

विश्लेषण-IV



Vishleshan-IV

A Compendium of Vigilance Interventions

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A Compendium of Vigilance Interventions



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FOREWORD

Vigilance is a key management tool that should take the organization forward in a higher growth trajectory. Vigilance function should be viewed as facilitator in accomplishing the objectives of the company. Hence, it is imperative to emphasize more on sensitizing employees of the organization towards transparency in day to day functioning keeping in mind the rules & regulations with a focus to achieve self-reliance in defense production through 'Atmanirbhar Bharat'.

Vigilance administration comprises of preventive and punitive anti-corruption measures. CVC emphasizes on preventive vigilance functions which is an adoption of a package of measures to improve systems and procedures to eliminate/reduce corruption, promote transparency.

Vishleshan - which is a compilation of vigilance case studies focusing on system improvement measures will be highly helpful for the executives to learn from the irregularities already identified.

I congratulate the vigilance team who have worked hard in preparing and publishing this booklet on preventive vigilance initiatives. I am sure this endeavour will go a long way in helping redefine and improve systems and procedures.

Jai Hind

Dr D K Sunil

Chairman and Managing Director
Hindustan Aeronautics Limited.



FOREWORD

The Central Vigilance Commission is proposing to lay greater emphasis on prevention, education and generation of awareness among the people as a more effective and sustainable means of fighting corruption. In HAL, vigilance department endeavours to develop a sound preventive vigilance framework which would enable assessment of risks of corruption and steps to correct the policies, procedures, systems and strengthen the internal controls to eliminate the scope for corruption.

Preventive vigilance is a tool to curb the tendencies of corrupt practices by public servants, in particular and society in general, to attain the objective of a 'corruption-free' institution.

The publication of the booklet 'Vishleshan' is a preventive vigilance initiative wherein an attempt is made to bring out the deviations noticed by vigilance department in certain areas and system improvement suggestions implemented to improve the area. This will help to avoid recurrence of such divergence in future.

The present edition which is fourth in its series is a reflection of the continued efforts of vigilance department to share and disseminate the efforts being made to increase efficiency, accountability and transparency in the organization. I thank the management and the officers involved in the publication of the booklet.

Kalyani Sethuraman, IRAS
Chief Vigilance Officer,
Hindustan Aeronautics Limited

IRREGULARITIES IN CONSTRUCTION OF RESIDENTIAL QUARTERS BY A GOVERNMENT AGENCY

BRIEF OF THE CASE

During a study, it was revealed that a govt. agency was engaged by HAL for the construction of residential staff quarters by signing MoU on depository basis. There was lack of transparency & delay in awarding & execution of works along with blockage of company fund. Payments including initial deposit were made on the basis of claims submitted by the agency which were not supported by the documents relating to physical and financial progress of the works executed at the sites. Also, the agency did not submit required documents related to utilization of funds while submitting fresh demand for deposit.

DEVIATIONS / IRREGULARITIES OBSERVED

- As per the existing procedures, company is permitted to carry out construction works through Govt. agencies on depository basis, provided adequate manpower is not available or works have to be carried out in an outstation where the permanent establishment with adequate resources are not available or any other exigency. Even though, HAL was having expertise, adequate manpower and infrastructure, the works was awarded and executed through the agency on depository basis.
- The agency was selected on nomination basis, despite other Govt. agencies were available for executing the similar works.

Thus, competition was nullified during the selection of the agency.

- There was huge variation between initial estimate submitted by the agency and actual value of the contracts awarded to contractors by the agency & further works executed at the site.
- Apart from MoU, no formal contract or agreement was signed with the agency and HAL was not informed about the final value of various contracts awarded by the agency for execution of the project.
- It was observed that contract value was much higher than the prevailing market rates.
- Procedures like awarding contract on single/nomination basis, ensuring supervision, measurement check, quality and execution of works have not been followed. HAL restricted itself with signing of MoU and making payment as & when demanded by the agency.
- Even though duration for the completion of the works has been stipulated in the MoU, the same was not adhered to by the agency. MoU was silent on the responsibility of the agency in case of delay in executing the works.
- Advance payment has been made to the agency immediately on signing MoU on the basis of initial estimate without firm commitment on commencement & award of the works. Further, there was a delay of

10 months in awarding the contract by the agency and blockage of fund (15% of the estimate) for more than 10 months.

- There was no penal provision in the MoU for delay in execution of works by the agency. The agency had a provision to recover the penalty from the contractors for the delay in execution of works. Agency has neither informed nor credited the penalties recovered from the contractors for the delays as agreed in the MoU.
- Payments were made on the basis of self-certification from the agency and without obtaining documents like measurement book, financial & physical progress of the works etc.
- Payment towards escalation and deviations have been made without obtaining and verifying details like basis, methodology, calculation etc.
- Details of all the mandatory tests carried out i.r.o. materials used during construction were not made available. The agency had failed to hand over the site records to HAL.
- Delay in handing over of the building after completion of the works resulted in expiry of the warranty period of allied systems like Lifts, DG sets, CCTV, Fire alarm, STP etc., which were installed at the site.
- Statutory clearance / approvals was not obtained resulting in payment of penalty by HAL to the local authorities.
- No final invoice has been submitted by the agency even after expiry of 2 years of the date of completion of the works even though it should have been done within six months as per MoU.
- Management has not been informed periodically about the physical & financial

progress of the works and other issues related to the project as mandated during the sanction.

- Neither the agency nor the company has positioned adequate resources to ensure quality and the timely completion of the works.
- Company incurred an additional expenditure of Rs.8.97 crs by way of departmental charges to the agency which would have been avoided by executing the works using the resources available with HAL.

LESSONS TO BE LEARNT

- Company shall engage outside agency only in case of exigency. It is not appropriate to engage third party when adequate infrastructure with requisite man power is available at the place where the work is to be executed.
- Company shall ensure adequate competition even though it has decided to engage outside Govt. agency for the execution of works.
- If, for execution of works agency is to be selected on nomination basis, complete analysis of availability of the resources including expertise on the similar works, experienced manpower and other infrastructures are to be undertaken.
- Adequate provisions shall be made in the contract / MoU to protect the interests of the company. The agency should take responsibility for the timely completion of the works. In case of delay in execution of works, company should be compensated adequately in line with industry practice.
- Payment should be made strictly on the basis of physical & financial progress of the

works and confirmation of the utilization of deposits already made.

- Provisions shall be made in the contract/ MoU for book examination and other relevant documents pertaining to award and execution of works by the agency.
- Agency should take steps to avoid unnecessary blockage of company fund and also to pay interest for the same.
- Prior approval shall be taken for carrying out the works beyond the scheduled date of completion & HAL shall not be held responsible for payment of escalation beyond the scheduled date of completion, particularly when the delay is attributable to agency or their contractors. Additionally, HAL shall not be held responsible for the dispute, if any, between the agency & their contractors and subsequent resolution/s.
- Even though work is being executed through the agency, HAL should take responsibility to ensure the quality of the works at the site. Periodical reports containing progress of the works, delay if any, payment made, deviations/ escalation, change in the scope of the works and other details to be submitted to the management.
- Copies of all the documents like RFQ/ tender, tender evaluation, work orders, site records etc., are to be made available to the company by the agency for inspection/ examination.

SYSTEMIC IMPROVEMENT SUGGESTIONS

- Terms & conditions of the contract have to be framed in such a way that the organizational interests are protected and strictly in line with the company policy.

- Company shall resort to awarding the contract on nomination basis on exceptional cases only.
- Formulation of guidelines with better utilization of organizational resources has to be ensured for competitiveness, transparency and timely execution of infrastructure projects.
- Company should ensure the quality of the works and avoid unnecessary blockage of fund.
- Future contracts for executing works through Govt. agency are to be entered by taking the company's interest into consideration and in line with the company policy.
- The deviations observed along with suggestions for systemic improvements was taken up with the management in order to take corrective actions in respect of the ongoing as well as future projects for better utilization of company's resources & funds with effective and transparent execution of projects in timely manner.
- After the vigilance intervention, agency agreed to pass on an amount of Rs.96 lakhs recovered as penalty for the delay in execution of the works from the contractors.

IRREGULARITIES IN PROCUREMENT OF HOT AIR OVENS

BRIEF OF THE CASE

A complaint was received alleging that during 2nd time tendering L-1 vendor M/s XYZ expressed his inability to supply the ovens as per the technical specifications on quoted price. During 3rd time tendering, contract was awarded to the same vendor M/s XYZ, though earlier he had regretted to supply the ovens as per the technical specifications. Thereafter, vendor failed to install the ovens. Complainant claimed that his firm had participated in all the 03 tenders but his chances have been forbidden by HAL.

DEVIATIONS / IRREGULARITIES OBSERVED

- Approved technical specification of hot air ovens was not uploaded along with tender document due to negligence of officers from concerned dept. which resulted in receipt of incomplete and wrong offers as the vendors failed to understand the technical requirements.
- Participating vendors marked “complied” in compliance matrix without asking any query from HAL regarding the non-availability of technical specifications in the tender document. Further, HAL has not sought clarification from the vendors.
- Also in the minutes of meeting held with vendor during 2nd tendering, it was not clarified as to how the vendor had marked “complied” in the absence of technical specifications.
- While processing the 3rd time tendering, reason as to why M/s XYZ had declined to supply ovens during 2nd time tendering was not recorded in the note sheet. Further, price reasonability of L-1 vendor which was 60% less than the estimated price was not analyzed.
- The period within which installation & commissioning is to be completed was not defined in the PO.

LESSONS TO BE LEARNT

- Utmost care should be exercised by officials while uploading the tender documents.
- Poor estimation of rates and obtaining budgetary quote only from one source for the purpose of estimation of rate is to be avoided.
- Officials while discussing technical issues with the vendor should record the details of the discussion to safeguard HAL interests.
- Offer to be examined with reference to technical specifications and price workability so that vendor will execute the works after receiving the order.

SYSTEMIC IMPROVEMENT SUGGESTIONS

- Budgetary quotes are to be obtained from more than one vendor for preparation of estimation.
- User and IMM department should take utmost care while forwarding and uploading the tender documents.
- Period within which installation & commissioning is to be completed, shall be clearly defined in the PO.
- Reason for retendering shall be clearly brought out in the proposals.

IRREGULARITIES IN EXECUTION OF CSR PROJECT

BRIEF OF THE CASE

Under CSR project, one of the divisions of HAL sponsored remedial tuitions/ coaching for 1200 underprivileged students of class IX to XII in the nearby localities of the district through reputed Government Institute (Institute of national importance). Remedial classes were to be conducted on weekends and through classroom mode at five different centers. These centers were to be developed by the institute at different locations of the district as per the agreed terms.

DEVIATIONS / IRREGULARITIES OBSERVED

- HAL Board is the competent authority (CA) for sanction of CSR project and to change the scope of work for approved project. However, division had changed the scope and taken decision for online classes in-place of classroom mode, distributed mobile phones and provided data pack costing Rs.1,041/- per student per subject without the approval of CA.
- As per the agreement made by the division with the institute, classes are to be held through online mode till the time situation gets normal due to Covid-19, but online classes were conducted during the year 2020-21 to 2023-24. Offline classes (classroom mode) were started only after the vigilance intervention / investigation.
- As per PO, institute was required to develop five extension centers at predefined locations but they developed the extension centers in the last year (4th year).
- No documentary evidence were found in files (email, letter & MoM etc.), where HAL had insisted / followed up with institute for physical classes at five different extension centers in place of online classes.
- No attendance backup was kept / made available neither with institute nor with HAL. Hence, the actual no. of students attended the online classes could not be verified.
- Payments were made on the basis of fixed remuneration per student per subject in-place of actual claim basis (institute should have claimed actual expenditure). The remuneration was fixed on ad-hoc basis without any supporting documents.

LESSONS TO BE LEARNT

- If any changes are required to be made in the approved scope of work of CSR project, proposal to be put-up to Board for approval.
- Any telephonic direction / decision given by the superior should be recorded in the file with proper justification.
- Payments are to be released on the basis of actual expenditure supported by relevant documents.
- Project coordinator should ensure the execution of project as per agreed terms.

SYSTEMIC IMPROVEMENT SUGGESTIONS

- Prior approval to be taken from the Board for changes required in the proposal approved by Board.
- Surprise checks shall be carried out by the CSR committee of the division on monthly/ quarterly basis.
- Coordinating officer to ensure that the records pertaining to actual number of students attended the classes are maintained by the project executing agency.
- Payments are to be made strictly on the basis of claims supported by relevant documents.
- Divisional CSR committee has to carry out impact analysis as mandated by the law.



POOR QUALITY OF CONSTRUCTION RESULTING IN LEAKAGE AND DAMAGE TO COMPANY'S PROPERTY

BRIEF OF THE CASE

A PIDPI (public interest disclosure and protection of informer) complaint was received alleging that the quality of construction of buildings executed by M/s ABC was very poor. Due to which, cracks have been developed & leakages were observed in all the buildings within 6 months of completion of construction, resulting in damages to the company properties like AC, fan, false ceiling, wiring, switches etc.,. No action has been taken by the division and the contractor was paid full amount including EMD.

The Board has accorded approval for construction of new buildings, roads etc. to establish new manufacturing facility. M/s XYZ was engaged for providing consultancy services like planning, designing & estimation of civil and other related services through limited tendering.

The project work "construction of new buildings, external & internal water supply, sewerage, roads, drains, land development, firefighting works, electrical works (HT & LT and DG set), air-conditioning and ventilation facilities etc." was awarded to M/s ABC through open tendering. The work was completed in 30 months after obtaining two extensions.

DEVIATIONS / IRREGULARITIES OBSERVED

- The consultant M/s XYZ delayed in providing design & drawing of the work and did not deploy engineer/architect

at site. The consultant being an outsider was not having knowledge about the prevailing climatic conditions at the site.

- The sunken slab design for the roof of the buildings was not suitable for the local climatic conditions.
- The construction work was carried out during heavy rains.
- Fast tracking of construction works under pressure for early inauguration of the facility, heavy rains, improper curing coupled with minimal supervision paved way for cracks in the buildings.
- Water proofing works were carried out without any technical assessment for evaluating the severity of the leakage and resulted in failure of the treatment.
- Leakages were there in all the buildings and due to which false ceiling, fans, wiring & switches got damaged over a period of time.
- Company has incurred additional expenditure by way of covering the building by galvalume sheet in order to arrest the roof leakages.
- There were no sufficient staff deployed to ensure the quality and timely completion of the work.
- No recovery was made towards poor construction and all the payments including security deposits were released.

LESSONS TO BE LEARNT

- Construction works are to be long lasting hence, should not be done under pressure or in fast track mode. During the construction, all the standard procedures and norms of civil work are to be followed strictly.
- Consultant with sufficient knowledge about local terrain are to be engaged. All design & drawings of the construction should be made available well in advance before starting the construction work.
- Sufficient resources including manpower should be deployed for supervising the construction.
- Construction works are to be paused/ postponed during adverse weather conditions.

SYSTEMIC IMPROVEMENT SUGGESTIONS

- It is important to choose a consultant who has adequate knowledge of the terrain and local climatic conditions of proposed site.
- Senior and experienced officials from civil dept., should be posted for supervision of high value construction works in line with Works Manual.
- Final payment including security deposit etc., are to be made only after ensuring the quality of the work.



IRREGULARITIES IN EXECUTION OF WORK PACKAGE CONTRACT

BRIEF OF THE CASE

- Irregularities were noticed during tendering and execution of annual maintenance contract (AMC). It was noticed that a manpower contract was awarded in the name of AMC.

DEVIATIONS / IRREGULARITIES OBSERVED

- Approval of competent authority was not obtained for waiver of submission of EMD.
- The pre-qualification criteria in respect of average annual turnover of the participating bidder was changed from 3 years to 5 years.
- Approval was not obtained for constitution of screening committee, technical evaluation committee and for appointment of appropriate technical authority (ATA).
- The documents/ clarifications were sought by tender cell in-charge before sending the bid documents to technical evaluation committee (TEC)/ screening committee.
- The technical acceptance of offers was completed even before completing screening of the offers.
- The work was commenced without obtaining approval from ATA and delayed in submission of security deposit (SD).
- Experience, qualification & police verification requirement for deployed manpower as stipulated in plant order were not adhered to.
- Wrong calculation of penalty for short deployment of manpower in a particular month resulting in under-recovery of penalty to the extent of Rs.5.28 lakhs. The penalty was also not recovered in that particular month.
- As per terms & conditions of contract, labour license was not obtained by the contractor and not submitted indemnity bond.
- While processing payments, details of work carried out along with proof of statutory payments like ESI, PF & EDLI were not ensured.
- Payment was recommended on the basis of biometric attendance instead of activities performed.
- The said manpower contract was not reported to corporate office considering it as AMC.
- Security passes have been issued to contract labours wherein it was observed that police verification certificates were expired as on date of issuance of security passes.

LESSONS TO BE LEARNT

- Company policy and procedures to be followed for awarding of contract.
- As per works manual approval for ATA / TEC needs to be obtained from CA.

- Labour license to be obtained by the contractor in case of manpower deployment within the stipulated period.
- Monthly work acceptance criteria to be fixed for evaluation of performance of the work. Payment should be made on activity basis.
- Security department to check the validity/ genuineness / purpose of the police verification submitted by contract labour before issuing pass.
- Contracts where payments are linked with attendance to be treated as manpower contract irrespective of its nomenclature.
- Labour license in all the manpower based contracts to be ensured wherever more than 20 contract workers are deployed by the contractor.
- Plant maintenance department to issue roster for tender opening authorities duly approved by competent authority and undertaking from the tender opening authorities to be obtained.
- Security dept., should strictly adhere to the guidelines for issuing passes to contract labours.

SYSTEMIC IMPROVEMENT SUGGESTIONS

- Biometric attendance to be implemented for all labour contracts as per the guidelines.
- Monthly report of all the manpower contracts to be reported to corporate office and company guidelines on award of AMC contracts to be strictly adhered to.



OBTAINING MONEY FOR ARRANGING JOB IN THE COMPANY

BRIEF OF THE CASE

A complaint was received alleging that 'A' an employee of HAL has obtained money of Rs.6 Lakhs on the pretext of arranging permanent job in HAL. 'A' couldn't arrange the job and when complainant requested for return the money, the same was not refunded.

DEVIATIONS / IRREGULARITIES OBSERVED

- Complainant alleged that during 2017, 'A' informed that he will arrange a permanent job in HAL and Rs.6 lakhs to be paid for the same. Accordingly, the money was paid by the complainant. 'A' introduced another employee 'B' to the complainant and intimated that 'B' who is working with one of the senior officer will arrange the job in HAL as he has some influence.
- Thereafter 'A' brought 03 more job aspirants and introduced to 'B'. It is alleged that 'A' had taken a total amount of Rs.10.50 lakhs in cash from the 04 job aspirants and handed over Rs.8 lakhs to 'B' for arranging job in HAL & kept Rs.2.5 lakhs as his share.
- During 2017, 'B' had also met 'C', a casual labour working in the division and informed him that he will arrange permanent job in HAL & Rs.2.5 lakhs needs to be paid for the same. Accordingly, 'C' has paid Rs.2.5 lakhs in cash to 'B'. Also 'B' told 'C' that if anybody else is in need of job in HAL he can arrange the same and told him to bring such persons.
- Thereafter 'C' has collected a total of Rs.20 lakhs in cash from 08 job aspirants (including him) and handed over a total of Rs.18.5 lakhs to 'B' for arranging job in HAL & kept Rs.1.5 lakhs as his share.
- Thereby, 'B' has obtained a total amount of Rs.26.05 lakhs from 12 job aspirants against the agreed total amount of Rs.44.70 lakhs for arranging job in HAL in collusion with 'A' & 'C'. When job aspirants followed up about the status of appointment, 'A' & 'B' were giving false promises that the file is under approval/process etc.
- During 2018, 'B' along with 'A' & 'C' met the job aspirants & took their signatures in one of the forged documents on HAL letterhead and told them that it is for the appointment in HAL. It was revealed that 'B' has misused HAL letterhead available in the office & created a fake document at one of the computer centers and he has signed it as official of HAL to deceive job aspirants.
- The documents seized from the respective work table & computers allotted to the employees revealed that money was taken from the job aspirants for getting them appointment in HAL. Bio-data & resumes of several job aspirants were also seized from the work table of employees. 'B' has also forged the signature of his superior officer and misused the official stamp of the said officers in certain documents. Also, 'A' has handed over a copy of his HAL identity badge as a surety to the unauthorized persons.

- The conversations in audio and video received during the investigation revealed that money was taken by the employees from the job aspirants by giving them false assurance of providing job in HAL. Also, some transactions through PhonePe was obtained during the investigation in support of the allegations.
- Employees have taken money from job aspirants on the pretext of arranging job in HAL and involved in corrupt practices. They made a false assurance to job aspirants that if money is paid they will get the job in HAL which brings disrepute to the company. Also employees have forged/fabricated HAL letterhead and created a fake document pertaining to appointment in HAL to deceive the job aspirants.
- Officials in receipt of any information pertaining to corrupt activity involving HAL employees, should intimate the same to vigilance dept./ appropriate authority without delay.
- Officials should keep the company letter heads & official stamps in safe custody to prevent misuse of the same.
- Employees should not handover the identity cards/official documents issued to them to unauthorized persons.

SYSTEMIC IMPROVEMENT SUGGESTIONS

- Circular for safe custody of company letter heads & official stamps etc. was issued.
- Necessary action will be taken to create awareness among the employees not to indulge in any corrupt activities.

LESSONS TO BE LEARNT

- Public servant should not indulge in any activities in violation of company rules which will result in penal action apart from causing disrepute to the company.



IRREGULARITIES IN ALLOTMENT OF QUARTERS ON TEMPORARY BASIS

BRIEF OF THE CASE

Officers' quarters were allotted to 41 workmen by the quarter allotment committee (QAC) on the basis of their request that their residences have been inundated by excessive rain. This allotment was made without any approval from the appropriate authority.

Officers' quarters have been allotted for a short period of fifteen days. However, even after more than one year neither the workmen have vacated the quarters nor management has taken any action to evict them.

Out of 41, 06 workmen who were staying on their own arrangement outside the HAL township were also allotted with the quarters.

DEVIATIONS / IRREGULARITIES OBSERVED

- Chairman and Secretary of QAC have allotted the quarters on temporary basis without approval from the competent authority.
- Secretary, QAC handed over the keys of officers' quarters to workmen without obtaining applications.
- Workmen have not vacated officers' quarters even after the due date.
- The member secretary failed to take stringent action against the workmen who defied the notices served for vacating the quarters.

LESSONS TO BE LEARNT

- The policy/guidelines for temporary allotment of quarters during emergencies to be followed strictly.
- Periodical review of temporary allotment of quarters to be done by QAC.

SYSTEMIC IMPROVEMENT SUGGESTIONS

- Review of previous guidelines and issue of fresh guidelines for quarter allotment including temporary allotment.
- Quarter allotment management information system (QAIMS) an online portal to be updated regularly. Allotment of quarters should be based on QAIMS only and the same to be reviewed periodically.
- Action is to be taken for the eviction in case employees continued to occupy the quarters.



IRREGULARITIES IN WAIVER OF LIQUIDATED DAMAGES (LD)

BRIEF OF THE CASE

Investigation revealed that purchase order (PO) was placed for the procurement of equipments with the approval of complex head. However, PO amendment in respect of delivery schedule was approved by head of the division by waiving LD in contravention to delegation of power (DoP).

DEVIATIONS / IRREGULARITIES OBSERVED

- Amendment of the PO was obtained to extend the delivery period by waiving of LD on the basis of request made by the vendor.
- Amendment was approved by the head of the division by stating force majeure conditions and other delays not directly attributable to the vendor. No supporting documents available in support of the claims made by the vendor.
- Investigation revealed that the delay was attributable to vendor & lack of follow up actions by the officials of the division.
- The LD amount to the tune of Rs.1.2 crore was waived off without the approval of competent authority.

LESSONS TO BE LEARNT

- Officials should maintain strict adherence to contract terms, especially concerning crucial aspects like LD clauses, to prevent consequential damages to the company.

- Timely and proactive action by the official concerned are crucial to ensure the timely supply and installation & commissioning of the equipments.
- Force majeure clauses and similar contractual provisions must be critically assessed and not liberally applied without thorough validation of claims.
- Amendment, if any, particularly where there is a financial implication is to be made with the approval of competent authority.

SYSTEMIC IMPROVEMENT SUGGESTIONS

- Implement a system of regular reviews at the level of head of the division to monitor the progress of highvalue procurements and initiate necessary action to ensure timely receipt of items.
- Ensure that all discussions during the divisional capital review meetings are recorded and shared with all the stakeholders for better co-ordination and transparency.
- Establish a systematic process for identifying and mitigating risks that could lead to project delays or non-performance of vendor.
- Review of LD clause to be undertaken to ensure that they are enforceable and in line with existing legal standards, thereby safeguarding the organization's interests effectively.

IRREGULARITIES IN PROCUREMENT OF PORTABLE MEASURING INSTRUMENT

BRIEF OF THE CASE

A complaint was received alleging favouritism to a particular brand or company w.r.t. a procurement made through GeM tender. Later, tender corrigendum was issued to enhance the competition. Subsequently, after opening of price bid, one of the bidders who submitted the budgetary quote, lodged the complaint alleging that the L1 bidder has quoted very low price by compromising the quality.

DEVIATIONS / IRREGULARITIES OBSERVED

- Preparation of specifications suiting to a particular vendor.
- Expression of interest (EOI) was not exercised.
- Pre-bid meeting was not conducted.
- Procurement of most advanced equipment was sought in the name of upgradation.

LESSONS TO BE LEARNT

- Preparation of specifications to be made after due consideration & examination of existing or future requirements of the division and market exploration.
- Exploration of more parties/make/brand etc. to be undertaken prior to freezing the specification.
- Upgradation of existing item to be done through OEM only after carrying out cost benefit analysis.

SYSTEMIC IMPROVEMENT SUGGESTIONS

- To explore market & increase vendor base etc. to be ensured.
- Hiring options may be explored if it is beneficial over procurement.



SURPRISE CHECK OF SEWAGE TREATMENT PLANTS

BRIEF OF THE CASE

A surprise check was carried out at sewage treatment plants (STP) of the division and certain lapses w.r.t execution of the work by the contractor were observed.

DEVIATIONS / IRREGULARITIES OBSERVED

- Even though the contract period was about to expire, many activities that are stipulated in the contract were not operated / carried out and certain deviations / irregularities were noticed during the check.
- As per terms of the contract, pressure sand filters and activated carbon filters must be cleaned / replaced with epoxy coating once in a year. However, the same was not carried out in six STPs.
- The building and structural painting of all STPs were to be done once in a year. However, the said work was not carried out by the contractor.
- The contractor failed to remove sludge from the sewage sump and flush water using vacuum suction machine.
- Some of the STPs were not in operation for many days and there were no functional flow meters to record the pumping measurements.
- Operators were not having adequate knowledge of maintenance and operating of STPs.

- Penalty of Rs.6.79 lakhs was not imposed on the contractor for not carrying out of works as per terms & conditions of the contract.
- Signature of engineer-in-charge and chemist were not available in the lab test records of STP.
- No proper records for usage of consumables / chemicals / materials were maintained.

LESSONS TO BE LEARNT

- Duty roster and attendance system to be put in place for STP operators.
- Record of usage of consumables / chemicals / materials are to be maintained at all STPs indicating quantity received, quantity consumed and balance quantity.
- Engineer-in-charge should periodically inspect STPs for its functioning and ensure effective operation.
- Engineer-in-charge to ensure that all the activities brought out in the T&C of the contract are carried out by the contractor.

SYSTEMIC IMPROVEMENT SUGGESTIONS

- Log books, data on pumping hours, machine functionality, preventive maintenance of machinery & electrical equipment, housekeeping register and lab records are to be maintained with the signature of engineer-in-charge and supervisor at all STPs.

- Engineer-in-charge should ensure that the contractor carry out all the works as stipulated in the contract and consumables as required are to be used.
- Contractor should deploy well trained operators for maintaining STPs to avoid frequent breakdown.
- Penalty towards the non-compliance of terms & conditions of contract to be recovered as per the contract.



IRREGULARITIES IN AWARD AND EXECUTION OF CANTEEN CONTRACT

BRIEF OF THE CASE

Canteen facilities have been established in the division as a welfare measure under the Factories Act. The management provides facilities like buildings, furniture, utensils etc. to the contractor to run the canteens. The canteen provides coffee, tea, snacks and meals to the employees on payment basis as HAL is giving canteen allowance. Management also provides free breakfast and lunch for the apprentice trainees. The management finalizes the prices for the items served in the canteens.

In one of the divisions during execution of canteen contract, the concerned officer-in-charge / engineer-in-charge (OIC/EIC) of the contract have failed to execute the contract in line with the scope of work approved by the competent authority.

DEVIATIONS / IRREGULARITIES OBSERVED

- Full menu as per scope of contract was not being served to the employees resulting wrongful gain to the canteen contractor.
- Vendor was required to prepare breakfast, lunch, evening snacks, tea & coffee etc., as per the quantity specified in the contract. The concerned OIC/EIC of the contract failed to ensure serving of food as per quality and quantity specified in the contract.
- OIC/EIC have failed to ensure that the payment recommended is in line with the approved scope which resulted in excess payment of Rs.79,256/- to the contractor.
- Payment Authorizer-1 & Authorizer-2 have failed to check the details appearing in the invoice and payment terms.
- Contractor was allowed to serve partial menu on all working days i.r.o. apprentices.
- No valid labour license was available with the contractor and EIC/OIC of the contract have not made any effort to obtain the same from contractor.
- Even though approval of the competent authority was obtained for implementation of the enhanced rates, the contract was not amended suitably.
- As per contract, the contractor is responsible for ensuring statutory compliances. The OIC/EIC have failed to verify the related documents / challan to ensure compliance of statutory norms.
- Upon transfer of the designated EIC, concerned OIC failed to nominate another EIC for execution of the work.
- The canteen managing committee did not conduct monthly meeting as called for in the company circular to look after and discuss issues related to quantity & quality of food served in the canteen, arrangement of menu, timing of meals / snacks in the canteen.

LESSONS TO BE LEARNT

- OIC/EIC are to execute the contract in line with the terms & conditions and scope approved by the competent authority. Payments are to be recommended by considering the penalties for non-compliance, if any.
- Payment authorizer-1 & authorizer-2 are to check all the details appearing in the invoice and payment terms to ensure correct payment is recommended as per PO / contract terms.
- EIC/OIC of the contract to verify the related documents / challan to ensure that the provisions related to labour law are adhered to and ensure labour engaged are covered under PF, ESI and other laws.
- For smooth operation of canteen, the canteen managing committee should conduct monthly meeting to discuss relevant issues.

SYSTEMIC IMPROVEMENT SUGGESTIONS

- EIC, canteen committee should ensure quality of the ingredients used as well as food served in the canteen.
- The details of menu along with quantity and price are to be displayed prominently in the canteens.
- Facilities and infrastructure, which are to be provided to the canteen contractor, should be in line with company guidelines.
- Appropriate penalty/recovery should be made from the contractor as per terms & condition of the contract for non-adherence of scope of work.



BUYER/SELLER IP COLLUSION IN GeM TENDER

BRIEF OF THE CASE

During the surprise check in one of the divisions, it was revealed that an officer in the purchase department has uploaded the bid on behalf of a supplier on GeM portal using the supplier's login credentials through HAL's internet PC allotted to the officer.

DEVIATIONS / IRREGULARITIES OBSERVED

- The officer responsible for floating the tender enquiry in the GeM portal has also uploaded the bid on behalf of one of the bidders by using same official PC allotted to him.
- The GeM bid floated by the buyer & bid submitted by the seller were done in the same IP addresses and hence, bid floating & bid submission became identical. The same was traced and reported by GeM authorities to the company (buyer).
- The officer had suppressed the said incident till the same was disclosed by GeM authorities and followed by a check.

- Being a GeM buyer, accessing the GeM seller's account using official internet PC was a violation of company IT policy and fundamental principles of public procurement.

LESSONS TO BE LEARNT

- Stakeholders involved in a public procurement process, shall at all time adhere to the fundamental principles of public procurement like fairness, equity, probity, transparency etc.
- Collusion with the bidders to be strictly avoided by the officials involved in the procurement.

SYSTEMIC IMPROVEMENT SUGGESTIONS

- GeM primary users of the company may closely monitor the activities performed by the secondary GeM users through customized reporting system.

UNUSUAL MONEY INFLOW INTO THE BANK ACCOUNT OF AN EMPLOYEE

BRIEF OF THE CASE

A source information was received that one of the HAL employees has received multiple cash deposits in his account at regular intervals followed by debit through online transactions. Amount to the tune of Rs.1.90 crs has been transacted, out of which cash credit was Rs.95.36 lakhs in the FY 2021-22 which was inconsistent with the profile of a public servant.

DEVIATIONS / IRREGULARITIES OBSERVED

- The employee was indulged in credit card transactions to the tune of Rs.2.55 crs during the FY 2021-22 for purchasing items through online mainly gold coins. He used 26 credit cards which are in the name of the employee as well as family members. The employee failed to satisfactorily account for huge inflow of money in his bank accounts during the FY 2019-20 to 2022-23.
- During the FY 2019-20, an amount of Rs.16.20 lakhs was credited into his account which included cash deposits, NEFT transactions, IMPS, UPI etc. Similarly during FY 2020-21, an amount of Rs.8.90 lakhs was credited in his bank account. During FY 2021-22, total amount of Rs.1.72 crs was credited in his bank account and this included cash deposits of Rs.95.36 lakhs. During FY 2022-23 Rs.55.42 lakhs was credited in his bank account. The above said transactions were apart from salary credited to the account of employee from the company.
- As claimed by the employee, he had purchased gold from online sellers by using credit cards and selling the same in the open market for cash. It appears that the employee has taken advantage of the credit period available in the credit card and settled the same by selling gold. As the price of gold shows increasing trend during the above period, the employee has booked additional profit through these transactions.
- Though the officer had proof for his purchase of gold, he failed to produce any document / receipt for selling of gold. The gold acquired by him was also not declared in his annual property returns.
- It has been observed that the employee had financial dealings with other employees working in the organization without the knowledge of management in contravention to CDA rules. Rs.86.60 lakhs was deposited into employee's wife bank account during the FY 2022-23. Employee had stated that the same has been transferred from his colleagues & friends to buy property or gold. During the investigation, the employee failed to provide any evidence in support of the said transactions.

LESSONS TO BE LEARNT

- No employee of the company shall, except with the previous sanction of the competent authority, engage directly or indirectly in any trade / business.
- No employee shall borrow / lend money from / to a person with whom he is having any form of official dealing.
- Employee shall report to the competent authority every transaction concerning movable property beyond the specific value by himself or by his family members.

SYSTEMIC IMPROVEMENT SUGGESTIONS

- Sensitizing and creating awareness among employees regarding applicable rules of the company related to financial transactions.



DEVIATIONS IN AWARDING AND EXECUTION OF WORK PACKAGE CONTRACT FOR DISMANTLING OF ENGINES

BRIEF OF THE CASE

During scrutiny of the work package contract awarded to a vendor for dismantling of engines, deviations w.r.t. procedures by one of the divisions for registration & selection of vendors, mode of tendering, framing RFQ criteria and maintenance of documents were observed.

DEVIATIONS / IRREGULARITIES OBSERVED

- The vendors were registered without obtaining information related to availability of manpower, infrastructure, work experience or expertise in the relevant areas and financial position.
- The decision of limited tendering amongst a few local vendors who are carrying out miscellaneous work in the factory & the township had restricted the competitive bidding and resulted in excluding the potential vendors and possibilities of cartel formation.
- RFQ was issued without mentioning criteria like job profile, experience, technical/ financial parameter etc.
- As per the RFQ terms & conditions, record of visit of vendors for technical discussion were not maintained.
- The contract was awarded to the vendor who had never worked in the technical area like dismantling of aircraft engines. During the investigation, it has been observed

that contract employees were allowed to work along with regular employees of the company as the contract employees could not perform any work independently.

LESSONS TO BE LEARNT

- The officials being responsible for selection of vendors and tendering activities should be well versed with the existing guidelines.
- Mandatory T&C of RFQ to be strictly ensured while finalizing the vendor for carrying out of any work.
- If no qualified vendors have been established / registered, open tendering shall be resorted.
- In case of work package, contract employees should not be deployed along with regular employees.
- Output should be specified in measurable form and payment has to be linked with work performed as per the terms & conditions of the contract.
- Division as a principal employer should ensure statutory compliances i.r.o. the manpower deployed by the contractor.

SYSTEMIC IMPROVEMENT SUGGESTIONS

- The division may review all the existing insourcing activities in line with the company policy.

- During the execution, contract employees should not be deployed along with the regular employees.
- The division should take appropriate steps to preserve the tender documents like scope of work, minutes of pre-bid meetings etc.



DEMAND AND ACCEPTANCE OF CASH BY ASSURING JOB IN THE COMPANY

BRIEF OF THE CASE

A complaint was received that an employee demanded Rs.3 lakhs in cash on the pretext of arranging a job in HAL and accepted Rs.1.45 lakhs as advance from the complainant.

DEVIATIONS / IRREGULARITIES OBSERVED

- The employee informed the complainant that HAL had released notification for recruitment of apprenticeship trainees, management / design trainees and online application is required to be submitted by his son who was a prospective candidate. The employee also informed that he is a member of recruitment committee & assured to provide a job for complainant's son and obtained the money.
- Thereafter, when complainant tried to contact the employee, he avoided his phone calls. On intervention of the other employees, two undated signed cheques of Rs.95,000/- & Rs.50,000/- were handed over to the complainant and informed that the same should be deposited only after his concurrence as the account does not have sufficient balance.
- The employee did not give consent even after repeated follow-ups and cheques could not be encashed. Hence, the complainant has approached vigilance department and made a complaint along with supporting documents.
- During the course of investigation, it was established that the employee had taken money from the complainant on the pretext of providing job for his son in HAL. It was also established that the said employee had committed similar acts in the past, also.

LESSONS TO BE LEARNT

- Public servant should not indulge in any corrupt activity.

SYSTEMIC IMPROVEMENT SUGGESTIONS

- To create awareness amongst the employees not to indulge in such malpractices.
- Information to be reflected in the company's website regarding unscrupulous people posing as agents or middlemen for employment in HAL and not to fall prey.

IRREGULARITIES IN PAYMENTS AND EXTENSION OF SERVICE CONTRACT FOR HOUSEKEEPING WORKS

BRIEF OF THE CASE

The case involves procedural and financial discrepancies identified during a scrutiny of a high-value manpower contract awarded for housekeeping works in one of the divisions of HAL. The investigation revealed certain lapses related to extension of the contract terms, delay in salary payment to contract labour, non-renewal of the contract agreement, non-submission of labour license for the extended period, inappropriate billing and payment made towards uniform, was not as per the terms of the contract.

DEVIATIONS / IRREGULARITIES OBSERVED

- There was a significant delay in the payment of wages for the labours engaged to carry out the work even though the contract stipulates that wages are to be paid by the 7th of the following month.
- Payment was made as per biometric attendance. Attendance outside the biometric systems were regularized without approval of the competent authority. Additionally, personnel were engaged in roles not stipulated in their contract.
- Compensatory off were sanctioned to the labours in violation of the terms & conditions of the contract.
- The contract agreement and labour license was not renewed for the extended contract period resulting in possible regulatory risks and penalties.

- The engineer-in-charge included the uniform charges for the extended contract period despite the terms of the contract specifically excluded uniform charges for any extended period which resulted in financial loss to the company.
- Contract agreement for the extended period was not signed.

LESSONS TO BE LEARNT

- Care to be taken to frame the contract, particularly nature of the job to be performed to suit the job requirements. Ensure all contract terms specified in the scope of work are specific to the said contract.
- Usage of bio-metric attendance systems for tracking attendance and ensure data regularization protocols are strictly followed.
- Clearly define responsibilities of the contractor and ensure contract labour are utilized according to their designated roles.
- Establish clear processes and timelines for contract renewals and extensions, ensuring all documents are properly authorized.
- Initiate the tendering process well in advance of the contract expiry to avoid repeated extension of the contract.
- Implement checks to ensure all contractual documents are reviewed and signed by authorized personnel.

SYSTEMIC IMPROVEMENT SUGGESTIONS

- Strictly restrict the utilization of contract labours to the purposes for which they were engaged.
- Personnel responsible for preparing payment advices should be well versed with company guidelines.
- Strengthen mechanism to monitor compliance with contract terms and regulations, especially concerning additional charges like uniforms to avoid loss to the company.
- Establish procedures to ensure the prompt renewal of contract agreement and labor licenses. Proposals for extensions must be submitted at least thirty days before the expiry of current license.
- Any alterations in raw biometric attendance data must be certified and signed by authorized officer.
- All statutory compliances including payment of minimum wages, PF, ESI etc. have to be ensured. Final payment/ refund of security deposit to be made after obtaining necessary documents for statutory compliances.



IRREGULARITIES IN POs PLACED FOR INDIGENIZATION ACTIVITIES

BRIEF OF THE CASE

Source information was received alleging irregularities in placement of purchase orders for indigenization activities. It was alleged that officials have changed the technical specifications, indigenization content, vendor evaluations, etc. to favour a few vendors. It was stated that officials were not following guidelines issued by Company / Government of India & violating the commercial procedures by interacting with vendors and providing insider information.

DEVIATIONS / IRREGULARITIES OBSERVED

- PO-1: During the first tender, a declaration was solicited that the design and development would be indigenous and there was no specific criteria that 50% indigenous content (IC) was required. Vendor-A indicated only 40% of IC in the technical bid whereas Defence Acquisition Procedure-2020 (DAP-2020), for the Indigenous Design Development & Manufacture (IDDM) category, the IC should be more than 50%. On repeated query by purchase officials, the vendor-A agreed to meet IC of more than 50%. However, the vendor has not provided any details about meeting the IC requirement.
- PO-2: After opening of the price bid, it was noticed that there was ambiguity in the technical specifications particularly with reference to the deliverables and accordingly, bids were not comparable.

Hence, the tender was cancelled and re-tendered citing a change in technical specifications. Due to which, vendor-B who was L2 in the previous tender had become L1.

- PO-3: It was observed that the technical specifications were copied from similar item specified for a different platform and mechanical requirements were not matching as per the requirement to which it was intended. After opening the price bid, PNC was held with vendor and technical specifications were tweaked to meet the requirements.
- PO-4: TEC resorted to conditional evaluation citing establishment of further production facilities by the vendor to cater to the development of the product. This shows the capabilities, infrastructure and previous experience of the vendor was not ascertained by the division which was a requirement for Make-1 category of the indigenization process.
- PO-5: The certifying agency highlighted non-compliance with design, development & production of military air systems and airborne stores (DDPMAS) and mentioned that the supplied items by the vendor-C were not validated by technical airworthiness authority (TAA).

- In some of the POs, quality issues like frequent leakages / failures were reported and subjected to defect investigation. Failure rate of indigenized product was much higher than the industry norm particularly with reference to the OEM.
- The technical specifications were not prepared in line with guidelines specified in IMTAR-21 and coordinated by designated agencies. In some cases, indigenization process was carried out without obtaining inputs from the users.
- It was agreed to provide interface control document (ICD) in the indigenization contracts which is a violation of IPR rights of foreign OEM.
- Market assessment and exploration of potential vendors to be carried out. Industrial bodies such as FICCI, CII and AASOCHAM to be approached to identify the potential vendors.
- Change in technical specifications after opening of price bid shall not be resorted.

SYSTEMIC IMPROVEMENT SUGGESTIONS

- Supporting documents for claiming indigenous content by the vendor needs to be obtained and verified.
- EMD / SD / BG forfeiture to be included in the terms & conditions along with evaluation and pre-qualification criteria.
- Stakeholders to be sensitised on DDPMAS, DAP 2020, Make in India policy and IMTAR-21.
- Company should finalize and issue SOP / Manual for indigenization as more thrust is being given for indigenization under Atmanirbhar Bharat.

LESSONS TO BE LEARNT

- Technical specifications for IDDM items are to be concurred & approved by designated agency.
- As mandated in IMTAR-21, concurrence of the customer to be obtained for any IDDM activity.
- The background check of the vendors like capabilities, infrastructure, previous experience in similar area, technical collaborations / MoUs with OEMs, etc. to be done before finalizing the participation of vendors in the indigenization process.

UNDUE FAVOR TO THE CONTRACTOR IN A WORK PACKAGE FOR STORES ACTIVITIES

BRIEF OF THE CASE

One of the divisions has awarded a work package contract for carrying out various stores activities. Estimate was prepared on the basis of last purchase price. Open tendering was carried out in which 09 bidders participated. Purchase order was placed for a value of Rs.2.33 crs. During technical evaluation, indenter and TEC members extended favours to L1 vendor by accepting ineligible offer violating the RFQ terms & conditions (T&C).

DEVIATIONS / IRREGULARITIES OBSERVED

- As per RFQ, the bidder should have successfully completed service contracts in warehouse management, inventory management, logistics and material management during the last 7 years. However, technical evaluation committee had accepted the experience certificate of running contracts submitted by L1 bidder.
- The user who prepared the scope of the work has associated with all the activities including technical evaluation of bids and awarding of contract.

- During execution of the contract, indenter failed to ensure that the contractor has made payment to the contract labours through RTGS / NEFT as per the terms & conditions of the contract.

LESSONS TO BE LEARNT

- TEC needs to be very objective and meticulous during technical evaluation. They should not relax the pre-qualifying criteria.
- Indenting department shall ensure compliance of all T&C of the contract including payment term during execution.

SYSTEMIC IMPROVEMENT SUGGESTIONS

- One officer shall not be involved in award and execution of similar type of contracts.
- Job rotation of the officers working in sensitive areas shall be ensured in line with the company guidelines.
- RFQ clause regarding recording of biometric attendance by the contractor at entry gates shall be incorporated in the contract T&C.

IRREGULARITIES IN PROCUREMENT OF DIESEL GENERATOR SETS (DG)

BRIEF OF THE CASE

In a tendering pertaining to high value PO for design, supply, erection, testing and commissioning of 3 nos. of DG sets, makes of engine & alternator (5 nos. each) was indicated as an essential criteria. After the tender was floated, the technical committee included two more make of the engines in the technical specifications and amendment was issued to tender based on the request of a few vendors. Further, it was observed that OEM authorization letter submitted by the vendor on whom the PO placed was not in order.

DEVIATIONS / IRREGULARITIES OBSERVED

- Engine & alternator are major components of a DG set which is costing about 85-90% of the price of a DG set. As per purchase manual, any purchase with specific make/manufacturer is limited to Rs.10 lakhs in each case. As per DoE manual, wherever it is unavoidable, such item descriptions should always be followed by the words "or substantially equivalent". The justification of the officials that it speaks about item and not about parts of the capital item is not acceptable and clear violation of applicable purchase guidelines.
- Indicating make / manufacturer as essential criteria in technical specifications is clearly a restrictive clause. Further, on

hosting of the tender, two more makes of the engine were added in the list on the basis of email request of some vendor hence, violating functional principles of public procurement.

- The OEM authorization letter submitted by the L1 bidder was found to be in the letter head of third party. The dealing officials failed to cross check or seek clarifications in this regard.

LESSONS TO BE LEARNT

- While framing technical specifications for a tender / issuing amendment in technical specifications, technical committee should see that equal opportunity is given to all the eligible vendors.
- If in case OEM authorization letter submitted by the participating vendors are not relevant / meeting the requirement, then concerned dealing officials should check the genuineness of the letter or verify the OEM authorization letter in consultation with TEC.

SYSTEMIC IMPROVEMENT SUGGESTIONS

- Company guidelines i.r.o. specifying make/manufacturer are to be strictly adhered to in order to increase the competition and transparency.

IRREGULARITIES IN LTBA PURCHASE ORDERS FOR PROCUREMENT OF SPARES

BRIEF OF THE CASE

The company entered into long term business agreement (LTBA) with the foreign OEM, for supply of various items. During the scrutiny, it was observed that there were irregularities w.r.t. custom duty paid and acceptance of items.

DEVIATIONS / IRREGULARITIES OBSERVED

- As requested by user department, vendor supplied one of the line item of CAT B with zero value invoice. Customs duty and related charges amounting to Rs.35.51 lakhs was paid by HAL for the said item. The receiving report (RR) for the items was created against the PO issued by the division for the LTBA spares.
- Subsequently, same line item was received by HAL after three years with a different invoice and the applicable customs duty and related charges were once again paid by HAL.
- On receipt of item, division was unable to create the RR for the item received in the second instance as the line item in the PO was closed on receipt of the first supply and the vendor was requesting for the payment of the supply.
- All the correspondences were marked to the concerned purchase officer, however, no action was taken to issue an amendment or a fresh PO for the repaired item ('CAT B')

belonging to the vendor. Hence, the 'CAT B' item received & taken into account and entries were made in ERP.

- The quality clearance given in the process of RR generation failed to observe that the received item was a 'Cat B' item / repaired item and cleared for acceptance of the same in a very causal manner.

LESSONS TO BE LEARNT

- The user department should not take up the issue of supply of any item directly with the suppliers. All correspondences with vendor to be done by the concerned purchase officer only.
- Due diligence and alertness to be exercised when zero value invoices are received for 'CAT B' item.
- Necessary action to be taken at all levels including quality inspection dept. for not accepting / making payment w.r.t. any 'CAT B' item.

SYSTEMIC IMPROVEMENT SUGGESTIONS

- To regularize the IFS data & to recover the import duties paid against the 'CAT B' item and to release the balance payment of the related invoice to the supplier. An amount of Rs.35.51 lakhs was recovered from the vendor.
- Companywide guidelines on the subject was issued.

IRREGULARITIES IN REMITTANCE OF PF & ESI AND ISSUANCE OF PAYSIP

BRIEF OF THE CASE

A written complaint was received from contract labours alleging that contractor has been deducting PF & ESI from their salaries and not remitting to their accounts. The contractor is providing fake, edited pay slips that did not match with the actual salaries paid. Due to non-remittance of PF, ESI and other salary issues, many contract employees have left their jobs.

DEVIATIONS / IRREGULARITIES OBSERVED

- Contractor failed to remit EPF & Employees State Insurance [ESI] contributions to the concerned authorities, though deductions were made from the contract employee's salaries.
- Contractor has submitted forged PF & ESI challans to HAL for claiming monthly payments from HAL. ESI or e-Pehchan cards were not provided to its employees.
- ESI authorities revealed that contractor did not remit ESI since last two years.
- Bank statements of the contract employees indicated significant mismatch between payslip and actual salary.
- Contractor has not adhered to the minimum wages notified by chief labour commissioner (CLC).
- Contractor did not issue salary slip to their employees.
- Contractor has not self-certified PF and ESI

receipts submitted for claiming monthly payments.

- No one was detailed as officer-in-charge responsible for supervising and ensuring the compliance of PO terms & conditions while executing / handling insourcing contracts.
- Forged challans submitted by the vendor were not noticed by officials of outsourcing department. Payment recommendations were made solely based on work completion reports certified by stores-in-charge.

LESSONS TO BE LEARNT

- Strict adherence to statutory provisions to avoid penalties.
- Officer-in-charge to be nominated in all insourcing contracts to monitor PO terms and conditions.
- Before releasing payments, authenticity of the documents submitted by the supplier / vendor to be verified.
- Disbursement of salary to the contract employees to be ensured, as per notified minimum wages though payments are recommended based on work completion.
- Roles and responsibilities w.r.t. officials of stores dept. and outsourcing dept. in handling insourcing contract to be clearly defined.

- Periodic awareness session on all statutory provisions to contract employees and officer / engineer in-charge to be conducted.
 - A copy of e-Pehchan card / ESI card of each employees working through Insourcing contracts to be submitted to officer-in-charge.
 - All documents submitted by contractor/ supplier for payment processing must include self-certification by the proprietor.
- Procedure to verify the authenticity of PF challans and ESI receipts to be made available to concerned officer / engineer in-charge.
 - Instead of PF challan, PF payment confirmation receipt to be taken from supplier / vendor and to be incorporated while framing PO terms & conditions.



IRREGULARITIES OBSERVED i.r.o IMPORTED ITEMS REJECTED & PAYMENT OF CUSTOM DUTY

BRIEF OF THE CASE

The surprise check on scrutiny of imported items rejected during incoming inspection and the customs duty paid on the same for the last two financial years was carried out. The division placed a substantial number of purchase orders for import of items from foreign OEMs and vendors.

DEVIATIONS / IRREGULARITIES OBSERVED

- The division was not having a system of recovering customs duty paid on partial rejections or entire rejections of material imported. The proportionate duty recoverable on the rejected items worked out to Rs.15.22 lakhs for last two financial year.
- In case of a PO wherein payment was released through letter of credit, the cost of items rejected was not subsequently recovered from the vendor.
- The division is not doing effective and timely follow-up for the early replacement of rejected imported items on delivery duty paid (DDP) basis.
- The division has not constituted discrepancy pending status advice (DPSA) committee as specified in stores manual.
- The division has not developed an online system for monitoring the process of customs clearance starting from pre-alert till receipt and acceptance of the imported items in the division.

LESSONS TO BE LEARNT

- The division should not bear the burden of customs duty paid on rejected import items and a clause should be included in RFQs / POs stating that customs duty and other charges applicable to rejected items have to be borne by the supplier and same will be recovered from the payments.
- The dealing personnel should be prompt in initiating actions to get the rejected items replaced on DDP basis or recover the proportionate duty and charges from the balance payment of the vendors.
- In case of rejected items against POs wherein payments were released through letter of credit, the cost of rejected materials must be recovered at the earliest.

SYSTEMIC IMPROVEMENT SUGGESTIONS

- To constitute a DPSA committee to monitor the rejected items on a regular basis as stipulated in HAL stores manual.
- To develop an online system for monitoring the process of customs clearance starting from pre-alert till receipt and acceptance of the imported items.
- Necessary action for recovery, w.r.t. custom duties paid on rejected items / custom duties paid twice, which is totaling to Rs.15.22 lakhs.

- To sensitize the dealing personnel to avail customs duty exemptions on equipments being sent to foreign OEMs for rectifications, calibrations etc., especially in case of items covered under warranty.
- For issuance of company-wide guidelines for including a clause in RFQ / PO regarding recovery of proportionate customs duty from suppliers in case of whole / partial rejections.





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