deptt and Ministries.
- (xvii) Extract of MISO for Training requirement of Ammunition items.
- (xviii) The details of special issue/deduction of store on account of expiry of life in shelf/condemnation for Ammunition items.
- (xix) The procurement details of item under Army Command Special Financial Power, if any, to be indicated.
- (xx) Check the appropriateness of source of procurement w.r.t. earlier procurement/GOI orders on disallowing/discouraging ex-import procurement.
- (xxi) Check for the status of indigenization of stores.
- (xxii) Confirmation of funds availability in terms of Financial Management Strategy of 1997 and subsequent instructions in this regard.

b. CLASS 'B' STORE: Scrutinize the following documents carefully –

- (i) The working sheet of Provision Review duly filled in all information in the prescribed format citing date of review and provisioning periods.
- (ii) Check periodicity of APR w.r.t DGOS Tech Instructions 040. Check endorsement of remark for interim/special review.
- (iii) The copy of PRF (Provision Review Form) and APR working sheet of last three years.
- (iv) The reference of PPP/Consolidated Provisioning Programme and an extract thereof.
- (v) Check the availability of Cat Part No and nomenclature of the item.
- (vi) Dues-out details citing Control No and Date of demand. For Special Dues-out each demand should be endorsed with remarks for treating the same as special.
- (vii) Dues-in details citing Contract No and Date, Ordered Qty, Qty supplied and Balance.

- (viii) The details of Stock held i.e. COD, Over and above MSP, Dispersal, Special (e.g. Advance Winter Stock), Reserves etc.
- (ix) The extract of SO/Indent/Issue Voucher (for DGOF items) in support of LPP. In case of DGOF item, the extract of current rate list.
- (x) Arithmetical correctness of AMU (Average Monthly Usage) and steep rise in issue/dues-out figure to be scrutinized. The selection of AMU other than least to be supported with remarks.
- (xi) The dependency figure during base and provisioning period for Modification Factor (MOD factor).
- (xii) Check for trend of issue whether ascending or descending.
- (xiii) The extract of MOD letter for forecast or any other special liability.
- (xiv) The extract of OH/Maintenance Programme duly cited the UO No of MOD (Fin) for OH/Maintenance liability and its correctness in APR working sheet.
- (xv) MOD letter for existing strength and probable in take of Army and DSC Personnel during provisioning period for items based on scale and life cycle.
- (xvi) Check correctness of MP, IP based on source of supply and WWR based on nature of stores.
- (xvii) The extract of relevant OH and Maintenance Scale and its correctness in APR working sheet.
- (xviii) Check issue figures match with OH Plan of Previous year.
- (xix) Check for arithmetical correctness of Liability and Asset and projected deficiency.
- (xx) Check that vetted qty of previous year taken as fresh dues-in.
- (xxi) Check the correctness of reconciliation statement of Asset w.r.t. previous year APR.
- (xxii) Check the correctness of estimated cost of the proposal is worked out on the basis of DGOF/DGS&D rate list or LPP in case of trade.
- (xxiii) Check the appropriate source of procurement and mode of tendering. Change of source from DGOF to Non-DGOF is supported with dispensation from MOD.
- (xxiv) Check the endorsement of availability of Budget to meet expenditure of the proposal. Confirmation of funds availability in terms of

Financial Management Strategy of 1987 and subsequent instruction in this regard.

- (xxv) Date of review to be considered the cut off date for consideration of any data of APR.
- (xxvi) Check the status of indigenization of stores.
- (xxvii) Check for inclusion of all prescribed parameters in working out the net demand-issue, recruit intake figure, net dues-out, total calls, AMU, MMF, forecast figure, interim period, strength of regular Army/DSC, overhauling scale, O/H programme, special liability figure, stock details and dues-in.

c. LIST OF ABBREVIATIONS

AMU	Average Monthly Usage
AHSP	Authority Holding Scaled Particulars
BER	Beyond Economic Repair
BLR	Beyond Local Repair
CES	Complete Equipment Schedule
COD	Central Ordnance Depot
DGOF	Director General Ordnance Factories
DGS&D	Director General of Supply & Disposal
APR	Annual Provision Review
IP	Interim Period
IF	Initial Fill
ISG	Initial Stocking Guide
KND	Central Ord Depot Kanpur
LTB	Life Time Buy
MPI	Master Part Index
MSP	Maximum Stock Potential
MP	Maintenance Period
MMF	Monthly Maintenance Figure
MRLS	Manufacturers Recommended List of Spares
NFF	Non Field Force
NIV	Not in Vocab
OBT	Obsolescent
OBE	Obsolete
OSS	Ordnance Store Section
OH	Overhaul
PE	Peace Establishment
PRF	Provision Review Form
PSU	Public Sector Undertaking
RAF	Review Action Figure
RSSD	Returned Store Sub Depot
SMT	Special Maintenance Tools
STE	Special Test Eqpt
TLP	Total Liability Period
TM	Technical Memorandum
VKL	Vehicle Kit List
WWR	War Wastage Reserve

16.2 ASC cases – Fuel, Oils, Lubricants (FOL), Hygiene chemicals, Barrels

- a.** While vetting the proposals for PR, look for the following documents –
 - i.** Scale per man per month (Field/Peace separately) is checked w.r.t. relevant orders.
 - ii.** Statement of Command wise Annual demands, recommended by DDMS.
 - iii.** Air Force requirement statements of all Air Force units for the year duly vetted by IFA (Air Force).
 - iv.** Consolidation statement of army commands (by Army HQ) – FOL.
 - v.** Consolidation of Quantity in r/o Air Force (Command-wise) –FOL.
 - vi.** Annual requirement of Hygiene and Chemicals for the year as per scale (worked out by Army HQrs) and demand projected by Air Force.
 - vii.** Statement showing quantity recommended by DGAFMS.
 - viii.** Average annual consumption for the last three years.
 - ix.** Quantity approved and procured during last three years.
 - x.** Statement showing shelf life of available stock: item-wise.
 - xi.** Net requirement of Commands.
- b.** Check for correct application of scales in the requirement worked out by Army HQ, commands and qty recommended by DGAFMS.
- c.** Check for inclusion of following elements by commands in working out net requirement – opening stock, yearly consumption (in last three years), total liabilities, net assets.
- d.** Check for arithmetical accuracy worked out by command.
- e.** Check for correctness of CFA under whose delegated financial powers the proposal falls. The penultimate CFA is required to approve the proposal before concurrence from necessity angel is accorded.
- f.** Check that Air Force requirement statements of all Air Force units for the year are duly vetted by IFA (Air Force).
- g.** Consult Last year proposal main file for reference and ensure that quantity proposed in the proposal are not abnormally heavy in comparison to last year if so, reasons are found stated on file.
- h.** Check correctness of Consolidation of Quantity recommended by DDMS Commands and Air Force (Command wise).
- i.** Check that Annual requirement of Hygiene and Chemicals for the year as per scale (worked out by Army HQrs) and demand projected by Air Force is vetted by IFA (AF).
- j.** Check statement showing quantity recommended by DGAFMS and see that the quantities shown in the final proposal are as per recommendation of DGAFMS.
- k.** Check the statement showing average annual consumption for the last three years w.r.t. the quantity proposed and ensure that the quantity proposed is based on authorization or average consumption which ever is less.
- l.** Check quantity approved and procured during last three years for reference purpose.
- m.** Check statement showing shelf life item-wise and ensure that the stock shown in the final proposal is not in excess so that shelf life may not expire to avoid loss to the state.

- n. Check net requirement of Commands in the final proposal and see that the same agrees with the statements projected by commands.
- o. Check average consumption of commands for reference purpose.
- p. Check of YOT (Yearly Off Take) w.r. to statement showing command-wise annual demand so that net requirement is not in excess in comparison to YOT.
- q. Check for net assets.
- r. Check for quantity recommended by DDMS commands and projected by Air Force in case of Hygiene chemicals only.
- s. Check for actual requirement.
- t. Check for LPP.

16.3 ASC contracts for Wheat grinding and supply of Meat through Revenue Procurement Board –

- a. Following documents may be seen for fixation of RR –
 - i. RPB brief containing summary of five enclosures and rates quoted by recommended tenderer.
 - ii. Analysis / information on reasonable rates.
 - iii. Analysis/information on rates of last three years with details of suppliers.
 - iv. Analysis/information on rates of similar items in neighboring regions.
 - v. Analysis / information on past performance of recommended tenderers.
 - vi. Any peculiar conditions applicable to the region.
 - vii. Minutes of previous RPB meeting (not concluded for same item/proposal), if any.
- b. Check the Brief for correctness of information as per the enclosures.
 - i) Check for compliance of directions of the first round of RPB meeting, if held, by Board/panel of officers.
 - ii) Check for availability of rates quoted by recommended tenderer in the Brief.
 - iii) Check for difference of rates in comparison to RR with tenderer's rate and last three years' rates.
 - iv) Check for correctness of period for which contract is proposed to be concluded.
 - v) Check for competency of CFA as per delegated financial powers.
 - vi) Check for correctness of minutes for signing.
 - vii) Check minutes of the RPB to see that the Board unanimously agreed to conclude the contract.
 - viii) Check noting for general correctness of information and specifically relating to rate and vendor finalized for conclusion of contract as per decisions of RPB meeting.
 - ix) Check recommendations of the panel of officers in the file and confirm what the rep of the DAD was included in the proceedings of the Panel of Officers.
 - x) Check for advance TPC assembled at command level for the purpose of fixation of rates of articles/service in terms of GOI MOD letter 13 Oct 2004.
 - xi) Check for availability of LAO/CDA's rep vetting enforcement in CST.
 - xii) Check for recommendations of GOC-in-C on the CST.

- xiii) Check for arithmetical accuracy amount for which contract is to be concluded.
- xiv) Check for variation of recommended rates in comparison to RRs.

16.4 ASC Milk & DP contracts –

- a. Following documents may be seen –
 - i). Army HQ noting.
 - ii) Recommendations of the panel of officers.
 - iii) GOI sanction for conclusion of negotiated contracts.
 - iv) GOI authority for exercise of delegated financial powers.
 - v) CST/details of tender of milk/milk product supplying agency (as per GOI sanction).
 - vii) Calculation sheet.
- d) Check for conformity of army noting/proposal with GOI sanction (agency and period).
- e) Check that contract has been negotiated by panel of officers with agency as per GOI letter.
- f) Check that calculation on the negotiated rate has been done in accordance with GOI sanction.
- g) Check for completeness of recommendations of panel of officers w.r.t. qty, rate, total computed value, period, station.
- h) Check for availability of recommendations of GOC-in-C on the CST.
- i) Check that the POO has recommended the proposal.
- j) Check for inclusion of rep of DAD in BOO.
- k) Check for arithmetical calculation.

16.5 ASC purchases – Fresh Supplies

- a. Ensure that no maintenance stocks or reserve stocks are made up.
- a. Ensure that executives have issued basic items to the maximum and authorized substitutes have been issued only in exceptional cases. Wherever authorized substitutes are to be issued, then following will be kept in mind – Preference of troops, Market availability and Interest of state.
- b. Ensure that LP is done from nearest wholesale Mandi and other traders and not from ASC contractors / agents for convenience.
- d. LP is to be done on weekly basis keeping the interests of troops in mind. Depending upon the local conditions, the requirement can be met by a judicious mix by issuing basic items and other authorized substitutes with a view to keep the expenditure under check and at the same time compelling the contractors to quote realistic / reasonable rates at the subsequent calls. LP rates at these stations must be closely scrutinized.
- e. Ensure that quotes have been received in proper letter pad along with the stamp of the firm and that name has been legibly signed with a stamp.

16.6 References for Ordnance purchases –

- a. MoD letter 6(1)/97/D(O-1) dated 8.4.1997
- b. MoD letter 6(1)/97/D(O-1) dated 20.7.1998
- c. MoD (Fin) letter An/1/11297/1291(PC-XXV) dated 12.8.1994.

- d. SOP issued by AHQ vide B/85011/MGO/Budget Cell/Policy dated 31.3.2004.
- e. DGOS Technical Instruction 038 and 040.

16.7 References for ASC purchases

- a. MoD letter 66195/Q/ST6/3289/D(QS) dated 10.9.2002
- b. AHQ, AMG Branch Corps Order No 06/99 dated 27.12.1999
- c. MoD letter A/87236/SMP/Q/MF-3//1471/D(QS) dated 12.5.2004
- d. MoD letter PC/Raksha/63061/Q/ST-5/92/D(QS) dated 17.1.2005
- e. MoD letter 63793/1/Q/ST-4/2665/D(QS) dated 13.10.2004.
- f. SOP issued by AHQ, QMG, DGST Branch for conclusion of contracts for Fuel, Oils, Lubricants & Hygiene Chemicals

Note – The guidelines mentioned in this Chapter are additional points as applicable to items of this Schedule. For basic guidelines on various stages of procurement, Chapters 4, 5, 6 & 7 may be referred to.

CHAPTER- 17

Check points for Sch XV

Powers for Waiving compensation for loss due to failure of a contractor

17.1 Under the specified clauses of the contract agreement, a contractor, in certain cases therein specified, becomes liable to pay to Government compensation for loss or inconvenience that may result from his default or from the rescission of his contract. However, powers have been given to CFAs for waiving off the compensation up to certain specified monetary limits, depending on the merit of the case.

17.2 Remember that Full compensation is not to be insisted upon for every default, and ensure that executive officers are not executing it for trivial shortcomings.

17.3 A clear breach of contract should not, however, be passed over, and the loss may be got assessed as follows:

- a.** If rejected supplies have to be replaced, the amount of the loss will be any excess over the contract rate in the price paid for the supplies, together with reasonable compensation for inconvenience caused by the default.
- b.** If the contract has to be rescinded, a new contract for the unexpired portion of the original contract should be concluded, and if the rates of the new contract exceed those of the old, the amount of the loss sustained will be the total expense incidental to the new rates, plus (b) the extra expense interval between the two contracts, plus (c) the cost incidental to effecting a new contract. Otherwise the amount of the loss will be (b) and (c) alone, or this amount less the saving resulting from the new rates if these is lower.
- c.** The loss for inconvenience will be assessed according to the circumstances and the nature of the contract.

17.4 Ensure that the amount recoverable from the contractor or the orders of the CFA for waiving the recovery thereof from the contractor is being communicated to the concerned PCDA/CDA.

17.5 References : Rule 254, FR Part I, Vol I.

CHAPTER- 18

Check points for Sch XVII

Powers to incur expenditure on introduction of new Forms and modification of existing Forms

18.1 Ascertain as to why the new forms are being introduced. Is it based on a statutory requirement, Govt order or Army instruction?

18.2 For modification of existing forms, compare the existing format with the proposed format to ascertain the actual requirement.

18.3 Find out as to how much expenditure has already been made under the inherent powers of CFA, where IFA's concurrence was not needed.

Note - The guidelines mentioned in this Chapter are additional points as applicable to items of this Schedule. For basic guidelines on various stages of procurement, Chapters 4, 5, 6 & 7 may be referred to.

CHAPTER- 19

Check points for Sch XVIII

Powers of Acceptance of Necessity, Administrative Approval and Demolition of buildings under para 15 and 15-A respectively of DWP-1986

19.1 MoD letter no 3(7)/93/D(Works) dated 26.8.98 and MoD D(Works)'s SOP dated 26.10.98 forms the basis for IFAs to process Works cases. Main points are summarized as under –

- a. The Major Works Program/Annual Works Program as approved by the Ministry of Defence in consultation with Ministry of Defence(Finance) will be communicated to the Service Headquarters , lower formations and their IFAs including regional CsDA for implementation. The CFAs in services and their respective IFAs will ensure that only those works, which are included in MWP/AWP, are processed for issuing Administrative Approval.
- b. The Services HQRs with the approval of MOD & MOD (Fin) will also communicate the maximum financial ceiling upto which works within the approved MWP/AWP could be sanctioned by the various CFAs with the concurrence of their IFAs. They will also communicate total allotment of funds for new works which could be released and monitored by the Regional CsDA, CDA (Navy), CsDA (AF) and their lower IFAs.
- c. On receipt of approved MWP/AWP CFAs will convene a Recce-cum-sitting-cum-costing boards for the works falling under their delegated powers.
- d. The finalized Board Proceedings will be approved by the CFAs and forwarded to the Zonal Chief Engineer for preparing the approximate estimates.
- e. Generally, there will be four main stages in a project for original work i.e. the acceptance of the necessity, administrative approval, release of funds and technical sanction. However, in case of Army Projects, the acceptance of necessity and administrative approval stages may be combined together as the vetting of necessity, vetting of approximate estimates and concurrence by IFA (Army) or CsDA (Army), as the case may be, can be done simultaneously. In case, of Air Force and Naval Projects the acceptance of necessity and administrative approval will be done in two distinct stages as the vetting of approximate estimates is to be done by IFA (Army) and CsDA(Army).
- f. The acceptance of necessity and Admin Approval will be accorded by the CFAs with the concurrence of concerned IFAs on the basis of the detailed scope of work, rough cost indicated in the Board Proceedings and the approximate estimates prepared by the Zonal Chief Engineers scrutinized by the Command Chief Engineer/E-in-C's Branch. At HQRS. Scrutiny of A.Es by the E-in-Cs Branch at HQrs will not be necessary for those works, which are to be sanctioned by the CFAs lower than the COAs, CAS & CNS. The letter conveying the Admin Approval will indicate the Budget Head from which funds will be provided for the work. Copy of the Admin Approval will be sent to IFA, Command regional CDA, concerned Engineering Authority as also the concerned CDA within whose accounting circle the work is being executed and who is responsible for approved works.
- g. After the issue of Admin Approval by the CFAs within the existing as well as

enhanced financial powers, funds required for the work during the first financial year will be got released from the Regional Command Controllers of Army, CDA (Navy), CDA (AF) & their lower IFAs as the case may be. In commands where there are more than one CsDA(Army), the Army CDA co-located with the command will be command Regional CDA. In case of Eastern Command, CDA Patna will be command regional CDA.

- h.** The release of funds will be intimated by the Controllers mentioned above to the concerned CsDA who are responsible for payment of bills.
- i.** While the expenditure against allotment will continue to be watched by the concerned administrative authorities as per provisions of Financial Regulations, the IFAs and Regional CsDA functioning as IFA will also monitor this aspect for which they will maintain a register keeping records of works approved and funds released for the same during the first financial year. This will be ensured neither the overall MPW/AWP ceiling fixed for each command/service HQrs exceeds nor the funds for these new works released during the first financial year are beyond the allocations made for new works.
- j.** After issue of Admin Approval and release of funds technical sanction will be issued by the competent engineering authorities as per existing procedure.
- k.** The existing procedure for acceptance of tenders, conclusion of contracts, issue of amendment and deviation orders etc, as also appropriation of funds will remain unchanged.
- l.** The scrutiny of tender documents by audit or by the IFA prior to acceptance is not necessary.
- m.** The procedure in vogue for works ordered under para 10, 11 and 12 of Defence Works Procedure 1986 will also remain unchanged.

19.2 CGDA letters 18184/AT-X dated 2.12.1998 and dated 30.12.1998 are important references for clarifying several issues related to IFA system in Civil Works. These letters contain clarifications given by MoD rep and should be seen for any doubts / clarifications by IFAs.

19.3 CGDA letter 18184/AT-X/PC-I dated 8.8.2005 has given the revised scheme of IFA cover for Works proposals. This is as under –

- a. Service Hqs –** For concurring Acceptance of Necessity and giving Financial concurrence of Works proposals, the same will be given by the IFAs of respective Service Hqs. However, vetting of AEs for all three Service Hqs cases will be done by IFA (Q), AHQ.
- b. Command and below –** Regional CDA/CDA/Command IFA will cover all the three stages for Army cases. However, in respect of Navy and Air Force cases, while AON and FC will be given by Command IFAs of Navy and Air Force respectively, the vetting of AEs will be done for all three Services by Regional PCDA/CDA.
- c.** Vetting of AEs may be done within a time-limit of two weeks. Piecemeal raising of observations should be strongly discouraged by the concerned IFAs and Regional PCsDA/CsDA.

19.4 CGDA letter 18189/AT-X/Vol IV dated 20.10.2004 has directed that IFAs Command Army would be the IFAs for the respective Command MAP as per Table II item 2 of Works Procedure for DGMAP. The IFAs Command (Army) would also be members in the respective Command Committee (MAP) as laid down at 3(e) of Appendix to Works procedure for DGMAP.

19.5 General –

- a. See whether case has been included in the MWP of the concerned year?
- b. Do the board proceedings include all the requisite certificates –
 - i. Availability of land
 - ii. Availability of furniture
 - iii. Source of electricity & water
 - iv. Accommodation statement Part I & II
 - v. Clearance of station Commander
 - vi. Engineer Appreciation
 - vii. Statement of case
 - viii. Layout plan
- c. Ascertain whether the work is authorized or special. If special, whether proper reasons in justification have been given and these are found acceptable. In the case of authorized work, whether relevant authority has been quoted and whether the prescribed scales have been observed?
- d. Is the size of the proposed work justified keeping in view the requirements and existing availability?
- e. Whether the value of the work assessed is realistic as per SSR (Standard Schedule of Rates) updated with reference to market trend/conditions?
- f. Special items of works are to be approved only when exceptional local conditions justify the necessity or as an important experimental measure, these should not lead to introduction of a new practice or change of scales, where there are no scales and no order prohibiting such works these could be sanctioned if it is customary or technically essential to provide the same – these checks should be applied vigorously in the case of special items of work.
- g. Whether type of construction (Pt/Ty) is justified and according to laid down norms depending on the purpose of construction and the use to which it will be put to and the expected duration of such use?
- h. If an AE was prepared at the Acceptance of necessity stage whether it has been updated at the Administrative Approval stage to take into account market variations etc?
- i. Have the following documents been received?
 - i). Board proceedings
 - ii). AE with Layout plans of building and external services, Heat load calculation and Engineer appreciation.
- j. Does the Board proceeding include all the requisite certificates. In the first instance it should be checked that the Board Proceedings outlining the detailed Justification in terms of necessity/requirement of the proposed works i.e. building works (OTM/Married) and external Services, etc. are placed on the file. Find out whether Board Proceedings have considered the following points/aspects.
 - i. Justification for external services like external electrifications, external water supply, roads & paths, sewage disposal and compound wall/security wall and furniture etc. with reference to (i) existing scales and specifications, and (ii) existing availability of these services at the station.
 - ii. Justification for special items, if any

- iii.** Particulars of buildings etc to be demolished if any with detailed reasons.
- iv.** Accommodation statement Part-1 & Part-II accompanying the Board Proceeding.
- k.** Does the AE contain the following :-
 - i.** Existing and proposed – with services such as:
 - ii.** Layout, plans showing Existing and proposed external services such as:
 - a) Roads.
 - b) Culverts.
 - c) Retaining Walls
 - d) Water supply
 - e) Electric supply
 - f) Sewage disposal and Drainage
 - g) Fencing and gate.
 - iii.** Voltage drop calculation.
 - iv.** Calculation for water supply and sewage
 - v.** Heat load calculations.
 - vi.** Details of Buildings to be demolished
 - a. Name and number of Buildings
 - b. Temporary, permanent or semi permanent
 - c. Total
 - d. Book value
 - e. Cost of demolition
 - f. Credit expected
- l.** Is the time for completion of the project given in accordance with the time schedule?
- m.** Is there any additional staff required for the execution of work? Are the details of additional staff category wise with number given? Is there any effect on PDC, if the additional staff not given? If so, to what extent?

19.6 MES CONSTRUCTIONAL STAFF QUARTERS

- a. What is the provn for MES constructional staff?
- b. Has the provn been made for the full requirement of KLP or more than the KLP requirement?
- c. If the requirement is more than KLP, is there any justification given?
- d. What is the specification adopted?

19.7 SITE CLEARANCE

- a. Are details attached?
- b. Are details of demolition furnished?

19.8 SPECIFICATION

Is the specification adopted as per the latest policy letter?

19.9 SCALES

- a.** Are the scales applied authorized correct and latest?
- b.** Are the scales applied supported by authority quoted in AE?
- c.** Whether provn made for sleeping out terrace done correctly?

- d. Are the conversion factors for PA applied correctly?
- e. Are extra allowances made for stone construction?
- f. Is it realistic based on actual line plan?

19.10 RATES

- a. Are the rates applied, correct and latest?
- b. Are the rates based on :-
 - i. New sanctioned work by Govt.
 - ii. Old sanctioned work by Govt.
 - iii. Recently concluded contract.
 - iv. Detailed estimates
- c. Are the references made for the adoption of standard rates?
- d. Are the supporting details given POL the adoption of non-standard Rates?
- e. Are the rates brought up to date?
- f. Are the market variations added?
- g. Whether allowance for the following catered for :-
 - i. Black cotton soil
 - ii. anti termite treatment
 - iii. framed structure
 - iv. Guard bars/grills
 - v. Damp proof measures
 - vi. Multistoried construction
 - vii. Extra foundation
- h. Is all the lump sum provisions made supported by break down details?
- i. Has the difference in cost of stores been taken?
- j. Is there any specialist consultation required for the work? If so, has the amount been taken into account?

19.11 FURNITURE

- a. Is furniture provided as per the latest scales and authority quoted?
- b. Is the rate based on the latest furniture rate list?
- c. Are the references to rate list given in the AE?
- d. Whether breakup of furniture based on categories of buildings is given?

19.12 RAILWAY WORK

- a. Has the cost of Railway job been included?
- b. Are the supporting details attached?

19.13 ROADS AND DRAINAGE

- a. Are width and type of specifications adapted for roads suitable to density of traffic and wheel load?
- b. Whether the allowances for huge cutting/filling, retaining wall is required to be made in the AE?
- c. Whether the draining of nullahs/water courses to prevent erosion, if any, been accounted for?
- d. Whether the cost of trial pits or other specialist investigations is considered?

- e. Whether the credit from boulders/rock obtained from excavations/demolition/dismantling of structure and so on is accounted for.

19.14 MES WATER SUPPLY

- a. Whether the statement of requirement of water with break down details is given?
- b. Is the statement as per authorized scale?
- c. Whether justification for the proposed items of works is given?
- d. Whether existing resources are taken into account while proposing new items?
- e. Whether the water is required to be supplied by civil or other organization? If so, is it economical?
- f. Whether the proposals cater for ultimate KLP requirement? If not, whether it caters only for the requirement of additional account? If so, whether the expansion of proposed works is possible to cater for ultimate KLP requirement?
- g. Whether KPO personnel quarter been updated. If so, whether it is justified.
- h. Whether rates included are as per the estimation date?
- i. Whether stand by arrangement of power is catered. If not, whether justification is given for the rates?
- j. Whether BP is enclosed.
- k. Whether layout plan showing existing and proposed work is attached?
- l. Whether fractional loss calculation has been furnished?
- m. Whether justification for the sizes of pipes provided is given?
- n. Whether schedule of materials and internal water supply fitting in case of buildings where PA rates do not include the same are attached?
- o. In case of crossings roads, railway and civil highways, whether permission is taken?
- p. Whether any special items? If so, whether justification is given for providing the special items?
- q. Whether longitudinal section showing the gradient, size of pipes and fittings is given?
- r. Whether schematic diagram is given?
- s. Whether the quality of waters is approved by Medical?
- t. Whether any special treatment is required for the water? If so, whether the same has been included?
- u. Whether any investigation works retarding nature of soils foundation? If so, what action has been taken? What is the progress so far made?
- v. In case investigations are incomplete, on what basis the provision for the items requiring investigations made?
- w. Whether the inclusion of those items is justified?

19.15 SEWAGE DISPOSAL

- a. Whether BP and layout plan is attached?
- b. Does the layout plan clearly indicate all provisions already made?
- c. Whether water is available for water borne sanitation? If not, whether provisions for improvement/augmentation of water supply is made in the AE?
- d. Whether water will be available before sewage works staff functioning?

- e. Whether annual payment is to be made to them? If so, whether their consent is taken?
- f. Whether sewage could be delivered for treatment and disposal to other civil bodies/municipalities? If so, has it been examined and found reasonable?
- g. Whether the agreement has been reached/proposed to be finalized with them.
- h. Whether schematic diagram of the scheme showing invert level is correct?
- i. Whether any land is required to be acquired for treatment work?
- j. Whether tests have been carried out regarding absorption capacity of soil?
- k. Whether adequate number of soak well length of soak wells, length of soak trenches been provided for the sewage load proposed?
- l. Whether actual drainage lines and slopes are available for discharge of effluent?
- m. Whether permission has been obtained for discharging of effluents to natural drainage lines for civil/local authorities?
- n. Whether longitudinal section of sewage is enclosed?
- o. Whether permission to cross railway/roads is taken from competent authority?
- p. Whether trial pits have been made along one sewage line?
- q. Whether provisions are made as per the trial pit results?
- r. Whether sub soil water depths have been ascertained?
- s. Whether the treatment for sub-surface structure required?
- t. Whether provision for the treatment of sub-surface structure has been made?
- u. Whether existing works are completely utilized?
- v. Whether existing works can take up additional loads?
- w. Whether pumping of sewage is required? If so, whether provision for the same have been made?
- x. Whether treatment sites are located properly to avoid nuisance?
- y. Whether treatment proposed is justified?
- z. Whether the provision of key personnel qrs is justified?
- aa. Whether the rates adopted are from ED rates list? If not, whether they have been justified with supporting details?

19.16 EXTERNAL ELECTRIFICATION

- a. Whether external electrification is catered for pumping station?
- b. Whether stand by arrangements are proposed?
- c. Whether the pumping station is located properly and accessible?
- d. Whether the special provisions are made due to site condition?
- e. Whether the conversion of dry type latrines to WB latrines is involved?
- f. If so, whether the provisions have been made for internal sanitary water supply fittings?
- g. Whether annual expenditure statement is worked out and included?
- h. Whether expansion factors are considered?
- i. Whether design criteria for design of sewage have been given?
- j. Whether discharge statements of sewers are given?
- k. Whether special treatment for pipes/under ground structure required due to soil condition at site?
- l. If so, whether provision made for the same?
- m. Whether the scheme is taken into consideration future works likely to be

- connected accordingly to KLP?
- n. If so, whether invert levels are fixed for such future connections?
 - o. Whether minimum velocities attained in the sewers are adequate?
 - p. Whether suitable gradients provided?
 - q. Whether the standards for sewage effluent are as per codes/requirements of civil authorities?
 - r. Whether any revenue is anticipated for sale of effluent sludge cakes etc.
 - s. Whether any investigation work regarding nature of soil foundation yield etc. is required to be done by outside agencies?
 - t. If so, what action has been taken?
 - u. Has the investigation been completed?
 - v. Has the investigation report been given?

19.17 ELECTRIFICATION

- a. What is the power requirement?
- b. What is the source of electric supply?
- c. Whether the full supporting details furnished?
- d. Is electricity available from the existing sources? If not, how it is proposed to meet the requirements?
- e. Does the electrification scheme fit in the overall plan for the station to avoid any inflated expenditure at later dates?
- f. Whether the layout plan showing existing/proposed installation with take over point in different colours is given?
- g. Whether voltage drop calculations are given?
- h. Whether the certificate to the effect the sizes of cables and over head lines provided are adequate and economical is given?
- i. Whether the estimate from SE in case the supply is to be taken from outside source is given?
- j. Whether the schedule of service connections and house service matters is given?
- k. Whether the detail of essential loads when standby set is provided is given?
- l. Whether the sketches of sub-station and power house building to justify the plinth area is given?
- m. Whether the details of existing installations and these proposed to justify provn of key personnel quarters where provided is given?
- n. Whether the details in support of TE when required is given?
- o. Whether the schedule of existing and proposed internal wiring is given?
- p. Whether the sketches of the buildings showing internal electric points where cost is not included in PA rates of the building are given?
- q. Whether a certificate to the effect that after the addition of the proposed in the estimate, the voltage variation at any consumer will not exceed the percentage difference as laid down in certificate given?
- r. Is the provn of lightening protection provided used on standard design?
- s. Whether the drawing showing protection system is given?
- t. Whether the supporting details in respect of lump sum assessed rates accepted?

19.18 AIRCONDITIONING

- a. Does the building/rooms layout indicate suit
 - i. Central type
 - ii. Package type
 - iii. Window type
- b. Has reasons for the type adopted given?
- c. Has the buildings/room orientation been checked to minimize effect of solar heat gain?
- d. Has all the glazed windows been provided with suitable shades and double glazing or insulate glass?
- e. Has the provision of false ceiling of suitable insulation material been catered for to reduce the room height to requisite minimum and provide insulation?
- f. Has the attic space been provided with proper natural ventilation?

19.19 PLANT ROOM

- a. Has the plant room been located at the centre at the centre of the load and in a place from where supply and return ducts can be taken with ease and fresh air can be taken from outside?
- b. Has sufficient space been catered for around the package type plant for carrying out repairs?
- c. Has adequate size of the central air conditioning plant room been provided?
- d. Has the ambient OB and WB been correctly taken based on Meteorological data, E/M Chapter, E-in-C instructions?
- e. Has the inside temperature, humidity occupancy equipment load and fresh air requirements been taken on instructions issued by Air HQ/Army HQ/Naval HQ? If not has the same been obtained from the users in writing?
- f. Has the variations in inside temperature and humidity correctly mentioned in the design data?
- g. Have the following been enclosed :-
 - i. Head load calculations.
 - ii. Survey sheets.
 - iii. Building drawing.
 - iv. Board proceedings
- h. Is the plant available indigenously? If not, what is the extent of FE required and country of origin?
- i. Has the availability of electricity and water supply required for air conditioning been clarified?

19.20 REVISED APPROXIMATE ESTIMATES – Ensure the following –

- a. RAEs which are prepared in accordance with the provisions of Para-22(6) read with Para-9(d) DWP 1986 are further checked to see that the causes of the excess have been set out clearly and concisely in the remarks column of RAE Part –II
- b. If the RAEs are based on completion cost, the same are to be duly countersigned by the concerned Unit Accountant.

19.21 FINANCIAL CONCURRENCE CASES – Ensure the following –

- a. The date on which the Administrative Approval was accorded and the work was released for execution are clearly indicated. If the work could not be released within one month from the date of sanction, reasons thereof are given.
- b. A copy of the Administrative Approval and technical sanction are placed on the file.
- c. The tender action has been taken within the stipulated time or at least 18 months from the issue of Administrative Approval and six months from the date of release of the work.
- d. In case of delay in tender action beyond three months from the date of Admn Approval, reasons for delay have been furnished.
- e. FC cases involving change in scope of work, adoption of specifications higher than those indicated in Administrative Approval, large variation in the quantities of external service, adoption of Plinth Area rates, and inclusion of items of work not initially included in the sanction work are not to be entertained.
- f. In the case of unavoidable change in scope/specifications of site, detailed reasons have been furnished in a statement of case along with a draft Corrigendum.
- g. Plinth Area rates for married accommodation reflected in FC cases are confirming to those approved by E in Cs Branch from time to time. If not, whether the reasons for increase in Plinth Area rates are clearly brought.
- h. The pre-pricing of tender has been kept within the sanctioned plinth area rates.
- i. The particulars of SSR and ED (Estimated Data); on which the rates of Administrative Approval are based are given while explaining the reasons for escalation.
- j. Variations between the rates on market analysis and rates as per prevailing MV and DCS are explained.
- k. Reasons for not tendering any items such as furniture, air-conditioning etc along with main tender are given.
- l. Works sanctioned by different CFAs are not clubbed together for tendering.
- m. The amount of contingencies available is being spent judiciously and proportionately.
- n. Abnormal delay in planning and finalization of tenders resulting in time and cost overruns have been explained and justified.
- o. Sufficient period of validity of the tender is available for processing the FC case.
- p. Reasons for increase in cost over the Administrative Approval amount (including tolerance) have been categorically brought out. To this end, each contributory factor has been separately explained indicating the financial implications of each factor.
- q. Following certificates have been furnished –
 - i. The rates quoted are reasonable on prevailing market price.
 - ii. Re-tendering is not likely to lead reduction in rates/total cost of tendered item.
 - iii. The excess is not due to change in the scope of work/specifications.
 - iv. The excess on the contract cannot be met from any other savings.
 - v. Any savings from the amount concurred will not be diverted to other

running contracts.

- vi. Scope of work tendered is as per Administrative Approval.
- vii. No superior specifications have been adopted.
- r. The revised Admin Approval is being accorded by the same CFA who had accorded the original sanction (CGDA letter 18184/AT-X/VIII dated 31.1.2006).

19.22 Monitoring expenditure against funds release

- a. Notwithstanding the position that the prime responsibility of watching the expenditure against funds released rests with the Administrative authorities the IFAs at service HQrs and the controllers functioning as IFAs have also been entrusted with the task of monitoring this aspect to ensure that the financial ceiling determined are adhered to.
- b. Discharging this responsibility by IFAs/CsDA calls for availability with them of authentic and accurate and complete information in this regard. It is therefore necessary that they maintain appropriate and complete documents to record all developments/transactions in the regard.
- c. Any abnormal features relating to the trend/progress of expenditure realized during the monitoring process after analyzing the causes therefore, should be taken up with the concerned administrative/executive authorities for immediate corrective action and these should be followed up.
- d. Expenditure should not be allowed to take place in excess of the amounts released, for any reason.
- e. The monthly reports, from Controllers functioning as IFAs, to the respective IFAs at Services HQrs about the release of works should cover the all the areas entrusted to the Controllers as IFAs. The basic purpose is to enable IFAs at services HQrs to have an overall view of all services.

19.23 References

- a. MoD letter no 3(7)/93/D(Works) dated 26.8.98
- b. MoD D(Works)'s SOP dated 28.10.98
- c. CGDA letter 18184/AT-X/VIII dated 31.1.2006.
- d. DWP-86
- e. RMES
- f. Scales of Accommodation, 1983
- g. Scales of Accommodation for Armed Forces Hospitals, 1982
- h. Scales of Furniture (DS) 1989
- i. Plinth Area Rates at Par SSR 1996 for MD Accommodation
- j. Plinth Area Rates at Par SSR 1996 for OTM Accommodation
- k. MES Standard Schedule of Rates 1996 for all items of work
- l. Estimated Data 1996 Rates for External services
- m. Area Furniture Rates List
- n. MVs & DCS Returns (Zone-wise)

CHAPTER- 20

Check points for Sch XIX

Special Financial powers for Information Technology related Projects

20.1 The guidelines methodology and procedure for implementation of automation projects and purchase of Information Technology related products have been provided in the SOP issued by Army Headquarters after. However, certain provisions have not been updated with the provisions contained in DPM-2006. The detailed provisions of DPM-2006 may be kept in view while scrutinizing IT related proposals as it has the over-riding powers on the IT SOP.

20.2 There are following sub heads under which the expenditure may be incurred on IT related project

- a. Purchase of Computer Systems.
- b. Provision of access networks, internet and media connectivity including associated hardware and software.
- c. Purchase of systems software and application software.
- d. Software development Technical Consultancy for IT projects and IT training.
- e. Purchase of Computer peripherals and ancillaries.
- f. Computer stationery, consumables and technical books.
- g. Repairs and maintenance of computer systems.

20.3 Budget - The Budget head for IT procurements is Minor Head 110 (H).

20.4 General points to be seen -

- a. Whether the proposal is included in the priority procurement plan (PPP) approved by DCOAS (P&S) and whether technical vetting has been carried out by ADG Systems?
- b. Whether technical vetting for the telecommunication aspects of the project as applicable has been done by DG Sigs/CSOs Comd/Corps HQs?
- c. On Mode of tendering for IT equipments, Para 4.12 of DPM-2006 has clarified that they should be procured by availing of DGS&D Rate contracts for which suitable inspection/testing will need to be carried out by the customer. Alternatively, registered vendors of DGS&D can be selected for limited tenders and thereafter competitive bidding followed.
- d. CGDA letter AT/IX/IFA/13381/IT Vol IX dated 14.11.2005 has clarified that where a unit/formation has got allocation under IT head, PCs, Peripherals, Computer stationery and Consumables must be procured out of such allocation only. For this purpose, the procedure as applicable to purchase of stores under delegated powers shall be followed. Units/formations which are not allotted funds separately under IT head, may continue to incur expenditure on PCs, Peripherals, Computer stationery and Consumables from within their Contingent/Stationery grants.

20.5 Networking projects –

- a. Whether in case of complex projects involving elaborate network on extensive software development activity, a system study through competent experts

have been carried out? Similarly whether a Request For Proposal (RFP) has been floated to select vendors for arriving at a normalized solution before initiating procurement process?

- b.** Ensure that no Brand name is allowed in tender enquiry as per guidelines given in Min of Fin OM 8/1/EIIA/03 dated 20.5.2003. This vitiates the guidelines for good competition and deprives other brands including domestic manufacturers of an opportunity in the tender. The problem of wide price variation between locally assembled computer hardware and good quality branded hardware can be got over by inviting tenders only from the approved ISO 9002 or equivalent companies.
- c.** Whether Limited tender to suitable vendors have been proposed after verifying various aspects such as nature and size of project vis-à-vis vender's capabilities, customer service support, regional presence of vendors depending, customer service support, regional presence of vendors depending upon locations of projects.

20.6 Hardware –

- a.** In case of procurement of computer peripherals and ancillaries, it will also be seen that proposals submitted by lower formations to their respective controlling authorities have been prioritized and vetted by controlling authorities on the basis of standards and specifications laid down by HQ ADG systems for procurement of hardware/software.
- b.** Ensure that no Brand name is allowed in tender enquiry as per guidelines given in Min of Fin OM 8/1/EIIA/03 dated 20.5.2003. This vitiates the guidelines for good competition and deprives other brands including domestic manufacturers of an opportunity in the tender. The problem of wide price variation between locally assembled computer hardware and good quality branded hardware can be got over by inviting tenders only from the approved ISO 9002 or equivalent companies.
- c.** Ensure that Laptops are procured as per latest instructions of Ministry of Finance & MoD (Fin).

20.7 Software –

- a.** See that in respect of software development and technical consultancy, aspect of taking advantage of the skill and technical expertise in the various computer centers and establishments of the Army been considered before involving outside agencies in the exercise.
- b.** Proposals to entrust software development and technical consultancy to outside agencies have to be critically examined keeping in mind the past experience. Details of in-house research done may also be examined.
- c.** Have the requirements of software development been drawn up in specific terms.
- d.** What is the area in which technical consultancy is sought and is it clear that Army does not have the skill and expertise to undertake it on their own?
- e.** Have the competence and credibility of the outside agencies been verified by an independent agency and established and do they have any similar experience in the past?

20.8 Training

- a. What are the comparative terms of various offers on aspects like duration and time of completion, cost, implementations on ground, training etc?
- b. Have these agencies been made aware of what Army really requires?
- c. In respect of IT training, the facilities and expertise already available in the various computer centers, schools and colleges of instructions should be fully exploited before approaching outside agencies?
- d. While procuring new computer/software systems it may be made obligatory for the supplier to provide training (free or on reasonable payment to) a certain number of Army personnel during a Period?

20.9 Computer stationery, consumables & technical books.

- a. As per CGDA letter AT/IX/IFA/13381/IT Vol-V dated 18.3.2003, where a unit/formation has got allocation under IT head, Computer stationery and consumables must be procured out of such allocation only.
- b. In respect of consumable and technical books, the extent of their existing stock should be seen as also the quantum projected for procurement to avoid over stocking and unnecessary procurements particularly for items with limited shelf life (consumables).
- c. Specifications of consumables, stationery, technical books etc, should be clearly laid down.

20.10 Repairs and maintenances of computers, peripherals and ancillary equipment - As evident from the trend of delegation, the entire responsibility to provide repairs and maintenance cover to computer, peripherals and ancillary equipment has become that of corps of EME. In this context all proposals in this regard for financial concurrence should be examined keeping in view the following main points amongst other -

- a. See that provisions of MoD letter A/55452/ABW/EME Ops2/2150/DS (Coord)/94 dated 4.10.1994 on AMC contracts are complied in spirit.
- b. In cases of purchase of spares for maintenance/repairs, the contractual obligations of equipment supplier and period of such obligations should be seen. What are the provisions in regard to repair of equipment in the annual maintenance contract? If provision exists, will it not be desirable and advantageous to entrust the repair work to the AMC holder who can be bound?
- c. Do the EME have adequate skill and expertise in the requisite volume to undertake repairs of equipment or will it involves additional investment to create infrastructure facilities and if so what is the relative economics of private agency repairs versus repairs by EME? If adequate infrastructural and other facilities are available in EME workshops, these should be exploited to the maximum before considering repairs by outside agencies?
- d. Is the proposal for purchase of spares based on a current NA certificate?
- e. In respect of AMC, the existing clauses relating to supply of spares and carrying out repairs may be suggested for review and if necessary these clauses may be enlarged in scope to cover these facilities so that Army can have some assured source of supply of spares and also repair work.

- f. See that Maintenance spares stocked or proposed for procurement by EME workshops for field force requirements is within the laid down limit of 1 month's level based on average of past 12 month's consumption.
- g. MOU for maintenance needs to be standard one to avoid legal complications in future. It should include provisions for suitable penalty clause, adequate Bank guarantee towards AMC as well as appropriate payment terms preferably staggered.

20.11 References

- a. Min of Finance, Dept of Exp OM 1(29)/E.II(A)/2000 dated 19.4.2004 on Laptop computers.
- b. Min of Finance, Dept of Exp OM 8/1/E.IIA/03 dated 20.5.2003.
- c. Min of Finance, Dept of Exp OM 1(29)E-11(A)/2000 dated 6.9.2000.
- d. MoD letter B/04022/IN/Coord/2001/Internet/ADG IT dated 20.6.2001 on Leased line Internet connections.
- e. MoD letter B/04022/IN/Coord/2000/Internet/ADG IT dated 5.3.2002 on Internet connections.
- f. MoD (Fin) ID dated 31.10.2005 addressed to DG IT, AHQ.
- g. MoD letter 6(3)/98/D(O-1) dated 4.2.2000.
- h. MoD ID 3246/Addl FA (M).05 dated 11.7.2005 addressed to PIFA, New Delhi.
- i. MoD letter A/55452/ABW/EME Ops2/2150/DS(Coord)/94 dated 4.10.1994 on AMC contracts.
- j. AHQ letter B/04001/PC Fmn/Policy/DDG IT(T&P) dated 27.12.2005.
- k. AHQ letter B/04004/Policy/DDG IT(T&P) dated 9.5.2005.
- l. AHQ letter B/04022/IN/Maj Gen/ADG IT(T&P) dated 5.4.2002 regarding Internet.
- m. AHQ SOP B/05010/IT/SOP/ADG IT dated 15.1.2001.
- n. AHQ, IT Dte letter B/04001/Policy/ADG IT(T&P) dated 27.8.2004.
- o. AHQ letter Info Sys/Policy/IT/05 dated 16.12.2003 regarding Policy on Accounting & Disposal of IT equipment.
- p. AHQ letter 04001/Policy/ADG IT(T&P) dated 27.8.2003.
- q. CGDA letter AT/IX/IFA/13381/IT Vol-V dated 18.3.2003.
- r. CGDA letter AT/IX/IFA/13381/IT Vol IX dated 31.10.2005.
- s. CGDA letter AT/IX/IFA/13381/IT Vol IX dated 14.11.2005.
- t. CGDA letter AT/IX/IFA/13381/IT Vol IX dated 16.11.2005

Note - The guidelines mentioned in this Chapter are additional points as applicable to items of this Schedule. For basic guidelines on various stages of procurement, Chapters 4, 5, 6 & 7 may be referred to.

CHAPTER- 21

Check points for Sch XX

Financial Powers for sanction of expenditure under Major Head 2076 Minor Head 800 Sub Head B

21.1 Annual Training Grant (Sch XX 1)-

- a. Procedure for procurement out of Annual Training Grant (ATG) are laid down in AI 26/79 amended from time to time. See that the list of items that have been procured out of ATG matches with what is laid down in the Army Head Quarters letter No. A/01131/GS/MT-1 dated 28.4.1995.
- b. See that the procedure for CFA sanction for procurement out of ATG was as laid down in Directorate General of Military Training General Staff Branch, Army Head quarters New Delhi letter No A/01131/GS/MT-1 dated 10.2.2005. However, there are certain provisions which have not been updated with the provisions contained in DPM-2006. The detailed provisions of DPM-2006 may be kept in view while scrutinizing ATG cases, as it has the over-riding powers on the AHQ letter.
- c. **References**
 - i. AI 26/79
 - ii. Army Head Quarters letter No. A/01131/GS/MT-1 dated 28.4.1995.
 - iii. Directorate General of Military Training General Staff Branch, Army Head quarters New Delhi letter No A/01131/GS/MT-1 dated 10.2.2005.

21.2 Sports Activity Grant (Sch XX 1) -

- a. The guidelines on expenditure out of sports Activity Grant has been laid down in AHQ letter A/55057/Rev/GS/MT-8 dated 25.5.2006. See its full compliance.
- b. See that Sports activity Grant allotted under Minor Head 800 C is expended in the same manner as ATG (Sch-XX Sl No -1). The financial powers of ATG are applicable to SAG also.
- c. Army sports control Board (ASCB) DGMT, AHQ is the managing, Controlling & coordinating authority on all aspects of sports & games in the Army. See that approval of DCOAS (IS&T) has been taken for allotment of funds.
- d. See that ASCB has been allotted funds under Minor Head 800C, CGDA code 595/07 for sports activities.
- e. Ensure that the proposal is for creation & maintenance of sports infrastructure at various sports nodal centre located in various regional Trg centres/units/Estt.
- f. Check whether the case is not split up to enable user units for lowering CFA for the same purpose /eqpt/item.
- g. See that no stores of expendable nature like personal sports kit or diet of Army sportsmen is being met from this allotment.
- h. **References**
 - i. SOP on allotment of SAG issued vide AHQ (ASCB) letter A/55057/rev/GS/MT-8 dated 17.8.2004.

- ii. AHQ letter A/55057/Rev/GS/MT-8 dated 25.5.2006.

21.3 TTEIG (Sch XX 2) –

- a. See that procedure as laid down in Army Instruction No. 45 of 1981 for Corps of Signals, Annexure to Army Instruction No 10 of 1985 for Armoured Corps and Army Instruction No. 241/59 for Corps of EME has been followed. TTEIG is made available to SOC-in-C, Director Armoured Corps and MGO.
- b. See that proposal is in connection with the provision. Fabrication and maintenance of the Instructional equipments and training aids for training in technical categories and for the purchase of respective stores and equipments pursuant to the efficient training of the Corps of Signals, Armoured Corps and Corps of EME.
- c. Ensure that the items being procured are same as given in para 3 of respective Army Instructions as indicated above.
- d. **References**
 - i. Army Instruction No. 45 of 1981 for Corps of Signals.
 - ii. Annexure to Army Instruction No 10 of 1985 for Armoured Corps.
 - iii. Army Instruction No. 241/59 for Corps of EME.

21.4 Participation of army personnel in Seminars, Symposium, Short Course/Workshop, Annual Convention at civil professional/ Academic Organization and Institutions in India (Sch XX 3) –

- a. Check whether the provisions as contained in the respective SOP are being fulfilled.
- b. See that the SOC is self contained and gives proper justification of the proposals for attending Seminar, Workshop etc.
- c. Scrutinize closely cost being paid for attending the seminars, courses etc and whether are as per laid down rates. See the Chapters of Institutes and Organizations carefully. Ask for obtaining special concessional rates for Defence personnel.
- d. Check whether higher authority has approved for attending this particular Seminar/Course
- e. Check whether requisite funds for the same are available.

21.5 Organizing of Seminars by the Army (Sch XX 5) –

- a. Check whether the provisions as contained in the respective SOP are being fulfilled.
- b. See that the SOC is self contained and gives proper justification of the proposals for holding Seminar, Workshop etc.
- c. Scrutinize closely the break-up of cost involved under different activities like payment of honorarium, hiring of CHT, stationery and printing, refreshment IT etc.
- d. Check whether any higher authority has approved this particular Seminar/Course.
- e. Check whether requisite funds for the same are available.
- f. Remember that proposal for attending Seminars and Guest Lectures is also permissible from IT budget as per Standard Operating Programme for

implementation of Information Technology Projects and procurement of Information Technology stores under the Delegated Financial Powers.

21.6 Telephone Administration Grant (Sch XX 6) –

- a. The basic orders for procurement out of Tele Adm Grant (TAG) are laid down in the Signal Officer- in- Chief, Army HQs, Standard Operating Procedure, the General Policy Instructions No. GPI 01/ 2002. However, there are certain provisions which have not been updated with the provisions contained in DPM-2006. The detailed provisions of DPM-2006 may be kept in view while scrutinizing TAG proposals as it has the over-riding powers on the TAG SOP.
- b. In case of procurement of systems of telecommunication links, see whether the details regarding the existing system with its utilization, the deficiencies in it and the likely benefits of the new system have been considered. In case of the up gradation / replacement of the existing systems, whether reasons were mentioned, which necessitated the upgradation / replacement of the system and that compatibility factor was taken into account?
- c. In case of proposals for procurement and laying of Jelly Filled Cable /Optical Fibre Cable, see that the requirement of cable and HDPE pipe was taken as 1.3 times (i.e. 130%) of the actual route length – 120% for laying and 10% for maintenance.
- d. In case of Propriety procurement, the PAC certificate format was issued as per the format given in DPM-2006.
- e. See that the item sanctioned exists in the Guiding list of items at Appendix 'G' to TAG SOP.
- f. In proposals involving laying of cable, see that the ROW (Right of Way) clause was properly worded and was to be quoted separately. Confirm that these charges were included for determining the L1 vendor and also negotiated by PNC.
- g. **References**
 - i. MoD letter B/46738/Sigs7(a)/1924-A/D(GS-IV) dated 3.9.1976, as amended vide letter B/46738/Sigs7(a)/519-A/D(GS-IV)/87 dated 26.2.1987.
 - ii. MoD letter B/46768/Gen/Sigs7(a)/2431-A/D(GS-IV) dated 14.9.1987.
 - iii. MoD letter B/46768/Gen/Sigs7(a)/443/D(QS-IV) dated 21.8.1998.
 - iv. SOC-in-C SOP under General Policy Instruction GPI 01/2002.
 - v. AHQ letter B/46768/Gen/Sigs7(c) dated 26.6.1999.
 - vi. CGDA Instruction No X dated 18.7.2005.
 - vii. CGDA Instruction No. I dated 26.2.2007.

21.7 Signal Works Services Grant (Sch XX 9) –

- a. See that procedure as laid down in SOC-in-C Works Instruction no 602/2004 has been followed.
- b. See that the proposal is within the areas of improvement as given in para 8, 9 & 10 and Appendix A to above-mentioned Instruction. See that in case of any doubt on the scope of a particular stores / services being procured from SWSG, the views of CSO, Command and IFA were taken.
- c. See that complete details of the works has been initiated on Works Demand Form as per the revised specimen given at Appendix C to WI 602/04 and the Minor Works as per Appendix D to WI 602/04.

- d. In proposals involving laying of cable, see that the ROW (Right of Way) clause was properly worded and was to be quoted separately. Confirm that these charges were included for determining the L1 vendor and also negotiated by PNC.
- e. **References**
 - i. SOC-in-C Works Instruction no 602/2004.
 - ii. WI 602/04.

21.8 Printing / Publication of Training Chapters (Sch XX 10) –

- a. See that the Printing and Publication of Training Chapters Grant is utilized to prepare, revise and update General Staff Training Chapters and all other Arms and Joint Services Training Publications in the Army.
- b. See that the policy for the above jobs as laid down in the SAO 1 /S/ 2000 has been followed. Remember that as per the revised policy, Headquarters Army Training Command (HQ ARTRAC) has been assigned to evolve and disseminate the concepts and Doctrines on Training / Operational matters in the Indian Army and also the revision / updating, printing and distribution of General Staff (GS) publications
- c. Ensure that the scope of Training Chapters include the following –
 - i. GS Training Chapters.
 - ii. Training Chapters which are Special to Corps
 - iii. Training Precis for Courses being run at all Category 'A' Establishments.
 - iv. Adhoc Training material required for all Arms / Services mainly for new equipment being inducted or to cater for any Doctrinal changes e.g. Army Training Memorandum (ATM)/ Army Training Notes(ATNs)/ other Training Notes etc.
- d. Ensure that the proposal for expenditure to be incurred is done as mentioned below –
 - i. Printing of Training Chapters to be undertaken at HQ ARTRAC Printing Press or Govt. of India Press or Ex-trade.
 - ii. Procurement, Maintenance/Repair (including AMC) of Machinery.
 - iii. Training of Personnel in Printing
 - iv. Transportation of Printed Material from Govt. of India/Civil Press.
- e. Ensure that proposal is comprehensive and self contained in the SOC. Look for the following additional information –
 - i. Date and year in which the proposed Chapter was last published.
 - ii. Due date of its publication.
 - iii. Percentage of revision involved in the last publication.
- f. **References**
 - i. AHQ, DG Military Training letter A/95354/GS/MT-6 dated 29.1.2002
 - ii. AHQ, AG Branch SAO 1/S/2000
 - iii. AHQ SOP on Management of Fund for Printing

Note - The guidelines mentioned in this Chapter are additional points as applicable to items of this Schedule. For basic guidelines on various stages of procurement, Chapters 4, 5, 6 & 7 may be referred to.

CNAPTER- 22
Check points for Sch XXI

Sch XXI (A) - Special Financial Powers of GOsC-in-C Northern and Eastern Commands for urgent/immediate requirements for CI (OPS)/IS duties/ Siachin Glacier

22.1 AON stage

22.1.1 SOP – SOP for ACSFP cases have been issued as Appdx to AHQ letter A/89590/SOP/FP-1 dated 20.5.2005. Carefully go through it to ensure that these are complied with unless they are in conflict with provisions of DPM-2006, in which latter will prevail over this SOP.

22.1.2 Vendor Selection & Registration- The list of registered vendors are to be updated every six months by DGQA and AHSPs and all Central Procurement Agencies are to be intimated of the same. It is essential that the credentials of the firms applying for registration with the defence Departments, including their financial status, the manufacturing and quality control facilities, the business ethics and their market standing are thoroughly scrutinize before registering them as an approved source of supply. In case of items of special nature, type approval by the DGQA is also required for which prototype or samples may be called for and registration of the firms for supply of these specific items should be approved only on demonstration of satisfactory performance. A vendor registered with one department of MoD can be considered for procurement by other departments of Ministry. However, specific needs of the various wings/departments are to be kept in mind and complied with. Whenever inspection by the defence inspection agency is involved type approval by the respective defence inspection authority will be essential. Whenever firm is removed from the list of vendors, their registration stands cancelled. Such removal must be promulgated to all concerned agencies so that any department of the MoD conducts no further business relation with such firms. Para 3.2, 3.4 DPM-2006.

22.1.3 Priority Procurement Plan – Ensure that the formulation of PPP has been made as per SOP. The sponsoring branches at Hqr Commands will prepare comprehensive SOC for each proposals approved in the finalized CPP. Ensure that technical advice has been given by Head of the Arm/Service sponsoring the items. Emergent cases have to be initiated by the concerned Branch in Command Hqs. See that Budget cell has given the concurrence to these proposals. Look for clearance or confirmation or comments given by MGO are Branch and concerned Line Directorate in AHQ.

22.1.4 Basic Aim - Ensure that Special financial powers are used by General Officers Commanding-in-Chief (GOsC-in-C) Northern/Eastern Command to incur expenditure on procurement of equipments/spares and stores including carrying out modifications to equipments for meeting specific requirements for

Counter Insurgency Operations/Internal Securities duties/Operations in High Altitude Areas and other operational requirements.

22.1.5 Major Head 2076, Minor Head 110C. Apart from the above broad purposes mentioned in Note 13 of Schedule XXI-A of the MoD letter dated 26.7.06, the powers under this Minor Head may be concurred for the purposes shown below:-

- a) Modifications to equipment and vehicles, peculiar to the needs of the sector and counter insurgency operations/internal security duties.
- b) All items approved for introduction in the Army by GSEPC, expenditure whereon is compatible to Minor Head 110-C, as per specifications held by AHSPs.
- c) Non standard pattern equipment/items and spares for these, for specific operational requirements, in limited need based quantities provided these items have not been trial evaluated and rejected for introduction the Army.
- d) Repair and Maintenance and AMC of equipment and items procured under these powers.
- e) Modification of equipment and vehicles peculiar to the needs of the sector, for assistance in CI Ops,IS Duties/Ops in HAA and special operational requirements.
- f) Purchase of Riot Control Equipment.
- g) Vehicles, tractors etc for improving cross country mobility specifically required by the sector. However, light vehicles such as cars, jeeps, motorcycles, Quails, Tata Sumo etc and other similar vehicles may not be procured.
- h) Procurement of Generators of all types not available from Central Purchase.
- i) Purchase of Specialized clothing and equipment, Stores and spares for high altitude areas, protective clothing for use in counter insurgency operations/internal security duties/Ops in HAA.
- j) Equipment and items such as sensors etc to detect intrusions across border and Line of Actual Control (LAC).
- k) Telecom equipment to improve reliable inter/intra communication of units and formations imperative for operational purposes.
- l) Equipment/items for improving security and safety of units and establishments including necessities for fire fighting measures.
- m) Weapons, Ammunitions and Non lethal munitions such as Dye Marker grenades, Tear smoke grenades etc specifically required for CI/IS and riot control operations and not the normal weapons and ammunition being purchased centrally.
- n) Procurement of standard equipment/items/stores normally procured by Central Procurement Agencies when not forthcoming from Ordnance in acceptable time frame and considered operationally necessary by GOC-in-C Command.
- o) In exceptional cases, where operational necessity/urgency dictates, the CFA can sanction procurement of stores listed in Central Procurement List over and above those authorized on WET/PET of formations and units for operational expediency. However, this procurement in no case will constitute a sanction for change in authorization made in WET/PET.

22.1.6 Major Head 2076, Minor Head 800 B. Powers for incurring Miscellaneous & Contingent Expenditure may be concurred for the following purposes:-

- a) Clothing/rations/medical facilities for detainees.
- b) Urgently required medical equipment/stores/medicines for troops not available in Medical Stores Depots/ Military Hospitals.
- c) Training of troops for CI Ops/IS duties to the extent and subject to the conditions as for Annual Training Grant.
- d) Procurement of administrative and logistic support stores/equipment which contribute to enhancement of operational effectiveness of troops.
- e) Any other special type of expenditure directly connected with the operations to be certified as such by GOC-in-C, and with the prior consultation/concurrence of the respective IFA/CDA/PCDA.
- f) Repair and maintenance of stores procured under these powers.

22.1.7 Type of stores - Confirm that the enhanced powers are utilized for purchase of stores of only following nature –

- a) Equipments/stores not introduced into the service, but required to enhance the CI Ops efficiency and which are not being procured centrally in a shorter time frame.
- b) Modification of existing equipment of modification/repair of equipment procured under the special financial powers.
- c) Only those items will be procured which have already been approved for introduction in the Army by the GSEPC except NSP items.
- d) NSP items may be procured provided they have not been trial evaluated and rejected for introduction in the Army.
- e) All equipment and stores will be properly accounted for the concerned depot/unit and issued to the designated units under order of GOC-in-C as per existing procedure.

22.1.8 Items not to be procured – Following items may not be concurred under ACSFP –

- a) Computer peripherals, ancillaries etc procurable under the Information Technology (IT) Sub-Head, Minor Head 110 H will not be procured under the special financial powers.
- b) Medical stores and equipment will not be procured, except to the extent covered by Serial 2 of Schedule XXI (B) to MOD letter dated 26.7.2006 read with Note 15 below the said Schedule.
- c) Items classified to be of Capital nature and on which expenditure is comparable to Major Head 4076, Sub Major Head 01 – Army.
- d) Normal weapons and ammunition being centrally procured.
- e) Vehicles including Civil Pattern Vehicles which are otherwise supplied through Ordnance channels.

22.1.9 Non-standard stores - Non-standard items procured under the special financial powers will be treated as Sector Stores, except those procured in limited quantities in lieu of standard equipment in cases of extreme urgency. Find out as to what item is proposed for procurement? Are they standard items held by Army or totally new and non standard, only those items approved by GSEPC for introduction in the Army should be procured except NSP items to the extent authorized? In the case of new items, where Army has no experience, how are the

capabilities and performance and its suitability to operational requirements of Army been assessed; have proper trials been carried out and is the trial report/technical appreciation available; has this been approved by GSEPC for introduction in the Army? It should be ensured that items trial evaluated and rejected are not procured as NSP items.

22.1.10 New items - Proposals for procurement of new items have to be handled carefully particularly as to its quantum because these items (new/non-standard) will have limited use for Army after completion of the operations?

22.1.11 Duplication - Ensure that there is no duplication in terms of procurement/ provisions made by the Central procurement agencies in the Army HQs/CODs. In order to ensure this, the following additional stipulations may also be adhered to :-

- a. Ensure that Procurements under these delegated financial powers is not done for items with long lead time, so as to avoid carry over of liabilities from one financial year to another financial year.
- b. Procurement of standard equipment/item/stores normally procured by central procurement agency are proposed only when not forthcoming from ordnance in acceptable time frame and considered operationally necessary by GOC-in-C. Procurement of such stores if sanctioned by the CFA over & above those authorised on WET/PET of Fmn & untis is only in exceptional cases where Op necessity/Urgency is justified.
- c. Confirm that Procurements made against items falling within the purview of central procurement agencies is being communicated by respective Command Headquarters to the concerned central procurement agencies at periodical intervals, so that the quantity so procured is accounted for by them as assets, at the time of Annual Provision Review.
- d. Confirm that the details of expenditure incurred under these delegated financial powers is being provided to Army Headquarters/MGO Budget Cell and OS Dte (OS-28) by the concerned Command Headquarters on a quarterly basis, in terms of items and quantities procured and expenditure incurred.
- e. Initiation of proposal – Guidelines given at para 23 to 25 of SOP should be followed.

22.1.12 Quantity - How has the quantum projected for procurement arrived at and on what basis; is it related to and is commensurate with the volume of personnel 'troops' deployed on these operations; while assessing the requirements and quantum for procurement, quantity available out of earlier procurement if any has been taken into account. What has been the pattern of utilization and wastage if procured earlier?

22.1.13 Modification of equipments / vehicles - Modification of equipment/vehicle can be done from the local market. Appendices 'A' and 'B' of SOP may be suitably modified as tender enquiry and work order for modification of equipment/vehicle etc. In addition, concurrence can also be given to place work orders on the EME Workshops/ Army Base workshops/ Advance Base Workshops for manufacture /fabrication and modifications of equipment, simulators, items, vehicles and spares. Orders may be placed on the designated EME workshop along with appropriate allotment of funds, under intimation to the respective

CsDA of the concerned Workshop through CDA of the concerned GOC-in-C. The expenditure on such modifications / manufacture will be incurred by the EME functionaries, executing the work order, as per powers delegated to them, and compiled against the funds allocated to the GOC-in- C Command who has placed the work order.

22.1.14 Repair items - Immediate and urgent repairs and maintenance of equipment and items procured under these powers upto an annual ceiling of 1% of total allotted budget under ACSFP may be concurred under the local purchase powers delegated to Ordnance/EME functionaries vide Schedule XII-A of the MOD letter dated 26.7.2006. Ensure that the expenditure on such repairs and maintenance is accounted for separately for compilation together with other expenditure incurred in exercise of the special financial powers under Minor Head 110 C. See that EME has nominated Workshops that will undertake immediate repairs and that suitable allotment of funds to these workshops from the overall ceiling has been made. Units will get equipment repaired through these designated workshops. However, normal repair and maintenance, including Annual Maintenance contract of equipment and items procured under these powers, may be allowed only under the special financial powers of GOCs-in-C. The procedure to be followed for immediate and urgent repair and maintenance of equipment is given in the Appendix D to the SOP.

22.1.15 Contingent items - In respect of special items of contingent expenditure, confirm whether these are directly related to the operations and also whether the other items of Contingent expenditure fall within the scope of the Govt. orders and are not excessive or disproportionate to the operations?

22.1.16 Training aids - Ensure that the expenditure on training of troops out of the contingent expenditure is reasonable in quantum and all parameters laid down for Annual Training Grant have been fulfilled/complied with.

22.1.17 GSQR - For centrally procured items, if being purchased locally as an NSP items then the extent of variation in the QR with that of GSQR of AHSP/NGO etc. vis-à-vis locally made QR must be highlighted in the proposal

22.1.18 Delegation of these powers - The special financial powers will be exercised personally by the GOC-in-Chief only and not delegated to any staff officer, except in respect of expenditure on immediate repair and maintenance of equipment and items. Immediate and urgent repair and maintenance of equipment under these powers, upto an annual ceiling of 1 % of the overall limit (for NC/EC), can be sanctioned under the local purchase powers delegated to Ordnance/EME functionaries in Schedule XII-A of MoD letter dated 26.7.2006. The expenditure on such repair and maintenance will be accounted for separately for compilation together with other expenditure incurred in exercise of the special financial powers under Minor Head 110 C. The special powers will be exercised by GOsC-in-C, Northern/Eastern Commands only in consultation with the IFAs, except in respect of expenditure on immediate repair and maintenance of equipment and items procured under these powers, as explained above.

22.1.19 Funds availability - The above mentioned financial powers relate to expenditure met from the Defence Services Estimates and are to be exercised subject to availability of funds in the budget of the concerned financial year.

22.1.20 Financial Limits. The extent of special financial powers and their utilization for procurement of the stores will be as follows:-

(a) Purchase of Stores of Ordnance Origin/Sector Stores under Major Head 2076, Minor Head 110 C. Expenditure upto financial limits as indicated below may be incurred for purchase of stores of the following types subject to the maximum annual limit fixed from time to time for GOs-in-C Northern and Eastern Commands –

- i.** Purchase of stores of Ordnance origin: Upto Rs 10 Crore per transaction
- ii.** Sector Stores: Upto Rs 2 Crore per transaction
- iii.** Import of stores against payment in Free Foreign Exchange: Upto Rs 2 Crore per transaction.
- iv.** Miscellaneous and Contingent expenditure upto Rs. 10 lakh per transaction.
- v.** At present the powers under (i) to (iv) above are subject to overall limit of Rs 100 Crore and Rs 50 Crore per annum for Northern and Eastern Commands respectively. The GOC-in-C Northern Command will also exercise the above financial powers for meeting urgent/immediate requirements of RR CIF/Force/bns/ units upto a ceiling of Rs. 25 Crs per annum to be allocated additionally out of the RR budget under MH 112 F(b).
- vi.** Repair and maintenance: Immediate and urgent repair and maintenance of equipment and items procured under these powers are permitted up to an annual ceiling of 1% of the overall limit as mentioned above and will be sanctioned under LP powers delegated to Ordnance/EME functionaries as per Schedule XII of MoD letter of 26 July 2006.
- vii.** The expenditure will be booked to Code Head 415/21.

(b) Miscellaneous and Contingent Expenditure, under Major Head 2076, Minor Head 800 B (p) – Other Miscellaneous Charges. Expenditure upto Rs. 10 lakh per transaction subject to a financial limit of Rs one crore per annum, per Command, may be incurred. Such expenditure will be booked to Code head 581/100.

22.1.21 Additional checkpoints for AON stage

(a) Proposal as per SOP only duly indicating item Nomenclature/Description : reasons for emergent procurement with justification: purpose for which procurement undertaken as contained in the notes 13 to 15 under Schedule XXI of Delegated Financial Powers and Proposal approved at the level of Maj Gen before referring to IFA for concurrence.

(b) Proposal is approved in finalized PPP. Technical advice has been given by Head of the Arm / Service sponsoring the items. Clearance / confirmation / comments given by MGO Br and concerned Directorate in AHQ.

- (c) (i) Unit cost estimation bear adequate justification.
- (ii) Basis of quantity estimation (Authorized : Present holding; deficiency & Actual requirement) and scale application justified.
- (iii) The distribution details where earlier procurement made also been placed on record.

- (iv) A confirmation that the item is not available on DGS&S rate running contract is on record.
- (v) The basis and source of formulation of QR has been explained.
- (vi) Funds availability confirmation by the user exists.

22.2 Tendering stage

(a) Mode of tendering –

- (i) In case of Open tender, ensure that sponsoring formations/Branches have given details like stations where advertisements should appear and suggested new papers which should carry those ads. In case of Limited tender, see that for scaled and non-standard pattern items, list was obtained from OS Dte, AHQ and WE Dte, AHQ respectively. See that an updated list of vendors is maintained and copy given to IFA.
- (ii) While floating TE, copy of tender documents must be sent to registered vendors also for enabling them to participate
- (iii) Provisions of para 23 to 40 of SOP deal with Tendering procedure. Some of these may have been superseded by DPM-2006. Chapter 5 may be kept in view regarding the procedures to be followed at this stage.
- (iv) OTE only for common use items has been recommended and TE also floated to all registered suppliers for the item. Where LTE recommended reason in support specified. PAC tendering only with OEM and for Non-PAC transaction where single tendering resorted to, reasons for urgency/Op/Technical requirements have adequately been insisted upon.
- (v) PAC has been issued at the level of Maj Gen and has not expired.
- (vi) Repeat orders processed are as per conditions prescribed in Para 5.11 & 9.30 of DPM 2006.
- (vii) Tender enquiry has strictly been framed as prescribed in Appendix “B” of DPM-2006.
- (viii) Single Bid TE has been called for commercially off the shelf (COTS) items where qualitative requirements and technical specifications are clear and two-bid TE has been insisted upon cases of P&M, Complex items and Turn key projects where QRs and technical specs could not be clearly firmed up at the time of initiation of proposal.

(b) TEC

- (i) TE should be uploaded in MoD Web site and published in National/local News papers through DAVP/ITJ Kolkata.
- (ii) Tender Opening Board composition is as per Para 29 SOP. Sealed tenders duly accompanied with EMD (2 to 5%) accepted only and opened on the date and time stipulated in the TE documents. It is to be confirmed that Bids received after stipulated date have not been considered. Opening of Commercial bid only on completion of TEC & its acceptance by CFA. CST prepared on the prescribed format and quoted L1 rates for each item encircled in ink and CST signed by BOO.
- (iii) Technical specification should be handed over to TEC Chairman for evaluation & identification of right eqpt based on GSQR. Composition of TEC should be as per para 31 SOP. TEC report duly signed by Chairman and countersigned by nominated Fmn Cdr and approval of CFA is obtained on TEC proceedings as per Para 32 of SOP & Para 4.12.5 of DPM 2006.
- (iv) TEC evaluation matrix or compliance statement should bring out extent of variation and difference if any in the QR duly indicating measurable actual

physical parameters against each technical parameter. Clear cut recommendation without any ambiguity must be given in the TEC report. If any clarification is required from the vendor on technical aspect the same must be obtained by TEC and not left to the TPC/PNC for clarification.

(c) TPC - The powers regarding purchase of Stores/Sector Stores (under Major Head 2076, Minor Head 110 C) are subject to the condition that all purchases under these powers which exceed Rs five lakh will be processed and made with the approval of the Tender Purchase Committee (TPC) to be constituted by the GOC-in-C and will invariably include a rep of IFA/CDA. The aforesaid requirement would not apply in respect of items available against DGS&D rate contracts. In case the CFA feels that negotiations could result in reducing prices, he may order the TPC to meet and negotiate even though purchase value is less than Rs five lakh.

22.3 Expenditure sanction stage

a. Provisions of para 41 to 46 of SOP deal with Expenditure sanction stage. Some of these may have been superceded by DPM-2006. Chapter 6 may be kept in view regarding the procedures to be followed at this stage.

b. The case file for expenditure sanction stage should be accompanied with the requisite documents viz. TOB Proceedings, TEC Proceedings duly signed by the CFA, PNC/TPC Proceedings, supply order and IFA's concurrence note bearing his UO No. and date. Concurrence of IFA obtained on file incl vetting of sanction and Supply Order as per Para 39 of SOP. UO No. and date is allotted by the IFA on draft supply order and the sanction letter.

c. The formal sanction of CFA clearly specifies the name of the firm and final price all (inclusive) for the purchase.

d. The contract is brought into existence on the date of signature of the contract or issue of SO. However, 15 datys are built into the SO for Postal delivery.

22.4 Procurement of stores from abroad: Para 55 to 58 of SOP deals with the procurements of Stores from abroad. Some of these may have been superseded by DPM-2006. Hence Chapter 9 & 10 of DPM 2006 may also be consulted while dealing with such procurements.

22.5 Post-contract management stage

a. Provisions of para 63 of SOP deal with Post-contract management stage. Chapter 7 may be kept in view for detailed guidelines, to be followed at this stage.

b. Any matter arising after placement of the SO, having financial implications will be referred to CFA for his orders in consultation with IFA. (Para 63 SOP and Para 5.18 DPM 2006). Post Contractual Activities nomrally comprise:

- (i) Extension of delivery
- (ii) Imposition of liquidated Damages
- (iii) Extension of letter of credit
- (iv) Amendment / Deviation to contract

- (v) Termination of contract
- (vi) Risk and expense purchase
- (vii) Price variation adjustment
- (viii) Exchange rate variation reimbursement

22.6 References

- a. SOP issued vide AHQ, ADGFP letter A/89590/SOP/FP-1 dated 20.5.2005.
- b. MoD letter No. A/89591/FP-I/1974/2006/D(GS-I) dated 26.7.2006.

Sch XXI (B) - Special Financial Powers of GOsC-in-C Western, Southern, South Western and Central Commands for procurement of Equipment and Stores and Carrying out Modifications to Equipment for meeting special requirements of Strike Corps & Reserve Formations, Operational Requirements including those relating to Counter Insurgency / Internal Security Duties and Aid to Civil Authorities

22.7 AON stage

22.7.1 SOP - SOP for ACSFP cases have been issued as Appdx to AHQ letter A/89590/SOP/FP-1 dated 19.5.2005. Carefully go through it to ensure that these are complied with unless they are in conflict with provisions of DPM-2006, in which latter will prevail over this SOP.

22.7.2 Priority Procurement Plan - Ensure that the formulation of PPP has been made as per para 23 to 31 of SOP. SOC for each case has to include details mentioned in para 23 (a) to (k) of SOP. Ensure that technical advice has been given by Head of the Arm/Service sponsoring the items. Emergent cases have to be initiated by the concerned Branch in Command Hqs. See that Budget cell has given the concurrence to these proposals. Look for clearance or confirmation or comments given by MGO are Branch and concerned Line Directorate in AHQ.

22.7.3 Basic Aim - See that Special financial powers are used by Army Commanders to incur expenditure on procurement of equipments/spares and stores including carrying out modifications to equipments for meeting specific requirements and other operational requirements and also special / urgent requirements of Strike Corps and Reserve formations including those relating to Counter Insurgency/Internal Security Duties and Aid to Civil Authorities.

22.7.4 Major Head 2076, Minor Head 110C. See that the powers under this Minor Head had been sanctioned only for the purposes shown below:-

(b) Holding/Strike Corps & Reserve Formations

- i.** Modifications to vehicles, equipment and spares to enable formations to carry out manoeuvres in extremely difficult terrain. These include modifications to carry additional water, FOL, fixing of navigational aids, mounting of communication equipment and armaments etc.
- ii.** Innovations to reduce time in executing during operations such as obstacle crossing, obstacle and mine clearance, obstacle construction and track construction.

- iii. Specialized engineering and telecommunication equipment to be purchased off the shelf such as gap measurers, water supply equipment and accessories for force multipliers to enhance the inherent capacity of the formations.
- iv. Power wagons for operation of engineer and communication equipment.
- v. Collapsible and quick to erect shelters.
- vi. Any other equipment/modifications essential to keep the formations in a state of operational readiness/practice military manoeuvres at the discretion of the GOC-in-C.

(b) Formations Conducting Counter Insurgency Operations, Internal Security Duties, Aid to Civil Authorities during Natural Calamities and Disaster Relief Operations

- i. Modification of equipment and vehicles peculiar to the needs of the Sector and CI (Ops)/IS duties as also to facilitate them in carrying out required tasks during such operations and those in aid to civil authorities in natural calamities.
- ii. Purchase of non standard pattern equipment (such as portable Generators) and stores and spares for the same equipment including portable generators, vehicles and tractors for improving cross country mobility in inundated/water logged areas and logistic/supply support for IS duties, CI (Ops) and Aid to Civil Authorities.
- iii. Purchase of Riot control Equipment.
- iv. Purchase of specialized equipment, stores and spares, clothing for use in CI (Ops)/IS duties and disaster relief operations.
- v. Equipment and items such as sensors etc to detect intrusions across the borders.
- vi. Telecom equipment to improve reliable inter/intra communication of units and formations imperative for operational purposes.
- vii. Equipment/item for improving security and safety of units and various Establishments, including necessities for fire fighting measures.

22.7.5 Major Head 2076, Minor Head 800 B - See that the powers for incurring Miscellaneous & Contingent Expenditure was sanctioned only for the following purposes:-

- i. Clothing/rations/medical facilities for detainees.
- ii. Urgently required medical equipment/stores/medicines for troops not available in Medical Stores Depots/ Military Hospitals.
- iii. Training of troops for CI Ops/IS duties to the extent and subject to the conditions as for Annual Training Grant.
- iv. Procurement of administrative and logistic support stores/equipment which contribute to enhancement of operational effectiveness of troops.
- v. Any other special type of expenditure directly connected with the operations to be certified as such by GOC-in-C.
- vi. Repair and maintenance of stores procured under these powers.

22.7.6 Type of stores - Confirm that the enhanced powers are utilized for purchase of stores of only following nature -

- i. Equipments/stores not introduced into the service, but required to enhance the CI Ops efficiency and which are not being procured centrally in a shorter time frame.

- ii. Modification of existing equipment of modification/repair of equipment procured under the special financial powers.
- iii. Only those items will be procured which have already been approved for introduction in the Army by the GSEPC except NSP items.
- iv. NSP items may be procured provided they have not been trial evaluated and rejected for introduction in the Army.
- v. All equipment and stores will be properly accounted for the concerned depot/unit and issued to the designated units under order of GOC-in-C as per existing procedure.

22.7.7 Items not to be procured – Following items may not be concurred under ACSFP –

- i. Computer peripherals, ancillaries etc procurable under the Information Technology (IT) Sub-Head, Minor Head 110 H will not be procured under the special financial powers.
- ii. Medical stores and equipment will not be procured, except to the extent covered by MOD letter dated 26.7.2006.
- iii. Items classified to be of Capital nature and on which expenditure is compilable to Major Head 4076, Sub Major Head 01 – Army.
- iv. Vehicles including Civil Pattern Vehicles which are otherwise supplied through Ordnance channels.

22.7.8 Non-standard stores - Non-standard items procured under the special financial powers will be treated as Sector Stores, except those procured in limited quantities in lieu of standard equipment in cases of extreme urgency. Find out as to what item is proposed for procurement? Are they standard items held by Army or totally new and non standard, only those items approved by GSEPC for introduction in the Army should be procured except NSP items to the extent authorized? In the case of new items, where Army has no experience, how are the capabilities and performance and its suitability to operational requirements of Army been assessed; have proper trials been carried out and is the trial report/technical appreciation available; has this been approved by GSEPC for introduction in the Army? It should be ensured that items trial evaluated and rejected are not procured as NSP items.

22.7.9 New items - Proposals for procurement of new items have to be handled carefully particularly as to its quantum because these items (new/non-standard) will have limited use for Army after completion of the operations?

22.7.10 Duplication - Ensure that there is no duplication in terms of procurement/ provisions made by the Central procurement agencies in the Army HQs/CODs. In order to ensure this, the following additional stipulations may also be adhered to :-

- i. Ensure that Procurements under these delegated financial powers is not done for items with long lead time, so as to avoid carry over of liabilities from one financial year to another financial year.
- ii. Confirm that Procurements made against items falling within the purview of central procurement agencies is being communicated by respective Command Headquarters to the concerned central procurement agencies at periodical intervals, so that the quantity so

procured is accounted for by them as assets, at the time of Annual Provision Review.

- iii. Confirm that the details of expenditure incurred under these delegated financial powers is being provided to Army Headquarters/MGO Budget Cell and OS Dte (OS-28) by the concerned Command Headquarters on a quarterly basis, in terms of items and quantities procured and expenditure incurred.

22.7.11 Quantity - How has the quantum projected for procurement arrived at and on what basis; is it related to and is commensurate with the volume of personnel 'troops' deployed on these operations; while assessing the requirements and quantum for procurement, quantity available out of earlier procurement if any has been taken into account. What has been the pattern of utilization and wastage if procured earlier?

22.7.12 Modification of equipments / vehicles - Modification of equipment/vehicle can be done from the local market. Appendices 'A' and 'B' of SOP may be suitably modified as tender enquiry and work order for modification of equipment/vehicle etc. In addition, concurrence can also be given to place work orders on the EME Workshops/ Army Base workshops/ Advance Base Workshops for manufacture /fabrication and modifications of equipment, simulators, items, vehicles and spares. Orders may be placed on the designated EME workshop along with appropriate allotment of funds, under intimation to the respective CsDA of the concerned Workshop through CDA of the concerned GOC-in-C. The expenditure on such modifications / manufacture will be incurred by the EME functionaries, executing the work order, as per powers delegated to them, and compiled against the funds allocated to the GOC-in- C Command who has placed the work order.

22.7.13 Repair items - Immediate and urgent repairs and maintenance of equipment and items procured under these powers upto an annual ceiling of Rs. 30 lakh may be concurred under the local purchase powers delegated to Ordnance/EME functionaries vide Schedule XII of the MOD letter dated 26.7.2006. Ensure that the expenditure on such repairs and maintenance is accounted for separately for compilation together with other expenditure incurred in exercise of the special financial powers under Minor Head 110 C. See that EME has nominated Workshops that will undertake immediate repairs and that suitable allotment of funds to these workshops from the overall ceiling has been made. Units will get equipment repaired through these designated workshops. However, normal repair and maintenance, including Annual Maintenance contract of equipment and items procured under these powers, may be allowed only under the special financial powers of GOC-in-C.

22.7.14 Contingent items - In respect of special items of contingent expenditure, confirm whether these are directly related to the operations and also whether the other items of Contingent expenditure fall within the scope of the Govt. orders and are not excessive or disproportionate to the operations?

22.7.15 Training aids - Ensure that the expenditure on training of troops out of the contingent expenditure is reasonable in quantum and all parameters laid down for Annual Training Grant have been fulfilled/complied with.

22.7.16 Delegation of these powers – See that the special financial powers are exercised personally by the GOC-in-Chief only and not delegated to any staff officer, except in respect of expenditure on immediate repair and maintenance of equipment and items. Immediate and urgent repair and maintenance of equipment under these powers, upto an annual ceiling of Rs 30 lakh, can be sanctioned under the local purchase powers delegated to Ordnance/EME functionaries in Schedule XII of MoD letter dated 26.7.2006. The expenditure on such repair and maintenance will be accounted for separately for compilation together with other expenditure incurred in exercise of the special financial powers under Minor Head 110 C.

22.7.17 Financial Limits. See that the extent of special financial powers and their utilization for procurement of the stores is done as under -

- a) **Purchase of Stores of Ordnance Origin /Sector Stores under Major Head 2076, Minor Head 110 C.** Expenditure upto Rs two crore per transaction subject to a limit of Rs nine crore per annum may be incurred. Out of the above annual limit, Rs two crore is for strike Corps including Reserve Formations and Rs seven crore for Other Formations of the Command to conduct counter insurgency operations, internal security duties, as well as aid to civil authorities during natural calamities and disaster relief operations. The expenditure will be booked to Code Head 415/21.
- b) **Miscellaneous and Contingent Expenditure, under Major Head 2076, Minor Head 800 B (p) – Other Miscellaneous Charges.** Expenditure upto Rs. 10 lakh per transaction subject to a financial limit of Rs one crore per annum, per Command, may be incurred; Rupees 25 lakh for Strike Corps and Rs 75 lakh for Other Formations of the Command. Such expenditure will be booked to Code head 581/100.

22.7.18 Mode of tendering – In case of Open tender, ensure that sponsoring formations/Branches have given details like stations where ads should appear and suggested newspapers which should carry those ads. In case of Limited tender, see that for scaled and non-standard pattern items, list was obtained from OS Dte, AHQ and WE Dte, AHQ respectively. See that an updated list of vendors is maintained and copy given to IFA.

22.8 Tendering stage

22.8.1 Provisions of para 40 to 49 of SOP deal with Tendering procedures. Some of these may have been superseded by DPM-2006. Chapter 5 may be kept in view regarding the procedures to be followed at this stage.

22.8.2 TPC - The powers regarding purchase of Stores/Sector Stores (under Major Head 2076, Minor Head 110 C) are subject to the condition that all purchases under these powers which exceed Rs five lakh will be processed and made with the approval of the Tender Purchase Committee (TPC) to be constituted by the GOC-in-C and will invariably include a rep of IFA/CDA. The aforesaid requirement would not apply in respect of items available against DGS&D rate contracts. In case the CFA feels that negotiations could result in reducing prices, he may order the TPC to meet and negotiate even though purchase value is less than Rs five lakh.

22.9 Expenditure sanction stage

Provisions of para 50 to 55 of SOP deal with Expenditure sanction stage. Some of these may have been superceded by DPM-2006. Chapter 6 may be kept in view regarding the procedures to be followed at this stage.

22.10 Post-contract management stage

Provisions of para 76 of SOP deal with Post-contract management stage. Chapter 7 may be kept in view for detailed guidelines, to be followed at this stage.

22.11 References –

AHQ,ADGFP SOP issued vide A/89590/SOP/FP-1 dated 19.5.2005.

C. Sch XXI (C) - Development of Indigenous Simulators for Army

22.12.1 See that cases for development of indigenous Simulators are governed by MOD No PC 89502/B/BE*p3/F-145/D/Proc/98 dtd 30/7/1998.

22.12.2 Examine that Scope of development work is as under –

- a. Basic Anti tank Simulator – Milan ATGM
- b. BMP – Basic Gunnery, Driving and Aiming Trainers
- c. Air Defence Trainers – IGLA, L-70 and Dome Trainers
- d. Infantry Support Weapons Trainers – AGL, RL and MMG
- e. Specialist Trainers for Commandos, Engrs Bridging, Sig eqpt and Force-on-Force Training
- f. All Arms Trainers – B veh and Multi-lane DRONA
- g. Workstation and Software for development of 3D Graphics and CGL.

22.12.3 Ensure that procurement is not done for items with long lead period, so as to avoid carry over of liabilities from one financial year to another.

22.12.4 See that the adequate allocation for Simulator Development has exists under code head 415/05.

22.12.5 References –

22.13. MOD No PC 89502/B/BEp3/F-145/D/Proc/98 dated 30/7/1998.

Note - The guidelines mentioned in this Chapter are additional points as applicable to items of this Schedule. For basic guidelines on various stages of procurement, Chapters 4, 5, 6 & 7 may be referred to.

CHAPTER- 23

Check points for Sch XXII

Miscellaneous powers

23.1 CHT contracts – General

23.1.1 AON stage

a) The expenditure incurred on hiring of transport has been steadily increasing over the years for various reasons and one of the reasons is the large doses of delegation of power to lower functionaries all over. While there may be need to hire transport more and more to meet the increasing activities and commitments of Army and hiring for bona fide or genuine requirements is not in question and dispute it has to be ensured that these do not lead to excessive usage or misuse or unauthorized use. It is with this object that the enhanced power have been made exercisable in consultation with the IFAs who are to ensure the bona-fides, quantum, duration, rates etc. in respect of each such proposal. It is therefore, necessary that the IFAs examine the proposals in detail and deal with/process these promptly particularly because at times transport may have to be hired on immediate basis or at short notice. Urgency of the cases will not however, justify relaxation in the scrutiny standards or compromise on basic financial principles.

b) Necessity angle - The Army Instruction 42/86 is an authority for hiring bona-fide requirements of transport which would otherwise have been met through service transport or civil transport obtained through hired transport contract. It does not constitute an authority for hiring transport for a purpose, for which no provision exists. See whether documentary support/certificate exists for certifying that there is no hired transport contract to be availed of and also that service transport is not available locally? Both these conditions have to be fulfilled. The availability of DD vehicles at the station on the days when hiring is proposed to be done needs to be gone into. The basic two conditions which are required to be fulfilled for hiring of transport from civil sources are :-

- i.** Where no hired transport contract exists.
- ii.** Where no Govt. transport is available locally.

c) CFA determination – This issue becomes important due to frequent use/misuse of ad-hoc hiring by users. The reason is the short duration of ad-hoc hiring, making it fall invariably under lower CFAs. This can lead to several sanctions issued by lower CFAs during course of the year. IFAs need to be aware that Ad-hoc hiring is to be done by users only as a matter of exception. Therefore, ensure that proposal is put up for a long-term contract, ideally an annual one. Determination of CFA may be decided with estimate value of hiring to be done for whole duration of contract rather than daily or weekly or monthly basis. CGDA vide their letter AT/IX/9061/VIII dated 6.3.2003 have clarified that since powers under Serial 3, Sch-XXII are neither prescriptive (for any specific purposes) nor restrictive, these could be exercised for the purposes relating to operational requirements of the Army including for the purposes mentioned against serial no 2 of Sch-XXII, subject to complying with conditions laid down in Notes below the Schedule.

d) Quantity estimation - Quantum, type of transport and duration of hiring should be examined on the basis of number of personnel/tonnage of stores to be carried. Will all the vehicles to be hired (type wise) be fully utilized for the entire duration of hiring? The justification may be evaluated vis-à-vis the scale prescribed for carriage of personnel or load. Look for following –

- i.** Check station and load factor involved.
- ii.** Ascertain if clubbing of stations can be achieved if full load is not exploited.
- iii.** Check availability of 2nd and 3rd line transport.
- iv.** Check total load and periodicity of transportation.

e) Estimation of Rates – LPP and rates achieved from neighboring stations are main sources to examine this issue. Also see whether hike in Petroleum items have been correctly applied in estimation. Parallel hiring rates being published by local civil authorities (RTO/STA) for each type of vehicle/transport may also be taken for comparison.

f) Type of vehicles - Check up that proposal is invited for authorized type of vehicles only. For Light vehicles, the list prescribed by Ministry of Finance guidelines (available at Ministry of Finance website) may be insisted. For heavy vehicles, the authorization prescribed in relevant Army Instructions / Orders may be looked into. Also, ensure that types of heavy vehicles being asked for are commercial standard ones so that the trade response is to the maximum extent. Examples are 3/3.5 Ton, 9/10 ton, 20 Ton, 50 Ton, 30/35 seater bus, 50/55 seater Bus, etc.

23.1.2 Mode of tendering - Always advise users to go for “Open Tender” method for CHT contracts. In addition, check whether state transport company can also be involved.

23.1.3 Vetting of draft RFP - Look for the following points –

- a.** Whether RFP is as per Appendix B of DPM-2006 in general?
- b.** Ensure inclusion of Risk & Expense clause, as these often are required to be invoked in case of CHT contracts due to its peculiarities.
- c.** Whether special features of CHT contracts have been broadly mentioned under the category of ‘Special Conditions’ in RFP?
- d.** Whether specific details have been given regarding type of vehicle viz., capacity (Tonnage), Fuel (petrol/diesel driven etc) and number of vehicles required?
- e.** Ensure that not too many sub-categories are made against each category of vehicles, as it makes determination of L-1 complicated. (Ex – Rates should be invited only for 4h/40 kms and 8 h/80 kms sub-categories for light vehicles). Also see whether estimated quantity of each sub-category has been mentioned in RFP and has been calculated as per past usage pattern, current/future requirements.

- f. Examine the evaluation criteria specified in RFP carefully. Ensure that option is left with Defence services to conclude contracts for each category of vehicles separately or for total value.

23.1.4 Pre-qualification stage - If pre-qualification stage becomes necessary in Open tender, then, as Finance rep, check main aspects like Registration with RTO/Sales Tax Authority, ITCC, registration in the list of vendors and their performance details with Govt or outside.

23.1.5 Tendering & Expenditure angle sanction stages

- a. See whether there is any peculiarity revealed like monopolistic tendencies or orders being rotated between a particular set of firms?
- b. In most of the cases, it will be beneficial for Govt to conclude separate contracts for each category of vehicles. Therefore, this must be the first option for IFAs. At times, established transporters use the inside information to quote very low for 'rarely hired' vehicles and quote very high for 'frequently used' vehicles to bag the whole contract. Separate conclusion of contract for each vehicle will overcome this problem.
- c. Ensure that wherever the transport requirements are of regular nature, a formal annual/half yearly contract agreement is concluded.
- d. Reasonability of rates –
 - i. For determining reasonableness of Rates, compare rates with RTO rates, LPP for last 3 contracts and fluctuation in price index of Petrol, Tyres/Tubes, Labour and General Index.
 - ii. Check up rates achieved in case of other agencies hiring transport from same or nearby stations.
 - iii. See whether the rate achieved are consistent and reasonable in terms of Per Ton per Km rates for load carriers and per seat rates for passenger vehicles.
 - iv. Check up Rate/Km/Ton and see that they are uniform for all loads i.e. 1 Ton, 3 Ton, 5 Ton, 9/10 Ton vehicles. In case that rates quoted, arrive at per ton per Km rate (Rate/Distance/Capacity of the vehicles) to ascertain reasonability of rates.
 - v. Checkup if any special factor is involved in quoting a higher rate.
 - vi. Check up that rates are quoted on facts and not on anticipated information e.g. Proposed hike in FOL as appeared in the news paper or proposed tax in the budget etc.
- e. Ensure that IFA's local rep was a member of BOO for finalization of tenders.

23.1.6 References –

- i. MoD letter 75681/Q/ST-11/4533/D(QS) dated 28.8.1996
- ii. MoD letter 58758/Q/ST-11/1360-S/D(QS) dated 3.7.1970.
- iii. MoD letter 76197/Q/ST-11/5477/D(QS) dated 22.10.1996.
- iv. MoD letter 6(1)/99/D(O-1) dated 12.8.1999
- v. MoD letter 25737/QMG Shipping/5183/D(Mov) dated 14.12.1988.
- vi. MoD letter No. A/89591/FP-I/1974/2006/D(GS-I) dated 26.7.2006.
- vii. AI 12/86 as amended vide AI 10/92
- viii. DGOS Technical Instruction No 002 (Issue 3) Section XV.
- ix. AHQ, QMG letter 01059/CHT/Q1(B) dated 13.7.2000.

- x. CGDA letter AT/IX/9061/IV dated 13.3.1997
- xi. CGDA vide their letter AT/IX/9061/VIII dated 6.3.2003.

23.2 Sch XXII 1 to 4, and 12 to 14 and 18- Hiring of Civil Transport

Apart from above, following additional points may be seen for these Sub-Schedules

- a. See that the financial powers for transportation of imported stores are exercised by ADG Mov & Comdt Embarkation Hqs in terms of MoD letter 25737/QMG Shipping/5183/D(Mov) dated 14.12.1988.
- b. See that Financial powers of DGOL and other Formation Commanders are exercised in terms of AI 42/86 as amended from time to time.
- c. Ensure that Civil hired transport is taken only as one of the more expeditious methods of transport other than cheapest mode.
- d. See that these powers are to be exercised once periodic contract on six monthly/yearly basis has been concluded in consultation with respective IFA.
- e. Confirm that, for Stations not included in the periodic contract, CFA is not exercising powers without IFA's consultation.
- f. Remember that for move of arms, ammunition and explosives, the powers will be twice the powers indicated in these Sub Schedules. However, warlike stores (Red Tariff) i.e. arms, ammunition and explosives are to be moved, as far as possible, only in Service Transport, preferably by third line transport, and through Civil Hired Transport only as a last resort. See that Formation HQ have formulated suitable SOPs and issued comprehensive instructions for move by road of red tariff for their safety during transit including selection of agency, armed escort, transit facilities, communication arrangements during move, medical cover and repair and recovery in the event of vehicle break down.
- g. Remember that Cost of insurance, where necessary against damage or loss in dispatch of the consignments through civil transport operators, is to be treated as part of the cost transport for purpose of determining the appropriate CFA. If the terms of the road transport operators cover payment of adequate compensation in case of loss or damage, the consignment need not be insured.
- h. Ensure that the expenditure on Sl 1 to 4 of the Schedule are being debited to minor Head 105 F – Hiring of Civil Transport and to Minor Head 112-E for RR.
- i. For Sl 19 of schedule, ensure that Rates finalized by Station Hqs/Formation Hqs is being used. Also, remember that these powers will be per Contract.
- j. Remember that extra expenditure on the despatch of stores by other than the cheapest route or mode of carriage can be incurred only in case of emergency in accordance with Rule 146, FR Part I, vol. I.

23.3 Sch XXII 5 – Powers to order move of stores by passenger trains in case of emergency. Apart from A above, following additional points may be seen for this Sub Schedule –

- a. Ensure that Ordnance depots, required to incur expenditure beyond their powers, are referring such cases to MG AOC, Command or Store section in AHQ. The Stores section concerned is to obtain sanction of ADGs OS on file

and issue orders incorporating the sanction of ADG OS to incur expenditure up to financial limits.

- b. Ensure that provisions of DGOS Technical Instruction No 002 (Issue 3) section XV has been complied for this Sub-Schedule.

23.4 Sch XXII 6 – Powers to incur expenditure on dispatch of stores by Air, Sea and Express mail service/speed link/speed post/courier. Apart from A above, following additional points may be seen for this Sub Schedule –

- a. Remember that this route should be taken only as one of the more expeditious methods of dispatch other than the cheapest one available.
- b. Ensure that Cost of insurance where necessary against damage or loss in transit is being treated as part of cost of dispatch.
- c. For Payment terms, Comdts depots \ are authorized to make cash payments from the Imprest. Therefore, see that feasibility of cash discount has been explored.
- d. Ensure that the expenditure on these proposals are being debited under the same Head of Account to which the cost of such stores is debitible.

23.5 Sch XXII 9 – Condonation of unlinked CRVs.

- a. Ensure that these powers are used only in respect of unlinked CRVs in AOC establishments.
- b. Ensure that sanction is given only after obtaining the audit Report of CDA.

23.6 Sch XXII 10 – A-in-U and FU cash grant fitting of store house and office eqpt. including purchase of NHE and Sch XXII 11 - A-in-U grant for fitting of store house and office eqpt. –

Guidelines given in Chapters 4 to 7 may be taken for processing these procurement cases.

23.7 Sch XXII 15 – Advance for general firms works, harvesting operation, fodder supplies, purchase of cattle, dairy products and stores, Sch XXII 16 Casting and culling of livestock and Sch XXII 17 Approval for cutting trees and disposal of wood and other usufructs from farm land

For disposal of wood and other usufructs from land, ensure that basic principles enshrined in Rules 142 to 145 of FR Part I Vol I have been complied with.

23.8 Sch XXII 20 – Hiring of services/facilities

- a. Remember that for hiring any service required by the hospital, only those services are being included which cannot be met by authorized personnel.
- b. Remember that these powers will be per service per transaction.

23.9 Sch XXII 21 – Miscellaneous powers to sanction/enhanced imprest

- a. See that CDA's report is available on file.

- b. Remember that for units not covered by the territorial jurisdiction of Area Hqs, the powers to sanction Imprest vested in the Area Commander will be exercised by Div Cdr / RR Force Cdr / Cdr Indep Sub Area / Cdr Sub Area.
- c. Ensure that Para 223 of the Regulations for Unit Allowances of the Army has been complied with.

23.10 Sch XXII 26- Delegation of Financial Powers to sanction compensation on the basis of award of an NACT including interest.

Go through the MACT award and compare the proposal vis-avis its decisions.

23.11 Sch XXII 27 – Powers to sanction making of documentary/publicity films and advertisements/blow ups, from outside agency (where these can not be made through AFFPD/DAVP)

- a. Advise for Open tendering in such cases so that the best players in the market can participate in these cases.
- b. Seek details of similar cases done by Sister Organizations for fine-tuning requirements and getting idea of reasonability of rates.
- c. Ensure that these powers are exercised only in cases where Publicity/Documentary films etc. cannot be made through AFFPD/DAVP

23.12 Sch XXII 28 – Powers to sanction expenditure on ceremonial events

- a. See that AG is issuing a letter of allotment cum expenditure sanction covering anticipated expenditure on Ceremonial events (other than Republic Day, Independence Day and Investiture ceremony for which separate allotment is made to MoD) at the commencement of the year.
- b. See that the sanction also includes an appropriate provision for events which cannot be planned such as State Funerals, etc. Go by past records for examining this aspect.
- c. If required, examine the feasibility of concurring an appropriate advance from CDA on case to case basis.
- d. Ensure compliance of Rule 290, FR Part I Vol I for these powers.
- e. See that expenditure to be incurred on transportation charges is not being met from these funds.

23.13 Sch XXII 29 – Powers to sanction expenditure on research and development projects

- a. Go through MoD letter 88896/GS/FP-2/D(Q) dated 27.2.2002, which gives composition and charter of duties of Army Technology Board and Army Management Studies Board.
- b. See basic provisions of 'Rules of Business' issued vide Hqs ARTRAC letter PC-915065/Trg(JT&P) dated 26.4.2002 are being followed.
- c. The most important document is SOP for implementation of R&D projects for Army under ATB & AMSB issued by MoD vide their letter 278038/Doc/R&D Proj/SOP/1933-C/D(GS-II) dated 29.12.2003. Para 13 is especially important as it relates to the Role of IFA. Ensure full compliance of this SOP.
- d. See that MGO' sanction is taken only for in-house R&D effort/innovations/Technology translation project at ATC & ABWs.

- e. See that all powers of EME functionaries are exercised only after initial approval of MGO.

23.14 Sch XXII 30 – Non-recurring expenditure on objects enumerated in Rule 60(a) FR Pt. I

- a. Ensure compliance of MoD letter A/89591/FP-1/2041/2005/DGS-1 dated 14.9.2005 as amended.
- b. See that this expenditure is incurred only on following objects –
 - i. Donations when visiting Training Establishments, boy's Training units, etc.
 - ii. Provision of trophies, flags, etc for presenting to Training Establishments.
 - iii. Provision of amenity articles when visiting hospital as, welfare centres, etc.
 - iv. Similar grants.
- v. Misc expenditure incurred by COAS while on tour for which no specific provision exists in the Regulations, e.g., gratuities to servants, coolie hire, etc.
- c. Ensure that sanction is not done involving an express contravention of any existing rules contained in the authorized Codes of Regulations.
- d. Ensure that sanction is not given for grants for any services or individual projects on which the Govt of India have definitely refused previously to incur expenditure.
- e. Remember that there is an overall annual ceiling of Rs 100 lakh under these powers.

23.15 Sch XXII 31 – Hiring of porters and ponies

- a. Ensure compliance of MoD letter 48503/Q/ST-11/4810-A/D(QS) dated 22.9.92.
- b. Ensure that this is done as per the Rate contract concluded by Bde/Sub Area Cdr in IFA's consultation up to sanctioned budget allotment.

23.16 Sch XXII 32 Local purchase of chemicals and laboratory equipments for food inspection organisation

Ensure compliance of MoD letter 36550/Q/ST-8/3538/D(QS) dated 2.8.1991.

23.17 Sch XXII 33 Repair and maintenance of IWT (port craft) held on charge of transportation services through civil trade.

See the guidelines at Serial 10 of Schedule XII (E)9 for EME repair cases for processing these cases.

23.18 Sch XXII 34 Condemnation of capital items of plant and machinery of Military Farms

Ensure compliance of MoD letter A/87085/LC/Q/MF-3/5819/D(QS) dated 29.10.1998.

Note - The guidelines mentioned in this Chapter are additional points as applicable to Procurement items of this Schedule. For basic guidelines on various stages of procurement, Chapters 4, 5, 6 & 7 may be referred to, wherever applicable.

CHAPTER- 24

Check points for Sch XXIII

Powers to incur expenditure on Capital Procurements

24.1 Uniqueness of Sch-XXIII - The uniqueness of this Schedule is on account of following factors -

- a. DPM-2006 is not applicable. Instead, Defence Procurement Procedure (DPP) - 2006 in general and its Chapter I, II & V in particular, are relevant for IFAs. Defence Procurement Manual (DPM)-2006 is not applicable except as provided for in GoI, MoD(Fin. Div.) letter No. PC-11(1)/Bud.I/2007 dated 25.9.2007 for items listed in Annexures to the Govt. letter ibid. Para 26.2.1 (xi) of this Manual may be referred to.
- b. Delegation of Capital powers has been done primarily at Service Hqs level as under-
 - i. VCOAS – Capital Acquisition schemes
 - ii. DGAFMS – Medical equipments
 - iii. QMG & DDGMF – Plant & Machinery for Military Farms
 - iv. MGO, DGEME, ADG EME (RM), / Cdr Base Wksp Gp / MGEME and Comdt Adv / Army Base Wksp – Essential Plants, Machinery and Infrastructure Schemes for modernization of Workshops and EME establishments, where overall MoD sanction exists.
- c. The role of IFAs starts only from Tendering stage and they have no role to play at AON stage.
- d. Upto the stage of AON and inclusion in AAP, there would be no change from the existing practice as mentioned in DPP-2006. However, subsequent steps will be taken at AHQ and not by Acquisition Wing.
- e. Quantity vetting would be done by VCOAS (For Acquisition schemes) in consultation with MoD (Fin).
- f. RFP would be issued by respective Technical Managers duly vetted by VCOAS (For Acquisition schemes) and IFA.
- g. TEC, Field trials and Staff Evaluation Reports would be accepted by VCOAS (For Acquisition schemes).
- h. CNC would be chaired by an officer of the rank of Major General in which IFA, TM and rep of ADG WE would be members.
- i. CFA approval would be given by VCOAS (For Acquisition schemes).
- j. Contract monitoring would be done by AHQ in consultation with IFA.

24.2 Definitions - Capital Acquisitions are categorized as under: -

- a. Acquisitions covered under the 'Buy' decision. Buy would mean an outright purchase of equipment. Based on the source of procurement, this category would be classified as 'Buy (Indian)' and 'Buy (Global)'. 'Indian' would mean Indian vendors only and 'Global' would mean foreign as well as Indian vendors. 'Buy Indian' must have minimum 30 % indigenous content if the systems are being integrated by an Indian vendor.
- b. Acquisitions covered under the 'Buy & Make' decision would mean purchase from a foreign vendor followed by licensed production / indigenous manufacture in the country.

- c. Acquisitions covered under the 'Make' decision would include high technology complex systems to be designed, developed and produced indigenously.
- d. Upgrades - All cases involving upgrade to an in service weapon system / equipment will also be covered by this procedure. Such cases could be categorized under any of the categories as given above. The categorization may be carried out depending on scope of the proposal, availability of technology indigenously and the need for seeking critical technologies from foreign vendors.

24.3 Format of DPP-2006

- a. Chapter I - Defence Procurement Procedure for 'Buy' and 'Buy and Make' categories.
- b. Chapter II - Defence Procurement Procedure for 'Make' category. This chapter covers the procedure for Capital Acquisitions flowing out of 'Buy' and 'Buy and Make' decisions only.
- c. Chapter III - Procedure for Indigenous Naval Ship Building.
- d. Chapter IV - Fast Track Procedure – 2006 promulgated vide MoD I. D. No 333/Dir (Acq)/06 dt 13 Jul 06.
- e. Chapter V - Standard Contract Document for all Capital procurements.

24.4 Processing of Capital cases –

24.4.1 The acquisition process for schemes categorized as 'BUY' and 'BUY and MAKE with ToT', involves the following stages -

- i. Services Qualitative Requirements (SQRs).
- ii. Acceptance of Necessity (AON).
- iii. Solicitation of offers.
- iv. Evaluation of Technical offers by Technical Evaluation Committee (TEC).
- v. Field Evaluation.
- vi. Staff Evaluation.
- vii. Oversight by Technical Oversight Committee (TOC) for Acquisitions above Rs 300 Crs.
- viii. Commercial negotiations by Contract Negotiation Committee (CNC).
- ix. Approval of Competent Financial Authority (CFA).
- x. Award of contract / Supply Order (SO).
- xi. Contract Administration and Post-Contract Management.

24.4.2 MoD (Fin) ID Misc/Addl FA(M)/06 dated 26.7.2006 as modified vide No. even dated 16.1.2007 has prescribed following guidelines for exercise of Capital powers by services. For Army, the procedure will be as under

- i. Upto the stage of AON and inclusion in AAP, there would be no change from the existing practice.
- ii. Quantity vetting would be done by VCOAS (For Acquisition schemes) in consultation with MoD (Fin). It has been clarified by MoD (Fin.) that quantity vetting aspect would be looked into by the categorization committee under delegated powers to the Services also.

- iii. RFP would be issued by TM (Army) duly vetted by VCOAS (For Acquisition schemes) and IFA (Army).
- iv. TEC, Field trial and Staff Evaluation Reports would be accepted by VCOAS (For Acquisition schemes).
- v. CNC would be chaired by an officer of the level of Maj Gen in which IFA (Army), TM (Army) and reps of ADG WE would be members. CNC for Capital schemes upto Rs. 10 crores would invariably have DD (cost) or his rep as member.
- vi. CFA approval would be given by VCOAS (For Acquisition schemes).
- vii. Contract monitoring would be done by AHQ in consultation with IFA (Army).

24.4.3 Govt. of India, Ministry of Defence vide No. 470/Dir(Acq)/07 dated 12.9.2007 while conveying the sanction of President to enhancement of powers of Vice Chief of the Army Staff from Rs. 10 cr. to Rs. 30 cr. for sanctioning capital acquisition schemes for procurement of equipment and stores have prescribed the following change in procedure with immediate effect:

- (a) SCAPCHC will be competent to grant Acceptance of Necessity (AON), categorization and Quantity vetting in respect of procurement proposals up to the delegated powers of the Services HQrs. provided such proposals are included in the Five Year Plan. Any change therefrom would need the approval of the DPB.
- (b) Participation of Adviser (Cost) would be on actual requirement basis.
- (c) The Chairman of the CNC in the Services, to be nominated by the CFA, will not be below the level of Brigadier/equivalent rank. The level of the Finance and other members of the CNC will be decided by the IFA and other agencies concerned.
- (d) Where the CNC is attended by Jt. IFA/Dy. IFA or any other representative of Integrated Finance, the recommendations of the CNC will be sent for approval with the concurrence of the IFA
- (e) Procurement proposals of items upto Rs. 30 crores which have been approved on the basis of estimated prices as part of the procurement proposal of a main weapon system/platform will be negotiated by CNCs under the delegated powers and provided the cost is within the ceiling limit approved for the item (s) no fresh CFA approval will be required. Acceptance of CNC recommendations and expenditure clearance in such cases will be done by the CFA under the delegated powers. the linkage to the main proposal should be brought to the notice of the CFA under delegated powers.
- (f) The exercise of the financial powers is also subject to availability of funds in the sanctioned budgetary allotment under the relevant Budget Head.
- (g) The delegated powers also include procurement from foreign sources provided full rupee backing for the amount is available. Separate approval for release of FFE will not be required and release of FFE will only be noted by the respective Financial Planning Directorates after expenditure angle approval for the purchase has been given by the CFA.
- (i) Directorate of Financial Planning will keep a record of expenditures incurred under the delegated powers. Financial Planning division of HQ IDS will be the nodal agency for compiling data of the three Services. HQ IDS as nodal agency will submit the monthly expenditure report to FA (Acq) & AS.
- (j) All provision of DPP 2006 not affected by the decisions mentioned above and other orders/instructions/procedures concerning capital procurement will continue to be applicable to procurements under the delegated powers.

- (k) A flow chart highlighting the various stages of the Acquisition process indicating the concomitant responsibility in respect of Service HQrs. for exercising delegated powers is appended below.

Flow Chart for proposed Capital Acquisition

Stage	Responsibility
QR formulation	Service HQ
Categorization/AON/Qty. Vetting	SCAPCHC-For schemes included in 5 year Capital Plan
RFP	Any change therefrom –DPB *Collegiate Vetting by TM SHQ and IFA. * Issue of RFP by TM after approval of VCOAS
TEC	Approval through TM by VCOAS
Field Trials	
Staff Evaluation	
CNC	Not below the level of Brigadier Composition Maj Gen/Equivalent – Chairman IFA, TM, Rep ADGWE/Reps DGQA, Repair Agency, Contract Management Branch at SHQ. For CNCs at Brig level (Reps of IFA & TM).
CFA Approval	VCOAS with concurrence of IFA
Contract monitoring	Service HQ/ Joint Staff/IFA

24.5 Format of RFP –

- a.** The format of Capital RFPs is different from that of Revenue RFPs as given in Appx B of DPM-2006. Their format is given in Schedule I to Chapter I of DPP-2006. The RFP for Capital cases will be in four parts as under -
- i.** Part I. The first part consists of the general requirement of the equipment, the numbers required, the time frame for deliveries, the environmental parameters for functioning, conditions of usage and maintenance, requirement for training, Engineering Support Package (ESP), Offset obligations and warranty/guarantee conditions, etc. It includes procedure and last date and time for submission of offers.
- ii.** Part II. The second part of the RFP incorporates the aspects of SQRs describing the technical parameters of the proposed equipment. The operational characteristics and features that should be met by the equipment are elucidated at Appendix A of DPP-2006. The Supplier would be required to offer the equipment for field evaluation on a “No Cost No Commitment” basis.
- iii.** Part III. The third part of the RFP consists of the commercial aspects of the procurement, payment terms, performance guarantees, and guarantees against warranty services to be performed by the supplier. It also includes standard contract terms along with special contractual conditions, if any.
- iv.** Part IV. The fourth part defines the criteria for evaluation and acceptance, both in terms of technical and commercial contents. A format has been enclosed for submission along with commercial offer to facilitate preparation

of Comparative Statement of Tenders (CST) and identification of L1 vendor. Submission of incomplete format enclosed along with commercial offer will render the offer liable for rejection.

24.6 Vetting of RFP - Apart from seeing that the draft RFP matches this format, following points may be specifically seen by IFAs while vetting of RFPs –

- a. Part I –**
- i.** Delivery schedule - See that the acceptable range of delivery schedule of the equipment has been indicated clearly in the RFP. Ensure that the option for the supplier to indicate earliest delivery schedule is given only in unavoidable cases.
- ii.** Warranty - Ensure that Draft Warranty Clause is given at Appendix 'C' of Chapter I, DPP-2006.
- iii.** AMC clause – See that if post warranty AMC is also being sought from the OEM, the level of AMC required (with spares/without spares/repair rate contract) has been clearly indicated. Ensure that the details of AMC proposals will be submitted separately by the vendor with technical aspects being included in the technical offer and commercial aspects being included in the commercial offer. The same will be taken cognizance of while deciding the L1.
- iv.** In Service Life/Shelf Life – See that the In Service Life/Shelf Life of the equipment (as applicable) has been stipulated in the offer (in case of shelf life the relevant storage conditions should be clearly specified).
- v.** Training of Crew and Maintenance Personnel – See that SHQ has given broad details of the training sought.
- vi.** TOT – It is the technology which is required, and whose range could cover technology for repair and overhaul; production from CKD/SKD kits and production from raw material and components level. See that aspects which are to be included in the RFP in case production from CKD/SKD/IM kits are as per Appendix 'L' to Schedule I, Chapter I, DPP-2006. Ensure that care has been taken to spell out the selection criteria clearly. See that the nominated Production Agency (PA) for the receipt of technology has been closely associated in the preparation of RFP.
- vii.** Trials - basis. See that the details / scope of the trials, if other than NCNC in India, have been included as per the decisions during AON by the DAC/DPB.
- viii.** Secrecy details – Ensure that the cases involving equipment that need to undergo secrecy grading have incorporated details that the vendors need to provide as part of the technical offer. These details can be sought based on a Performa to be given by the SAG.
- b. Part II**
- i.** Operational Characteristics and Features – See that the broad operational characteristics and features that are to be met by the equipment are elucidated as per guidelines given in Appendix A, Chapter I, DPP-2006.
- ii.** See that the format of the compliance table for the technical parameters is attached as per Appendix 'B', Chapter I, DPP-2006.

c. Part III

- i.** See that the Commercial Offer is being sought as firm and fixed and will be valid for at least 18 months from the date of submission of offer (period may be amended, if required).
- ii.** See that the aspects of advance /stage payments, if any, and all requisite details for the vendor have been mentioned upfront in the RFP to formulate a comprehensive commercial proposal, so that selection of L1 is facilitated.
- iii.** See that the Payment terms are given as per Appendix 'F', Chapter I, DPP-2006.

d. Part IV

- i.** See that the Commercial format covers all aspects and is as per suggested format given at Appendix 'G', Chapter I, DPP-2006.
- ii.** See that the Option Clause (As applicable) is given as per the format given at Appendix J, Chapter I, DPP-2006.
- iii.** TOT clause - In cases where TOT is involved, see that the RFP includes the requirement for licence production under TOT. Ensure that the RFP has spelled out the requirements of TOT in range and depth of the technology required. These should cover technology for repair and overhaul, production from Completely Knocked Down (CKD) /Semi Knocked Down (SKD) kits and production from raw material and component level. See that aspects to be included in the RFP in case production from SKD/ CKD / Indigenous Manufacture (IM) Kits is based are as per Appendix 'L', Chapter I, DPP-2006. Normally, TOT will be negotiated along with the first procurement. However, there may be occasions where it is not feasible to negotiate the TOT simultaneously. In such situations, ensure that the RFP has clearly indicated that Government reserves the right to negotiate TOT terms subsequently and that the availability of TOT would be a pre-condition for any further procurement. In such cases, include terms and conditions of obtaining TOT in subsequent RFP.

24.7 Mode of tendering -

24.7.1 Global / Open / Limited tendering - See that the approved RFP is being issued to the short listed Original Equipment Manufacturer (OEM)/ authorised vendors/ Govt Sponsored Export Agencies(applicable in the cases of countries where domestic laws do not permit direct export by OEMs) by the TM (LS). Look for the applicability of para 24 (a), (b) and (c) of DPP-2006 to generate better competition through Open / Global tenders.

24.7.2 Repeat Order -

- a.** For equipment / systems / platforms already inducted into service, it may be necessary to go back to the OEMs for placing repeat orders. In such cases it may be ensured that the SQRs of the equipment are as per the previous order. Remember that all such cases would not be construed as single vendor cases and in such cases, after seeking AON, a commercial RFP can be issued to the vendor. These cases may fall under any of the following categories:-

- i. Additional Quantities. This may be necessitated to make up for deficiency in the existing scaling or to cater for the requirements due to new raisings / WWR / sector stores.
- ii. Replacement Equipment. This may be necessitated due to equipment declared 'Beyond Economical Repairs' (BER) or damages or loss to the earlier equipment by way of accidents / natural calamities or such like reasons.
- iii. Major-assemblies / sub-assemblies / Special Maintenance Tools (SMT) / Special Test Equipment (STE) / maintenance/ integration of Buyer Furnished Equipment (BFE).
- iv. Spares for All Levels of Maintenance. It must, however, be ensured that when spares etc are procured from OEMs of sub-assemblies, the assurances / warranties extended by the OEM for the main equipment retain their validity.

24.7.3 In Repeat order cases, where equipment has already been inducted into service and thereafter it involves change in SQRs / modifications of minor nature / upgrades of assemblies or subassemblies, see that DAC/DPB has given specific approval for Mode of tendering to be adopted.

24.7.4.Remember that for repeat orders to be placed on OFB for Capital items included in the AAP, indents can be placed on OFB.

24.7.5 Remember that if repeat order is to be placed for equipment/system, which has been indigenously developed or for which TOT has been obtained earlier by a DPSU/OFB, it would not be treated as a 'single vendor' case and only commercial RFP would be issued. Remember that it is to be checked prior to placing further orders that the technology absorption levels, agreed to while concluding TOT contract, have been achieved.

24.7.6 Remember that if equipment proposed to be procured has already been procured by a sister service after following due process, then such cases would be treated as repeat order and provisions of para 64 to 67 would apply.

24.8 Participation in Pre-bid meetings – Consequent of the issue of RFP, a number of queries relating to the RFP may be raised by the vendors. Confirm that all the queries were answered in an acceptable time frame so that the vendors are able to submit their techno-commercial offers on due date. If a pre-bid meeting of all the vendors is invited by the user directorate, then attend the same along with representatives from Weapons Equipment Dte / Dte of Plans, TM's rep and Finance Manager. See that the clarifications are given in writing to all the vendors by the Technical Manager as per discussions held in meeting. However, ensure that the parameters of RFP (SQRs) are not being changed/ amended at this stage. Cases involving clarifications regarding the TOT aspects may be dealt by the Production Agency in a similar manner.

24.9 Return of Commercial Proposals – As per Amendment – I of DPP-2006, Situations would arise when the validity of the commercial offers submitted by vendors expire before acceptance of staff evaluation report. In such cases, vendors would be given an option to either extend the validity of the commercial offer for a specified period or to submit fresh commercial proposals. For cases where vendors want to submit fresh commercial proposal, their old proposals would be returned

unopened to them. However, for the cases where the RFP is retracted after submission of the bids or a vendor is rejected at TEC/Trial/Staff Evaluation Stage or a vendor unilaterally withdraws from the acquisition process, their commercial offers would be returned unopened to them.

24.10 Participation in Contract Negotiation Committee (CNC) –

- a. See that the process of commercial negotiations is commencing only after Staff Evaluation Report and TOC Report has been accepted by the CFA.
- b. See that the standard composition of the CNC is as per Appendix B, Chapter I, DPP-2006.
- c. Remember that the concerned organisations/ agencies are required to ensure that their representatives in the CNC have adequate background and authority to take a decision without any need to refer back to their organisation/agency.
- d. Remember that the CNC has to carry out all processes from opening of commercial bids till conclusion of contract. See that the sealed commercial offers of the technically accepted vendors is being opened by the CNC at a predetermined date and time under intimation to vendors, permitting such vendors or their authorized representatives to be present.
- e. Ensure that the bids of the competing firms is being read out to all present and signed by all members of the CNC.
- f. See that the preparation of a 'Compliance Statement' is done by incorporating the commercial terms offered in the RFP and that sought by the vendor(s), analysis of the discordance and the impact of the same. Ensure that a similar statement is prepared in regard to deviations noticed in the delivery schedules, performance warranty, guarantee provisions, acceptance criteria, Engineering Support Package (ESP) etc. Remember that the comprehensive analysis of the commercial offer would form the basis for subsequent decisions.
- g. Involve yourself in CNC in preparing a Comparative Statement of Tenders (CST) with a view to evaluate the technically acceptable offers and determine the lowest acceptable offer (L1 Vendor).
- h. Ensure that in 'Buy (Global)' cases while carrying out evaluation of bids to determine L1, in order to neutralize the impact of taxes and duties payable by Indian industry, following guidelines are followed:-
 - i. In case of foreign supplier, the basic cost (CIF) quoted by him should be the basis for the purpose of comparison of various tenders.
 - ii. In case of indigenous suppliers, excise duty on fully formed equipment would be offloaded.
 - iii. Sales tax and other local levies, i.e. octroi, entry tax etc would be ignored in case of indigenous suppliers including Defence PSUs / OFs.
 - iv. The payment conditions should be similar for domestic private suppliers, Defence PSUs / Ordnance Factories and the foreign suppliers.
 - v. DCF method would be used for evaluation of bids as given in Appendix F, where applicable.
- i. Remember that in multi vendor cases, on opening of commercial offers, once L1 vendor is identified the contract should be concluded with him and there would be no need for any further price negotiations. However, negotiations can be held in exceptional circumstances where valid logical reasons exist and such negotiations should be held only with L1. In case of procurement of new equipment on single vendor/resultant single vendor basis, ensure that

CNC has established a benchmark and reasonableness of price in an internal meeting before opening the commercial offer. Once the commercial offers are opened and the price of the vendor is found to be within the benchmark fixed, in the internal meeting, there should be no need to carry out any further price negotiations.

- j.** Ascertain details for cases for which contracts have earlier been signed and benchmark prices are available. Arrive at the reasonable price, taking into consideration the escalation/foreign exchange variation factor.
- k.** For certain category of items, where orders have been placed in the past or involves invoking of the Option Clause, there could be downtrend of prices since the last contract. Verify that there has been no downward trend since the last purchase.
- l.** It would be desirable to negotiate the license production contract along with the contract for the finished product. In cases where this is not feasible, ensure that the purchase contract includes a clause wherein the vendor agrees to negotiate the licence contract at a subsequent date, thus obtaining a commitment from the vendor to part with the TOT. In cases, where TOT for Maintenance Infrastructure is being sought, ensure that the maintenance contract involving the OEM and the industry receiving the technology is also negotiated along with the main contract.
- m.** To ensure product support during the assured life cycle of the product, ensure that the CNC finalizes the following with the L1 vendor:-
 - i.** Assured supply of information on product / technological improvement, modifications and upgrades.
 - ii.** Obsolescence management and life time purchases.
 - iii.** An illustrated spares price catalogue with base price and pricing mechanism for long term.
- n.** Ensure that an undertaking is sought from the bidder that he has not supplied/is not supplying the similar systems or subsystems at a price lower than that offered in the present bid in respect of any other Ministry/Department of the Government of India and if the similar system has been supplied at a lower price then the details regarding the cost, time of supply and quantities is given. Remind the vendor that if it is found at any stage that the similar system or sub-system was supplied by the Bidder to any other Ministry/Department of the Government of India at a lower price, then that very price with due allowance for quantities and intervening time period would be applicable to the present case and the difference in the cost would be refunded by the Bidder to the Buyer, if the contract has already been concluded.

24.11 CNC Report -

- a.** Ensure that the CNC documented the selection of vendor using a formal written recommendation report addressed to the relevant approval authority. See that the report is complete in all respects, particularly in comprehensively elaborating the method of evaluation and the rationale for the selection made.
- b.** See that all CNC members have signed the recommendation report, in the interest of probity and accountability, as evidence that they concur with the process adopted and the ultimate selection made. Ensure that any dissenting view, including the reasons for the same, has been documented.

- c. Remember that for DRDO schemes, the task of the CNC would be limited to firming up the scope, identifying milestones and the likely cash outgo based on costs estimated by Additional Financial Advisor (Addl FA) DRDO.
- d. Ensure that the report of the CNC includes following : -
 - i. A brief background to the requirement.
 - ii. Composition of the CNC.
 - iii. An explanation of the commercial evaluation process, selection criteria and commercial evaluation matrices, if used.
 - iv. Brief description of different phases of the commercial negotiation process.
 - v. A summary of the recommendations.

24.12 Expenditure Angle concurrence –

- a. **CNC Minutes** - See that the final proposal is as per recommendations of CNC. Go through CNC report carefully to see that all their views have been covered in final proposal / draft Contract.
- b. **Re-tendering** – Remember to apply Amendment – II of DPP-2006 in case a decision on re-tendering is being taken.
- c. **Cases Not Falling under Single Vendor Situation** – Remember that following cases will not be treated as Single vendor cases as per para 70, Chapter-I, DPP-2006 -
 - i. Cases in which bids had been submitted by more than one bidder in a competitive manner, and the Staff Evaluation after trials shortlists only one equipment for introduction into service, would not be considered as a single vendor situation, as the techno-commercial offers would have been received before trials and the commercial bids were competitive in nature. Bidders had submitted their offers in an open competition and were not aware of any single bidder getting approved after the trials.
 - ii. Cases which are being undertaken by DRDO/ Defence PSUs / OFB and RURs, as a design and development projects, would not fall in the category of Single Vendor cases. However, approval of DAC for carrying out the design and development need to be sought prior to commencing the design and development process.
 - iii. If DPSU/ OFB signs a MOU with a foreign firm for co-production / ToT / procurement of equipment to be offered to services with approval of DAC then such procurements, at a later point of time, would not be considered single vendor cases requiring approval of DAC again. Alternatively if the DPSU/OFB signs a MOU without the approval of the DAC then it would have to compete in a competitive manner for the said procurement.
- d. **Strategic purchase decisions** - In certain acquisition cases, imperatives of strategic partnerships or major diplomatic, political, economic, technological or military benefits deriving from a particular procurement may be the principal factor determining the choice of a specific platform or equipment on a single vendor basis. These considerations may also dictate the selection of particular equipment offered by a vendor not necessarily the lowest bidder (L1). Ensure that decisions on all such acquisitions are referred to DPB for recommendations to CCS for decision.
- e. **Vetting of contract** – The Standard Contract Document at Chapter V, DPP-2006 indicates the general conditions of contract that would be the guideline

for all acquisitions. Look for any deviations from it and seek details, if any. However, if there is a situation where India has entered into agreements with a single vendor / country regarding specific contractual clauses, then the terms and conditions of such agreements would supersede the corresponding standard clauses of DPP-2006.

- f. Inter Governmental Agreement** - There may be occasions when procurements would have to be done from friendly foreign countries which may be necessitated due to geo-strategic advantages that are likely to accrue to our country. Such procurements would not classically follow the Standard Procurement Procedure and the Standard Contract Document but would be based on mutually agreed provisions by the Governments of both the countries. Such procurements will be done based on an Inter Governmental Agreement after clearance from CFA. Note that following cases would fall under the preview of this provision -
- i.** There are occasions when equipment of proven technology and capabilities belonging to a friendly foreign country is identified by our Armed Forces while participating in joint international exercises. Such equipment can be procured from that country which may provide the same, ex their stocks or by using Standard Contracting Procedure as existing in that country. In case of multiple choices, a delegation may be deputed to select the ones, which best meets the operational requirements.
 - ii.** There may be cases where a very large value weapon system / platform, which was in service in a friendly foreign country, is available for transfer or sale. Such procurements would normally be at a much lesser cost than the cost of the original platform/ weapon system mainly due to its present condition. In such cases, a composite delegation would be deputed to ascertain its acceptability in its present condition. The cost of its acquisition and its repairs / modifications would be negotiated based on Inter-Governmental Agreement.
 - iii.** In certain cases, there may be a requirement of procuring a specific state-of-the-art equipment/platform, however; the Government of the OEM's country might have imposed restriction on its sale and thus the equipment can not be evaluated on 'No Cost No Commitment' basis. Such equipment may be obtained on lease for a specific period by signing an Inter-Governmental Agreement before a decision is taken for its purchase.
 - iv.** In cases of large value acquisition and especially that requiring product support over a long period of time it may be advisable to enter into a separate Inter Government Agreement (if not already covered under an umbrella agreement covering all cases) with the Govt of the country from which the equipment is proposed to be procured after the requisite inter ministerial consultation. Such an Inter Governmental Agreement is expected to safeguard the interests of the Govt of India and should also provide for assistance of the foreign Govt in case the contract(s) runs into an unforeseen problem.

24.13 Time-frame for processing Capital cases - Broad time frame for completion of different procurement activities, given at Appendix C, DPP-2006, should be adhered to by IFAs for their work.

CHAPTER- 25

Special Financial Powers – (A) Check points for OP Sadbhavana (B) Check points for OP Meghdoot

(A) Delegation of special financial powers to formation commanders to undertake civic action in J&K under Operation Sadbhavana

25.1 The basic orders governing the expenditure out of OP Sadbhavana funds are detailed hereunder which may be kept in view while scrutinizing the sanctions accorded at each stage:

- a. Defence Procurement Manual 2006.
- b. GoI MoD letter No. 4(6)97/D(GS-V) dated 16.12..2002 as amended vide GoI Order even No. dated 14.1.2003 and 23.4.04. As extended from time to time.
- c. SOP for OP Sadbhavana issued by PCDA (NC) Jammu vide their No. M/II/OP SADN/CONC dated 12.7.04.

25.2 PURPOSE FOR WHICH EXPENDITURE UNDER OP SADBHAVANA CAN BE INCURRED

- (a) Construction/Repair to existing community buildings such as Schools, Hospitals, Health Centres, Community halls etc.
- (b) Development activities such as track construction, small bridges across streams, water supply, minor electrification etc.
- (c) Running of health camps, medical camps, dental camps, veterinary camps etc.
- (d) Initiation of projects for improvement and care of livestock, agriculture techniques, orchards, afforestation etc.
- (e) Payment for artificial limbs for civilians maimed during shelling/IED blast.
- (f) Contingency expenditure in respect of 'OP Sadbhavana' for civic action programmes by respective CFAs limited to 2.5% of total expenditure incurred by him.
- (g) Running and maintenance of all assets like schools, Health Centres, Vocational Training Centres, etc. created till the time these assets are taken over by the State Govt./Civil administration.
- (h) Funding of educational and motivational tours and visits for the local youth and weaker sections of the society to other parts of the country.
- (i) All aspects of Human Resource development including maintenance and upkeep of equipment procured, running costs, salary payment to staff employed for OP Sadbhavana institutions and acquisition of spares.
- (j) Grant of scholarship for needy students to pursue their studies. The assistance in this regard would cover tuition, board and lodging of the students.

25.3 Acceptance of Necessity Stage

The points detailed below are observed by the IFAs for the proposals under delegation of special financial powers with IFA concurrence, however, similar drill may also be followed while audit of sanctions accorded under inherent powers of CFAs.

25.3.1 Scrutiny of proposal

- a)** that the project has been included in the approved plan for the year issued by the competent authority assigning particular activity.
- b)** A comprehensive Statement of Case which includes full details regarding overall estimated cost of procurement, construction etc., technical specifications, and overall deficiency of the items to be procured, existing quantity and the short falls. How the requirement has been worked out, likely benefits etc., i.e. whether proper justification for Project/procurement has been mentioned on file.
- c)** No Objection Certificate and land availability certificate from civil administration has been enclosed. It will be seen that no project will be executed either on Defence land or on land owned by private parties.
- d)** A proper breakup of the overall estimated project expenditure has been placed along with details and quantity of items to be procured. Estimates have been prepared by the Engineering authorities (in case of projects involving Civil works).
- e)** The GOC-in-C, Northern Command approved list of OP Sadbhavana projects for the financial year to which the proposal pertains. The project being processed should be part of such list.
- f)** Recommendations of the civil authorities regarding suitability and feasibility of undertaking the project, the benefits to the local population anticipated, willingness of civil administration to take over the project/assets created for future maintenance/running, after completion of the project have been given.
- g)** Allotment letter for checking the availability of funds to meet expenditure on account of the project.
- h)** The list of approved vendors have been placed. At least 10-12 vendors must be included in the list of vendors.
- i)** Draft Tender Enquiry incorporating all the terms and conditions required to be complied with by the approved vendors to whom the TE will be issued.
- j)** Separate formats for submission of Technical and commercial bids be incorporated in the TE.
- k)** Two bid systems should be followed where stores required are of technical nature.
- l)** Important supply related terms and conditions like delivery schedules, assurance cum performance bank guarantee, LD clause, warranty, payment terms, validity of commercial bids etc. should be incorporated in the TE (As per DPM 2006).

25.3.2 Tender Enquiry

(a) Various points to be seen while auditing tender enquiry are as under which should have been complied with while vetting tender enquiry in cases where the proposals have been concurred by the designated IFA.

- i.** At least 10-12 Vendors must be included in the list of vendors.
- ii.** There must be no black listed firm in the vendor list.
- iii.** Only Original Equipment Manufacturer (OEM) and OEM authorized vendors have been allowed to quote for items.

- iv.** Separate Schedule for submission of technical and commercial bids must be attached with the TE.
- v.** Bids must be submitted on the original form supplied alongwith the TE.
- vi.** Delivery period is specified in the TE LD Clause including Admn expenses and not by way of penalty a sum equivalent to 0.5% of the price of any stores which the contractor has failed to deliver within the specified period for each week or part thereof subject to a maximum of 5% of undelivered goods has been included.
- vii.** Performance cum Assurance Bank Guarantee @10% of the value of SO should be asked within seven days from the date of issue of SO.
- viii.** The bidders have been asked to furnish bid security along with their bids which should range between 2 to 5% of the estimated value of goods/work.
- ix.** Warranty must be specified which should be minimum of one year.
- x.** Validity of commercial bid has been asked in the TE.
- xi.** Payment terms should be precise. Normally 80% payment is permitted after delivery of stores and balance 20% after completion of installation, acceptance, testing and training.
- xii.** Place of delivery must of specified in the TE.

(b) After the above drill, initial concurrence is accorded by the IFA for further processing of tender enquiry i.e. receipt of tenders, opening of tenders, holding of TPC/PNC Boards, preparation of CSTs, identification of lowest tenderer and holding of price negotiation with the L-1 Bidder.

25.4 Expenditure Sanction

Following points will be looked in to in expenditure sanction accorded by the CFA:

- a)** See that concurrence of IFA accorded vide UO No. and date has been placed in file alongwith sanction of CFA to the expenditure concurred
- b)** See that the Tender Purchase Committee has been constituted in terms of para 18.6 of the SOP issued by PCDA (NC) Jammu.
- c)** That IFA rep has been included in the TPC/PNC for purchases/projects costing above Rs. 5.00 lakhs.
- d)** Commercial bids of only technically approved vendors have been opened.
- e)** Comparative statement of tenders is correctly prepared from commercial bids and L-1 vendor is the same as per CST. Assessment of reasonability of the lowest rates achieved has been recorded. If not price negotiation has been carried out with the L-1 (only) for getting the quoted rates reduced.
- f)** That the minutes of TPC/PNC meeting has been signed by the IFA rep and other members of the Board and
- g)** That Supply order has been placed on the L-1 Firm the draft of which has been vetted by the IFA.
- h)** Expenditure on the projects is to be incurred out of Major head 2076, Minor head 800 B, other Miscellaneous charges

25.5 Schedule of delegation of special financial powers in respect of formation commanders to undertake civic action under OP Sadbhavana in J&K

CFA	Financial power Without concurrence of IFA	Financial power With concurrence of IFA
GOC-in-C Northern Command GOC-in-C Western Command	Rs. 4.00 Lakhs per transaction	Rs. 100 Lakhs per transaction
GOC 14 Corps GOC 15 Corps GOC 16 Corps GOC 9 Corps	Upto Rs. 2.00 Lakhs per transaction	Rs. 40 Lakhs per transaction
GOC Div and equivalent formation commanded by Maj Gen	Upto Rs. 1 Lakh per transaction	Rs. 10 Lakhs per transaction
Bde Cdr and equivalent commanded by Brigadier	Upto Rs. 1 Lakh per transaction	Rs. 5 Lakhs per transaction

25.6 POST CONTRACTUAL EVENTS

25.6.1 Extension of Delivery period

It would be seen that IFA has been consulted in case where extension of delivery period has been proposed with/without LD. The following points will be seen.

- (a) Whether the reasons mentioned by the executive authorities for delay by the supplier in his request letter for seeking extension of delivery period were genuine.
- (b) In case it was considered that reasons put forth were not genuine LD imposed was in terms of clause of Supply order and that amount worked out is correct.

CHECK LIST SPECIAL RATIONS (FOR TROOPS DEPLOYED IN OP MEGHDOOT)

25.7 Special ration is authorized to the troops deployed in (OP Meghdoot) Siachen Glacier, Kargil, Drass, Batalik, Turtuk & areas above 12000 feet due to adverse climatic conditions and extremely difficult terrain, where the energy requirement is higher than at other locations and due to low atmospheric pressure, it is difficult to cook food. Most of the special ration items are rich in calories and are ready to eat type requiring no or less cooking.

25.7 Orders on subject

- a) GOI, MOD letter No. 66195/Q/ST 6/516/D(QS) dated 20th June 1986.
- b) GOI, MOD letter No. 63701/SPL/Q/ST-3/5589/D(QS) dated 02nd Dec 1986.
- c) GOI, MOD letter No. 66195/Q/ST-6/770/D(QS) dated 17th Feb 1988
- d) GOI, MOD letter No. 66195/Q/ST-6/3732/D(QS) dated 30th July 1992
- e) GOI, MOD letter No. 66195/Q/ST 6/3280/D(QS) dated 19th Sep 2002.
- f) GOI, MOD letter No. 66195/Q/ST-6/3264/D(QS) dated 07th Oct 2005.
- g) Defence Procurement Manual (DPM)-2006
- h) PC/RAKSHA/63060/Q/ST5/3633/D(QS) dt 26th Sep 2006.

- i) Sch-XII to GOI, MOD letter No. A/89591/FP-1/1974/D(GS-I) dt 26th July 2006.
- j) Corps Order No. 06/99 dated 27th May 1999 (SOP) issued by DG S&T and Comdt ASC

25.9 Processing of proposals for according financial concurrence for procurement of Spl rations:-

25.9.1 Every proposal file must be submitted in duplicate to IFA's office with all notings on left hand side and rest of the case documents on right hand side. Duplicate/Shadow case file will be retained in IFA's office while the original case file will be returned to the executive authorities after the proposal is processed in IFA's office with remarks.

25.9.2 Every case file, when received in the 'Receipt & Dispatch (R&D) section for the first time, will be allotted a unique proposal ID Number, by the receipt clerk.

25.9.3 Every case file should be supported with the following information:-

- a. Code Head under which the expenditure is proposed.
- b. Total allocation under the Code Head.
- c. Committed Liability carried forward from previous year
- d. Balance available for fresh commitments in current financial year **{{ii)-(iii}}**
- e. Commitments already made during the current financial year.
- f. Cash Outgo expected in current financial year against (v) above based on schedule of delivery and payment terms in supply orders/contracts.
- g. Net balance available for further concurrence **{{iv) – (vi)}**.

25.9.4 It should be ensured that item for which tendering action has been carried have been demanded by the troops.

25.9.5 The Panel Proceedings pertaining to evaluation of the item wise rate quoted by different vendors and recommendations regarding such rates of the Panel of Officers constituted by the CFA for such purpose, have been placed on file duly signed by all members.

25.9.6 The following points are to be seen while examining the Panel Proceedings:-

- a. That the Comparative Statement of Tenders (CST) has been prepared and L-I vendor has been identified correctly. The following information must be shown in the CST:-
 - i. Details of services/supplies for which rates have been tendered.
 - ii. The requirement (quantities) for a particular item/service as mentioned in the schedule to the tender forms.
 - iii. Average Wholesale Market Rates for the last three years/previous three TPCs.
 - iv. Last three LP Rates.
 - v. The item wise rates quoted by the different vendors.
- b. The CST should be a complete document in itself since any decision regarding giving Invitation Offer (I.O) to the L-I vendor for price negotiations, recommending acceptance of the L-I vendor's rate(s) as reasonable or re-tendering by the Panel of Officers is based on the CST.

- c. That the item wise RR(Reasonable rate) has been fixed by the Panel of Officers on the basis of average of last 3 LP rates inflation during the last two years (checked from Wholesale Price Index published by the Govt at regular intervals) and prevailing local market rates, in neighbouring regions, is reasonable.
- d. The Panel of Officers should have been examined the L-I vendor's rate(s) with reference to the Reasonable Rate fixed by the Panel of officers before opening of tenders.
- e. If the rates quoted by the L-I vendor are found to be at par or below the RR determined earlier by the Panel of Officers, such rates of the L-I vendor will be recommended for acceptance by the CFA. In such case, no Invitation Officer will be made to the L-I vendor.
- f. If the L-I vendor's rate(s) is higher than the RR, an Invitation Officer should be made to the L-I vendor in writing, to call him for price negotiations with the Panel of Officers. After conclusion of price negotiations, the Panel of Officers should obtain the L-I vendor's revised (reduced) rates in writing. If the revised rates are still higher than RR, the Panel of Officers may consider recommending the rates for retender if the difference is marginal, otherwise, the Panel of Officers may recommend for acceptance.
- g. If the Panel of Officers has recommended particular item wise rates for acceptance, then the Contract Period for which the rates would be applicable, should be specified in the P.O.O.' proceedings.
- h. All purchases will be made from original manufactures/producers, authorized Wholesale Distributors/dealers, C&F agents and business establishments, who are authentically known to be in business of commodity which is intended to be purchase.
- i. The items intended to be purchased will be critically examined for its date of manufacture/packing to ensure that the items of latest date if manufacture only are procured.
- j. The food items intended to be purchased will be identified keeping the regional food habits and preferences of troops deployed from time to time and sanction of GOC-in-C has been obtained.
- k. All items procured through local purchase will be subjected to inspection/samples by nominated ASC unit and analysis by designated CFL for its fitness for consumption by the troops.

25.10 Accordance of the provisions contained in the in the foot notes of Govt letters dated 17th Feb 1988 & 30th July 1992, the items are procured on cost to cost basis, as the Govt letters ibid exhibits that **“to meet the taste the troops, any other item not listed in the scale of rations given above may be purchased on specific demand from the formation deployed on ‘OP MEGHDOOT’ and on the sanction of GOC-in-C HQ Northern Command, but the cost of such items purchased shall not exceed the cost of items under-drawn/not-drawn”**. Sanction of the GOC-in-C HQNC should be obtained on file to purchase on cost to cost basis.

25.11 That the Procurement procedure has been followed as per DPM-2006

25.12 That the items being procured are as authorized by the GOI vide their letter No.66195/Q/ST-6/3732/D(QS) dated 30th July 1992.

CHAPTER- 26

Budgetary Management

26.1 Authority for IFAs in Budget Management –

(a) The role of IFAs in Budgetary Management has been codified in **Ministry of Finance OM F.No.5(6)/L&C/2006 dated 1.6.2006** as under –

(i) **Budget formulation** - FAs would continue to be responsible for budget formulation. They would bring in more analytical inputs into the budget formulation process, for improved budgeting and facilitating moving from 'itemized' to 'budgetary' control of expenditure. The present system relies largely on previous year's programme allocations and continuing commitments, without any real evaluation and expenditure analysis. FAs would now increasingly be required to assist the Administrative Ministries/Departments in moving towards zero based budgeting, and assist in better inter se programme prioritization/allocation within indicated budgetary ceilings, based on analysis of expenditure profiles of each programme/sub-programme and information on cost/centres/drivers; assessment of output, outcome and performance; and status of the projects/programmes (e.g. priority to last mile projects). Chief controllers of Accounts/Controllers of Accounts (CCAs/CAs) will support them in this function. Such an analysis at the time of initial budget formulation should, over a period of time, help in enforcing hard budget constraints and reducing reliance on supplementaries. As the FAs' internal budgetary exercise becomes more rigorous, their involvement in MoF's budgetary processes will increase.

(ii) **Outcome Budget** - Administrative Ministries will now be required to prepare their respective 'outcome budgets' by late March each year, on the basis of the 'Annual Financial Statement' presented in the Parliament in February. The 'outcome budget' would reflect the outlays in terms of outcomes, defined in measurable and monitorable terms. Reasonability of budget estimates, vis-à-vis the intended outcomes, will be ensured through specific appreciation of the unit costs of outcomes/delivery. Major schemes should have built-in provision for their evaluation by independent agencies, which may be appointed by the Administrative Ministries and/or Planning Commission/MoF. FAs would be actively involved in the preparation of outcome budgets. They would also assist the Administrative Ministries in clear definition of measurable and monitorable outcomes with specified deliverables; setting up appropriate appraisal, implementation/delivery, monitoring and evaluation systems; and ensuring actual achievement of the intended outcomes.

(iii) **Performance Budget** - Administrative Ministries will also be required to prepare their respective 'performance budgets' by late March each year, indicating the 'outcome' of the 'Outcome Budget' of the previous fiscal year at least up to December end. Thus, while Annual Financial Statement and Outcome Budget would be for the ensuing financial year, the Performance Budget would present the picture of actual achievements/performance for the financial year gone by. FAs would be actively involved in, and coordinate under the overall direction of the Secretaries concerned, the preparation of performance budgets for their respective

Administrative Ministries. In essence, Budget Formulation, Outcome Budget and Performance Budget must link present, future and past in an integrated manner.

(iv) FRBM related tasks - The Fiscal Responsibility and Budget Management Act requires the Government to place disclosure statements before Parliament along with the Annual Financial Statement and the Demands for Grants. CCAs/CAs as heads of the Accounts wing shall render their professional expertise in the functioning of financial management system. FAs would be responsible for preparation of these statements in respect of their Ministry/Department for incorporation in the consolidated statements compiled by the Ministry of Finance for the Government as a whole. FAs would also provide requisite information and material as input for FM's quarterly review of fiscal situation to be presented to the Parliament.

- (a) The **Report of Committee on delegation of Powers in 2006**, approved by Raksha Mantri, has emphasized the role of IFAs in Budget management as under –
- (i) Revenue Prioritized Plan will be prepared at each level of CFA, as a subset of the overall Procurement Plan for all major areas of procurements at Hqs level and Command level in respect of various Budget Holders, in consultation with IFAs.
 - (ii) The Budget allocation at various stages against Sub heads and detailed Heads should be formally notified after due consultation with IFAs, so that there is proper linkage between expenditure and budget available and timely re-appropriation of allocation and optimal budget utilization is ensured.
- (b) Earlier, **Government of India, Min. of Def., New Delhi letter No. 6(1)/97/D (O-I) dt. 08.04.1997** prescribed the role of IFA (Army) in following budgetary activities –
- (i) Rendition of quarterly report by all Budget Centres in the format as at Annexure 'E' to IFA (Army HQrs.) among others.
 - (ii) MGO to report, through IFA, overspending/underspending to MOD/MOD(Finance) with reasons for the same and with suggested remedial measures to rectify such overspending /underspending to enable the Ministry to take appropriate necessary action .
 - (iii) MGO to carry out, in association with the IFA, final review on the implementation of Provisioning and Procurement Plan vis-à-vis objective/target disciplinewise at the end of each financial year. The subsequent Provisioning and Procurement Plan, when submitted for approval, should be supported by a report on the said review.

26.2 The Existing Budget System -

26.2.1 Structure - The Defence budget is presently allocated under the following Demands -

- i Major Head 2076 – Revenue Expenditure: Army (Demand No 23).
- ii Major Head 2077 – Revenue Expenditure: Navy (Demand No 24).
- iii Major Head 2078 – Revenue Expenditure: Air Force (Demand No 25).
- iv Major Head 2079 – Revenue Expenditure: Defence Ordnance Factories (Demand No 26).

- v Major Head 2080 – Revenue Expenditure: Defence Services, Research and Development (Demand No 27).
- vi Major Head 4076 – Capital Expenditure: Defence Services (Demand No 28).
- vii The revenue expenditures of the Directorate General of Quality Assurance (DGQA) and the National Cadet Corps (NCC) form part of the Army's revenue budget. The Army budget also accounts for the Ex-servicemen Contributory Health Scheme (ECHS), which covers the medical expenses of ex-servicemen of all the three services. The revenue expenditure of Joint Staff, which takes care of Headquarters Integrated Defence Staff, The Andaman and Nicobar Tri-service Command and the Strategic Forces Command, is under the Navy's budget. It is interesting to note that the entire Capital expenditure of the defence services is covered under one major head.
- viii The following allocations that are also made to the Ministry of Defence under separate demands do not form part of the Defence budget:
- a). Civil Estimates of the Ministry: These cover the expenditure of the Secretariat and other civil departments of the ministry, Coast Guard, The Regiment of Jammu and Kashmir Light Infantry and the Canteen Services.
- b). Defence Pensions: These have been segregated from the defence budget since financial year 1985-86.
- ix The existing budget is divided into Revenue and Capital Expenditure. The Revenue Expenditure comprises Pay and Allowances, Transportation, Stores, Revenue Works and Miscellaneous Expenditure. The Capital Expenditure covers Land, Works and Acquisition of Equipment (including aircraft and vehicles). While allocations in 'Revenue' are based primarily on the trend of expenditure in the past, capital budget is limited by allocations made by the Government.
- x **MoD(Finance) vide UO No. 256/Dir/Finance budget/07 dated 09.02.2007** in regard to classification of expenditure under capital and revenue has clarified as under:
- a) An item has to be viewed as Capital or Revenue keeping in view guidelines given in Rule 90 and 91 GFR-2005.
- b) Subject to an item being capital in nature as per these guidelines the **first buy** of such an item has to be booked to capital budget if it costs more than Rs. 10 lakh and has life of more than 7 years, in which case the proposal has to be processed accordingly. If the cost is less than Rs. 10 lakh and the life is less than 7 years, it may be booked to Revenue head.
- c) **Any replacement of such item** will be booked to Revenue head unless the replacement results into enhancement of capabilities.
- d) The fact that an item figures in the PPP is not sufficient ground for treating it as a revenue item if it otherwise qualifies to be treated as capital items.
- e) Vehicles will not be bought under Tele Adm Grant, as this would be in violation of the economy instructions.
- xi. **MoD (Fin. Division) vide letter No. PC-11(1)/Bud.I/2007 dated 25.9.2007** has decided that expenditure on items listed in Annexure I to the Govt letter *ibid* will be booked to Capital heads as shown in the Annexure to this chapter subject to the cost-life criteria being met in individual cases. **Procedure as laid down in Defence Procurement Manual 2006 will be followed for procurement of the items mentioned in the Annexure and the CFAs for sanctioning such procurements will be determined with**

reference to the orders issued in 2006 concerning delegation of financial powers for revenue procurements. However, offsets will not be applicable in respect of purchases under these orders. It has also been clarified that expenditure on Motor Vehicles and Machinery & Equipment are required to be classified as capital expenditure even if procured as 'replacement' of existing assets, subject to fulfillment of the cost-life criteria.

26.2.2 The Budgeting Process - The budgeting for the ensuing financial year starts with the Forecast Estimates (FE), which are submitted to the Ministry of Defence by each service HQ in the month of November of the previous year. FE is indicative projections of requirements of funds by the services for the forthcoming financial year. The FE is followed by projections for the Budget Estimates (BE) in December. There is expected to be more fine-tuned requirement of funds for the ensuing financial year. During the course of year, expenditure and Budget allocation is done/modified on the basis of 4 Budgetary Reports received from Users. They are Preliminary Estimates, Preliminary revised Estimates, Revised Estimates and Modified Appropriation Reports.

26.2.3 Defence Services Estimates - The DSE, which is presented in the Parliament during the budget session, lists out the allocation of funds for the relevant financial year. Also listed are the allocations for the previous financial year and the expenditure of the financial year prior. One can compare the allocations and expenditure in arithmetical terms. In fact, a little increase over the previous year's allocations or expenditure is considered appropriate and no explanations are sought. However, reductions or large increases draw a lot of explanations. Though Minor Heads and Detailed Heads are listed, the real purpose for allocations, primarily in the Stores in Revenue and the entire Capital budget is not reflected. From financial year 2003-04, an expanded version of the DSE, viz., DSE Volume II, is being published. This volume contains Command-wise allocations under certain heads and user-wise allocations under the Stores head. However, it may be noted that it does not reflect any programmes or objectives.

26.3 Past measures in defence Budgeting -

(a) Dean Appleby's report on Government Financial Systems in 1953 recommended the introduction of performance budgeting. The Estimates Committee of the Parliament further highlighted the need for it in 1958. In **1968, the Administrative Reforms Commission (ARC)** in its report on Finance, Accounts and Audit pointed out the deficiencies in our expenditure management system very clearly. The committee recommended the introduction of performance budgeting systems to provide a link between financial outlays and fiscal targets. It also recommended changes in the form and content of the budget to serve as a tool of management and as a device for evaluating performance. Based on the recommendations of the ARC, all demands for grants presented to parliament have a supporting document in the form of a Performance Budget. However, the Ministry of Defence was exempt from preparing this document. While the Ministry of Defence does give an Annual Report which details achievements in various sectors of its activities, it does not have a document reflecting physical progress of major items linked to the outlays in the budget.

(b) Following the recommendations of the ARC to introduce performance budgeting, a **team of officers** was set up to consider matters of accounts and

budgeting and to recommend a meaningful classification structure so that Government operations could be viewed in terms of functions, programmes and activities rather than just by objects of expenditure. The **team recommended, in 1972**, a scheme of classification of accounts based on five tiers. This system of classification is in vogue at present.

(c) By way of reforms, a new system of budgeting, viz., Zero Based Budgeting was introduced in **1989-90**. This made no impact and was subsequently given up. In **1992, the Ministry of Defence set up a task force** for “Review and Rationalisation of Accounting Classification of Defence Services for Expenditure and Budgetary Control”. The task force recommended the following:

- i. Introduction of decentralised resource management in logistic areas with concept of budget centres.
- ii. Control of commitment of expenditure for future years through the mechanism of indicative budget for three to four years for each budget centre.
- iii. Institution of proper information system through restructuring the classification code heads for better control.
- iv. Allocation of budget to be made detailed head-wise, both for earlier commitments and fresh commitments.
- v. Clear segregation of funds for meeting the requirement of past commitments.

(d) Consequent to the recommendations of **Group of Ministers’ recommendations in 2001, a study group** was constituted by MoD to make recommendations on budgetary reforms in defence. As per the terms of reference of the study group, three recommendations were made:

- i. The Defence Services Estimates (DSE) be prepared in two volumes. The existing DSE be sufficiently expanded to include more meaningful information for laying on the table of Parliament. The second volume should contain all details as in DSE along with details of allocations by Principal Staff Officers to various Commands and some identified budget centres.
- ii. For classification of expenditure into Revenue and Capital, the cost criteria be revised to Rs 10 lakh from the existing Rs two lakh, the life of the item remaining seven years.
- iii. Introduction of Programme-based Budgeting. However, the Committee recommended that Programme-based Budgeting be introduced in a phased manner.

(e) **Fiscal Responsibility and Budget Management Act, 2003 (FRBM):** In response to the challenge of continued high fiscal and revenue deficits, the Indian Parliament passed the FRBM Act in 2003. FRBM proposed elimination of revenue deficit by 2007-08.²⁴ FRBM required a minimum annual reduction of 0.5 per cent of GDP in the revenue deficit, and 0.3 per cent in the fiscal deficit. It also required that the fiscal deficit in 2008-09 be below 3 per cent of the GDP. While the Act basically pertains to improvement in the tax collection system in the country and expenditure management, it proposes to stabilize defence expenditure at 2.3 per cent of GDP.²⁵ Therefore, expenditure management in the defence services is likely to be under greater pressure in coming years. It may also be noted that the allocations in defence budgets have often been used to reduce deficits in annual budgets.

26.4 Latest Concepts in Budgeting

(a) Planning Programming and Budgeting System –

- (i) Criticism of input budgets for defence led to the development of an alternative approach, namely, programme or output budgeting. With its emphasis on objectives, outputs, and total programme costs over a period of years, it is in complete contrast to input budgets. Programme budgeting or a Planning, Programming, Budgeting System (PPBS) provides information for assessing the efficiency with which Defence uses resources. It requires answers to four questions:
 - a) What are the objectives of the Defence Ministry or the Department of Defence and is it possible to formulate a set of programmes, which can be related to these objectives? Examples of programmes include conventional forces, strategic forces, special forces, and reserve forces.
 - b) What are the current and expected life-cycle resource costs of each programme?
 - c) What are the results or outputs of each programme?
 - d) Are there alternative methods of achieving each programme and what are the costs and outputs of each alternative? For example, air defence can be provided by manned combat aircrafts or groundbased missiles.

- (ii) Programme Budgeting had its origins in the RAND Corporation and was pioneered by the US Department of Defense as part of a management revolution in 1961. It provided a framework for applying cost-benefit or cost-effectiveness analysis in which individual and alternative force structures such as a bomber squadron or a warship were properly cost analysed with costs then related to benefits, outputs, or effectiveness of each force structure. In this way, programme budgeting draws attention to important trade-offs in defence choices. The problem, which PPBS in defence was intended to solve, was not the lack of systems analyses in defence planning, but the inadequate link between planning and budgeting. A purpose of the introduction of PPBS in defence was to increase the impact of relevant analyses on high-level decisions by connecting them to budgeting via the programme concept. A reason for presenting analytic approaches, such as cost-utility analysis, as part of programme budgeting concept was apparently to advocate the use of systematic analysis in fields where such analyses up to then had seldom been tried.

- (iii) The shift to programme budgeting reflected the revolution in military technology since the end of the Second World War. The great technical complexity of modern-day weapons, their lengthy periods of development, their tremendous combat power and enormous costs have placed an extraordinary premium on sound choices of major weapons systems. There was also a need to take a defence and national perspective in selecting new, costly equipment. Traditionally, each service had pursued its own priorities and missions, often to the detriment of joint missions, seeking a larger share of the defence budget for its new weapon systems and protecting the overall size of its own forces some times at the cost of combat readiness.

b. New Management Strategy - Programme budgeting is not without its limitations. It should be seen as an information system for planning and evaluation;

but it does not remove the need for individuals to make decisions. Some of these limitations have led to new defence budgeting initiatives. The UK, for example had moved from programme budgeting to management-based defence budgets, the New Management Strategy. This is designed to improve internal efficiency through creating clearly defined budget holders with specific defence tasks (e.g. submarines, air defence) and delegated budget responsibility within each task. However, problems arise where the budget holders have little choice over most of their inputs and expenditure, and where their employment contracts provide no incentive to improve efficiency.

c. Zero-based Budgeting - A method of budgeting in which all expenditures must be justified in each new period, as opposed to only explaining the amounts requested in excess of the previous period's funding. For example, if an organization used ZBB, each department would have to justify its funding every year. That is, funding would have a base at zero. A department would have to show why its funding efficiently helps the organisation toward its goals. ZBB is especially encouraged for government budgets because expenditures can easily run out of control if it is automatically assumed what was spent last year must be spent this year. The ZBB planning process eliminates one of the major disadvantages of most traditional management and budgeting systems. Typically, in the traditional budgeting system planners focus on the incremental cost increases from year to year. ZBB overcomes this traditional budgeting weakness by subjecting all proposed programmes and expenditures to the type of scrutiny that is normally conducted for new programmes. The comprehensive resource cost analysis process is a strong internal planning characteristic of ZBB. Like any other system, ZBB has its cons – firstly, it may increase the time and expense of preparing a budget; secondly, it may be too radical a solution for the task at hand. You don't need a sledgehammer to pound in a nail; and thirdly, it can make matters worse if not done in the right way. A substantial commitment must be made by all involved to ensure that this doesn't happen.

d. Organization-based Budgeting - Presently, the budget is presented head-wise for all the Services as a whole. In the organisation-wise budgeting system, the budgeting is done for a smaller organisation within the Service and the entire amount under various heads is allotted to the organisation. For example, budgetary provisions may be made for each Command. Heads of the organization then become responsible and accountable for planning and control. This system enables a comparison of management of budget by different organisations thus establishing yardsticks for efficient management by all. Similarly, within an organisation, sub-organisations, say down to a corps/division and equivalent levels, may also be accordingly budgeted and provided for. This will lead to greater decentralisation, delegation of authority, responsibility and accountability. The system presupposes establishment of budget or financial planning cells at lower levels. Central procurements may be undertaken by central agencies and expenditure debited to the concerned organisation. The system of central budgeting for acquisition of new equipment, as at present, may be continued. Budgets of Military Farms, Directorate General of Quality Assurance, Rashtriya Rifles and the National Cadet Corps within the Army's budget are existing examples.

e. Biennial Budgeting - Annual budgeting can lead to short term focus by all concerned. On the other hand, biennial budgeting provides better evaluation of policy execution, more effective long-range planning, less turbulence in weapon programmes through more stable funding levels, and increased savings in procurement contracts through better deals with contractors. The first must be viewed as the fundamental management prerequisites to better resource allocation within the Defence Ministry; the last two can be seen as the specific savings that occur if the prerequisites are put in place.

26.5 Macro Budgeting Goals for IFAs - The budget should serve a set of purposes, which should enhance the goals implicit in the allocation and management of resources, and provide the basis for efficient decision-making by indicating the costs of particular decisions. Some of the objectives that IFAs could seek in budgetary exercise are outlined below:

- (a) It should provide a meaningful estimate of the total financial cost for accomplishing definite objectives, and not merely what the objective would cost in a particular financial year. The budget statement should project the total cost of a scheme through a period that can be forecast with some degree of accuracy and relevance. The budget presentation should also clearly identify the future cost implications inherent in the commitments entered into at present.
- (b) The budget structure should facilitate a comparison of alternate ways of accomplishing a given objective.
- (c) The budget should generate sufficient economic data to make it possible to carry out meaningful analysis and understanding of the level of investment of national resources and governmental spending on defence.
- (d) It should provide effective control over expenditure.

26.6 References for IFAs in Budgeting -

(a) **GFR - 2005** - Chapter 3 is the most important reference for IFAs in regard to Budget formulation and implementation aspects. It contains all the fundamental principles of Budgeting for Central Govt Ministries / Departments. Chapter 4 also contains useful references for Budgeting matters as under -

- i. Rule 72 - Classification of transactions in Govt departments
- ii. Rule 74 - Conformity of budget heads with rules of classification
- iii. Rule 77 - Charged or Voted expenditure
- iv. Rule 78 - Plan or Non-plan expenditure
- v. Rule 79, 91 to 96 - Capital or Revenue expenditure

(b) **Financial regulations** - Chapters IV & V, FR Part I deal with 'Budget Estimates' and 'Budgetary Control and Re-appropriations'. IFAs must get fully conversant with these chapters for effective participation budgetary exercise.

(c) **Defence Services Estimates** - IFAs ought to go through DSEs published each year for Defence Services. DSE-Vol I contains essential information for presenting to Parliament. DSE-Vol II is an expanded format to reflect additional details of the inputs given in DSE-Vol I and is meant for internal use of Services/Depts/MoD (Fin), etc. For IFAs, **Appendix C of DSE-Vol I** is important reference for understanding the procedure to be followed in regard to the Budgetary control over defence expenditure.

(d) Defence Accounts Code - Preparation of estimates and budgetary control over Defence Expenditure are elaborately mentioned in Chapters 15 and 16 of Defence Accounts Code.

**Annexure
Referred to in Para 26.2.1(xi)**

Army (including TAG)

Nomeclature of items and the Minor Head under which presently expenditure being booked	Minor Head of Capital Outlay under which to be booked
Vehicles under Store Head (110-C) (i) Water Bowzers (2KL&5KL) (ii) 2.5 ton LPTA (iii) Stallion 5/7.5 Ton (iv) TTF Large (v) ATF Refueller (vi) FAT 3/5 Ton (vii) Bus Long Chassis (viii) Light Bullet Proof Veh (ix) 2.5 Ton Ambulance (x) Crane all types	Minor Head – 102 – Heavy & Medium Vehicle
B- Vehicles under the Store Head (110-E) (i) Exc Loaders (ii) Cr Tr Size II (Plant) (iii) Cr Tr Size IV (Plant)	Minor Head – 102 – Heavy & Medium Vehicle
Air Frames and Aero-engines under stores Heads (110-H), namely: (i) Main Rotor Head Assy (ii) Main Gear Box (iii) Shock Strut (Front) NLG (iv) Automatic Control Box Assy (v) Gyro Magnetic Compass type 512-3 (vi) Main Rotor Blade (vii) LP PUMP (viii) Tail Rotor Assy (ix) Weather Radar T/R Unit (x) Main Rotor Actuator Collective (xi) Hydraulic Package (2.75 FT) (xii) HVDR (xiii) Junction Box (xiv) Main Rotor Actuator Roll (xv) AGB Assy (xvi) AFCS COMP JTER (4Ax1S) (xvii) SHIU (xviii) CWP (xix) Relay Unit (xx) HP Pump Assy (xxi) Motor Wingsheld Wiper (xxii) Digital Indicator (xxiii) M DAU	Minor Head – 102 – Heavy & Medium Vehicle

<p>(xxiv) Tail Rotor Actuator (xxv) Pilot Control Unit (xxvi) Integrated Sensor Unit (xxvii) Pilot Control Unit (EFS) (xxviii) Main Rotor Actuator Pitch (xxix) Control and Display Unit (xxx) Virex Test Set Model 8500C+(Balance Analyser 8500C+) with complete Accessories (xxxi) Test Eqpt for Gyro Magnet with Accessories (xxxii) Test Bench for Techno Meter Indicator and Test Bench for Techno Generator</p>	
<p>Expenditure on creation of assets like Telephone Exchanges and terminal equipments incurred from Tele Adm Grant (TAG)</p>	<p>Minor Head - 103 - Other Equipment</p>

CHAPTER- 27

Concurrence for Administrative Powers

27.1 Past delegation - A Committee was formed by MoD in 2001 to recommend delegation of Administrative powers to Service Hqs. As per its recommendations, various administrative wings of MoD issued following orders to AHQ, which required concurrence of MoD (Finance) –

- a) D(AG) Order no 7(50)/2001/D(AG) dated 14.8.2001 for 11 items.
- b) D(GS-I) Order no 7(2)/2001-D(GS-I) dated 14.8.2001 for 7 items.
- c) D(GS-II) Order no 18(10)/2001/D(GS-II) dated 14.8.2001 for 4 items.
- d) D(Pay/services) Order no 30/2001/D(Pay/services) dated 14.8.2001 for 6 items.
- e) D(MS) Order no 19(11)/2001/D(MS) dated 14.8.2001 for 5 items.
- f) D(Pension) Order no 4684/dir(Pen)/2001 dated 14.8.2001 for 14 items.
- g) D(Mov) Order 5(1)/2001/D(Mov) dated 14.8.2001 for 7 items.

27.2 Later delegation - In 2005, another Committee was formed by MoD in pursuance of PMO's directive to make recommendations for further delegation of Administrative powers to service Hqs. Based on these recommendations, MoD Letter MoD/IC/1027/32/AS(J)/6864/2006 dated 1.9.2006 conveyed Govt sanction for further delegation of Administrative powers to Service Hqs. Following powers require will IFA's concurrence among all the powers delegated vide this letter –

- (a) Regularization of fraudulent or irregular enrolment of PBOR
- (b) Sanctisn projects for making of documentary / publicity films/ ads/ blow up from outside agencies.
- (c) Implementation of CAT/Court judgments both for service Officers and Civilians.
- (d) Turnover of Personnel from UN missions / training team abroad
- (e) Expenditure on Defence Investiture ceremony.
- (f) Publicity through display ads.
- (g) Sanction of ex-gratia / compensation other than industrial on death/disability in case of Civilians.
- (h) Sanction of interest on delayed payment of gratuity beyond 3 months in case of Civilians.
- (i) Regularization of enforced halt at Airports & Embarkation Ports upto 45 days.

27.3 IFA's role – Govt letters referred above mandates that in exercising the delegated administrative powers, wherever financial implications are involved, the concurrence/consultation of IFA / Defence (Fin) will be mandatory and that the draft Govt letter in such cases will be vetted by IFA before issue.

27.4 Uniqueness of Administrative powers –

- a) Unlike in the area of Financial powers, no Single Manual is available in the area of Administrative powers. Also, there is no place where one can find consolidated orders for all administrative powers.
- b) Each Administrative power deals with a different area and often there are no common grounds between two administrative powers.

- c) SOPs have yet to be made by AHQ in consultation with CGDA/MoD (Fin) and this leaves a lot of grey areas in manner of processing / exercising these powers.
- d) The clients in Administrative powers will generally be the service officers/men and Civilians, unlike in the case of Financial powers where clients will be Outside agencies.
- e) IFAs will have to use more common sense here rather than any specialized knowledge, unlike in the case of Financial powers. They are expected to ask the questions expected from an intelligent taxpayer so that Govt money is not wasted and that the principles of fairness and transparency are followed.

27.5 References

(a) Commons sense approach – The processing of Administrative power cases by IFA can be actually a careful and intelligent scrutiny of all proposals involving expenditure from the public funds, the objective being the safeguarding of economy, efficiency and propriety in public finance.

- i. Before according financial concurrence to any administrative proposal involving fresh expenditure, IFA may seek justification for the proposal.
- ii. IFA may even challenge the necessity for spending so much money or on such a scale to secure a given object.
- iii. IFA may ask whether the proposal is really necessary and whether the same results could not be obtained otherwise with greater economy.
- iv. IFA may enquire as to whether the expenditure involved is justified in the circumstances.
- v. IFA may also see whether individual items are in furtherance of the general Government Policy.
- vi. In fact, IFA may ask every question that might be expected from an intelligent taxpayer bent on getting the best value for his money.

(b) Canons of Financial propriety – It is quite relevant for administrative powers, which are mentioned as under –

- i. Every public officer should exercise the same vigilance in respect of expenditure incurred from Government revenues as a person of ordinary prudence would exercise in respect of the expenditure of his own money.
- ii. No authority should exercise its power of sanctioning expenditure to pass an order which will be indirectly or directly to its own advantage.
- iii. The amount of allowances such as traveling allowances, granted to meet expenditure of a particular type, should be so regulated that an allowance is not on the whole a source of profit to the recipient.
- iv. Government revenues should not be utilized for the benefit of a particular person or section of the community unless:-The amount of expenditure involved is insignificant, or A claim for the amount could be enforced in a court of law or The expenditure is in pursuance of a recognized policy or custom.

(c) GFR-2005 & DFPR – As they contain fundamental principles of Govt of India for all matters having financial implications, they may be referred to so as to ensure that no violation of its provision is being done.

(d) FR I & II – These are specifically applicable to Defence forces. Chapters II, III, VII and XI of FR Part I, Vol I are especially relevant for Administrative powers.

(e) DSRs related to Service personnel & Defence Civilians – These are a must for understanding the Personnel matters of Defence Officers/men/civilians as majority of Administrative powers are related to Personnel matters.

(f) Defence Accounts Code – The Chapter related to Charged expenditure may be gone through for processing Court judgments cases.

CHAPTER- 28

Definitions and explanations of common terms in the area of Procurement and other matters pertaining to IFAs

28.1 Procurement The term procurement means acquiring all types of equipment, stores, spares, goods and services including packing, unpacking, preservation, transportation, insurance, delivery, special services, leasing, technical assessment, consultancy, system study, software, literature, maintenance, updates, conservancy, etc. Procurement is undertaken through various types of contract, including Rate Contract, Price Agreement and Memorandum of Understanding (MOU) between the purchaser and supplier as per existing laws and procedures.

28.2 Purchaser In all cases of procurement on behalf of the Central Govt., purchaser is the President of India acting through the authority issuing purchase orders. In cases of procurement by the departments of the state Govt., the purchaser is the Governor of the state while for PSU, the chief executive of the unit is the purchaser. So far as Defence procurement is concerned, the President of India is the purchaser.

28.3 Supplier. Supplier is the party, which contracts to supply goods and services. The term includes his employees, agents, successors, authorized dealers, stockists and distributors.

28.4 Contract The proposal or offer when accepted is a promise, a promise and every set of promises forming the consideration for each other is an agreement and an agreement, if made with free consent of parties competent to contract, for a lawful consideration and with a lawful object is a contract. (Sections-2,10,11,13 & 14 of contract Act 1872). The statutory provisions governing purchase transactions are Indian Contract Act 1872, Indian Sale of Goods Act 1930 and Arbitration and Conciliation Act 1996. Govt. contracts, including those for defence procurement, are governed by the same law, which are applicable to private contracts. Categories of persons or bodies capable of entering into legal contract include individuals, partnership concerns, limited companies, state agencies and corporations. The parties to contract are the purchaser and the contractor named in the schedule of contract An agreement is called a contract enforceable by law when the following conditions are satisfied. A defect affecting any of these conditions renders a contract unenforceable.

- a) **Competency of the Parties.** Under law any person who has attained majority and is of sound mind or not debarred by law to which he is subject, may enter into a contract. Minors, persons of unsound mind and those declared insolvent cannot enter into contracts.
- b) **Freedom of Consent of both Parties.** The consent is said to be free when it is not caused by coercion, undue influence, fraud, misrepresentation or mistake.
- c) **Lawfulness of Consideration.** The consideration or object of an agreement is lawful, unless it is forbidden by law or is of such a nature that if permitted it would defeat the provisions of any law or is fraudulent or involves or implies

injury to the fraudulent property of another or the court regards it as immoral or opposed to public policy.

28.5 Stores The term 'stores' applies generally to all articles and materials purchased or otherwise acquired for the use of Govt. including not only expendable, consumable, and issuable articles in use or accumulated for specific purposes, but also articles of dead stock of the nature of plant, machinery, tools and machinery spares, instruments, furniture, equipment, fixtures, armaments, victualling, messtraps, live stock and clothing etc., but excluding books publications, periodicals etc., in a library. (Note 66 to Rule 99 GFR)

28.6 Financial Powers Financial power is the powers vested in an authority by the GOI or delegated to an authority to approve expenditure from the funds placed at the disposal of that authority. While the powers vested by the President of India is known as intrinsic powers and can be delegated to subordinate authorities, delegated financial powers can not be further sub-delegated. However, the CFA may authorize staff officers to sign the financial document on his behalf with the clear understanding that the accountability for the correctness of such documents remains with the CFA. No CFA can approve an expenditure involving amounts beyond his financial powers.

28.7 Competent Financial Authority. The Competent Financial Authority (CFA) is an authority duly empowered by the Govt. of India to sanction and approve expenditure from public accounts to a specified limit in terms of amount of such expenditure and availability of funds. All financial powers are to be exercised by the appropriate CFA.

28.8 Individual CFA -A number of authorities at various levels have been vested with financial powers and they act as the CFA in their official capacity subject to the financial limit and prescribed conditions. The individuals, who are CFA, can sanction and approve expenditure with or without concurrence of IFA as prescribed in regulation. A CFA may, at his own discretion or if so stipulated, can appoint an advisory or Price Negotiation Committee (CNC) to assist him in decision-making. However, his decision will be final and at his own responsibility and accountability.

28.9 Committee CFA In some cases, the financial powers are not vested in an individual but in a committee which becomes a CFA. Normally, the composition of the committee is also stipulated in Govt. regulations and the finance member is invariably a part of the committee CFA. Such committee CFA holds their own CNC and takes a collective decision. Each member is responsible and accountable for the quality of decision made.

28.10 Disagreement In case of disagreement with the IFA, the CFA can over rule the IFA and send a report to the next higher CFA as well as the IFA/CDA giving intimation along with reasons for over ruling the financial advice. In such a situation, it would be open to the IFA to take up with the higher IFA and CFA or drop it. In the case of Committee CFAs, detailed minutes will be recorded leading upto the final decision. Accordingly there would be no necessity for specific overruling of IFA in writing in the event of difference of opinion with the IFA.

28.11 Next Higher CFA Where more than one authority has been delegated financial powers under the same Serial/Head, authority with higher delegated financial power will constitute next higher CFA.

28.12 Capital Procurement. As per rule 291(1) of GFR “Expenditure of a capital nature shall be an expenditure with the object of increasing assets of material and procurement characters. It should bear charges for first construction and equipment of a project as well as charges for immediate maintenance of the work while not yet open for service. Detailed procurement procedures have been promulgated by the Govt. in the form of DPP 02 (June 2003 version) for procurement under Capital Head. In respect of OFB, powers for Capital Procurement for New Capital have been delegated to OFB.

28.13 Revenue Procurement. As per Rule 292(1) of GFR, revenue should bear all subsequent charges for maintenance and all working expenses; these include all expenditure on working and upkeep of the project and also on such renewals and replacement and such additions, improvement or extensions, as under rules made by the Govt. are debitable to revenue account. The revenue procurement, therefore, is for items and equipment including replacement equipment (functionally similar) assemblies / sub assemblies and components to maintain and operate already sanctioned assets in the service, the necessity of which have been established and accepted by the Govt. For Revenue Procurement, Govt. has delegated financial powers under revenue head to a number of functionaries in each department. Procurement involving financial implication beyond delegated powers is undertaken with the approval of MOD.

28.14 Indigenous Procurement. Procurement from indigenous sources is called indigenous procurement. It is the policy of the Govt. to encourage indigenization, particularly in the field of defence to achieve self-reliance. Hence, indigenous firms should be given all support to produce and supply quality goods conforming to specifications. Proper loading criteria for all taxes, duties and other expenses involved in procurement of an item need to be applied to provide level playing field to the indigenous manufacturers. Payments against indigenous procurement are normally made in rupee terms.

28.15 Foreign Procurement (Import). For such defence equipment and assets, which are of foreign origin, items required to maintain and operate these equipment also need to be procured from suppliers abroad. In such procurement, international trade practices are followed and sometimes our standard terms and conditions are not acceptable to certain Russian Suppliers. Payment against foreign procurement is made in foreign currency through a Letter of Credit (LC) or Bank Transfer (BT). A number of restrictions are imposed by the foreign Govt. in respect to supply of defence related items in general and military goods in particular All procurement officers need to be aware of these provisions to obviate complication in contracting and final delivery.

28.16 Central Procurement. Central Procurement (CP) is undertaken against indents resulting from the planned provisioning process like the annual review, refit planning, obsolescence planning and planned routines. Central Procurement indents are normally beyond LP powers of the provisioning authority and such procurement is undertaken by the designated central procurement agencies in the

department/service. CP indents normally cover the entire requirement of the item for the duration of the provisioning period.

28.17 Local Procurement. Local Purchase (LP) is undertaken within the LP powers of the provisioning authority to meet ad-hoc and urgent requirement of the department. Such procurement may be done through the central procurement agency or other CFAs including units and formations.

28.18 Scaled item. An item is called scaled item when it has been approved by CCS.

28.19 Cash and Carry Procurement. Cash and carry purchase is a type of LP resorted to in case of extreme urgency or when the supplier is not willing to supply the required item on credit. Cash and carry powers are very limited as such procurement is made only in exceptional cases when cash payment is made from the imprest of the unit and the same is claimed from the paying authorities who reimburses the amount after due audit of the transaction. Cash Purchase should be encouraged as not only many supplier insist on cash payment, but generally, cash purchases are cheaper than on credit.

28.20 Spot Payment. In case of critical stores, which are urgently required, wherein the supplier is not willing to accept normal payment terms, Spot payment can be effected. The spot payment limits have to be clearly laid down and the payment is to be effected by means of Cheque/Cash only after inspection of stores at site. Prompt action is to be taken to bring on charge the stores and clear the advance, preferably within one month.

28.21 Product Reservation. In order to encourage indigenous manufacturing particularly by the SSI, Handloom and Khadi Bhandars, the Govt. has issued administrative instructions to reserve certain items for procurement from the KVIC, ACASH, CCIC and SSIs only. These units are also exempted from payment of Performance Security Deposit.

28.22 Price Preference. As per existing Govt. instructions, SSIs can be allowed price preference up to 15% in comparison to the large scale Industries. However, as per GFR, such a preference is to be considered strictly on merit in consultation with the IFA in such a manner as to discourage inflation and prevent profiteering and creation of sense of self complacency in economy.

28.23 Purchase Preference. As per DPE's letter dated 26 Oct 2004, purchase preference is to be granted to the Central Public sector Enterprise (CPSE) **at lowest valid price (L1) if the price quoted by a CPSE is within 10% of the L1 price. Such preference is to be granted when** (a) Tender / Notice to invitation to tender is of Rs.5 Crore and above (b) CPSE's holding in JV is 51% or more (c) Minimum value additional of 20% or more by CPSEs/JVs by way of manufacturing and / or services. (d) Purchase preference provision is part of Notice Inviting Tenders (NIT).

28.24 Registration of Firms All central procurement agencies, including the DGS&D, are expected to regularly identify suitable sources of supply and to periodically update the vendor list. The detailed procedures for registration of firms are normally promulgated by the DGQA or the AHSP responsible for registering

firms. However, in case of foreign vendors there is no role of AHSP / DGQA in registration. The list of registered vendors are to be updated every six months by DGQA and the AHSPs and all central procurement agencies are to be intimated of the same. It is essential that the credentials of the firms applying for registration with the defence departments, including their financial status, the manufacturing and quality control facilities, the business ethics and their market standing are thoroughly scrutinized before registering them as an approved source of supply. On receipt of application from the firm, the DGQA/AHSP normally undertake the capacity verification of the firm and consider their capabilities as well as ability to meet the product quality required by the defence department. In case of items of special nature, type approval by the DGQA is also required, for which prototype or samples may be called for, and registration of the firm for supply of these specific items should be approved only on demonstration of satisfactory performance. OFB can also take up registration in a transparent manner by spelling out the procedure to be followed for Vendor Registration, Grading and deregistration on lines adopted by DGQA in Joint Services Guide. A vendor registered with one department of MOD can be considered for procurement by other departments of the ministry. However, specific needs of the various Wings/departments are to be kept in mind and complied with. Whenever, inspection by the defence inspection agency is involved, type approval by the respective defence Inspection Authority will be essential.

28.25 Vender Evaluation Performance of vendors must be reviewed by the procurement agency periodically, preferably once a year. The general performance criteria for assessing performance of vendors may comprise the following:-

- a) **Quality.** Quality has to be assessed from the inspector's report as well as the feedback from the actual users.
- b) **Delivery.** Delivery compliance has to be assessed from the delivery data against purchase orders placed on the supplier. The purchaser from his computer records could generate the percentage of orders that met the original delivery date as per contract and that, which did not.
- c) **Price.** Price competitiveness of a vendor has to be assessed against his ability to secure orders on competitive basis. Orders secured as percentage of quotes should indicate the price competitiveness of the supplier. This data can be automatically generated by the computer.
- d) **Response.** The response analysis of the vendors would be indicated in terms of number of quotes submitted against the number of TEs sent to them. Computer generated data for quotes received, as a percentage of TE sent would be one of the valid criteria for response analysis.
- e) **Product Support.** Product support record of a manufacturer may be determined on the basis of response to enquiries for spare parts and maintenance services for the equipment originally supplied by him.

28.26 Removal from the Approved List Whenever a vendor is found lacking in performance in terms of response, delivery compliance, capacity, quality standards or ethics, the vendor may be removed from the approved list with the approval of the registering authority namely the AHSP/DGQA after giving performance notice. Besides, there may be registered firms who may have ceased to exist or may have been acquired by or merged with another firm, may have switched over to other sector of business operation or indulged in unethical business practices and influence peddling. Such firms should be removed from the list of approved vendors. Whenever a firm is removed from the list of approved vendors, their

registration stands cancelled. Such removal must be promulgated to all concerned agencies so that any department of the MOD conducts no further business relation with such firms.

28.27 Ban and Blacklisting When the misconduct of a firm or its continued poor performance justifies imposition of ban on business relation with the firm or ultimately its blacklisting, this action should be taken by the appropriate authority after due consideration of all factors and circumstances of the case. Ban for a specified period of time may be imposed by AHSP/DGQA, procurement agency and the MOD. Black listing also may be approved by the AHSP/DGQA, procurement agency, keeping MOD informed.

28.28 Specification Items bought by the defence department, particularly the armed forces, must be manufactured as per or conforming to stringent specifications. The specifications are the detailed qualitative requirements of the item being procured and should indicate the material composition, physical, dimensional and performance parameters, tolerances if any, manufacturing process where applicable, test schedule, preservation and packing etc. AHSP/Specification promulgating authority should forward copies of specification/amendments to all concerned procurement agencies periodically. Normally, the following types of specifications are relevant to the defence items:

- a) **PAC Specifications.** These are available only with the PAC firm and are protected by the intellectual property right. Hence, PAC specifications are normally not available with the purchaser and firm's certificate of quality is accepted. However, essential characteristics required for inspection should be made available.
- b) **Branded Product.** The specification for branded commercial product is not available with the purchaser or the inspecting agency and these are to be accepted at the firms guarantee.
- c) **Industrial Specification.** There are standard industrial specifications like the IS, BS, DIN and GOST available for sale in the market. Every purchase agency and the inspection authority should acquire such specifications and hold with them for reference to ensure quality standards of the product being procured.
- d) **Defence Specifications.** There are defence specifications for specialist items for use by the defence departments, particularly the armed forces. These are Joint Services Specification, Milspecs, etc. Copies of such specifications should be available with the purchase agency, inspection authority and the AHSP.
- e) **Indigenised Items.** The manufacturing agency, QA agency, DRDO and Service Hqrs, involved in the indigenization efforts often successfully indigenize some items as import substitute. In such cases, the specification including the drawing and other details are formulated by these agencies in consultation with the manufacturing firms/QA agency/Design agency as the case may be to guide future production. Such specifications should be available with the purchase agency as well as the inspection authority so as to ensure conformity to the required quality standards of the items being supplied.
- f) **Ad-hoc Specifications.** There are items for which neither industrial nor defence specifications are available. In such cases, the indenter must indicate the general parameters, normally the dimensional and performance

parameters to enable procurement and inspection. Such ad-hoc specifications must be broad enough to permit wider participation by the suppliers and should not be restrictive so that adequate competition is not obviated.

- g) **As per Sample.** There are occasions when items, normally PAC products, can not be procured from the original manufacturer and have to be procured from another manufacturer as per sample in absence of detailed specifications or drawing. Such items are manufactured through the reverse engineering process and the supplier prepares detailed specification as well as the drawing. The purchaser and the inspection authority should acquire such specifications and drawing and retain with them to guide future production and inspection.
- h) **Common Use Items.** There are a large number of items in use by the defence departments, which are common use items freely available in open market. However, as the quality of products of various manufacturers vary widely, such items should be procured from reputed manufacturers capable of meeting quality standards of the items for defence.

28.29 Waiver of Inspection Note There would be no requirement of Inspection Note in respect of items procured against specification at 3.6 (f), (g) & (h) above / Commercially off the shelf (COTS) items for settlement of bills as these would be procured on firms guarantee. Relevant certificate from the firm may be enclosed with the bill by the procurement agency.

28.30 TEC:- A broad based TEC including representatives of user service, maintenance agency and SQ as deemed necessary will prepare a compliance statement bringing out the extent of variations and differences, if any, in the technical characteristics of equipment offered by various vendors with reference to QRs and compliance or otherwise to essential parameters. The TEC shall invite those vendors who meet essential parameters for technical presentation /clarification. The Finance Member need not be a member of the TEC. The TEC report should be approved by the CFA and should form part of the proposal. The TEC report will be in the format as given at **Appendix 'E'** of DPM-2006.

28.31 Technical Evaluation. Whenever there is a two bid system of tendering followed, technical evaluation of the bid becomes a vital step not only to ascertain conformity of the technical bid with the technical specifications of the tender, but also to bring all bidders on a level playing field in respect of qualitative requirement. Technical evaluation is normally carried out by a technical negotiation committee (TNC) and IFA need not be associated at this stage. TEC report, once finalized would be sent to CFA for acceptance.

28.32 Indent. An indent is a requisition placed by the provisioning authority on the procurement agency to procure an item. Indent is the authority for initiating procurement action and may contain one or more items, each with distinct item code / part No. All necessary details of the item including quantity, denomination, estimated price, specification, scope of supply, date required by and inspection authority are to be indicated in the indent to enable prompt procurement of the item. In case of OFB, indent is an authority to undertake manufacturing of the end store and purchase of all raw materials, components on the basis of Bill of Material.

28.33 Rate Contract. A Rate Contract (RC) is an agreement between the Purchaser and the supplier to supply stores at specified prices during the period covered by the contract. A RC is in the nature of a standing offer from the supplier and no minimum drawal need be guaranteed. A contract comes in to being only when a formal order is placed by the CFA or the Direct Demanding Officers (DDOs) on the vendor.

28.34 Security Deposit /Performance Bank Guarantee (PBG) Performance Security deposit payable to the purchaser is furnished by the supplier, in the form of Bank Guarantee (BG) issued by a scheduled bank in the prescribed format, within 30 days from the date of contract. This deposit is meant to compensate the purchaser for any loss suffered due to failure of the supplier to complete his obligations as per the contract. Preferably, performance security is payable by the supplier at the rate of **5%** of the contract value. The PBG is kept with the Purchaser and must be valid for the entire period of contract and may be retained for the duration of the warrantee period. The BG is returned to the supplier on successful completion of all his obligations under the contract. In case the execution of the contract is delayed beyond the contracted period and the purchaser, with or without LD, grants extension to delivery period, the supplier must get the BG revalidated if not valid already. SSI units registered with NSIC/DGS & D are exempt from paying EMD/Security deposit.

28.35 Payment Terms. Payment terms are of great importance both for the purchaser and the supplier as the cost of finance plays a very important role in deciding the cost of an item or service being contracted for. Normally, 95% of the contract amount is released against provisional receipt of the item at the consignee's premises along with inspection note and other documents. Balance 5% is released after the stores have been properly checked and accounted for. Some suppliers prefer 100% payment after delivery and accounting, which may be accepted. In many cases, suppliers request for allowing part supply part payment. Such requests can be considered by the CFA for acceptance on merit of individual cases.

28.36 Advance Payment. As per the current policy of the Govt. no advance should be offered in the TE and the first stand of a procurement officer should be of no advance. However, in exceptional cases of contract for manufacturing of equipment, system or that for a project with long execution time, advance up to a maximum of 15% of contract value may be approved by the departments against valid BG from a scheduled bank. Advance of more than 15% can be approved only by the MOD. However, in some cases, stage payment at predefined stages of contract completion may be allotted by the CFA. As per CVC Guidelines, mobilization advance should be interest bearing. However, in MoD contracts, due to operational requirement, urgency etc., it may not be possible to obtain such terms from the supplier. In such cases, necessary record of circumstances and facts may be kept to that effect.

28.37 Paying Authority. The CDA is the paying authority for most contracts by the defence department. Normally, the designated office of the CDA, including IFAs, preferably co-located with the central purchase organization release the payment. Payment should be made within 21 working days in respect of bills supported by requisite auditable documents. Consolidated observations, if any should be forwarded within 10 working days by paying authority to the CFA.

28.38 AHSP. Authority Holding Sealed Particulars (AHSP) is the authority Empowered to draw up the specification of the item, and hold the detailed particulars of the item. AHSP may be the DGQA or an authority in the Service Headquarters for service specific items. Ordnance factories are AHSP for 'B' vehicles and items issued to indentors other than defence. The AHSP is authorized to modify, update and promulgate the specifications for the range of items under his purview only after consulting manufacturer, user Directorate and GSEPC. The procurement officers, the suppliers and the inspection agencies will comply with the specifications drawn up by the AHSP.

28.39 Inspection Authority. Normally, the AHSP is designated as the inspection authority. This can be DGQA for defence related items, AHSP in service Headquarters for specified category of items and the ADG(QA) in DGS&D for general items procured by them. The inspection authority is to promulgate inspection methodology and nominate suitable inspection agency for specific contracts. In respect of Ordnance factories, GM's are the inspecting authority for items required by indentors other than defence.

28.40 Inspection Agency. The Inspection authority based on the type of items and geographical location of the purchaser and supplier nominates the Inspection agency and the Inspection officer. The Inspection Officer need not necessarily be from the organization of the Inspection authority. Departmental inspection, user inspection, joint inspection and self-certification by reputed manufacturers may also be considered for specific items where desirable.

28.41 Composition of CNC. Apart from the Chairman, there should be a rep. of user, Finance, Designated inspection agency, Maintenance Agency and the CFA where applicable. CFA can co-opt any other member like a costing expert in case of high value single vendor offers.

28.42 Accountability The decentralization of decision making mechanism and delegation of financial powers are aimed at facilitating faster decision making and obtaining best value for money. However, the delegation of powers also implies 'authority with accountability'. The CFA approving the expenditure must ensure financial propriety and probity, transparency and fair play as well as the objective to optimize resources being used. The designated CFA and all members of committee CFA are accountable for all decisions taken by them while approving any measure involving Govt. funds. This accountability is unconditional and absolute.

28.43 Time Frame. It is imperative that the procurement process is fully responsive to the need of the defence services and department and facilitates expeditious procurement so that requirements are met on time. To this end, it is essential that all scrutiny and vetting are undertaken expeditiously and advise rendered within a specified time frame. Ministry of Finance task Force constituted on revision of procurement Norms has recommended (11/2003) that there should be clear time frame for each process and stage of procurement. The time frame as placed at **Appendix 'A'** and **'A1'** of **DPM-2006** is suggested for all activities in the procurement process to ensure that the bids are finalized within validity period. Two time frames are being provided, one for normal commercial offers and other

involving two-bids. In case, time frames can't be adhered to in specific cases, extension to validity of bids should invariably asked for.

28.44 Applicability of GFR-2005, DPM-2006, etc. The provisions contained in the DPM are in conformity with Govt Instructions as amended from time to time. The terms and expressions not defined therein shall have the meaning assigned to them if any in the India Sale of Goods Act 1930, or the Indian Contract act 1872, or the General Clauses Act 1897, or the other Govt. Manuals like GFR, FR and other Govt. Instructions & CVC instructions duly updated and modified and should be applicable to the Procurement activity by all wings of the Ministry of Defence. However, wherever in doubt about the import and interpretations of any specific provision in the DPM vis-à-vis the manuals and statutory provisions, the latter shall prevail. However, orders and instructions, if any in respect of various wings of the MoD, wherein different procedures and practices had crept in, now stand modified by those contained in the DPM- 2006 in order to achieve uniformity amongst the purchase practices followed by various wings of the Ministry. The manual is applicable to all committee (TPC/NLC/WPC/ASPC/APC) based Central Provisioning and Procurement proposals of Revenue Stores only.

28.45 Abbreviations

AA	Air Attache
ADG(QA)	Assistant Director General (Quality Assurance)
AHSP	Authority Holding Sealed Particulars
AMC	Annual Maintenance Contract
AON	Acceptance of Necessity
ASC	Army Supply Corps
BE	Budget Estimate
BG	Bank Guarantee
BIS	Bureau of Indian Standard
BT	Bank Transfer
CDEC	Custom Duty Exemption Certificate
CFA	Competent Financial Authority
CFR	Cost And Freight
CICP	Computerised Inventory Control Procedure
CIF	Cost Insurance and Freight
CIP	Carriage and Insurance Paid to
CP	Central Purchase
CPT	Carriage Paid To
CST	Comparative Statement
CVC	Central Vigilance Commission
DA	Defence Attache
DAF	Delivered At Frontier
DCF	Discounted Cash Flow
DDOs	Direct Demanding Officers
DDP	Department of Defence Production
DDU	Delivery Duty Unpaid
DEQ	Delivered Ex Quay
DES	Delivered Ex-Ship
DFPR	Delegation of Financial Power Regulations

DGQA Director General Quality Assurance
DP Delivery Period
EXW Ex Works
FAS Free Alongside Ship
FCA Free Carrier
FOB Free On Board
FPQ Fixed Price Quotation
INCOTERM International Commercial Terms
IS Indian Standard
ITJ Indian Trade Journal
JV Joint Venture
KVIC Kendriya Village Industrial Commission
LPP Last Purchase Price
LTE Limited Tender Enquiry
Milspecs Military Specification
MHR Man hour Rate
MOQ Minimum Order Quantity
MOU Memorandum of Understanding
MA Military Attache
NMS New Management Strategy
OEM Original Equipment Manufacturer
PA Price Agreement
PAC Proprietary Article Certificate
PBG Performance Bank Guarantee
PBL Performance Based Logistics
POV Professional Officers Valuation
PQ Procurement Quantity
PSEs Public Sector Enterprises
PSU Public Sector Undertaking
QRs Quantitative Requirements
RC Rate Contract
RFP Request For Proposal
SA Supplementary Agreement
SCOC Standard Conditions of Contract
SMH Standard Manhour
SOP Standard Operating Procedure
SSI Small Scale Industry
STE Single Tender Enquiry
TE Tender Enquiry
TNC Technical Negotiation Committee
TOT Transfer Of Technology
UCPDC Uniform Customs & Practices for Documentary Credits
UNICTRAL United Nations Commission On International Trade Laws
VFM Value For Money

CHAPTER-29

Maintenance of Registers and rendition of periodical reports

29.1 IFAs are required to maintain registers for administrative and functional purposes. The detailed list of administrative registers alongwith Fly Leaf Instructions are available in OM Part II Vol. I and Vol. II which may be referred to for detailed instructions.

29.2 The functional registers are meant for capturing all vital information from the proposals received /concurrent by the IFAs which will provide MIS to the IFA and will form the basis for rendition of reports and returns to Headquarters/CFAs.

29.3 The registers will be put up to the officer in charge /IFA at periodical intervals as prescribed and also produced for inspection .

29.4 List of Registers

- (a) Register for Inward/outward IFA concurrence cases
- (b) Register for allotment of UO No. /Financial Concurrence
- (c) Commitment Register
- (d) Budget allotment/Expenditure Register
- (e) Register of Civil Works Concurrence cases
- (f) Register for CNC/PNC
- (g) FE Noting Register

(a) Register of Inward/Outward IFA Concurrence cases

Date	Sl. No	Proposal/ File No	Subject	Unit/ Formation/ Directorate	Distribution	Concurrence/ Return/Concurrence No. and Date	Remarks
1	2	3	4	5	6	7	8

Object: To record all proposals /files received for financial concurrence

- (i) All proposals /files received will be entered in the Register on day to day basis. The register entry number and date , particulars given on file, subject unit/formation and its disposal (returned or concurred) indicating UO No. and date will be marked in the register.
- (ii) The register will be submitted daily to the group officer/Dy.IFA with the progress of cases.

(Authority - CGDA letter No. AT/IX/IFA/13381/PC-Registers dated 27.12.2005.)

(b) Register of allotment of UO No. / Financial Concurrence

Sl. No	File No	Unit/ Formation/ Directorate	C F A	Subject With brief details of the proposal	AON Stage			Expenditure/Supply Order				DP as per supply order	DP extension (with/ without LD)	Remarks
					Amount proposed	Amount concurred with UO No. and dated of concurrence	Saving (6.2-6.1)	Supply Order No. and Date	Supply Order Amount	UO No. and date of concurrence of Supply Order	Saving			
1	2	3	4	5	6.1	6.2	6.3	7.1	7.2	7.3	7.4	8	9	10

Fly leaf Instructions

Object: To have brief details of each case for ready reference

- (i) Separate pages will be allotted for each case/proposal
- (ii) Description of case/proposed alongwith cost will be entered in the register whenever the proposal is received. Receipt and disposal of proposal will be recorded with UO No and date every time when the proposal is received in IFA's office.
- (iii) Cases concurred where supply order/contract is not received, will be taken up with the executive every month to ensure receipt.
- (iv) In case of DP extension, it will be recorded whether extension is being given for the 1st time, 2nd time and so on. Also the duration for which extension is being given will be recorded indicating the date from/to.
- (v) The register will be submitted to Dy.IFA/SAO on monthly basis and to IFA on quarterly basis.

(Authority - CGDA letter No. AT/IX/IFA/13381/PC-Registers dated 27.12.2005.)

(c) Commitment Register

Code Head.....

Allocation under code head	Committed liability carried forward	Balance available for fresh commitments (1-2)	Amount concurred during the month	Liabilities discharged/ expenditure incurred	Committed Liabilities outstanding at the end of the month (2+4-5)	Balance available for fresh commitments
1	2	3	4	5	6	1-6

Object: To watch committed liabilities under each code head.

(i) Committed liabilities means amount for which supply order/contract has been concluded but payment has not yet been made.

(Authority - CGDA letter No. PIFA/Budget/15015 dated 30.5.2007)

(d) Budget allotment/Expenditure Register (unit/formation/Dte. wise)
unit/formation/Dte.....
Code Head.....

S l. N o	Mo nth	Budge t Allotm ent	Expdr incurred upto previous month as per compilation	Exdr. Incurred during the month as per compilati on	Progres sive total (4+5)	Balan ce Amou nt availa ble =3-6	%age of expenditu re booked (6 as %age of 3)
1	2	3	4	5	6	7	8

Object: To watch progress of expenditure viz-a-vis allotment of Funds

- (i) Separate page will be allotted to each unit/formation/Dte. for each detailed code head of expenditure.
- (ii) Budget allotment/expenditure will be recorded for each head of account for which a separate allotment has been made to the unit/formation/Dte.
- (iii) Register will be submitted to Dy.IFA/SAO/AO by 5th of the month and to IFA on quarterly basis.

(Authority - CGDA letter No. PIFA/Budget/15015 dated 30.5.2007)

(e) Register of Civil Works Concurrence Cases

Sl. No	Date of submission	Date of return	Nature of work	MWP/AWP Sl. No	RIC Amount	MWP/AWP Amount	FC No and date
1	2	3	4	5	6	7	8

:

A.O.N. Amount	Shadow file No	Date of submission for A.A. Concurrence	Vetted amount by PCDA/CDA	A.A. FC No & date	Amount	Remarks
9	10	11	12	13	14	15

Object: The register will be maintained to record the details of civil work cases concurred from Acceptance of Necessity angle / administrative approval angle.

Fly Leaf Instruction

(i) In case of Air Force and Naval projects AON and Administrative Approval will be done in two distinct stages. However, in case of Army Projects, the AON stage and AA stages may be combined together as the vetting of necessity and vetting of AE and concurrence by IFA (Army) or CsDA(Army) as the case may be, can be done simultaneously. Only those works which are included in Major Works Programme/Annual Works Programme are processed for issuing administrative approval. Proposals for special works shall be scrutinized by the IFAs **irrespective of whether the particular special works is included in MWP/AWP or not.**

(ii) Rough Cost will be included in Column 6.

(iii) For Works with CFA or Service Hqrs : Acceptance of Necessity(AON) and Financial concurrence will be given by the IFAs of Service Hqrs. However, vetting of AEs for all three Service Hqrs cases will be IFA(Army-Q) New Delhi.

(iv) For Works with CFA at Command level and below: Regional PCsDA/CsDA/Command IFAs will cover all the three stages for Army cases. However, in respect of Navy and Air Force cases, while AON and Financial Concurrence will be given by Command IFAs of Navy and Air Force respectively, the vetting of AEs will be done for all three Service by Regional PCDA/CDA.

(v) Vetting of AEs may be done within a time-limit of two weeks. Piecemeal raising of observations should be strongly discouraged by the concerned IFAs and Regions PCsDA/CsDA.

(vi) IFAs and Regional PCsDA/CsDA functioning as IFA will also monitor expenditure against allotment for which a register will be maintained keeping records of works approved and funds released for the same during the first financial year. It will be ensured that neither the overall MWP/AWP ceiling fixed for each command/service HQrs exceeds nor the funds for those new works released during the first financial year are beyond the allocation made for new works.

Authority:

MoD SOP for Works dated 28.10.1998

CGDA letter No. 18184/AT-X/VI dated 26.6.2001

and 18184/AT-X/PC-I dated 8.8.2005

(f) Register of CNC/PNC

Sl. No.	Brief Particulars of the proposal	Directorate	Amount of proposal	Date and Time of opening of tenders	Chaired by Name and Designation	Name and Designation of the IFA rep	Outcome of the PNC including the amount negotiated	Saving (in lakhs)
1	2	3	4	5	6	7	8	9

Fly leaf Instructions:-

Object: To record the details of CNC participated by the IFA or his rep.

1. Purchases exceeding Rs. 5 lakh are necessarily on the advice of TPC to be constituted by the CFA.
2. TPC/CNC will include IFA or his rep as a member.
3. Price Negotiation with L1 firm can be considered when the offers received are at wide variation with the estimated cost or when the price quoted are unreasonable. In such cases price negotiation is conducted by the CNC.
4. This register may be put up to IFA on monthly basis.

(Authority : CGDA's letter No. AT/IX/IFA/13381/PC-Registers dated 27.12.05)

(g) FE Noting Register – IFAs at Service HQrs. are required to maintain FE Noting Register and render periodical reports to MoD (Fin/Budget).

(Authority – MoD (Fin.) UO No. 312/S/AF/Bud/02 dated 14.2.2007)

REPORTS AND RETURNS

29.5 The following reports will be rendered by the IFAs to Hqrs Office (Pr. IFA Wing)

(a) Monthly Activity Report: IFAs of SAG and JAG level (Command IFAs only) shall send a monthly activity report in narrative form to the Pr.IFA demi-officially by 10th of the following month as per the guidelines contained in HQrs. letter No. PIFA/MAR/15023 dated 23.11.06. In this connection, HQrs. office circular No. PIFA/MAR/15023 dated 16.10.2007 refers. The points to be included in the Report are indicated in Annexure I to this Chapter. A separate quarterly report may be sent to CGDA on important administrative/functional areas considered essential to merit the personal attention of CGDA as mentioned as mentioned in para 5 of the instructions dated 25.9.2007.

(b) Monthly Activity Report: IFAs to COD, ED/BRDs, FA to ASD and MS shall send a monthly activity report in narrative form to Command IFA with a copy to Pr. IFA by 10th of the following month. The points to be included in the Report are indicated in Annexure I to this Chapter.

(c) Monthly Progress Report: All IFAs(dedicated and nominated will furnish a Monthly Progress Report containing information relating to the cases concurred, time taken along with budgetary implications by 10th of the following month to PIFA wing. Detailed instructions are incorporated in Annexure II.

(d) Quarterly Expenditure Report: This report is to be rendered by IFAs of Integrated Service HQ and Command IFAs by 10th of the following month of the quarter to PIFA. Minor head wise expenditure indicating code head wise budgetary allocation and expenditure is to be included in the report to ensure regular flow of expenditure and utilization of budgetary allocation as per annual expenditure plan of CFAs. This will also enable IFAs to ensure that budgetary ceilings are not exceeded.

(e) Quarterly Financial Concurrence Cases Report: Details of the cases received, concurred in and returned shall be included in the Quarterly Financial Concurrence Report to be rendered to PIFA by 15th of the following quarter. For further details, please see Annexure-III and Annexure III-A.

ANNEXURE I
MONTHLY REPORTS/RETURNS (IFA CELL)

Sl .No	Name of the Report	Contents of the Report	Rendered to	Authority	Due Date
1	Monthly Activity Report – IFA System (in narrative form) [By Service Hqrs/Command IFAs-SAG/JAG]	i) Achievements during the month. ii) Problems faced in the functional areas. iii) Difficulties in application of rules/orders and suggestions for simplification of procedure. iv) Cases of dissent / overruling by CFA, if any. v) Suggestions for improvement in the functioning of IFA system. vi) Important points of Audit objections including Test Audit objections & Draft Para on cases concurred by IFA. vii) Details of Inspection of sub-offices, major shortcomings noticed and proposed remedial measures. viii) Case studies carried out. ix) Working of control and monitoring systems – Budget Control, PPP including liabilities, maintenance & use of database of rates. x) Interaction with the executive authorities. xi) Any other point considered necessary to bring to the notice of CGDA.	Pr.IFA, Demi-Officially	PIFA/MAR/15023/Circular dated 23/11/2006 and No. PIFA/MAR/15023 dated 16/10/2007	10 th of the following month
2	Monthly Activity Report - IFA System (in narrative form) [By IFAS COD, ED/BRDs and FA to ASD/MS)	i) Achievements during the month. ii) Problems faced in the functional areas. iii) Difficulties in application of rules/orders and suggestions for simplification of procedure. iv) Cases of dissent / overruling by CFA, if any. v) Suggestions for improvement in the functioning of IFA system. vi) Important points of Audit objections including Test Audit objections & Draft Para on cases concurred by IFA. vii) Case studies carried out. viii) Working of control and monitoring systems – Budget Control, PPP including liabilities, maintenance & use of database of rates. ix) Interaction with the executive authorities.	The PIFA, (Pr.IFA Wing) New Delhi-66. with a copy to Command IFA.	PIFA/MAR/15023/Circular dated 12/03/2007	10 th of the following month

3	<p>Monthly Progress Report – IFA Work (Army): Generation of MIS Report for Top Management (Proforma enclosed as Annexure-II)</p>	<p>1) Details of AON/TE vetting & 2) Details of PNC/SO vetting having fields of OB, Receipt, Cleared, CB, OD, Cleared within 7/15/30 days, Cases returned, Amount proposed, Amount concurred & Savings. 3) (i) (a) Amount proposed, concurred and savings achieved should tally. (b) The amount of savings should be the amount proposed minus amount concurred. (c) The amount proposed should be for the number of cases concurred and should not include the amount of cases returned. (ii) The opening balance should tally with the closing balance shown in the report of the previous month. (iii) The columns of the report should be as per the prescribed format. Columns should not be amended as the MPR is to be compiled through computer. (iv) The number of cases returned should be included in the cases cleared. (v) Total of the number of cases cleared within 7 days, 15 days and 30 days or more should tally with the number of cases cleared during the month.</p>	<p>The AT-Coord, O/O The CGDA, New Delhi-66. Copy to: The PIFA, New Delhi.</p>	<p>AT-Coord. /00012/MPR/ Misc. dated 08/01/07.</p>	<p>10th of the following month</p>
4.	<p>Quarterly Expenditure Report (See Annexure – IV)</p>	<p>IFAs of Integrated Service HQ and Command IFAs will render a Monthly Expenditure Report with minor headwise expenditure indicating codehead wise budgetary allocation and expenditure.</p>	<p>The PIFA, New Delhi</p>	<p>Authority: PIFA/Budget/ 15015 dtd 20/08/07</p>	<p>10th of the following month of the quarter</p>

Part –A (AON/Quantity Vetting) (Army)

Monthly Progress Report for the Month of.....in respect of IFA

Description	OB	Recei pt	Total	Break up of cases disposed off with time taken								Cas es dis pose d off (5.4 +6. 4)	C B (4 - 7)	Oldest dated	Budge tary allocat ions	Amt. Propo sed (in respe ct of 6.4)	Amou nt concu rred (in respe ct of 6.4)	Savin gs achiev ed (11- 12)	Progressive total of upto the month of report																	
				Cases returned without concurrence				Break up of cases cleared											7 days	15 days	30 days or more	Total cases returne d (5.1+5. 2+5.3)	7 days	15 days	30 days or more	Total cases concu rred (6.1+6. 2+6.3)	7	8	9	10	11	12	13	14	15	16
				7 days	15 days	30 days or more	Total cases returne d (5.1+5. 2+5.3)	7 days	15 days	30 days or more	Total cases concu rred (6.1+6. 2+6.3)																									
1	2	3	4	5.1	5.2	5.3	5.4	6.1	6.2	6.3	6.4	7	8	9	10	11	12	13	14	15	16															
1.CHT																																				
2.IT																																				
3.ACSFP																																				
4.Works																																				
5.TAG																																				
6.ATG/ASG																																				
7.Others																																				
8. Capital																																				
9. Total of which																																				
9.1 Cases recommen ded for concurre nce by higher IFA																																				
9.2 Balance cases within the competence of IFA rendering the report																																				

NOTE: 1. Brief details of cases cleared after 30 days or more should be shown separately as a note below the report with reasons
 2. Total of row serial number 9.1 and 9.2 should be equal to serial number (9). 3. Budgetary allocation under column No. 10, PCsDA/CsDA IFAs may note the budgetary allocation from the cases concurred. PCsDA/CsDA may also obtain the budgetary allocation from the MER rendered to Budget holders. 4. Further the budgetary information may be given by the PCsDA/CsDA/IFAs in whose area the budget holder is situated.

Part –B (Financial/expenditure concurrence) (Army)

Monthly Progress Report for the Month of.....in respect of IFA

Description	OB	Recei pt	Total	Break up of cases disposed off with time taken								Cases dispose d off (5.4+6. 4)	CB (4-7)	Olde st date d	Budge tary allocat ions	Amt. Propose d (in respect of 6.4)	Amount concurr ed (in respect of 6.4)	Savings achieved (10-11)	Progressive total of upto the month of report						
				Cases returned with concurrence				without											Break up of cases cleared				Amt propos ed	Amt concu rred	Savi ngs achi eve d
				7 days	15 days	30 days or more	Total cases returne d (5.1+5. 2+5.3)	7 days	15 days	30 days or more	Total cases concu rred (6.1+6. 2+6.3)								7	8	9	10			
1	2	3	4	5.1	5.2	5.3	5.4	6.1	6.2	6.3	6.4	7	8	9	10	11	12	13	14	15	16				
1.CHT																									
2.IT																									
3.ACSFP																									
4.Works																									
5.TAG																									
6.ATG/AS G																									
7. Others																									
8.Capital																									
9. Total of which																									
9.1 Cases recommen ded for concurrence by higher IFA																									
9.2 Balance cases within the competence of IFA rendering the report																									

NOTE: (1). No of cases cleared after 30 days or more should be shown separately as a note below the report with reasons
 (2). Total of row serial number 9.1 and 9.2 should be equal to serial number 9. (3). One more column for budgetary allocation has been added at column No. 10, PCsDA/CsDA IFAs may note the budgetary allocation from the cases concurred. (See para 4 (d) of the letter dated 12.07) PCsDA/CsDA may also consult the budgetary allocation while forwarding the MER rendered to Budget holders.
 (4). Further the budgetary information may be given only by the PCsDA/CsDA/IFAs in whose area the budget holder is situated.

Annexure-III**QUARTERLY FINANCIAL CONCURRENCE REPORT**

Sl .No.	Name of the Report	Contents of the Report	Rendered to	Authority	Due Date	Remarks
1	Quarterly Financial Concurrence Report (Proforma enclosed as Annexure-III-A)	<p>a) The total time taken has to be computed from the date of receipt of file in IFA's office for AON to final vetting of S.O.</p> <p>b) The amount concurred is the one cleared at vetting of SO/AE stage.</p> <p>c) Only financially concurred cases need to be reflected in the report but cases accepted from AON angle / returned with observations would be shown consolidated as a note to the report.</p> <p>d) The balance number of cases in the pipe-line will be the total number of cases received in IFA's office that are in various stages but not cleared from expenditure angle.</p> <p>e) If a case is returned with observations and resubmitted during the quarter, it will be taken as a distinct case for the purpose of total receipt.</p>	The PIFA, (Pr.IFA Wing) O/O The CGDA, West Block-V, R.K. Puram, New Delhi-66.	PIFA/QE Report/2004-Vol.I dated 15/02/2005.	15 th of the following month	

Annexure-III-A**Rendition of Quarterly Report on Financial Concurrence Cases
Details of cases concurred during Quarter Ending.....**

Sl No	Initial date of recei pt	Ca se Fil e No & da te	Date of clearance		Time taken by		No of times case returne d with observat ion	Mode of quot ation /TE	Amou nt propo sed	Amou nt conc urred	Total Savings	
			AO N/ TE Vet ting	PNC / SO Vetti ng	IF A at va ri o u s st ag es	Ex ec uti ve s					D uri ng PN C	On advic e of IFA
1	2	3	4	5	6	7	8	9	10	11	12	13

Annexure-IV
Format to render Quarterly Expenditure Report
(Amount in Rs Lakh)

Sl. No	Minor Head	Sub-Head	Allotment for the year 2007-08	Expdr booked upto	% of Expdr booked	Remarks
1	2	3	4	5	6	7
1	CHT	105	255/01 255/02			
	Total					
2	ASC	110 A	401/01,407/01 408/01, 409/01			
Total						
3	AOC	110(E)	430/01			
4	IT	110(H)	433/01,434/01 435/01,436/01 437/01			
Total						
5	Works	111	451/01, 452/01 452/00			
Total						
6	ATG	800	567/00			
7	ACSFP	110	415/21			
Total						

Appendix A (Referred to in Chapter 3)

Market Research

1. Categories of MR

a). Macroeconomic Research - This refers to the general economic environment and focuses on factors that can influence the future economy. Examples could be Business cycle and Economic growth, Industrial production, Average utilization rate in industry, wage rates, employment, average price level, inflation, Interest rate, Supply and Demand, etc.

b). Meso-economic Research - This focuses on specific sectors of industry, of which the items being bought are related to. For a particular industry, information on the supply-demand trend, Utilization rate, level of competition, technological advancements, trade discounts, etc can be extremely handy to IFAs for processing procurement proposals.

c). Microeconomic research - This focuses on individual suppliers and products, as in financial survey of a supplier, feasibility of entering into a long-term contract, etc. IFAs may use this research in PAC / Single tendering cases in particular. Examples could be Financial situation, Organizational structure, Quality of delivered goods, Delivery performance, Delivery lead time, Service quality, Ownership pattern, Cost-price structure, Price level, etc.

2. Methods of MR - In the case of purchasing market research, it is common to differentiate between desk research and field research. Desk research is the gathering, analysis and interpretation of data that serve the purchase function, but which have already been gathered by others. The best place to do it is on Web sites, though browsing through technical/professional journals, financial newspapers, etc can also be extremely informative. Field Research is the gathering, analysis and interpretation of information that cannot be obtained by means of desk research. It tries to track down new information. Some of the methods could be as under -

2.1 Financial/Technical journals and Specialized Publications -

a) Specialized Journals and Publications are extremely valuable tool for developing a solid database. The information contained in them is much more elaborate than News papers and also covers additional topics. They help in generation of important database for Finance Member in following areas -

- i.** Price List - Several ads are published by vendors regarding their product and price. Virtually all important items (except the customized ones) will be found covered in Journals / Magazines as far as pricing is concerned.
- ii.** Vendor List - Specialized ads frequently appear in Magazines for a particular industry in which several vendors publish their products. A comprehensive list of vendors for different categories of items is published regularly in several magazines. In the regular ads also, all the major OEMs publish the names of their accredited resellers, agents, retailers, distributors etc., which can be very useful for Finance Member when he examines the question of sufficient

- competition against the issue related to mode of tendering.
- iii.** Industry Specific Information – Specialized articles in various magazines give detailed sectoral analysis of a particular industry. It provides insight into the functioning of that industry, present players operating in the market, latest technological changes occurring in that industry, macro factors like recession, inflation effecting that industry, future trends etc.,. This input can be extremely useful for Finance Members during their negotiations with the vendors.
 - iv.** Macro Economic Issues – Regarding the Condition of Economy in general, useful news items and editorials appearing in various Finance Magazines can be very handy. Factors like Inflation Rate, Recession, Bank Rate, Budget Policy, Export Import Policy, Sales Tax Policy, Industrial Policy, International Economic Trends etc., are useful inputs for Finance Member.
 - v.** Taxation Matters – Finance Journals especially ICFAI publications give a good perspective on Taxation Matters. Issues related to excise duty, Central sales tax, Customs duty, State Sales Tax etc., occur in a dynamic situation where Court decisions and Government announcements are done in regular basis. Finance Member has to keep himself up dated on all these issues for effective participation in TPCs.
 - vi.** Legal Decisions – Several Court Judgments on Government Tendering process are announced from time to time. Journals related to Legal decisions give a summary of all such Court decisions.
 - vii.** Defence Matters– Important developments in Defence Policies are published in specialized journals published by IDSA, CDM etc.,. Keeping abreast with these developments will help Finance Members in having a better perspective in Purchase process.
 - viii.** Technical Inputs – Several Technical journals specialize in giving information about technical information like latest trends in Technology, Basic concepts of Technological process, detailed description of technical products etc.,. Some expertise in these areas is desirable for Finance Member to develop.
- b)** An illustrative list of all such Journals / magazines, useful for purchase, is given below –
- a. RBI Monthly Bulletin
 - b. CMIE'S monthly report
 - c. Chartered Financial Analyst – The flagship Publication of ICFAI with analytical articles, Case studies, debates and Book reviews.
 - d. The Accounting world – a digest devoted to the domain of cutting edge accounting knowledge
 - e. ICFAI Reader – A digest with articles of enduring significance on wide ranging topics in Finance.
 - f. Treasury Management – A niche Publication with focus on frontier areas in Treasury and Forex Management.
 - g. Effective Executive – A monthly digest which brings the latest thinking in various branches of Management for executives.
 - h. Chartered Secretary – Published by The Institute of Company Secretaries of India, it publishes the latest legal decisions on financial matters apart from the conceptual articles on finance.
 - i. The Management Accountant – Published by the Institute of Cost and

- Works Accountants of India, it contains articles on Industry, Taxation and Cost Management.
- j. Business Today – Contains lot of conceptual articles on Financial Management and also the Business News and Macro Economic Trends.
 - k. Business India – Same as above
 - l. Business World – Same as above
 - m. Productivity – Principle Journal of National Productivity Council of India aims at disseminating information on concepts and data on productivity and its growth in India and else where. It also aims at disseminating knowledge on techniques and methods of productivity improvement through effective management of all types of resources.
 - n. Digit – Extensive information on latest Hardware and Software products, vendors, Tips for buyers of PCs and accessories, Technical knowledge in simplified form etc
 - o. PC World – Same as above
 - p. PC Quest – Same as above
 - q. IT – Same as above
 - r. IT Shopper – The best input given on the Price List among all the PC Magazines. Gives detailed information on all product releases of the concerned month – direct from the vendor.
 - s. Voice & Data – covers all latest products, prices and vendors related to communication industry.
 - t. Network Computing – covers all latest products, prices and vendors related to Networking industry.
 - u. Electronics for you – The best magazine to give information on latest products, prices and vendors related Electronics industry. Their monthly focus on a particular topic can be extremely useful for going in detail about a particular issue.
 - v. Fluid Power Journal – Quarterly magazine, which focuses on Hydraulics and Pneumatic Industry.
 - w. The ET Polymers – Bi-monthly magazine, which focuses on Plastic Industry
 - x. The Machinist - Bi-monthly magazine, which focuses on Machine Tools and Manufacturing Technology
 - y. Instrumentation and Control Journal - Bi-monthly magazine, which focuses on Instrumentation and Process control
 - z. Search – The best magazine on information about technological products, latest developments in technology, vendor list and price list.
 - aa. Legal Magazines - They are extremely important for Finance Reps as often they contain important Court decisions on Government tendering procedures. The sections pertaining to Article 14, 19, 298, 299, 300 of Constitution of India, Contract Act, Sales of Goods Act etc., should be browse through in these magazines for judgments relevant to Government purchase. Examples are Supreme Court Monthly Digest, All India Reporter, Legal Spectrum, etc.

2.2 Specialized Publications - Various Organizations publish special papers / documents, which could be very useful to Finance Member for Reference / Database.

a) Manufacturer And Dealer Catalogs - Catalogs are familiar sources of data

that can be found in both department stores and mail order houses. The manufacturer and dealer catalogs used in Defence purchasing resemble these catalogs in the type of information they provide. Typical data IFAs can find in manufacturer and dealer catalogs include:

- i. Product descriptions
- ii. Pictures
- iii. Prices and quantity discounts
- iv. Minimum order requirements
- v. Delivery data
- vi. Points of contact for quotes and orders

2.3 Product Brochures And Promotional Material - Brochures and promotional material provide much greater detail about specific products than would normally be included in a catalog with several thousand other products. While details on pricing and delivery are often included, this information may be excluded in order to provide greater latitude in negotiating the terms of sale. The following are typical data IFAs can find in product brochures and promotional material:

- i.** Detailed specifications
- ii.** Pictures
- iii.** Available service guarantees and products
- iv.** Points of contact for quotes and orders
- v.** Pricing information
- vi.** Delivery data

2.4 Trade Journals - Trade journals provide a variety of information from different sources, including advertisements, product evaluations, and independent articles. Following are some of these sources of information for IFAs

- a. **Advertisements** typically consist of product descriptions, often with pictures and comparisons with competitor's products. Sources to consult for additional information may also be identified.
- b. **Product evaluations** provide independent information to buyers who may be considering the purchase of that product or a similar one. Evaluations usually deal with technical capabilities, but often include information on source locations, pricing, and warranties.
- c. **Articles** about the trade may indirectly provide an independent analysis of product capabilities. Successes or failures in using particular products or services serve as evaluations of their quality.

2.5 An illustrative list of such sources, as mentioned above, is given below –

- a. RS Catalogue –This publication containing price list of over 1,00,000 items.
- b. International Data Corporation specializes in area of Market Research and Consulting in Information Technology. They sell lot of specific reports on Status of Industry, Market, Trends in Technology.
- c. R.K.Swamy (BBDO) Guides to Market Planning
- d. Electronics for You publishes their annual guide which gives exhaustive coverage of entire electronics Industry in India.
- e. The Search Magazine publishes their Industrial Source book each year in January. It gives detail coverage of each industry, Product update and Vendor List.
- f. Voice & Data Magazine publishes their Gold Book annually. It is resource guide on buying communications and Networking Products & Services.

- g. Electronic for You publishes their IT Directory once in a year. It gives details of all major IT Organizations with full contact details, Segment wise listing, Overall statistics of IT industry, Product wise Listings, List of MNCs in India, Importers and Exporters marked separately.
- h. Survey of Indian Industry
- i. Yellow Pages – Its importance in providing sufficient number of vendors for a particular item can not be under estimated. Now a days, they are available in CD-ROM format also which makes it fairly easy to retrieve any desired information.

3. Financial newspapers for prices and products - News papers like Business Standard, Economic Times, Business Express, etc can provide up-dated material in regard to Procurement matters on day to day basis. They can help in generation of important database for Finance Member in following areas –

- a. Price List – Several ads are published by vendors regarding their product and price. This is especially for the items like COTS, PCs, Office equipments, etc where the price fluctuation is volatile. Financial News papers also provide information about commodities like metals, non-metals, other raw materials, manufactured products etc., which proves very handy for Costing and Pricing purposes.
- b. Vendor List – Specialized ads frequently appear in Newspapers for a particular industry in which several vendors publish their products. In the regular ads also, all the major OEMs publish the names of their accredited resellers, agents, retailers, distributors etc., which can be very useful for Finance Member when he examines the question of sufficient competition against the issue related to mode of tendering.
- c. Industry Specific Information – Once in a week, News papers like Economic Times and Business Standard publish detailed sectoral analysis of a particular industry. It provides insight into the functioning of that industry, present players operating in the market, latest technological changes occurring in that industry, macro factors like recession, inflation effecting that industry, future trends etc.,. This input can be extremely useful for Finance Members during their negotiations with the vendors.
- d. Macro Economic Issues – Regarding the Condition of Economy in general, useful news items and editorials appearing in News papers can be very handy. Factors like Inflation Rate, Recession, Bank Rate, Budget Policy, Export Import Policy, Sales Tax Policy, Industrial Policy, International Economic Trends etc., are useful inputs for Finance Member.
- e. Taxation Matters –Issues related to excise duty, Central sales tax, Customs duty, State Sales Tax etc., occur in a dynamic situation where Court decisions and Government announcements are done on regular basis. Finance Member has to keep himself up dated on all these issues for effective participation in TPCs.
- f. Legal Decisions – Several Court Judgments on Government Tendering process announced from time to time. News papers often publish summaries of these judgments.
- g. Government Decisions on Tendering – Several news items are published virtually every day regarding decisions taken by various Government departments on their tenders. Some times Government also pronounces important policies on tendering procedures. All these can be of valuable guide to finance members for making their point during TPC.

- h. **Defence Matters** – Important developments in Defence Policies and regularly appear in newspapers. Keeping abreast with these developments will help Finance Members in having a better perspective in Purchase process.

4. Visits to exhibitions / conferences / OEM's premises to update with latest technological and financial issues – Several Industry-specific and defence-specific Exhibitions / Seminars are regularly held in major cities. Listening to presentations in these places and collection of handouts/pamphlets can give useful updated inputs to IFAs while processing procurement cases. In assessing the reasonableness, general analysis of Financial/Cost ratios from published accounts and evaluation of Commercial/Technical information of the Vendor/Bidder can be supplemented with field visits / OEM's premises. It will be helpful for IFAs to understand vendor's approach to controlling cost, adherence to delivery schedule, Cost Accounting System and other factors affecting contractor's ability to meet cost/schedule targets

5. Browsing through Web sites - With the growth of Internet, Web sites have become the most popular way for the vendors to reach out to the possible buyers. Not only inputs are available about the sources of products but more importantly, exact pricing of such products is instantaneously available. The information is so updated that one can ascertain worldwide price of a particular product on the TPC date itself.

- a) The best way to ascertain information on any item is to use the search engine in sites like www.google.com, www.yahoo.com, www.alibaba.com, etc. The search button and key word given by the user provides several links to that particular item. A patient perusal of each of these links will provide sufficient information about the desired input. Following areas are relevant for purchase –
- a. Industry-specific
 - b. Vendor-specific
 - c. Product-specific
 - d. Price
 - e. Technology
- b) Specific price comparisons, known as price index numbers, are particularly useful in making price comparisons over time. IFAs can use price index numbers to adjust the price for any purchase or sale of a particular product at any time, to estimate the contract price for current requirement. IFAs can even make comparisons using information from several Procurements involving several different vendors. In regard to price indices of indigenous items, website of Ministry of Industry www.eaindustry.nic.in should be accessed for the latest indices/trends and for metals and other minerals, access www.mmr.online.com for updates. The other useful sites are <http://www.ciionline.org/>, www.tradintelligence.com and www.cmie.com. The monthly report of CMIE (Centre for Monitoring Indian Economy), COSMOS Package of CMIE giving updates on performance of listed Indian companies, RBI monthly bulletin, Economic survey and its Appendix containing statistical tables are excellent reference material for market trends. The World Economic Outlook – a monthly report from IMF, gives inputs on price trends of different countries. LME (London Metal Exchange) gives price trends of nonferrous details, which often show volatile

trends. Indices of electronic items often show lower trends. Instructions issued by Ministry of Finance on its web site www.finmin.nic.in should be assessed as also RBI's site <http://www.rbi.org.in>. Sites like **Error! Hyperlink reference not valid.**.com/ give price list and vendor list for military-specific items, which can be used as a tool in PNC and also for firming up estimated cost at AON stage.

6 Be aware of Latest trends in Materials and Logistic Management

- a) IFAs need to appreciate that the principal objective of Inventory controllers are to reduce investment in inventories and simultaneously to minimize idle time by avoiding stockouts and shortages and that these two objectives are often in mutual conflict! Defence logistic managers are increasingly accepting the validity of techniques of inventory control for improving the operational performance of their depots/workshops/offices. The objectives of applying these techniques and degree of their application may differ, but there is no doubt that awareness of utility of these techniques is spreading in Defence services. IFA needs to be aware of latest trends in this area. The science of inventory management has developed highly sophisticated levels and many possible ramifications of demand situations e.g. uncertainty, seasonality, etc have been intensively explored. Applications of techniques of Operations Research have added to the sophistication.
- b) While across the industry, Procurement function has almost merged with Inventory Management to become a part of Supply Management, the same has not happened with reference to IFA's role vis-a-vis Users in Defence services. While IFA is required to play a major role in Procurement, he/she does not get involved with Inventory Management per se. However, IFAs can still enter into the domain of Inventory Management at AON stage. The conflicting objectives of inventory control, as mentioned above, are reflected in the seemingly conflicting demands which are made on an Inventory manager in which IFA can get involved. For example, stocks are to be kept at a low level but not too low; turnover is to be increased but only at a satisfactory rate; bulk purchases are to be attempted to obtain better prices but overbuying is to be controlled; special attention is to be given to the disposal of obsolete or near obsolete items but not before the point of obsolescence is identified; and so on. IFA in close association of User, will have to do balancing of specific objectives which will require understanding and analysis of many interrelated variables: prices, operating costs, stock quantities. Distances, supply and services, etc.
- c) Among the large number of available tools and techniques of inventory control, a few relevant to IFA are mentioned below –
 - i. ABC, FSN and VED analysis
 - ii. Codification and standardization
 - iii. Determination of re-order quantities
 - iv. Selection of Replenishment systems
 - v. Economic Order Quantity
 - vi. Application of Probability and Demand Forecasting

7. Know Costing techniques – Without the need for developing the expertise expected of a Cost Accountant, IFAs can be effective negotiators if they develop some basic knowledge of Costing techniques relevant for Procurement functions. Concepts like Cost structure (variable, semi-variable and fixed costs) and their

importance for profit planning for vendor, Break-even point, Profit/Volume ratio, Marginal and Absorption Costing, Overhead costs apportionment, Operating costs, Life Cycle Cost, Net present Value, DCF, etc. IFAs should have the basic knowledge of the techniques and procedures to perform cost analysis in simple form as mentioned below :

- d)** To verify cost or pricing data or information (other than cost or pricing data).
- e)** To Evaluate cost elements, including:
 - i.** The necessity for and reasonableness of proposed costs, including allowances for contingencies;
 - ii.** Projections of the vendor's cost trends, on the basis of current and historical cost or pricing data or information other than cost or pricing data;
 - iii.** A technical appraisal of the estimated labor, material, tooling, and facilities requirements, and scrap and spoilage factors; and
 - iv.** The application of audited or negotiated indirect cost rates, labor rates, cost of money factors, and other factors.
- f)** To evaluate the effect of the vendor's current practices on future costs.
 - i.** To see that the effects of inefficient or uneconomical past practices are not projected into the future.
 - ii.** In pricing production of recently developed complex equipment, ability to perform a trend analysis of basic labor and materials even in periods of relative price stability.
- g)** To compare costs proposed by the vendor for individual cost elements with:
 - i.** Actual costs previously incurred by the vendor;
 - ii.** Previous cost estimates from the vendor or from other vendors for the same or similar items;
 - iii.** Other cost estimates received in response to the other Users's request;
 - iv.** Independent cost estimates by technical personnel; and
 - v.** Forecasts or planned expenditures.
- h)** To verify that the vendor's cost submissions are in accordance with the contract cost principles and Cost Accounting Standards.
- i)** To determine whether any cost or pricing data necessary to make the contractor's proposal accurate, complete, and current have not been either submitted or identified in writing by the contractor. If there are such data:
 - i.** To obtain the data and negotiate using the data obtained, or
 - ii.** To make satisfactory allowance for the incomplete data.
- j)** To analyze the results of any make-or-buy program reviews, in evaluating subcontract costs.

8. Have an idea of Operational Research Models –

(a) The Committee on delegation of Powers in their report of June 2006 indirectly touched the area of Operations Research in para 11.1 (m) while emphasizing the need for reviewing efficacy of Transportation Model for direct dispatch of stores. Operations Research (also known as Quantitative Methods, Management science, Decision science) can be viewed as a scientific method of

providing us the quantitative basis for decisions regarding the operations under our control. By using different OP techniques, we generally attempt to arrive at an optimal solution of the problem based on some criteria or criterion for optimality. A brief comment on certain standard techniques or prototype models of operations research which can be useful to IFAs in solving a particular class of problem is given below. However, it must be remembered that each one of these models of OP involves detailed studies.

- i.** Allocation models – These deal with the allocation of scarce resources so that the objective function can be optimized, subject to certain constraints. These techniques are collectively called mathematical programming techniques. Transportation and Assignment Models are important models in this category, which can be relevant to IFA's work. Transportation model is a special case of linear programming which matches sources of supply to destinations on cost or distance considerations. For example, movement of raw materials from different sources to manufacturing plants at different locations based on availability of raw materials at various sources, the requirements at different plants and the cost of transportation involved. Assignment model is a special case of Transportation model where the aim is to assign a number of origins to the same number of destinations at a minimum total cost. For example, assigning of men/machines to same number of jobs / tasks.
- ii.** Queuing theory - It studies random arrivals at servicing or processing facility of limited capacity. These models attempt to predict the behavior of waiting lines, i.e. the time spent waiting for a service. The technique is descriptive and describes behavior that can be expected given certain parameters. It is not prescriptive in nature and does not offer an optimal solution. The models deal with the trade offs between cost of providing service and value of time spent waiting for a service.
- iii.** Simulation models - The procedure studies a problem by creating a model of the processes involved in the problem and then, through a series of trial-and-error solutions attempts to determine a better solution to that problem. It is one of the most widely used quantitative techniques today.
- iv.** Sequencing models - These models are concerned with the selection of an appropriate sequence of performing a series of jobs on service facilities (machines) so that some efficiency measure of performance is optimized (generally the total time taken or the time spent in waiting).
- v.** Decision theory - Decision situations can be classified into deterministic or certainty, probabilistic or risk and uncertainty. Decision making under certainty can be dealt with by various optimization techniques. Decision theory deals largely with decision making under risk where the probabilities of certain conditions occurring (such as demand for an item) are predicted and various options assessed based on these probabilistic values. In situations of uncertainty there can be no specific approach. A set of decision rules can be applied and insight gained into the decision maker's style of functioning. This is particularly applicable to studying a competitor's style of decision making and predicting how he would react in a certain condition so as to gain advantage for oneself.
- vi.** Game theory - This deals with decision making under conditions of competition. Its assumptions currently restrict its usage.
- vii.** Markov models - Markov analysis helps to predict changes over time when information about the behavior of a system is known. The models are

particularly useful in predicting brand loyalties, manpower planning and management of receivables.

(b) Some of the Procurement problems, which can be analyzed by OP approach are mentioned below –

- i.** Rules for buying supplies under varying prices
- ii.** Determination of quantities and timing of purchases
- iii.** Bidding policies
- iv.** Strategies for exploration and exploitation of new material sources
- v.** Rationalization of manpower requirements (hiring of services)
- vi.** Transportation and Warehousing issues
- vii.** Maintenance policies and Preventive Maintenance (AMC, Warranty issues)
- viii.** Determination of time-cost trade-offs and control of development projects (DRDO)

Appendix B
(Referred to in Chapter 4)

Advanced issues at AON stage

1. The advanced issues mentioned in this chapter are akin to desirable QRs. These are meant for higher level IFAs and that too on as required basis. The topics have been only given brief introduction as each one of them requires extensive readings for effective use in procurement. This is only an attempt to familiarize IFAs with advanced themes, which can be pursued on their own depending upon level, aptitude and requirements of individual IFA.

2. **Necessity angle & Quantity vetting** – There are several means to probe these aspects from superior techniques, some of which are mentioned briefly –

a. Economic Stock Levels

- i. An efficient materials-procurement system also includes the means to ensure that stocks are obtained and maintained at economic levels and in quantities that prevent interruption in the flow of needed resources. The aim is to avoid the disruptive financially and operationally. The cost of procurement investments must be balanced against the consequences of stock-outs.
- ii. Excessive stocks are wasteful in that they generate unproductive use of capital and build up surpluses that may become obsolete. Unnecessary administrative and operational overhead such as charges for additional storage space, handling, security and stock preservation also result from overstocking. Some tangible and intangible costs as well as other disadvantages also result from insufficient stocks. This overhead is often overlooked because it is hidden as a not readily measurable variable. Short inventories also result in delays, production interruptions and labour problems.
- iii. To determine the most economic quantity to order, the following factors should be taken into consideration:
 - order price
 - order-processing cost
 - cost of stock holding
 - lead time
 - rate of usage
 - usage/value factor
- iv. The usage/value factor is a key guide in determining the size and frequency of the various orders that must be placed. This is based on the concept that additional controls must be placed on higher-value stocks and on inventory items with the largest volume movement.
- v. Inventories for different types of users may vary considerably with the categories of stock items carried. However, experience demonstrates that about 20 percent of all individual stock items in any inventory represent 80 percent of the total inventory value. This means that the larger number of inventory items representing lower total value require a smaller investment to enlarge safety stock levels. Since larger inventories can be maintained, the time periods between reordering

can be lengthened. Conversely, the higher-value stock items require a high investment cost, safety stock levels should be as low as practicable, minimum economical purchases should be made; and physical verification of the book inventory should be carried out as frequently as possible. Although closer and more frequent controls on higher value stock are required, that does not mean that fewer controls should be exercised on the lower-value items.

- vi. The usage/value analysis procedure is known as the A-B-C system; it begins with the establishment of the classification of stocks in a descending order of value to provide different levels of control as illustrated in Table 3.

vii. **Table : Usage/value analysis A-B-C system**

Classification	Percentage of Stock	Percentage of Value	Nature & level of control
A	5	65	High usage; low safety stock levels; frequent physical verification; minimum economic quantity ordered; close schedule control and review (daily if possible).
B	15	15	Control not as tight as for "A" items, but tighter than for "C" items
C	80	20	Low usages; high inventory levels; purchases in large quantities at less frequent intervals minimize clerical efforts to control; larger safety stocks; low stock-out risks.

b. Lead time and safe stock level

- i. Lead time is the time that elapses between ordering goods, receiving them and placing them into use at the point of need. This delay factor includes the time it takes to assess the needs, prepare and place the order, process the order and to ship the goods, unload the goods at the port of destination, discharge from the port and deliver to the user. Stock-control systems are also influenced by fluctuation in usage rates; the more severe the fluctuation, the more difficult it is to stabilize the control. Therefore, buffer or safety stock levels can be established to cushion the effect of anticipated fluctuations.
- ii. The safe level of stock is dependent upon the rate of usage and the probability of shortage. Data on demand and usage trends provide the necessary guide in assessing the level of adequate stocks. Safe stock level may be increased in proportion to the lead time, the assumption being that the longer the lead time, the greater the risk of a stock-out. This proportion can be established by setting "low" or "high" safe stock margins as illustrated in the following table;

iii.

Table - Lead time and safe stock level

Lead time;	Safe stock level	
	"Low"	"High"
Up to 1 month	1 week's usage	2 week's usage
Up to 2 months	2 week's usage	1 month's usage
Up to 4 months	1 month's usage	2 month's usage
Up to 6 months	2 month's usage	3 month's usage

iv. In order to prevent the stock level for a particular item from sinking to the point where it is no longer safe, action to replenish must be initiated at some point above the safe stock level. That point is usually referred to as the recorder point and is expressed as a quantity of the item in question. A simple formula for determining the recorder point is as follow;

$$ROP = (DU \times LD) + S$$

ROP = recorder point or minimum quantity in stock to maintain safe stock level;

S = safe stock level;

LD = lead time in days;

DU = daily usage.

c. Economic purchase order quantity (EOQ)

i. The mathematical formula for Economic Order Quantity (EOQ) can be used by IFA as a tool in examining proposal at AON stage. It is based on the fact that the EOQ is that quantity at which the carrying cost equals the acquisition cost, and this represents the lowest total cost per unit of material. This is the basic principle for economic quantity buying and is true regardless of the factors used

ii. Several formulas have been developed for the rapid calculation of the economic purchase order quantity. The following simplified formula is often used:

$$EOQ = \frac{2AC}{IP}$$

EOQ = economic purchase order quantity in units;

A = annual usage in units (metres, gallons, kilos);

C = cost of placing and receiving an order
(clerical and handling processes);

I = inventory carrying cost

(expressed as percentage of the average value of inventory);

P = purchase price per unit, including freight & discounts

iii. In Defence services, the ordering costs and carrying costs are difficult to determine and are seldom exactly known, unless exact cost data has been maintained. Often, a Defence Organization may not be applying formal inventory methods and may wish to do so but may not be willing to wait for a long period in which costing data can be collected. The EOQ concept can still be used by IFAs with considerable savings. Let us consider the EOQ model when the order quantity is expressed in rupees.

$$QC = \sqrt{\frac{2ASC}{i}}$$

In the formula AC represents the annual usage value, that is the number of units of an item used annually multiplied by the cost per unit. This data is normally available or can be computed from store accounting ledgers. Even though the ordering cost S and the carrying cost I is not known, we can write the relationship as:

$$QC = k\sqrt{AC}$$

where k represents $\sqrt{\frac{2S}{i}}$

$$\text{Number of orders } N = \frac{AC}{QC}$$

Substituting for QC , we get

$$N = \frac{AC}{k\sqrt{AC}} = \frac{\sqrt{AC}}{k}$$

$$\text{Average stock for any one item} = \frac{QC}{2} = \frac{k\sqrt{AC}}{2}$$

Because k is a constant for any single item, we may consider k as a constant for the entire inventory of items. We may say

$$\sum N = \sum \frac{\sqrt{AC}}{k}$$

Total numbers of orders = Sum of square root of annual usage values divided by k

$$\text{Total average stock} = \frac{k}{2} \sum \sqrt{AC}$$

- d. Marginal return principles** – The allocation of resources to various programmes may require application of marginal return principles. The concept is that beyond a point the allocation of more resources to a programme brings less and less returns. As the resources are scarce and the needs are many, the principle of equi-marginal returns can be followed for affecting savings. This will require the IFA to indulge in meticulous costing and valuation of benefits at the margin. The concepts of Marginal cost and Marginal Product will have to be applied with due care by IFA in close consultation with the user. An understanding of these concepts is important because they are the key factors to the sensible resolution of many requirements issues. IFAs must not view the problem of military requirements determination as one of calculation of the forces required to achieve an arbitrarily selected objective or level of effectiveness. It is more sensible to reduce the problem to one of judging at what point the extra effectiveness resulting from more forces – the Marginal Product – is no longer worth the extra effort – the Marginal Cost. This is necessary because there are always competing needs and the resources that can be made available are limited. The amount saved could be used for some other resources whose capabilities can be exploited more beneficially by investing in additional quantities.
- e. Probing Assumptions** – Even apparently simple calculations involved in projecting the requirement of equipment in defence are sometimes based on assumptions, which can bear deeper scrutiny. An analysis

by IFAs here is important because it is possible that the assumptions are based on liberal assessment of basic requirement but on pessimistic calculation of other operational parameters, which, make it necessary to build many safety parameters. Both may lead to an increase in projected requirements of the equipment, much beyond what is essential. IFAs must make efforts in such cases – particularly when there are elements of judgment involved behind particular assumptions – to get the assumptions more explicit and seek an alternative set of assumptions based on different parameters. The CFAs will then be able to take a view based on their own judgment as to which assumptions to adopt for finalizing the requirements.

- f. Analyzing Induction and de-induction profiles** - Very often when a proposal is made for induction of new equipment, adequate attention is not paid to question of what happens to the existing equipment. If useful life is still left in the existing equipment, and these can be utilized with benefit, then phasing of induction of new equipment should be considered carefully by IFAs at the time of concurring the case regarding the induction of new equipment. IFAs should carefully analyze the proposed de-induction profile of existing equipment before deciding whether or not to spend substantial amounts on their upgrading. IFAs need to take assurance that adequate exploitable life is available from the equipment that is being upgraded, so hat the amount spent per equipment is worthwhile from the cost-benefit angle. Often this point is not given due attention by the users in their enthusiasm for buying latest equipments. Hence the need for IFAs to be careful in seeing this issue. The de-induction profile of equipment is also important to decide upon the replacement needs. IFAs have to look into it carefully as there may be assumptions involved in a particular de-induction profile which can be questioned. The tendency to exaggerate the replacement needs on the basis of depletion of existing assets is expected from the users and therefore, IFAs need to give particular attention before deciding upon the quantitative requirements of new equipment.
- g. Decision Analysis** – Decision Analysis activities provide the basis for evaluating and selecting alternatives when decisions need to be made. Decision Analysis involves selecting the criteria for the decision and the methods to be used in conducting the analysis. For example, during system design, analysis must be conducted to help chose amongst alternatives to achieve a balanced, supportable, robust, and cost effective system design. These analyses include, but are not limited to, trade studies, models and simulation, supportability analysis, level of repair analysis, post fielding support analysis, repair versus discard, and cost analysis. These studies should be augmented with virtual and/or physical prototypes, where applicable, prior to making decisions on best alternative. Decision criteria will be influenced by such things as interoperability constraints; size; transportability requirements; maintenance concept; affordability; reliability, availability, and maintainability goals; and schedule.

3. Estimating Value of Proposal

(a) **Lifecycle Costs** - For a defense acquisition program, Lifecycle cost consists of research and development costs, investment costs, operating and support costs, and disposal costs over the entire Lifecycle. These costs include not only the direct costs of the acquisition program, but also include indirect costs that would be logically attributed to the program.

- i. When programs are less mature (in pre-systems acquisition or system development and demonstration), program cost estimates that are supporting the acquisition system normally are focused on Life-cycle cost or elements of Life-cycle cost. Examples of such cases where cost estimates support the acquisition system at a macro level include affordability assessments, analyses of alternatives, cost-performance trades, and establishment of program cost goals. In addition, more refined and discrete Life-cycle cost estimates may be used within the program office to support internal decision-making such as evaluations of design changes and assessment of produceability, reliability, maintainability, and supportability considerations. However, as programs mature (transition from production and deployment to sustainment), cost estimates that support the acquisition system or program management in many cases may need to be expanded in scope to embrace total ownership cost concepts.
- ii. In Defence procurements, Lifecycle cost can be defined as the sum of four major cost categories, where each category is associated with sequential but overlapping phases of the program Lifecycle. Lifecycle cost consists of (1) research and development costs, associated with the Concept Refinement phase, Technology Development phase, and the System Development and Demonstration phase, (2) investment costs, associated with the Production and Deployment phase, (3) operating and support costs, associated with the sustainment phase, and (4) disposal costs, occurring after initiation of system phase-out or retirement, possibly including demilitarization, detoxification, or long-term waste storage.
- iii. **Research and Development** consists of development costs incurred from the beginning of the conceptual phase through the end of the System Development and Demonstration phase, and potentially into Low-Rate Initial Production. Typically includes costs of concept refinement trade studies and advanced technology development; system design and integration; development, fabrication, assembly, and test of hardware and software for prototypes and/or engineering development models; system test and evaluation; system engineering and program management; peculiar support (peculiar and common support equipment, peculiar training equipment/initial training, and technical publications/data) and initial spares and repair parts associated with prototypes and/or engineering development models.
- iv. **Investment** consists of production and deployment costs incurred from the beginning of low rate initial production through completion of deployment. Typically includes costs associated with producing and deploying the primary hardware; system engineering and program

management; peculiar support (peculiar and common support equipment, peculiar training equipment/initial training, and technical publications/data) and initial spares and repair parts associated with production assets; and military construction and operations and maintenance associated with system site activation.

- v. **Operating and Support** consists of sustainment costs incurred from the initial system deployment through the end of system operations. Includes all costs of operating, maintaining, and supporting a fielded system. Specifically, this consists of the costs (organic and contractor) of personnel, equipment, supplies, software, and services associated with operating, modifying, maintaining, supplying, training, and supporting a system in the Defence inventory. This includes costs directly and indirectly attributable to the system (i.e., costs that would not occur if the system did not exist), regardless of funding source or management control. Direct costs refer to the resources immediately associated with the system or its operating unit. Indirect costs refer to the resources that provide indirect support to the system's manpower or facilities. For example, the pay and allowances reflected in composite standard rates for a unit-level maintenance technician would be treated as a direct cost, but the (possibly allocated) cost of medical support for the same technician would be an indirect cost.
- vi. **Disposal** consists of costs associated with demilitarization and disposal of a military system at the end of its useful life. These costs in some cases represent only a small fraction of a system's Lifecycle cost and may not be considered when preparing Lifecycle cost estimates. However, it is important to consider demilitarization and disposal early in the Lifecycle of a system because these costs can be significant, depending on the characteristics of the system. Costs associated with demilitarization and disposal may include disassembly, materials processing, decontamination, hardware, collection/storage/disposal of hazardous materials and/or waste, safety precautions, and transportation of the system to and from the disposal site. Systems may be given credit in the cost estimate for resource recovery and recycling considerations.

(b) Total Ownership Costs - The concept of total ownership cost is related to LCC, but broader in scope. Total ownership cost consists of the elements of Lifecycle cost, as well as other infrastructure or business process costs not necessarily attributable to the program.

- i. Total ownership cost consists of the elements of a program's Lifecycle cost, as well as other infrastructure or business processes costs not necessarily attributable to the program. Infrastructure is used here in the broadest possible sense, and consists of all military department and defense agency activities that sustain the military forces assigned to the combatant and component commanders. Major categories of infrastructure are support to equipment (acquisition and central logistics activities), support to military personnel (non-unit central training, personnel administration and benefits, and medical care),

and support to military bases (installations and communications/information infrastructure).

- ii.** In general, traditional Lifecycle cost estimates are in most cases adequate in scope to support decisions involving system design characteristics (such as system weight, material mix, or reliability and maintainability). However, in special cases, depending on the issue at hand, the broader perspective of total ownership cost may be more appropriate than the Lifecycle cost perspective, which may be too narrow to deal with the particular context. For a defense acquisition program, Lifecycle costs include not only the direct costs of the program, but also include indirect costs that would be logically attributed to the program. In a typical Lifecycle cost estimate, the estimated indirect costs would include only the costs of infrastructure support specific to the program's military manpower (primarily medical support and system-specific training) and the program's associated installations or facilities (primarily base operating support and facilities sustainment, restoration and modernization). Many other important infrastructure activities (such as recruiting and accession training of new personnel, individual training other than system-specific training, environmental and safety compliance and most management headquarters functions) are normally not considered in the scope of a traditional acquisition program Lifecycle cost estimate. In addition, important central (i.e., wholesale) logistics infrastructure activities such as supply chain management are implicitly incorporated in a traditional Lifecycle cost estimate, but their costs are somewhat hidden (because these costs are reflected in the surcharges associated with working capital fund arrangements and are not explicitly identified). However, there could easily be cases where consideration of such infrastructure activities would be important and would need to be explicitly recognized in a cost estimate or analysis. Examples of such cases are cost analyses tied to studies of alternative system support concepts and strategies; reengineering of business practices or operations; environment, safety, and occupational health considerations; or competitive sourcing of major infrastructure activities. In these cases, the traditional Lifecycle cost structure may not be adequate to analyze the issue at hand, and the broader total ownership cost perspective would be more appropriate. For such instances, the typical Lifecycle cost tools and data sources would need to be augmented with other tools and data sources more suitable to the particular issue being addressed.

- (b) **Risk Management** - Risk management is an important tool in acquisition program success. The purpose of addressing risk on programs is to help ensure program cost, schedule, and performance objectives are achieved at every stage in the life cycle and to communicate to all stakeholders the process for uncovering, determining the scope of, and managing program uncertainties. Since risk can be associated with all aspects of a program, it is important to recognize that risk identification is part of the job of everyone and not just the systems engineer or program manager.

- i. Risk is a measure of future uncertainties in achieving program performance goals and objectives within defined cost, schedule and performance constraints. Risk can be associated with all aspects of a program (e.g., threat, technology maturity, supplier capability, design maturation, performance against plan,). Risk addresses the potential variation in the planned approach and its expected outcome. Risks have three components: a. A future root cause (yet to happen), which, if eliminated or corrected, would prevent a potential consequence from occurring; b. a probability (or likelihood) assessed at the present time of that future root cause occurring; and the consequence (or effect) of that future occurrence. A future root cause is the most basic reason for the presence of a risk. Accordingly, risks should be tied to future root causes and their effects.
- ii. **Risk Management** - Risk Management is the overarching process that encompasses identification, analysis, mitigation planning, mitigation plan implementation, and tracking. Risk management begins at the earliest stages of program planning and continues throughout the total life-cycle of the program. Additionally, risk management is most effective if it is fully integrated with the program's systems engineering and program management processes—as a driver and a dependency on those processes for root cause and consequence management. A common misconception, and program office practice, concerning risk management is to identify and track issues (vice risks), and then manage the consequences (vice the root causes). Risks should not be confused with issues. If a root cause is described in the past tense, the root cause has already occurred, and hence, it is an issue that needs to be resolved, but it is not a risk.
- iii. **Risk Management Process** - The risk management process is continuously accomplished throughout the life cycle of a system. It is an organized methodology for continuously identifying and measuring the unknowns; developing mitigation options; selecting, planning, and implementing appropriate risk mitigations; and tracking the implementation to ensure successful risk reduction. Effective risk management depends on risk management planning; early identification and analyses of risk; early implementation of corrective actions; continuous monitoring and reassessment; and communication, documentation, and coordination.

4. Mode of Tendering –

(a) **Verification of Financial Standing** – There could be occasions when it will be necessary to verify financial standing of vendors as a part of pre-qualification exercise. If IFAs are to assist in this job, then they can do it as under -

- i. This can be done by calling Banker's Report and valid & latest Income Tax Clearance Certificate, if not already furnished with the tender documents.
- ii. **Banker's Report:** A report can be obtained from the Bank(s) concerned in the format given below regarding financial standing of the firm. The Bank's Report could be dispensed in respect of firms, which are covered by statutory auditing process. In all other cases, the report can be called confidentially in respect of firms, which are not

covered by statutory auditing requirements. However, if a Report from Bank does not come, the financial aspects on the basis of balance sheets can be considered by IFAs.

To

The Manager,

SUB: Reports on the financial standing of contractors.

Dear Sir,

The under-mentioned firm is being considered for issue of Tender Enquiry by this organization and have indicated you as their Banker. I shall be glad if you will furnish me with a report of their financial standing and say whether their dealing with your bank have been of a sufficiently high order to enable them to carry out satisfactory contracts involving sums amounting:

- (a) Upto Rs. 2,50,000/-
- (b) Upto Rs. 5,00,000/-
- (c) Upto Rs. 10,00,000/-
- (d) Upto Rs. 15,00,000/-
- (e) Upto Rs. 25,00,000/-
- (f) Above Rs. 25,00,000/-(Unlimited)

2. Any information you may furnish in this connection will be treated strictly confidential. Your reply should be unambiguous and should clearly state the category for which you consider them financially sound.

3. Please quote this office reference and date in your reply.

Yours faithfully
 ()

(b) Risk Analysis – If a supplier does not fulfill his obligation in the realization of complex and extensive projects, this can lead to considerable damages or loss for a military organization. To limit the risk of problems as much as possible, the Ministries of Defence of several European countries sometimes carry out an analysis of the risk related to doing business with suppliers for strategic project. In general we can distinguish three categories of risks -

- i. Technical risk** regarding the suitability/professionalism of the management, the means of production, the skills, tools and testing equipment of the company in question, for the manufacture of the required goods and services, which must meet the agreed requirements and must be delivered within the agreed term.
- ii. Quality risk** with regard to the quality management of the company in general and the quality control system of the project in question in particular.
- iii. Financial risk** related to the degree in which the company is considered to function soundly and effectively for the duration of the

project. Of importance in this respect are: financial condition, investment elasticity and a reasonable financial forecast.

- iv.** In large and technologically complex projects the risks can be so great that additional measures are required. These measures should consist of at least periodical preventive audits aimed at assessing the technical capacity and quality control (the so-called 'pre-award survey'), to be conducted by the military; and the financial status of the company in question, to be conducted by the accounting department. This latter analysis concerns the actual and the anticipated results of the company activities (such as turnover and company results) and ratio analysis of several financial parameters (such as liquidity and solvency).

(c) Mandatory Purchase from certain sources – Product Reservation Policy of Govt

- i. Khadi Goods/Handloom Textiles:** The Central Government has reserved all items of hand-spun and hand-woven textiles (Khadi goods) for exclusive purchase from Khadi & Village Industries Commission (KVIC). Government has also reserved all items of handloom textiles including Barrack Blankets for exclusive purchase from KVIC or notified handloom units through the Association of Corporations and Apex Societies of Handlooms (ACASH) and Women's Development Organization (WDO). The handloom textile items are to be purchased from KVIC to the extent they can supply and the balance from the handloom units of ACASH, to the extent these units can make supplies. Left over quantity, if any, may be purchased from other sources. In the case of KVIC, the rates are fixed by certification committee, and the rates so fixed are reviewed by the Cost Accounts Branch of the Ministry of Finance. In the case of ACASH, the final price will be calculated by ACASH and fixed by the Ministry of Textiles by associating a representative of the Chief Accounts Office of Department of Expenditure, Ministry of Finance. The Central Purchase Organization (e.g. DGS&D) also enters into long term contracts with KVIC and ACASH for items of recurrent demands and lays down terms and conditions therein. For other items, the purchase from both KVIC and ACASH should be made on single tender basis. Normal inspection and other procedures shall apply for procurement through KVIC/ ACASH. Testing arrangements will be provided by KVIC/ ACASH or by their notified units and where the same are not available; testing charges for testing outside at approved laboratory should be borne by KVIC/ ACASH/ their units. All relevant details in this regard are available with DGS&D.
- ii. Reserved Products of SSI:** The Government has also reserved some items for exclusive purchase from Small Scale Sector. The Ministries/Departments are to purchase such products from these notified agencies/suppliers only. The Government reviews the lists of such reserved items and the applicable procedures for purchasing the same from time to time. The tender enquiry document should clearly indicate that the purchase will be made from the suppliers falling in the category of KVIC, ACASH, and Small Scale Units registered with National Small Industries Corporation (NSIC). In the process of

procurement, other things being equal, the purchase preference would be in favour of KVIC/ACASH/SSI in that order. (Note: KVIC and ACASH are treated on par with SSI units registered with NSIC and DGS&D.) Special dispensation available to Kendriya Bhandar (KB) and National Consumer Cooperative Federation (NCCF) for procurement of stationery and consumables before the introduction of GFRs 2005, which has since been terminated, is under review. While making purchase of goods falling in these categories, IFA should check the latest directives in this regard for necessary action.

(d) Preferential Purchase from certain sources Price Preference

- i.** As per the extant rules, when acceptable offers are received against an *ad-hoc* requirement of unreserved goods (i.e. goods not covered under para above) from various categories of suppliers, including Large Scale Sector, Public Sector Undertakings and Small Scale Sector, the offer from the Small Scale Sector, which is registered with National Small Industries Corporation (NSIC) or with Directorate General of Supply and Disposal (DGS&D) is entitled for price preference upto 15% over the offer of Large Scale Sector and 5% over the offer of Public Sector Undertaking, provided the offers under consideration are otherwise clear for acceptance in all respects. (Example: The evaluated cost of the lowest acceptable offer, which is from a Large Scale Sector is Rs.100/-. The evaluated cost of an acceptable offer from a Small Scale Unit, which is registered with NSIC / DGS&D is Rs.115/-. This SSI is entitled to get the order at its quoted price).
- ii.** However, the price preference admissible to the SSI unit is not mandatory. It is to be decided separately for each tender on merits of each case, in consultation with Finance, and a mention to that effect should be made in the Notice Inviting Tenders (NIT)/Request for Proposal (RFP). The price preference is accorded to the deserving SSI units as an incentive to grow; but it should not promote inflation, profiteering or misuse of SSI units as conduits. In case the SSI unit in view has established itself as a supplier of the required goods on competitive terms and enjoys advantage(s) over Large Scale Sector, no price preference need be considered. Where the NSIC / State Development Corporations themselves quote on behalf of some SSI units, such offers will be considered as offers from SSI units registered with the DGS&D/NSIC. An SSI Unit will not get any price preference over another SSI Unit.
- iii.** Price preference facility to SSI Units will, however, not apply to the procurement of the under mentioned goods: -
 Paint items for the Railways
 Drug items
 Medical and Electro-medical equipment
 Requirements of Defence, where inspection is to be carried out by the Defence Inspection Organization.
 Items where technical competence, capacity and manufacturing facilities are required to be verified before placement of order.

- iv. Before considering any price preference to Small Scale Sector, the purchase organization should check the latest directives in this regard for necessary action.

(e) Preferential Purchase from certain sources - Purchase Preference to Central Public Sector Undertakings

As per the extant government policy, the Central Public Sector Undertaking (CPSU) gets purchase preference upto 10% over the Large Scale Private Units (vide Department of Public Enterprises O.M. No. DPE.13(12)/2003-Fin.Vol.II dated 18.7.2005). Example: Against an ad-hoc requirement, the evaluated cost of the lowest acceptable offer, which is from a Large Scale Sector is Rs.100/-. The evaluated cost of an acceptable offer from a CPSU, is Rs.110/-. As per the extant policy, the CPSU will be offered the price of Rs.100/- and if it accepts the same, order will be placed on it (CPSU) at that price (Rs.100/-).

(f) Preferential purchase policy for certain medicines: Government has approved (vide Department of Chemicals & Petrochemicals OM No. 50013/1/2006-SO(PI-IV) dated 7th August, 2006) grant purchase preference exclusively to Pharma CPSEs and their subsidiaries in respect of 102 specified medicines manufactured by them. The salient features of this Purchase Preference Policy (PPP) are as under:

- i. PPP in respect of a maximum of 102 medicines would be applicable to purchases made by Ministries / Departments, PSUs, Autonomous Bodies, etc. of the Central Government It would be valid for a period of five years.
- ii. This would also be applicable to purchase of 102 drugs made by State Governments under health programmes which are funded by Government of India. (e.g. purchases under National Rural Health Mission etc)
- iii. PPP will extend only to Pharma CPSEs and their subsidiaries (i.e. where Pharma CPSEs own 51 % or above shareholding).
- iv. It would be applicable to a maximum of 102 medicines, The list of 102 medicines would be reviewed and revised by Department of Chemicals & Petrochemicals as and when required taking care not to include any item reserved for SSI units.
- v. The Purchasing Departments / PSUs / autonomous bodies etc. of the Central Government may invite limited tenders from Pharma CPSEs and their subsidiaries or purchase directly from them at NPPA certified / notified price with a discount upto 35%.
- vi. The purchasing departments would purchase from Pharma CPSEs and their subsidiaries subject to their meeting Good Manufacturing Practices (GMP) norms as per Schedule 'M' of the Drugs & Cosmetic Rules. If no Pharma CPSE is forthcoming to supply these 102 medicines, the purchasing departments would be at liberty to purchase from other manufacturers.
- vii. If the Pharma CPSEs or their subsidiaries which have the benefit of PPP, fail to perform as per the purchase order, they would be subject to payment of liquidated damages or any other penalty included in the contract

- viii. The medicines covered under Drug & Price Control Order (DPCO) would be supplied at the rates fixed by National Pharmaceuticals Pricing Authority (NPPA) rates minus discount up to 35 per cent.
- ix. In case of medicines not covered under DPCO, prices would be got certified from NPPA, only for the limited purpose of supply to Central Government Departments and their Public Sector Undertakings, autonomous bodies etc. On the certified price, Pharma CPSEs and their subsidiaries would provide discount up to 35%.
- x. The Purchase Preference Policy (PPP) as contained in Department of Public Enterprises O.M. No. DPE.13(12)/2003-Fin.Vol.II dated 18.7.2005 would not be applicable to Pharma CPSEs.
- xi. Before considering any such purchase preference, the purchase organization should check the latest directives in this regard for necessary action. Purchase Preference provision shall invariably be part of the Notice Inviting Tender (NIT).

5. Vetting of RFP

a) **Exchange Rate Variation Clause** – In indigenous contracts, where there is an import content, ERV clause can be provided. ERV clause can be framed according to the specific unique requirements of the contract. While calling for information at the RFP stage / formulation of ERV clause in the contracts, following factors can be taken into consideration depending upon the requirements of the individual contracts:-

- i) Year wise and major currency wise import content break up can be taken.
- ii) Based on information given above, the cut off date/dates within the Delivery schedule for the imported material can be fixed for admissibility of ERV.
- iii) Detailed time schedule for procurement of imported material and their value at the FE rates adopted for the contract can be asked from the vendors as per the format given below :-

YEAR	TOTAL COST OF IMPORTED MATERIAL	FE CONTENT – OUT FLOW (EQUIVALENT IN RUPEES IN CRORES)			
		DOLLAR DENOMINATED	EURO DENOMINATED	POUNDS DENOMINATED	OTHER CURRENCIES DENOMINATED (As applicable)

- iv) ERV clause should not be applicable in case delivery periods for imported content are subsequently to be refixed /extended.
- v) For purposes of ensuring uniformity, the Base Exchange rate of the Parliament Street Branch of State Bank of India, New Delhi at the

- time of opening of commercial quotes can be adopted for each of the major foreign currencies.
- vi) ERV clause in the contract should clearly indicate that ERV is payable/refundable depending upon movement of exchange rate with reference to exchange rate adopted for the valuation of the contract.
 - vii) Other issues which are peculiar to the contract.

b) Buy Back Offer Clause - When it is decided to replace some existing old goods with their newer and better versions/substitutes, the department may trade the existing old goods while purchasing the new ones. For this purpose, suitable clauses are to be incorporated in the tender enquiry document so that the interested tenderers formulate and submit their tenders accordingly. Provision should also be kept in the tender documents to permit the interested tenderers to inspect the old goods to be traded through this transaction. Appropriate provision should also be kept in the tender document allowing the purchase organization to reserve its right to trade or not to trade the old goods while purchasing the new ones and the tenderers are to be asked to frame their quotations accordingly covering both the options. Depending on the value and condition of the old goods to be traded, the time frame for as well as the mode of handing them over to the successful tenderer should be decided and relevant details in this regard suitably incorporated in the tender document.

c) Maintenance Contract clause –

- i. Some goods, especially sophisticated equipment and machinery need proper maintenance for trouble free service. For this purpose, the Users may like to enter into maintenance contract. It must however be kept in mind that maintenance contract is to start after the expiry of the warranty period, during which period the goods are to be maintained free of cost by the supplier. Maintenance contract may be entered into either with the manufacturer/supplier of the goods or with a competent and eligible firm, not necessarily the manufacturer/supplier of the goods in question. IFA should decide this aspect on case to case basis on merit.
- ii. If the maintenance contract is to be entered into with the supplier of the goods, then suitable clauses for this purpose are to be incorporated in the tender enquiry document itself and while evaluating the offers, the cost component towards maintenance of the goods are also to be added in the evaluated tender value on overall basis to decide the inter se ranking of the responsive tenderers. An equipment with a lower quoted price may carry a higher maintenance liability. Therefore, total cost on purchase and maintenance of the equipment over its projected lifecycle should be assessed to consider its suitability for purchase. However, if the maintenance contract is to be entered into with a competent and eligible supplier separately, then a separate tender enquiry is to be floated for this purpose and tenders evaluated and ranked accordingly for placement of maintenance contract. Here, the supplier of the goods may also quote and its quotation, if received, is to be considered along with other quotations received.

- iii. While evaluating the tenderers for maintenance of goods covering a longer period (say, more than one year), the quoted prices pertaining to maintenance in future years are to be discounted to the net present value (NPV) as appropriate for comparing the tenders on equitable basis and deciding the lowest evaluated responsive tender.
- iv. The details of the services required for maintenance of the goods, the required period of maintenance and other relevant terms & conditions including payment terms are to be incorporated in the tender enquiry document. The terms of payment for the maintenance service will depend on the nature of the goods to be maintained as well as the nature of the services desired. Generally, payment for maintenance is made on half-yearly or quarterly basis.
- v. A suitable provision should be incorporated in the tender enquiry document and in the resultant maintenance contract indicating that the prices charged by the maintenance contractor should not exceed the prevailing rates charged by it from others for similar services. While claiming payment, the contractor is also to give a certificate to this effect in its bill.
- vi. If the goods to be maintained are sophisticated and costly, the tender enquiry document should also have a provision for obtaining performance security. The amount of performance security will depend on the nature of the goods, period of maintenance etc. Industry price generally varies from 2.5 % to 5% of the value of the equipment to be maintained.
- vii. Sometimes, the maintenance contractor may have to take the goods or some components of the goods to its factory for repair etc. On such occasions, before handing over the goods or components, suitable bank guarantee is to be obtained from the firm to safeguard purchaser's interest.
- viii. Sometimes, during the tenure of a maintenance contract, especially with a longer tenure, it may become necessary for the purchase organization to withdraw the maintenance contract due to some unforeseen reasons. To take care of the same, there should be a suitable provision in the tender document and in the resultant contract. A model clause to this effect is provided below:
 "The purchaser reserves its right to terminate the maintenance contract at any time without assigning any reason. The contractor will not be entitled to claim any compensation against such termination. However, while terminating the contract, if any payment is due to the contractor for maintenance services already performed in terms of the contract, the same would be paid to it as per the contract terms".
- ix. Depending on the cost and nature of the goods to be maintained, suitable notice period for such cancellation to come into effect is to be provided in the documents.

d) Turnkey Contract - A turnkey contract is a mix of goods contract and works contract. Generally, in the tender enquiry documents for a turnkey contract, the purchase organization specifies the performance and output required from the plant proposed to be set up and broadly outlines the various parameters it visualizes for the desired plant. The inputs and other facilities, which the purchase organization will provide to the contractor are also indicated in the tender enquiry document.

The contractor is to design the plant and quote accordingly. The responsibility of the contractor will include supplying the required goods, machinery, equipment etc. needed for the plant; assembling, installing and erecting the same at site as needed; commissioning the plant to meet the required output etc., as specified in the tender enquiry documents.

e) Terms related to Technological projects – While processing cases of projects and complicated capital items, IFAs are required to go through the Project Report or detailed SOC at AON stage. Often these Reports/SOC contain detailed description of Technical Reviews (ex – ITR, ASR, etc), undertaken during **Concept Refinement stage**. In addition, RFP of large projects and Capital procurements often contain stage-wise milestones/payment terms, wherein technological terms like SRR, IBR, SDR, CDR, etc are used. IFAs need to be aware of significance of these terminologies in order to allocate appropriate percentage of payments as per project requirements. A brief exposition of these terms is given below for guidance.

5.1 Terms related to Technical Reviews during Concept Refinement stage

- a. Initial Technical Review (ITR)** - The ITR is a multi-disciplined technical review to support a program's initial objectives. This review ensures that a program's technical baseline is sufficiently rigorous to support a valid cost estimate (with acceptable cost risk), and enable an independent assessment of that estimate by cost, technical, and program management subject matter experts. The ITR assesses the capability needs and conceptual approach of a proposed program and verifies that the requisite research, development, test, engineering, logistics, and programmatic bases for the program reflect the complete spectrum of technical challenges and risks. Additionally, the ITR ensures that historical and prospective drivers of system cost have been quantified to the maximum extent and that the range of uncertainty in these parameters has been captured and reflected in the program cost estimates. Completion of the ITR provides : (1) A complete document detailing system overview, risk, and system operational concept; (2) An assessment of the technical and cost risks of the proposed program; and (3) An independent assessment of the program's cost estimate.
- b. Alternative System Review (ASR)** - The ASR is a multi-disciplined technical review to ensure that the resulting set of requirements agrees with the customers' needs and expectations and that the system under review can proceed into the Technology Development phase. Generally this review assesses the alternative systems that have been evaluated during the Concept Refinement phase, and ensures that the preferred system alternative is cost effective, affordable, operationally effective and suitable, and can be developed to provide a timely solution to a need at an acceptable level of risk. Of critical importance to this review is the understanding of available system concepts to meet the capabilities described in the early documents and the affordability, operational effectiveness, and technology risks inherent in each alternative concept. Depending on the overall acquisition strategy, one or more preferred solutions is carried forward into the Technology Development phase. By reviewing alternative system concepts, the ASR helps ensure that sufficient effort has been given to conducting trade studies that consider and incorporate alternative system designs that may more effectively and efficiently meet the defined capabilities. A successful review is predicated

on the IPT's determination that the operational capabilities, preferred solution(s), available technologies, and program resources (funding, schedule, staffing, and processes) form a satisfactory basis for proceeding into the Technology Development phase. Completion of the ASR provides: (1) An agreement on the preferred system concept(s) to take forward into Technology Development. (2) Hardware and software architectural constraints/drivers to address Defense Information Infrastructure / Common Operating Environment and system extensibility requirements. (3) An assessment of the full system software concept to include conceptual definition of the complete deliverable/non-deliverable software, scope, and risk (e.g., operational software elements, software engineering environment, test software, maintenance software, simulation/stimulation software, training software, in-service support software, etc.). (4) A comprehensive rationale for the preferred solution, including the Analysis of Alternatives that evaluated relative cost, schedule, performance (hardware, human, software), and technology risks. (5) A comprehensive assessment of the relative risks associated with including commercial-off-the-shelf items in the program, with emphasis on host platform environmental design, diagnostic information integration, and maintenance concept compatibility. (6) A comprehensive risk assessment for the Technology Development phase. (7) Trade studies/technical demonstrations for concept risk reduction. (8) Joint requirements for the purposes of compatibility, interoperability, and integration. (9) Refined thresholds and objectives initially stated as broad measures of effectiveness. (10) Completed, comprehensive planning for the Technology Development phase (hardware and software), that addresses critical components to be developed and demonstrated, their cost, and critical path drivers. (11) Initial planning for the System Development and Demonstration phase. (12) A draft system requirements document if one does not already exist. (This is a high-level engineering document that represents the customer/user capability needs as system requirements.) This systems requirement document should include a system level description of all software elements required by the preferred system concept. The ASR is important because it is a comprehensive attempt to ensure that the system requirements are aligned with the customer's needs.

5.2 Terms related to Technical Reviews during Technology Development phase

- a. System Requirements Review (SRR)** - The SRR is conducted to ascertain progress in defining system technical requirements. This review determines the direction and progress of the systems engineering effort and the degree of convergence upon a balanced and complete configuration. It is normally held during Technology Development, but may be repeated after the start of System Development and Demonstration to clarify the contractor's understanding of redefined or new user requirements. The SRR is a multi-disciplined technical review to ensure that the system under review can proceed into the System Development and Demonstration phase, and that all system requirements and performance requirements derived from the initial documents are defined and are consistent with cost (program budget), schedule (program schedule), risk, and other system constraints. Generally

this review assesses the system requirements as captured in the system specification, and ensures that the system requirements are consistent with the preferred system solution as well as available technologies resulting from the Technology Development phase. Of critical importance to this review is an understanding of the program technical risk inherent in the system specification and in the System Development and Demonstration Phase Systems Engineering Plan. Determining an acceptable level of risk is key to a successful review. Completion of the SRR provides: (1) An approved preliminary system performance specification; (2) A preliminary allocation of system requirements to hardware, human, and software subsystems; (3) Identification of all software components (tactical, support, deliverable, non-deliverable, etc.); (4) A comprehensive risk assessment for System Development and Demonstration; (5) An approved System Development and Demonstration Phase Systems Engineering Plan that addresses cost and critical path drivers; and (6) An approved Product Support Plan with updates applicable to this phase. During the SRR, the systems requirements are evaluated to determine whether they are fully defined and consistent with the mature technology solution, and whether traceability of systems requirements to the initial documents is maintained. A successful review is predicated on the IPT's determination that the system requirements, preferred system solution, available technology, and program resources (funding, schedule, staffing, and processes) form a satisfactory basis for proceeding into the SDD phase.

- b. Integrated Baseline Review (IBR)** - IBR is used throughout the program when Earned Value Management is required. This review has a business focus, but includes the important technical considerations discussed below. The process is composed of four steps: (1) The Project team's assessment of their understanding of the risks; (2) Preparation for an IBR; (3) Execution of the IBR; and (4) The management process (the source of on-going mutual understanding). The key step in the process is execution of the IBR. The IBR establishes a mutual understanding of the project performance measurement baseline. This understanding provides for an agreement on a plan of action to evaluate the risks inherent in the program measurement baseline and the management processes that operate during project execution. Completion of the review should result in the assessment of risk within the program measurement baseline and the degree to which the following have been established: (1) Technical scope of work is fully included and is consistent with authorizing documents; (2) Key project schedule milestones are identified and supporting schedules reflect a logical flow to accomplish the work; (3) Resources (budgets, facilities, personnel, skills, etc.) are available and are adequate for the assigned tasks; (4) Tasks are planned and can be measured objectively relative to the technical progress; (5) Rationales underlying the Program Measurement Baseline are reasonable; and (6) Management processes support successful execution of the project.

5.3 Terms related to Technical Reviews during System Integration phase

- a. System Requirements Review (SRR)** - The SRR is a multi-functional technical review to ensure that all system and performance requirements

derived from the early documents are defined and consistent with cost (program budget), schedule (program schedule), risk, and other system constraints. Generally this review assesses the system requirements captured in the system specification. The review ensures consistency between the system requirements and the preferred system solution and available technologies.

- b. System Functional Review (SFR)** - The SFR is a multi-disciplined technical review to ensure that the system under review can proceed into preliminary design, and that all system requirements and functional performance requirements derived from the early documents are defined and are consistent with cost (program budget), schedule (program schedule), risk, and other system constraints. Generally this review assesses the system functional requirements as captured in system specifications (functional baseline), and ensures that all required system performance is fully decomposed and defined in the functional baseline. System performance may be decomposed and traced to lower-level subsystem functionality that may define hardware and software requirements. The SFR determines whether the systems functional definition is fully decomposed to a low level, and whether the IPT is prepared to start preliminary design. Completion of the SFR provides: (1) An established system functional baseline; (2) An updated risk assessment for the System Development and Demonstration phase; (3) An updated Cost Analysis Requirements Description (CARD) (or CARD-like document) based on the system functional baseline; (4) An updated program development schedule including system and software critical path drivers; and (5) An approved Product Support Plan with updates applicable to this phase. The SFR determines whether the system's lower-level performance requirements are fully defined and consistent with the mature system concept, and whether lower-level systems requirements trace to top-level system performance and the early documents. The SFR is the last review that ensures the system is credible and feasible before more technical design work commences.
- c. Preliminary Design Review (PDR)** - The PDR is a multi-disciplined technical review to ensure that the system under review can proceed into detailed design, and can meet the stated performance requirements within cost (program budget), schedule (program schedule), risk, and other system constraints. Generally, this review assesses the system preliminary design as captured in performance specifications for each configuration item in the system (allocated baseline), and ensures that each function in the functional baseline has been allocated to one or more system configuration items. Configuration items may consist of hardware and software elements and include such items as airframes, avionics, weapons, crew systems, engines, trainers/training, etc. Completion of the PDR provides: (1) An established system allocated baseline; (2) An updated risk assessment for System Development and Demonstration; (3) An updated cost Analysis document; based on the system allocated baseline; (4) An updated program schedule including system and software critical path drivers; and (5) An approved Product Support Plan with updates applicable to this phase. The PDR evaluates the set of subsystem requirements to determine whether they correctly and completely implement all system requirements allocated to the

subsystem. The PDR also determines whether subsystem requirements trace with the system design.

- d. **Critical Design Review (CDR)** - The CDR is a multi-disciplined technical review to ensure that the system under review can proceed into system fabrication, demonstration, and test; and can meet the stated performance requirements within cost (program budget), schedule (program schedule), risk, and other system constraints. Generally this review assesses the system final design as captured in product specifications for each configuration item in the system (product baseline), and ensures that each product in the product baseline has been captured in the detailed design documentation. Product specifications for hardware enable the fabrication of configuration items, and may include production drawings. Product specifications for software (e.g., Software Design Documents) enable coding of a Computer Software Configuration Item. Configuration items may consist of hardware and software elements, and include items such as airframe, avionics, weapons, crew systems, engines, trainers/training, etc. Completion of the CDR provides: (1) An established system product baseline; (2) An updated risk assessment for System Development and Demonstration; (3) An updated Cost Analysis document based on the system product baseline; (4) An updated program development schedule including fabrication, test, and software coding critical path drivers; and (5) An approved Product Support Plan with updates applicable to this phase. The CDR determines whether the hardware, human, and software final detail designs are complete, and whether the vendor is prepared to start system fabrication, demonstration, and test. The subsystem detailed designs are evaluated to determine whether they correctly and completely implement all system requirements allocated to the subsystem, and whether the traceability of final subsystem requirements to final system detail design is maintained.
 - e. **Design Readiness Review** - The outputs of the systems engineering processes in System Integration become the inputs to the Design Readiness Review. These inputs include the following measures of design maturity: The number of subsystem and system technical reviews successfully completed; The percentage of drawings completed; Planned corrective actions to hardware/software deficiencies; Adequate development testing; An assessment of environment, safety and occupational health risks; A completed failure modes and effects analysis; The identification of key system characteristics and critical manufacturing processes; and An estimate of system reliability based on demonstrated reliability rates; etc.
- 6. Technical specifications** – Ministry of Finance has given guidelines in the area of making Technical specifications in their Manual of Procurement, compliance of which can be seen by IFAs. They are as under –
- a. The specifications of the goods shall meet only the actual and essential needs of the user because “over-specification” will unnecessarily increase the cost and may stifle competition. Specifications should aim at procuring the latest technology and avoid procurement of obsolete goods. Specifications should have emphasis on factors like efficiency, optimum fuel/power consumption, use of environmental-friendly materials, reduced noise and emission levels,

low maintenance cost etc. Further, the specifications should not be too restrictive as the aim should be to attract reasonable number of competitive tenderers. The specifications should also take care of the mandatory and statutory regulations, if any, applicable for the goods to be purchased.

- b.** Wherever Indian Standards exists for the required goods, the same should be adopted. Preference should be given to procure the goods, which carry BIS (Bureau of Indian Standards) mark. For any deviations from Indian Standards or for any additional parameters for better performance, specific reasons for deviations / modifications should be duly recorded with the approval of the competent authority.
- c.** Some Departments publish their own standards, which, apart from specifying the technical parameters also specify special requirements of packing, marking, inspection etc. The technical parameters in such cases may be marginally different from the Indian Standards. In such cases, the general principle shall be to adopt Indian Standards and the departmental specifications could cover only such additional details as packing, marking, inspection etc. as are specially required to be complied for a particular end use.
- d.** In cases where Indian Standards do not exist or, alternatively, decision has been taken to source the foreign markets also, International Standards (like ISO etc.) may be adopted. Where no widely known standards exist, the specifications shall be drawn in a generalized and broad-based manner to obtain competitive bids from different sources. Except in case of proprietary purchase from a selected single source, the specifications must not contain any brand name, make or catalogue number of a particular manufacturer and if the same is unavoidable due to some compelling reasons, it should be followed by the words “or equivalent”.
- e.** All dimensions incorporated in the specifications shall be indicated in metric units. If due to some unavoidable reasons, dimensions in FPS units are to be mentioned, the corresponding equivalents in the metric system must also be indicated.
- f.** The specifications and the technical details should be expressed with proper clarity without any ambiguity or double meaning. Wherever necessary, the written specifications should be supplemented with drawings for additional clarity etc.
- g.** Deciding tender on the basis of tendered sample is too subjective. Therefore, unless specifically decided due to some reasons duly recorded with the approval of competent authority, tender sample clause shall not be incorporated in the specifications. If necessary, suitable stipulations for submission of advance sample (before starting bulk production) by the successful bidder may be incorporated in the specifications.
- h.** Technical particulars to be specified in the tender document shall include the following to the extent applicable for a particular purchase:
 - i.** Scope of supply including quantity required and, also, end use of the required goods.
 - ii.** Specifications, technical parameters and product requirements, expressing the requirement in terms of functional characteristics.
 - iii.** Drawings.
 - iv.** Requirement of BIS mark, where applicable.
 - v.** Requirement of advance sample, if any, at post contract stage before bulk production.

- vi.** Special requirements of packing and marking, if any.
- vii.** Inspection procedure for goods ordered and criteria of conformity.
- viii.** Requirements of special tests, if any.
- ix.** Requirement of type test certificate, if any.
- x.** Requirement of type approval for compliance of statutory requirements w.r.t. pollution, emission, noise, etc.
- xi.** Training, technical support, after sales service & AMC.
- xii.** Qualification criteria of the tenderers.
- xiii.** Any other aspects peculiar to the goods in question like shelf life of the equipment etc

Appendix C **(Referred to in chapter 5&6)**

1. Advanced issues at Tendering & Expenditure angle sanction stage

The advanced issues mentioned in this chapter are akin to desirable QRs. These are meant for higher level IFAs and that too on as required basis. The topics have been only given brief introduction as each one of them requires extensive readings for effective use in procurement. This is only an attempt to familiarize IFAs with advanced themes, which can be pursued on their own depending upon level, aptitude and requirements of individual IFA. The stages of tendering and expenditure angle sanction are intrinsically combined as the latter practically becomes an offshoot of former. Moreover, issues like financial evaluation, costing, etc can be done at either of these two stages. Hence, a combined chapter on Advanced issues for both stages.

2. Suppliers' Price Analysis – IFA needs to understand the dynamics of prices quoted by suppliers, which can happen due to variety of reasons. Identification of these factors can help IFA in preparing for negotiations with L-1 vendor or giving expenditure angle concurrence. Few of these factors are mentioned below for guidance of IFA -

- a. Recession - During any recession or depressed market conditions, many firms would be happy just to maintain continuous operation and offer low prices for that purpose. The short-term goal for these firms is survival, with the long-term goal that improved economic conditions will enable them to again operate at a profit.
- b. Excess Inventory - There are situations where a supplier quotes a lower price in order to unload excess inventory that is costing carrying charges and thus tying up capital and reducing cash flow. This can be caused by the cancellation of an order by another customer or can be caused by anticipation of increased sales that did not materialize. This may be a genuine good buy.
- c. Fictitious rates – This is an abnormal low price quoted by a supplier who is financially insecure and just wants order by any way. Such low prices lose their attractiveness when deliveries become uncertain and are often late, quality is questionable and requires extensive inspection, and complaints are never promptly resolved. Such purchases are not in best interests of the users.
- d. New buyer - Then there is new supplier who quotes a low price and is willing to take less of a profit at this time in order to become established with the users. In this type of situation, the purchase may represent a good buy.
- e. Monopoly situation - The common perception that PAC/Single tendering cases will always be higher than reasonable rates may not be always true. At times such vendors quote even less than reasonable rates as they fear that higher price by them may force buyers to seek substitute goods or modify specs to introduce competition. IFA needs to exploit this theme in negotiating PAC/Single tender cases.
- f. Pure or perfect competition - This exists where there are a large number of independent suppliers competing for identical commodities yet retaining the privilege or entering or exiting from market at any time. Open tendering often

results in such situations and here usually the price is determined by supply and demand forces of market.

- g.** Oligopoly form in Imperfect competitive market - This exists when each of the limited number of suppliers is strong enough to influence the market, but not strong enough to disregard the reaction from his competitors. Each alone cannot influence the market for its own gain without the counter reaction of his competitors, resulting in a healthy economic market.
- h.** Normal imperfect competition - This exists when there are a great number of sellers of similar products, but with each with its own distinguishing feature. These distinguishing features are used by suppliers as persuasive arguments during PNC in their attempts to influence their decision. IFA should be alive to this possibility.

3. Suppliers' Discount Policy - During negotiations, asking for discounts is the most important activity by IFAs. However, IFAs need to be aware the various types of discount policy adopted by different vendors and same vendor at different times. Following discount prices can be employed by vendors -

- a.** Trade discounts - These are discounts from an OEM's catalog granted for the purpose of protecting certain channels of distribution. This is accomplished by making it more economical for certain classes of customers to purchase from the distributor than directly from the manufacturer. If an OEM finds that a wholesaler is more efficient in distributing his product, that OEM will setup a trade discount schedule that will induce that distributor to handle his product. These channels are efficient and perform a valuable function in the purchasing cycle. IFA needs to appreciate the importance of Distributors, Accredited Resellers, etc also apart from OEM in such cases.
- b.** Quantity discounts - These are those discounts offered to customers to increase the quantity of their purchases. Small orders often require the same amount of work, in terms of production and administrative and physical processing, as big orders. This means that small orders have higher cost per product. To stimulate larger quantity orders, many suppliers use quantity discounts in which advantage for the buyer is that he can realize a lower price per unit. The supplier gives these discounts on the basis of savings on marketing, packing and shipping costs as well as a reduction in paper work. However, this price advantage must be considered against the extra costs as a result of longer storage, wastage, risk of product being obsolete, etc.
- c.** Cash discounts - These are offered by sellers as an inducement for early payments. It could be advance payment in the initial stage or stage payment at various stages of contract execution stages. IFA needs to carefully decide on case to case basis in such situations.
- d.** Seasonal discount - This discount is applied to improve capacity utilization in periods when sales decline. If the buyer orders out of the season, he gets a lower price.
- e.** Promotional discount - This discount is provided to temporarily stimulate the sales of a product, or, if it concerns a new product, to lower the entry barrier (special offer discount).

4. Suppliers' cost structure –

4.1 To get a grip on the prices used by the supplier, a distinction should be made by IFAs between the Cost Price Analysis and the Pricing Method. The following list can help IFAs gain some insight into the suppliers' cost structure –

- a.** Materials cost - to be itemized according to the major components.
- b.** Direct Labour Costs - Information about labour costs can often be obtained by consulting the collective labour agreements for that particular industry.
- c.** Transportation costs.
- d.** Indirect costs - These can be divided into General Management Costs and Sales Costs.

4.2 As a general rule, the higher the share of the fixed costs in the cost price of the end product, the greater the price elasticity; by enlarging the order volume, the buyer achieves a decrease in the fixed costs per unit, and this should result in lower prices. Products whose prices are mainly determined by variable costs are affected by price. In this situation, a price increase at the supplier's purchasing side must be closely monitored to prevent the supplier issuing unwarranted price increases.

5. The Learning Curve - This is an important instrument in the development of purchasing strategies. The Learning Curve was originally developed in the US Aircraft industry. It was discovered that the cost price per unit decreased at a fixed percentage as experience, i.e. the cumulative production volume of a particular type of aircraft, increased. This decrease of costs per unit had nothing to do with Effects of sale,; the result could be attributed to the Learning effect. The basic principle of the Learning curve is that each time the cumulative production volume of a particular item doubles, the average time required to produce that item is approximately X% of the initially required number. This knowledge could be of vital importance to IFAs as buyers. Anticipating the supplier's learning experience, IFAs can negotiate price reductions in the future. The Learning curve is preferably used in the following situations -

- a.** When it concerns customized components, manufactured by a supplier at the customer's specification (ex - DGQA specs related cases)
- b.** When large amounts of money are involved (so that the costs which must be incurred to apply the technology in question can be recovered)
- c.** When the buyer cannot request competitive quotations because, for example, a considerable investment has to be made in moulds and specific production tooling, which leads the buyer to single sourcing.
- d.** When direct labour costs make up an important part of the cost price of the product to be produced.

6. Cost-effective Analysis –

a) Pricing and cost price information are of course insufficient to get the best Value for Money. It is also essential that the IFAs know how to use the Cost-effective analysis techniques. The selection and acquisition of a weapon or equipment from available systems is a major problem before defence services. The selection depends upon the effectiveness and cost. The effectiveness can be defined as the measure of the level up to which the system meets its objective. The cost

effectiveness analysis helps in identifying the system, which accomplishes the desired level at lower cost. There are three approaches in analyzing the options for a cost- effectiveness analysis.

- i.** Fixed effectiveness approach - In this approach, an effectiveness level is chosen. Out of the several options satisfying the effectiveness criterion, the least cost system is selected. Generally, the decisions relating to the acquisition of off-the-shelf items are analyzed by using this approach.
 - ii.** Fixed cost approach – It is used in investment-oriented decisions where out of a fixed budget one opts for the system that gives the best performance. The acquisition of items involving R and D is based upon this approach. The modernization programmes in the defence services are also handled by this approach.
 - iii.** Figure of merit approach - In this approach, neither the cost nor the effectiveness is kept constant. For all alternatives, both the cost and the effectiveness are evaluated and a 'Figure of merit', generally defined as effectiveness/cost, i.e., effectiveness achieved per unit cost is calculated. The system with the highest figure of merit is chosen. Alternatively one can also use the figure of merit as cost/effectiveness, i.e., cost per unit effectiveness. On this case the system with the least figure of merit is selected.
- b.** The cost is generally taken as a total of procurement cost + operating cost + maintenance cost for items off-the-shelf. For systems which are to go through the process of R and D or are in semi-developed stage, the cost is considered as a total of R and D cost + investment cost for production + operating and supporting cost.
- c.** For defining effectiveness quantitatively, an appropriate Measure of Effectiveness (MOE) is defined which depends upon the system to be acquired. For example, for an artillery gun, the MOE can be defined as the number of guns required to inflict a specified level of damage on area targets of given dimensions. For an air defence gun, the MOE may be defined in terms of the kill probability of the gun against enemy aircraft. For an air-to-ground attack aircraft the MOE may be defined as the number of sorties required for achieving the desired mission * ammunition dropped per sortie * effectiveness of each ammunition, in specified operational scenarios. The following example illustrates the concept of cost-effectiveness by using the fixed effectiveness approach.
- d.** A country is interested in procuring artillery guns for the army. Out of several alternatives, two artillery guns meet the specifications. The first gun G1, which is an old gun costs rupees 16 lakhs. The second gun G2 is a relatively new gun costing rupees 30 lakhs. The other details are given in the table below.

Table 1.

Comparison of various costs of two different guns.

	Gun G1 (Rs.)	Gun G2 (Rs.)
Cost of each gun	16,00,000	30,00,000
Cost of each shell	2,000	2,500
Cost of each towing vehicle	1,56,000	1,56,000
Cost per person per year	1,00,000	1,00,000
Persons authorized per gun	6	6
Round authorized per gun per year	100	100

In order to evaluate these guns, two operational scenarios against the following targets can be considered.

1. T1: Infantry standing in a formation.
2. T2: Towered artillery deployed.

The area of these targets is 100m * 100m. The proportion in which the guns are used such targets over their lifetime can be taken as 75% and 25% respectively. The lethal radii of the shell of the gun G1 against the targets T1 and T2 are 15m and 4m, respectively and that of gun G2 are 20m and 8m respectively. The guns are required to inflict 50% damage to the targets within a mission duration of 3 minutes for the first target and 5 minutes for the second target, from a given range. The rate of fire of the guns are 7 and 4 rounds per minute, respectively. The range and line errors for the gun G1 are 50m and 25m, respectively. The corresponding values are 45 and 20 m, respectively for gun G2. The aiming is done at the center of the target.

From the trials conducted for these scenarios, the number of shells required to achieve 50% coverage of the targets have been evaluated and are given in the Table 2. The number of shells that can be fired during the mission duration are 21 and 35 by the first gun and 12 and 20 by the second gun. Therefore, the number of guns required for damaging the targets are computed and given in the Table 2.

Table 2

Calculation of number of shells and guns required to destroy a particular target by two different guns.

Target	Shells	Gun (G1)	Shells	Gun (G2)
T1	16	16/21=0.76	9	0.75
T2	233	233/35=6.65	58	2.90

For evaluating the total number of guns required we take the weighted sum based on the proportion of the requirement on each type of target (i.e., 75% for T1 and 25% for T2). Thus the number of guns required $m(G1)$ and $m(G2)$ to achieve the missions are given by

$$m(G1) = 0.75 * 0.76 + 0.25 * 6.65 = 2.23$$

$$m(G2) = 0.75 * 0.75 + 0.25 * 2.90 = 1.29$$

Thus 2.23 guns of the first type are equal to 1.29 guns of the second type in achieving this specified mission. This indicates that gun G2 is more effective than gun G1. We next determine the cost for these guns on the basis of data given in table 1. The system costs for G1 and G2 for the planning period of ten years are evaluated and are given in **Table 3**.

Table 3

ITEM	GUN G1(for 2.23 guns)	GUN G2 (For 1.29 guns)
Procurement cost	35,68,000	38,70,000
Cost of vehicles	3,47,880	2,01,240
Cost of spares @ 10% of cost of gun and vehicle	3,91,588	4,07,124
Cost of ammunition for 10 years	44,60,000	32,25,000
Maintenance cost @1% of the gun and vehicle for 10 years	3,91,588	4,07,124
Cost of crew for 10 years	1,33,80,000	77,40,000
TOTAL	2,25,39,056	1,58,50,488

Since we are following the fixed effectiveness approach, the gun system with the lowest cost is cost effective. Hence the cost analysis in table 3 indicates that the gun G2 is cost effective. It may be noted that if the decision maker goes by the cost of the guns alone he will find G1 cheaper than G2. This analysis indicates that gun G2 is not only effective but also more cost effective than gun G1.

- e. This analysis brings out the basic point regarding the cost-effectiveness analysis, i.e., one should not go by cost alone in deciding upon which gun system one should go in for. If we bring in the effectiveness into our calculation, then it may not be economical to go in for the cheaper gun. But one point in this scenario should not be lost sight of. Gun G1 is stated to be an old gun. It may mean that the gun is already in service, and still has exploitable service left. Then the induction of the G2 gun would mean a totally new investment. The question then arises whether the old gun can be upgraded at a relatively lower cost than that entailed in purchasing new guns. Can the effectiveness be improved in such a way that it may become a better option, even from the cost-effectiveness angle? The background and scenario in which the quantitative analysis can operate should, therefore, always be clear. Otherwise, there may be a chance of wrong decisions. That is also the reason why the quantitative analysis should not be done as an independent exercise but should be an integral part of decision-making, with constant interaction between Service Headquarters and the specialists engaged in quantitative analysis.

7. Pitfalls in Reasonable Rate determination - Identifying Factors That Affect Comparability

a. When comparing prices, IFA may attempt to account for any factors that affect comparability. The following factors deserve special consideration because they affect many price analysis comparisons:

- (i) Market conditions;
- (ii) Quantity or size;
- (iii) Geographic location;
- (iv) Purchasing power of the dollar;
- (v) Extent of competition;
- (vi) Technology; and
- (vii) Defence unique requirements.

b. Market Conditions -

- i.** Market conditions change. The passage of time usually is accompanied by changes in supply, demand, technology, product designs, pricing strategies, laws and regulations that affect supplier costs, and other such factors. An effort to equate two prices, separated by five years, through a simple inflation adjustment may not be successful. Too many characteristics of the market are likely to have changed. Do not stretch data beyond their limits.
- ii.** Generally select the most recent prices available. The greater the time difference, the greater the likelihood and impact of differences in market conditions. If you are comparing a current offer with a prior price, the ideal comparison would be with a contract price agreed to yesterday. That comparison would limit the effects of time on market conditions.
- iii.** However, do not select a price for comparison merely because it is the most recent. **Look instead for prices that were established under similar market conditions.** For instance, if you are buying potatoes in October, offers from the previous October may be more comparable to current offers than prices paid last February, given the cyclical pattern of supply and demand in the market for potatoes.
- iv.** Consider the most current available data on trends and patterns in market conditions. Remember that lags often occur between data collection and contract award. Changes in market conditions over that period can reduce the usefulness of the data assembled.

c. Quantity or Size.

- i.** Variations in quantity can have a significant impact on unit price. A change in quantity can have an upward effect, a downward effect, or no effect at all.
- ii.** In **supply and equipment** acquisitions, we usually assume that larger supply acquisitions command lower unit prices. Where economies of scale are involved, that should be the case. However, economies of scale do not always apply. Increases in order size beyond a certain point may tax a supplier's capacity and result in higher prices. Market forces may impose opportunity costs on a supplier which result in higher unit costs for greater volumes. For example, if the price of oil is expected to increase 20 percent over a 12-month period, a supplier may choose to withhold a portion for a sale at a later date when the price is higher. In such a market, the effect of purchase quantity on price may not be as expected; at some point, increases in volume will result in higher unit prices as the supply of the lower priced oil is exhausted. Finally, if a price comparison is based on standard commercial items that are produced at a regular rate, variations in quantity may have no effect at all. A meaningful comparison of prices requires that the effect of volume on price be accounted for. The best way to do this is to select prices for comparison based on equal volumes. If that is not possible, examine the specific suppliers and the nature of the market at the time of the purchase.

iii. In **service acquisitions**, the problems are different. Variations in size can sometimes be neutralized by reducing the comparison to price per square foot or price per productive labor hour. Because these approaches are not always effective, try to factor out size or quantity variations as much as possible. If you don't succeed, the price comparison will have little value.

d. Geographic Location –

i. Geography can have a range of effects on comparability. Prices for many nationally advertised products will not vary much from place to place. Nevertheless, because geographic location can affect comparability, IFA should first try to compare offered prices with prices obtained from the same area. In major metropolitan centers, IFA should generally be able to identify comparable bases for price analysis in the region. In more remote, less urban areas, IFA must often get pricing information from beyond the immediate area.

ii. When IFA has to compare prices across geographic boundaries, take the following actions to enhance comparability.

1. Check for differences in the level competition that may affect price comparisons.
2. Identify labor rate differences that must be neutralized for valid price comparisons.
3. Check freight requirements and accompanying costs. These can vary considerably, especially for chemicals and other hazardous materials.
4. Identify geographic anomalies or trends. For example, an item may be more expensive on the Western India than in the Eastern India.

e. Purchasing Power of the Rupee - Inflation undermines comparability by eroding the real value of money. Because prices over time are expressed in the same currency, the denominations must have comparable purchasing power if comparison is to be meaningful. IFA can normally use price index numbers to adjust for the changing value of the Rupee over time.

f. Extent of Competition - When comparing one price with another, assess the competitive environment shaping the prices. For example, IFA can compare last year's competitive price with a current offer for the same item. However, if last year's procurement was made without competition, IFA may not have a good price with which to compare the current offer. A poorly written specification and an urgent need may have combined to make competition impossible last year, but now the specifications have been rewritten and the delivery is not urgent. Given these circumstances, a current offer could be the same as (or less than) last year's best price and still not be reasonable.

g. Technology - Prices from dying industries can rise because the technologies don't keep pace with rising costs. Conversely, technological advances in growth industries can drive prices down. The computer industry is an example. Technological advances have been made so fast that a comparison of prices separated by only a few weeks must account for these advances if the comparison is to have any value. Engineering or design changes must also be taken into account.

This means IFA must identify the new or modified features and estimate their effect on price.

h. Defence-Unique Requirements –

- i.** Often, the Defence's requirements vary to some degree from the commercial requirements for similar products. The question is the impact these variations have on price. For example, the Navy may require that the carpet in a Navy ship be fireproof to a far greater extent than any commercial carpet. That may justify a substantial difference in price over otherwise comparable commercial carpets.
- ii.** Similarly, Defence contracts may incorporate clauses in contracts that are not required in commercial market transactions. Consequently, comparison of an offer with commercial prices may be difficult. Unique terms and conditions affect prices, but it is often extremely difficult to assign a Rupee value to their effects.
- iii.** Just as Defence requirements may be different from commercial requirements; Defence requirements at a specific time and place may be different than requirements at another time and place. These differences will also affect price comparisons.

8. DCF Technique —

a) Net Present Value (NPV) is a variant of DCF method which is to be used for evaluation of tenders. The Net Present Value of a contract is equal to the sum of the present values of all the cash flows associated with it. The following formula is to be used for calculating NPV of a tender bid

$$NPV = \sum \frac{A_n}{(1 + i)^t}$$

Where, NPV = Net Present Value

A = Expected cash flow for the period mentioned by the subscript

i = Rate of interest or discounting factor

t = The period after which payment is done

n = Payment schedule as per the payment terms and conditions

When choosing among the various bids for the contract, the bid with the lowest NPV should be selected.

b) The application of the Net Present Value Analysis in defence procurement would involve the following 5- steps:

- i.** Step 1. Selection of the discount rate.
- ii.** Step 2. Identifying the cash outflows to be considered in the analysis.
- iii.** Step 3. Establishing the timing of the cash outflows.
- iv.** Step 4. Calculating the net present value of each alternative.
- v.** Step 5. Selecting the offer with the least net present value.

c) Discounting rate to be used under the method is to be the Government of India's lending rate on loans given to State Governments. These rates are notified by Budget Division of Ministry of Finance annually. The latest one is Ministry of Finance OM No F. 5 (3)-PD/2004 dated 22nd July 2004 (as per which the borrowing rate is 9.5%).

d) The following clause is to be incorporated in the RFP:-

“ The Buyer reserves the right to evaluate the offers received by adopting Discounted Cash Flow (NPV) method with a discounting rate of ---%.” The above clause can serve as a model and will need to be moderated according to the

requirements of specific contracts and the areas where the evaluation by DCF is likely to be undertaken (e.g. AMC, or different payments terms or lease purchase options etc.). The criteria for evaluation under this method are to be clearly stated to ensure transparency.

- e) Structuring Cash Flows for Tenders/ Bids Received in the Same Currency -**
- i.** The first step would be to exclude the unknown variables like escalation factors etc while determining the cash flows.
 - ii.** Thereafter, the cash outflows expected as per the contract schedule from different tenders should be taken into consideration and where the cash outflows are not available from the tender documents the same should be obtained from the vendors by the CNCs.
 - iii.** Once the outflows of different tenders become available, NPV of different tenders is to be calculated using the formula given above and select the one having lowest NPV.
- f) Structuring Cash Flows for Tenders/ Bids Received in Different Currency -**
- i.** Where bids are received in different currencies/combination of currencies, the cash outflow may be brought to a common denomination in rupees by adopting a Base Exchange rate as on the day of opening of price bids. Thereafter, the procedure as described above in the case of tender bids received in the same currency should be applied to arrive at NPV. Conversion of foreign currency bids into rupee is to be done by taking into account the BC selling rate of Parliament Street Branch of State Bank of India, New Delhi on the date of the opening of price bids.
 - ii.** Any standard software like 'MS Excel', 'Lotus 1-2-3' or any other spreadsheet, could be used for NPV analysis.

9. Negotiation Techniques

a. Preparing for Negotiations -

- i.** Planning and preparing for negotiations starts long before the actual negotiation takes place. It is important for IFAs to find out at an early stage what the vendor's view of the negotiations will be: what exactly are they hoping to achieve? In exceptional cases a supplier does not want to sell at all, but keeps the discussion going to collect basic information about changing usage patterns and future strategy. What interests are probably shared, and what are the expected potential subjects of opposing interests (conflict)? To get some idea, a useful tactic can be to ask what subjects the other party wants on the agenda (this in itself can prompt preliminary negotiations).
- ii.** It is important to find out as much as possible about the other party. If it is a new supplier, examination of annual reports and bank references is a prerequisite. If it is an existing supplier, it is wise to analyze the past deliveries - have there been problems in the past with this supplier? (e.g. low delivery reliability, quality defects, unexpected demand for escalation, etc). There is no harm in trying to quantify the scope of these problems. Furthermore, it is also important to know the authority and level of Vendor's rep (ex - Sales reps of vendor will have an eye for detail and normally come well prepared). It is important,

after having gathered the necessary information, to have an idea of possible points of agreement between buyer and seller.

b. Planning Negotiations - When the homework has been done, planning of the negotiations can begin. An eight-step approach is proposed for IFAs -

- i.** Establish the objectives of Negotiation for PNC - What exactly do you want to accomplish by means of the transaction with the supplier? Make a distinction between the short-term benefits you want to achieve, and the long-term benefits you see. Sometimes it is necessary that you tone down your short-term expectation a little for the benefit for the long-term interests. Ex - An OEM may be willing to let something off the sales price, only to compensate for this reduction at a later stage through higher AMC rates, spare parts' pricing, etc.
- ii.** Gather facts that can have big impact on negotiations - Importance of going through past files with purchases of similar items is strongly recommended. Go through past Notings, Minutes, relevant enclosures, etc carefully to gather ammunition for facing vendor in PNC. Conduct Market Research for gathering inputs like market price, technical details, etc about the items being negotiated. Learn about the Vendors like market standing, financial position, past history with users, etc.
- iii.** Assess the power position of each of the parties - It is important to determine the foundation of the other party's power position, and whether this is a reason for concern. In price negotiations, Sales reps of vendors sometimes hide behind the price list or the company's guidelines. Do you accept this type of argument or don't you?
- iv.** Determine the points of common interest - In many PNCs, most of the time is spent on issues one cannot agree upon. If these are the only issues that receive attention, it will be very difficult to reach an agreement. It is more important to establish the points of agreement. Focusing attention here leads to a more positive atmosphere. If price is proving to be a tough issue to handle, then flexibility in delivery, payment terms, technical clarifications, etc may be shown first as they may be equally crucial to vendor.
- v.** Make a list of questions - A systematic approach is important in negotiations. Resist the temptation to respond immediately to details or new information presented by the other party. If this new information sheds a completely different light on matters, then redo the questions.
- vi.** Define your tasks - Both parties will probably make concessions during the process of negotiation. It is unrealistic to expect the other party to do it all. You can plan your concessions in advance in Internal PNC. To be able to do this, it is important that you establish :
 - 1.** What for you would be the best possible result (what do you think is the feasible maximum result that the other party would agree to, given the circumstances?)
 - 2.** What for you would be the most likely result (what do you think is realistically feasible, and would that result be acceptable to you?)
 - 3.** What for you would be the worst possible result (what is the minimum you would settle for, if there is no other possibility?)

- vii.** Decide on the division of roles in your negotiating team - Always talk on this issue in advance with the Chairman of PNC and get the role delineated clearly. This helps in PNC acting as a team in front of vendor rather than speaking in several voices and tones.
- viii.** Plan your concessions - What will be your opening bid? When will you make it? Should concession be made without asking for something in return to break stalemate? Discuss with PNC members which concessions you are willing to make, and which concessions you absolutely will not make under any circumstances. You can do the same for the vendor. What concessions do you think they are willing to make and what is absolutely unrealistic to expect?

c. Negotiation Tactics – While negotiating, you may follow one of the tactics mentioned below -

- i.** Take-it-or-leave-it - One party wants to impose its terms on the other party, without making concessions. This tactic can be used by buyers who are aware of their power position vis-a-vis the supplier and is intended to lower the other party's aspiration level.
- ii.** Bogey - In this tactic, the buyer approaches the supplier in a very friendly way and comments on his proposal positively. However, the buyer lets the supplier know that, if there is to be any business, the proposal will have to be slightly adjusted in view of the very specific situation. With this tactic, the negotiating atmosphere remains open and the supplier can utilize all his talents to develop a better deal.
- iii.** Chinese crunch - In this situation, it is declared that an agreement with the supplier is possible, as soon as he solves just one little problem. Obviously, this little problem is interpreted differently by the seller! This tactic is to effectively bulldoze the agreement, which was as good as settled in the seller's mind, just before it reaches home; for example, there is an agreement about their price, but the buyer then informs the seller that transportation is the latter's responsibility. Practice shows that vendor's sales people are ready to make considerable concessions in this stage of the negotiating process.
- iv.** Auction - In this situation, the buyer makes the supplier explain why they should do business together. If the buyer also applies this tactic to the others, a lot will be learned about the competition. Information is obtained without too much effort. It is, of course, desirable to check the accuracy of the information.
- v.** Good guy -bad guy - Negotiations can start with an extremely tough bargaining with harsh tones by one member of PNC. When vendor's hopes are dimmed and his expectations are lowered down, then another member takes over with soft approach and with a win-win situation approach. It is proved that vendors are vulnerable at this stage and will jump to reach an agreement, which can be made in more favourable terms for the buyers.

d. Stages in Purchasing Negotiations - If the preparations have been concluded and agreement is reached about the tactic to be used, the negotiations can be started. In practice, negotiation processes follow a certain pattern and, in general, four stages can be discerned in the course of the negotiating process.

- i.** Exploration - During this first stage, both parties try to get acquainted. Next they try to discover the mutual interests and intentions. They also try to assess the importance of the negotiations for the other party. This is done by exchanging information: everybody listens, both parties explain or ask for clarification of particular statements, and they continually check whether they understand each other. It is important to listen closely to the other party, and not make a first offer. Furthermore, one should not respond too specifically to questions from the other party. The objective of this stage is to establish the context of the negotiations.
 - ii.** Reflection - This stage consists of digesting the information received from the other party. Does this information necessitate a revision of your objectives? Did you overlook certain things in your preparations? Were your assumptions about the other party's willingness to reach an agreement correct, or do they now turn out to be wrong? Receiving new information can cause you to request a short break so you can consult with your partner.
 - iii.** Negotiation - In this phase, true negotiation takes place. Concessions are made on both sides. It is important to check how the other party responds to concessions made by you (through both verbal and non-verbal reactions). Don't jump to conclusions during this stage; avoid insulting remarks and, most importantly, don't concede more than your planning allowed for.
 - iv.** Closing - Repeat and summarize the agreements that have been made. Is the other party satisfied with the results? Take your time to round off the negotiations well, so there is no possibility of misunderstandings about the results that have been achieved.
 - v.** This list can be helpful to IFAs as buyers. It is important to be aware of the stage the negotiations are at, all of the time. Practice shows time and time again that the first stage is the most time consuming. This leaves less time for the actual negotiations and the closing part and one common result is misunderstandings about who is supposed to do what. Both parties will then dispute parts of the agreements afterwards.
- e.** Negotiating is a difficult job, because it can involve so many different subjects. This work furthermore requires a certain disposition, namely a willingness to cooperate to reach an agreement that will benefit both parties.

Appendix D (Referred to in Chapter 7)

Advanced issues at Post-Contract Management stage

1. The advanced issues mentioned in this chapter are akin to desirable QRs. These are meant for higher level IFAs and that too on as required basis. The topics have been only given brief introduction as each one of them requires extensive readings for effective use in procurement. This is only an attempt to familiarize IFAs with advanced themes, which can be pursued on their own depending upon level, aptitude and requirements of individual IFA.

2. Contract Legal Provisions –

- a. **What is a Contract?** The proposal or offer when accepted is a promise, a promise and every set of promises forming the consideration for each other is an agreement, and an agreement if made with free consent of parties competent to contract, for a lawful consideration and with a lawful object is a contract.
- b. **Proposal or Offer:** When one person signifies to another his willingness to do or to abstain from doing anything, with a view to obtaining the assent of the other to such act or abstinence, he is said to make a proposal or offer. In a sale or purchase by tender, the tender signed by the tenderer is the proposal. The invitation to tender and instructions to tenderers do not constitute a proposal.
- c. **Acceptance of the 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.
- d. **What agreements are contracts:** An agreement is a contract enforceable by law when the following are satisfied. A defect affecting any of these renders a contract un-enforceable.
 - i. Competency of the parties
 - ii. Freedom of consent of both parties
 - iii. Lawfulness of consideration
 - iv. Lawfulness of object
- e. **Competency of Parties -** Under law any person who has attained majority and is of sound mind or not debarred by law to which he is subject, may enter into contracts. It, therefore, follows that minors and persons of unsound mind cannot enter into contracts nor can insolvent person do so. Categories of persons and bodies who are parties to the contract may be broadly sub-divided under the following heads: - Individuals, Partnerships, Limited Companies & Corporations other than limited companies
 - i. **Contracts with Individuals:** Individuals tender either in their own name or in the name and style of their business. If the tender is signed by any person other than the concerned individual, the authority of the person signing the tender on behalf of another must be verified and a proper power of attorney authorizing such person should be insisted on. In case, a tender is submitted in a business

name and if it is a concern of an individual, the constitution of the business and the capacity of the individual must appear on the face of the contract and the tender signed by the individual himself as proprietor or by his duly authorized attorney.

- ii. **Contracts with Partnerships:** A partnership is an association of two or more individuals formed for the purpose of doing business jointly under 16 a business name. It is also called a firm. It should be noted that a partnership is not a legal entity by itself, apart from the individuals constituting it. A partner is the implied authority to bind the firm in a contract coming in the purview of the usual business of the firm. The implied authority of a partner, however, does not extend to enter into arbitration agreement on behalf of the firm. While entering into a contract with partnership firm care should be taken to verify the existence of consent of all the partners to the arbitration agreement.
 - iii. **Contracts with Limited Companies:** Companies are associations of individuals registered under Companies Act in which the liability of the members comprising the association is limited to the extent of the shares held by them in such companies. The company, after its incorporation or registration, is an artificial legal person which has an existence quite distinct and separate from the members of shareholders comprising the same. A company is not empowered to enter into a contract for purposes not covered by its memorandum of association; any such agreement in excess of power entered into the company is void and cannot be enforced. Therefore, in cases of doubt, the company must be asked to produce its memorandum for verification or the position may be verified by an inspection of the memorandum from the office of the Registrar of Companies before entering into a contract. Normally, any one of the Directors of the company is empowered to present the company. Where tenders are signed by persons other than Directors or authorized Managing Agents, it may be necessary to examine if the person signing the tender is authorized by the company to enter into contracts on its behalf.
 - iv. **Corporation other than Limited Companies:** Associations of individuals incorporated under statutes such as Trade Union Act, Cooperative Societies Act and Societies Registration Act are also artificial persons in the eye of law and are entitled to enter into such contracts as are authorized by their memorandum of association. If any contract has to be entered into with any one or such corporations or associations, the capacity of such associations to enter into contract should be verified and also the authority of the person coming forward to represent the said Association.
- f. **Consent of both Parties** - Two or more persons are said to consent when they agree upon the same thing in the same sense. When two persons dealing with each other have their minds directed to different objects or attach different meanings to the language which they use, there is no agreement. The misunderstanding which is incompatible with agreement, may occur in the following cases: -

- i. When the misunderstanding relates to the identity of the other party to the agreement;
 - ii. When it relates to the nature or terms of the transactions;
 - iii. When it related to the subject matter of the agreement.
- g. Free consent of both Parties** - The consent is said to be free when it is not caused by coercion, undue influence, fraud, mis-representation or mistake. Consent is said to be so caused when it would not have been given but for the existence of coercion, undue influence, fraud, mis-representation or mistake. When consent to an agreement is caused by coercion, undue influence, fraud or misrepresentation, the agreement is a contract voidable at the option of the party whose consent was caused. A party to a contract, whose consent was caused by fraud or misrepresentation, may, if he thinks fit, insist that the contract shall be performed, and that he shall be put in the position in which he would have been if the representations made had been true. In case consent to an agreement has been given under a mistake, the position is slightly different. When both the parties to an agreement are under a mistake as to a matter essential to the agreement, the agreement is not voidable but void. When the mistake is unilateral on the part of one party only, the agreement is not void. Distinction has also to be drawn between a mistake of fact and a mistake of law. A contract is not void because it was caused by a mistake as to any law in force in India but a mistake as to law not in force in India has the same effect as a mistake of fact.
- h. Consideration** - Consideration is something which is advantageous to the promisor or which is onerous or disadvantageous to the promisee. Inadequacy of consideration is, however, not a ground avoiding the contract. But an act, forbearance or promise which is contemplation of law has no value is no consideration and likewise an act or a promise which is illegal or impossible has no value.
- i. Lawfulness of object** - The consideration or object of an agreement is lawful, unless it is forbidden by law or is of such a nature that if permitted, it would defeat the provisions of any law, or is fraudulent or involves or implies injury to the fraudulent property of another or the court regards it as immoral or opposed to public policy. In each of these cases the consideration or object of an agreement is said to be unlawful.
- j. Communication of an Offer or Proposal** - The communication of a proposal is complete when it comes to the knowledge of the person to whom it is made. A time is generally provided in the tender forms for submission of the tender. Purchaser is not bound to consider a tender, which is received beyond that time.
- k. Communication of Acceptance** - A date is invariably fixed in tender forms upto which tenders are open for acceptance. A proposal or offer stands revoked by the lapse of time prescribed in such offer for its acceptance. If, therefore, in case it is not possible to decide a tender within the period of validity of the offer as originally made, the consent of the tenderer firm should be obtained to keep the offer open for further period or periods. The

communication of an acceptance is complete as against the proposer or offerer, where it is put in the course of transmission to him, so as to be out of the power of the acceptor, and it is complete as against the acceptor when it comes to the knowledge of the proposer or offerer. The medium of communication in government contracts is generally by post and the acceptance is, therefore, complete as soon as it is posted. So that there might be no possibility of a dispute regarding the date of communication of acceptance, it should be sent to the correct address by some authentic foolproof mode like registered post acknowledgement due, etc.

1. **Acceptance to be identical with Proposal** - If the terms of the tender or the tender, as revised, and modified, are not accepted or if the terms of the offer and the acceptance are not the same, the acceptance remains a mere counter offer and there is no concluded contract. It should, therefore, be ensured that the terms incorporated in the acceptance are not at variance with the offer or the tender and that none of the terms of the tender are left out. In case, uncertain terms are used by the tenderers, clarifications should be obtained before such tenders are considered for acceptance. If it is considered that a counter offer should be made, such counter offer should be carefully drafted, as a contract is to take effect on acceptance thereof. If the subject matter of the contract is impossible of fulfillment or is in itself in violation of law such contract is void.

- m. **Withdrawal of an Offer or Proposal** - A tenderer firm, who is the proposer may withdraw its offer at any time before its acceptance, even though the firm might have offered to keep the offer open for a specified period. It is equally open to the tenderer to revise or modify his offer before its acceptance. Such withdrawal, revision or modification must reach the accepting authority before the *date and time of opening of tender*. No legal obligations arise out of such withdrawal or revision or modification of the offer as a simple offer is without a consideration. Where, however, a tenderer agrees to keep his offer open for a specified period for a consideration, such offers cannot be withdrawn before the expiry of the specified date. This would be so where earnest money is deposited by the tenderer in consideration of his being supplied the subsidiary contract and withdrawal of offer by the tenderer before the specified period would entitle the purchaser to forfeit the earnest money.

- n. **Withdrawal of Acceptance** - An acceptance can be withdrawn before such acceptance comes to the knowledge of the tenderer. A telegraphic revocation of acceptance, which reaches the tenderer before the letter of acceptance, will be a valid revocation.

- o. **Changes in terms of a concluded Contract** - No variation in the terms of a concluded contract can be made without the consent of the parties. While granting extensions or making any other variation, the consent of the contractor must be taken. While extensions are to be granted on an application of the contractor, the letter and spirit of the application should be kept in view in fixing a time for delivery.

- p. Discharge of Contracts** - A contract is discharged or the parties are normally freed from the obligation of a contract by due performance of the terms of the contract. A contract may also be discharged: -
- i) **By mutual agreement:** If neither party has performed the contract, no consideration is required for the release. If a party has performed a part of the contract and has undergone expenses in arranging to fulfill the contract it is necessary for the parties to agree to a reasonable value of the work done as consideration for the value.
 - ii) **By breach:** In case a party to a contract breaks some stipulation in the contract which goes to the root of transaction, or destroys the foundation of the contract or prevents substantial performance of the contract, it discharges the innocent party to proceed further with the performance and entitles him to a right of action for damages and to enforce the remedies for such breach as provided in the contract itself. A breach of contract may, however, be waived.
 - iii) **By refusal of a party to perform:** On a promisor's refusal to perform the contract or repudiation thereof even before the arrival of the time for performance, the promisee may at his option treat the repudiation as an immediate breach putting an end to the contract for the future. In such a case the promisee has a right of immediate action for damages.
- q. In a contract where there are reciprocal promises:** If one party to the contract prevents the other party from performing the contract, the contract may be put to an end at the instance of the party so prevented and the contract is thereby discharged.
- r. Stamping of Contracts** - Under entry 5 of Schedule I of the Indian Stamp Act, an agreement or memorandum of agreement for or relating to the sale of goods or merchandise exclusively is exempt from payment of stamp duty. (A NOTE OR MEMORANDUM sent by a Broker or Agent to his principal intimating the purchase or sale on account of such principal is not so exempt from stamp duty.) The Stamp Act provides that no Stamp Duty shall be chargeable in respect of any instrument executed by or on behalf of or in favour of the Government in cases where but for such exemption Government would be liable to pay the duty chargeable in respect of such instrument. (Cases in which Government would be liable are set out in Section 29 of the Act).
- s. Authority for Execution of Contracts** - As per Clause 1 of Article 299 of the Constitution, the contracts and assurances of property made in the exercise of the executive power of the Union shall be executed on behalf of the President. The words "for and on behalf of the President of India" should therefore follow the designation appended below the signature of the officer authorized in this behalf. The various classes of contracts and assurances of property, which may be executed by different authorities, are specified in the Notifications issued by the Ministry of Law from time to time.

2. Project Mangement –

- a) IFAs can often be involved in procurement activities of a large project, particularly in IT, Capital cases, etc. That will essentially mean they getting involved in planning of the whole project per se. The first step of any plan, like the first step of any problem, will be the gathering of facts, which means doing some research. Purchasing planning and research can be aided by the use of the Critical Path Method (CPM) or by the Programme Evaluation and Review Technique (PERT). Both these systems are based on the same concepts, although differing in details, and can be designed to make planning more effective. Advantages of these techniques are that they :
- i. Provide means for careful planning of all activities and all variables involved.
 - ii. Provide an overview of the entire procedure, with a cleaner understanding of the interrelationships of the activities.
 - iii. Provide for constant feedback to assure that all activities are on schedule.
 - iv. Identify potential problems early so that resources can be diverted to avoid cumulative delays.
 - v. Make it possible to accurately predict completion time for the project.
- b) The PERT / CPM schedule permits purchasing to know what raw materials and component parts are needed when for the various activities. This permits the buyer to make the most economical purchasing and transportation decisions. The buyer, with the knowledge of the latitude of delivery time, can select low-cost suppliers who offer longer lead times. This is one way that purchasing can reduce the total cost of materials. With the PERT/CPM network system, the purchaser has contact with the entire project and is in excellent position to ensure the availability of the right quantity and quality at the right time. These systems can quickly indicate when a crucial delivery is approaching or passed and alert the purchasing dept to follow-up and/or expedite the delivery of the needed material. A prior knowledge of potential rise and fall in demand of materials can help IFA is giving useful advice to pain the quantity of procurement at a particular stage.

3. Repair and Maintenance Philosophy of Defence – IFAs need to be aware of the Repair and Maintenance Philosophy of Defence in order to appreciate not only Post-Contract Management issues but also to use these inputs while discussing issues like Warranty, AMC during PNCs. The various levels of repairs are explained in succeeding paras.

- a) **Unit Repairs** - These are repairs carried out within the unit holding this equipment with tools generally held within the unit or supplied by the manufacturer with each equipment or as per scaling of 1:10 or any other scaling recommended by the manufacturer as per population held in the unit. These pertain to cleaning, lubrications, minor repairs and replacement of components and minor assemblies that can be carried out in field without any sophisticated tools or test equipment. For carrying out such repairs, following things are asked from the manufacturer :-

- i. Table of Tools and Equipment (TOTE) with each equipment including operators manual.
- ii. Scaling of special tools and spares as explained at para 2 above including
- iii. Maintenance manual.

b) Field Repairs - These are repairs carried out in the field by technicians specially trained for this purpose and where the required special tools and spares have to be provided. These repairs comprise replacement of major assemblies and other components beyond the scope of unit level repairs. Normally a field work shop that carries out such repairs looks after three to four units holding the said equipment. For carrying out such repairs, following things are asked from the manufacturer :-

- i. Quantity and specification of spares that need to be stocked.
- ii. Special Maintenance Tools and Test Equipment that need to be provided to each such field work shop.
- iii. All necessary technical literature.
- iv. Miscellaneous aspects, if any (viz. All necessary technical literature.).

c) Intermediate Repairs - These are extensive or special repairs carried out for a few equipment in the field to reduce the down time.

d) Base Repairs - In order to avoid dependence on the manufacturer in terms of factory repair, all repairs including repairs to components, subassemblies and overhaul of the complete equipment are carried out by this facility. For carrying out such repairs, following things are asked from the manufacturer

- i. All Special Maintenance Tools, jigs, fixtures and test equipment for carrying out repairs up to component level.
- ii. Quantity and specification of spares, sub assemblies as per population expected to be maintained.
- iii. Oils and lubricants necessary for overhaul.
- iv. All necessary technical literature.
- v. Calibration facilities for test equipment.

e) Manufacturers Recommended List of Spares (MRLS) – This is required to sustain the equipment for a specified period. They are divided as under -

- i. Low Cost. Less than 2 % of the unit cost of the equipment/sub system.
- ii. Medium Cost. 2 to 10% of the unit cost of the equipment/sub system.
- iii. High Cost. Greater than 10 % of the unit cost of equipment/subsystem.

f) Special Maintenance Tools and Test Equipment – These are equipment-specific specialized tools.

g) Maintainability Evaluation Trials (MET) - This is carried with a view to facilitate provisioning of effective engineering support during life cycle of the equipment. This would involve stripping of the equipment and carrying out recommended tests and adjustments and establishing adequacy of maintenance tools, test equipment and technical literature.