



सत्यमेव जयते

# **IFA (NAVY) MANUAL**

**2008**

**Controller General of Defence Accounts,  
West Block-V, R.K. Puram  
New Delhi**

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- |   |   |           |
|---|---|-----------|
| (i) Shri Rajnish Kumar, IDAS, IFA (Air HQrs.)   | - | Army      |
| Portion   |   |           |
| (ii) Shri S.L. Singla, IDAS, IFA (Naval HQrs.)  | - | Navy      |
| Portion   |   |           |
| (iii) Shri Rakesh Sehgal, IDAS, IFA (MC) Nagpur | - | Air Force |
|   |   | Portion   |

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This is the first Manual on IFA System in Defence Services. Attempt has been made to cover all aspects of the IFA System including Service-Specific intricacies.

The exercise was elaborate and complex. It taxed the intellectual and professional skills of the officers who had first hand experience in handling the subjects.

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## **Chapter – 1**

### **IFA SYSTEM – AN INTRODUCTION**

1.1 A major step forward in the direction of delegation of financial powers in the Ministry of Defence 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 and 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. Around the same time the concept of Authority cum Responsibility Centres on lines of those adopted by the UK Army was deliberated in the MOD to be further validated in the base logistic 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 substantial delegation of financial powers in Revenue Expenditure to the three Services during the period from 1996 to 2000, whereby a substantial portion of the Revenue Budget came under the delegated powers of the Service HQs.

1.2 Following the recommendations of the ‘Committee on Defence Expenditure’ and the ‘Sub-Committee on Delegation of Financial Powers to Services’, Ministry of Defence took a policy decision in November 1991 that the exercise of delegated financial powers should be made with the advice of the local financial advisors. Subsequently the subject of IFA system at the service Hqs and lower formations was deliberated by the 19<sup>th</sup> Estimates Committee of the Parliament.

1.3 The New /Financial Management Strategy (NMS or FMS) is the name given to a set of measures taken for decentralized management of budgetary resources. The basic features of NMS involve greater decentralization of

responsibilities for target setting, planning, budget formulation and financial control by involving lower level functionaries, creation of Authority-cum Responsibility and Budget centres under various Principal Staff Officers (PSOs), establishing clear relationship between financial inputs and outputs (physical targets) and generally laying greater emphasis on getting better value for money in all expenditure proposals. The NMS also envisaged introduction of IFA system at Service Hqrs and select field formations.

1.4 The government accordingly decided to introduce the IFA system in 1994 at service Hqrs, which has since been extended to a large number of lower formations of the three Services. IFA system at NHQ was introduced Vide GOI, MOD(Finance) letter No. 840/Addl.FA(J)/94 dated 22.3.94 (reproduced at **Annexure VII** of this Manual). A major review of the delegated financial powers of the Navy was later undertaken by the Committees set up (in 2001 and 2005 respectively) to review the Delegation of Financial Powers, which culminated in the issue of NI 1/S/03 and 1/S/06 respectively. Consequent on the economic strides made by the country after liberalization of the economy the IFA scheme and role of the Integrated Financial Advisers in the Ministries and departments etc. has been redefined vide Ministry of Finance, Department of Expenditure OM No. 5(6)/L&C/2006 dated 1<sup>st</sup> June 2006 reproduced at **Annexure VIII** to this Manual.

1.5 A cadre restructuring in the Defence Accounts Department to cater for the posts of IFAs and other needed officers at various levels also materialized in 2002. Principal IFA, IFAs/FAs (in the rank of SAG and below ), Addl /Jt. IFAs, Dy IFAs and other supporting officers/staff are now in position at several stations. The location and jurisdiction of IFAs in Navy has been prescribed vide Hqrs letter No. AN-I/1179/1/Navy Dated 2/4/2007 (copy in **Annexure XI** to this manual).

1.6 Separate Government letters were issued by the Ministry of Defence for the three services laying down the duties and responsibilities of IFAs. The

letters broadly lay down the following charter of duties for the IFAs at Service Hqrs as well as lower formations:

- i) The IFA shall render advice on all financial matters which fall within the competence of various authorities/Competent Financial Authorities. For the delegated powers to be exercised in consultation with the IFAs, the said powers will be exercised with his concurrence.
- ii) IFA or his representative will participate in various TPCs/PNCs held at Service/Formation Hqrs.
- iii) IFA will assist Service/Formation Hqrs in formulation of Budget at different stages and monitoring of expenditure against budget allotments.
- iv) He will monitor implementation of sanctions, commitments and liabilities for taking effective measures to achieve economy, cost effectiveness and better resource planning. Adequate information system is to be maintained by the IFAs in this regard.
- v) IFA will assist the Service/Formation Hqrs in rationalization of maintenance expenditure and inventory management procedures.
- vi) IFA will also monitor processing of Draft Paras etc.

### **1.7 Objectives and duties of Pr. IFA Wing**

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

#### **1.7.2 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).

1.7.3 **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.

## Chapter – 2

### **ROLE OF IFAS IN NAVY WITH REFERENCE TO THE DELEGATION OF FINANCIAL POWERS**

**2.1** The defence managers, particularly the military leaders, may not possess adequate expertise in financial matters. The IFA is, therefore, an important advisor to the CFA with expertise in financial matters as well as about rules and regulations. The IFA must participate in the decision making process as a team member and be accountable for optimum use of resources allocated and achievement of organizational targets/goals. (Para 5.13 of DPM)

#### **Role of IFAs in Navy**

2.1.2 The delegation of financial powers in the Navy for revenue procurement is contained in NI 1/S/06 circulated vide MOD No. PL/3221/NHQ/486-S/2006/D(N-IV) dated 19 July 2006. The DPM ( paras 5.13 to 5.18 ) prescribes the role of IFA at:

2.1.3 **Indenting stage** – IFA is to vet the quantities indented. IFA must have access to all inputs required to assess the basis of projection of indented Qty. However the plethora of provisions as follows dealing with ‘indents’ is to be kept in mind:

2.1.4 Para 1.8 of DPM: An indent is a requisition placed by the provisioning authority on the procurement agency to procure an item. An indent may contain one or more items.

2.1.5 Para 3.14 of Material Planning Manual (MPM) of Navy: A tender inquiry that is substantial in financial terms will be able to attract suppliers capable of good quality, good price and quick delivery. An indent of such financial substance can be achieved not only by increasing the quantity of a particular item, but also by bulking in one indent, different but related items, that can be supplied by one supplier. Since EOQ is financial and not a quantitative concept,

the provisioning officer will need to look at range of related items before preparing an indent.

2.1.6 Para 10.1 MPM of Indian Navy: An indent, except for LPV and urgent/operational CPV indent, should normally cover the full requirement for the planned provisioning period. As per Rule 131 of FR Part 1 Volume- 1 periodical indents should be prepared covering a year's or more requirements except where for reasons of short life or for other recorded reasons it is necessary to procure lesser quantities. As per Rule 147 of FR Part I, the items serving the same purpose should be included in the indent. As per para 1.8 of DPM an indent may contain one or more items.

2.1.7 Para 9.2 (k) of DPM: Normally items of similar or allied nature should be included in one indent. As per para 17 of Annexure 5 to NI 1/S/2006 indents are to be raised equipment-wise. Further, as per the said NI separate indents need to be raised for engineering and electrical items relating to OEM based procurement, particularly for Russian stores.

2.1.8 As per Rule 148 of GFR-2005, a demand for goods should not be divided into small quantities to make piecemeal purchases to avoid the necessity of obtaining the sanction of higher authority required with reference to the estimated value of the total demand. However, Rule 137 (i) of GFR also states that care should be taken to avoid purchasing quantities in excess of requirement to avoid inventory carrying costs.

2.1.9 In view of the diversity of provisions relating to raising of indents, IFAs need to exercise caution and it is necessary and prudent for the CFAs to consolidate the total demand of same/similar items existing at one point of time in one indent/TE which would also result in seeking bulk discounts.

#### 2.1.10 **Indents – general observations**

At times quantities of indents are broken so that the value falls within competence of different CFA's

2.1.11 Also a particular item exists in various indents emanating from different Depots and gets processed at NHQ/commands at different points of time, and sometimes gets processed with NLCs almost simultaneously thereby leading to multiple handling of the same item, besides leading to procurement at varying rates.

2.1.12 Unrealistic Indent Values: Many indents/ items are raised on POEV basis. However, on receipt of quotes, the indents/items showing value in only rupees thousands/lacs are found quoted by firms in crores of rupees. More professionalism is called for while determining POEV.

2.1.13 Indication of a low POEV also causes the indents to get approved by lower CFA's whereas they should have rightly been approved by higher CFA

2.1.14 The Indentor is required to raise indent based on ACL; dues in; dues out; stock; MSL; USL etc. However, on many occasions these aspects are not found taken care of.

#### 2.1.15 **AON stage:**

Quantity vetting of an indent is in fact taken as concurrence at the acceptance of necessity stage. This is a very important stage in the procurement chain and IFAs should accord their concurrence carefully. The Check List for AON stage included in **Annexure XII** may be referred to.

## **2.2 The Role of IFA at Tendering stage**

This role of IFA involves Vendor selection in case of STE and LTE, where the list of approved vendors has not been forwarded by AHSP (para 5.16 of DPM), and vetting of TE, where there are deviations from standard terms.

## **2.3 Procurement stage:**

Para 5.17 of DPM: IFA plays an important role in advising the CFA either as a member of committee CFA or designated CFA, regarding the propriety of procedures and practices followed, ranking of bids, determination

of L-1, fixation of reasonable price (bench making) as well as in conduct of effective negotiations, where considered necessary to ensure both financial probity and value for money.

#### **2.4 Post Contract Management stage:**

IFA has a role in case of deviations and amendments etc. having financial implications. Post contract issues involve release of FFE, extension of delivery period with or without LD, short closures of contract etc. IFA has a vital role to play in case of deviations and amendments having financial implications. Sometimes firms do ask for amendments in part number or description of items, or for supply of substitute items. As these may involve financial implications, these aspects also need to be carefully examined by IFAs

#### **2.5 Recording of Minutes:**

CFA and IFA must ensure that there is proper documentation at each stage viz AON; TEC and PNC (CNC), recording discussions and detailed justification for taking decisions leading to finalisation of contract clauses and prices including accepting deviations from standard terms.

#### **2.6 Different Stages at Which Cases are Referred to IFAs**

- EAC (Expenditure angle clearance/AON)
- Indent approval
- Selection of vendor/LTE/STE
- Vetting of NLC etc. briefs/CST
- Decision on finalisation of orders in NLC meeting
- Concurrence of the minutes of NLC meetings
- Vetting of draft supply orders
- Post contract management stage

#### **2.7 Type of Cases Processed by IFAs/FAs in Navy**

Non Weapon Stores (indigenous)  
Non Weapon Stores (imported)  
Office equipment

IT related equipment  
Weapon Store (indigenous)  
Weapon Store (imported)  
Air Stores (indigenous)  
Air Stores (imported)  
Armament Stores (indigenous)/Imported  
Disposal of Ship, Vessel, Aircraft  
Clothing & Victualling  
Maintenance, Repair and Refit of ships and submarines  
MT Vehicles  
Hiring of Services  
Transportation  
Office contingencies & Miscellaneous Expenditure  
Adventure activities and Sports  
Training of Naval personnel  
Works proposals etc.

## **2.8 Examination of Procurement proposals in IFA/FA offices**

The detailed 'checklists' for examining various procurement proposals of Naval stores are enclosed at **Annexure XII** of this Manual. (These checklists are intended to facilitate prompt and effective processing of cases by IFA offices and are not to be deemed as substituting actual rules, regulations and instructions. Further these Check Lists are not exhaustive and more points could be added by IFAs depending on merits of each case. Also, all the checkpoints may not be applicable in all cases).

**2.8.1 With a view to avoid or reduce cross-notings and back references, the proposals initiated in files should be comprehensive and self contained and include all relevant facts and data pertaining to the case (para 7 of forwarding letter of NI 1/S/06).**

**2.8.2 The financial control exercised by IFA is really a careful and intelligent scrutiny of all proposals involving expenditure from public**

**funds, the objective being the safeguarding of economy, efficiency and propriety in public finance. IFA may question the necessity for spending so much money on such a scale to secure a given object or whether the proposal is really necessary, whether the same results could not be obtained otherwise with greater economy and whether the standards of financial propriety (Rule 21 of GFR 2005) have been observed etc. In short, the IFA asks every question to be asked by the IFA that might be expected from an intelligent taxpayer bent on getting the best value for his money.**

2.8.3 The responsibility and accountability of every authority delegated with financial powers to procure any item or service on Government account is total and indivisible.

## **2.9 Fundamental Principals of Public Buying**

Rule 137 GFR and para 2 of DPM 2006: Authorities empowered to procure goods/services shall be responsible to bring efficiency, economy and transparency in procurement and ensure fair and equitable treatment of suppliers.

2.9.1 The procedure to be followed in making public procurement must conform to the following yardsticks:

- i) The specs. in terms of quality, type etc as also quantity of goods to be procured, should be clearly spelt out. The specs should meet the basic needs of the procuring organisations without including superfluous and non-essential features, which may result in unwanted expenditure.
- ii) Offers should be invited following a fair, transparent and reasonable procedure.
- iii) The procuring authority should be satisfied that the selected offer adequately meets the requirements in all respects
- iv) That the price of the selected offer is reasonable and consistent with the quality required

- v) At each stage of procurement the procuring authority must place on record, in precise terms, the considerations which weighed with it while taking the procurement decision.

2.9.1 The General Principles to be observed while entering into contracts/ agreements have been enunciated in Rule 204 of GFR which may be referred to by competent authorities.

## **2.10 PNC / Negotiations**

2.10.1 Para 5.7 of DPM: PNC (CNC) should comprise of rep of user, finance, designated Insp. Agency, maintenance agency and the rep of CFA. CFA can co-opt any other member like costing expert in case of high value single vendor offers.

2.10.2 Para 5.6 of DPM: Detailed record of discussions regarding compliance with tendered QRs, price and contract clauses held during PNC should be prepared and placed on record in the form of minutes of PNC meeting.

2.10.3 Negotiations in Multi Vendor cases: As per para 13.5.1 of DPM- 2006 in multi vendor cases, on opening of commercial offers, once L-1 vendor is identified, the contract should be concluded with him and there would be no need for any further price negotiation. However, negotiations can be held in exceptional circumstances where valid logical reasons exist, with only L-1. RFP in such multi-vendor cases should lay down that no negotiations would be held with L-1 vendor except in exceptional circumstances.

2.10.4 As per para 13.6 of DPM in STE cases of purchase, a technical team should make an assessment of the estimated cost based on available information. The CVC guidelines reproduced in para 13.5.1 of DPM -2006 also prescribe benchmarking by CNC in an internal meeting in single vendor/resultant single vendor cases before opening commercial offers. Accordingly, the benchmarking and reasonableness of price by CNC should be done after assessment of estimated cost by the technical team.

2.10.5 As per para 5.10 of DPM if L1 does not have the capacity to supply within delivery period as per RFP , after loading L1 fully as per it's capacity and past delivery , order can be placed on L2, L3..... for the balance qty at L1, rate.

#### 2.10.6 **Participation in TPC/PNC**

The following points are to be examined before participation in TPC/PNC:

1. Whether the constitution of TPC is in order, depending upon financial powers delegated.
2. Whether Indent/Provisioning, DTE Vendor list has been vetted by IFA and sanctioned by appropriate CFA depending on value.
3. Opening of tenders has been done properly as per Rules. All amendments/corrections of Tenders have been initialed by opening officers with date and late tenders are not accepted
4. C.S.T. has been prepared properly taking into account amongst other things, taxes/duties, transportation, and packing and forwarding charges. Ranking statement has been prepared properly.
5. Validity of quotations is verified.
6. It is to be ensured that only L1 has been called for negotiations, if required. In cases, where a firm other than L1 has been called, adequate reasons are to be recorded by CFA and prior concurrence of IFA is to be obtained.
7. Scrutiny of Tenders is to be undertaken with regard to payment terms, delivery period, inspection clause, taxes and duties, LD clause, SD Clause, Arbitration, warranty, risk and expense clause, EMD etc
8. Basis of selection of sources – Whether established & registered firms have been issued TE with the concurrence of IFA and approval of CFA in cases of PAC and LTE.
9. Capacity of the lowest tenderer, its financial and commercial status, past performance and load factors are to be examined.
10. In case of proprietary items; PAC Certificate is to be approved by the CFA and it is to be ensured that prior concurrence of IFA has been obtained.

11. Whether there is adequate competition.
12. IFA should ensure that two-bid system is followed for Plant and machinery. In such cases, price bids of only technically acceptable offers are opened. Lowest technically acceptable firm is called for negotiations, where the rates are on the higher side, in consultation with IFA.
13. Reasonability of rates is to be examined with regard to
  - Vetted estimated cost/ L.P.R
  - Where last paid rates are not available, assessed cost by specialist Officers
  - Cost break-up of the firm.
14. No conditional discounts may be taken cognizance of.
15. It needs to be seen whether while issuing clarifications to a prospective bidder on tender documents, copies of clarifications were endorsed to all bidders who were issued tender.
16. In case of Plant and 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.
17. 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.
18. If re-tendering is recommended by the TPC, it may be recommended in the circumstances some of which are listed below recording reasons:
  - Where offers do not conform to essential specifications.
  - If L1 backs out
  - If there are major changes in specifications and/or quantity, which may have considerable impact on the price.
  - Where prices quoted are unreasonably high with reference to assessed price or there is evidence of a sudden slump in prices after opening of tenders.

- Where lack of competition is there due to restrictive specifications.
19. If L1 does not have a capacity to supply within the delivery period as per RFP, after loading the L1 fully as per its capacity and past delivery, recommendation to place order on L2, L3 and so on for the balance quantity at L1's rate could be made by TPC/PNC.
  20. It may be seen whether bids have been evaluated in terms of the conditions already incorporated in the bidding documents and no new condition which was not incorporated in the bidding documents has been brought in for evaluation of the bids.
  21. As per CVC guidelines, one agent cannot represent two suppliers or quote on their behalf in the same tender enquiry. Such quote has to be rejected.

2.10.7 In case of imported stores, either the Indian Agent on behalf of the foreign principal or the foreign principal directly may bid in a tender but not both. In cases where an agent participated in a tender on behalf of one manufacturer, it may be seen that he is not allowed to quote on behalf of another manufacturer along with the first manufacturer in a subsequent / parallel tender for the same item.

### **2.11 Price Reasonability**

Para 13.7 of DPM lays down how to determine the price reasonability in case of competitive tendering and Paras 13.16 and 13.17 of DPM prescribe the requirements for arriving at the reasonableness/analysis of price in cases of single/non-competitive tenders relating to indigenous and foreign procurement respectively. However, as per para 13.16.1 of DPM these guidelines are indicative guidelines only and should not hold up finalisation of CNC negotiations.

### **2.12 Single/two bid system**

Para 4.6.1 of DPM: For commercially off the shelf (COTS) items where qualitative requirements and technical specifications are clear, single commercial bid system may be followed (instead of two bid system). As per para 4.12 of DPM two bid system may be followed for plant and machinery

equipment, complex items like IT and communications system and in turnkey projects where qualitative reqts. and Tech specs. can't be firmed up ab initio, as they are not clearly known. Rule 152 of GFR-2005 also prescribes requirements of two bid system.

2.12.1 Para 4.6.2 of DPM: Standards and specifications quoted in bidding documents should promote competition. Reference to the brand names, catalogue Nos should be avoided.

2.12.2 Para 4.12.1 of DPM: RFP (TE) should lay down user requirements in a comprehensive and concrete manner and its formulation must not prejudice the technical choices by being narrow and tailor-made.

### **2.13 Single Tender Enquiry**

As per Rule 154 of GFR- 2005 STE may be resorted to in the following circumstances:

- i) It is in the knowledge of the user Deptt. that only a particular firm is the manufacturer of the required goods.
- ii) In case of emergency, when the required goods are necessarily to be purchased from a particular source. The reasons for such a decision are to be recorded and approval of CFA obtained.
- iii) For Standardisation of machinery or spare parts to be compatible to the existing sets of equipment (on the advice of a competent technical expert and approval by CFA), items are to be purchased from a selected firm.
- iv) The selected vendor is a reputed Firm is to be ensured.
- v) Special dispensation to NCCF/Kendriya Bandar for purchasing goods on Single Tender basis is no longer in force vide para 2.11 of DPM 2006. However Government Instructions exist for reserving certain items to KVIC, ACASH,CCIC and SSIs interms of rule 144 of GFR 2005. These instructions should be looked in to before clearing the case on Single Tender.

- vi) Where many of the OEMs are not permitted to respond to RFP as per Government Rules/Laws and it is to be ensured that RFP is issued only to the designated agency.

The prescribed PAC/STE certificate is to be signed by CFA.

2.13.1 STE- Para 4.2 of DPM and para 14 of Enclosure 1 to NI 1/S/06 :

Single tendering for non PAC items may be resorted to only on grounds of urgency or operational or technical requirements. The reasons for STE and selection of a particular firm must be recorded and approved by CFA prior to single tendering. Purchase on STE powers should be made after determining reasonableness of rates.

2.13.2 As per para 14 of Enclosure 1 to NI 1/S/06, greater care needs to be exercised in STE/PAC purchases. The sixth Report of the Standing Committee on Defence (Dec.2005) has suggested that STE and PAC purchases should be resorted to only as an exception.

**2.14 Resultant Single Vendor Situation:**

As per para 4.17 of DPM 2006, if at TEC stage only one vendor is found complying to all SQR parameters, then the RFP would be retracted with the approval of CFA and a fresh RFP issued by suitably reformulating the SQRs. Para 4.18 of DPM lays down the circumstances in which retendering may be considered by IFA and CFA.

**2.15 PAC Procurement**

PAC certificate bestows a monopoly status on the supplier and reduces buyer's leverage.

Serial No. 4 of Annexure 1 to NI and para 15 of Enclosure 1 to NI 1/S/06 prescribe conditions for according PAC status to the firms. PAC status can not be accorded by authorities lower in rank than Rear Admirals. As per para 15 *ibid* the powers to purchase items on PAC basis will be the same as provided to

CFAs in the respective Annexures. (However, see Sl. No. 4 of annexure A and B of NI where financial limits to approve PAC purchases have been restricted).

- 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 2.4, 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.

### **2.16 Limited Tender Enquiry:**

Rule 151 of GFR-2005 and para 4.3.1 of DPM 2006 prescribes LTE when estimated value of the goods to be procured is upto Rs. 25 lakhs. As per para 4.3.2 of DPM, LTE may be resorted to even beyond the purchase value of Rs. 25 lakhs if certain conditions are met, viz:

- The CFA certifies that the demand is urgent. The nature of urgency etc. is to be recorded
- CFA records in writing that it will not be in public interest to go in for OTE

- 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 -
- 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.
- 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.
- That the sources of supply are definitely known and possibility of fresh source(s) beyond those being tapped is remote.
- If it is proposed on the grounds of urgency, then seek answers as to why the demand could not be anticipated earlier.
- 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?
- 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.
- If it is proposed on the grounds of items having stringent MIL specs, then a detailed justification from Indenting officer should be looked into.
- If it is proposed on the grounds of Govt policies, then copies of relevant Govt orders may be obtained on file and analyzed.

#### 2.16.1 LTE - Registration of Suppliers

Rule 142 GFR: DGS&D will prepare and maintain “item-wise” lists of eligible and capable suppliers. Such suppliers will be known as “Registered suppliers” who shall be prima facie eligible for consideration for procurement of

goods through LTE, as per para 3.2 to 3.5 of DPM 2006. The number of supplier firms in limited Tender Enquiry is more than three as per Rule 151 (1) GFR 2005. A head of Department may also register suppliers of goods, which are specifically required by that Department or office.

2.16.2 As per para 13 of Enclosure 1 to NI 1/S/06 the prescribed CFAs, in various Annexures of NI 1/S/06 can resort to LTE/ OTE purchases with IFA consultation. However, see sl. No 2 of Annexure 2 where LTE requires higher CFA's approval in a few cases.

### **2.17 Open Tender Enquiry**

As per Rule 150 of GFR 2005, invitation to tenders by advertisement should be used for procurement of goods of the estimated value of Rs. 25 lakh and above.

2.17.1 As per Para 4.4 of DPM OTE is the preferred mode of procurement for common use items of generic or commercial specification. All items of common use which are normally available in open market (COTS items) with a wide range of resources should be procured against OTE.

2.17.2 Besides publication in ITJ and through DAVP, the OTE should be put on the MOD web site and the Service HQ web site, besides the web site of NIC for items of the value exceeding Rs. 5 lakhs. Selection of newspapers may be seen to ensure the same is done keeping in view the nature of item and likely sources of Regions in the country. Tender forms are also sent to registered suppliers for the particular range of items.

See that User has got User Administration Account from NIC to host open tender from the User end in terms of MOD ID 4 (2)/2004/D (Coord) dated 12-01-06.

2.17.3 Para 4.4.1 of DPM:

In OTE cases where an unregistered firm claims compliance of technical specifications meets the laid down technical parameters detailed in RFQ, before

opening the commercial bid of such a firm, the approval of sample and capacity verification by AHSP/designated insp. agency would be mandatory.

### **2.18 Vetting of draft tender enquiry and selection of Sources:**

A tender becomes a contract on acceptance hence it should be ensured that Tender Enquiry is complete in all respects and all relevant clauses have been incorporated in TE. While vetting the draft tender enquiry, it may be seen whether the following requirements have been met :

1. Standard forms have been used for tender enquiry and all amendments authorized to these forms from time to time have been carried out before issue.
2. Time and date for receipt and opening of tenders has been clearly indicated as per the guidelines.
3. Prescribed time has been allowed to the tenderers to submit their quotations, depending on the type of enquiry being issued.
4. Validity period has been indicated realistically keeping in view the nature of stores and the processing time required particularly in cases where consultation with the Indentor on the suitability of offers received would be necessary. (The period of validity of a single bid RFP should be normally 90 days and of a two-bid RFP 120 days from the date of submission of offer. In case of imported stores, validity may be up to 180 days.)
5. Amount to be furnished by unregistered firms as EMD(also called bid security) has been calculated and indicated correctly. It may be ensured that percentage of EMD amount is not indicated rather EMD amount may be fixed in absolute terms between 2% and 5% of the estimated value of the contract. The EMD should normally remain valid for a period of 45 days beyond the final bid validity period.
6. Description of stores including specifications / drawings is correctly indicated in the schedule. Quantity required is worked out correctly is to be ensured

7. 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/ drawing,
8. 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).
9. Inspecting authority is correctly indicated to be ensured.
10. Where purchase of large quantities of stores is involved or where shelf life of stores is limited, delivery may be specified in installments, depending on staggered requirements of indentor.
11. Clauses regarding Risk and Expense purchase as also termination of contract on failure to adhere to the terms & conditions of the contract have been included
12. Standard payment terms have been suitably indicated along with the paying authority.
13. In case of purchase of imported stores, the appropriate shipping clauses are incorporated. Other special conditions viz. payment terms for FOB/FAS contracts etc. should also be indicated in the enquiry. Purchase to be done through OEM/PAC only. In case of non-OEM sources, the firm should be registered with MOD/IHQ.
14. Requirement of Security deposit and various forms in which SD is to be submitted is indicated clearly. (The firms registered with DGS&D, NSIC under single point registration and SSI are exempted from furnishing Security Deposit. This is to be clearly indicated in TE.)
15. Requirement of furnishing performance guarantee to cover warranty period is 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.)
16. Sole arbitration clause is indicated in TE.

17. Option clause is incorporated in TE to increase or decrease the contracted quantity up to 50% at the same rates and on the same terms and conditions at any time during the currency of the contract. (Option quantity during extended DP should be limited to 50% of balance quantity after original delivery period.)
18. Standard repeat order clause for placing a repeat order to a maximum of 50% of the originally ordered quantity within 6 months from the date of supply against the original order included in TE.
19. Where commercially off the shelf (COTS) items are proposed for purchase, and QRs and technical specifications are clear, for single commercial bid system proposed to be followed. It also needs to be ensured that reference to the brand names and catalogue numbers is avoided to avoid healthy competition
20. Criteria for evaluation and acceptance of bids are prescribed in the TE.
21. Whether a clause seeking confirmation from the bidders for acceptance of part quantity has been included.
22. Clause regarding the Purchaser's right of rejection of any or all tenders without assigning any reason is included in the TE. This clause can be invoked in cases where it is discovered after opening of tenders that the requirement has ceased to exist or there is a major change in technical specifications.
23. Clause regarding successful installation and commissioning is included. A part of payment needs to be held back until installation and commissioning is completed successfully.
24. 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 is included.
25. Provision regarding Price Preference of 15% to the SSI units as compared to the large-scale industries as per the Govt policy is included. (optional clause).
26. Purchase Preference clause in respect of Central PSUs is included. In purchases amounting to Rs 5 crores and above where Central

PSUs have quoted a rate within 10% of the lowest rate, they are entitled to purchase preference at the rate offered by the lowest tenderer provided they have made a value addition of 20%.

27. Clause about hardware/software Upgradation is 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.)
28. An uptime clause is 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.
29. AMC clause is 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.
30. Book Examination clause is included particularly in the case of high value single vendor cases in which case option of examination of books of account will be there with the purchaser to assure himself of reasonability of price.
31. List of vendors is furnished. It will be verified to see whether all past suppliers and respondents are included for floating T.E. If not, reasons for the same are recorded.
32. Delivery period and schedule is clearly specified.
33. Letter of regret is asked from the vendors who do not wish to respond.
34. Warranty is clearly specified in the TE

2.18.1 The following are the standard terms and conditions, which need to be considered for inclusion in a Tender Enquiry.

- Description of stores and specifications

- Quantity
- Inspection Authority
- Inspection Officer
- Inspection Procedure
- Testing Facilities
- Sampling Procedure
- Right of acceptance/rejection
- Performance criteria, if any
- Place of Inspection
- Identification And Packing Instruction
- Mode of Dispatch
- Dispatch Instruction
- Terms of Delivery
- Delivery Schedule
- Earnest Money Deposit
- Consignee
- Risk of Loss or Damage to Government Property
- Risk and Expense Clause
- Security Deposit
- Performance Bank Guarantee
- Failure And Termination
- Liquidated Damages
- Option Clause
- Repeat order
- Price Preference to SSI
- Purchase Preference to CPSUs
- Software/hardware Upgradation Clause
- Uptime
- AMC Clause
- Assurance of spares
- Training
- Users List

- Paying Authority
- Paying Officer
- Head of Account
- Terms of Payment
- Transit Insurance
- Installation & commissioning
- Rectification of Defects
- Warranty / Guarantee
- Withholding and Lien In Respect of Sum Claimed
- Lien In Respect of Claims In other Contracts
- Arbitration
- Laws Governing the Contract.
- Jurisdiction of Courts
- Secrecy of Information
- Book Examination Clause
- Fall Clause (Applicable in case of Rate Contract Only)
- Validity of offer
  - Date and time of receipt of tenders
  - Date and time of opening of tenders etc.

## **2.19 Technical Evaluation Committee**

Para 4.12.6 of DPM:

TEC's recommendations must be approved by CFA before PNC can be held. As per para 5.5.1 of DPM also the recommendations of TNC should be put up to CFA for approval.

2.19.1 Para 4.12.7 of DPM:

Revised commercial bids may have to be obtained consequent on discussions in TEC/CNC.

Para 4.12.9 of DPM: Approval of CFA to be invariably taken before calling revised commercial bids, where original price bids have not been opened.

#### 2.19.2 Para 4.14 of DPM:

IFA need not be associated in TEC.

TEC Report is to be rendered in the prescribed format as per Appedix 'E' of DPM

#### **2.20 Scrutiny of CST**

At the time of scrutiny of CST, the following points should be observed / examined:

1. CST has been prepared in conformity with the rules of FR Part-I.
2. Rates & taxes, duties, packing & forwarding, freight charges and other terms and conditions are properly accounted for in CST and should be verified with original quotations.
3. Ranking of offers has been done properly.
4. Estimated cost or last purchase price is indicated in CST for enabling fair comparison.
5. Deviations from tender enquiry have been brought out in CST.
6. Clarifications required are to be sought in writing with no change in prices or substances of the bid offered or permitted. Post bid clarification at the initiative of the bidder is to be verified.
7. In case of computational errors between unit price and total price by the bidder then the unit price shall prevail. If the discrepancy between words and figures the amount of words shall prevail. If the correction of errors not accepted by the supplier, the bid will be rejected and bid security be forfeited
8. 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.
9. There is adequate competition.
10. No. of firms on whom TE was floated and number of firms who have responded has been recorded in CST
11. No late/delayed/ unsolicited tenders have been included in CST.

12. Firms have quoted standard payment terms and no advance payment request should be accepted except in case of fabrication contracts, turnkey contracts and AMCs to the extent prescribed in the Rule 159(1) of GFR
13. Mode of delivery, delivery period, LD, security deposit, warranty clauses as per TE are acceptable to the firm.
14. Offers are technically acceptable and there is no deviation from specifications.
15. Whether the firm is holding DGS&D rate contract or not should be indicated in the CST.
16. The CST has been signed by all members of the Committee.
17. If any standard clause is not acceptable to the firm the same is highlighted in CST.
18. Validity of the quotations has not expired.
19. Remarks regarding furnishing of EMD by the vendors where EMD has been asked for in the TE

### **2.21 Substantially Responsive Bid**

Para 4.7 (l) of DPM: Prior to detailed evaluation, the purchaser will 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 objection or reservation to critical provisions like bid security, warranty and guarantee, taxes and duties, force majeure, LD, quality assurance aspects, applicable law, non disclosure of source of supply in case of stockist/vendor etc. (para 9.20.1 of DPM) shall be deemed to be material deviations. The evaluation and comparison of substantially responsive bids shall be done on the prices of the goods offered inclusive of levies and duties ie, ST and ED, CDE, packing and forwarding, freight and insurance etc. as indicated in the price schedule of Bid documents, but exclusive of octroi and entry tax, which is to be paid extra as per actuals, wherever applicable ( Para 4.7 (m) of DPM). The financial implication should be considered as the all inclusive cost to the state on delivery to the designated consignee (para 5.9 of DPM)

## **2.22 Essential Parameters**

Para 4.12.1 of DPM prescribes that the TE should prescribe the user requirements in a comprehensive, structured and concrete manner which should be broad based and express the user requirements in terms of functional characteristics. The performance parameters should be verifiable and classified as “essential” parameters providing for minimum essential military requirements. **The waiver of essential parameters after the issue of TE can not be done. This can only be done before issue of RFPs (Para 4.12.3 of DPM)**

## **2.23 Final Expenditure Sanction**

The following points may be seen while giving concurrence at the time of final expenditure sanction :

1. Whether the evaluation and comparison of responsive bids has been done based on the prices of the goods offered inclusive of levies and taxes i.e. ST, ED, Packing and forwarding, freight and insurance but exclusive of octroi/entry tax which will be paid extra as per actuals, wherever applicable.
2. Whether tender notice was sent by post to the past successful suppliers and likely suppliers registered with the department even in case of open tendering and postal receipts have been recorded in the file.
3. Whether in case of PAC purchase, validity of Proprietary Article Certificate which is one year from the date of issue has not expired.
4. Whether in OTE cases the commercial bid of an unregistered firm meeting the laid down technical parameters detailed in RFP has been opened only on approval of the sample and capacity verification by the AHSP / designated inspection agency..
5. In case some queries are found to have been raised by a bidder, it may be seen whether copies of the query as well as clarifications issued have been sent to all prospective bidders who have received the bidding documents.

6. Whether no late bids have been accepted which are to be returned unopened to the bidder.
7. Whether no bids, which are, deviating from the critical conditions such as EMD (Bid security), warranty and guarantee, applicable law, taxes and duties have been accepted.
8. Whether price negotiation has invariably been conducted in single tender situations including PAC cases.
9. Whether in cases involving placement of repeat orders, powers of the CFA have been reckoned keeping in view original quantity plus repeat quantity. The conditions given in Para 5.11 of DPM 2006 need to be fulfilled for repeat orders.
10. An offer higher than the Sanctioned price (based on LPP or asserted price) can be concurred provided that the increased amount within CFA's delegated powers duly recording reasons. In case the increased amount exceeds the financial powers of the CFA, approval of next higher CFA under delegated powers may be sought.
11. Whether TEC report has been approved by the CFA.
12. Wherever revised commercial bids are obtained due to clarifications on technical specifications after opening of technical bids, original price bids have not been opened and approval of CFA for RCB has been taken.
13. Whether if at TEC stage only one vendor is found complying with all the QRs, the commercial bid of the technically compliant vendor has not been opened and the RFP retracted with the approval of CFA and a fresh RFP issued by suitably reformulating the QRs.
14. In cases where L1 tenderer has withdrawn his offer, retendering is to be resorted to. Only in exceptional cases with the reasons to be recorded in writing can negotiation be carried out with L2 in such cases. CVC circular No 4/3/07 dated 03-03-2007 is relevant in this regard.
15. Fund availability position to be indicated clearly and no concurrence may be given, if funds are not available

16. 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 regularization as per the provisions of Rule 178 (b) F.R. Pt.I read in conjunction with HQ office clarification No O/185/9/AT-5 Vol 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.
17. Raising of piecemeal queries have to be avoided by IFAs (letter AT/IX/IFA/133381/Army Vol IX dated 25-04-2005)

#### **2.24 Purchase of Goods on Recommendations of Purchase Committee:**

Rule 146 of GFR and Para 2.8.2 of DPM 2006 prescribes procurement of goods from Rs. 15000 to 1 lakh on the recommendation of a duly constituted Local Purchase Committee. No tendering is reqd. in such cases.

#### **2.25 Amendments, short closure and cancellation of contracts**

All amendments, short closure and cancellation of the contracts need to be undertaken with the prior concurrence of IFA. As such, while concurring the proposal for an amendment/short closure and cancellation, the following checks could be carried out by the IFA:-

1. Whether either side has requested for such a change or the same is acceptable to either side. All amendments, short closure and cancellation of the contracts are to be processed by examining each proposal on merit.

2. Whether in cases where contract rates are already sanctioned, the same are not proposed for increase by the same CFA but by the authority next higher to the one which sanctioned the contract.
3. Whether cases of enhancement of contract rates during pendency of contract due to increase of custom duty, excise duty, statutory duties and taxes, freight, insurance are examined with reference to Government notification/documentary evidence and dates of their coming into effect. Enhancement in such cases can be granted by the same authority.
4. Whether in case of re-fixation of D P with or without LD, increase on these grounds is proposed to be approved by the same authority which sanctioned the original contract. It may also be ensured that during extended period of DP, such increases are not to be allowed.
5. Where provision exists in the contract for enhancement of contract rates under specified circumstances, it may be seen whether enhancement of contract rates is proposed for approval by the authority who has sanctioned the original contract.(In such cases enhancement of contract rates can be allowed by the same CFA who sanctioned the original contract.)
6. Whether modifications in the conditions of an existing contract which do not involve an enhancement of the contract rates are proposed to be sanctioned by the CFA of the existing contract provided no extra expense to the State is involved and both parties to the contract agree in writing. Both parties to the contract must sign all amendments. (In such cases modifications can be allowed by the CFA of the existing contract.)
7. Whether proposal for acceptance of short supply is for a quantity exceeding 5%.(Short supply up to a limit of 5% quantity on order without reference to the indenter (CFA) may be accepted which should not be held to be a modification of contract.)

## **2.26 Procurement Time Frame**

### **2.26.1 Para 5.20 of DPM:**

Time frame for procurement process is prescribed at Appendix 'A' and 'A1' of DPM 2006 for single bid and two bid system respectively. In case, time frames cannot be adhered to, extension to validity of bids should be invariably be asked for.

2.26.2 As per CVC Circular No. 4/3/07 Dated 3<sup>rd</sup> March 2007 the Commission has observed that competent authorities take unduly long time in accepting the tender, negotiating or retendering. CVC has directed that the model time frame for according approvals to the completion of entire process of award of tenders should not exceed one month from the date of submission of recommendations. In case the file has to be approved at the next higher level, a maximum of 15 days time may be added for clearance at each level. The overall time frame should be within the validity period of the tender/contract.

## **2.27 Role of IFA – Capital expenditure**

2.27.1 NI 1/S/06 issued by Government on 19<sup>th</sup> July 2006 has for the first time delegated the powers to incur capital expenditure to VCNS upto Rs. 10 crores in consultation with IFA (N). The delegated powers are to be exercised as per procedure laid down in DPP –2006. Unlike in the case of revenue procurement where IFA is associated from AIP/ AON stage, in cases of capital procurements the processes upto the AON stage and upto inclusion of the proposed procurement in the AAP is to be completed by the NHQ with the approval of MOD/MOD (Finance). IFA (Navy's) role starts at RFP vetting stage. In this connection MOD (Finance) ID No. Misc/Addl.FA (M)/06 dated 26/7/2006 and VCNS Memo No. P.22/2006 dated 20 september 2006 may please be referred to.

2.27.2 The principles of categorization of expenditure into capital/revenue are laid down in para 2.3 and 2.4 of DPM 2006 and Rules 79 and rules 90-94 of GFR 2005. As per MOD's internal instruction UO No 256/Dir (fin) Budget/07 dated 09-02-07 an item to be classified as capital must satisfy the following

twin conditions within the overall stipulations of the definition of capital expenditure as given in the GFR:

- i) The item to be purchased should have a life of 7 years or more
- ii) the cost of the item should be Rs. 10 lakh or more

### 2.27.3 **Budgeting in IFA**

**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 violaion of the economy instructions.

2.27.4 **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 II will be booked to Capital heads as shown in the Annexure appended below 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.

## Annexure II

### NAVY

Nomeclature of items and the Minor Head underwhich presently expenditure is being booked	Minor Head of Capital Outlay under which to be booked
Repair and Refit of Ships meant for enhancing the capability (MH 106 (a))	204 (d)
Repair and Refit of Submarines meant for enhancing the capability (MH 106 (a))	204(d)
Repair and Refit of aircraft meant for enhancing the capability (MH 106 (c))	101
Procurement of Naval Stores- Boats and Yardcrafts (MH 110 (a))	204 ©
Replacement of WT Eqpt, Comm and EW, Radar and associated Eqpt, Electrical Eqpt, Hydrographic Eqpt, Diving Eqpt, Met Eqpt, Aviation/ Armament Eqpt and other machinery & Equipment resulting in Upgradation or enhancement of capabilities. (MH 110)	103
Replacement of Mechanical Transport Vehicles such as : (MH 110 ) i) Heavy and Medium vehicles ii) Specialist and Aviation Vehicles iii) Dockyard vehicles	102

2.27.5 **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.

2.27.6 While normally CFAs have the option of overruling the advice of the IFAs in such cases, a purchase proposal need not be held back because of some doubt arising at the financial concurrence stage regarding an existing/ established procedure/practice or interpretation. On the analogy of Para 68 of Audit Code, it would be more appropriate that, unless the existing procedure/practice is in gross violation of any Rule/Government Order, the same may not be discontinued abruptly. Simultaneously, the case be taken up separately with the Pr.IFA who, in turn, would examine the matter where necessary in consultation with the Services and MOD (Fin) for further appropriate action. (PIFA I.O NO. 20 OF 07-12-07)

2.27.7 MoD (Fin) have pointed out that direct communication by Individual IFAs is not desirable and IFAs are required to process the proposals referred to them in terms of existing Government Orders and if any proposal cannot be processed by them in terms of these orders, they should advise the Service HQrs/CFAs accordingly. Issues requiring clarifications are referred to Pr.IFA Wing to ensure commonality of procedure to be followed for cases under delegated powers of service HQrs and other Defence organisations covered under the IFA scheme. (PIFA I.O NO. 21 OF 07-12-07)

## **2.28 Summary of some Important DPM Provisions:**

**Para 1.12 Self certification by reputed manufacturers may be considered where desirable.**

**Para 1.14 In case of doubt about the applicability of provisions of DPM vis a vis statutory provisions the latter shall prevail.**

However, instructions and orders of any wing of MOD if at variance with DPM 2006, the provision of DPM would prevail.

- Para 2.3** Prescribes the definition of capital procurement.
- Para 2.4** Gives the definition of revenue procurement.
- Para 2.5** States that the policy of the Government is to encourage indigenisation particularly in the field of Defence to achieve self reliance. Hence, indigenous firms should be given support to produce and supply quality goods conforming to specification. Proper laid down criteria for all taxes, duties and other expenses involved in procurement of items need to be applied to provide level playing field to the indigenous manufacturers.
- Para 2.8.2** The provision of DPM will not be applicable in the case of emergent requirements involving operational and technical necessities for powers to be exercised by CFAs without IFAs concurrence. ( for example, see Serial No. 8 of annexure 1 of NI 1/S/06)
- Para 2.9** Cash and carry procurement is resorted to in case of extreme emergency or when the supplier is not willing to supply the required item on credit. Cash payment should, however, be encouraged as not only many suppliers insist on cash payment but generally cash purchases are cheaper than on credit.
- Para 2.10** In case of critical stores which are urgently required when the supplier is not willing to accept normal payment terms spot payment could be made. Spot payment limits have to be clearly laid down.
- Para 2.14** Every individual in the chain of procurement process is accountable for taking action in a specified time period so that the requirement of defence departments are met on time. Vetting of necessity and single tender inquiry/LTE where required must be done by IFA within 4 weeks.

- Para 3.1** The selection and registration of firms, their performance, appraisal and classification must be clearly spelt out and properly disseminated.
- Para 3.21** The credential of the firms, their manufacturing and quality control facilities, the business ethics and their market standing should be thoroughly scrutinized before registering them as a approved source of supply. On receipt of the application from the firm the DGQA/AHSP undertake the capacity verification of the firm.
- Para 3.2.2** 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/department are to be kept in mind and complied with. (see 9.3.1 for foreign purchases)
- Para 3.3** Performance of vendor must be reviewed by the procurement agency periodically preferably once a year. The performance criteria would be quality, delivery, price, response and product support.
- Para 3.6 (h) Common Use Items-** There are a large number of items which are of common use and are freely available in open market. However, as the quality of products of various manufacturers vary widely, the items should be procured from reputed manufacturers capable of meeting quality standards of the items.
- Para 4.5** Lays down EMD requirements
- Para 4.7** (a) to (p) Lays down instructions to bidders. Contains important instructions. Also lays down requirement of substantially responsive bid and essential and desirable parameters.
- Para 4.12** Lays down Two Bid System Requirements. The two bid system of tendering should be followed for plant and machinery equipment, complex items like IT and communications system and for turn-key projects where qualitative

requirements and technical specifications cannot be firmed up ab initio.

**Para 4.12.1 RFP (TE) should lay down user requirements in a comprehensive; and concrete manner and its formulation must not prejudice the technical choices by being narrow and tailor-made.**

**Para 5.5 TNC is not authorised to discuss commercial aspects. IFA need not be associated with TEC.**

**Para 5.11 Lays down Conditions for Repeat Order. (indigenous purchase)**

**Para 5.14 CFA and IFA must ensure that there is proper documentation at each stage viz AON; TEC and PNC (CNC), including accepting deviations from standard terms. (indigenous purchase)**

**Para 5.15 IFA is supposed to vet the quantity indented and for ensuring that there is no infructuous provisioning, the IFA must have access to all inputs required to assess the basis of projection of indented quantity.**

**Para 5.16 IFA should be consulted in case of STE and LTE. In case the list of approved contractors has been forwarded by AHSP then IFA need not be consulted at this stage. Vetting of TE will be required where there are deviations from standard terms.**

**Para 5.17 IFA plays an important role in advising the CFA either as a member of committee CFA or designated CFA, regarding the propriety of procedures and practices followed, ranking of bids, determination of L-1, fixation of reasonable price (bench making) as well as in conduct of effective negotiations, where considered necessary to ensure both financial probity and value for money.**

**Para 5.1.8 In the post Contract Management, the amendments and post contractual activities as per the terms and conditions of contract may be approved by CFA without IFA concurrence. However, in case of deviations and financial implications, concurrence of IFA will be needed.**

- Para 7.3 Special Conditions of Contract :** These are supplementary conditions applicable to specific tender and contract. Such conditions become essential for supply of services and equipment etc. Therefore there may be a need to stipulate conditions like stage inspection; acceptance trials, installation and commissioning and pre-defined stages of payment in services etc. Such conditions should be mentioned in the TE as well as in the contract.
- Para 7.13 Option Clause :** Maximum of 50% of originally contracted quantity can be ordered under this clause. Correct CFA would have to be determined based on additional quantity ordered.
- Para 7.14.1 Risk purchase at the cost and expense of supplier may not be always a practical proposition as it may not be feasible to enforce recovery without legal action. For this reason, this clause is rarely invoked in cases of import. Where item is of propriety nature and there is a remote possibility of procuring the same item from alternative source, it will be essential that instead of having a risk and cost clause in such a contract, the contract should have performance guarantee clause to cover any such default.**
- Para 9.5 In all cases of foreign procurement wherein indentor has not furnished a PAC, the LTE shall be preferred mode of tendering.**
- Para 9.6 Global tendering is to be resorted for items of foreign origin where competition from more than one source from different countries is envisaged.** Global tender docs. Should be sent to respective embassies etc.
- Para 9.8 Single Tender without PAC: STE will be adopted where different makes of any equipment are in use but it is preferred to procure only one specific make for the sake of standardization or for undertaking trials. STE is also resorted to when there is only one known/established source; but the PAC status has not been approved by CFA Specific concurrence**

of IFA and sanction of CFA under the delegated powers are to be undertaken in all STE cases.

**Para 9.18.1 Finance Rep is not required in Tender Opening Committee.**

**Para 9.19 Delayed Tender : Any quotation received after the deadline for submission of the tenders will be rejected and returned unopened to bidder. Exception could be made in case of STE/PAC or OEM items.**

**Para 9.22 CST : On receipt of all accepted tenders, the purchase cell is to collate them in the form of CST. CST is to be exhaustive and is to include all details given in quotations. Deviations from tender docs. is to be brought out in CST. LPP where applicable should be indicated for a fair comparison. CST will be vetted by IFA with regard to original quotations, indents and other supporting documents. The purchase officer is to sign CST. (Also see para 13.5)**

**Para 9.25.1 In case of foreign firms which do not have their regional offices in India, it may not be possible to come for CNC meetings except for high value items. In such cases TPCs/CFA may obtain best revised offer from lowest bidder through fax before finalising price.**

**Para 9.25.2 A counter offer may be made to L-1 firm only by CNC. In appropriate cases CNC may refer a case to next higher authority for conducting negotiations. The minutes of TPC/CNC meetings will be signed by all members.**

**Para 9.28 Deals with Determination of L-1 on entire package.**

**Para 9.40 Payment Terms : Normal payment terms to foreign vendors are 100% payment through irrevocable letters of credit or Direct Bank transfers. For Contracts below \$50000 DBT payment terms should be insisted upon at the time of concluding the contract. Confirmed LCs should not be opened.**

**Para 9.42 Delivery Schedule: The prescribed delivery schedule should be firm and not open ended. The delivery schedule should be**

counted from the date of signing of contract. For L/C payments normal delivery schedule should be six months from signing of contract and for DBT payments it should be 3 months.

**REPAIR CONTRACTS (FOREIGN PROCUREMENT)**

**Para 11.2 Preparation of Indents:** The repair indents should clearly specify type of equipment. Qty, type of repair, history of previous repair, name of manufacturer, total technical life and assessed cost of repair. The amount can be assessed or obtained through a non-obligatory budgetary quota from the manufacturer.

**Para 11.3 Selection of Vendor:** The repair should be carried out by original equipment manufacturer only. In case manufacturer does not have an export license, quote should be invited from the other registered firms who have an agreement with OEM or approved by OEM. The foreign supplier has to be made accountable for the performance of his equipment. Therefore, there should be suitable le PBG and Warranty Guarantee provision in the contract.

**Para 13.2.1** In many cases CVC has observed that estimated rates are worked out in an unprofessional and perfunctory manner. CVC observed that estimated rates are vital elements in establishing price reasonableness and therefore should be worked out in a realistic and objective manner on the basis of prevailing market rates, LPP, economic indices for said material/labour. other input costs and assessment based on intrinsic value etc.

**Para 13.4 Preliminary Examination of Quotes :** The purchase cell/officer should examine the quotation to determine whether they are complete in all respects and check for any computational errors.

**Para 13.5 CST :** On receipt of all accepted tenders the purchase cell is to collate them in the form of CST. Which is to be exhaustive

and is to include all details given in quotation. Deviation from tender docs is to be brought out in CST. LPP, wherever available, should be indicated for a fair comparison of the offered prices. CST will be vetted by IFA/IFA's rep : The IFA rep and purchase officer will sign the CST.

**Para 13.6** Before scheduled negotiation (wherever negotiations are held) it would be advisable to work out estimated reasonable rate. In case of single tender cases a technical team should make an assessment of estimated cost based on available info.

**Para 13.8** See the points to be considered while comparing the quoted rates with the LPP. Restarting production lines due to obsolescence may have to be considered.

**Para 13.9** Lack of Competition exists in the following situations:-

- (a) When number of acceptable offers is less than three.
- (b) Ring (same) prices quoted (cartel formation).
- (c) The product of only one manufacturer offered by all tenderers irrespective of number of quotations.
- (d) Store under purchase is chronically under short supply against which number of acceptable offers never exceeds two

#### 2.28.1 Reasonableness of Rates – Single Tender

**Para 13.9.1** In the case of single tender analysis of costs and price structure may be done as per Para 9 of Annexure to Rule 102 (1) of erstwhile GFR 1963 which stated that “where the lines of manufacture are the monopoly of a single firm or a group of firms, or where a significant increase over the purchase price, not explained by a corresponding increase in price of raw material is asked for the reasonableness of cost is determined with reference to actual cost of production plus a reasonable margin of profit”

**Para 13.14** Exchange Rate Variation : In case of delivery period exceeding one year from the date of contract involving imports, ERV clause is to be provided. Base exchange rate of

**each major currency used for calculating FE content of the contract is to be indicated in contract.**

**Para 13.16 deals with reasonableness of rates – Single Tender (indigenous procurement)**

**Para 13.17 Deals with reasonableness of rates- single tender/ non-competitive contracts- foreign procurement.**

**Even though the detailed Checklists for examination of various procurement proposals is appended an Annexure to this Manual, important checkpoints for various activities where IFA offices are associated are enumerated below for ready reference:**

## **2.29 CONCLUSION**

**The essential role of ensuring efficiency, economy, determination of necessity and compliance with rules and procedures etc. which the IFA seeks to discharge in fact needs to be undertaken by all dealing / sanctioning officers/CFAs. The canons of financial propriety also expect all concerned officers to adequately attend to these aspects. When IFA finds that these aspects have not been fully addressed, or when IFA's perspective is different from others, he makes relevant observations in the files.**

2.29.1 The NI 1/S/2006, DPM and the GFRs repeatedly emphasise value for money, highlighting economy, efficiency and effectiveness to achieve it.

2.29.2 The emphasis on value for money leads to more detailed planning and establishment of priorities.

2.29.3 The NI further prescribes that clear linkages should be established between resources utilised and outputs achieved. NI 1/S/06 has incorporated a specific Enclosure 3 showing Key Areas of Monitoring. Clear accountability norms by delineating measurable performance parameters for each major area of expenditure have been envisaged. It also prescribes that CFA at each level should have his plan for the budget allocation held by him.

2.29.4 All dealing officers/ Directorates / CFA's/ IFA can greatly contribute towards expeditious decision making and achievement of objectives of Indian Navy if the norms prescribed by the Government in NI 1/S/2006 the DPM and the GFRs etc. can be ensured to be kept in view while proposals for procurement of stores/services are put up by/ to them.

## Chapter 3

### KNOWLEDGE MANAGEMENT FOR IFAS – WHAT THEY OUGHT TO KNOW

#### 3.1 Grasp Basic Statutory Provisions / Rules / Government instructions

**a. Legal Framework for Government 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 Government procurement or tender process
-----	98/ORD/1	05.05.2003	● Purchase of Computers by Government 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 Government 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 buisness 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 sanctioned 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 PL/3221/NHQ/486-S/2006/D(N-IV) dated 19<sup>th</sup> July 2006:-**  
This letter alongwith its Annexure 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 6(a) for capital: The delegation of financial powers for capital procurement is to be exercised as per the procedure laid down in DPP-2005. The competent authority to accord various stage approvals as per DPP procedure and the composition of CNCs will be laid down

separately by Naval HQ with the approval of MOD.

- ii.** Para 6(b)- Nava HQ will render a quarterly report to MOD (Acquisition Wing) on the progress of various Capital scheme under delegated powers, indicating the actual cash outgo against the budgetary projections.
- iii.** Para 7- For Revenue: Annexure 1-8 (Navy/IDS) enclosed with the Government letter stipulate the financial powers and other instructions/restrictions/restrictions that have to be followed by the CFAs with reference to the particular purpose for which the powers stand delegated therein under the Revenue Head. The broad areas and purposes covered in the respective Annexures are listed in Enclosure-2 to this letter.
- iv.** Para 9- The IFAs are primarily accountable to the HLBHs for advice given or action taken on their behalf on expenditure proposals or budget management that is needed by the former to meet his objectives. In addition, they are accountable to the MOD (Finance) and to the CGDA for the integrity of the financial system in respect of areas of their responsibility.
- v.** Para 11 (a)- The officer possessing financial powers is personally and unreservedly responsible for any orders purporting to be issued in accordance with the degree of relaxation permitted by this paragraph whether the communication conveying the orders is signed by himself or by an officer subordinate to him.
- vi.** Para 12- The monetary limit, which has been set in each case, extends to each separate sanction. The criterion in every case is the total cost of the proposal and no proposal that requires the sanction of higher authority shall be sanctioned by a lower authority in installments.
- vii.** Para 15- PAC Procurements: PAC status will be assigned as per procedure laid down in the DPM 05 in consultation with the IFA. The powers to purchase items on PAC basis will be the same as provided to CFAs in the respective Schedules. The PAC Certificate is however not to be given at a level below that of PSO/APSO/DG at Service HQ/HQ IDS and not normally below the level of Commanders-in-Chief/Comdts of

Est/Formations or units of the rank of Maj Gen or equivalent. CFAs in the Commands unless specifically provided for will keep the following in mind:

- a. Brought out items analysis
- b. Availability
- c. Standardization
- d. Price Analysis

**viii.** Para 16- Items Delopped by Defence PSUs: When Defence PSUs/OFB have specifically developed an item for the Department of Defence or have taken TOT, such sources could be treated at par with the PAC firms.

**ix.** Para 17- Rate Contracts: RATE contracts may be concluded by CFAs to whom powers have been delegated in this regard for items required by several users on recurring basis within the Service/Jt. Staff Organization or for the three Services/including HQ IDS/JS Orgs as per provisions to Chapter VIII of DPM.

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

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

**xi.** CVC Guidelines – CVC guidelines issued from time to time on purchase/procurements/other financial dealings by Central Government Departments will be strictly complied with while processing cases in exercise of the delegated financial powers.

**n. 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 Government 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 correlation 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 Government 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 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.

### **3.5 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.

### **3.6 Objectives of MR -**

There can be three basic areas of investigations -

#### **3.6.1 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.

#### **3.6.2 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.

#### **3.6.3 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

### **PROVISIONING OF STORES, INTEGRATED LOGISTICS MANAGEMENT SYSTEM AND THE ROLE OF IFAs/FAs**

**4.1** An indent is a requisition placed by the provisioning authority on the procurement agency to procure an item. Provisioning entails working out of stores requirement and projecting it for procurement action. The detailed procedure for provisioning and indenting of items in the ILMS and non-ILMS inventory in the Navy has been prescribed in Annexure 5 to NI 1/S/06 which should be carefully adhered to by the executives and IFAs/FAs. Items in the ILMS inventory are general Naval stores and equipments and spares for which provisioning and procurement processes are mainly done through ILMS system at the material organizations of Navy and at NHQ. The provisioning for other stores viz Weapon stores, Air stores and armament stores are carried out by respective Directorates at NHQ and by respective Yards/Depots in the field.

#### **4.1.1 ILMS System in Navy – An Introduction**

There are three major Material Organisations (MOs), one located at each of the Navy Commands i.e Mumbai (MO (MB), Visakhapatnam (MO) (V) and Kochi (MO (K)). In addition, Naval Store Depot (NSDs) at Port Blair, Karwar, Mankhurd and Sewri (Mumbai) provide Material Logistics support in a limited manner.

4.1.2 The three material organizations primarily cater for meeting the requirements of their respective Naval Commands. Each of the MOs are headed by an officer designated as the Material Superintendent. Within each MO, the Controller of Material Planning (CMP) looks after all the provisioning and planning activities, whereas the Controller of Procurement (CPRO) carries out all procurement activities.

4.1.3 At the Integrated Headquarters (IHQ) of the Navy in Delhi, primarily those Navy wide procurement issues are dealt with which are beyond the

financial powers of the three Commands as well as foreign procurement from erstwhile East Block countries. Directorate of Logistics support (DLS) and Directorate of Procurement (DPRO) carry out these centralized material planning and procurement function respectively. Both these directorates are functionally under the Assistant Controller of Logistics (ACOL) and COL.

4.1.4 At present the inventory control function pertaining to Logistics are carried out with the help of Integrated Logistics Management System (ILMS) software which provides an integrated application for managing multifarious functions of MOs in the three Command formations and Logistics Directorates at IHQ.

4.1.5 The Indian Navy's inventory includes general purpose stores (Naval Stores), specific Equipment /Sub assemblies and spares. The Ships/Submarines/Shore Establishments demand items from MOs/Depots. The Navy maintains sufficient stock of these items at the MOs/Depots for issues to its units. The stocks of these items are periodically reviewed and procurement action is initiated to replenish stocks. The procurement is done from Indian and foreign vendors registered with the Organizations.

## **4.2 Inventory Management in Indian Navy**

Inventory Management and Logistics Planning commences with Reviews of Naval Inventory (wherein each item is identified by a unique item code) based on Indentable Demands from ships & establishments, forecasts from Dockyards and various other requirements raised by other directorates in the NHQ. This forms the basis for detailed planning and raising of indents for procurement. All items are part of the ILMS database.

4.2.1 The Review process of the entire Naval Inventory is to be on an annual basis as per a centrally approved and promulgated Annual Review Plan (ARP). All resources like stock available (both Free and Committed), expected supplies based on earlier orders (Dues-in), pending demands from customers (Dues-out), Annual Consumption Level, Forecast List, Shelf Life, Life Expectancy of an

equipment, Life Time Spares and the technological updates made by the OEM are taken into consideration while arriving at procurement quantity (PQ) of a given item, during a Review process. All the above factors known as review Planning factors are taken into account in a System driven Review Programme on the ILMS. All the cases where procurement Quantities (PQs) are greater than zero (positive PQ), are converted into procurement requisition, called Indents in Naval parlance, by the provisioning authority.

4.2.2 Powers for indenting and procurement of all Stores are vested in various authorities, both individual as well as committees. These committees operate at 04 levels and are named as NLC-I, II, III and IV. NLCs are empowered to conduct price negotiations and can conclude Rate Contracts. Powers of various procurement/provisioning of sanction are given in Navy Instruction 1/S/06.

4.2.3 Reviews for all items are carried out on the ILMS as per a predetermined schedule.

### **4.3 Raising of Indents.**

After the review is fired, (system process) the requirements are finalized and the Provisioning Officer in the ILMS raises a request for procurement called "Indent". The indents could be for Indigenous as well as for imported items. The indents clearly specify the item (with item code as well as the description) its equipment details, procurement quantities and the Original Equipment Manufacturer (OEM) details. Indents may be for one or more items. One indent may, however, contain all items of a particular type of material only. Each Indent clearly indicates the Procurement mode i.e Open Tender Enquiry (OTE), Limited Tender Enquiry (LTE), Single Tender Enquiry (STE) or on the basis of Proprietary Article Certificate (PAC) etc. In addition, the indent gives other details like authority for raising an indent, item code, description, quantity, suggested mode of procurement, total order value and a unique indent number. The proposed indent along with mode of procurement is to be examined & concurred by the IFA/FAs as provided in the checklist –Annexure-iv.

**4.4 Procurement Procedure.** The following procedure is followed:-

Manual printouts of indents are generated from ILMS and a physical file opened. TE is floated in single bid or two-bid system. The ILMS database is used as a tool to shortlist likely vendors. TEs are drawn on the system by the concerned officer using a pre determined format and ILMS system enables the process by retrieving necessary data (Static) from the database, based on the selection/entry of codes entered interactively by the procurement officer. TE is thereafter reviewed, concurred and approved by CPRO, Financial Advisor (FA) and MS respectively. This sequence may however vary depending upon the total value of indent. TEs are dispatched by mail (Regd/Speed Post). In case of urgency, the same are also sent by email/fax. Vendors selected by the procurement Officer are concurred/approved by CPRO/MS (or other equivalent officers at HQ).

4.4.1 Quotes are received in physical form and opened on the due date by a specially convened cell. The same cell enters them into the database. Quotes, CST and other physical documents and correspondence are placed in the procurement file. Proposal to procure i.e. financial implications and all decisions regarding selection of vendor and other terms and conditions are approved/ decided on the file only. The selected quotes (L1) are approved by CFA on the system after purchase decision has been made.

4.4.2 All Purchase Orders or Contracts placed by concerned procurement officer are approved by CPRO and on system and vetted by the Financial Advisor to MS (FA), on paper.

**4.5 Functional specifications of Integrated Logistics Management System (ILMS)**

4.5.1 The Navy has developed the ILMS software in-house. The software which was implemented in 1998 is maintained by a set of Naval personnel who are specially trained to manage the software and the associated IT infrastructure. The business rules of this software are based on the functional specifications laid down in four manuals as follows:-

Material Management Manual  
Material Planning Manual  
Procurement Manual  
Material Handling and Warehousing Manual

4.5.2 In addition to the above, broad guidelines and specific financial powers for procurement functions are laid down in Defence Procurement Manual 2006 (DPM 2006) and Navy Instructions 1/S/2006.

#### 4.5.3 **System Design.**

The ILMS was designed using Silverrun CASE tool. Using triggers, views and stored procedures in the backend, as well as through the frontend has enforced all business rules and integrity constraints. The Relational Data Model (RDM) chart and physical database design documentation is available at each ILMS Center.

#### 4.5.4 **Software version control.**

All application software source code of backend (Sybase) and frontend (Power Builder) along with revisions is available.

#### **Software used.**

Operating System : AIX 4.3.3  
RDBMS : Sybase ASE 12.5.0.3  
Programming tools : Power Builder 7 for client appln T Sql for server application.

#### 4.5.5 **Geographic spread.**

The ILMS application is run from the following locations:-

Mumbai  
Visakhapatnam  
Kochi  
Delhi  
Port Blair  
Karwar

#### 4.5.6 **Architecture/Network.**

The system is designed using Client server architecture. Each of the cities mentioned above has its independent server (IBM RISC), Fibre optic LAN exists in each station wherein the local workstations use Window (98/NT/XP). A Wide Area Network (WAN) is in place where each of the servers are connected to each other through 2 mbps leased lines. VSAT connectivity between the stations is also available as a backup measure. Port Blair is connected to mainland through VSAT.

#### 4.5.7 **System Administration.**

Each station has its own independent system administrator (SA,ILMS) who comes functionally under the Chief System Administrator (CSA) located at New Delhi)

#### 4.5.8 **System security.**

Detailed security policy is laid down for ILMS. Access to the system is provided to users though authorized login and password. Restricted and compartmentalized access has been provided based on the basis of the role and the department of the user. The internet is strictly not used anywhere in the LAN/ WAN due to security considerations. As a mater of policy, Internet connection is available only on stand alone PCs. All transaction on the system can be traced to the user who initiated it, alongwith date time stamps.

### **4.6 The major modules in ILMS are as follows:-**

**Planning module.** Salient features of this module are as follows:-

Registration / validation of demands (from ships and establishments) for stores, equipment and spare parts.

4.6.1 Issue of demands to customers where stock is available in warehouses and generation of necessary authorization for the concerned storehouse for physical issue and transportation of the item.

4.6.2 Periodic review of available stock of items based on annual consumption pattern, forecast demands and outstanding demands.

4.6.3 Raising of indents on the procurement agency for undertaking procurement for stock replenishment and meeting existing forecast requirements.

4.6.4 **Procurement module.**

Salient features of this module are as follows:-

Generation of Tender Enquiries for indents raised through the Planning module.

Feeding of Quotes received from Vendors.

Generation of Comparative Statement of tenders.

Approval of selected quotes.

System assisted preparation of procurement orders, approval and printing the same.

A wide range of MIS reports and automated generation of letters/printouts.

On line Decision support system for procurement function.

4.6.5 **Warehousing module.**

Salient features of this module are as follows:-

Warehousing, inventory holding and stock keeping of the items procured and stocked at MOS/NSDs for issue to the ships and establishments.

Receipt/ accounting/charging/ preservation of items.

Capture of data at the time of entry of an item into the MO.

Periodic stock taking of inventory holdings.

#### 4.6.6 **Technical module.**

Salient features of this module are as follows:-

Generation of Tender Enquiries for repairs of unserviceable equipments to be off-loaded to trade based on repairable indents.

Feeding of Quotes received from Vendors.

Generation of comparative Statement of tenders.

Approval of selected quotes.

System assisted preparation of repair orders, approval and printing the same.

A wide range of MIS reports and automated generation of letters/printouts.

On line decision support system for repair function.

#### 4.6.7 **Restricted access to the Database.**

The system provides for the functional independence of each module while integrating data storage across modules. Access to data application is determined by the role of user. The module specific data tables are available for viewing by users of other modules, but cannot be created/ updated by them. For example, the EDS column of a purchase order is available to both planning and storehouse users, while only the procurement officer can amend it, in turn being fully responsible for its data integrity. Across the WAN, users at any location can similarly view data from other stations.

### **4.7 Role of ILMS in Present Procurement Procedure**

**Present procurement methodology.** ILMS provides for two types of operations, as follows:-

4.7.1 **Semi automated** System supported, but human controlled e.g. preparation of TE, feeding of quotes, preparation of orders, tender evaluation, negotiations with vendors, taking procurement decisions on file.

4.7.2 **Automated** Completely system controlled e.g. Generation of MIS reports, printouts.

4.7.3 **Workflow software** It is important to note that there is no workflow software in use in ILMS. All documents/printouts /correspondence with vendors etc of each and every procurement case are maintained in separate physical case files. Each and every procurement decision is manual file based requiring physical signature on the file. No digital signature or online decision making method is in use. All the physical actions in the procurement files are also simultaneously fed into the ILMS so that electronic records of the same are maintained.

4.7.4 The Government has recently emphasized e procurement of stores. Whereas the FAs to Material Superintendents have been according on-line concurrences at various stages, at the NHQ on line concurrences are not yet accorded pending resolution of certain issues. However, ILMS is accessible to IFA office and limited use for quantity vetting etc is being made.

## **4.8 Check List - Provisioning**

### **4.8.1 Role of IFA in provisioning**

IFA has a major role in provisioning , since any wrong projection of qty may lead to over provisioning and also increasing of immoveable inventory. As such utmost care needs to be taken while vetting of qty as the vetted qty will be projected for approval of indent and subsequently for initiating procurement action. The check list for “Acceptance of necessity “ stage may be referred by IFA’s. The Check Lists are enclosed as an Annexure in this manual.

4.8.2 After vetting and arriving at final procurement qty a schedule of requirement is prepared and is approved as an indent by the appropriate

authority . The indent is placed on procuring agency for carrying out procurement. Following care should be exercised:

- 1) It is to be ensured that net requirement has been worked out properly with regard to liabilities and assets. Dues-in, dues-out, stock position, CAR and F.F have been properly worked out.
- 2) It is to be ensured that M.P.E. has been worked properly. In no case should the provisioning exceed the months fixed for M.P.E. Similarly it is to be ensured that S.S.F. and R.A.F. figures have been worked out correctly.
- 3) It is to be ensured that M.P.E. has been correctly worked out for perishables; short shelf and common user items have been properly worked out.
- 4) It is also to be ensured that Current Annual Rate (C.A.R.) and forecasting factor (F.F) have been correctly accounted for.
- 5) It is also to be ensured that assets have been properly accounted for with regard to serviceable stocks, dues-in and estimated yield from repairable assets.
- 6) It is to be verified that the estimated cost indicated in the indent has been worked out properly with regard to (1) Last purchase price (2) Budgetary quotations (3) Cost assessed by specialist officer in case of first time procurement. In. no case should L.P.P. be escalated.
- 7) It is also to be ensured that sources from which items are proposed to be procured viz DGOF, HAL etc are to be vetted.
- 8) In case of PAC it is to be examined that the items are of proprietary nature and firm/source proposed is an OEM .PAC should not be accorded for bought out items.
- 9) The mode of tendering, namely OTE, LTE and STE are to be examined. In case of P&M, two-bid system to be followed is to be indicated in indent.
- 10) It is to be further ensured that head of account has been correctly indicated and budgetary provision has been made.
- 11) In case of RMSO orders for HAL, it is to be ensured that quoted rates are as per their printed price catalogue.

- 12) In case of bought out items under RMSOs. details of the source, nature of the item, imported or indigenous, departmental charges if any, handling charges etc are to be called for from M/s HAL.
- 13) Where price lists are not available, the cost break-up of the items quoted with regard to material, labour overheads, profit, insurance, freight, handling charges, taxes and duties are to be called for assessing the reasonability of the rates.
- 14) In case of indents for imported items, it is to be confirmed that the items are not available from indigenous source.
- 15) The authority under which the indent is raised is to be verified with reference to specific Government order or authority, which is to be invariably quoted in the indent.
- 16) Whenever financial concurrence is accorded to any indents, it is to be ensured that FC number and date are to be invariably indicated in the indent.
- 17) All amendments, cancellation of indents are to be concurred by the IFA.
- 18) After opening of tenders, the estimated cost of indent should not be increased.
- 19) While issuing indents, it is to be ensured that ink signed copies of the indent are endorsed to the respective IFA's and to audit authority.

#### **4.9 Scrutiny by IFA/FAs of the quantities indented:**

To have a consolidated list of spares/ consumables required for repairs/ refit of a ship or repair/ overhaul of an aircraft it is essential that regular reviews are carried out so as to understand the stock available, consumption pattern, stocks going below minimum stock level etc, to work out the Qty required. Annual reviews should be carried out to determine future requirement for initiating provisioning action.

4.9.1 The provisioning review sheet will be made with the basic data of assets and liabilities as on 1<sup>st</sup> April of each year. Minimum stock level is to be maintained at the same level as the average consumption of past three years, so

as to ascertain that the stock level does not go below the MSL (minimum stock level). A supplementary review needs to be carried out to avoid AOG situation.

4.9.2 The provisioning review sheet should consist of following titles:-

Main Equipment code

Main Equipment part No

Main Equipment description

Sl No

Part No

Ref No

Description

Denomination

Consumption (previous 3 years)

ACL

Dues out

Stock (as on date)

Dues in

Total liability

Total Assets

PQ

LPP

LPY

Last source of supply

Current unit price /currency

Total cost

The CFA should be determined wrt to total value of items/qty projected in the review sheet.

#### **4.9.3 Scrutiny of Indent**

Important areas which require attention are :

- 1 Item Identification Number.
- 2 Indent Type (LP /CP)
- 3 Description
- 4 Procurement Quantity

- 5 PAC reference
- 6 Shelf life reference
- 7 Indent Value
- 8 Budget Head
- 9 Last Procurement details
- 10 Provisioning Parameters etc.

4.9.4 The final outcome of provisioning activity is an indent, and hence provisioning is a vital area in Depot activity.

All LP indents are raised to meet an urgent and operational requirements.

4.9.5 A CP indent covers the full requirement of an item for the planned provisioning period.

4.9.6 A check list in regard to Provisioning is as under:-

- Navy is required to prepare every year a 3 year roll on provisioning plan ( for store procurement only), detailed head wise and linked to indicative budget. This plan is to be coordinated by Controller of Logistics (COL) ,scrutinised by IFA (Navy), and confirmed by the Vice chief of Naval staff and accepted by MOD (Fin). However the same is not being done by Navy at present. Efforts need to be made to adopt the procedure.
- The entire procurement will follow from this provisioning plan.
- Provisioning of fuels will be done by Director of logistics (DLS).
- Initial provisioning of Equipment & Spares (E&SP) is done by DLS.
- Replacement provisioning of E &SP, full provisioning of Naval Stores will be done by DLS, CMP (MB), CMP (V), CMP (K) and coordinated by DLS.
- Hydrographic, Oceanographic, Naval Armament Inspection stores are neither provisioned by DLS /CMP nor stocked in MOs.
- The initial provisioning of Boats, Stores, Diving Stores and meteorological stores is not done by DLS/CMP but replenishing provisioning is done by DLS /CMP.

4.9.7 No provisioning of equipment for Ships is proposed for decommissioning.

4.9.8 CP budget is distributed by DLS to DLS/ MS(MB), MS (V). LP Budget is distributed to MOs /NSDs/Commands (Units) Dockyards after approval by COL.

#### 4.9.9 **Vetting of Projected PQs**

While vetting the projected procurement quantity, the following has to be considered.

- (a) High off the shelf availability
- (b) Minimisation of inventory carrying cost.
- (c) Minimisation of procurement cost.
- (d) Justification of qty.

In replenishment provisioning the determination of need is done through automated formula based process, taking past consumption into consideration.

The basic parameters are:

- (a) Stock
- (b) MSL (Minimum Stock Level)
- (c) ACL ( Annual consumption level)
- (d) Dues -In
- (e) Dues Out
- (f) Lead time
- (g) Shelf life
- (h) Obsolescence
- (i) Special requirement – if any
- (j) Cost etc

**ACL:-** Annual consumption level is calculated by averaging the consumption of previous 3 years by weighted average method. (ACL includes NACs, excludes transfer, loans and payment issues).

ACL forecast of yard material is the responsibility of Dock yard.

**MSL:** Stock level below which the stock of an item should not be allowed to fall. It is based on ACL, category co efficient (generally ) to be taken as 1.2 and shelf life.

**DUES – IN** : All items due to be procured either indented (for which indent has been approved ) or ordered for which order has been placed as to be taken as Dues IN .

**DUES – OUT** :- Only the firm demands (not the forecast demands).

**General Formula of PQ determination**

$$\text{PQ} = \text{ACL} + \text{MSL} - \text{STOCK} - \text{DI} + \text{DO}$$

Final PQ should not be greater than 3ACL +DO

**Schedule of Requirement**

After PQ has been worked out a schedule of requirement is prepared consisting of following information:-

Srl No

Part No

Description

Qty

Estimated Unit cost

Estimated Total cost

LPP ( Last procurement price)

LPY ( Last procurement Year)

Probable suppliers (including last source of supply)

\* Estimated cost is worked out by adding due escalation over LPP wrt LPY. The escalation is based on prevailing inflation trend .

For example estimated cost wrt LPP of Rs 100 with LPY of 2004 will be worked out as under

For Year 2005 =100 +5% =105

For year 2006 = 105 + 5% = 110.25

CFA will be determined wrt to total financial implications by adding total estimated cost of all items .

**4.9.10 Approval of Indent**

The approval of Indent means approval in principle that CFA agrees in principle that the said stores be procured by adopting prescribed procedure.

For obtaining approval in principle the following procedure should be adopted by the user and proposal be sent to concerned IFA for concurrence from EAC angle before approval of CFA.

A comprehensive note is submitted consisting the following information

- Giving full details of proposed procurement, specific requirement consisting of qty ,specification with detailed justification.
- The grounds of necessity viz Procurement Against annual review of demands, AOG, operational ,developmental or any other requirement
- Whether item is included in Provisioning plan /STOPs (Short Term operating plan).
- Srl No of NI 1/S/06 under which proposal is covered.
- Availability of Funds along with appropriate Minor Head code Head
- In the case of PAC procurement whether PAC has been accorded.
- Whether items are to be procured indigenously / or through import .if through import whether Import clearance has been obtained.
- The source /sources of supply.
- What are the estimated financial implications and the CFA under whose delegated financial power the amount at issue falls.
- The recommendations of penultimate CFA

#### **4.10 Vetting of provisioning Reviews**

The Annual /Supplementary reviews prepared wrt above columns will be vetted by the concerned FA office so as to ensure that qty projected is correct. For this it needs to be ensured that last review file is linked and present stock as on date is checked wrt to previous stock minus consumption of the current year.

The following may be ensured while vetting Annual / supplementary reviews :-

**Current stock** = Last stock – consumption

**Total liability** = Dues out + Forecasted requirement ( 2 or 3 ACL )

**Total Assets** = Current stock + Dues in ( Ordered Dues in and Indented Dues in)

**Procurement qty** = Total Liability (-) Total Assets= PQ

\* Dues out are the demands received from user and “Indented Dues in” are indents placed on procurement agency and “Ordered Dues in” are supply orders placed by procurement agency)

\*\* ACL means Annual consumption level.

4.10.1 After arriving at total required procurement quantity, the technical authority may increase the items based on specific requirement and may reduce the qty considering anticipated low consumption for the next year. Specific reasons for increase or decrease are to be mentioned by technical authority.

## **Chapter - 5**

### **EXAMINATION OF REPAIR AND REFIT PROPOSALS OF SHIPS AND SUBMARINES**

**5.1** The Indian Navy has two primary Dockyards viz Naval Dockyard, Mumbai and naval Dockyard Visakhapatnam, besides two Naval Ship repair Yards at Kochi and Port Blair to handle the maintenance support of the fleets. The refits are scheduled in accordance with the Ops-cum-Refit cycles promulgated for each class of ship. Owing to the capacity constraints like manpower, technical expertise, infrastructure and dry docking capacity, the refits of some ships are offloaded to PSUs as well as commercial shipyards based on their ability to undertake such work.

5.1.1 The guidelines/ procedures for offloading of refits are primarily governed by Navy Order 2/98 and Annexure 6 to NI 1/S/06. The flow Chart for Offloading the ships for repairs etc is Annexed to Annexure 6 of NI 1/S/06. However, briefly the procedure relating to the examination and concurrence of Repair and refit proposals of ships and submarines is described below:

#### **EXAMINATION AND CONCURRENCE OF REPAIR AND REFIT PROPOSALS OF SHIPS AND SUBMARINES**

##### **5.1.2 Full / Offloading of Refits of ships and submarines :**

For certain ships / submarines, the complete or partial refit as a whole is offloaded to the Defence Shipyards such as M/s CSL, MDL, GRSE and GSL. The procedure for offloading of full / partial refits of ships and submarines is governed by the guidelines laid down in the Navy Order 2/98 and Annexure 6 to NI 1/S/2006. Broadly the procedure followed is as follows :-

1. Prior to the commencement of the refit as per the scheduled refit programme, Defect Lists (DLs) are initiated by the ships / submarines and are forwarded to CRO at Command and AGM(PL) at Naval Dockyard.

2. Naval Dockyard gives its technical comments and recommendations on the DLs and forwards the same to the Command.
3. Technical Division of the Command examines the DLs and the comments of the Yard, does further technical analysis and finally accords approval to the DLs.
4. Once the DLs are got approved by CinC of the Command. Naval Dockyard undertakes work only on the approved DLs.
5. Based on the approved DLs, for partial / full offloading cases, AIP is concurred by FA to ASD together with vetting RFP and vendors list initiated by Dockyard and approved by ASD is forwarded to the Command, if it is under CinC's powers or NHQ, if it is under VCNS' powers or MOD , if it is beyond VCNS' financial powers..
6. RFP is then issued to the approved Defence Shipyard and vendors and a pre-bid meeting is held with the Shipyard under the aegis of the Command / NHQ.
7. Once the Shipyard has understood the scope of work, commercial Shipyards vendors bids are invited as per the two-bid system.
8. 'T' bid and 'Q' bid is submitted simultaneously in a single stage by the approved Shipyard and vendors.
9. After opening of T bid, TNC is held. TNC indicates qualification or otherwise of the Shipyard based on the technical specifications.
10. Once technically qualified by the TNC and approved by the CFA, 'Q' bid of the Shipyard is opened.
11. CST is prepared and concurrence of FA is obtained for conducting PNC, if justified.
12. Post conduct of PNC, concurrence of FA and sanction of CFA is obtained for conclusion of contract / placement of work order on the Shipyard at the negotiated and approved rate / total cost. The work orders are vetted by the FA.

## **5.2 Individual / specific work package offloading during a ship's / submarine's refit undertaken by the Naval Dockyard :**

In the refits undertaken by the Naval Dockyard itself, only some specific jobs / work packages are off-loaded to PSUs / Trade for which the Yard's centres do not have the required capacity/expertise. The procedure followed in Naval Dockyard, Mumbai for offloading of such specific works /activities in respect of ships/submarines being refitted by the Naval Dockyard is briefly as follows :-

1. Prior to the commencement of the refit as per the scheduled refit programme, Defect Lists (DLs) are initiated by the ships / submarines and are forwarded to CRO at Command and AGM (PL) at Naval Dockyard.
2. Naval Dockyard gives its technical comments and recommendations on the DLs and forwards the same to the Command.
3. Technical Division of the Command examines the DLs and the comments of the Yard, does further technical analysis and finally accords approval to the DLs.
4. Once the DLs are got approved by CinC of the Command. Naval Dockyard undertakes work only on the approved DLs.
5. Based on the DLs approved by the Command, Planning Division of the Naval Dockyard assigns the various refit works through Work Instructions to the respective production centres of the Yard.
6. Based on the work assigned to each centre, the respective Centre Manager assesses the quantum and nature of the work vis-à-vis the facilities/capacity available with his centre.
7. For the specific work packages for which expertise /facility/capacity is not available with the centre, the centre manager initiates file for obtaining AIP (Approval in Principle) for offloading.
8. When the work package is recommended by the concerned Department Head and is finally AIP by the GM (Refit). The proposal is forwarded to FA to ASD for vetting of vendors. At this stage, FA scrutinizes the AIP and its necessity before vetting the vendor.

9. Once the offloading of the particular work package of the ship is approved by the GM (Refit), tendering action is initiated thereof. Tender enquiries are issued to firms registered with the yard / known service providers / OEMs and their authorized representatives.
10. Concurrence of FA to ASD is taken for AIP modality of tendering, vendor list and DTE vetting.
11. Tendering is done in two bid system where both T and Q bids are received at a single stage. First, the T bid is opened which is followed by a TNC. Q bids of only the firms qualified by the TNC are opened.
12. After opening the Q bids, CST is prepared and concurrence of FA and approval of CFA is obtained for holding of PNC, if justified.
13. Post conduct of PNC, financial sanction of CFA is obtained with due concurrence of FA for placement of work order on the selected firm. The work orders are duly vetted by FA.

5.2.1 In case of offloading of specific jobs / work packages, FA concurrence is being taken at following stages:-

- a) At AIP stage : For modality of tendering, vetting of the vendor list and tender enquiry, for appropriateness of the NI serial, CFA and budget head and for concurring AIP
- b) At sanction stage : For budget availability, correctness of the CFA and sanction letter, payment terms, vetting of work order and contract.
- c) At post tendering stage : Post CST preparation for approval of L1, for holding of PNC (if considered necessary / justified ), and for approval of order placement on the lowest acceptable offer.
- d) Post contract conclusion / work order placement : For extension of DP, levy or waiver of LD charges, change in scope of work, growth of work and additional sanctions, risk purchase, repeat orders etc.

### **5.3 Check points seen when examining and concurring offloading proposals in respect of refits / repairs of ships / submarines :-**

5.3.1 Refit plan and schedule is as per the Annual Refit Programme approved by the NHQ. DLs have been approved by NHQ / Command. For full / partial ship / submarine refit, refit offloading to the Defence Shipyard has been approved by the NHQ and RFP is initiated as per the CFA's powers to either Command / NHQ / MOD.

5.3.2 Scope of Work (SOW) of the offloaded refit / work package has been technically well defined in terms of deliverable material / services. The SOW and offloading proforma has been duly completed, scrutinized, recommended and approved by all concerned including the AGM(PR), AGM (QA) and GM(Refit). Justification for offloading and reasons are to be stated in the format of Request for offloading.

5.3.3 Necessity for offloading is approved by the CFA based on stated capacity and / or expertise constraints. AIP is concurred by FA and accorded by CFA with respect to the appropriateness of the NI serial, budget head, modality of tendering, DTE and vendor list vetting.

5.3.4 Budgetary estimate / professional officer's cost evaluation is available for determining the approximate cost implication, modality of tendering and CFA. Reasons for not going for open tendering are placed on record and are justified with respect to the DPM provisions on the matter.

**5.3.5 For LTE cases, vendor list has been drawn out from the list of last known suppliers, tenderers, production manager's recommended firms, firms registered with the Yard for the said work, recommendation of Inspection/ Quality Assurance department and the time for bid submission is in lines with the time schedule laid down in DPM.**

**5.3.6 Rate Contract: Repair/Refit works of repeated nature are processed on rate contract basis and some are listed below and are processed as per Para 8.0 of DPM 2006.**

- 1. Chipping and Painting**
- 2. Grit blasting**
- 3. Deck tiling**
- 4. Chemical cleaning of coolers**
- 5. Renewal of Hull Structures/Hull plates**
- 6. Regutting/Degutting of equipments**

5.3.7 For STE cases, reasons for proposing STE are clearly elaborated and are in accordance with the DPM provisions on the matter. If STE is being resorted to on OEM basis, necessary OEM's certificate is placed on file.

5.3.8 For PAC cases, necessary PAC certificate issued by Command / NHQ is placed on file. PAC approval of only the professional directorates in Command/ NHQ is valid.

5.3.9 Tender enquiry duly vetted by FA has been issued to all the approved vendors through single stage two bid system.

**5.3.10 Technical Bid evaluation : T bids of all the vendors is opened by the authorized tender opening committee (TOC). Late bids are not accepted / opened. TNC has been conducted with firms reps wherein the SOW is discussed and understanding of the work assessed. Minutes of the TNC have been approved by the CFA. No firm has been rejected by the TNC for reasons not laid down in the TE / SOW.**

5.3.11 Commercial Bid evaluation: Commercial bid of only the technically qualified firms have been opened. CST has been prepared by the authorized board of officers (TOC) and has been duly approved by the AGM(PL). The CST is verified with respect to the quotes and correctness of the L1 is determined.

5.3.12 If based on rate reasonability assessment and past cost data, holding of PNC is adequately justified, conduct of PNC maybe concurred else concur

placement of order on L1 firm. Attend PNC, if approved and obtain best discounts from vendor based on realistic cost evaluation and economic trends.

5.3.13 Verify correctness of the budget head and confirm availability of funds. PNC minutes to be approved by the CFA.

5.3.14 Based on L1 cost of work from quote / CST / approved PNC minutes, financial sanction to be obtained in accordance with the financial powers laid down in NI 1/S/2006. Verify correctness of NI serial and sanction letter.

5.3.15 Verify the payment terms and vet the work order and contract.

5.3.16 Additional sanction for growth of work: Necessity for undertaking additional work against the work contracted to the firm, has been adequately justified and duly approved by the GM(Refit). Growth of work upto 25% of the original work order can be approved by the same CFA, beyond that the case should be put up to the next higher CFA. Verify correctness of CFA and reasonability of rates. Verify budget availability, vet the additional sanction letter and amendment to work order.

5.3.17 Ensure post contractual changes are in accordance with the DPM provisions.

The Check Lists for acceptance of Necessity stage, (called as Approval-in-Principle (AIP) in Dockyards) for a few categories of purchases of stores/services are appended below for guidance. For other procurement proposals refer to the Check Lists in Annexure IV of this Manual.

#### **5.4 Check – List for Hiring of Services/ Equipment Facilities**

##### **5.4.1 A) The types of services being hired in the Dockyard are –**

1. Conservancy
2. Arboriculture
3. AMCs of Yard equipment
4. Repairs and renewal

5. Consultancy
6. Institutional Certification
7. Statutory inspection by Government/Accredited bodies
8. Ferry & barge services
9. Water bowser services
10. Industrial scrap disposal
11. Hazardous chemical disposal
12. Auxiliary support services
13. Hiring of tugs, trawlers, cranes
14. Pilotage hire charges
15. Hiring of Civil transport
16. Hiring of Private Security in context of non sanction of DSC personnel

5.4.2 Whereas each of the above listed services will have a set of unique requirements, the general check off list common to all, which is seen prior to concurring AIP of such services' hiring, is as follows –

1. Vetting of SOC for justification of requirement.
2. Ensure clubbing of the requirements of the entire yard centrewise and based on the total annual utilization/consumption.
3. Based on last hiring rates (if regular hiring contract) or budgetary estimate (if new service proposed to be hired), determine the CFA and mode of tendering. Ensure tendering as per DPM 2006 norms.
4. Hiring should be tendered and ordered as a time bound contract -
  - (i) For items listed at serials 1, 2, 3, 10 and 11 of A) - annual hiring contracts to be considered.
  - (ii) For items listed at serials 6, 7, 8 & 9 of A) - hiring rate to be determined based on quantum and periodicity of job and contract to be applicable as and when such hiring is required/necessitated.
  - (iii) For remaining items at serials 4 and 5 of A) - hiring to be tendered and contracted on case to case basis.
1. Verify whether facility for the service exists in the Dockyard.
2. For repair and renewal services, verify necessary non-capacity certificate from the concerned centre of the Yard.

3. Verify applicability of NI serial, use of correct budget head and the availability thereof.

**B) The types of equipment being hired in the Dockyard are –**

1. Mobile cranes
2. Mobile chilled water plants for refit ships in Dry Dock.
3. Mobile shore generators for refit ships
4. LP air compressors

**The points checked while concurring AIP of hiring of equipment are –**

1. Vetting of SOC for justification of requirement.
2. Determine why the Technical Division of the Yard cannot provide the equipment.
3. Such hiring to be linked to specific shore jobs and/or for ships and submarines refit requirements.
4. Annual trend of such requirements to be studied and feasibility of entering into rate contract for a year for hiring of equipment on as and when required basis to be considered.
5. Based on total hiring amount that is actual hiring expenditure of last year or budgetary estimate, the CFA and mode of tendering to be determined. Tendering to be recommended as per DPM 2006 norms.
6. Verify applicability of NI serial, use of correct budget head and the availability thereof.

## Chapter - 6

### **PROCESSING OF FINANCIAL PROPOSALS OF VARIOUS MEDICAL ESTABLISHMENTS OF NAVY**

**6.1** For expediting the decision making process concerning procurement of medically needed items and services financial powers have for the first time been delegated directly to commanding and other officers of the hospitals and other medical units. Annexure 7 to NI 1/S/06 regulates the extent of these powers. There are powers exercisable both with and without consultation of IFAs. No separate procedure has been prescribed for the procurement of such items and services and the provisions of DPM and GFRs etc. must also govern such purchases. As such the Checklist prepared for various procurement proposals of Navy Appended as Annexure 5 of this Manual may be referred to by IFAs for carrying out scrutiny of proposals and according concurrences. As per Annexure 7 of NI same powers stand delegated to medical officers of the three services.

#### **6.1.1 Nature of Powers of Medical establishments**

The following nature of powers have been conferred to various CFAs as per Annexure 7 of NI 1/S/06:

- 1) Powers to sanction items out of Misc and Contingent grant
- 2) Powers to sanction write off losses of stores
- 3) Local Purchase of stationery
- 4) Local printing of forms
- 5) Local printing of rubber stamps and seal
- 6) Binding other than on contracts
- 7) Purchase of drugs and consumables
- 8) Purchase of PVMS drugs/expendables
- 9) Powers for dental centers
- 10) Repair/AMC of medical/ dental equipment
- 11) Annual training grants
- 12) Expenditure out of TTIEG

- 13) Emergent medical treatment to service personnel and their families
- 14) Hiring of civil transport
- 15) Hiring of various services

IFAs may exercise prescribed checks while concurring various proposals to ensure economic, effective and timely medical services.

## **6.2 Specific Checks concerning certain items**

So far as specific powers for procurement of drugs and consumables and repair AMC of medical /dental equipment mentioned at srl 7,8,9,10 and 15 of the Annexure IFA offices are required to exercise their prudence while according concurrence .

- For consumables IFAs must see the consumption pattern, stock, Dues in Dues Out etc.
- It must be ensured that items are not available in Depots .
- Items, which have very low consumption trend, are procured in barest minimum qty.
- Before holding AMC it must be ensured that equipment have sufficient residual life .
- For Hiring of services of specialists, a confirmation need to be obtained that such specialists are not available, or the services are essentially required as a life saving measure.

## Chapter – 7

### PROCESSING OF WORKS PROPOSALS

**7.1** The powers relating to execution of Works in the Navy have **not** been included in the NI 1/S/06 and are governed by issue of separate government orders.

#### 7.1.1 Introduction of IFA system in Works, SOPs and Related instructions

The financial powers of various executives in the army, Navy and Air Force for the acceptance of necessity and according administrative approval for the works laid down in Defence Works Procedure 1986 were revised, and IFA system in the works was introduced, vide Ministry of Defence letter No. 3(7)/93/D/(Works) dated 26/8/1998 circulated vide CGDA No. 18184/AT-X dated 2/11/98. The standard operating procedure (SOP) for exercising the enhanced financial powers was prescribed vide MOD ID No. 3 (7)/93/D(works) dated 26/10/98.

7.1.2 The instructions/guidelines concerning scrutiny of AEs in respect of civil works of Army, Navy and Air Force were circulated vide CGDA No. 18184/AT-X dated 8/2/1999 and the following documents were circulated:

- i) Check List for the scrutiny of AEs/RAEs in respect of civil works of Army, Navy and the Air Force
- ii) MOD (Fin/Works) No. Def ( Fin/Works) ID No. 14 (22)/W-II/92 dated 28/5/93 providing check List for examination of financial concurrence cases for works
- iii) General drawbacks observed in AEs/RAEs
- iv) Documents required for vetting the AEs/RAEs

7.1.3 Only those works which are included in the AWP/MWP are to be processed by CFAs/IFAs for issuing administrative approval. For this purpose every year the MOD issues the Annual Works Programme for each service accepting the necessity of processing the works during the financial year concerned. The authorities responsible for according financial concurrence,

vetting of AEs etc. were laid down vide Annexure B of MOD letter dated 26/8/98 *ibid*. The powers for sanction of works were further enhanced vide following government letters for the three services:

- a) Letter No. A/89591/FP-1/693/2002/D(GS-I) dated 22/4/2002 for Army
- b) Letter No. WK/9701/2003-04/NHQ/1724/D(N-III) dated 2/5/2003 for Navy
- c) Letter No. 10(3)/02-D(Air-II) dated 1/4/2002 for Air Force

## **7.2 Stages of association of IFA in Works proposals**

IFAs and CsDA are associated for sanction of works at three different stages viz- Acceptance of Necessity, Vetting of Appx. Estimates and Financial concurrence. The association of CsDA and IFAs for these stages was revised/clarified vide CGDA letters No. 18184/AT-X/PC-1 dated 8/8/2005 and 26/9/2005. As per Hqrs letter dated 8/8/2005, wef 1/4/2006 in so far as the Naval works are concerned, for CFAs at NHQ the acceptance of necessity is to be concurred by IFA (Navy) at NHQ, vetting of AEs is to be done by IFA (Army Hqrs) and the financial concurrence is again to be given by IFA at NHQ. For works falling within the powers of CFAs at Naval Commands and below the acceptance of necessity is to be concurred by IFA of the Naval command concerned, vetting of AEs is to be done by Regional CDA in whose jurisdiction the work is located and the financial concurrence is also to be given by the IFA (Navy) concerned of the CFA. It has been later clarified by CGDA vide their letter dated 26/9/05 that for ATWP cases, whereas concerned IFAs in the Navy have to accord financial concurrence for the acceptance of necessity as a whole (including the equipment and works portion), for vetting of AEs the IFAs in Navy are to vet the AEs pertaining to the **equipment portion** only and the IFAs in Army are to vet the AEs for the **works portion**. The Financial concurrence, however, is to be accorded by concerned IFAs in Navy including the works portion.

7.2.1 IFAs may carefully examine the works proposals submitted by naval authorities at various stages with reference to the Check Lists referred to above which were circulated by Hqrs office. The shortcomings of general nature

observed during intensive examination of Works contracts by the Chief Technical Examiner's organization of the CVC, have also been circulated by CVC in the past which could be accessed by IFAs from their website [cvc.nic.in](http://cvc.nic.in)

7.2.2 The delegated financial powers of the Naval authorities have been further enhanced vide MOD letter No. WK/9701/2006-07/NHQ/366/D(N-III) dated 20/2/2007. The delegated powers and Authorities to accord financial concurrence as per Govt letter dated 20 Feb 07 are as under:-

**Powers of Acceptance of necessity , Adm Approval under para 15&15a of Defence works Procedure 1986 as amended vide Govt letter 20 Feb 2007**

**Rs in Lakhs**

Competent Financial Authority	To be exercised without IFA's concurrence		To be exercised With IFA's concurrence		Authy To accord Financial concurrence
	Auth works	Spl works	Auth works	Spl work	
CNS	120	20	1500	75	IFA
FOC-in-C	75	7	500	30	IFA
C-in-C Unified command	75	7	500	30	IFA Port Blair
Cdr of an Area/ Flg Offr Comd Area / Chief Hydrographer	22	0.75	200.00	8	PCDA (N)
Stn CDR/NOIC of the rank of Cmde	15	0.50	100	2.00	PCDA (N)
Naval Stn Cdr below the rank of Capt	5.00	0.50			

**Powers of Demolition of Building**

Competent Financial Authority	To be exercised without IFA's concurrence		To be exercised With IFA's concurrence		Authority To accord Financial concurrence
	Auth works	Spl works	Auth works	Spl works	
CNS	-	-	50	-	IFA
FOC-in-C			25		CDA (N)
C-in-c Unified command			25		JCDA(N) Port Blair

## Chapter - 8

### DELEGATION OF ADMINISTRATIVE POWERS TO SERVICE HEADQUARTER AND IFAS ROLE

**8.1** A committee was formed under the Chairmanship of the Additional secretary in pursuance of PMO directives to make recommendations for delegation of additional administrative powers to the respective Service Hqrs. After consideration of the recommendations of the Committee the Govt has delegated further administrative powers to the service Hqrs as per MOD No. MoD/IC/1027/32/AS(J)/6864/2006 dated 1/9/2006 vide three Appendices 'A', 'B', and 'C'.

Some of the points to be seen by IFA office during scrutiny of such proposals are listed below:

#### 8.1.1 Examination of proposals by IFAs - delegated administrative powers- Appx 'A' of MOD letter dated 1<sup>st</sup> September 2006

It may be seen from **Appx A** that administrative powers mentioned at serial No 1 to 4 ,7 and 15 are to be exercised in consultation with IFA. **The 'checks' with reference to items listed in Appx 'A' to MOD letter dated 1/9/2006 are mentioned below:**

Serial No of Appx 'A'	Points to be seen
1	The remarks of audit authority must be seen by IFA, whether court of enquiry was convened, measures adopted to avoid reoccurrence, any past cases coming to light.
2	Whether certificate from DAVP that such projects / documents, publicity films cannot be made by them has been obtained, whether proposal is through competitive bidding or not, whether

	funds are available
<b>3</b>	Since the judgment given by court /CAT are to be honoured, IFAs must ensure that proposal is submitted for the amount which has been audited by the PCDA /audit authorities, amount is to be noted as charged expenditure.
<b>4(a)</b>	IFAs must ensure that approval of RM for initial deployment of personnel was obtained, total turnover does not exceed the prescribed limit, no undue advantage is given to any individual or unit for deployment. The number of individuals are as per approval of RM.
<b>4(b)</b>	Similar to above
<b>7</b>	Whether the Funds are available, whether approval of competent authority has been obtained for investiture. Procedure is to be followed .
<b>15</b>	Whether approval of competent authority from necessity angle has been obtained, whether technical specifications in regard to size, qty, quality etc have been determined before floating OTE, availability of funds etc

**8.2 Checks with reference to items listed in Appx 'B' of the Government letter dated 1/9/2006:**

Administrative Powers under Srl 2 and 6 are to be exercised in consultation with IFA

<b>Serial No. of Appx. 'B'</b>	<b>Points to be seen</b>
2	The expenditure being incurred is to be booked as Charged expenditure, and aspects of appeal etc have been examined.

<b>6</b>	Whether the amount being sanctioned is as per prescribed Govt policy /orders issued by MOD and does not exceed the prescribed limits.
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**8.3 Checks with reference to items listed in Appx ‘C’ of the Government letter dated 1/9/2006:**

Administrative Powers under Srl 8 and 9 are to be exercised in consultation with IFA

Serial No of Appx ‘C’	Points to be seen
8	The expenditure being incurred is to be booked as Charged expenditure , and MOD (Fin) has to note the same .
<b>9</b>	Whether delay in regard to payment has exceeded three months. Whether interest has been correctly worked out.

The above checks are not exhaustive. IFAs may exercise prudence and supplement the needed checks.

8.3.1 Vide PIFA No. PIFA/RDFP-2006-Air Force dated 21<sup>st</sup> Sept. 2007 (Instruction No. 16 of 2007), some staff officers, permitted to sign communications on behalf of the CFA are also according sanctions on file for expenditure covered under various schedules of FR Pt. I Vol. II. This is contrary to the spirit of Rule 63 and 65(b) of FR Pt. I.

**8.3.2 To avoid ambiguity, it may please be ensured by the IFAs at the time of according financial concurrence to the purchase proposals that the files are marked to the correct CFA and expenditure is sanctioned by the CFA.**

## Chapter - 9

### POWERS TO WRITE OFF / REGULARIZE LOSSES

**9.1** IFAs have to discharge an important role in the matter of write off/regularization of losses.. The Ministry of Defence has included a separate Annexure 3 in NI 1/S/06 which specifically deals with powers to write off/regularize losses of stores and public money ( other than losses of medical stores which is separately regulated vide serial No 2 of Annexure 7 of NI 1/S/06) in the Navy. Various CFAs have been prescribed in the said Annexure 3.

#### 9.1.1 The governing rules

Rules 33 to Rule 38 of GFR 2005 and Rule 13 (1) and (2) and Schedule VII of the Delegation of Financial Rules deal with general principles governing losses and regularization thereof. The CFAs have been conferred certain financial powers to consider write off of losses with and without consultation of IFAs However, as per para 11 of the MOD letter dated 19/7/2006 forwarding the NI, the regularization is subject to the rendition of an audit report by the CDA to the CFA as per existing norms.

9.1.2 As per Rule 33 (1) of GFR any loss or shortage of public money and stores, or other property etc. held by, or on behalf of, the Government, **irrespective of the cause of the loss and the manner of its detection** , shall be immediately reported by the subordinate authority concerned to the next higher authority as well as to the CDA concerned and the Statutory audit officer, even if such a loss has been made good by the party responsible for it. However certain losses as per the said Rule 33 (1) need not be reported.

#### 9.2 Cases Involving serious irregularities

Cases involving serious irregularities are to be brought to the notice of the Financial Advisor or the Chief accounting authority and all losses above the value of Rs. Ten thousand due to suspected fire, theft, fraud etc. are to be

invariably reported to the police for investigation as early as possible (Rule 33 (2) and rule 34 of GFR)

### **9.3 Check –List for examination of write off/ regularization cases by IFAs**

IFAs/FAs in the Navy are now required to accord financial concurrences for write off/ regularization of losses of stores and public money etc., Even though after the rendition of the audit report by CDA very little remains to be seen or done by IFAs, the **following points still need to be checked** by IFAs before concurring the regularization/write off of loss by CFAs:

9.3.1 The NI 1/S/81 and Rule 155 of FR part I vol- I gives General conditions to be observed in dealing with cases of losses. The points to be seen are:-

- 1 Whether it is a store loss or loss of public money.
- 2 What are the financial implications.
- 3 Has the CFA been correctly determined wrt to gross loss.
- 4 Whether court of enquiry was held or dispensed with.at the discretion of competent Authority.
- 5 What is the outcome of C.O.I, whether any recovery was made from guilty persons .
- 6 The CFA is to be determined wrt gross loss even if the recovery has been effected from guilty persons.
- 7 What are the recommendations of PCDA (Navy) in regard to CFA to regularize loss (Annexure II of NI 1/S/81 may also be referred to by IFAs offices )

## Chapter - 10

### BUDGET MANAGEMENT IN INDIAN NAVY

**10.1** The budgetary requirement of the Indian Navy for revenue expenditure is included in Demand No. 23, Defence Services- Navy, presented to parliament. The Navy's requirement of capital budget is included in Demand no. 27- Capital outlay on defence Services. This demand (27) caters to the expenditure incurred on building or acquiring durable assets in respect of all the three Services, DGOF and R&D.

#### 10.1.1 Revenue Expenditure

The revenue expenditure includes expenditure on Pay and allowances, Transportation, revenue Stores (like weapon/ non-weapon stores, Air / Armament stores, rations, petrol, oil and lubricants and spares etc.), Revenue works (which includes maintenance of buildings, water and electricity charges, rents, rates and taxes etc.), and other miscellaneous expenditure. Rule 79 of GFR 2005 defines the Revenue expenditure

#### 10.2 Capital expenditure

The capital expenditure includes expenditure on land, construction works, plant and machinery, Naval vessels, aircrafts and aeroengines etc. Capital Acquisition or Modernisation budget is a sub-set of the Capital Outlays on Defence Services and comprises expenditure on items other than Land and works. Rule 79, and 90- 92 of GFR defines the Capital expenditure and explain the principles for allocation of expenditure between 'capital' and 'revenue'.

Systematic planning for defence was adopted in India in 1960s and the first defence Plan was prepared for the period 1964-69. The eleventh plan covers the period 2007-2012.

### **10.3 Growth of Defence expenditure- Navy**

The defence expenditure (actuals) has grown phenomenally over various plan periods. Compared to the total Navy's budget of Rs 2262 crores in the year 1992-93 (for which data is available (source "Defence Budget- A Statistical Digest" published by MOD (Fin) in December 2006), the total Navy's budget reached Rs. 15486 crores in 2006-07 ! In the year 1992-93 the ratio of capital to revenue expenditure in the Navy was 55:45 the capital exp. being Rs 1242 crores against the revenue expenditure of 1020 crores. This ratio in the year 2006-07 improved to 59:41, the capital exp being Rs 9070 crores against the revenue exp. of Rs. 6416 crores during 2006-07. This is a positive sign. Earlier all the capital expenditure powers in respect of Navy were with MOD/ MOD (Fin). From the middle of 2006, Capital expenditure powers upto Rs 10 crores have been delegated to VCNS with IFA (Navy) Delhi being his financial advisor.

### **10.4 Preparation of Navy's budget**

The Secretary (Def/Fin) prepares the budget and other estimates for the defence services and also furnishes the Heads of Branches of the armed forces Headquarters with all information at his disposal to enable them to discharge their financial responsibilities in respect of the grants allotted to them. The entire exercise of preparation of revenue and capital budget of Navy is controlled by MOD (Fin) and coordinated by the Directorate of Naval Plans which works under the supervision and directions of the Vice Chief of Naval staff. IFAs Navy are not being actively associated in the budget preparation or the budget allocation exercise by the Navy, even though the MOD letter No. 840/Addl FA (J)/94 dated 22/3/1994 which established the IFA system in Navy prescribes that IFA will assist Naval Hqrs in formulation of budget at different stages and monitoring of expenditure against budget allotment. The Government letter also prescribes that IFA will monitor the implementation of sanctions, commitments and liabilities for taking effective measures to achieve economy, cost effectiveness and better resource planning. Because of various reasons this has not been possible to be done so far.

10.4.1 In view of the present status wherein IFAs are not associated by the executives in the formulation of budgetary exercise, it has been emphasized by the Hqrs office/ MOD (Fin) that IFAs should develop independent systems and procedure to contribute effectively in budgetary control and monitoring of carry over liabilities etc. IFAs accordingly, may take appropriate action in the matter.

10.4.2 The NI 1/S/06 says that the IFAs at NHQ and Commands are 'available' to provide financial advice to TLBH/HLBH etc. and their advice/expertise should be 'sought' for inter alia ensuring that the budget holders receive guidance in the preparation of budgetary estimates. The NI further lays down that IFAs are primarily accountable to HLBHs for budget management that is needed by them to meet their objectives. It may be seen that it has been left to the Navy to 'seek' the association/expertise of IFAs in the budgetary exercise. Rules 52(1), 52(5) and 55 of GFR 2005 lay down the responsibility for the control of budget and monthly reconciliation of budgetary figures.

## **10.5 Budget holders in Navy**

As per NI 1/S/06 the VCNS is the Top level Budget holder in the Navy. He allocates the revenue budget among the Authority-Cum-Accountability centers (High Level budget Holders) who at NHQ are VCNS, DCNS, COP, COM, COL and CWP&A. (The Organisational Charts/structure of NHQ and Commands may be seen at **Annexure VI** of this Manual)

10.5.1 The HLBHs allocate the funds to the intermediate Level Budget holders who are APSOs like ACOM (IT&S), ACOM (D&R), and ACOL etc. and staff Officers like COS, CSO (P&A) etc at Commands and who in turn sub-allocate the funds to budget centers. The budget centers have the management responsibility for the whole range of expenditure that fall within their areas.

## 10.6 Stages/ manner of preparation of Budget estimates

The budgetary estimates are prepared by local administrative authorities subordinate to Naval Headquarters in the following stages and submitted to NHQ by these dates (Ref Para 155 of Def Account Code).

Sl No	Details of the estimate for Navy Head	Date of Submission
1	Preliminary Report for the current financial year	20 <sup>th</sup> August
2	(a) Preliminary Revised Estimates for the current financial year (b) Forecast estimates for the ensuing financial year	10 <sup>th</sup> November 10 <sup>th</sup> November
3	(a) Revised Estimate for the current financial year (b) Budget Estimates for the ensuing financial year	20 <sup>th</sup> November 20 <sup>th</sup> November
4	Modified appropriations for the current financial year	10 <sup>th</sup> March

10.6.1 The process of estimating does not end with the preparation of the original budget estimates for the year but continues through out the year and at intervals the budget figures are reviewed in the light of the progress of the actual expenditure and other factors affecting the budget estimates for the year (Rule 90 FR part I Vol I)

The manner of preparing budget estimates is explained below:

1 **Preliminary Report** : This estimate, which should take into account the progress of actuals and other relevant factors, will show the extent to which the sanctioned budget estimates for the year are affected by circumstances known or orders promulgated either before or after 1<sup>st</sup> April which may necessitate modifications in those estimates.

2 **Preliminary Revised Estimates** : This estimate is a forecast, as accurate as possible of what the actual results for the year are likely to be. All

the important changes leading to increase or decrease in the budget estimates indicated by actual figures available ,or by other circumstances, which have come to notice , will be taken into account in preparation of this estimate .

3 **Revised Estimates** : This is a more accurate estimate of what the expenditure of year is likely to be and is based mainly on actual expenditure known to date. If the Revised Estimate shows an unavoidable increase over the sanctioned grants , further action is taken by Ministry of Defence to obtain additional grants from the Parliament .

4 **Modified Appropriation** : This is a final estimate for the year and will be based on the latest known actuals and the likely expenditure during the remaining period of the year. The closeness with which this estimate should correspond to the actual expenditure for the year is of paramount importance as it is on the basis of this estimate that re- appropriation and / or surrenders are formally sanctioned by Ministry of Defence.

#### **10.7 General rules for vetting of Budget estimates :**

A reasonably correct initial estimate of the sums required to finance the Defence Services for any particular financial year is of paramount importance , as on the correctness of this initial budget estimate depends the whole financial administration of the year . No precise rules can be laid down for determining the amounts included in the estimates ,or for checking the amounts included in the estimates, but an intelligent discretion and utmost foresight must be exercised with reference to the effect that events , occurring or impending at the time the estimates are under preparation, are likely to have on the Receipts or expenditure. In all cases, note should be taken of factors such as the expenditure in previous years, change of policy and the probable trend of prices.

- (i) Only sanctioned expenditure may be included in the budget , but at the end of the estimate any fresh charge requiring sanction that is likely to be incurred during the year should be noted . While it is desirable that provision be made for all items of fresh expenditure requiring sanction that can be foreseen , it is essential that no provision is made for such expenditure without

due justification and that when such provision is made, the amount provided for is restricted to the absolute minimum necessary.

- (ii) All variations between the provision for the ensuing financial year and for the current year must be explained and when such variations are due to the orders of the Government, the number and date of the order should be quoted

PCDA ( Navy ) and IFAs are also expected to keep a watch on the progress of expenditure against sanctioned allotments and to bring to the notice of the allottees and the immediate higher authorities , cases in which the progress of expenditure is in the opinion of the account sauthorities abnormally heavy or unusually low. (Rule 114 FR Part I, Vol I)

It is contrary to the interest of the state that money should be spent hastily or in an ill considered manner, merely to avoid the lapse of grant. In the public interest, grants that cannot be profitably utilized should be surrendered. The existence of likely savings should not be seized as an opportunity for introducing fresh items of expenditure which might wait till next year.

A rush of expenditure particularly in the closing months of the financial year is to be regarded as a breach of financial regularity. .

## Chapter - 11

### ROLE AND RESPONSIBILITIES OF IFA (COAST GUARDS)

**11.1** The Indian Coast Guard came into being on 1 February 1977 and was constituted as an Armed Force of the Union of India with the enactment of CG Act 1978 on 18 August 1978. The Indian Coast Guard was created to protect India's national interests in maritime zones.

#### 11.1.1 Charter of duties- Coast Guards

The Coast Guard Act 1978 has specific charter and operational philosophy. As the youngest Armed Force of the Union, the Coast Guard has the following broad Charter of Duties:-

- (a) Safety and protection of offshore installations and artificial islands.
- (b) Providing protection to fishermen including assistance to them at sea while in distress.
- (c) Preservation and protection of marine environment.
- (d) Prevention and control of marine pollution.
- (e) Assisting customs and other authorities in anti-smuggling operations.
- (f) Enforcement of maritime laws at sea.
- (g) Safety of life and property at sea.
- (h) Collection of scientific data at sea.
- (i) Search and Rescue at sea.
- (j) During wartime it assists the national war effort under the overall operational control of Navy, provides local naval defence to Indian ports, controls shipping & services and defends offshore installations.

The general superintendence, direction and control of the Coast Guard is exercised by the Director General Coast Guard under Ministry of Defence.

## 11.2 The Coast Guards Organisation

The entire coastline of India and the national maritime zones have been divided into three Coast Guard Regions, namely Western, Eastern and Andaman and Nicobar Islands, under the respective Commanders. The Regional Headquarters are located at Mumbai, Chennai and Port Blair.

11.2.1 The Indian Coast Guard Regions are further divided into eleven Coast Guard Districts located in maritime states and Andaman & Nicobar Islands. There are five District Headquarters on the West Coast, namely Porbandar, Mumbai, Goa, New Mangalore and Kochi; four on the East Coast, namely Chennai, Visakhapatnam, Paradip and Haldia and two District Headquarters in A&N islands, namely Diglipur and Campbell Bay.

### 11.2.2 Work Force

The Coast guard today has a posted strength of 661 Officers, 4627 Sailors and 831 civilians. This figure includes 82 Officers, 144 sailors and 18 civilians who are on deputation.

### 11.2.3 Surface Forces

The Indian Coast Guard comprises of following Surface Assets:--

(a)	Advance Offshore Patrol Vessel(AOPVs)	04
(b)	Offshore Patrol Vessels(OPV)	09
(c)	Fast Patrol Vessels(FPVs)	15
(d)	Inshore Patrol Vessels(IPVs)	13
(e)	Seward Defence Boats(SDBs)	02
(f)	Air Cushion Vehicles(ACVs)	06
(g)	Interceptor Boats	12
(h)	Interceptor Crafts	16

Besides, 03 PCVs (Pollution Control Vessels), 02 AOPVs, 03 OPVs 05 IPVs and 11 IBs are under construction.

### 11.3 Air Assets

The Indian Coast has the following Air Assets

(a)	Dornier Aircrafts	24
(b)	Chetek Helicopters	17
(c)	Advanced Light Helicopters (ALH)	04

### 11.4 Current Trends & Changing Environment

The Coast Guard has executed its duties at home and has established international liaisons. Besides, Indian Coast Guard is looked upon by our neighbours for assistance in Search and Rescue, Pollution Response and anti-piracy and dealing with armed robbery. The coast guard has been entrusted with the responsibility of training the state marine police and water wing of BSF. It has also been approached for training the personnel of CISF.

### 11.5 Financial powers- Role of IFA

Financial Powers. The financial Powers delegated to Coast Guard are exercised in the following manner:

- (a) With Concurrence of IFA
- (b) Without Concurrence of IFA

#### 11.5.1 Acceptance of Necessity .

Coast Guard Store Depots and Regional Headquarters are to project their requirement of stores, spare and equipment to meet the requirements of units and ships to Director Logistics/Aviation at CGHQ. On scrutinisation of demand/indent, prior to the approval of CFA, the acceptance of necessity and vetting of Financial and other terms and conditions of the draft tender enquiry to be formulated and concurrence of IFA be obtained wherever required. IFA shall do a careful and intelligent scrutiny of individual proposals from the necessity angle so as to ensure that, while meeting the requirement of operational urgency due care is taken to achieve the economy, efficiency and propriety in public expenditure and ensure the effectiveness of the expenditure incurred.

11.5.2 A statement of case along with draft proposal is to be prepared by the end-user for approval of CFA with the concurrence of IFA. **The statement of case should normally include the details of following nature:-**

- (i) Nomenclature/description of items/stores
- (ii) Technical specification, if any
- (iii) Reasons for procurement/justification. If the procurement proposal is based on procurement review (PR/Special review (SR) and based on sanctioned or approved scales, relevant PR/SR giving details of stock position, past consumption, dues in, dues out and quantity required should also be indicated.
- (iv) Quantity and its distribution/ proposed utilisation
- (v) Approximate unit cost including for accessories (to be supported by last purchase price/ market survey/ budget quote etc)
- (vi) Repair and annual maintenance package
- (vii) Mode of tendering/ purchase (whether open tender/limited tender/single tender/any other mode), with reasons if other than open tender.
- (viii) Fund availability i.e. (a) amount of allotment, (b) Expenditure incurred so far, (c) outstanding liabilities (d) Balance fund available and Head of account to which expenditure is to be booked.
- (ix) CFA who is empowered to approve the proposal/order and schedule/serial number under which delegation of powers is covered.

### **11.6 Concurrence of IFA**

IFA normally examines the proposal and accords financial concurrence on case file within seven days of receipt of proposal or earlier if required in urgent cases. Observations on a case will be raised in one go for avoiding piecemeal back references, as far as possible.

### 11.6.1 **Expenditure Angle Approval**

After necessity angle approval/ concurrence is given by the CFA/IFA, procurement action will be taken and IFA will be involved in the following activities wherever his concurrence is required.

- (a) Approval of mode of tendering.
- (b) Selection of vendors list and its approval.
- (c) Draft tender enquiries and tender documents including terms and conditions of supply and payment.
- (d) Examining recommendations of TEC (Technical Evaluation Committee)
- (e) Examining original quotations/tenders/offers etc/CST, basis of determining L-1 (including LPP)
- (f) Attending TPC/PNC meeting (himself or through representative).
- (g) Scrutiny of draft contract/supply order/ amendment letter, to facilitate cross reference and appropriate corrections, if required.

### 11.6.2 **TPC/PNC Stage**

After the conclusion of TPC/PNC a summarised decision sheet will be prepared, which will contain decision points in brief and the same will be signed by all members of the TPC/PNC including the Finance Representative.

The formal minutes of the TPC/PNC meeting are sent on file for signature of Finance Representative and then the file with complete papers/documents will be put up to IFA for financial concurrence and the vetting of draft supply order before the TPC/PNC report is put up CFA for sanction of the purchase/approval of any other proposal for amendments.

### 11.6.3 **Issue of Sanction**

A copy of sanction and amendments thereto, if any, issued by Coast Guard Headquarters and formations is endorsed to concerned CDA duly quoting UO No. and date of IFA where concurrence is required to be obtained.

The budget/code head to which expenditure is to be booked, will also be indicated in the sanction letter.

### **11.7 Post-Contractual Activities.**

The IFA is consulted for post-Contractual activities having financial implications such as delivery period extension, waiving off liquidity damages, risk purchases issue of corrigendum to the Supply Orders, waiving of S.D, short-closure, cancellation, option clause etc.

### **11.8 Charter of duties - IFA**

The Charter of Duties of I.F.A at Coast Guard Headquarters vide Government of India, MOD letter No. CS/0104/4/760/US(CG)/D(N-II) dated 05 Jun 1997 are as follows:-

- (a) To render advice on all financial matters which fall within the experience of various authorities at Coast Guard Headquarters within the delegated financial powers. The I.F.A. will be consulted in respect of specific expenditure proposals under the delegated powers and the said powers will be exercised with his concurrence. In case of difference of opinion, Director General Coast Guard will refer the matter to FA(DS) in writing.
- (b) IFA or his representative will participate in various TNCs/PNCs held at Coast Guard Headquarters.
- (c) To assist in formulation of Budget at different stages and monitoring of expenditure against the budget allotment.
- (d) To assist the Coast Guard Headquarters in implementation of Authority-cum-responsibility center concept (New Management Strategy).
- (e) To monitor the implementation of sanctions, commitments and liabilities for taking effective measures to achieve economy, cost effectiveness and better resource planning. He will maintain an adequate information system in this regard.
- (f) To assist the CGHQ in rationalization of maintenance expenditure and inventory management procedure.

- (g) To monitor the processing of draft audit paras, audit paras, internal audit objections of CDA(N) etc. to ensure adequate attention and speedy remedial measures.
- (h) To maintain continuous liaison with the executive and financial authorities at different levels as also the MOD and MOD(F) for ensuring effective financial management in the Coast Guard.
- (j) Any other duties relating to financial-accounts assigned to him by FA(DS), CGDA and DGCG.

11.8.1 In addition, concurrence of IFA is obtained in determining the mode of tendering, selection of vendors in L.T.E/S.T.E/PAC, vetting of CST and vetting of draft supply order.

11.8.2 While scrutinizing the proposals pertaining to the Coast Guard, provisions contained in DPM-06, GFR, FR-I are referred to by IFA Coast guards. The Check Lists appended as Annexures to this Manual as well as the checkpoints mentioned in various chapters of this manual for various stages of procurement should also be referred to by IFA Coast Guards. In addition, Standard Operating Procedure as has been approved by the MOD(F) for exercising the delegated financial powers should guide the examination of various proposals of Coast Guards..

## **Chapter - 12**

### **MANAGEMENT OF IFA (NAVY) OFFICE**

**12.1** Even though the concept of Integrated Financial Advisers assumes that the IFAs and their officers and staff are integrated with the defence services and that their logistics and other arrangements are catered for by the respective service, in fact because of several reasons the IFA offices are dependent on Headquarters office for various admin and logistics requirements. The Hqrs office and the Principal IFA also seek various Reports and returns from the IFA offices for monitoring and control.

#### **12.1.1 Charter of duties/objectives of IFAs in Navy**

The charter of duties of IFAs and their responsibilities have already been outlined in Chapter 1 and 2 of this Manual. The primary objective of the IFAs is to ensure best value for money within the framework of rules and instructions. He participates in the decision making process as a team member and is accountable for optimal use of resources allocated and the achievement of organizational goals.

#### **12.2 Interaction with Pr. IFA/ Hqrs office**

IFA offices maintain regular interaction with the office of Pr. IFA/ CGDA and have to provide inputs sought by these authorities. For meeting the day-to-day petty requirements of IFAs/FAs the Headquarters office provides imprest to IFA offices. Budget allotment under TA head and for incurring contingent expenditure, where required by IFAs, is also provided to IFAs offices.

#### **12.3 General functions of IFA offices and Duties towards Pr. IFA/CGDA**

Besides the core function of according financial concurrences as explained in the preceding chapters, the IFAs offices in the Navy are required to carry out the following duties and in these matters IFAs are directly accountable to the headquarters office. For such functions the IFA offices function like the DAD offices:

#### 12.3.1 **Receipt, diarising and dispatch of dak**

The concerned task holder in the IFA office is responsible to:

- Receive, register and distribute inward dak/files
- Dispatch outward dak/files
- Maintain office library, Naval instructions etc.
- Photostat all routine/internal examination sheets of IFA office and important notings of Naval files
- Indent for, receive and distribute stationery and forms and keep their proper accounting
- Upkeep and destruction of records as per norms
- Put up for IFA's perusal any important communication received from the Government of India, CGDA, PIFA, NHQ etc.

#### 12.3.2 **Maintenance of Registers and rendition of periodical reports**

Registered will be maintained and reports and returns will be rendered as per annexure I & II.

#### 12.3.3 **Financial Control Register / Sanctions Register**

For the delegated powers to be exercised with IFA concurrence the sanction letter has to be clearly mention that the sanction issues with the concurrence of IFA. As such IFAs are required to maintain an appropriate register to record such concurrence sequentially.

#### 12.3.4 **Budgetary Control Register**

IFAs should maintain the prescribed register for recording the budget allocation under various heads and the concurrences accorded under various Heads vide CGDA letter No PIFA / Budget /15015 dated 30.5.2007 it has been prescribed that IFAs will accord concurrence only if the following information has been furnished by the executives to the IFAs:

- (i) Code Head under which the expenditure is proposed.
- (ii) Total allocation under the code head.
- (iii) Committed liabilities carried forwarded from previous year

- (iv) Balance available for fresh commitments in current financial year [ (ii) – (iii) ]
- (v) Commitments already made during the financial year.
- (vi) Cash out go expected in current financial year against (v) above based on schedule of delivery and payment terms in supply order /contracts .
- (vii) Net balance available for further concurrence. [ (iv) – (vi) ].

Note Committed Liability / commitment are defined as value of supply orders / contracts issued / concluded but payment not yet made.

The under mentioned proforma will help the IFA's office to ensure availability of funds.

AVAILABILITY OF FUNDS/BUDGET FOR THE FINANCIAL YEAR

(VALID UPTO 31.3.....)

FILE NO ....

		Rs in Lakhs
1	BUDGET CENTRE /HOLDER	
2	MINOR HEAD	
3	CODE HEAD	
4	TYPE OF PROCUREMENT Capital / Revenue	
5	<b>ALLOCATION FOR FY .....</b>	
6	<b>ALLOCATION MADE TO COMMANDS / lower formations</b>	
7	<b>BROUGHT FORWARD LIABILITIES</b>	
	SPREAD OF EXPINDTURE of above	
	2007-08	
	2008-09	
	2009-10	
8	<b>FUNDS ALREADY COMMITED FOR THE CFY</b>	

	SPREAD OF EXPENDITURE of above	
	2007-08	
	2008-09	
	2009-10	
9	VALUE OF PRESENT CASE	
	SPREAD OF EXPENDITURE of above	
	2007-08	
	2008-09	
	2009-10	
10	BALANCE AVAILABLE DURING CURRENT FINANCIAL YEAR	
DATE	NAME and SIGNATURE OF BUDGET HOLDER	

#### 12.3.5 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.

#### **12.3.6 Staffing and Pay and allowances of IFA (N) offices**

Some of the Naval offices where IFA/FAs are posted have provided the support staff to the IFAs. However this is done more on a personal level rather than under any institutionalized arrangement. However, the aspects of disbursement of pay and allowances , sanction of Leave and drawal of various advances etc. have been clearly laid down by CGDA for various IFA (N) offices.

#### **12.3.7 Training:**

Training is an essential ingredient to the functioning of an IFA office. While RTCs are also providing the required training, the IFAs need to make in-house efforts to adequately train their officers, particularly those newly joining in IFA system.

#### **12.4 Vetting of Draft Paras**

IFA offices in the Navy are also required to vet the draft pars raised by the Test Audit. It may be ensured by IFAs that the vetting is done carefully within the time limits prescribed by Hqrs office/test audit.

#### **12.5 Inspection by Hqrs office**

The inspection of IFA offices headed by SAG level officers is to be carried out once in two years. Similarly dedicated IFA offices headed by Jt IFA may also

be inspected once in two years. PIFA will be responsible for carrying out periodical Inspection of IFAs of Integrated Service headquarters and Command Headquarters Offices of all three services. Inspection team from Headquarter office from Audit wing will carry out inspection of IFAs posted in Main office of the PCDA/CDA. The officers of concerned Pr CsCDA and CsDA offices will carry out inspection of nominated IFAs below PCsDA and CsDA.

12.5.1 Data/ information in narrative form to be furnished by IFA is laid down in Annexure 'A' to Procedure manual of the Office of CGDA - 2007 edition. The required information as stated in Annexure A to para 308 of CGDA Manual need to be maintained by IFA Offices

## **12.6 Mission Excel IT**

The Mission Excel IT project is the project under which the Defence Accounts Deptt is being automated. Introduction of automation means a sweeping change in the working pattern of our department. Decision making process is dependent on the quality of the information available. The IFAs and FAs at the field level require a host of data to arrive at a decision regarding the proposals submitted by the executives for financial concurrence. For the IFAs the concept under mission excel IT is to develop a single software package that is relevant to the entire IFA System, with peculiarities of each service duly being taken into account. Single Software would ensure that migration of staff from one functional area to another would be smooth. The data exchange, implementation and maintenance also would be relatively easy. The IFAs should also develop their independent data base through appropriate software.

# **ANNEXURES**

## **MAINTENANCE OF REGISTERS**

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.

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.

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

### **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

## ANNEXURES

### Annexure I

#### (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	CF 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 1<sup>st</sup> time, 2<sup>nd</sup> 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 avai lable =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 5<sup>th</sup> 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. No & date	FC 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 at 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	Savin (in lakh)
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)

**MONTHLY REPORTS/RETURNS (IFA CELL)**

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 10<sup>th</sup> 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 10<sup>th</sup> 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 10<sup>th</sup> of the following month to Audit Co-ordination Section with a copy 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 10<sup>th</sup> 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 15<sup>th</sup> of the following quarter. For further details, please see Annexure-III and Annexure III-A.

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 ]	<ul style="list-style-type: none"> <li>i) Achievements during the month.</li> <li>ii) Problems faced in the functional areas.</li> <li>iii) Difficulties in application of rules/orders and suggestions for simplification of procedure.</li> <li>iv) Cases of dissent / overruling by CFA, if any.</li> <li>v) Suggestions for improvement in the functioning of IFA system.</li> <li>vi) Important points of Audit objections including Test Audit objections &amp; Draft Para on cases concurred by IFA.</li> <li>vii) Details of Inspection of sub-offices, major shortcomings noticed and proposed remedial measures.</li> <li>viii) Case studies carried out.</li> <li>ix) Working of control and monitoring systems – Budget Control, PPP including liabilities, maintenance &amp; use of database of rates.</li> <li>x) Interaction with the executive authorities.</li> <li>xi) Any other point considered necessary to bring to the notice of CGDA.</li> </ul>	Pr.IFA, Demi-Officially.	PIFA/MAR/15 023/Circular dated 23/11/2006 and No. PIFA/MAR/15 023 dated 16/10/2007	10 <sup>th</sup> of the following month
2	Monthly Activity Report - IFA System (in narrative form) [By IFAS COD, ED/BRDs and FA to ASD/MS)	<ul style="list-style-type: none"> <li>i) Achievements during the month.</li> <li>ii) Problems faced in the functional areas.</li> <li>iii) Difficulties in application of rules/orders and suggestions for simplification of procedure.</li> <li>iv) Cases of dissent / overruling by CFA, if any.</li> <li>v) Suggestions for improvement in the functioning of IFA system.</li> <li>vi) Important points of Audit objections including Test Audit objections &amp; Draft Para on cases concurred by IFA.</li> <li>vii) Case studies carried out.</li> </ul>	The PIFA, (Pr.IFA Wing) New Delhi-66. with a copy to Comma	PIFA/MAR/15 023/Circular dated 12/03/2007	10 <sup>th</sup> of the following month

		<p>viii) Working of control and monitoring systems – Budget Control, PPP including liabilities, maintenance &amp; use of database of rates.</p> <p>ix) Interaction with the executive authorities.</p>	nd IFA.		
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 &amp; 2) Details of PNC/SO vetting <b>having fields of OB, Receipt, Cleared, CB, OD, Cleared within 7/15/30 days, Cases returned, Amount proposed, Amount concurred &amp; Savings.</b></p> <p>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.</p> <p>(ii) The opening balance should tally with the closing balance shown in the report of the previous month.</p> <p>(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.</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>10<sup>th</sup> of the following month</p>

		(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.			
4.	Quarterly Expenditure Report (See Annexure – IV)	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.	The PIFA, New Delhi	Authority: PIFA/Budget/15015 dtd 20/08/07	10 <sup>th</sup> of the following month of the quarter

**Annexure-II – Part –A (AON/Quantity Vetting ) (Navy)**

Monthly Progress Report for the Month of.....in respect of IFA .....

Description	O B	Receipt	Total	Break up of cases disposed off with time taken				Break up of cases cleared				Cases disposed off (5.4+6.4)	CB (4-7)	Oldest date	Amt. Proposed (in respect of 6.4)	Amount concurred (in respect of 6.4)	Savings achieved (10-11)	Progressive total of upto the month of report		
				Cases returned concurrence	without	7 days	15 days	30 days or more	Total cases returned (5.1+5.2+5.3)	7 days	15 days							30 days or more	Total cases concurred (6.1+6.2+6.3)	Amount proposed
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
1.CHT																				
2.Refit and Repairs																				
3.Weapon stores																				
4.Non-weapon stores																				
5.Works																				
6.Misc.																				
7.Capital																				
<b>8.Others</b>																				
<b>9. Total of which</b>																				
9.1 Cases recommended for																				

concur ence by higher IFA																				
9.2 Balance cases within the compe tence of IFA renderin g 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 of serial number 9.1 and 9.2 should be equal to serial number No. 9.3. 3. One more column for budget allocation has been added at serial 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.

**Annexure-II – Part –B (Financial/expenditure concurrence )**

Monthly Progress Report for the Month of.....in respect of IFA .....

Description	OB	Re ceipt	Tot al	Break up of cases disposed off with time taken								Cases disposed off (5.4+6.4)	C B (4-7)	Oldest dated	Amt. Propo sed (in respect of 6.4)	Amount concurred (in respect of 6.4)	Savin gs achiev ed (10-11)	Progressive total of upto the month of report		
				Cases returned without concurrence				Break up of cases cleared										Amt proposed	A mt co nc ur red	Savi ngs achi eve d
				7 days	15 days	30 day s or more	Total cases retur ned (5.1+5.2+5.3)	7 days	15 days	30 day s 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
1.CHT																				
2.Refit and repairs																				
3.Weapon stores																				
4.Non-weapon stores																				
5.Works																				
6. Misc.																				
7. Capital																				
<b>8. Others</b>																				
<b>9. Total of which</b>																				
9.1 Cases recommended 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 serial number 9.1 and 9.2 should be equal to serial number 9.

**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 <sup>th</sup> 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 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 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	8
1	Hiring of Vessles, Transport & Freight	105					
	Total						
2	Repair & Refit	106					
	<b>Total</b>						
3	Naval Stores (Other than IT)	110					
4	IT (Code Head 650/01 to 08)	110					
	<b>Total</b>						
5	Works	111					
6	Misc	800					
	<b>Total</b>						

**DATA/INFORMATION IN NARRATIVE FORM TO BE FURNISHED BY IFA  
(FOR THE LAST FINANCIAL YEAR AND UPTO THE LAST QE- BEFORE  
INSPECTION)**

1. State the number of proposals with amount received for AON and vetting of RFPs.
2. State the time taken in concurrence of proposal received for AON and vetting of RFPs.
3. State the number of procurement proposals with amount received for financial concurrence and vetting of supply orders and the time taken for clearance.
4. State the nature of irregularities observed while concurring AON proposals, vetting of RFPs and processing of procurement proposals.
5. State the monitoring mechanism of procurement proposals for which AON/RFP are vetted but proposals for financial concurrence for procurement are awaited for over a month.
6. State the nature of financial advice given in the PNC Meetings.
7. State the number of Price Negotiation Committee meetings attended by the IFA and his representatives.
8. State the number of procurement proposals with amount in which retendering has been advised and in how many procurement proposals the advice of finance was not accepted.
9. State the number of procurement proposals with amount where L1 has not been considered.
10. State the number of procurement proposals with amount where copies of the supply orders issued have not been received.

11. State the number of procurement proposals with amount, if any, where any deviation from the vetted draft supply order have been observed and action taken.
12. Reasons for delays in clearance of procurement proposals if exceeds more than seven days.
13. State the details of savings achieved.
14. State the number of cases in which splitting of powers observed, if any.
15. State the number of cases of dissent notes, if any. Is there any case(s) where CFA has overruled the advice of the IFA and further action taken by IFA.
16. State the percentage of items procured as Scaled and as Non scaled/NSP.
17. State the system followed in selection of Vendors.
18. State the percentage of cases where procurement is made from OEMs, from their authorized dealers, from firms Registered with DGS&D, DGQA and other Defence Organisation and other firms.
19. State the percentage of cases where procurement is made on Open Tender, Limited Tender, single Tender or PAC basis.
20. State the system followed for inspection of the items.
21. State the arrangements for coordination between IFA and executive authorities.
22. State the procedure being followed for budget monitoring.
23. State the procedure followed for committed liabilities.
24. State whether any proposal was financially concurred alongwith reasons which was not included in Annual Works Plan and other PPPs.
25. Comment on the availability of Infrastructure, manpower, availability of fund for contingency/Imprest etc.
26. State the list of registers maintained.

27. State that separate register for dead stock items received from DAD/Executive authorities. A separate register for Computer peripherals is also being maintained.
28. State that physical verification of Dead Stock Articles/ Computer Hardware and Software is being carried out annually.
29. State that separate Cash Book for Public Fund Account (If operated) and Imprest Advance is being maintained.
30. State whether PPPs are being received and verified before vetting procurement proposals for AON.
31. State to what extent IFA is associated in preparation of PPP and are AON Proposals processed on the basis of PPP.

Give details of SOPs/Check lists available/not available with the IFA. Action taken to obtain the SOP/Check lists which are not available.

**Points to be seen by the Inspection Team**

- (1) Registers maintained are as per provision contained in OM Part II Vol I and II and prescribed by HQrs office vide letter No AT/IX/13381/PC-Registers dated 27.12.2005.
- (2) Stock taking of dead stock article held on charge has been carried out.
- (3) Separate registers are being maintained for dead stock articles received from DAD Funds and Executive authorities.
- (4) Separate register for EDP and peripherals is being maintained w.r.t. the instructions issued by EDP Cell of Hqrs Office.
- (5) Proper sanction is being obtained before incurring expenditure.
- (6) Items purchased are being accounted for properly in the register of dead stock/expendable register.
- (7) Cash Book is being maintained on the prescribed format for the amount received and spent.
- (8) Entries in the Cash Book are being authenticated and there is no overwriting/erasing without proper authentication.
- (9) Entries in the Cash Book are being made immediately after receipt of amount/incurrence of expenditure.
- (10) System of MIS followed for proper monitoring and reporting of expenditure to Pr. IFA/CGDA/F.A.(D.S.)/Service Hqrs and other concerned authorities.
- (11) Comment about the coordination with PCDA/CDA and Executives.
- (12) Sample some of the cases from the register of CNC/PNC to ascertain the level of participation in CNC/PNC and financial effect in case of price negotiations.

- (13) Sample the draft supply orders to verify that the same are prepared as per terms & conditions of DPM and terms agreed in CNC/PNC.
- (14) That copies of all the sanctions issued with the concurrence of IFA are being received and recorded in the concerned files
- (15) Check and review the system of monitoring of committed liability for the supply orders placed in the previous financial year.
- (16) Comment on Case studies carried out if any, by the IFA.
- (17) Sample some of the case files w.r.t. the following :
  - a) The proposal is included in the PPP.
  - b) Statement of case has been prepared giving full details of existing holdings, deficiency, replacement, urgency factor, financial implications and distribution of proposed quantity alongwith list of approved vendors of the particular trade.
  - c) Proper market survey has been carried out to avoid cost escalation at the time of actual procurement.
  - d) Certificate of availability of funds has been given.
  - e) Extension of delivery period is not granted as a matter of routine.
  - f) Procurement of items is authorised under the head in which procurement has been concurred.
  - g) Vendor is not a general supplier for technical items.
  - h) Vendor is from the approved list of Vendors or is OEM.
  - i) In case of change in terms & conditions of the supply orders having financial implications after placement. IFA's concurrence has been obtained.

Comment on Quality of Noting and examination of financial proposals.

**Annexure – VII**

No. 840/Addl FA(J)/94

Government of India  
Ministry of Defence(Fin)

New Delhi, the 22 March 94

To

The C.G.D.A  
West Block V, R.K. Puram  
New Delhi

Sub:- Introduction of Integrated Financial Advice System at the Naval HQrs

It has been decided with the approval of the RRM and the P.M to set up an Integrated Financial Advice Cell at Naval HQrs/ The complement for the same will be as follows:-

- (i) Integrated Financial Adviser (IFA) – to be manned by an officer of Senior Administrative Grade of IDAS.
  - (ii) Deputy IFA – to be manned by a time-scale officer of the IDAS.
  - (iii) Two Junior Finance Officers – to be manned by Assistant Accounts Officers of the Defence Accounts Department.
2. The above officers will be found by suitable internal adjustment within the overall strength of the Defence Accounts Department and placement will be made by the CGDA. Additional manpower support on as required basis will be provided by the Naval Hrs.
  3. The IFA Cell will function under the Vice Chief of the Naval Staff. VCNS initiate the ACR of the IFA which will be reviewed by the FA(DS).
  4. All administrative support to the IFA Cell will be provided by the Naval HQrs.
  5. Charter of duties of the IFA to the Naval HQrs, will be as follows:-
    - (i) The IFA shall render advice on all financial matters which fall within the competence of various authorities at NHQ within the delegated financial powers. The IFA will be consulted in respect of specific expenditure proposals under the delegated powers and the said powers will be exercised with his concurrence. In case of difference of opinion , the Vice Chief of Naval Staff will refer the mater to FA (DS) in writing.

- (ii) He or his representative will participate in various TPCs/PNCs held at Naval HQrs.
  - (iii) He will assist Naval HQrs in formulation of Budget at different stages and monitoring of expenditure against the budget allotment.
  - (iv) He will assist the Naval HQrs in implementation of Authority-cum-responsibility centre concept (New Management Strategy).
  - (v) He will monitor the implementation of sanctions, commitments and liabilities for taking effective measures to achieve economy, cost effectiveness and better resource planning. He will maintain an adequate information system in this regard.
  - (vi) He will assist the NHQ in rationalization of maintenance expenditure and inventory management procedures.
  - (vii) He will monitor the processing of draft audit paras, audit paras, internal audit objections of CDA (Navy) etc. to ensure adequate attention and speedy remedial measures.
  - (viii) He will maintain continuous liaison with the executive and financial authorities at different levels as also the MOD and MOD(F) for ensuring effective financial management in the Navy.
  - (ix) Any other duties relating to finance/accounts assigned to his by FA(DS), CGDA and VCNS.
3. Immediate action to place the officers mentioned at para 1 above may please be taken under intimation to the undersigned.

Sd/-  
(B.C.Joshi)  
Addl FA(J)&JS

Copy to:-

- 1. VCNS
- 2. JS(N)
- 3. CDA (N)
- 4. DFA (N)
- 5. Dir.Gen of Audit (AF & Navy)
- 6. All Addl FAs

**F.No.5(6)/L&C/2006  
Government of India  
Ministry of Finance  
Department of Expenditure**

New Delhi, dated the June 1, 2006

**OFFICE MEMORANDUM**

**Subject: Scheme of `Integrated Financial Adviser`**

Under the existing scheme of Budgetary and Financial Control and Delegation of Powers outlined by this Ministry vide OM No. 10 (29)-E.Coord/73 dated 6<sup>th</sup> October, 1975 and subsequent instructions in this regard, the Ministries have an Financial Adviser who is responsible both to the administrative Ministry and the Ministry of Finance. With his assistance, administrative Ministries freely exercise the enhanced powers delegated to them and, outside the scope of the delegation, he functions under the guidelines of the Finance Ministry.

2. After the introduction of the scheme, the Indian economy has matured and we are attempting to keep pace with the fast growing economies of the world. Therefore, it is imperative that our systems match the needs of a fast growing economy, The role of Financial Adviser assumes great importance in such a scenario and the scheme has been redefined in this context. The redefined Charter for Financial Adviser annexed to this memorandum outlines the features of the Revised Scheme of Integrated Financial Adviser.

3. This comes into force with immediate effect.

Sd/-  
(Adarsh Kishore)  
Finance Secretary and Secretary(Expenditure)

Contd...

To,

1. Cabinet Secretary
2. Principal Secretary to the Prime Minister of India
3. All Secretaries to the Government of India (By name)
4. All FAs (By name)
5. All Heads of Public Sector Enterprises

## REDEFINED CHARTER FOR FINANCIAL ADVISERS

### INDEX

S.NO.	CONTENTS	
I.	Introduction	
II.	Role of Financial Advisers	
III.	Involvement in Key Process of Ministries	
IV.	Reporting System	
V.	Roles and Responsibilities of CCAs/CAs	
VI.	Interaction between MoF and FAs	
VII.	Capacity Building	
	<b>ANNEX-I</b> : Copy of OM No. 10(29)-E Coord/73 dated 6..10.1975 indicating the functions of Integrated Financial Adviser along with the modalities for functioning.	
	<b>ANNEX-II</b> : Provisions under DFPR indicating duties and responsibilities of the Financial Adviser.	

## **ROLE OF IFAs**

**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

**2.1 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

**2.2 Appendix B of Defence Services Estiamtes 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.

**2.3 MoD orders – Government 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.

**Annexure - IX**

**F.No. 10(29)-E.Coord/73**

**Government of India**

**Ministry of Expenditure**

\*\*

New Delhi, the 6<sup>th</sup> October, 1975.

**Office Memorandum**

**Subject: Scheme of `Integrated Financial Adviser**

Under the existing scheme of budgetary and financial control and delegation of powers to Ministries as introduced vide this Ministry's OM NO. 10(3)-E.Coord/67 daed 18<sup>th</sup> October, 1968, the Ministries have an Internal financial Adviser, who is in charge of their Budget and Accounts Section and is required to be consulted in all cases of exercise of delegated financial powers and an "associated" Financial Adviser based in the Department of Expenditure, who is required to be consulted in matters falling outside the delegated field. The `associate' Financial Adviser is attached to a group of Ministries. In pursuance of the policy of to delegate enhanced financial powers to the administrative Ministries to match their responsibilities and to improve their competence in the field of financial management by developing appropriate internal attitudes and skills, this question whether the functions of the `associate Financial Adviser and the Internal Financial Adviser could, with advantage be integrated in a single official, forming part of the administrative Ministry, has been under consideration. It has been felt that Ministry in a larger measure than at present to enable him to play a more effective and constructive role in its developmental activities and should bring his financial expertise to bear in assisting the Secretary of the administrative Ministry and other senior officers in the planning, programming, budgeting, monitoring and evaluation, functions of the Ministry. A scheme of `Integrated' Financial Adviser has accordingly been drawn up in consultation with Department of Personnel &

Administrative Reforms, the salient features of which are outlined in the Annexure.

2. In the new scheme, the Financial Adviser will be responsible both to the administrative Ministry and to the Ministry of Finance. With the assistance, the administrative Ministry will be able to fully exercise the enhanced powers delegated under the Department of Expenditure OM No. F.10 (13)-E. Coord/75 dated 10<sup>th</sup> April 1975 and outside the scope of the delegations, he will function under the general guidance of the Finance Ministry. He will assist in budget formulation, scrutiny of projects and programmes for approval by the Ministry of Finance and post-budget vigilance to ensure that there are neither considerable shortfalls in expenditure nor unforeseen excesses for which provision has not been made either in the original budget or in the revised estimates. The close association of the Integrated Financial Adviser and his staff with the formulation and implementation of all proposals involving expenditure should facilitate the more effective discharge of the Financial Adviser's responsibility. It is cardinal to the working of the new scheme that the Financial Adviser should be associated with the formulation of schemes from the initial stages. The Financial Adviser will also be responsible for preparation of the Ministry's performance budget and monitoring of progress of schemes against the budget. The maintenance of an efficient accounting system is necessary for this purpose.

3. In matters involving any deviations from the budgeting and accounting procedures, consultations with the Budget Division of the Department of Economic Affairs, will continue to be obligatory. Similarly, in respect of the formulation of the Ministry's development plans, the Plan Finance Division in the Department of Expenditure would have to be consulted. The Public Investment Board (PIB) and Expenditure Finance Committee (EFC) procedure would also continue to be applicable, the Integrated Financial Adviser taking on the role at present discharged by the Establishment Division and the Staff Inspection Unit of the Department of Expenditure would also not be affected by the proposed changes.

4. In the first instance, the scheme will be introduced in the following Ministries/Departments:

- (i) Health & Family Planning.
- (ii) Works and Housing
- (iii) External Affairs
- (iv) Education & Social Welfare
- (v) Information and Broadcasting
- (vi) Science & Technology; and
- (vii) Shipping & Transport (where the scheme has already been introduced as an experimental measure)

5. It is proposed to extend the scheme to other Ministries/Departments soon thereafter.

6. Pending further consideration of the need for formation of centralized or decentralized single or multiple level cadre of finance and accounts and scheme for absorption of the present associate finance staff in such cadres, in the initial stage, the Financial Adviser, the officers and staff working in the associate finance divisions in the Department of Expenditure will be transferred to the administrative Ministries as follows according to requirements:-

- Officers of services other than the Central Secretariat Service will be treated as on deputation to the administrative Ministry instead of to the Finance Ministry.
- Officers of the Central Secretariat Services including Grade I and selection grade will be treated as transferred to the administrative Ministry.
- Members of the decentralized cadres of various grades of CSS will be transferred on loan basis from their present cadre to the cadre of the administrative Ministry on a purely temporary basis.

7. When the scheme is introduced, certain changes will be necessary in the organization structure in the administrative Ministry and in the Department of Expenditure. Creation/abolition of some posts will be involved. The details of the revised organizational structure in the administrative Ministry out of the posts and personnel to be transferred from the Department of Expenditure to

the administrative Ministry along with the work will be communicated to the respective Ministries separately.

8. The new scheme will be introduced in the Ministries/Departments mentioned in para 4 as soon as suitable officers to man the posts of Integrated Finance Adviser become available. A separate communication will be sent to them in this respect.

9. The administrative Ministries/Departments are also requested to make necessary arrangements for housing the additional staff to be transferred from the associate Finance Divisions in the same building, as such arrangements are essential for the proper functioning of the Scheme.

Sd/-  
(NNK Nair)

Joint Secretary to the Government of

India.  
To

All Ministries/Departments of the Gov t. of India.

**ITEMS OF WORK TO BE HANDLED BY INTERNAL FINANCIAL ADVISERS**

The Internal Financial Adviser will be in overall charge of Budget and Accounts in addition to the Internal Finance Section. It will be his duty-

- (i) 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.
- (ii) To scrutinize budget proposals thoroughly, before sending them to Ministry of Finance.
- (iii) To see that complete departmental accounts are maintained in accordance with the requirements under the General financial rules. It should, in particular be ensured that the Ministry not only maintains account 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;
- (iv) 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.
- (v) 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.
- (vi) To screen the proposals for supplementary demands for grants
- (vii) 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;

- (viii) 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 IFA that the sanction issued by Administrative Ministry in exercise of delegated powers clearly indicates that they issue after consultation with IFA.
- (ix) To identify, in particular, specific savings in cases of creation of posts and to maintain a Register for this purpose.
- (x) To scrutinize proposals for re-delegation of powers to subordinate authorities;
- (xi) To keep himself closely associated with the formulation of schemes and important expenditure proposals from their initial stages;
- (xii) To associate himself with the evaluation of progress/performance in the case of projects and other continuing schemes and to see that the results of such evaluation studies are taken into account in the budget formulation;
- (xiii) To watch the settlement of audit objections, Inspection Reports, draft audit paras, etc;
- (xiv) To ensure prompt action on audit Reports and Appropriation Accounts, reports of Public Accounts committee, Estimates committee and Committee on Public Undertakings;
- (xv) To screen all expenditure proposals requiring to be referred to Finance Ministry for concurrence or comments;
- (xvi) To ensure regular and timely submission to finance Ministry of quarterly staff statements and other reports and returns required by Finance.

**ANNEXURE - XI**

**(IFA coverage to CFAs : Navy)**

**Office of the Controller General of Defence Accounts,  
West Block V, R.K. Puram, New Delhi-110 066**

No. AN-I/1179/1/Navy

Dated 2<sup>nd</sup> April 2007

To

1. The PCDA (Navy), Mumbai
2. The CDA (IDS), New Delhi
3. The IFA (NHQ), New Delhi
4. The IFA (SNC), Kochi
5. The IFA (ENC), Vizag
6. The IFA (ANC), Port Blair
7. The IFA (WNC), Mumbai

**Subject: IFA coverage to new CFAs : Navy**

Consequent upon creation of new CFAs and revision of financial powers of the existing CFAs in Naval HQrs, Command HQrs and other Units/Estt./Ships/Depots, the system of providing IFA coverage to these CFAs has been reviewed.

2. I am directed to convey that the new system of providing IFA cover to the CFAs in respect of Indian Navy will be as per annexure.

3. The revised system will come into force with immediate effect.

(Vishvajit Sahay)  
Sr. Dy. CGDA (admin)  
Telefax : 26109389

Copy to:

1. The Principal IFA : for information (Local)
2. Captain S.N. Ghormade, : For information w.r.t. Integrated HQrs  
DNP : letter No. PL/3221 dated 01.11.2006  
And 08.3.2007 for intimating to all  
Naval authorities.
3. The CDA, Secunderabad :
4. The CDA Chennai :
5. The IFA EC (Army), Kolkata : For information
6. The IFA 26 ED, Bangalore :
7. The DCDA 1/c, AAO Kanpur :
8. The DCDA 1/c AO (Navy), Goa :  
(FA to FOGA/FONA)

(Vishvajit Sahay)  
Sr. Dy. CGDA (Admin)  
Telefax: 26109389

**Annexure to CGDA, New Delhi letter No. AN-1/1179/1/Navy dated 2<sup>nd</sup> Apr 2007**

1. IFA cover to be provided on a regular basis

<b>Sl, No.</b>	<b>Station</b>	<b>Formation</b>	<b>IFA cover to be provided by</b>
(i)	New Delhi	(a) NHQ (b) Ships and Units/Estt.	IFA(N), New Delhi,(SAG level)
(ii)	Mumbai	COS CLOGO WNC, FONA Western Fleet NOIC Mumbai and Porbandar, NSRY, NAY, NAD, WED, CABS, FMU, NAI, Officer I/C Repair Yard Depots, Units & Estt, & CO Ships, Units, Estt. (Mumbai & Porbandar)  ASD  DGNP  MS	IFA (WNC) Mumbai (SAG level)  FA TO ASD (JAG level)  FA to DGNP (STS level)  FA to MS (STS level)
(iii)	Vizag	COS ENC, FONA CLOGO Eastern fleet Cdr, FOSM NOIC, NSRY, NAY, NAD, WED, NAI CLOGO FMU Eksila, O i/c Repair Yard Depots & CO Units/Estt. ships  ASD  DGNP  MS	IFA ENC Vizag (JAG level)  FA TO ASD (JAG level)  FA to DGNP (JAG level)  FA to MS (JTS)

			level)
(iv)	Kochi	HQ COS, CLOGO SNC, NSRY, NAY NAD, WED, CO Ships & Estt. Officer I/C Repair Yard, Depots and Estt, MS, NAI	IFA SNC Kochi (JAG level)
(v)	Ezhimala  Lakshdeep	CO INS Zamorin  NOIC	IFA SNC Kochi (JAG level)
(VI)	Goa, Karwar	Goa Naval area, NOIC, NAY, NAD, WED, NAI, Officer I/C, Repair Yard/Depots Units & Estt, CO Ships and Estt.	FA to FOGA (STS level) (nominated) DCDA-in-charge Area Accounts Officer (Navy) Goa
(vii)	Port Blair	NSRY, NAY, NAD, WED, CO Ships and Estt. Officer I/C, Repair Yards and Depots Units and Estt.	IFA ANC Port Blair (JAG level)
(viii)	Orissa	NOIC Orissa, NAD Sunabada, NAI Chilka	IFA ENC Viziag

II. IFA cover to be provided as an additional charge

Sl. No.	Station	Formation	IFA cover to be provided by
(i)	Hyderabad	NAI  NTG	Addl. CDA, CDA Secunderabad
(ii)	Chennai  Triichy  Tuticoran	NOIC, CO Ships and Estt. Officer I/C Repair depots/Yards Units/Estt. NAI  NO I/c	ACDA/DCDA of CDA Chennai

	Arkonam	INS Rajali	
	Tirunelveli	INS Kottaboman	
(iii)	Kanpur	NLC	ACDA/DCDA I/C, Area Accounts Office (CC), Kanpur
(iv)	Bangalore	CO Ships/Estt Officer I/C Units/Estt.	IFA 26 ED Bangalore (STS level)
(v)	Kolkata	NOIC CO Ships/Estt, Officer I/C Repair yards/depots, Units and Estt.	IFA EC (Army) Kolkata

(Vishvajit Sahay)  
Sr. Dy. CGDA (Admin)  
Telefax: 26109389

# **CHECKLISTS**

**ANNEXURE - XII****CHECKLIST FOR VARIOUS PURCHASE PROPOSALS (NAVY)**

CHECK LIST FOR ACCEPTANCE OF NECESSITY – GENERAL - FOR ALL TYPES OF CASES

Sl. No.	Basic Check Point/guidelines for processing cases by naval authorities/IFA/FA's in Indian Navy.	Rule, reference, if any
1	Proposal is self contained with SOC and all details. All relevant documents are made available.	Para 7 of GOI letter 19/07/06 of NI 1/S/06
2	Confirmation that proposal is included in Accepted Provisioning Plan/STOPS Whether the expenditure was projected in Annual Budget Estimate forwarded by the unit? A clear Revenue Priority Procurement plan in all major areas of procurement, including those to be sanctioned under delegated powers of the Navy is to be formulated. CFA at each level should have his plan for the budget allocation held by him as a subset of the overall plan and these plans are to be notified formally in consultation with the respective IFA's.	Para 9 of Annex 5 and para 1 (a) of Annexure 3 of of NI 1/S/06
3	Indicate Sl. No. of NI 1/S/06 & appropriate CFA. Is the proposal beyond Fin. Powers of Command/Lower formation? CFA to be determined based on estimated value of total demand.	Rule 148 of GFR'05
4	Capital/revenue requirement, more than 07 years life, value involved is more than 10.00 lakhs will be treated as capital. It is expenditure with the object of increasing assets.	CGDA letter 18.11.03 Para 2.3 and 2.4 DPM'06
5	Any other related Government Sanction/CCS(cabinet committee on securities) notes to be linked.	

6	Confirmation on correctness of PQ (vetting of quantities) w.r.t. provisioning parameters such as stock, dues-in, dues-out, ACL, USL, MSL etc. whether furnished on file (in case inventory not maintained on Automated System) or available on ILMS ( in case of inventories are maintained on Automated environments). It should be confirmed that last Review of demands have been linked to avoid overlapping. <b>*Items of similar or allied nature should be included in one indent.</b>	<b>*Para 9.2(k) of DPM'06</b>
7	Availability on file of Schedule of Requirement (SOR)/Scope of Work(SOW) with specific indication of description of item, specification etc.	
8	Estimated financial implications (including duties & taxes) of the proposal (indent value) along with basis of the same such as LPP, Budgetary quote, market intelligence, other relevant inputs etc.	Para 13.2.1 of DPM 06
9	If purchase proposed on PAC basis, PAC is to be issued by the CFAs as prescribed in related Annexures of NI 1/S/06. PAC certificate is, however, not to be given at a level below the rank of RADM. Further, the PAC is to be valid for one year and is to be decided in consultation with IFA/FA's. PAC to be issued only in the name of OEM whereas item may be bought from any supplier listed in that PAC provided the purchase is accompanied by a proper manufacturer certification.	Para 4.1, 4.1.1, 4.1.1.2 and 9.7 of DPM' 06, and Para 15 of GOI letter dated 19/07/06 forwarding NI 1/S/06
10	In case of procurement against replacement, survey report/ABER/BER proceedings duly approved by Competent Authority.	

11	Possibility of Buy back offer is to be explored when replacement of existing item is approved. A technical board must be nominated for declaring the salvage value of the equipment and the amount can be co-related with the offer of the firm on buy back offer.	Rule 162 GFR '05
12	In case of procurement from abroad-CFI(clearance for import) accorded to be linked on file (on ILMS network for items on ILMS). Agency for according CFI would be Directorate of Indigenization (DOI) w.e.f Jan 06	Para 14(d) & 23 (b) (vii) of Annex 5 of NI 1/S/06.
13	Proposed mode of Tendering:- Goods more than Rs. 25 lakhs, COTS items and services more than Rs. 10.00 lakhs should be on OTE basis	Paras 4.1 to para 4.4 of of DPM 06, Rule 150 and 181(b) of GFR'05
14	In case of Indents emanating from Commands/depots/lower formations, has the quantity been vetted by co-located/local FAs, or is otherwise determined as per SOPs	
15	Is the requirement for replacement of existing authorized item or introduction of new item? Care should be taken that the proposal does not involve introducing a new practice.	Rule 56(d) FR part I
16	Details of last procurement be linked- year of purchase, source, and mode of purchase i.e. OTE/LTE/STE/PAC etc.	
17	Whether the proposals involves splitting of financial powers to avoid sanction of higher CFA.	Rule 133 FR Part I Vol.I & Para 9 of GOI letter 19/07/06 of NI 1/S/06
18	DTE and Vendor list for vetting for scaled items can be asked at AON stage itself to avoid movement of file again.	Para 5.4 DPM '06
19	Minor head & code head under which the expenditure is proposed.	

	Allotments, expenditure till date outstanding liabilities/commitments, balance funds available in this financial year for the purpose under proper minor head.	
20	Anticipated recurring expenditure, if any and source of its funding in future may be indicated.	
21	<p><b>Disagreement</b></p> <p>In case of disagreement with the IFA in individual CFA system, CFA can <b>overrule</b> IFA. However, a report to next higher CFA and IFA with reasons to be given.</p>	<p>Para 5.2.1 of DPM'06 and Para 8 of GOI letter dated 19/07/06 forwarding NI 1/S/06.</p>
22	<p><b>Points specific to Procurement Cases</b></p> <p>a) Availability of indigenous alternative in case of foreign purchase.</p> <p>b). What are the available/likely substitutes/alternatives?</p> <p>c) Is it a Naval store item or not? If yes, NAC from respective organization is placed or not. Non availability Certificate from RSD for vocabulary stationery is required.</p> <p>d) If items are non scaled, justification for the same and basis of working out requirements to be enclosed. Ensure where scales of consumption on limits of stores have been laid down by competent authority, prescribed scales and limits are not exceeded.</p> <p>e) If the requirement is new, how it was met in the past?</p>	

	<p>f) Mode of disposal of existing items. Possibility of reapportionment between units is required to be explored.</p>	
23	<p><b>Points specific to in Repair/Services</b></p> <p>(a) Availability of in-house maintenance/existing maintenance facilities/ expertise. BLR/NCC/No Facility Certificate for offloading the machinery/equipment for repair is to be enclosed. Total estimated cost of repairs may not exceed 60 % (BER) of original cost.</p> <p>(b) Whether any RRC/AMC exists in ND (MB)/FMU (MB) or system is under warranty.</p> <p>(C) In case of flight critical item/repair, the firm selected is having the DGQA/CEMILAC (Centre for military airworthiness certification) approval.</p> <p>(d) Cases of repair/servicing of ICG Helicopters/Dornier Aircrafts &amp; their rotables:</p> <p>(i) M/s HAL has been entrusted with the responsibility of carrying out the repair/servicing of Indian Coast Guard Helicopters/Dornier Aircrafts.</p> <p>(ii) In-principle approval of the CFA is obtained on the basis of estimate submitted by M/s HAL.</p>	

	<p>(iii) To check whether the Aircraft/rotables is being positioned at HAL at its scheduled time of its repair/servicing.</p>	
24	<p>Points specific to Annual Maintenance Contracts:</p> <p>(a) Procurement details of items for which AMC is proposed.</p> <p>(b) Existing arrangement for maintenance</p> <p>(c) Warranty/Guarantee/previous AMC has expired.</p> <p>(d) Total life and residual life.</p> <p>(e) Total repairs and frequency of repairs carried out till date</p> <p>(f) Whether AMC terms were negotiated at the time of procurement.</p> <p>(g) Whether there is any downward trend in the market</p> <p>AMC proposals should contain present cost as well as procurement cost of the equipment.</p>	

**CHECKLIST - AON FOR REPAIR CASES (for repairs abroad)**

Sl. No.	Check Point	Remarks
1	<p>Repair Indent clearly specifying: type of Equipt. Qty, type of repair, history of previous major repairs, OEM, Total Technical Life (TTL); Acquisition/procurement cost vis-à-vis prevailing market price of the equipment. Date of supply and source of supply. Details of expenses incurred towards repair/maintenance since supply/procurement &amp; agency involved/vendor who carried out the repairs/frequency of repairs. In this regard photocopies of past sanctions to be forwarded. Total expected life span of the equipment and likely extended life after the repair.</p>	Para 11.2 of DPM 06
2	<p>Assessed repair Cost based on past experience (may be obtained through a non-obligatory budgetary Quote).</p>	Para 11.2 of DPM 06
3	<p>Confirmatory certificate that no indigenous repair facility exists/possible in case of repair by foreign agency.</p>	
4	<p>Confirmation that repairs is proposed through OEM. If OEM not having export License, repair is to be got done through other Regd. Firms having agreement with OEM or approved by OEM. Indian agent is to be registered with DGS&amp;D</p>	Appendix L DPM'06
5	<p>Confirmation that warranty/AMC if any on the item proposed for repair no longer exists.</p>	

6	Approval of Competent authority for dispatching the item abroad.	
7	RFP should necessarily include some clauses viz:	Para 11.4 of DPM 06
a.	Description of the item.	
b.	Quantity.	
c.	Date of Manufacture.	
d.	Name of OEM.	
e.	Period of usage.	
f.	Number of major repairs & their types (already carried out).	
g.	List of work required.	
h.	Schedule of delivery of Equipt. for repair & completion of Task.	
i.	Warranty/Guarantee of repaired/replaced parts to be specified in repair contracts.	Amplification note no. XII to DPM 05

<b>CHECK LIST FOR CIVIL HIRED TRANSPORT</b>		
<b>Sl.N o.</b>	<b>Brief check points</b>	<b>Rule, reference if any</b>
1.	Whether the purpose of hiring of transport is bonafide and authorized in Government orders.	
2.	Hiring is being done to meet the deficiency against authorization/ no replacement for condemned vehicle, non receipt of new vehicle for new authorized posts and for VIP visits.	Justification in SOC to be checked.
3.	Requirement cannot be met through alternate arrangement by loan from other units.	
4.	Whether any hired transport contract exists, if so the reason for not relating to service.	
5.	Quantum, type of transport and duration of hiring should be checked from the necessity/justification angle	
6.	Compare the rates quoted with the rates obtained from Local Civil authorities (RTO) as well as rates achieved at other nearby stations, STA.	
7.	Check that rates are invited for authorized types of vehicles only for both Air conditioned and non air conditioned vehicles.	
8.	Whether hiring of the vehicles falls within the delegated powers of CFA.	Serial No 34 of Annexure 1 and Sl. 39 of Annexure 2 of N1 1/S/2006
9.	Identification of likely contractors and Mode of tendering to be checked. OTE/LTE is to be followed depending on value. Check the bona fides of the tenderer (registration with sales tax authority etc), past performance and details of Regs. with RTO at pre	Rule 179 and Rule 181 of GFR 2005.

	qualification stage.	
10.	Whether TE is comprehensive indicating specific details regarding type of vehicle viz. capacity (Tonnage), Fuel (petrol/diesel driven etc.) and number of vehicles required ?	
11.	What is the value involved and how it has been arrived? Whether the principle of single transaction has been correctly applied and ensure that there is no splitting up of sanctions?	*

\* At NHQ and WNC an RC for fixing rates for annual hiring for AC and non AC Cars and other vehicles is concluded. The RC is fixed for an amount on non exceeding basis for the entire year/period taking into consideration the number of vehicles for entitled officers/visitors, other official duties, number of days of hiring and rate for each category of vehicle. All hiring done in the year for Officers on official visits, conferences etc. are based on the hiring rates in the R.C. The total amount of the RC is within the financial powers of the CFA as per Sl.Nos of NI 1/S/06 referred to above.

<b>CHECK LIST FOR HIRING OF SERVICES/EQUIPMENT FACILITIES</b>		
	<b>Basic Check Points</b>	<b>Rule reference if any</b>
1	Check that hiring is being done to meet the deficiency against authorized inventory, authorized post, or against clearly defined scope of work beyond the unit's capacity to undertake the required services.	Justification given in SOC to be checked
2	Requirement can not be met through alternate arrangements ty. loan etc from other unit re-appropriation etc.	do
3	If requirement is recurrent in nature, instead of adhoc hiring a regular RC/ outright purchase may be resorted to, if cost-benefit wise more effective.	do
4	Equipment/facilities to be utilized to the fullest extent by re-appropriation, if same requirement partly exists/demanded by other units also	do
5	Procurement/outsourcing of services to be done inter alia as per GFR provisions	Rule 163 to 185 GFR 05
a)	For estimated value of services being less than Rs.10.00 lakh an LTE (minimum 06 vendors) may be resorted to. For value more than Rs.10.00 lakh OTE may be resorted to	Rule 181 GFR 05

**CHECK LIST FOR SANCTION OF EXPENDITURE FOR HOLDING  
TRAINING, SYMPOSIA , CONFERENCES**

SL. NO	BASIC CHECK POINTS	RULE, REFERENCE IF ANY
1	Expenditure in connection with Holding Symposia/Seminar/Conferences/Workshop etc is as per Naval Instructions and in conformity with general instructions of Government (MHA & DOPT)	Sl. 43 to 47 of Annx 1 and Sl 45 to 48 of Annx 2 of NI 1/S/06
2	The training, symposia, conference are strictly need based and the knowledge gained should contribute positively in enhancing the effectiveness	
3	The Personnel should not have undergone similar courses in the past.	
4	Courses/seminar/workshop conducted by institutions of repute/ preferably those recognized by state/central Govt only be availed	
5	Courses/seminars/workshop which are conducted in Five Star Hotels the cost of which includes Lunch/dinner as not normally to be subscribed to	
6	Personnel who are due to retire within 3 years of attendance of the courses are not eligible.	
7	Austerity will be observed in organizing conferences/seminars/workshops	Economy & Austerity measures issued by Government from time to time are to be followed.
8	Ceiling on expenditure on refreshment is Rs.150 per head for refreshments/working lunch, if meetings/seminars/conferences which start in the forenoon continue beyond lunch time. The holding of meetings/conferences/seminars/workshops etc in hotels should be avoided to curb wasteful expenditure.	GI MF OM No.7(2) E-Coord/03 dt:25/03/04

9	Funds – availability to be seen	
10	Memento/gift are not to be allowed	GI MF OM No.7(5) E-Coord dt:24/09/04
11	Total expenditure for each case be taken into account- which includes Airfare for Guest Speakers	

## **CHECK LIST FOR HOLDING TRAINING, SYMPOSIA, CONFERENCES- Naval Dockyards**

### **A) TRAINING COURSES**

There are two types of training courses being sanctioned in the Dockyard. One type of training courses are the regular training courses conducted by Government run training institutes for which candidates who are qualified are selected and the course fees sanctioned. The other type of training courses are the ad hoc courses conducted by private training institutes for which candidates are sent if training is considered essential and such a course is not available through Government training institutes. The case files for each of these type of training courses is processed differently as given below:-

- (i) For regular training courses conducted at Government run institutes like ATI, FTI, National Labour Institute etc., concurrence of AIP thereof is not routed through FA. For these courses based on the type of technical training being imparted and its qualifying requirements, the respective HODs nominate suitable candidates. Their candidature is approved by the DGM(HR) and sanctions are taken for sending the selected civilian/industrial employee for the concerned training course. For these courses, the file is routed through FA at the sanction stage for sanctioning of expenditure on account of the course fees.
- (ii) For ad hoc training courses in non Government training institutes, the AIP concurring check list is as follows:-
  1. Vetting of SOC to confirm training necessity and suitability of candidate.
  2. Examine feasibility of undertaking similar training inhouse / through Government training institute.
  3. Examine criteria for selection of training institute including location.
  4. Ascertain whether training is residential or non-residential, as it would have bearing on TA/DA.

5. Check application form as per NO 9/94 is filled in completely.
6. Depending on the cost of the training course determine the correct CFA as per NI 1/S/06.
7. Check availability of funds under relevant budget head.

**(B) TRAINING WORKSHOPS/SYMPOSIA/CONFERENCES - Naval dockyards**

The points checked while concurring AIP for organizing of workshops, symposia and conferences are -

1. Vetting of SOC for justification of requirement.
2. Establish conduct of similar events in the past and outcome thereof, including expenditure incurred.
3. Examine present proposal with a view to ascertain feasibility of conducting some activities inhouse to minimize expenditure.
4. Examine anticipated expenditure of the proposal and its element-wise cost breakup.
5. Check that certain cost elements can be processed separately / avoided. For instance, if the proposed expenditure involves cost of stationery items (pens, chitpads, folders etc), these can be obtained from the available office stock or processed through the available stationery RC.
6. Establish expenses proposed on tea/refreshments/working lunch etc are governed within DOPT guidelines
7. Determine correctness of CFA as per NI 1/S/2006.
8. Check availability of funds under relevant budget head.

## AON FOR RATE CONTRACTS

Sl. No	Check Point	Remarks
1	Cases/conditions to be considered for <b>Rate Contracts</b> are given in chapter 8 of DPM' 06, and in para 17 of Encl 1 to NI 1/S/06	
2	Having several users with recurring requirements.	Para 8.4 of DPM 06
3	Fast moving items with short shelf life or storage constraints.	-do-
4	Items with min. anticipated price fluctuation.	-do-
5	Items with long gestation period to manufacture & having only One source.	-do-
6	Certification from vendor that he is not selling to any other party at a lower rate & RC includes 'Fall Clause' as per DGS&D provisions.	Para 8.4.1 of DPM 06
7	RC should be concluded for a prescribed period by respective CFA. Requirement of Purchase Committee does not apply for Rate contracts.	Para 8.6 of DPM 06 and Para 5 of Government letter dated 19/7/06 forwarding NI 1/S/06
8	As far as possible, termination period of RC should be so fixed as to ensure that budgetary levies would not affect the price.	
9	Any extension or conclusion of RC beyond a period of three years requires approval of MOD.	8.6.© of DPM
10	The Rate contract should contain a provision for short closure to cater for situations of a fall in price during the currency of the RC. Further, an RC should normally be concluded only with Registered Firms based on capacity assessment by designated	Para 8.6 (d) and 8.8 (e) of DPM 06

	Inspection authority. Minimum performance level/performance criteria should be specified in the bid document.	
11	In case of new items being considered for bringing on RC, un-registered firms can be considered on the basis of favorable technical/financial capability.	Para 8.8 of DPM 06
12	Past performance is a major consideration to award RC. Last 03 years performance to be considered.	Para 8.8 of DPM 06
13	No new RC with firms having a backlog.	Para 8.8 of DPM 06
14	If the RC holder is a defaulter, it should be looked in to if defaulter is bidding.	Para 8.8 of DPM 06
15	Parallel RCs can be considered to obviate situations arising out of failure of RC holder, demand exceeding qty offered by one vendor or if it is considered desirable to have a wider vendor base.	Para 8.10 of DPM 06
16	An RC can be signed by CFA or an officer authorized on his behalf.	Para 8.11 of DPM 06
17	Payment terms-98% on receipt of stores at consignee's premises (95% against proof of inspection note and dispatch/RR if dispatched through train). Balance 2% on accounting of stores by consignee.	Para 8.14 of DPM 06

### **CHECK LIST FOR SELECTION OF VENDORS BY UNITS**

1	Vendor evaluation	Para 3.3 DPM '06
2	Registration status of the firms,	Rule 142 GFR 06
3	Past performance details	
4	Whether the firms are actually dealing with the items proposed for procurement and what is the value of orders already in hand with infrastructural facilities for the present job.	
5	CST/PAN no/REGD no, Registered office address, Telephone No, Registering agency.	
6	Inputs from yellow pages/Internet/past records of Command/units/ and other Government organizations have been taken.	
7	Firm is not in a banned/barred list.	

**CHECK LIST FOR TENDERING STAGE**

Sl. No.	Check Point ( <b>Tendering stage</b> )	Remarks
1	Concurrence to <b>AON</b> by IFA & AIP by CFA with sanction Letter is be linked on file. If file has been submitted for this purpose separately.	
2	Indent duly vetted by finance and technical member and approved by CFA ( which may be a committee CFA or an Individual)	In terms of Para 9(d) and 16 of Annex-5 of NI 1/S/06
3	Dispatch/Transmission of tenders by registered post. In case of STE/PAC may be by fax in addition to mail. In OTE wide publicity to past/likely suppliers may be done.	Para 4.9 DPM ' 06
4	Minimum number of suppliers in case of LTE should be more than three	Para 4.3(i) of DPM 06
5	For indigenous cases for LTE sufficient time period & for import cases normally <b>six to eight weeks</b> (which can be reduced to four weeks or less in urgent cases) time should be given for submission of quotes.	Para 4.3(iii) & Para 9.14 of DPM 06
6	In case of OTE, NIT should be placed on Website of the Deptt. MOD Website, service Hqrs/OFB,DRDO Hqrs website(whenever in place) & also on the main Website of NIC in case of Non-Lethal/Security non-sensitive matters. 4-6 weeks -OTE  3-4 weeks - LTE  7-10 days – urgent short notice tender.	Para 4.4 of DPM 06.  Para 14.5(b) DPM'06

7	Prescribed EMD should be taken in all OTE/LTE cases as per DPM provisions & offers without EMD should be rejected unless CFA waives in case of NSIC/DGS&D Regd. Firms. EMD may be calculated @ 2% to 5% of estimated value of goods to be procured. EMD (To be indicated in Rupee form) in form of D.D/Banker's cheque/IPO/TR/FDR/BG(not firm's cheque)	Para 4.5 of DPM 06 & Rule 157 of GFR.
8	LTE may be resorted to if fulfills the given criteria. It is to be justified by administrative authority.	Para 4.3 of DPM & Rule 142, 151 of GFR
9	STE may be resorted to if fulfills the given criteria. It is to be justified by administrative authority.	Para 4.2 of DPM & Rule 154 of GFR.
10	OTE is the preferred mode of procurement of common use items. It is also to be resorted to for procurement of goods more than Rs. 25.00 lakhs and services more than Rs. 10.00 lakhs.	Para 4.4 of DPM 06. rule 150 and 181 GFR 05
11	Two bid systems are warranted for plant and machinery equipment, complex items like IT and communication systems and in turnkey projects where qualitative requirements (QRs), technical specification can not be clearly firmed up.	Para 4.12 of DPM 06.
12	It is to be checked that TE has been drafted as per DPM 06.	Standard Formats at Appx-B (for indigenous cases) & Appx-K (for import cases) of DPM 06 are to be adopted.
13	Tender Enquiries should stipulate that quoted prices should include taxes & levies. Cost wise break up is to be asked for in the tender enquiry e.g. material, labor, taxes etc. Wherever, exemption certificate is to	Para 10.2 of DPM. Rule 204 (ix) of GFR'05

	labor, taxes etc. Wherever, exemption certificate is to be given by executive authority to be clearly mentioned.	
14	Bid validity to be 90 days (for single bid system), 120 days (for two bid system)-in indigenous cases <b>AND</b> 90 to 180 days in case of import cases.	Para 4.7(d) & Para 9.13 of DPM 06
15	Confirmation that GCOC & SCOC has been incorporated	Rule 204 GFR and chapter 7 & Chapter 10 (foreign procurement DPM 06).
16	Relevant Instructions to Bidders as per Para 4.7 of DPM 06 to be indicated in RFP.	Para 4.7 of DPM 06.
17	Description of items:-specification, quantity etc given categorically. Sample, wherever applicable, is to be enclosed to the tender enquiry	
19	Reserved items for KVIC/ACASH/CCIC/Registered SSI's. No special dispensation to Kendriya Bhandar and NCCF for STE.	Rule 144 GFR'05 & Para 2.11 DPM'06. GOI letter 29.07.05. Amplification Note No. VII
20	Price preference to SSIs and purchase preference to CPSE are given, which is to be verified.	Para 2.12 & 2.13 DPM'06.
21	Purchase of goods without quotation up to Rs.15,000/-only on each occasion may be made without inviting bids on the basis of certificate by competent authority.	Rule 145 GFR'05.
22	Purchase of goods by purchase committee above Rs.15,000 up to Rs.1,00,000/- on the basis of certificate by local purchase committee which is to be constituted by HOD	Rule 146 GFR'05.
23	DTE should <i>inter alia</i> incorporate following clauses:-	

	<p>(a) Delivery period(Para 7.5 DPM 2006) Delivery Terms</p> <p>(b) LD (Para 7.6 DPM 2006)</p> <p>(c) Legal clearance/Arbitration (Para 7.16 DPM 2006)</p> <p>(d) Premature termination of contract (Para 6.7 DPM 06)</p> <p>(e) Guarantee with regard to quality of work and spares</p> <p>(f) Brand specific T.E not permissible.</p> <p>(g) Security clearance/police verification</p> <p>(h) Payment terms. It will be after completion. However, in case of AMC, quarterly payment can be made. (Para 7.10 DPM'06)</p> <p>(i) Risk and Expense clause (Para 7.14 DPM 2006)</p> <p>(j) Past performance details in similar area to be asked. Evaluation criteria should be defined clearly in TE itself</p> <p>(k) Duties , Taxes. Requirement of CDEC, Form 'D' , E.D. exemption certificate, Octroi exemption certificate,</p> <p>(l) Mandatory spares if required.</p>	
	<p>(m) Price list of OEM if spares are required at actual in case of non- comprehensive AMC.</p> <p>(n) Installation, Commission, Testing, Training etc.</p>	
	<p>(o) Date, Time and place of submission</p>	
	<p>and opening of tenders</p>	

	<p>(p) Price variation clause if applicable/ acceptable. Para 13.12 D.P.M 06, Rule 204 GFR 05.</p> <p>(q) Whether 2 bid systems are warranted/Technical specifications enclosed.</p> <p>® Regret letter with reasons in case of non response.</p> <p>(s) Repeat order clause (wherever applicable), Para 5.11 DPM'06.</p> <p>(t) Option clause (wherever applicable), Para 7.13 DPM'06</p> <p>(u) Access to Book of Accounts (Para 10.13) and penalty for use of undue influence ( Para 10.12 of D.P.M 06) in case of foreign procurement.</p> <p>(v) Installed working capacity &amp; existing load of work in hand</p> <p>(w) Quality control, inspection &amp; checking of finished product, Inspecting authority to be defined clearly.</p>	
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## RETENDERING SITUATIONS

Sl. No.	Check Point	Remarks
1	Offer do not confirm to essential specification	<b>Para 4.18 of DPM 06</b>
2	When major changes in specification and quantity have considerable impact on price.	-do-
3	Prices quoted are unreasonably high w.r.t. assessed price or there is evidence of sudden slump in prices.	-do-
4	If lack of competition is due to restrictive specifications-review of specifications to facilitate wider competition.	-do-
5	Re-tendering in all cases with approval of IFA/CFA	-do-
6	If L-1 withdraws his offer or backs out	Para 4.19 of DPM

**CHECK LIST FOR FINAL CONCURRENCE STAGE**

Sl. No.	Check Points	Remarks
	Proposal with respect to checklist for pre award stage of CVO to be verified.	CVO letter dated 01/05/06
1	Concurrence to AON & Tendering by IFA & 'Approval' by CFA is linked on file. Extension in tendering opening date or any change in terms & conditions including intimation of TOD extension given to all bidders. Any extension of tender opening period beyond prescribed time would require approval of next higher CFA. Such extension to be published on Newspaper/ITJ/ Departmental Website	Para 4.16 of DPM 06
2	Firming up technical specifications in a pre-bid conference in two bid tender and not inviting fresh commercial bids after opening of technical bids.	4.12.7; 4.12.9, 4.13.3 and DPM 05 Amplification note No. XII
3	In case of two bid system, TEC report duly approved by CFA is available on file. A technical matrix showing comparison of technical bids with parameters tendered out is to be prepared by TEC.	Para 4.12.5, 5.5.1, format at Appx. E of DPM 06
4	Errors in Technical Bids Evaluation.  (a) Technical specifications are not prepared carefully	

	<p>(b) Reasons for rejection on technical grounds are not clearly brought out in the TNC minutes.</p> <p>(c) Copy of minutes of TNC is not forwarded.</p>	
	<p>(d) Specifications are made to suit a particular firm or altered to suit a particular firm</p>	
5	Commercial bids of only those firms as having been cleared by TEC should only be opened and all late bids are to be returned, unopened, to their bidders.	Para 4.13 and 9.19 of DPM 06
6	Has the tender opening committee serially numbered each bid & initialed with date on each page of the Tender, the prices and important terms & conditions encircled in red ink, alterations if any be initialed.	Para 4.13.3 of DPM 06
7	It is to be checked that conditional offers and those with specifications not in conformity with tendered specifications have not been accepted.	Para 4.12.6, 4.14 of DPM'06
8	If at TEC stage only one vendor is found complying to all SQRs parameters, RFP would be retracted with the approval of CFA and a fresh RFP issued	Para 4.17 of DPM 06

9	<p>Correctness of CST prepared by purchase cell-the purchase cell to collate all the accepted tenders &amp; prepare an exhaustive CST containing details in quotations including deviations from Tender documents, LPP particulars etc. with all arithmetic checks duly applied. Evaluation of bids to be on the basis of loading all elements on prices offered:- levies &amp; taxes i.e. ST, ED, CDE, packing &amp; forwarding, freight &amp; insurance etc. but exclusive of Octroi/Entry Tax which is exempted or would be paid as per actual. However, exemption certificate wherever applicable can be given if already spelt out in TE. .</p> <p>The monetary value of exemption certificate issued is reflected in the CST to bring all the tenders at par.</p>	Para 13.5 of DPM 06
10	Determination of L-I on entire package if requirement is clubbed and a combined RFP is floated.	Para 9.28 of DPM'06
11	Apportionment of quantity: 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 order can be placed on L2, L3, for the balance quantity at L1 rates.	Para 5.10 of DPM 2006 .
12	Certificate of 'FIT', 'Form', & 'Function' and acceptance by user to be confirmed for items quoted with variation in part Nos	Para 9.37 DPM'06

	with variation in part Nos.	
13	In case of procurement of any equipment on STE/Resultant single vendor CNC should establish benchmark price prior to opening of commercial bids. Prior to this a technical team should make an assessment of estimated cost based on available information. Reasonableness of quoted rates is to be determined with respect to LPP, price indices, cost analysis of raw materials etc as per guidelines prescribed in chapter 13 of DPM 06	Para 13.5.1 and 13.6 of DPM 06
14	Validity of quotes (as asked in TE) & CFI (in case of import items)	Para 4.7(d) & Para 9.13 of DPM 06
15	Reconfirmation of requirements from indenter/user particularly w.r.t. high value items/old indents in cases of delays in processing.	
16	In case of import cases payments below USD 50000.00 should be through DBT else through LC.	Para 9.40 DPM'06
17	NLC/WPC/APC/ASPC/PNC brief duly approved by CFA bringing out specific points for internal discussions & price negotiation with the firm rep. is to be given to IFA. NLC's can be convened on files unless valid logical reasons have been spelt out clearly for carrying out price negotiations with firm.	Para 7 of MOD letter dt 19/7/06 forwarding NI 1/S/06
18	Negotiations are only to be as exceptions, with L-1 firm, that too with recorded reasons. These are to be scheduled with IFA concurrence and CFA approval	Para 13.5.1 of DPM and CVC Circular No. 4/3/07 dated 3 <sup>rd</sup> March 2007

19	PNC has been constituted properly and minutes recorded appropriately. It is to be carried out in the presence of IFA representative	Para 5.6 & 5.7 of DPM.
20	Lack of competition will be considered if number of acceptable offer is less than three. Retendering may be done if sufficient grounds are available.	Para 4.18 & 13.9 DPM'06.
21	CFA must consider all aspects of the case including quoted terms and conditions, delivery period, taxes, duties etc. prior to approval for procurement.	Para 5.9 & 14.6.1 of DPM 06.
22	<p>Common Errors where file submitted for final concurrence without DTE and Vendor list vetting by IFA due to urgency or some other reason:-</p> <p>(a) Copy of tender enquiry is not enclosed.</p> <p>(b) Sealed tendering procedure is not followed.</p> <p>(c) Generic specifications with complete details of performance parameters in unequivocal terms, quantitative and qualitative requirements are not indicated</p> <p>(d) Proposals on single tender/proprietary article basis are not supported with a detailed justification. Documentary proof/certificate of OEM /proprietary article certificate not attached. Foreign OEM/authorized dealers should be registered with DGS&amp;D (Appendix (L) DPM'05).</p> <p>(e) Quotes obtained from only one or two firms/mediators.</p> <p>(f) Regret letter from firms not responded to the tender enquiry is not asked for in the tender enquiry.</p>	

	<p>(g) Tender enquiry is not broad based.</p> <p>(h) Proposals of technical nature are not tendered out on two bids system.</p> <p>(i) Tender invited is for a branded item, which is against the CVC guidelines.</p> <p>(j) Sufficient time and notice has not been given to vendors for quoting and when postponement of tender enquiry became essential</p>	
23	<p>Quotes to be scrutinized for following deficiencies</p> <p>(a) Tender Enquiry reference is not mentioned in the quotes. All quotations are not dated. Original quotes/supporting document are not attached.</p> <p>(b) TE not issued to list of vendors approved in the AIP.</p> <p>(c) Envelopes in which quotations are received are not attached with the SOC.</p> <p>(d) Quotations are not authenticated and amount quoted is not encircled by the tender opening board. Quotations should have the signature of tender opening board with name, rank and date with initials on every page.</p> <p>(e) Late bids are considered (Para 9.19 DPM 2005). Fax quote accepted ( In case of PAC it is acceptable)</p> <p>(f) Validity of quotes have expired and extension has not been obtained in writing</p> <p>(g) Whether EMD has been submitted by the firms if asked and is enclosed? Quotes without EMD have been rejected or not. Firm's cheque is not acceptable.</p>	

	<p>(h) Price quoted is not for the quantity mentioned in the TE.</p> <p>(j) LST/CST registration details not mentioned in quotes. (k) Breakdown of taxes is not given.</p> <p>(k) Quotes do not indicate acceptance of terms and condition given in the tender enquiry.</p>	
	<p>(l) Past performance of the vendors with documentary proof is not enclosed, if asked specifically.</p>	
24	<p>Errors in Comparative Statement of tender.</p> <p>(a) Calculation errors are generally observed in the CST.</p> <p>(b) Comparative statement is not signed by the board of officers/countersigned by the Chairman with date.</p> <p>(c) The financial implication shown in comparative statement and that in the proposal/firm (L-1) quote does not tally.</p> <p>(d) Recommendations of board as regards to firm L1 not given.</p> <p>(e) Specifications indicated in TE and CST does not match.</p>	
25	<p>Price list of OEM for spares, if mandatory, is to be obtained.</p>	

26	<p>Training Courses</p> <p>For deputations of personnel's for training it is to be seen that he is not going to retire within 03 years, course is not conducted at hotel involving lodging and boarding charges, individual not attended same course in the past etc.</p>	NO(str) 9/94
27	Copy of draft work order/supply order is not attached with concurrence proposal	
29	Copy of draft contract agreement wherever applicable is not enclosed.	

### CHECK LIST FOR VETTING OF SUPPLY ORDER

Sl. No.	Check Point (Supply Orders)	Remarks
1	Concurrence to procurement proposal by IFA & 'Approval' by CFA is linked on file.	
2	Approval Sheet, Minutes of Meeting (MOM) of NLC/WPC/APC/ASPC/PNC if any held in the case.	
3	Confirmation that Draft Supply Order is as per Standard Terms of DPM & in line with final negotiated terms incorporating all essential clauses such as:	
4	Name of purchaser & Supplier	
5	Quotation No. & date	
6	Indent No. & Description of Stores such as Nomenclature, Qty & specification etc.	
7	Item-wise price with total Order value (in figures & words) & duties/taxes as applicable.	
8	Name & Address of consignees.	
9	Delivery Terms	
10	Inspection Agency, schedule of inspection & place	
11	Warranty/quality Assurance	
12	Payment Terms / mode of payment	Rule 159 GFR, Para 7.10 & 7.11 DPM'06
13	Packing & dispatch instructions.	
14	LD (@ 0.5% per week with a max. of 5% of the value of undelivered stores.	Para 7.6 to 7.9 DPM'06
15	As per the provisions of the DPM PBG @ 5%, or 10% in case of STE, of the value of stores to be furnished with in 30 days of the receipt of Order.	Para 7.4 & 9.36 DPM' 06
16	Paying Agency.	

17	Option Clause (addl. Qty of 50% can be ordered during currency of the contract).	Para 7.13 & Para 9.43 of DPM 06
18	Repeat Order (50% within 6 months from the date of supply against the previous quote & only once) subject to conditions at Para 9.30 of DPM 06. However, if option clause already availed, repeat order clause can not be availed of.	Para 4.7(p) and 9.30 (g) (h) and (i) of DPM 06
19	Risk & Expense clause, Force Majeure, Arbitration, Penalty for use of undue influence, Access to books of Accounts, Patents, Government regulations etc. to be as per SCOC given under Chap VII (for indigenous) & chap X of DPM 06 (for imported)	Para 7.14 to 7.16 of DPM and Appenices
20	Insurance for loss/damage in transit	
21	Exemption certificate of duties, if any.	
22	Copies of SO to IFA, PCDA concerned and audit authorities.	

## POST CONTRACTUAL STAGES

Sl.No	Check point	Remarks
1	Copy of S.O./Contract along with concurrence of IFA for placement of order.	
2	Status of items supplied/not supplied with value.	
3	Nature of amendment to be caused to the contract such as DP extension, operation of Option clause, repeat order, or any other reason.	
4	If amendment to be caused is as per terms & conditions of Contract, no IFA concurrence is required unless there are deviations and financial implications.	Para 5.18 of DPM 06
5	IFA concurrence to be invariably obtained if DP extension is proposed without imposition of LD	Para 5,18 of DPM 06.
6	Amendment to contract is essential when either party requests for such a change.	Para 6.6 DPM'06
7	Termination of contract can be done when supplier fails to honour, contractor indulged in unethical practice, both parties mutually agree, unsuccessful inspection trials or any other special circumstances.	Para 6.7 DPM'06
9	Validity of PBG during the proposed extension period.	
10	Draft amendment to S.O.	
11	Extension of delivery period  1. Whether the reasons for delay in the supply has been furnished. 2. Is the delay attributable to the supplier. 3. Whether the delay caused was due to the circumstances beyond the control of the	Para 7.5 &7.6 DPM'06. GOI MOD Dept. of Def. P &S letter No. 2(5)/2000/D(Supply-II) dated 05.11.2004

	<p>circumstances beyond the control of the supplier.</p> <p>4. Whether the delay has resulted in the loss to the state.</p> <p>5. The quantum of LD to be levied on the supplier.</p>	
	<p>6. Whether the LD is calculated taking into account the total value of the undelivered stores including elements of statutory duties and taxes viz., sales tax, customs duty, excise duty etc. as indicated in the supply order.</p> <p>7. Request of vendor for extension of DP with grounds/basis.</p> <p>8. If DP was one of the major considerations while taking purchase decision &amp; whether delay is acceptable to Navy</p> <p>.Details of earlier DP extensions if any.</p>	
12	<p>Option Clause</p> <p>The purchaser retains the right to place orders for additional quantity up to a maximum of 50% at the same rate and terms of contract during the original period of contract provided this clause has been incorporated in original contract and there is no downward trend in prices as ascertained through market intelligence..</p>	Para 7.13.1 DPM'06

### Check list for scrutinizing the proposals of victualling stores

	<p>1. To see whether the item proposed is CPP/LPP item.</p> <p>2. To see whether the proposal for procurement is for urgent requirement and items proposed to procure is not for stocking purpose.</p> <p>3. The quantity proposed to procure should be barest minimum.</p> <p>4. To see whether sufficient justification given for non-receipt of items from the central sources. Copy of dispatch instructions(DI) to be seen. Wherever <b>DI not available item can be procured treating it as NAC.</b></p> <p>5. Proposal must be within CFA's power. Splitting is to be seen carefully</p> <p>6. Dues In/Dues out, scale of MSL/ACL etc are to be clearly indicated.</p> <p>7. Quantity and brands shown for procurement in TE is to be checked with formula and approved brand list respectively as per INBR.</p> <p>8. <math>PQ = Reserve/Maintenance\ stock + 01\ MCL - Stock - Dues\ in</math></p> <p>PQ= Procurement Quantity MCL= Monthly Consumption Level</p>	
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**Check list for contract for fresh provisions :**

<p>1</p> <p>2</p> <p>3</p> <p>4</p> <p>5</p> <p>6</p> <p>7</p> <p>8</p> <p>9</p> <p>10</p>	<p>To see whether OTE system has been allowed wherever necessary.</p> <p>To see whether advertisement is published well in advance.</p> <p>To see whether the registration of new contractor has been accepted duly recommended by the Board of Officers . After full filling the norms (Para 8,9 Asc. C).</p> <p>To see whether uniform tender fee has been levied.</p> <p>To see whether the total approximate annual requirement has been worked out as per formula (page 43 ASC.).</p> <p>To see whether TE has been opened by the nominated Board of Officers in the presence of IFA rep.</p> <p>To see whether the S/D – E/D lodged by the tenderer is correct.</p> <p>To see whether the rates of items indicated both in figures and words.</p> <p>To see whether CST is prepared duly completed in all respect and L1 is recommended correctly.</p> <p>To see whether RR has been fixed by the Board of Officers before opening the TE (page 61 Asc.).</p>	
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11	To see whether the difference between the RR and tendered rate is marginally higher. If otherwise see whether the Board has recommended for retendering (page 72 ASC).	
12	To see whether in case of tendered rate is lower than 20% of RR the same has been reflected by the panel of officers and recommended for retendering (page 74 ASC. C).	
13	To see whether the proposal for procurement of fresh provision is very well within the powers of appropriate CFA.	CVC Circular No.4/3/07 dated 3 <sup>rd</sup> March 2007
14	To see appropriate budget head has been indicated.	
15	To see whether the terms and conditions of contract agreement has been signed by both contractor and contract operating authority.	
16	To see all the terms and conditions has been indicated in the contract agreement.	
17	To see whether the terms regarding short closure of the contract ahs been clearly indicated in the contract agreement.	
18	To see that negotiation is conducted with L1 only as per CVC stipulations . In case L1 backs out, there should be retendering	
19	To see whether the firm is financially sound and has the capacity to supply for this much huge quantity with due quality brought out the year. He is not acting as an agent to the supplier/Government	

### Check List- NAVAL DOCKYARDS

Sl.N o.	Check Point	Remarks
	I. Naval Store Procurement :-	
1	New item AIP Approval: AIP approved by GM (R) for Refit requirement, GM (T) for Yard's technical requirement and ASD (MB) for proposals beyond the powers of GM® & GM(T).	
2	EDPD 99 Form: Description of items, Qty, requirement for ships or yard. Approach for concern stores and what is the priority,	
3	NAC for patternised item: If item not available with zonal stores as per EDPD 99 requirement, demand raised to Material Organization for supply the item or NAC (Validity of NAC, LPP and firms name).	
4	LP requisition form: MAC-1 form for LP requisition (compulsory for all) MAC-2 for yard requirement (standing work orders). All requirements as per EDPD 99 and sign by AGM/DGM.	
5	List of Vendors, If LTE: - MAC-3 Tender form & Registered vendor list approved by MOA (all signed by AGM/DGM).	
	II. Offloading Repairs/Refits :	
1	Whether sanction of C-IN-C for the defect lists & the estimates on account of repairs and refits in IN ships/submarines/vessels/aircrafts has been obtained and placed in file.	Sl no 21 of Annex 2 to NI 1/S/06
2	Repairs/Refits approval from IHQ/Command, if any: - For full ship repair recommended by IHQ and also confirm offload to PSU/undertake by Dockyard depend on refit cycle.	Sl no 21,22 & 24 of Annex 2 to NI 1/S/06. Financial limit mentioned in these serials are

		for complete refit/drydocking of ship/vessel.
3	Scope of work with recommendation of Production Manager – List of defect raised by production manager in consultation with Ship Staff and concerned class of ship manager. Work to be offloaded is forwarded to Planning Section.	
4	Acceptance of necessity by CFA with consultation of FA. Refit schedule, NAC & DL are to be placed in the file. Scope of work & offloading pro forma approved by GM®/ASD.	
5	Vetting of mode of tendering and vendor list by FA.	
6	Guidelines for partial/full offloading refits of ships and submarines is to be checked	NO 2/98 and annexure 6 to NI 1/S/06. Confidential Navy Order CNO 11/04

<b>PROCUREMENT OF NON-ILMS ITEMS</b>		
A	Statement of case justifying the urgent and new requirement to be placed in the file	
B	Whether Approved by DGM (MAT) and GM (R)	
C	Whether Tendering procedure as laid down in DPM 2006 has been followed	
D	If is cash & carry ensure the price reasonability based on rate analysis carried out and placed in the file	
E	If a proposal is of operational requirement proper justification with clear statement of case explaining operational requirement as laid down in the remarks column of SI No 17 of NI 2006 is available in the file	SI No 17 of NI 2006
F	FA concurrence is mandatory for procurement of operationally needed stores/parts/equipment at AIP state.	

## **CHECK LIST- SANCTION OF MISCELLANEOUS & CONTINGENT**

### **EXPENDITURE- Naval dockyards**

The types of contingent and miscellaneous expenditure sanctioned in the Dockyard are primarily on account of -

1. Office equipment
2. Office stationery
3. Printing
4. FSMA charges for photocopiers
5. Office furniture
6. Vertical blinds, curtains, paneling etc
7. Office contingencies

### **The following points are seen while concurring the AIP for such proposals**

1. Vetting of SOC for justification of requirement
2. Verify whether it is a singular requirement or a common requirement for all centres/departments. In that case, all requirements should be clubbed to achieve economy of scale and to determine correct CFA based on budgetary estimate.
3. Verify whether item is available through MS / is an ARS item. If so, it should be demanded through MS and not procured.
4. Verify whether Rate Contract (RC) for the item exists through DGS&D /MS/HQ WNC. Wherever available existing RCs should be used instead of proposing fresh LTE, since RC rates are more economical.
5. Verify whether it is a one time or a recurring requirement. If it is a recurring requirement and RC is not existing, feasibility of concluding RC for the same to be recommended.
6. Confirm availability of budgetary estimate/POEV rate.
7. If such an item has been procured in the past, its past procurement details to be checked.
8. Based on the total quantum (quantity & amount), mode of tendering should be recommended and approved. Ensure tendering as per DPM 2006 norms.
9. Verify applicability of NI serial, use of correct budget head and the availability thereof.

### CHECKPOINTS FOR RFP vetting - Capital Cases

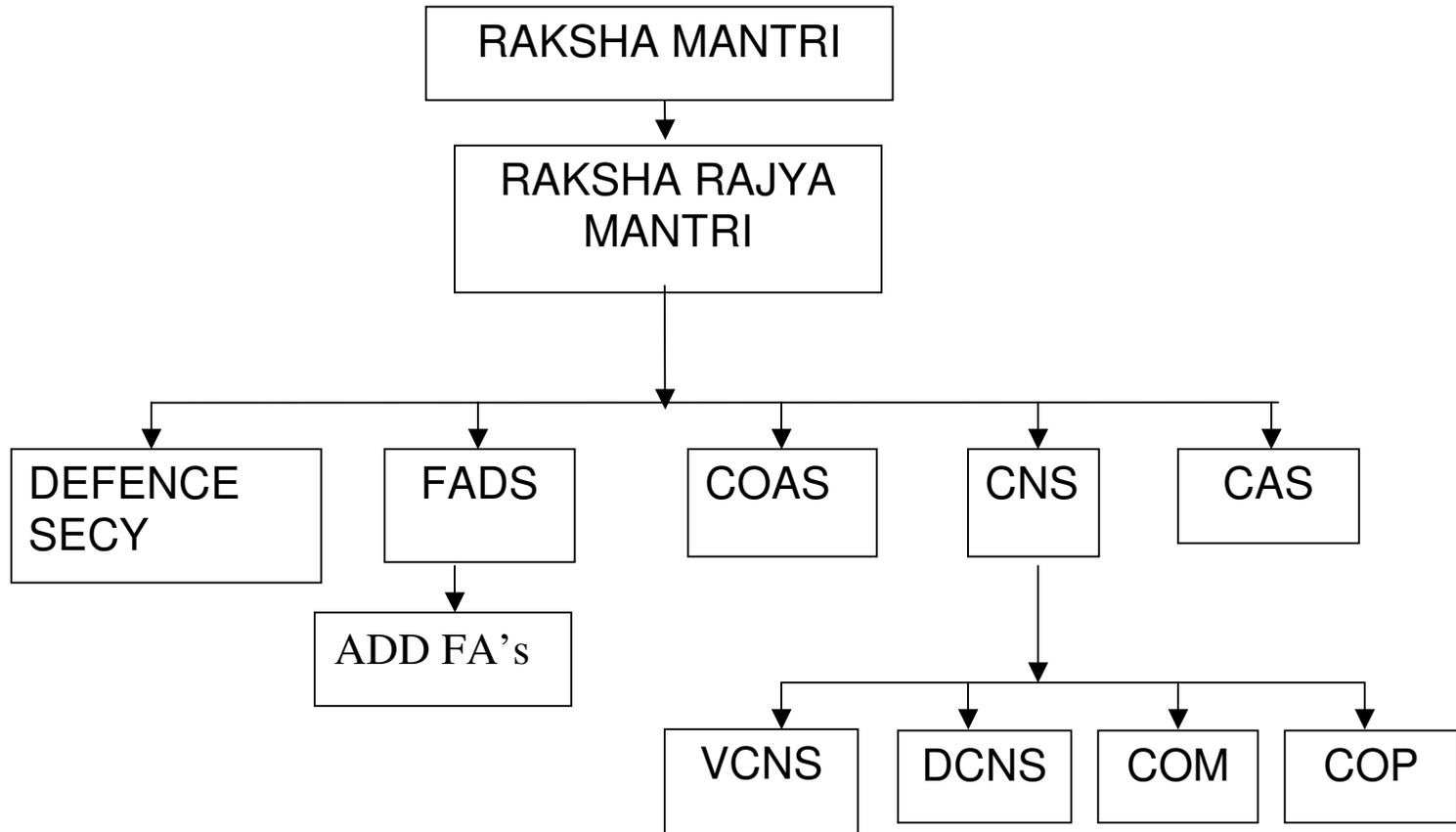
Sl.No	DPR-06 Appx/ Schedule Para No	DPP Page No	Appx/ Annex/ Schedule	Requirement/Compliance	Whether met. If not reasons for deviations
1	RFP Vetting General Reqts	51- 55	Sch-I to Chapter I	Requirements of para 1-25 of schedule I to chapter I of DPP-06 to be seen	
2	03	52	Do	Year of Production	
3	04	52	Do	Acceptable range of delivery Schedule to indicated in RFP. Supplier not to be given option to indicate earliest delivery Sch.	
4	05	52	Do	Period of Warranty to be specified. Warranty clause to be as per Appx C. Further requirement for provision of supporting warranty bond to be ensured.	
5	07	52	Do	ESP/AMC Reqt. Whether post warranty ESP/AMC sought from vendor? These are to be considered for determining L-1	
6	27,28,30	13- 14	Appx.L page 115-127 and para 17,18 of Sch I and Appx E	TOT for equipment etc especially of Foreign Contracts and for Maintenance infrastructure to be stipulated in RFP. Where it is not feasible to negotiate TOT simulataneously, stipulation that Government reserves the right to negotiate TOT terms subsequently is to be made in RFP as per para 30	
7	8,9	53	Sch I to Chap. I	Itemised Spare Parts List (MRLS) duly vetted by concerned agencies both in	

				terms of range and depth	
8	10,11	53	Do	Shelf life/product support stipulation. The vendor has to finalise the terms for life time product support system in the current contract only (para 8 ibid)	
9	12	53	Do	Training	
10	13	53	Do	Government regulations	
11	16	54	Do	Patent Rights	
12	21	55	Do	Date of submission of technical and commercial proposals	
13	22	55	Do	Tender opening time	
14	23	55	Do	Evaluation of Tech offer as per Appx A and B	
15	24	55	Do	Mandatory tests/trials/evaluations	
16	25	55	Do	Commercial Offers opening condn	
17	26	56	Do	Technical parameters	
18	27	56 60 61		Technical offer to be as per Appx A and B at page 60 and 61	
19	28	56 74- 80	Do and Appx E	For TOT (Maintenance) cases, compliance as per Appx E to be stipulated	
	RFP Vetting Part III Commercial aspects	57- 58	Sch-I to Chapter I		
20	32-39	57- 58	Do	Whether requirements of paras 32-39 has been met in RPF?	
21	34	57	Do	Payment terms as per Appx F at page 81-90	
22	35	57	Do	Commercial proposal as per Appx G at page 91-92 and Annex I to IV of Appx D at page 68-73	
23	36	57	Do	Trial Evaluation	
24	37	57	Do	Quality assurance	
25	38	57	Do and Appx H	Standard Clauses fo Contract as per Appx H (88-98). The standard contract document is at page 195-242 of DPP 06.	

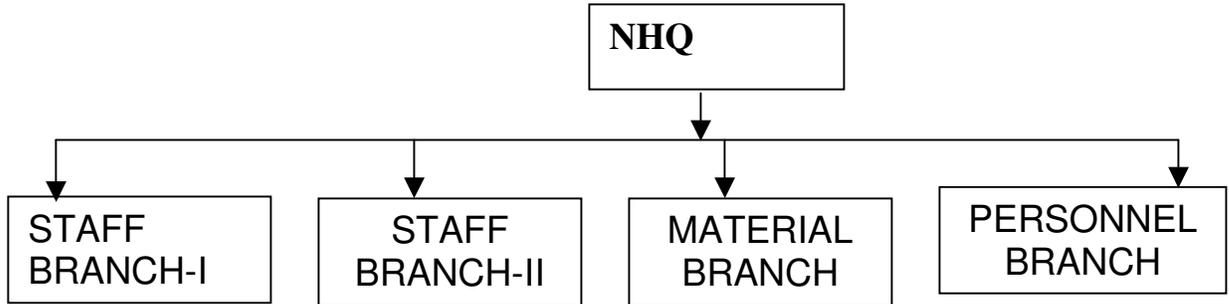
				Option Clause as per Appx J at page 104	
	RFP- Part IV Evaluation & acceptance procedure	58-59	Sch-I to Chapter I	Requirements of paras 40-42 are to be confirmed.	
26	40 (a)	58	Do	Evaluation of Technical proposals. The compliance to be determined only on the basis of parameters specified in RFP	
27	40 (B)	58-59	Do	Commercial proposal. DCF method to be used for evaluation of bids as per Anex I to Appx F at page 85 where applicable.	
28	41	59	Do	Conditions under which RFP is issued.	

**ORGANISATIONAL CHARTS  
ORGANIZATION - MINISTRY OF DEFENCE**

**Annexure XIII**

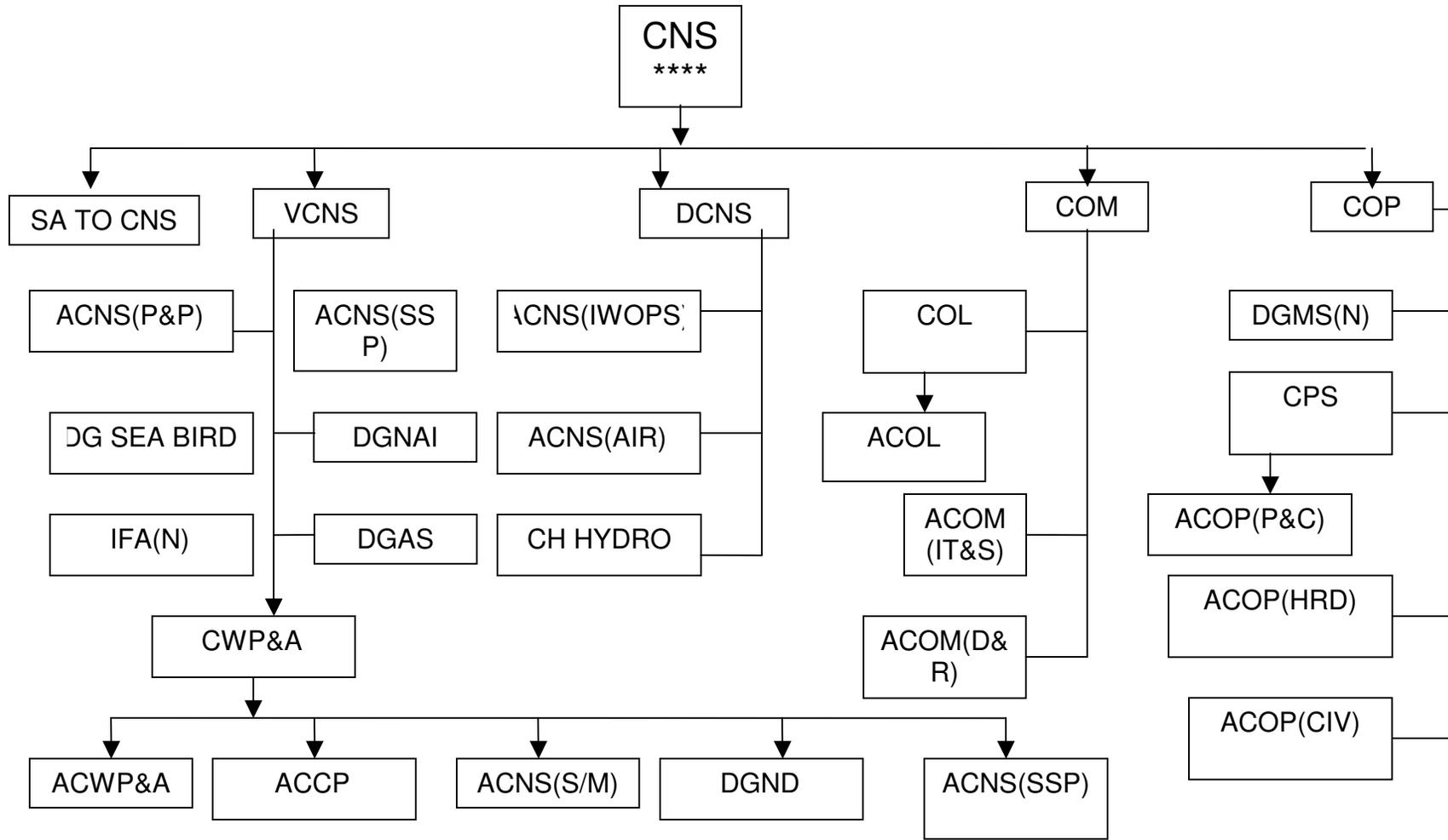


**ORGANIZATIONAL SET UP OF NHQ**



<b>BRANCH</b>	<b>HEADED BY</b>
STAFF BRANCH- I	VCNS
STAFF BRANCH-II	DCNS
MATERIAL BRANCH	COM
PERSONNEL BRANCH	COP

# NHQ Organisation





## DIRECTORATES AT NAVAL HEADQUARTERS

### STAFF BRANCH – I

Controller of Warship & Acquisition.....	CWP&A
Assistant Chief of Naval staff (policy and Plans) .....	ACNS ( P&P)
Directorate of Naval Plans.....	DNP
Integrated Financial Advisor (Navy).....	IFA (N)
Directorate of Staff Requirements .....	DSR
Directorate of works .....	DW
Assistant Controller of Carrier Project .....	ACCP&ACWP&A
Directorate of Aircraft Carrier Project.....	DACP
Directorate of Surface Acquisition.....	DSAQ
Directorate of Ship Production.....	DSP
Directorate of Contracts and Cost Management.....	DCCM
Directorate General of Naval Design .....	DGND
Directorate of Naval Design .....	DND
Assistant Chief Of Naval staff(Submarine & FOSM) .....	ACNS (S/M)
Directorate of Submarine Acquisition .....	DSMAQ
Special submarine project .....	ACNS (SSP)
Directorate of Ship System and Development .....	DSSD
Directorate General of Naval Armament .....	DGONA
Directorate of Naval Armament .....	DONA
Directorate General of Naval Armament Inspection.....	DGNAI
Directorate General of Seabird Project .....	DG SEABIRD
Directorate of Naval Project .....	PDNP
Directorate of Administration.....	DOA
Scientific Advisor to CNS .....	SA to CNS
Information Resource & Facilitation centre.....	IRFC

## **STAFF BRANCH – II**

Deputy Chief of Naval Staff.....	DCNS
Asst Chief of Naval Staff (Information warfare & Ops) .....	ACNS (IW Ops)
Directorate of Naval Operation.....	DNO
Directorate of Naval Signals.....	DNS
Communication centre .....	COMCEN
Directorate of Submarine operation .....	DSMO
Directorate of Special OPS and Diving .....	DSO &D
Directorate of Naval Oceanology & Meteorology .....	DNOM.
Directorate of Naval Intelligence .....	DNI
Directorate of Hydrography.....	DOH
Asst Chief of Naval Staff (Air) .....	ACNS (Air)
Directorate of Naval Air Staff .....	DNAS
Directorate of Naval Air Material.....	DNAM
Directorate of Aircraft Acquisition.....	DAA
Off shore Defence Advisory Group .....	ODAG Cell

## **PERSONNEL BRANCH**

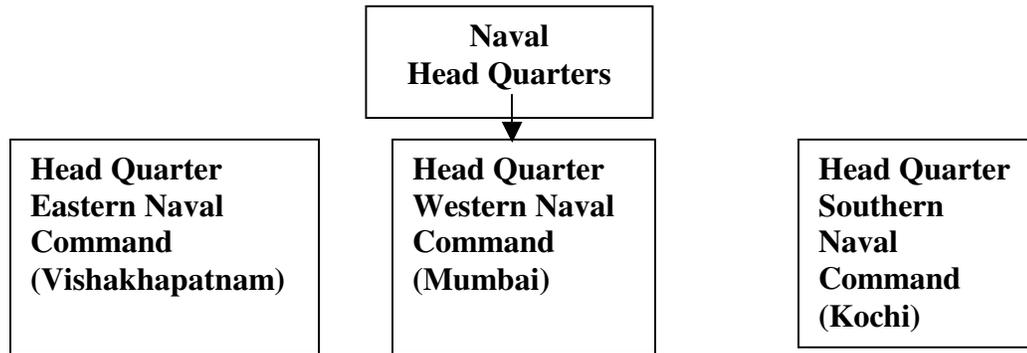
Chief of Personnel.....	COP
Asstt Chief of Personnel (HRD).....	ACOP (HRD)
Directorate of Personnel .....	DOP
Directorate of Naval Training .....	DNT
Directorate of Adventure Physical Fitness and sports .....	DAPSA Activities
Asstt Chief of Personnel (Civilian) .....	ACOP (Civ)
Directorate of Civilian Personnel .....	DCP
Directorate of Civilian Personnel (services) .....	DCPS
Directorate of Pay and Allowances .....	DPA
Directorate of Naval Law.....	DNL (JAG)
Directorate of Manpower & Recruitment.....	DMPR
Naval Standing Establishing Committee .....	NSEC
Asstt Chief of Personnel (Personnel and Condition).....	ACOP (P&C)
Directorate of Naval Education .....	DNE
Directorate of Personnel Services.....	DPS

Directorate of Financial Planning (Non Public Fund).....	DNPF
Directorate of Ex Servicemen Affairs .....	DESA
Directorate General of Medical Services .....	DGMS(N)
Directorate of Medical Services (P&M).....	DMS(N)
Directorate of Medical Services (H&S) .....	DMS(HS)
Directorate General of Naval Academy Project Ezhimala .....	DGNAE

**MATERIAL BRANCH**

Chief of Material .....	COM
Asst. Chief of Material (Information Tech & Sys) .....	ACOM(IT &S)
Directorate of Marine Engineering .....	DME
Directorate of Electric Engineering .....	DEE
Directorate of Weapon & Equipment .....	DWE
Directorate of Information Technology .....	DIT
Directorate of PMG –EMCCA.....	PMG(EMCCA)
Asst. Chief of Material (Dockyard &Refit) .....	ACOM(D&R)
Directorate of Naval Architecture .....	DNA
Directorate of Naval Architecture(MOD Cell) .....	DNA(MOD Cell)
Directorate of Fleet maintenance .....	DFM
Directorate of Dock Yard.....	DODY
Controller of Logistics .....	COL
Asst. Controller of Logistics .....	ACOL
Directorate of Logistics .....	DLS
Directorate of Clothing and Victualling .....	DCV
Directorate of Procurement.....	DPRO
Directorate of Transport .....	DTP

## COMMAND ORGANISATION



Fleets

Submarines

Local Naval Defence Flotillas

Air Stations or Squadrons

Dockyards

Armaments Depots

Store Depots

Naval Hospitals

Training school or Establishments

Communication Centres

Base Commanders or other Ports in Area

Any Developmental Projects, Etc

**Know your USERS**

The Indian Navy is a well-balanced and cohesive three-dimensional force, capable of operating above, on and under the surface of the oceans effectively safeguarding our national interests. The Chief of Naval Staff exercises operational and administrative control of the Indian Navy from the IHQ of Ministry of Defence (Navy), New Delhi. The Vice Chief of Naval Staff and three other Principal staff officers, namely the DCNS, the COM, and the COP, assist him. The Staff Branch- 1 is under the VCNS

**STAFF BRANCH -I**

- 1 Asstt Chief of Naval Staff (Policy and Plans) ACNS (P&P)
- 2 Asstt Chief of Naval Staff (Submarines) ACNS (S/M)
- 3 Asstt Chief of Naval Staff (Special Submarine Project) - ACNS (SSP)
- 4 Director Gen Project Seabird
- 5 Asstt Controller Carrier Project (ACCP)
- 6 Assistant Controller of Warship and Production & Acquisition (ACWP&A)
- 7 Director general of Naval Design (DGND)
- 8 Director General of Naval Armament Inspection (DGNAI)
- 9 Integrated Financial Advisor (IFA )

**STAFF BRANCH -II ( Under DCNS)**

- 1 Asstt Chief of Naval Staff (Information Warfare and Operations) ACNS (IWOPS)
- 2 Asstt Chief of Naval Staff (Air)
- 3 Chief Hydrographer
- 4 Asstt Chief of Naval Staff (Foreign Cooperation and Intelligence ) ACNS (FCI)

**PERSONNEL BRANCH (Under COP)**

- 1 Assistant Chief of Personnel (Human Resource and Development ) ACOP (HRD)
- 2 Assistant Chief of Personnel (Civilians) [ACOP (Civ)]

**MATERIAL BRANCH (Under COM)**

- 1 Assistant Chief of Material (Dockyard and Refit) ACOM ( D&R)
- 2 Assistant Chief of Material (Information Technology and Systems) ACOM (IT &S)
- 3 Assistant Controller of Logistics (ACOL)

All APSOs are assisted by Principal Directors and Principal Directors are assisted by Directors, The Charter of Duties of APSOs and responsibilities of Principal Directors is contained in booklet “CHARTER OF DUTIES APSOs and Principal Directors”

## ANNEXURE – XV

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

**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.

**2 Purchaser** In all cases of procurement on behalf of the Central Government, purchaser is the President of India acting through the authority issuing purchase orders. In cases of procurement by the departments of the state Government, 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.

**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.

**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. Government 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.

**5. Stores** The term 'stores' applies generally to all articles and materials purchased or otherwise acquired for the use of Government 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)

**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.

**7. Competent Financial Authority.** The Competent Financial Authority (CFA) is an authority duly empowered by the Government 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.

**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.

**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 Government 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.

**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.

**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.

**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 Government 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.

**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 Government 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 Government For Revenue Procurement, Government 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.

**14. Indigenous Procurement.** Procurement from indigenous sources is called indigenous procurement. It is the policy of the Government 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.

**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 Government 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.

**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.

**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.

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

**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.

**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.

**21. Product Reservation.** In order to encourage indigenous manufacturing particularly by the SSI, Handloom and Khadi Bhandars, the Government 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.

**22. Price Preference.** As per existing Government 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.

**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).

**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.

**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.

**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.

**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. 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.

**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.

**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.

**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.

**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.

**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.

**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.

**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.

**36. Advance Payment.** As per the current policy of the Government 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.

**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.

**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.

**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.

**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.

**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.

**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 Government funds. This accountability is unconditional and absolute.

**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.

**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 Government Manuals like GFR, FR and other Government 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.

**Common Terms relevant for IFAs**

ACL	:	Annual consumption level
AHSP	:	Authority holding Sealed particulars
AIP	:	Approval in Principal
AOG	:	Aircraft on ground
AON	:	Acceptance of Necessity
ASD	:	Air store depot
CAR	:	Current Annual rate
CFA	:	Competent Financial Authority
CMP	:	Controller of Material Planning
CNC	:	Contract Negotiation Committee
COI	:	Court of Inquiry
COTS	:	Commercially off the shelf
CPV	:	Centrally purchased
CSA	:	Chief system administrator
CST	:	Comparative statement of Tenders
DGOF	:	Director General of Ordnance factories
DLS	:	Directorate of Logistics
DPM	:	Defence Procurement Manual
DPRO	:	Directorate of Procurement
EAC	:	Expenditure angle clearance
EOQ	:	Economic Order quantity
FA	:	Financial Advisor
FF	:	Forecast factor
FR	:	Financial regulations
GCC	:	General condition of contract
GFR	;	General Financial Regulations
GRSE	:	Garden Reach Ship
GSL	:	Goa Ship yard
HAL	:	Hindustan Aeronautics Limited
HLBH	:	High Level budget Holder
IFA	:	Integrated financial Adviser
IHQ	:	Integrated Headquarters
ILMS	:	Integrated Logistics Management system

LPP	:	Last procurement Price
LPY	:	Last Procurement Year
LTE	:	Limited Tender Enquiry
MDL	:	Mazgaon dockyard Limited
MIS	:	Management Information System
MO	:	Material Organisations
MOD	:	Ministry of Defence
MPE	:	Maximum Potential establishment
MPM	:	Material Planning Manual
MSL	:	Minimum stock Level
NHQ	:	Naval Headquarters
NI	:	Naval Instructions
NLC	:	Naval Logistics committee
NSD	:	Naval Store depot
OEM	:	Original Equipment manufacturer
OTE	:	Open tender enquiry
PAC	:	Propriety Article certificate
PNC	:	Price Negotiation Committee
PQ	:	Procurement quantity
PSU	:	Public sector Under taking
QRS	:	Qualitative / quantative requirements
QTY	:	Quantity
RAF	:	Review action Figure
RFP	:	Request for Proposal
RMSO	:	Repair Maintenance Supply order
SCC	:	Special conditions of contract
SSF	:	Short stock figure
STE	:	Single tender enquiry
TE	:	Tender Enquiry
TEC	:	Technical Evaluation Committee
TLBH	:	Top Level Budget Holder
TOR	:	Terms of reference
TPC	:	Tender Purchase Committee
WAN	:	Wide area Network

**REFERENCES**

- DPM 2006
- NI 1/S/06
- Material Planning Manual of Indian Navy
- Defence Procurement Procedure 2006
- FR Part 1 Vol 1
- Defence Services Estimates- 2007-08
- Defence Budget- A statistical digest (MOD (Fin) publication)
- Discussions within IFA (Navy) office
- Discussions with Pr. IFA, IFA (Air Force, Delhi and IFA (MC), Nagpur
- Material supplied by FA, ASD, Mumbai and IFA, Coast Guards
- Indian Navy- Organiser 2007

# APPENDIX

## **Appendix A**

### **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.
- a)** 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 updated 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](http://www.google.com), [www.yahoo.com](http://www.yahoo.com), [www.alibaba.com](http://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](http://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 :

- a) To verify cost or pricing data or information (other than cost or pricing data).
- b) 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



- ii.** To make satisfactory allowance for the incomplete data.
- g)** 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.

- a)** 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**

### **Acceptance of Necessity (AON) stage - General**

**1** This stage can be further divided into six distinct areas in which IFA is required to pay attention. They have been mentioned below.

**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.

## **2.1 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 additions 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.

## **2.2 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.

### **2.3 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?

### **2.4 AON stage – Mode of tendering**

#### **2.4.1 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.

#### **2.4.2 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.

#### **2.4.3 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.

#### **2.4.4 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).

#### **2.4.5 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.**

#### **2.4.6 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.**
- xi. Find out whether where option clause in last S.O. has been availed of, at may not be desirable to place further repeat orders.

## **2.5 AON stage – Vetting of Tender enquiry**

**2.5.1 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.

**2.5.2 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.

**2.5.3 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.

**2.5.4 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.

#### **2.5.5 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.

**2.5.6 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.

**2.5.7 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 Government 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 Government 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.

M0 & 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.
- x. **Book examination clause** – Ensure that TE contains a 'Book Examination Clause' for high value single vendor cases.

**2.5.6 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.

**2.5.7 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.

**2.5.8 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.

**2.5.9 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.

**2.5.10** 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 indenter.
- 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.

### **3. Advanced issues at AON stage**

**3.1** 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.

**3.2 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**

<b>Classification</b>	<b>Percentage of stock</b>	
<b>Percentage of value</b>	<b>Nature and level of Control</b>	<b>Percentage of stock</b>
<b>A</b>	<b>5</b>	<b>65</b>

**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**

	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 choose 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.

### **3.3 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.

**(c) 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.

### **3.4. 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 Government**

- 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).

### 3.5 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.
  - i) 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.

**b) 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.

**c) 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.

- d) 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.

### **3.5.1 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.

### **3.5.2 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.

### **3.5.3 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.

**3.5.4 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

**Tendering Stage**

- 1.1** This stage can be divided into three areas which are mentioned below.
- 1.2 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.

### 1.3 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

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- 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.
- ii. **Delivery Period** - Delivery Period and delivery compliance are important variables for evaluation of bids.
- iii. **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.
- iv. 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.

**i) LPP in CST** - Ensure that LPP is mentioned, wherever available, in CST for enabling fair comparison.

**j) 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.

**k)** 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.

#### **1.4 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 Government 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 Government 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.**
  - v. Analyse Balance sheets and profit and loss accounts during the last three years, wherever made available.
  - vi. 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.
  - vii. 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.  $NPV = \frac{C_1}{1+r} + \frac{C_2}{(1+r)^2} + \frac{C_3}{(1+r)^3} + \dots$  Or

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

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.

## **2. Expenditure sanction stage**

2.1 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.

2.2. 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.

2.3. 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.

2.4. 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).

2.5. 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.

2.6. 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.

2.7. Types of contracts to be considered - Government 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.

2.8. 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 Government, 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.

2.9. 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.

2.10. 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.

2.11. Signing of contract - All contracts concluded by the departments of the central Government 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.

2.12. 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.

2.13. 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.

### **3. 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.

**3.1. 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 inspectiob,

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.

**3.2. 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).

### **3.3. Suppliers' cost structure –**

3.3.1 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.

3.3.2 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.

**3.4. 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.

3.4.1 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.**

3.4.2 **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: -

- (g) When the Offers do not confirm to essential specification.
- (h) Wherever there are major changes in specification and quantity, which may have considerable impact on the price.
- (i) Prices quoted are unreasonably high with reference to assessed cost or there is evidence of a sudden slump in prices.
- (j) In case L-1 tenderer withdraws his offer.
- (k) 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.
- (l) 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.

**3.4.3 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.

**3.4.4 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).

3.4.5 **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.

3.4.6 **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.

3.4.7 **Types of contracts to be considered** - Government 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:-

- ix. Purchase order for items of stores, spares or equipment.
- x. Rate Contract.
- xi. Price Agreement.
- xii. Service Contract.
- xiii. Annual Maintenance Contract (AMC).
- xiv. Consultancy Contract.
- xv. Works Contract/Project.
- xvi. Development Contract.

3.4.8 **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:
    - 100% payment against receipt of stores by consignee in acceptable condition.
    - (ii) 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.
    - (iii) 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.
    - (iv) 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.
    - (v) Whether the firms have asked for sales tax/service tax separately. If so, whether it has been shown properly in the contract.

- (vi) Whether the status of excise duty is clearly specified in the supply order.
- (vii) 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.
- (viii) 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.
- (ix) Whether force majeure clause is incorporated in the supply order only if specific request is made by the firm.
- (x) Whether dispatch and inspection instructions have been correctly incorporated. Whether inspection agency and inspecting officer have been clearly indicated in the Supply Order.
- (xi) Whether the copies of the Supply Order have been endorsed to all concerned including inspectorate and Accounts Office.
- (xii) 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.)
- (xiii) Whether Heads of Accounts are indicated correctly.
- (xiv) Whether the paying authority and paying officer are indicated correctly.
- (xv) Whether the tendering firm has accepted the standard “sole arbitration clause”.
- (xvi) Whether the contract provides for submission of advance sample. If so, whether a definite, reasonable and correct time limit has been laid down.
- (xvii) Whether the transit risk clause has been correctly stipulated.
- (xviii) 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.

(xix) 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.

(xx) 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.

(xxi) 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.

(xxii) 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.

(xxiii) Whether necessary instructions regarding Military Credit Notes have been incorporated.

(xxiv) Whether suitable packing and transit insurance instructions against loss or damage in transit have been incorporated.

(xxv) If materials are to be issued to contractor by the Government, whether suitable provision has been made as regards issue price, collateral security deposit and custody, accounting etc.

(xxvi) Whether standard Liquidated Damage (LD) clause has been suitably incorporated in the contract.

(xxvii) Whether Financial Concurrence number and date has been correctly and clearly indicated in the supply order.

**3.4.9 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.

**3.4.10 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.

**3.4.11 Signing of contract** - All contracts concluded by the departments of the central Government 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.

**3.4.12 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.

**3.4.15 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.

### **3.5 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.

- b.** 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.

### **3.5.1 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.

**3.5.2 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

$$NPV = \frac{\sum A_n}{(1 + i)^t}$$

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.

- e) Structuring Cash Flows for Tenders/ Bids Received in Different Currency-
  - i. Where bids are received in different currencies/combo 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.

### **3.5.3 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

### 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.
- l. 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: -

**1. 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.

**2. 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.

**3. 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.

### **3. Project Management –**

**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 :

- 1) Provide means for careful planning of all activities and all variables involved.
- 2) Provide an overview of the entire procedure, with a cleaner understanding of the interrelationships of the activities.
- 3) Provide for constant feedback to assure that all activities are on schedule.
- 4) Identify potential problems early so that resources can be diverted to avoid cumulative delays.
- 5) 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 paln the quantity of procurement at a particular stage.

**4. 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.).

**b) Intermediate Repairs** - These are extensive or special repairs carried out for a few equipment in the field to reduce the down time.

**c) 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 manufacture

- 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.

**d) Manufacturers Recommended List of Spares (MRLS)** – This is required to sustain the equipment for a specified period. They are divided as under -  
Low Cost. Less than 2 % of the unit cost of the equipment/sub system.  
Medium Cost. 2 to 10% of the unit cost of the equipment/sub system.

**e)** 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.