

# General Financial Rules, 2017

Rakesh C Sajjan, IA&AS

# Session Objectives

To provide an overview on

1. Definition of GFRs
2. Objectives of GFR 2017
3. Vigilance Principles
4. General Principles

# General Financial Rules

- Compilation of rules and orders of Government of India to be followed by all Departments and Organizations under the Government, while dealing with matters involving public finances.
- These rules and orders are treated as executive instructions to be observed by all Departments and Organisations under the Government and specified Bodies except otherwise provided for in these Rules

# General Financial Rules

- First issued in 1947 by bringing together all executive instructions on financial matters
- Modified/amended in
  - 1963
  - 2005
  - 2017
- In case of any doubt as to the interpretation of any rules, provisions of GFR, the matter shall be referred to MoF (Rule 5)

# **Objectives of GFR 2017**

# Objectives

- To provide a framework within which an organization manages its business in a financially prudent manner without compromising its flexibility to deal with varied situations
- Efficiency, Accountability and Financial Discipline are the main objectives.

# Objectives

Government has introduced many changes in recent years-

- removal of distinction in non-plan and plan expenditure,
- merger of Railway Budget with General Budget,
- focusing on outcomes rather than outputs,
- introduction of Public Finance Management System(PFMS),
- Direct Benefit Transfer (DBT) Scheme,
- new e-sites like Central Public Procurement Portal,
- Government e-Marketing (GeM) Portal, and Non-Tax Revenue Portal.

Hence, GFRs were updated from previous version of 2005.

# GFR Chapters

- Budget Formulation and implementation
- Government Accounts
- Works
- Procurement of Goods and Services
- Inventory Management
- Contract Management
- Grants-in-aid and Loans
- Externally aided projects
- Government Guarantees



## TABLE OF CONTENTS

Chapter No.	Name of the Chapter	Page No.
1	<b>Introduction</b>	9
2	<b>General System of Financial Management</b>	11
	I. General Principles relating to expenditure and payment of money	12
	II. Defalcation and losses	15
	III. Submission of records & information	16
3	<b>Budget formulation and implementation.</b>	17
4	<b>Government Accounts</b>	25
5	<b>Works</b>	38
6	<b>Procurement of Goods and Services</b>	41
	I. Procurement of Goods	41
	II. Procurement of Services	54
7	<b>Inventory Management</b>	58
8	<b>Contract Management</b>	63
9	<b>Grants-in-aid and Loans</b>	67
10	<b>Budgeting and Accounting for Externally Aided Projects</b>	85
11	<b>Government Guarantees</b>	89
12	<b>Miscellaneous Subjects</b>	94
	I. Establishment	94
	II. Refund of revenue	96
	III. Debt and misc. obligations of Govt.	97
	IV. Security deposits	98
	V. Transfer of land and buildings	99
	VI. Charitable endowments and other trusts	99
	VII. Local bodies	99
	VIII. Maintenance of records	100
	IX. Contingent and Miscellaneous Expenditure.	100

# **Vigilance and General Principles**

# Vigilance Principles

- All moneys received by or on behalf of the Government either as dues of Government or for deposit, remittance or otherwise, shall be **brought into Government Account without delay.**
- All moneys received by or deposited with any officer employed in connection with the affairs of the Union in his capacity as such, **other than revenues** or public moneys raised or received by Government, **shall be paid into the Public Account.**
- Amounts due to Government **shall not be left outstanding** without sufficient reasons. Where such amounts appear to be irrecoverable, the orders of the competent authority shall be obtained for their adjustment.

# **Salient provisions/aspects of GFR**

# Competent Authorities

1. Original power with President of India
2. Cabinet and committees of the cabinet
3. Delegated Powers with the subordinate authorities
  1. Secretary of a Department (also designated as Chief Accounting Authority)
  2. Head of the Department
    1. Specified in Schedule 1 of DFPR, 1978
    2. Must be the head of the organization
    3. Must be not of the rank below the level of Deputy Secretary to Govt (Level 12)
  3. Head of Office: Any Gazetted officer declared as HoO

# Credit

- Credit/withdrawal of moneys shall be governed by **Government Accounting Rules, 1990** and **Receipt and Payment Rules, 1983**
- Progress of collection and all-important variations in collections in comparison to Budget Estimates shall be brought to the notice of Ministry of Finance.

# Making Expenditure: Essential conditions

- Expenditure should be in public interest.
- Should have approval of competent authority.
- Should be within allotted budget.
- Should be spent only for the purpose for which it is allotted.
- Classification should be correctly made: Revenue/Capital etc

# General Principles relating to Expenditure and Payment of money (Rule 21)

- Standards of financial propriety
  - Every officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of **expenditure of his own money.**
  - Expenditure should not be prima facie **more than the occasion demands.**
  - No authority should exercise its powers of sanctioning expenditure to pass an order which will be **directly or indirectly to its own advantage.**
  - Expenditure from public moneys should **not be incurred for the benefit of a particular person or a section of the people**
  - No expenditure or liability involving expenditure or transfer of moneys for **investment or deposit from public funds** shall be undertaken, unless the same has been sanctioned by a competent authority



# Responsibilities of Controlling officer(Rule 26)

- Expenditure should not exceed the allotted budget
- Expenditure should be made only for the purpose for which fund has been allotted
- Expenditure should be in public interest.
- Adequate control mechanisms for prevention, detection of errors and irregularities in the financial proceedings of the subordinate office should be put in place.
- Shall obtain from his subordinate officers monthly accounts and returns in suitable forms (Rule 10)

# General principles relating to Losses and Defalcation (Rule 33)

## Loss, defalcation or misappropriation

- Any significant loss or shortage of public moneys, departmental revenue or receipts, stamps, opium, stores or other property held by, or on behalf of, Government irrespective of the cause of loss and manner of detection, **shall be immediately reported** by the subordinate authority concerned to the next higher authority as well as to the Statutory Audit Officer and to the concerned Principal Accounts Officer.
- An amount lost through misappropriation, defalcation, embezzlement etc., may be **redrawn** on a simple receipt pending investigation **or write-off** with the approval of the authority competent to write-off the loss in question.
- In cases of loss to Government on account of culpability of Government servants, **the loss should be borne by the Central Government Department** or State Government concerned with the transaction. Similarly, if any **recoveries** are made from the erring Government officials in cash, the receipt will be **credited to the Central Government** Department or the State Government who sustained the loss.

## **General Principles on Submission of Records and Information(Rule 39)**

- Afford all reasonable facilities to the Audit Officer or PAO for discharge of functions
- Furnish fullest possible information and records
- Do not withhold any information, books or other documents
- If the document is classified, file may be sent to Head of the Audit office personally

## **Budget Formulation and Implementation(Rule 42-70)**

- This chapter discusses important definitions and rules pertaining to the heading mentioned above.
- Provisions for preparation, formulation and submission of budget in Parliament is provided in Articles 112-116 of Constitution. (Rule 43)
- Budget should contain the following: (Rule 44)
  - Estimates of revenue to be raised during following FY
  - Estimates of all the expenditure for each programme, scheme and project
  - Estimates of all the interests and debt servicing charges and any repayment of loans
  - Any other information that may be prescribed
- Demands for Grants are the estimates for expenditure for which vote of Lok Sabha is required. (Rule 51). Generally, one demand for one ministry/dept. For large ministries, more than one demand may be presented.

## **Govt Accounts (Rule 71 – 129)**

- Accounts of the GoI shall be prepared every year showing the receipts and disbursement during the year. Finance Accounts and Appropriation Accounts are prepared by CGA for Union Govt. At State level, C&AG does it.
- Cash based accounting is used for preparation of Govt Accounts.
- Govt Accounts shall be kept in such form as prescribed by C&AG under Article 150.
- Divisions and main structure of Accounts:
  - Consolidated Fund(Part – I)
  - Contingency Fund (Part – II)
  - Public Account (Part – III)

## **Govt Accounts (Rule 71 – 129)**

- Part-I is divided into two divisions : Revenue and Capital;
- Revenue Division is further divided into two sections: Receipt Heads and Expenditure Heads.
- Capital Division is further divided into three sections: 'Receipts Heads', 'Expenditure Heads' and 'Public Debt, Loans and Advances etc'
- Sections are divided into sectors such as General Sector, Social Sector, Economic Sector etc.
- Each Sector has functions (Education) and further LMMH classification.

## **Govt Accounts (Rule 71 – 129)**

- Public Finance Management System (PFMS) (Rule 86):
  - It is an integrated financial management system. It is managed by CGA.
  - It is used for sanction preparation, bill processing, payments, receipt management
  - Direct Benefit Transfer (Rule 87), fund flow management and financial reporting.
  - All the payments to be released in ‘just in time’ basis.
  - Re-appropriation orders, surrender orders to be generated through this system.
  - Grantee organizations shall submit utilization certificates through PFMS.

## Govt Accounts (Rule 71 – 129)

- Capital Expenditure (Rule 98-107):
  - Significant expenditure
  - Acquiring tangible assets of permanent nature
  - Enhance the utility of the existing asset
  - Expenditure is generally met from capital receipts
- Revenue Expenditure:
  - Expenditure on maintenance, repairs, upkeep and other expenditures required to maintain the assets
  - Expenses incurred for day to day running of the organization.
- Inter Department Consultations
  - Subject is of concern of more than one department, i.e., likely to affect Transaction of Business Rules allotted to another dept.
  - All department concerned should concur.
  - Failing such concurrence, cabinet decision would be required.



# Works

## Definition of works

### – **Original works**

- All new constructions, site preparation, additions and alterations to existing works, special repairs to newly purchased or previously abandoned buildings or structures, including remodelling or replacement.

### – **Minor works**

- Works which add capital value to existing assets but do not create new assets.

### – **Repair works**

- Works undertaken to maintain building and fixtures.

# Works

## Power to sanction works

- Powers delegated to various subordinate authorities to accord administrative approval, sanction expenditure and re-appropriate funds for works are regulated by the **Delegation of Financial Powers Rules.**

## Ways of Execution of Work

1. Repair work by the Ministry
2. Original or Minor Work assigned to CPWD
3. Execution of work by the Ministry

# Works

## Power to sanction works

- A Ministry or Department may directly execute **Repair works** estimated to cost **up to Rs. 30 lakh** after following due procedure for administrative approval, expenditure sanction, e-Publishing and e-Procurement of works.
- A Ministry or Department may **assign Repair works** estimated to cost **above Rs. 30 lakh** and **Original/ Minor works of any value** to any Public Works Organisation (PWO) such as Central Public Works Department (CPWD), State Public Works Department, Border Roads Organisation (BRO). Works may also be assigned to Central PSUs or State PSUs under this category, but on competition basis.
- For all Original works and Minor works of a Ministry/ Department which are to be **administered by CPWD**, there shall be **no partial financing from funds provided in the budget** of the Ministry/ Department for which the works are being executed.

# Works

## Procedure for execution of works

- **Administrative approval** is to be obtained from the appropriate authority
- **Sanction to incur expenditure** is to be obtained from the competent authority
- **Detailed design of works** are to be sanctioned, with consideration of principles of Life Cycle costs
- **Estimates** containing the detailed specifications and quantities of various items are to be prepared on the basis of the Schedule of Rates maintained by CPWD or other Public Works Organisations and are to be sanctioned
- **Funds** to cover the charge during the year are to be provided by the competent authority

## Works

- **Procedure for execution of works**
  - **Tenders are to be invited** and processed in accordance with rules
    - Limited tenders to be called for works costing less than Rs. 5 lakh
    - Open tenders to be called for works costing Rs. 5 lakh to Rs. 30 lakh
  - **Work Order** is to be issued
  - **Review of execution of works** is to be carried out
    - For works costing Rs. 100 crore or above, the Ministry or Department is to set up a Review Committee consisting of representatives from Administrative Ministry, Finance and the Executing Agency , with powers to accept variation within 10% of the approved estimates.
    - For works costing less than Rs. 100 crore, Administrative Ministry/ Department may set up a suitable mechanism for review and acceptance of variation within 10% of the approved estimates.

# Goods

## Definition of Goods

- Includes all articles, material, commodity, livestock, furniture, fixtures, raw material, spares, instruments, machinery, equipment, industrial plant, vehicles, aircraft, ships, medicines, railway rolling stock, assemblies, subassemblies, accessories, a group of machineries comprising of an integrated production process or such other category of goods or **intangible products** like software, technology transfer, licenses, patents or other intellectual properties purchased or otherwise acquired for the use of Government.
- Also **includes works and services which are incidental or consequential** to the supply of such goods, such as, transportation, insurance, installation, commissioning, training and maintenance.

## Goods

### General principles for specification of goods to be procured

- Description of the required goods to be procured should be objective, functional, measurable and specify the technical, qualitative and performance characteristics.
- Requirement **should not indicate a particular trademark, trade name or brand.**
- Technical specifications shall, to the extent practicable, be based on the **national technical regulations** or recognized national standards or building codes wherever such standards exist, and in their absence, be based on the relevant international standards.

## Goods

### Powers for procurement

- Powers delegated to various subordinate authorities to accord administrative approval and sanction expenditure for procurement of goods are regulated by the **Delegation of Financial Powers Rules**.
- The Ministry or Department have been delegated full powers to make their own arrangements for procurement of Goods and Services that are not available on GeM .
- Common use Goods and Services available on GeM are required to be procured mandatorily through GeM.



# Goods

## Modes of procurement

- Government e-Marketplace- Rule 149
  - Up to Rs.25,000/- through any of the available GeM Seller
  - Rs.25,000/- to Rs.5,00,000/- through GeM Seller having lowest price amongst the available sellers, of at least three different manufacturers. (Exception Automobiles upto Rs. 30,00,000/-)
  - Above Rs.5,00,000/- through the GeM Seller having lowest price after mandatorily obtaining bids, using online bidding or reverse auction tools provided on GeM
  
- Direct purchase without quotation- Rule 154
  - Up to Rs. 25,000 value of goods
  
- Purchase through Local Purchase Committee- Rule 155
  - Rs. 25,000 to Rs.2,50,000 value of goods

## Goods

### Modes of procurement

- Limited Tender- Rule 162

- Up to Rs. 25 lakh bidding documents should be sent directly by speed post/registered post/courier/ email to firms which are borne on the list of registered suppliers for the goods in question (maintained by Department. At least three bidders should be contacted, and limited tender details published on Central Public Procurement Portal (CPPP).

- Advertised Open tender- Rule 161

- Rs. 25 lakh and above.

- Advertisement in such cases should be given on Central Public Procurement Portal (CPPP) at [www.eprocure.gov.in](http://www.eprocure.gov.in) and on GeM.

## Goods

### General provisions for procurement

#### ➤ e-Publishing (Rule 159)

- Compulsory to publish tenders' enquiries and bid enquiries on Central public procurement portal (CPPP)
- Exceptions – Confidentiality, National Security. To be approved by Secretary of the ministry or department.

#### ➤ Two bid system (Rule 163)

- Simultaneous receipt of Separate technical and Financial bid
- Sealed separately and sent in a sealed big cover
- Technical bid to be evaluated first
- Financial bid of only successful technical bidders are to be opened

# Goods

## General provisions for procurement

- Two stage bid (Rule 164)
  - Bids in two stages with finance bid after technical bid
  - Reason:
    - Not feasible to formulate specification without input from bidders
    - Rapid technological advancements
    - Carry out detailed survey or inspection to assess risks
  - Procedure
    - Invite bids through advertised tender containing only technical aspect
    - Evaluate the bids through appropriate committee
    - Committee may discuss with bidders. Equal opportunity to be given to all bidders
    - Entity may add or amend or omit any specification without changing the fundamental nature of procurement
    - Obtain financial bids from all first stage bidders who are not rejected

# Goods

## General provisions for procurement

- Single Tender (Rule 166)
  - Procurement from single source
  - Under following Circumstances
    - Only particular firm manufactures the product
    - In case of emergency
    - Spare parts to be compatible with the existing set of equipment
  
- Bid Security (Rule 170)
  - Safeguard against bidder's withdrawing
  - Between 2% to 5% of estimated value of goods
  - To be returned to unsuccessful bidders
  
- Performance Security (Rule 171)
  - To be obtained from successful bidder to ensure due performance of the contract
  - 5-10% of value of contract
  - Bid security to be returned after obtaining performance security

# Goods

## Special Emphasis

- Transparency, competition, fairness and elimination of arbitrariness (Rule 173)
  - Bidding document should be Simple, detail, unambiguous
  - Document should contain criteria for eligibility, qualification of bidders, procedure for sending bids, criteria for evaluation of bids etc.
- Code of Integrity for Officials (Rule 175)

# Services

- **Definition of Services**

- Consulting Service means any subject matter of **procurement other than goods or works** and includes professional, intellectual, training and advisory services or any other service classified or declared as such by a procuring entity.
  - These Services typically involve providing expert or strategic advice e.g., management consultants, policy consultants, communications consultants, Advisory and project related Consulting Services which include, feasibility studies, project management, engineering services, finance, accounting and taxation services, training and development etc.
- Non-Consulting Service (**outsourcing of certain functions** to service provider) means those services which involve physical, measurable deliverables/outcomes, where performance standards can be clearly identified and consistently applied, such as maintenance, hiring of vehicle, outsourcing of building facilities management, security, photocopier service, janitor, office errand services, drilling, aerial photography, satellite imagery, mapping etc.

## Services

### Procedure for procurement of Consulting Services

- Identification of **long list of potential service providers**- Rule 183
  - Cost up to Rs. 25 lakh, long list to be prepared on the basis of formal or informal enquiries from other Ministries or Departments or Organisations involved in similar activities.
  - Cost is above Rs. 25 lakh, in addition to above, an enquiry for seeking 'Expression of Interest' from consultants should be published on Central Public Procurement Portal (CPPP) at [www.eprocure.gov.in](http://www.eprocure.gov.in) and on GeM.
  
- From the long list at least **three needs to be shortlisted**
  
- Preparation of **Terms of Reference**- Rule 185
  - ToR contains Statement of objective, task to be carried out, Schedule of completion of task, Final output required from consultant



## Services

### Procedure for procurement of Consulting Services

- Preparation and Issue of **Request for Proposal (RFP)**- Rule 186
  - Document used to obtain offers from consultants
  - Contains the following
    - Letter of Invitation
    - ToR, Eligibility and Prequalification
    - Bid Evaluation criteria, Selection procedure
    - Formats of Technical and Financial proposal
    - Proposed Contract terms
- **Two bid system**( Rule 187)
- **Evaluation** of technical ( Consultancy evaluation committee) and financial bids (Rules 189 and 190)
- Methods of Selection
  - **Quality and Cost Based Selection- Rule 192** ( Quality is prime concern, Weightage based)
  - **Least Cost System- Rule 193** ( Routine nature, Cost concern)
  - **Nomination- Rule 194** (Continuation of previous work, Emergency)

## Services

### Procedure for procurement of Non-Consulting Services

- Identification of long list of potential service providers- Rules 199 and 201
  - Cost up to Rs. 10 lakh, long list to be prepared on the basis of formal or informal enquiries from other Ministries or Departments or Organisations involved in similar activities, and references to Yellow Pages, trade journals etc.
  - Cost is above Rs. 10 lakh, in addition to above, an enquiry for seeking 'Expression of Interest' from consultants should be published on Central Public Procurement Portal (CPPP) at [www.eprocure.gov.in](http://www.eprocure.gov.in) and on GeM.
- Preparation of Tender Enquiry- Rule 200
- Evaluation of bids- Rule 203
  - <10 Lakh: Limited tender enquiry to Suitable contractors
  - >10 Lakh: Advertisement in such cases should be given on Central Public Procurement Portal (CPPP) at [www.eprocure.gov.in](http://www.eprocure.gov.in) and on GeM.

For any circumstances not covered with regard to procurement of non-consulting services, the procuring entity may refer to provisions pertaining to procurement of goods **and not to the procurement of consulting services- Rule 206**

## Contract Management

- All Contracts made in the exercise of the executive power of the union shall be **executed on behalf of the president.** Article 299(1)
- Powers of various authorities are regulated by **Delegation of Financial Power Rule** and **Notification issued by Ministry of Law**
- **General Principle for Contract**
  - Terms must be precise, definite and without any ambiguities
  - Standard format of contracts should be adopted
  - Modification in standard format can be done with legal and financial advice
  - No work should be commenced without execution of an agreement.
  - Contract document should be executed within 21 days of issuance of letter of acceptance

## Contract Management

Work/Purchase Value	How to Purchase
<= 1 lakh	By issuing Purchase order containing Terms and Conditions
1 to 10 lakh	If Tender document includes Condition of contract, Scope of work? Then through letter of acceptance
>10 lakh	Contract document to be executed with all necessary clause

- **Price Variation**

- No Price variation in short term contracts
- Price variation only in long term contracts where the terms of the contract is beyond 18 months
- No price variation is admissible for delivery beyond the scheduled date of delivery
- All applicable taxes are to be borne by the contractor or supplier
- If Govt. property is entrusted to a contractor, specific clause for safeguarding the property is to be included (eg. Insurance cover)
- Periodical verification of the physical condition of the property should be carried out

## Contract Management

- Copies of all contracts above 25 lakh to be sent to Audit Officer and/or Accounts officer
- Variation in Contracts
  - The terms of contract should not be materially varied
  - When modification becomes unavoidable, the financial and other implication should be recorded and specific approval to be obtained from the competent authority
  - All such changes should be signed by both the parties
- Normally no extension of scheduled delivery should be granted
- Warranty clause should be incorporated in every contract (For repair, rectification and replacement) without charges
- All contracts should reserve the right of Government to reject goods

**Other Salient provisions of GFR that may be useful for Autonomous Bodies-**

**Grants in Aid and Loans- Chapter 9**

**[https://doe.gov.in/sites/default/files/GFR2017\\_0.pdf](https://doe.gov.in/sites/default/files/GFR2017_0.pdf)**

**THANK YOU**