

CONTROLLER GENERAL OF DEFENCE ACCOUNTS

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Sub:- Financial Advice Cases

The financial advice cases as submitted by IFA (Army-Q) Delhi, IFA (SC) Pune and Pr IFA (CIDS) New Delhi, are circulated herewith for information and guidance.

1. Reduction in projected requirement of special Oil and Lubs considering various aspects, resulting considerable saving to the state

IFA (Q) received a proposal for special oil and Lubs at an estimated cost of Rs 26.37 crores for the consumption year 2014-15 from ST Branch for according the quantity vetting at AON stage. IFA examined the proposal and identified that the proposal is not properly prepared considering various aspect such as Yearly Off-take, Average Yearly Consumption (based on last three years average consumption), Stock held by the Commands and Dues-in against the contracts and requirement of Book Debit units.

Considering the above aspects, various discrepancies identified in the figures/values taken into account to work out the net deficiency, rectified/reduced appropriately. Thus, the estimated cost of the proposal on the basis of reduced/restricted quantity worked out to be Rs 19.91 crores as against original estimated proposed amount of Rs 26.37 crores. Thus, it resulted a net saving to the tune of Rs 6.46 crores to the state.

2. Reduction in projected requirement of Main Lubs considering various aspects resulting considerable saving to the state

IFA (Q) received a proposal for Main Lubs at an estimated cost of Rs 131.95 crores for the consumption year 2014-15 from ST Branch for according the quantity vetting at AON stage. IFA examined the proposal and identified that the proposal is not properly prepared considering various aspects such as Yearly Off-take, Average Yearly Consumption (based on last three years average consumption), stock held by the Commands and Dues-in against the contracts and requirement of Book Debit units considered.

Considering the above aspects, IFA identified various discrepancies in the figures/values taken into account to work out the net deficiency, rectified/reduced appropriately. Hence, the estimated cost of the proposal on the

basis of reduced/restricted quantity worked out to be Rs 120.74 crore as against original proposed amount of Rs 131.95 crores. Thus, a saving to the tune of Rs 11.21 crores achieved.

3. Procurement proposal for Multirole Security System (MRRS)

Pr IFA (CIDS) received a procurement proposal for Multirole Security System from SI Dte for obtaining AON concurrence at an estimated cost of Rs 3,50,28,000 crore excluding taxes. Pr IFA examined the proposal and noticed that the estimated cost has been projected on the basis of cost assessed by BOO of POV and the same is higher than budgetary quotes of the firm. Pr IFA returned the case file to SI Dte to re-examine the case with a view to its projected estimated cost.

The executive authorities agreed with the contention of Pr IFA office and re-submitted the case seeking AON concurrence at the estimated cost of Rs 3.35 crore excluding taxes. Hence, a saving of Rs 15.28 lakhs at AON stage has been achieved.

After opening of price bid, a decision was taken by CNC to carry out price negotiation with the firm as the price quoted was considered very high. The firm quoted the price of Rs 3.45 crore for the equipment including services (less tax) and the cost of AMC for 5 years (less tax) of Rs 2.10 crore.

During PNC, the rep of Pr IFA requested the firm rep to quote the minimum lowest possible price. After due deliberation, the firms rep agreed for a discount of 5% on MRSS. Thus, the cost of the equipment was reduced to Rs 2.80 crore as against Rs 2.91 crore. Apart from this, a discount of Rs 1.44 lakh was also allowed in accessories by the firm's rep.

After achieving discount on equipment and accessories negotiation on service charges of Rs 10 lakhs as quoted by the firm was deliberated with a plea that Algorithm is being preloaded at factory premises, hence, no installation and commissioning is involved in the project and the firm rep was requested to reduce the cost. After a long deliberation, the firm agreed to allow the discount of Rs 10 lakhs quoted on account of services. Thus, a net saving to the tune of Rs 26.21 lakhs was achieved.

Apart from the above, it was also observed that AMC charges for 5 years quoted by the vendor were on higher side i.e. 10% for the first year with an increase of 1 % for every subsequent years, averaging 12% p.a. It was pointed out that AMC rates were not in consonance with laid down norms of 6 to 7% and the firm's rep was asked to reduce the cost and the rep of the firm agreed to 7.5% p.a. on basic cost of equipment plus service tax (Basic cost Rs 3.01 crore) which works out to be Rs 22.60 lakhs p.a. excluding service tax. Hence, a saving of Rs 97.05 lakhs was achieved in AMC for 5 years. Thus, a total saving of Rs 1.23 crore was achieved in respect of equipment, services and AMC for 5 years.

4. Procurement proposal for one Wideband Microwave Signal Analysis System for EESU

Pr IFA (CIDS) received the procurement proposal for one Wideband Microwave Signal Analysis System for EESU at the estimated cost of Rs 6.43 crore for AON concurrence. Pr IFA accorded AON concurrence to the proposal at the estimated cost of Rs 6.43 crore. Benchmarking of price was fixed prior to opening of price bids at Rs 6.48 crore inclusive of VAT and service tax.

After CST being vetted by Pr IFA office, a CNC was constituted to determine L-1 vendor. L-1 vendor was decided whose offered cost of the equipment was Rs 7.59 crore inclusive of taxes. Since the cost of the equipment quoted by L-1 vendor was higher than the benchmarked price, then, CNC recommended for negotiation with L-1 vendor.

During price negotiation, the rep of the firm was asked to reduce the cost as the same is on higher side. The rep of the firm replied that in view of Dollar/Rupee variation, there was not much scope of reduction of cost. However, the rep of the firm offered a discount by reducing margin against cost of services. After offering the discount, the cost of the equipment reached Rs 7.02 crore inclusive of taxes. His offer was not accepted and again requested to allow more discount keeping in view of higher rates.

Issue of discount deliberated at length and it was expressed that the cost should not be more than Rs 6.00 crore. The firm rep, thereafter, offered cost of project including services and all taxes to Rs 6.44 crore interalia stating that no further reduction was possible.

As such negotiated cost of Rs 6.44 crore was accepted as the same was below the benchmarked cost. Thus, a saving to the tune of Rs 1.15 crore was achieved.

Apart from the above, the cost of AMC for 5 years was also negotiated with vendor. Vendor quoted the cost of AMC at the amount of Rs 40.00 lakhs per year which worked out to 6.92% on basic cost of equipment. It was considered on higher side and it was decided that it should not be more than 3%. The rep of the firm was asked to reduce the cost of AMC but the rep of the firm did not agree stating that all the aspects have already been taken into consideration in allowing the discount in the cost of equipment and services. After a long deliberation, the firm rep agreed to the AMC cost @ Rs 3% p.a. on the basic cost. The cost of AMC worked out to Rs 1.01 crore inclusive of taxes for 5 years instead of Rs 2 crore. It results a saving to the tune of Rs 98.23 lakhs. Thus, a total saving of Rs 2.14 crore was achieved in the project cost due to active role played by the IFA.

5. Procurement of tractor (1 no.) with accessories by the NDA

IFA (SO) Pune received a proposal for the procurement of 01 tractor along with two wheeler water tanker, trailer two wheels dumping hydraulic trolley and leveling blade by the ETT of NDA at a total cost of Rs 10.88 lakhs. IFA examined the proposal and found that NDA was already holding 09 tractors which were not authorized in PET of NDA. These tractors were procured in the past on different occasions, keeping in view the functional necessity of the NDA. Since, tractors had already been procured by the NDA in the past. IFA advised that the case for inclusion/authorization of tractors in PET of NDA could be initiated and taken up with appropriate authority for approval. For this purpose, IFA advised that a board of officers may be convened to assess the total number of requirement of tractors by the NDA section wise.

IFA also noticed that out of 09 tractors, 03 were used by Estate, 03 by QM section, 02 by Physical Training Team and 01 was utilized between QM section and ETT. It was, therefore, advised that one tractor being used between QM and ETT could be exclusively transferred to ETT to meet their requirements. If this could be considered feasible, then, the proposed accessories could be procured by the ETT to cater for their requirements. These accessories could then be used in conjunction with the existing set of tractors. If this arrangement was not considered feasible, then CFA could take a view on this and to decide on the proposal. With above remarks, IFA returned the case file.

Accordingly, the board of officers was convened by the CFA to assess the requirements of tractors for NDA as a whole. The board recommended the requirement of 17 tractors for NDA and the same was approved by the CFA (NDA Commandant). The case was re-submitted for concurrence of the IFA.

IFA examined the case and it was pointed out that so far, NDA managed with 09 tractors and suddenly, the requirement for 17 tractors had been assessed and recommended by the board. IFA also observed that with the area of NDA remaining the same and since only one additional battalion had come up, the requirement was not found justified. Therefore, IFA advised that the case for authorization of tractors in PET of NDA could be taken up with Equipment Table Revision Committee, GS Branch of IHQ, MoD through staff channel, giving details on every day utilization (in terms of hour). IFA also advised that since every branch of NDA could not have adequate work for efficient utilization of one tractor, it would be advisable to create a pool of tractors and then ensure need based deployment.

Subsequently, NDA agreed to the advice and the proposal for the procurement of tractor was dropped and only accessories were proposed for procurement. This led to a saving of Rs 7.16 lakh in the proposed procurement and potentially more if the increased requirement of tractors had been accepted.

6. Multimedia aided archiving of historical data, micro films, publications, training calendars, e-dossiers, creation and management database with Document Management System (DMS) and web portal on turnkey basis at NDA Khadwasala

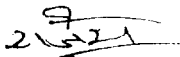
IFA (SC) Pune received a proposal for "Multimedia aided archiving of historical data, micro films, publications, training calendars, e-dossiers, creation and management database with Document Management System (DMS) and web portal on turnkey basis at NDA Khadwasala" at an estimated cost of Rs 59.75 lakhs for according AON concurrence to the proposal in the FY 2011-12.

IFA concurred the proposal from AON angle and stated that the proposal to be processed through OTE. Four vendors responded to the TE and out of four, only two vendors were technically accepted by TEC. After opening of commercial bid, L-1 bid was of Rs 64.15 lakhs. As the bid was found higher than benchmark price, therefore, negotiations were held with L-1 vendor. The final offer after negotiation was Rs 57.79 lakhs (exclusive of taxes) which was higher than benchmark price of Rs 37.25 lakhs by 55%. Considering the variation between final L-1 offer and benchmark price and also considering benchmark price of hardware of Rs 16.25 lakhs as compared to L-1's bid for hardware items which was Rs 33.44 lakhs. Therefore, CNC (including IFA rep) recommended for re-tendering as the L-1 firm's bid was unreasonable.

IFA concurred in the proposal for re-tender due to unreasonable rate quoted by the L-1 firm in comparison to benchmark price. On the advice of IFA, the proposal was approved for re-tender by the CFA (Commandant NDA).

The case was re-tendered through open tendering. Ten firms responded to the Tender Enquiry (TE) (5 bids and 5 regret letters). All the five bids received were technically accepted by the TEC. This time, there was a different L-1 bidder with an offer of Rs 48.25 lakhs including AMC for one year and Annual Service Charges. After negotiation, the L-1 firm further reduced their prices which came to Rs 42.63 lakhs.

Finally, IFA concurred the proposal and a supply order was placed for an amount of Rs 42.63 lakhs (inclusive of taxes and inclusive of AMC charges for one year and Annual Service Charge) as against original amount of Rs 64.15 lakhs. Thus, a saving of Rs 21.51 lakhs was achieved.


(Rajesh Madan)
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