



VIGILANCE MANUAL

TECHNICAL GUIDELINES PROCUREMENT, CONTRACT & SERVICES



HINDUSTAN AERONAUTICS LIMITED

VOLUME - III

प्रदीप कुमार
PRADEEP KUMAR



केन्द्रीय सतर्कता आयुक्त
केन्द्रीय सतर्कता आयोग
Central Vigilance Commissioner
Central Vigilance Commission
December 5, 2013

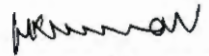


MESSAGE

I am glad to note that the Vigilance Department of Hindustan Aeronautics Limited (HAL) is bringing out an updated Vigilance Manual in four volumes incorporating the changes in guidelines and developments in vigilance administration.

An effective vigilance administration requires continuous capacity building of the vigilance functionaries and all other stake holders. Lack of clear understanding of rules, procedures and practices are often due to the absence of user friendly information in the form of compilations. I find that the earlier edition was brought out in December, 2009, and updation exercise to keep abreast with changes is welcome.

I congratulate the Vigilance Department of HAL for bringing out the updated Vigilance Manual which will not only be beneficial to the vigilance personnel but would also instil confidence in employees and other stake holders for better corporate governance in HAL.


(Pradeep Kumar)

डॉ. आर के त्यागी
अध्यक्ष

Dr. R K TYAGI
Chairman



हिन्दुस्तान एरोनाटिक्स लिमिटेड
15/1, कब्बन रोड
बेंगलूर - 560 001

HINDUSTAN AERONAUTICS LIMITED
15/1, CUBBON ROAD
BANGALORE - 560 001



FOREWORD

Rules, regulations, procedures and guidelines need continuous as well as periodic updation to keep them in sync with dynamic reality. I am pleased to note the effort of the Vigilance Department of HAL to completely revise and update its Manual issued in November 2009 for the benefit of HAL Community. I find that the revised four volume edition comprehensively covers all the activities of the Vigilance Department. It includes all the current instructions on Vigilance administration issued by CVC, MOD and DOPT etc.

In HAL, 2013-14 has been the year for bringing all our guidelines up to date. Our Delegation of Powers, Procurement Manual, Works Manual, Recruitment Manual, Vigilance Manual etc. all reflect today's relativity and will help our executives to discharge their duties without fear or favour.

I complement Shri Anurag Sahay, IRS, CVO and his team of Officers for their timely initiative and contribution towards an effective and vibrant Vigilance administration in HAL.

14, January 2014
Bangalore - 560001


(RK Tyagi)

वी. एम. चमोला
निदेशक (मानव संसाधन)

V.M. CHAMOLA
Director (Human Resources)



हिन्दुस्तान एरोनाटिक्स लिमिटेड
HINDUSTAN AERONAUTICS LIMITED
मुख्यालय
Corporate Office



FOREWORD

Vigilance cannot be considered as an activity merely to prevent corruption. Considered holistically, it can acquire a more meaningful role. In fact, vigilance has to be seen as a part of the overall risk management mechanism of an organization whereby systems are structured in such a manner so as to prevent leakages even while making the organization transparent and accountable in its dealings with customers both internal and external.

The need of a Comprehensive Vigilance Manual has always been felt strongly so that all the relevant issues relating to a case could be examined in correct perspective and without a last minute pressure of locating the relevant instructions / guidelines here and there. Integrity of administration and honesty of officials manning it are indispensable factors to ensure good governance. The extent to which we can make our internal machinery effective and responsive to the customers depends on the sincerity and probity of the officials.

I am pleased to note that Corporate Vigilance has brought out the Vigilance Manual which consolidates various guidelines issued by the Central Vigilance Commission over the years and will be useful for carrying out the vigilance activities effectively. The Manual comprehensively covers all important aspects of Vigilance matters. The action plan for the vigilance functionaries in terms of inspections, investigations, various reports and returns have been compiled in great detail to enable effective functioning.

The current revised edition has been meticulously compiled by Vigilance department. I wish to place on record my appreciation for the initiative taken by Corporate Vigilance headed by Sri Anurag Sahay, IRS, CVO and his dedicated Team Members.

21 Feb 2014
Bangalore-560001

(V M CHAMOLA)
Director (HR)

के. नरेश बाबू

प्रबंध निदेशक

K. NARESH BABU
MANAGING DIRECTOR



हिन्दुस्तान एरोनाटिक्स लिमिटेड
बेंगलूर काम्प्लेक्स, बेंगलूर - 560 017

HINDUSTAN AERONAUTICS LIMITED
BANGALORE COMPLEX, BANGALORE-560 017



FOREWORD

“Nothing is permanent but change” goes the famous adage. Constant updating of various rules and procedures from time to time has manifold benefits to an organisation. It is an enabling tool to be equipped to face the myriad contemporary challenges and to remain ahead of the times.

Regular review and updating of policies and manuals is also a strong indicator of an organisation which is live and active, more so for an anti corruption entity like that of the Vigilance Department. It gives the double advantage. To the Department in specific, by ensuring delivery of professional anti corruption services and the organisation in general to meet the ethical requirements in the discharge of duties which is the cornerstone of good corporate governance.

I am therefore doubly delighted that Vigilance Department in HAL which is in the forefront of pursuing regular updating and reviewing of various Manuals and policies, is leading by example by publishing the revised Vigilance Manuals. I am sure that the efforts of the Department would help HAL to deliver quality products based on strong fundamentals of integrity and ethics.

I compliment Shri Anurag Sahay, IRS, the Chief Vigilance Officer and his team for this remarkable endeavour and wish the Department all the success in partnering the HAL to reach greater heights and realise the common goals and objectives.

12th Feb 2014

Bangalore-560017

(K Naresh Babu)

Managing Director (BC)

डॉ. ए. के. मिश्रा
निदेशक (वित्त)



Dr. A. K. MISHRA
DIRECTOR (FINANCE)

हिन्दुस्तान एरोनाटिक्स लिमिटेड
(रक्षा मंत्रालय के अंतर्गत,
रक्षा उत्पादन विभाग, भारत सरकार)
मुख्यालय, 15/1, कब्बन रोड, बेंगलूर-560 001
HINDUSTAN AERONAUTICS LIMITED
(Under Ministry of Defence,
Dept. of Defence Production, Govt. of India)
Corporate Office
15/1, Cubbon Road, Bangalore-560 001



FOREWORD

It is pleased to note that the Vigilance Department has taken up the task to revise and update the present Manuals, which was updated and issued by the Vigilance Department during November 2009.

I am happy that Shri Anurag Sahay CVO HAL and his team have decided to bring out this revised Vigilance Manual. It is a tribute to the meticulous care and thoroughness with which they have brought out this Manual, within a short span of time.

I am sure this revised version will be found useful by all sections of our officers and employees. This would also be useful to Officers of Vigilance Dept, since details contained in this version would make the vital difference between knowledge of laws and implementation thereof to achieve the desired effect.

12th Feb 2014

Bangalore-560001

(Dr. A K Mishra)

Director (Finance)



FOREWORD

I am extremely happy to put on record that Vigilance Department has punctiliously revised the existing Vigilance Manuals. It is pleasure to share that HAL Vigilance Department in recent past, has taken innumerable initiatives to streamline vigilance related activities in the company.

Vigilance Manuals stipulating the legal and procedural framework is a 'sine qua non' for the efficient working of the Vigilance Department. Vigilance cannot be considered as an activity to merely prevent corruption. It does have a more meaningful role. In fact, Vigilance has to be seen as a part of the overall risk management mechanism of an organization whereby systems are structured in such a manner so as to prevent leakage even while making the organization transparent and accountable in its dealing with customers and stakeholders.

The objective of corruption free HAL cannot be done entirely by a small team of 40 plus Vigilance Officers. Undoubtedly, unless all stakeholders are involved in the process, effective Vigilance cannot be achieved. Every one working in their position, department have to come forward to fill the loopholes in the system.

To cull out all relevant circulars and guidelines in form of a manual is a laudable initiative. This is a major step towards bringing awareness of various Vigilance concepts and practices in the organization.

I am sure all the Manual would prove very handy to all employees in facilitating easy reference of various rules and regulations concerning vigilance related matters and would assist them in performing their duties and responsibilities in an efficient and vigilant manner.

I congratulate Shri Anurag Sahay, CVO and his team for bringing out this updated/revised manual.



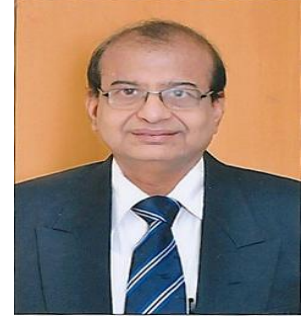
15th Feb 2014
Bangalore-560017

(T. Suvarna Raju)
Director (D & D)

एस. सुब्रह्मण्यन
S. SUBRAHMANYAN
प्रबंध निदेशक
Managing Director



हिन्दुस्तान एरोनॉटिक्स लिमिटेड
Hindustan Aeronautics Ltd.
मिग कॉम्प्लैक्स
MiG Complex



FOREWORD

I am pleased to note that the Vigilance Department has undertaken the task to revise and update the Vigilance Manuals issued by the Department during November 2009. This edition is contemporary which includes the current instructions on vigilance matters issued by the DOPT, CVC directives and company policies.

Creating awareness among public servants about rules and procedures, their underlying principles and purpose; and their correct application in practical situations would definitely increase the degree of adherence to these rules and procedures. I also find that the contents of the Vigilance Manuals are logically arranged in a very simple format to be used as reference.

I compliment Shri Anurag Sahay, IRS, CVO and his team of officers for their proactive initiative and positive contribution towards a more effective and vibrant vigilance administration.

(S. Subrahmanyam)
Managing Director

21st Feb 2014

Ojhar, Nasik – 422207

MiG Complex

अनुराग सहाय, भा.रा.से.

मुख्य सतर्कता अधिकारी

ANURAG SAHAY, I.R.S.

Chief Vigilance Officer



FOREWORD

It is a matter of great privilege for me to present before the HAL Community, a completely revised and updated Vigilance Manual. The present manual is released in four volumes,

Vol. 1	Organisation & Policy
Vol. 2	Disciplinary Proceedings
Vol. 3	Technical Guidelines : Procurement, Contract & Services
Vol. 4	Compendium Guidelines : CVC, MOD & HAL


We have updated the Manuals in the light of our experience in Vigilance Administration since Nov 2009, i.e. the period of release of the last manuals. We have also endeavoured to include the latest guidelines, court decisions, and the various changes in Vigilance Administration in HAL, such as Online Vigilance Clearance System, System of Vigilance Sensitisation of Recruitment Committee etc.

We accord highest priority to creating vigilance related awareness in the Company. Through our various publications, we strive to create awareness amongst our executives of the rules, regulations and guidelines which outline the perimeter of our operations. I am confident that the new vigilance manual will be a useful guide, not only to the Vigilance functionaries, but also to all the officers and workmen of the Company.

CVC in its various articulations has stressed on the need for participative vigilance. I would urge HAL Community to refer to the Manual for guidance, and contribute their share in enhancing accountability and transparency in our decision making processes.

Jai Hind.

3rd March 2014


(Anurag Sahay, IRS)
Chief Vigilance Officer



HINDUSTAN AERONAUTICS LIMITED

15/1, Cubbon Road, Bangalore - 560 001
Phone: 080-22320069, Fax: 080-22320027
Email: cvo@hal-india.com





VIGILANCE MANUAL

VOL-III

TECHNICAL GUIDELINES

PROCUREMENT, CONTRACT & SERVICES



HINDUSTAN AERONAUTICS LIMITED

WORKS & CONTRACTS					
SI No.	Subject	Authority	Letter/ O.M/Circular No.	Date	Page No.
1	CONTRACT MATTERS				
1.1	Contract Matters - Simplification And Economizing in the Contract Procedure	CVC, CTE	9Q-9-CTE-7	4-Jul-88	01
1.2	Contract Matters	CVC, CTE	9Q-9-CTE-7	5-Jun-91	03
1.3	The Contracting Systems in Public Sector Undertakings	CVC	98/MST/001	26-Mar-98	03
1.4	Formulation of Force Majeure Clause as Vetted by Ministry of Law	HAL (SYA)	SYA/GENL/99-00/ 009/241	19-May-00	04
1.5	Incorporation of Force Majeure Clause in Contracts	MOD	34(9)/2000/D(GS-IV)	18-Jul-01	04
1.6	SCOPEs Forum of Conciliation & Arbitration(SFCA)	Comp Sec HAL	CO/SEC/14(18)/2004	16-Mar-04	06
1.7	Guidelines for Establishing Joint Venture Companies by Defence Public Sector Undertakings	MoD	OD/18(4)/GC/2011/Dir (P&C)	17-Feb-12	06
1.8	Guidelines for establishing JVCs by DPSUs issued by MoD	Comp Sec HAL	CO/SEC/JVC-MoD/2012	01-Mar-12	07
1.9	Guidelines on Authority to approve and sign the Contracts binding HAL with Limited / Unlimited Liability	Comp Sec, HAL	CO/SEC/90(2)/CG/CVO/ 2012	09-Aug-12	07
2	SERVICE CONTRACTS				
2.1	Engagement of Casual Labour/Term Contract Labour/Service Contract Labour–Review	HAL (P&A)	HAL/P&A/20(18)-3/PF/ 96/1266	17- Nov-97	08
2.2	Engagement of Casual Labour/Term Contract Labour, etc	HAL (P&A)	HAL/P&A/20(18)-3/PF/99	24-Mar-99	10
2.3	Guidelines on Service/Term Contracts and their Extension	HAL (VIG)	HAL/CO/VIG/47/ 2001/465	12-Apr-01	11
2.4	Codification of Service Contracts Awarded by HAL	VIG DEPT	HAL/CO/VIG/47/ 2001/690	4-Jun-01	19
2.5	Complaint from Contract Labour – PF Contributions	HAL (HR)	HAL/P&A/20(18)-3/12	02-Feb-12	21
2.6	Complaint from Contract Labour – Reg Settlement of PF dues.	HAL (HR)	HAL/P&A/20(18)-1/2012	02-Apr-12	22
3	SUB-CONTRACTING				
3.1	Long Term Business Agreements	Dir (Fin)	CD/440/ZB-6/97/582	19-Nov-97	22
3.2	Guidelines for Indigenization & Sub- Contracting	HAL (IMM)	HAL/CD/617/99/ 1183	24- May-99	24

3.3	Long Term Business Agreements	Dir (Fin)	HAL/CD/617/2002	3-Oct-02	25
3.4	Selection of Sub-Contractor	CVC	2 EE-1CTE-3(Part)	24-May-05	25
3.5	Long Term Business agreements	Dir (Fin)	HAL/CD/617/2006	4-Jul-06	26
3.6	Procedure for Outsourcing / sub-contracting of Tooling, Components and Assemblies	HAL (IMM)	HAL/CD/552(1)/ 2007	14-Feb-07	27
3.7	Procedure for sub-contracting of Tooling / Components	Director (Fin), CO	HAL/CD/552(1)/2009	12-Nov- 09	39
3.8	Compliance of procedure for sub-contracting of Tooling / Components	GM (IMM), HAL , CO	HAL/CD/552 (Subcontracting)/2011	16-Aug-11	39
TENDERING					
4	NOTICE INVITING TENDERS				
4.1	Anti-Corruption Work - Tender Enquiries	HAL (IMM)	CD/616(F)/2000/1397	28-Feb-00	40
4.2	Notice inviting tenders	CVC, CTE	OFF-1-CTE-1(Pt) V (Off Ord	24-Mar-05	40
4.3	Irregularities noticed by CTE during Inviting and Opening Tenders	HAL (VIG)	HAL/CO/VIG/47/ 2008	19-Mar-08	40
4.4	Consideration of the quotations received against RFQ	HAL(DF)	DE/100-28/08/212	9-Jun-08	42
4.5	Acceptance of Quotations through Fax/ E-Mail Etc	HAL (IMM)	HAL/CD/616(F)/ 2008	10-Nov-08	43
5	CONSULTANTS				
5.1	Appointment of Consultants	CVC, CTE	3L PRC 1	10-Jan-83	47
5.2	Appointment of Consultant	CVC, CTE	OFF-1-CTE-1	25-Nov-02	48
5.3	Participation of Consultants in Tender- Guidelines Regarding	CVC	98/DSP/3 Dt 24th (Off Ord No- .75/12/04)	24- Dec-04	51
5.4	Policy for engagement of consultants / experts	HAL(HR)	Personal circular No. 685	04-Feb-10	52
5.5	Policy for engagement of consultants / experts	HAL(HR)	HAL/P&A/18(55)/10	17-Sep-10	53
5.6	Selection and Employment of Consultants	CVC	011/VGL/063 – Circular No. 08/06/11	24-Jun-11	55
5.7	Policy for engagement of consultants / experts	HAL(HR)	HAL/P&A/18(55)/11	22-Aug-11	57
5.8	Policy for engagement of consultants / experts	HAL(HR)	HAL/P&A/18(55)/11	08-Sep-11	58
5.9	Policy for engagement of consultants / experts	HAL(HR)	HAL/P&A/18(55)/12	10-May-12	58
6	MOBILIZATION ADVANCE				
6.1	Grant of interest free Mobilization Advance	CVC	UU/POL/19	08-Oct-97	58

6.2	Mobilization Advance	CVC, CTE	4CC-1-CTE-2 (Off Ord NO.40/06/04)	8-Jun-04	59
6.3	Mobilization Advance	CVC, CTE	4CC-1-CTE-2	10-Apr-07	59
6.4	Mobilization Advance	CVC, Dy. Secy	4CC-1-CTE-2	5-Feb-08	61
6.5	Advanced payment to the vendor	Dir (Fin), CO	HAL/CD/617(Advance Payment)/ 2010	05-May-10	61
6.6	Mobilization Advance	CVC, CTE	01-11-CTE-SH-100 – Circular No. 02/02/11	17-Feb-11	62
6.7	Mobilization Advance	Dir (Fin), CO	HAL/WE/617/2011	15-Apr- 11	63
7	GUIDELINES ON TENDERING SYSTEM				
7.1	Prequalification Criteria (PQ)	CVC, CTE	12-02-1-CTE-6	17-Dec-02	63
7.2	Tender Sample Clause	CVC, CTE	2EE-1-CTE-3	15-Oct-03	66
7.3	Back to Back Tie up by PSUs- Instructions regarding	CVC, CTE	06-03-02-CTE-34	20- Oct-03	67
7.4	Pre-qualification Criteria (PQ)	CVC, CTE	12-02-1-CTE-6	7-May-04	69
7.5	Transparency in tendering system- Guidelines regarding	CVC	004/ORD/9 (Off Ord No. 72/12/04)	10-Dec-04	69
7.6	EMD Circular No 32	DIR, FIN	HAL/CD/617/2005;	22-Mar-06	69
7.7	Providing a level Playing Field between Indian Industry vis-à-vis Foreign Suppliers in the area of Defence Procurement	HAL (IMM)	HAL/CD/617/2005	5-Dec-06	71
7.8	Use of Products with Standard Specification	CVC	98-VGL-25	14-Apr-07	72
7.9	Price/Purchase Preference	DPE	DPE/13(15)/2007- Fin	21-Nov-07	72
7.10	Acceptance of Bank Guarantee	Dir (Fin)	FIN/C-12/BG/07-08/62	8-Feb-08	74
7.11	Acceptance of Bank Guarantee	CVC, CTE	02-07-01-CTE-30	31-Dec-08	75
7.12	Preferential Purchase Policies (PPP) for Products and Services of CPSUs	CVC, CTE	01-02-01-CTE-03	24- Aug-09	76
7.13	Review of Purchase Reference policy for product and services of CPSEs	CVC	009/VGL/055 – Circular No. 31/10/09	09-Nov-09	76
7.14	Freight and Insurance charges	Dir(Fin),	HAL/CD/617/2010	05-Mar-10	77
7.15	Return of Bank Guarantee received against Earnest Money Deposit (EMD)/ Advance Payment/Performance Bank Guarantee	Dir (Fin), CO	FIN/C-12/BG/10-11	31-Jan-11	77

7.16	Transparency in Tendering System	CVC, CTE	011/VGL/014 – Circular No. 01/02/11	11-Feb-11	79
7.17	Design, supply, installation, testing and commissioning of Air conditioning plants Reg	ED(HR), CO	HAL/CO/WE/DGN-SUP/11/402	17-Aug-11	80
7.18	Guidelines on Purchase Procedures	GM (IMM), CO	HAL/CD/617(CVO-observation)/ 2012	20-Mar-12	80
7.19	Preparation of Work estimates according to latest MES SSR	DGM (Works), CO	HAL/CO/WE/12/260	15-May-12	82
7.20	Guidelines for Tendering System – Procurement of Capital Items	GM (IMM), CO	HAL/CD/617(tender)/2012	01-Jun-12	82
7.21	Issue of Revised Bank Guarantee format	GM (F), CO	HAL/FIN/BG/2012-13	10-Oct-12	83
8	INTEGRITY PACT				
8.1	Adoption of Integrity Pact in Major Government Procurement Activities	CVC	007/VGL/033 (Off Ord No.41/12/07)	4-Dec-07	91
8.2	Adoption of Integrity Pact in Major Government Procurement Activities	CVC	007/VGL/033 (Off Ord No.43/12/07)	28-Dec-07	97
8.3	Adoption of Integrity Pact in Major Government Procurement Activities	CVC	008/VGL/001 (Cir No.18/05/08)	19-May-08	97
8.4	Adoption of Integrity Pact in Major Government procurement activities	CVC	007/VGL/033(Cir No.24/8/08)	5-Aug-08	98
8.5	Integrity Pact	HAL	HAL/CD/617/2008	4-Nov-08	99
8.6	Implementation of Integrity Pact	HAL	HAL/CD/617/2008	6-Jan-09	99
8.7	Adoption of Integrity Pact-Standard Operating Procedure-reg	CVC	008/CRD/013 (Cir No. 10/5/09)	18-May-09	100
8.8	Adoption of Integrity Pact – Periodical reg	CVC, Director	008/CRD/013 (Cir No. 22/08/09)	11-Aug-09	104
8.9	Integrity Pact	Dir (Fin), CO	HAL/CD/617/2009	14-Dec-09	104
8.10	Amendment No. 2 to material Management Circular No. 36 – Integrity Pact	Dir (Fin), CO	HAL/CD/617/2010/833	07-Apr-10	106
8.11	Integrity Pact – Selection and Recommendation of Independent External Monitors (IEMs)	CVC	009/VGL/016 – Circular No. 17/04/10	19-Apr-10	108
8.12	Earnest Money Deposit (EMD) – Integrity Pact	AGM (IMM), CO	HAL/CD/617(EMD)/2010/	11-Aug-10	108
8.13	Signing of Integrity Pacts (IPs) with Vendors	AGM (IMM), CO	HAL/CD/617/2010	12-Oct-10	109

8.14	Material Management Circular No. 38 – Integrity Pact	Dir (Fin), CO	HAL/CD/617/2011/861	06-May-11	110
8.15	Integrity Pact	Dir (Fin), CO	HAL/CD/617/2011/886	30-May-11	111
8.16	Authority to approve and sign Integrity Pact (IP)	GM (IMM), CO	HAL/CD/617/IP/2012/334	09-Jul-12	111
9	HANDLING OF TENDERS				
9.1	Rejection of Conditional Tenders/Quotes Contrary to HAL Terms and Conditions.	HAL (VIG)	HAL/CO/VIG/47/134/2000	19-Feb-00	112
9.2	Tenders - Freak Rates and Corrections/Insertions/ Over-Writings in Documents of Negotiations	HAL (VIG)	HAL/CO/VIG/64/2001/388	22- Mar-01	112
9.3	Acceptance of Late/Delayed Tenders	HAL (IMM)	HAL/CD/617/2003	3-Jul-03	114
9.4	Receipt and Opening of Tenders	CVC, CTE	05-04-1-CTE-8	8-Jun-04	114
9.5	Undertaking by the Members of Tender Committee/Agency	CVC	005/VGL/66 (Off Ord No.71/12/05)	9-Dec-05	115
9.6	Participation in Approval Process	Dir (Fin)	HAL/CD/617/2006	20-May-06	115
9.7	Tendering Opening Committee	AGM (IMM), CO	HAL/CD/617/2010	16-Jul-10	116
9.8	Participation in Tender Opening	AGM (IMM), CO	HAL/CD/617/2010	13-Sep-10	116
10	TENDER NEGOTIATIONS				
10.1	Improving Vigilance Administration - Tenders	CVC	98/ORD/1	15-Mar-99	117
10.2	Improving Vigilance Administration - Tenders	CVC	No 98/ORD/1	24-Aug-00	117
10.3	Improving Vigilance Administration - Tenders	CVC	No 98/ORD/1	3-Aug-01	118
10.4	Tendering Process- Negotiation with L1	CVC	005/CRD/12 (Off Ord No.68/10/05)	25-Oct-05	118
10.5	Tendering Process- Negotiation with L1	CVC	005/CRD/12 (Cir No. 37/10/06)	3-Oct-06	119
10.6	Tendering Process- Negotiation with L1	CVC	005/CRD/012 (Cir No. 4/3/07)	3-Mar-07	120
10.7	Tendering Process-Negotiation with L1	CVC, CTE	005/CRD/012 – Circular No.01/01/10	20-Jan-10	121
10.8	PNC Recommendation	Dir (Fin), CO	HAL/CD/617(PNC)/2011/851	18-Apr-11	122
11	USE OF WEBSITE				
11.1	Use of Web-site in Government Procurement or Tender Process	CVC, Dy Secretary	98/ORD/1(Pt IV)	12- Mar-03	122
11.2	E-procurement / Reverse Auction	CVC	98/ORD/1 Office Order No.46/9/03	11- Sep-03	123

11.3	Improving Administration: Increasing Transparency in Procurement / Sale	Vigilance	CVC	98/ORD/1	18- Dec-03	123
11.4	Improving Administration: Increasing Transparency in Procurement / Sale	Vigilance	CVC	98/ORD/1 (Off Ord No. 912 /04)	9-Feb-04	124
11.5	Improving Administration - Increasing Transparency in Procurement/ Tender Process - Use of Website- Regarding	Vigilance	CVC	98/ORD/1 (Off Ord No.1012104)	11- Feb-04	125
11.6	Improving Administration: Increasing Transparency and Cutting Delays by E-Payments and E-Receipt by Govt. Organizations Etc	Vigilance	CVC	98/ORD/01	6-Apr-04	125
11.7	Improving Administration: Increasing Transparency in Procurement/ Sale etc. -Use of Website Regarding	Vigilance	CVC	98/ORD/1 (Off Ord No.43/ 7/04)	2-Jul-04	127
11.8	Improving Administration : Increasing Transparency in Procurement / Sale Etc-Use of Web Site Regarding	Vigilance	CVC	98/ORD/1	5-Jul-04	130
11.9	Central Vigilance Commission's Directives on Use of Website in Public Tenders		CVC	98/ORD/1 (Off Ord No. 47/ 7104)	13-Jul-04	131
11.10	Improving Administration: Increasing Transparency in Procurement / Sale Etc. – Use of Web Site for Tenders Containing Classified / Secret Documentation.	Vigilance	CVC	005/VGL/7	28- Feb-05	131
11.11	Details on Award of Tenders/Contracts Publishing on Websites/Bulletins		CVC, CTE	005/VGL/4	16-Mar-05	133
11.12	Details on Award of Tenders/Contracts Publishing on Websites/Bulletins		CVC, CTE	005/VGL/4	28-Jul-05	134
11.13	Details on Award of Tenders/Contracts Publishing on Websites/Bulletins		CVC, CTE	005/VGL/4	20-Sep-05	134
11.14	Payment to Vendors /Contractors through Electronic Clearance System [ECS]		GM, FIN	FIN/C-12/BANKS/05-06	15- Mar-06	134
11.15	Bank Charges On Payments To Vendors		GM, FIN	FIN/C-12/BANKS/05-06	15-Mar-06	137

11.16	Posting of details on Award of Tenders/ Contracts on Websites/ Bulletins	CVC	005/VGL/4 (Cir No. 31/9/06)	1-Sep-06	137
11.17	Improving Vigilance Administration by Leveraging Technology: Increasing Transparency through Effective Use of Websites in Discharge of Regulatory, Enforcement and Other Functions of Govt. Organizations	CVC	006/VGL/117 (Cir No.40/11/06)	22- Nov-06	138
11.18	Details on Award of Tenders / Contracts Publishing on Website / Bulletins	HAL	HAL/CD/616(F)2006	6-Dec-06	142
11.19	Improving Vigilance Administration by Leveraging Technology: Increasing Transparency through Effective use of Website.	CVC	006/VGL/117	18- Apr-07	143
11.20	Implementation of E-Tendering Solutions	CVC	009/VGL/002 Off Ord No 1/1/09)	13-Jan-09	144
11.21	Posting of details on Award of Tenders/ Contracts on Websites	CVC	005/VGL/4	14-Jul-09	144
11.22	Implementation of e-tendering solutions	CVC	29/9/09	17-Sep-09	145
11.23	Hosting of Approved suppliers list with details on HALs Web Site	AGM (IMM), CO	HAL/CD/617/2010	30-Mar-10	145
11.24	Implementation of e-tendering solutions – Check list	CVC, CTE	009/VGL/002 – Circular No. 18/04/2010	26-Apr-10	145
11.25	Hosting of Approved Vendors list with details on HALs Web Site	AGM (IMM), CO	HAL/CD/617/2010	24-May-10	146
11.26	Improving Vigilance administration by Leveraging Technology	CVO, CO	HAL/CO/VIG/83/PC/2010/845	18-Jun-10	146
11.27	Leveraging of Technology for improving Vigilance administration in the National E-Governance Plan	CVC, Director	010/VGL/035 – Circular No. 23/06/2010	23-Jun-10	148
11.28	Transparency in System	Dir (Fin), CO	HAL/CD/617(TS)/2011	14-Mar-11	148
11.29	Hosting of Approved Vendors List with details on HAL's Website	GM (IMM), CO	HAL/CD/617/2011/AVL/947	11-Aug-11	149
11.30	Guidelines for Compliance to Quality Requirements of e-Procurement Systems	CVC, OSD	010/VGL/035/16173 – Circular No. 01/01/12	12-Jan-12	150

11.31	Implementation of e-Procurement and Registration of Vendors/Suppliers in HAL e-Procurement Portal	Dir (Fin), CO	HAL/CD/551/2012/155	13-Feb-12	150
11.32	Hosting of Documents on HAL Website	Dir (CP & M),CO	MS&IT/IT-21/612/2012	14-Mar-12	151
11.33	IT enabled application in CVC for the Core Process	CVC, OSD	012/VGL/022	29-Mar-12	151
11.34	Implementation of e-Procurement in HAL	Dir (Fin)	HAL/CD/617/e-P/2012/232	24-Apr-12	152
12	PROCESSING OF PROCUREMENT				
12.1	Purchase of Computer System by Govt depts / organization	CVC, Dy Secretary	98/ORD/1	05-May-03	152
12.2	Turkey contracts for net-working of computer systems	CVC, Addl Secretary	004/ORD/8 Office Order No. 69/11/04	03-Nov-04	153
12.3	Time Bound Processing of Procurement	CVC	008/VGL/083 (Cir No.31/11/08)	6-Nov-08	154
12.4	Time Bound Processing of Procurement	HAL	HAL/CD/617/2008	5-Dec-08	154
12.5	Guidelines for improvement in the Procurement system	Dir (Fin), CO	HAL/CD/617/2011	05-May -11	155
13	AWARD OF CONTRACT ON NOMINATION BASIS				
13.1	Transparency in Works/ Purchase/ Consultancy Contracts Awarded on Nomination Basis.	CVC	005/CRD/19 (CIR No.15/5/06)	9-May-06	162
13.2	Transparency in Works/ Purchase/ Consultancy Contracts Awarded on Nomination Basis.	CVC	005/CRD/19 (Off Ord No.23/7/07)	5-Jul-07	163
13.3	Transparency in Works/ Purchase /Consultancy Contracts Awarded on Nomination Basis	CVC, Director	005/CRD/19 (part) – Office Order No. 19/05/10	19-May-10	164
13.4	Purchase contracts awarded on nomination/single tender basis – Reporting to the Board for Information	Dir (Fin), CO	HAL/CD/617(single tender)/2012	07-Feb-12	165
14	DELAY IN PAYMENT TO VENDORS				
14.1	Improving Vigilance Administration: Increasing Transparency and Cutting Delays by E-Payments and E-Receipt by Govt. Organizations etc	CVC	98/ORD/1 (Off Ord No. 20/4/04)	6-Apr-04	165
14.2	Leveraging Technology – e-payment and e-receipt	CVC, Dy Secretary	98/ORD/1 (Off Ord No. 68/10/04)	20- Oct-04	167

14.3	Delays in Payments to Contractors & Suppliers etc. – Reducing Opportunities For Corruption.	CVC	005/ORD/1 (Off Ord NO.11/3/05)	10- Mar-05	168
14.4	Payments to Vendors / Contractors through Electronic Payment	ED (Fin), CO	FIN/C-12/BANKS/11-12	01- Aug-11	170
15	COMMON IRREGULARITIES				
15.1	Short-comings in bid documents	CVC, Dy Secretary	98/ORD/1 (Office Order No. 33/7/03)	09-Jul-03	171
15.2	Irregularities in the award of contract.	CVC, Dy Secretary	98/ORD/1	04-Sep-03	172
15.3	Common Irregularities in the Award of Contracts	CVC, CTE	OFF-1-CTE-1 (Off Mem No- 8/2/04)	5-Feb-04	172
15.4	Examination of Public Procurement (Works/ Purchases /Services) Contracts by CVOs.	CVC	006/VGL/29 (Cir No.21/05/06)	1-May-06	174
15.5	General guidelines to be followed in award of Horticulture Works Contract in HAL	DGM(Tech -VIG)	HAL/CO/VIG/64-PC/2010/340	10-Mar-10	180
15.6	Design Mix Concrete	CVC, CTE	010/VGL/066 – Circular No. 34/10/10	07-Oct-10	181
15.7	Strict compliance of Tender Opening Procedure as per Works Manual 2011	DGM (Works), CO	HAL/CO/WE/WORK-M2011/12/626	03-Dec-12	181
16	REPORTS & RETURNS				
16.1	Intensive Examination of Supplies of Engineering Materials to Central Government Organizations	CVC	1K VGL 1	14- Mar-86	182
16.2	Examination of Works by CTE's Organization in CVC - Role of CVOs Vis- a-Vis CTEs	CVC	7R ORD 37	19- Aug-87	183
16.3	Examination of Works by the CTE's Organization - Raising the Monetary Limit for Reporting the Works in Progress to the Chief Technical Examiners	CVC	9U -ORD-51	24- Sep-90	186
16.4	Examination of Works by CTE's Organization - Raising the Monetary Limit for Reporting the Works in Progress to the CTE	CVC	98-VGL-25	18- Nov-98	188
16.5	Examination of Stores/Purchase Contracts by the CTE's Org	CVC	No 98-VGL-25(i)	12-Mar-99	188
16.6	Examination of Works by CTE's Organization for Reporting the Works in Progress to the CTE's Organization	CVC	98-VGL-25	20-Jul-01	189
16.7	Intensive Examination of Works – Regarding	CVC, CTE	OFF-1-CTE-2	22-Oct-02	190

16.8	Intensive Examination of Works by CTE's Organization – Submission of Quarterly Progress Report	CVC	98-VGL-25	11- Nov-05	191
16.9	Submission of Quarterly Progress Report in Respect of Civil Work Contracts, Electrical / Mechanical & Engineering Contracts, Store & Purchase Contracts, Horticulture Contracts, Purchase of Medical Equipments, Consultancy Contracts, Service Contracts and Supplies of Medicines.	HAL (VIG)	HAL/CO/VIG/47/2006/268	4-Mar-06	192
16.10	Forwarding of Certificate in Respect of all CTE Quarterly Progress Reports	HAL (VIG)	HAL/CO/VIG/47/ 2008/08	3-Jan-08	193
16.11	Deficiencies in Respect of Quarterly Progress Reports (QPRs) Noticed by the Chief Technical Examiner, CVC (CTE's Org), New Delhi.	HAL (VIG)	HAL/CO/VIG/64/ 2009/690	25- Jun-09	194
16.12	Intensive Examination by CVC (CTE's Org) of Horticulture Works in HAL	HAL (VIG)	HAL/CO/VIG/64/ 2009/926	10-Aug-09	194
16.13	Intensive Examination of CTE - Steps for early finalization of pending vigilance references with CVOs - reg.	CVC	13/6/09	11- Aug-09	195
16.14	Revised threshold values for submission of Quarterly Progress Report – QPR	CVC, CTE	98-VGL-25 – Circular No. 15/07/12	30-Jul-12	196
16.15	Deficiencies in QPRs	CVC, CTE	98-VGL-25	29-May-09	198
17	MISCELLANEOUS				
17.1	Examination of Works by the CTE Organization - Full Cooperation to be Extended	CVC	5T DSP 18	2-Jun-89	199
17.2	Examination of Works by the CTE Organization – raising monetary limit for reporting the works in progress to Chief Technical Examiners	CVC, CTE	98/VGL/25	20-Oct-98	199
17.3	Procurement against Proprietary Certificate	HAL (SYA)	SYA/GENL/99-00/10/240	19- May-00	201
17.4	Mentioning of Name-Designation & Date by Signatories on Note Sheets and Documents/Correspondences	HAL (VIG)	HAL/CO/VIG/47/2000/804	24- Aug-00	203
17.5	Material issued to Sub-Contractor	HAL (SYA)	SYA/GENL/99-00/009/241	19-May-01	203
17.6	Consideration of Indian Agents	CVC, CTE	12-02-6-CTE-SP(1)2	7-Jan-03	204

17.7	Consideration of Indian Agents	CVC, CTE	25/04/04	21-Apr-04	204
17.8	Sources for Purchase of an Aeronautical Products and Materials from Russia and other EX-CIS Countries	Dir (Fin)	HAL/CD/617/2004	7-Oct-04	205
17.9	Banning of Business dealing with firms / contractors – Clarification regarding	CVC, Dy Secretary	000/VGL/161 (Office Order No. 18/3/05)	24-Mar-05	206
17.10	Insurance Policies	GM, FIN	FIN/C-12/INS/05-06	14-Mar-06	207
17.11	The Directory of Approved Sources of Aeronautical Military Purpose Products from Russia.	GM (IMM)	HAL/CD/617/2007	26-Jul-07	207
17.12	Measures to Curb the Menace of Counterfeit and Refurbished IT products	CVC	007/CRD/008 Cir No. 07/02/08	15-Feb-08	208
17.13	IT Procurement	CVC	008/VGL/016 Cir No.9/2/08	18-Feb-08	211
17.14	Guidelines on Financial Concurrence	HAL [DF]	DE/100-28/08	23-May-08	212
17.15	Referring Cases of Procurement to the Commission	CVC	008 /CRD/008 (Cir No. 22/07/08)	24-Jul-08	213
17.16	Mandatory requirement of Permanent Account Number (PAN) from Foreign Vendor	GM (Fin), CO	CO/Tax/PAN/2010-11	02-Aug-10	214
17.17	Recoveries arising out of Intensive Examination conducted by Chief Technical Examiner Organization (CTEO) of the commission.	CVC, CTE	E(NH)/2011/Recoveries/144262 Circular No – 11/09/11	12-Sep-11	214
17.18	Cash Office – Control Measures	GM (SYA)	SYA/CO/C.Office/Memo/2011-12/297	16-Nov-11	215
17.19	Consideration of Indian Agents	CVC, OSD	12-02-6-CTE/SPI(I)-2/16173 – Circular No.	13-Jan-12	216
17.20	Recoveries from contractor's Bill	GM (Fin), CO	HAL/WE/617/2012	21-Feb-12	217
17.21	System Audit – Internal control tasks	GM (SYA), CO	SYA/CO/44/Vol 2/2012/44	26-Mar-12	218
17.22	Guidelines on consideration of Exchange Rate while preparing Price Comparative Statement for BIDs Received.	GM (IMM), CO	HAL/CD/617(ERV)/2012	02-Apr-12	219
17.23	System Audit – Internal control tasks	GM (SYA), CO	SYA/CO/44/Vol 2/2012/49	03-Apr-12	219
17.24	Purchase from OEMs	Dir (Fin), CO	HAL/CD/617(OEM)/2012	28-Jun-12	220

WORKS & CONTRACTS

1. CONTRACT MATTERS

1.1 Contract Matters - Simplification and Economizing In the Contract Procedure

The Central PWD contracting procedure envisaged preparation and approval of tender documents for sale to tenderers whenever tenders are to be invited. The tender documents inter-alia includes the following:-

1. Index
 2. PWD Form-6 (Notice Inviting Tenders)
 3. Press Notice
 4. PWD Form 7 or 8 containing General Rules and directions, Memorandum, Conditions of contract containing Schedules of Plant & Machinery (clause-34) and materials to be issued departmentally (Clause-10).
 5. Correction slips to the PWD 7 or 8.
 6. Specifications, in addition to stipulating the relevant CPWD Specifications (printed booklet) with Correction Slips, particular specifications for items not covered in the printed booklet or deviations/departures there from are stipulated.
 7. Special conditions of contract, in which, conditions not occurring in the PWD Form 7 or 8 or deviations/departures there from are stipulated.
 8. Bill of quantities.
 9. Drawings (if any to be incorporated).
 10. Letters exchanged between the Department/Contractor which are invariably made part of the contract agreement including the acceptance letter.
2. It is felt that every time a tender is to be invited; a lot of avoidable work has to be done in compiling the documents, correcting and attesting each correction initially in the Draft Tender Document and subsequently in the tender documents before stating to contractors. This gives considerable scope for errors and omissions which may result in contractual complications and litigation. Earlier all the printed forms, such as, PWD 6, PWD 7 and PWD 8, used to be printed in Government of India Presses in large quantities (in lakhs) and were available for use by the departmental Engineers and the chance of mistakes occurring in each batch were remote. But in the past few years it is seen that either Government supplies are not forthcoming in required quantity or not being received at all and the Circles and Divisions of the CPWD are resorting to local

purchase of such forms from local (unapproved) printers at various stations who have practically no control over the language and accuracy of such an important document which ultimately becomes a legal document. These printers are printing and supplying tender forms to various other Organizations such as DDA, P&T Civil Wing, All India Radio - Civil Wing, Municipal Corporation of Delhi, NDMC including some public sector undertakings that are following CPWD Form and they resort to changes in the forms to suit these agreements. It is often seen that the draft Tender Document approved by the competent authority includes forms printed by different printers or the same printer with a different printing block than those on which the tender documents are prepared by Divisions for sale to contractors. This further leads to avoidable complications. In order to solve this problem, it is suggested that the portion of PWD 7 or 8 containing the general rules and directions and the Conditions of Contract (excluding Schedules for issue of Plant & Machinery) and Materials but including labour regulations, safety code And Model Rules can be get printed as a standard booklet and made available on sale to contractors and the general public and also issued to Engineers of CPWD.

3. This document (printed book) can be referred in PWD 6 Memorandum or Special Conditions of contract just as the printed specifications booklets are referred to making them a part of the contract. This will not only obviate the necessity of compiling bulky tender documents but will drastically reduce the expenditure on stationery and printing of such contract conditions. The manpower required to do the compilation, checking and correction work can be reduced substantially and will reduce the chances of mistakes creeping in, in the agreement finally entered into with the contractor. Also whenever tender documents are to be sold, the Divisions compile a large number of documents many of which are not sold thus resulting in infructuous avoidable expenditure and wastage of PWD forms 7 or 8. Therefore, it is felt that the above proposal will ultimately be economical to the Government. Also this suggested procedure will save a lot paper work which is at present being used for this purpose.

4. The Schedules of Plant, Machinery and Materials (referred to in Clauses 34 and 10 respectively) can be printed along with and made part of Memorandum which the contractors have to sign, get witnessed and return on the date of opening of tenders. The present system of cyclostyling the correction slips to PWD forms 7 and 8 at Circle/Zonal level, for incorporating in the tender documents can continue till a regular system of making the printed ones available at nominal/reasonable cost is brought into force. This will also ensure that all the correction slips forming part of the agreement are available.

5. It is also seen that each Zone, Circle and Division has formulated special conditions which quite often vary from one office to the other, in language, meaning and interpretation. It is preferable that such special conditions are not drafted in consultation with the Senior Counsel of PWD, and circulated to all offices in order to maintain uniformity in the Department.

6. Lastly, it may be stated that in many PSUs and Government Depts. Like the Railways, DGS&D, the suggested system prevalent and functioning satisfactorily.

(CVC (CTE's Org) LETTER No 9Q-9-CTE-7 dated 04 Jul 1988)

1.2 Contract Matters

1. It is observed that most of the PSUs and Financial Institutions leave the drafting of the standard conditions of contract to their Architects of Consultants. Very often the tender documents are badly drafted and result in serious contractual complications. Sometimes the contract conditions are ambiguous or contradictory to other conditions in the tender documents.

2. Under their letter No Adv(c)/Genl-53/71 Cir-103/73, dated 06 Feb 73 the BPE have issued a standard contract form. Subsequently, certain amendments to this contract form were circulated vide their letter No BPE/GL-019/75.Con/Adv(c)/Gel-53/71/128 dated 21 Jul 75. Guidelines for adoption of this standard contract form are laid down in Clauses 3.8.7 and 3.18 of the Booklet entitled "Government Policy on Management of PSUs - Volume II" published by SCOPE. The following recommendation has been made:

"The standard contract form evolved by the BPE may be used as far as possible with suitable modifications to meet the local requirements for common types works like townships, simple factory buildings, storage buildings, offices etc."

3. The above guidelines are brought to the notice of all PSUs, Financial Institutions and Cooperative Societies for necessary action. Adoption of such a standard contract form will result in more effective contract management and considerable reduction in disputes with contractors. It is requested that this circular may please be given wide circulation among the Chief Engineer of your Organization.

(CTE's Organization) letter No 9Q-9-CTE-7 dated 05 Jun 1991)

1.3. The Contracting Systems In Public Sector Undertakings

During the CVO's Conference convened by the Central Vigilance Commission on the 11th and 12th September, 1997, the Central Vigilance Commissioner had constituted a Committee to go into the system of contracts prevalent in our Public Sector Undertakings and to suggest, wherever required, methods of streamlining the contracting provisions. The Commission is pleased to enclose a copy of the "Report of the Committee of CVOs on the Contracting Systems in Public Sector

Undertakings". The Commission feels that the suggestions made in the report are very practical and could constitute a strong framework for preventive vigilance in the area of contracting which today seems to be vulnerable to the manipulations of interested parties. The suggestions, if followed, could make Contracting of Works: I more transparent process and this in itself should be a step in the right direction. We are sure that your organization would keep in view the suggestions in the report for future award of contracts. With this end in view, you may ensure that all the relevant departments in your organisation are aware of the contents of the report.

(CVC letter No 98/MST/001 dated 26 Mar 1998)

1.4. Formulation Of Force Majeure Clause As Vetted By Ministry Of Law

1. Should any force majeure circumstances arise, each of the contracting party shall be excused for the non fulfilment or for the delayed fulfilment of any of its contractual obligations, if the affected party within 15 days of its occurrence informs the other party in writing.

2. Force majeure shall mean fires, floods, natural calamities or other acts such as war, turmoil, strikes (as not limited to be establishment of the seller), sabotage, explosions, quarantine restrictions beyond the control of either party.

3. It is understood and agreed between the parties hereto that the rights and obligations of the parties shall be deemed to be in suspension during the continuance of the force majeure even as aforesaid and the said rights and obligations shall automatically revive upon the cessation of the intervening force majeure event. The period within which the rights and obligations of the parties shall be in suspension due to force majeure event shall not be considered as a delay with respect to the period of delivery and/or acceptance of delivery under the contract or otherwise to the detriment of either party.

4. Notwithstanding the provisions of the immediately foregoing clauses it is further understood and agreed between the parties hereto that in the event of any force majeure persisting for an uninterrupted period exceeding 6(six) months, either party hereto reserves the right to terminate this contract upon giving prior written notice of 30(thirty) days to the other party of the intention to terminate without any liability other than reimbursement on the terms provided in this agreement for the goods received.

(SYA/GENL/99-00/009/241 dated 19 May 2000)

1.5. Incorporation Of Force Majeure Clause In Contracts

1. In one of the contracts examined by the CVC in the recent past, CVC made the following observations regarding incorporation of force majeure

clause :-

“Force majeure clause was never asked by M/s NASCHEM but the same was included in the contract placed on M/s NASCHEM. As per procedure Force Majeure clause is to be incorporated when the supplier specifically insists and there is no alternative but to accept the same. In that situation, the supplier should be persuaded to accept the Department’s standard Force Majeure Clause so that the Government interest is fully protected”.

2. On another similar contract CVC made the following observations on the same subject:-

“Ministry of Defence has not brought out any documentary evidence to show that the supplier specifically asked to include Force Majeure Clause in the Contract. Normally Force Majeure Clause is loaded in favour of the seller and it gives escape to the seller to wriggle out of the contract in case of such force majeure conditions; the purchaser has no remedy but to either cancel the contract without financial implications or wait for the indefinite periods and at times bear financial escalation costs. In case the force majeure clause is to be included it should be standard clause, which is not loaded in favour of the seller but also protect the interest of the purchaser”.

3. When it was brought to the notice of the CVC that force majeure clause was being included in the contracts as per formulation earlier vetted by the Ministry of Law and it would not be correct to include that the vendor would not have sought inclusion of force majeure clause in the contract, the CVC made the following observations:

“Ministry of Defence have not brought out any documentary evidence to show that the supplier specifically asked to include Force Majeure Clause in the Contract. In case the Department is stipulating the Force Majeure clause in all the contracts of their own, then the same needs to be reconsidered in light of the position already explained in our observations.”

4. In the light of the CVC observations, Force Majeure clause may not be included suo moto in the contracts forwarded to the seller. However, when the seller insists for inclusion of such a clause, the case should be examined in the light of the CVC observations, referred to above. In case where it is decided to include a force majeure clause in the contract, the clause as per Annexure, which has recently been got vetted from the Ministry of Law, may be used as a standard clause.

5. Addressees are requested to kindly note the directions of the CVC. These may also be brought to the notice of all procurement agencies under them.

(MOD I.D. No 34(9)/2000/D(GS-IV) dated 18 Jul 2001)

1.6 **SCOPE's Forum of Conciliation & Arbitration (SFCA)**

1. Department of Public Enterprises, (DPE), Govt. of India has approved to set up an Arbitration Forum to be known as "SCOPE's Forum of Conciliation & Arbitration" for redressal of disputes arising out of various contracts between Public Sector Enterprises (PSEs) & Private Agencies.

2. As per the present system and practice DPE guidelines and Article-159 of the Articles of Association of the company deals with resolving disputes arising between two PSEs or between PSEs and any Govt. Departments / Agencies by referring the same to arbitration in the DPE.

3. The Works & Contract procedure of HAL provides for a clause for resolving disputes with private agencies by referring the matter to the sole arbitration of MDs / GMs and in the event of non-resolution by the sole arbitrator, the matter is referred to the arbitration of some other person appointed by MDs/GMs as laid down in the Works & Contract procedure.

4. SCOPEs Forum of Conciliation & Arbitration facilitates resolution of disputes between PSEs and Private Agencies. It is, therefore, suggested that if agreeable to the Private Agencies, the following clause may be included in such contracts / agreements / supply orders other than contracts / agreement covered by para -2 & 3 above, entered into with Private Agencies:-

"Any dispute or difference what so ever arising between the parties out of or relating to the construction, Interpretation, application, meaning, scope, operation or effect of this contract or the validity or the breach thereof, shall be settled by arbitration in accordance with the Rules of Arbitration of the "SCOPE Forum of Conciliation and Arbitration" and the award made in pursuance thereof shall be binding on the parties".

(CO/SEC/14(18)/2004 dated 16 Mar 2004)

1.7 **Guidelines for Establishing Joint Venture Companies by Defense Public Sector Undertakings**

1. With a view to furthering the objective of achieving substantive self-reliance in the defense sector and production of state-of-the-art defense items, the Government have approved guidelines in respect of establishing joint venture companies by Defense Public sector Undertakings (DPSUs). The approved guidelines are annexed herewith. These guidelines shall apply to all DPSUs under the administrative control of the Department of Defense Production.

2. These guidelines shall come into force with immediate effect and will be applicable to all JVs that have not yet come into legal existence and are formed hereafter.

3. The earlier instructions issued by this Department vide O.M. Nos. 2(3)/10/P-15B/DP(PLG-VIII) dated 27/09/2011 are withdrawn forthwith.

(MOD/18(4)/GC/2011/Dir (P&C) dated 17 Feb 2012)

1.8 Guidelines for establishing JVCs by DPSUs issued by MoD

1. HAL has formed total 11 Joint Venture Companies (JVCs) till date and some proposals/projects/strategic alliances are under consideration for formation of new JVCs.

2. The Government of India, Ministry of Defense, Department of Defense Production has issued latest Guidelines vide letter No. MOD/18(4)/GC/2011/Dir(P&C) dated 17th February, 2012 (copy enclosed) in respect of establishing JVCs by Defense Public Sector Undertakings (DPSUs).

3. The Guidelines are applicable to all DPSUs under the administrative control of the Department of Defense Production and has come into force from 17th February, 2012.

(CO/SEC/JVC-MoD/2012 dated 01 Mar 2012)

1.9 Guidelines on Authority to approve and sign the Contracts binding HAL with Limited /Unlimited Liability

1. A Committee was constituted to review the Guidelines on Authority to approve and sign the Contracts binding HAL with Limited/Unlimited Liability.

2. The committee has recommended that “Contracts / Agreements would be approved by the CFA based on quantum of liability which would commensurate with the value of the contract to be approved by the CFA. Further, in case of unlimited third party liability, the approval of the Board would be required.”

3. The matter was put up to 248th Management Committee Meeting held on 23rd May 2012. The Management Committee has authorized to issue the following clarifications / guideline in this regard:

(i) Contracts binding HAL with limited liability would be approved by the CFA based on the quantum of liability (which should not in any case exceed the value of the contract approved by the CFA concerned).

(ii) In case of “unlimited” third party liability, approval of the Board will be required.

(iii) Further, the contracts would be signed by the ED / GM of the respective Divisions / Office and in case of purchase Orders, by the IMM with the approval of CFA.

4. The above guidelines will come into force with immediate.

(CO/SEC/90(2)/CG/CVO/2012 dated 09 Aug 2012)

2. **SERVICE CONTRACTS**

2.1 **Engagement Of Casual Labour/Term Contract Labour/Service Contract Labour -Review**

1. It may please be recalled that in the past a number of instructions have been issued to the Divisions on various aspects, pertaining to employment of Casual/Term Contract Labour and Service Contract labour.

2. From the data received from the Divisions on periodical basis it has been observed that, over a period of time the number of personnel engaged under service contract have gone up. It has also come to light that Divisions have been engaging labour under various methods such as work order, purchase order etc. Instances have also been brought to notice where some Departments in the Divisions are engaging labour without the concurrence/knowledge of Personnel Department concerned.

3. It may be appreciated that engaging personnel under various guises, as above, defeats the very purpose for which instructions have been issued by Corporate Office from time to time. Of late, various Supreme Court Judgments especially Judgment of May 95 & December 96 in Gujarat Electricity Board and Air India Statutory Corporation have remarked adversely about PSUs engaging contract labour by indulging in unfair labour practices ostensibly for saving money. It has further been held that once the contract labour system is abolished on any processes, the labour engaged on such processes become automatically employees of the Principal Employer. It may thus be observed that while on the one hand, HAL has been making concerted efforts to reduce the manpower especially in indirect categories, on the other; HAL may be bound to absorb such labour when engagement of contract labour is prohibited by the Appropriate Government. As such, it becomes utmost essential for us that engagement of Casual Labour, Term Contract Labour and Service Contract Labour is carried out in a most cautious manner with a view to effectively containing both financial and legal implications to HAL.

4. In view of the recent developments, Judicial Pronouncements etc. it is, therefore, felt that there is an urgent need to have a thorough review of the system of engaging casual labour / Term Contract Labour and Service Contract Labour or any other type of contract labour in each of our Divisions and every effort should be made to reduce the number of these labour. Simultaneously it is also imperative for us to explore the possibility of doing the said

jobs by mechanization and other rationalized methods. Some of the steps that could be considered by the Divisions are indicated below:-

(i) Contract labour should not be employed in areas where regular employees are also working;

(ii) As far as possible, all major contracts should be awarded to the reputed contractors who deploy their regular employees by transferring them from their existing establishments and after the contract is over, these workers shift back to some other establishments of the contractors;

(iii) Only those contractors should be engaged who are having separate PF Code numbers and they should comply with the provisions of various statutory provisions;

(iv) All Sham contracts i.e., contracts which attract the provisions of Section 10(2) of the Contract Labour (Regulation & Abolition) Act may not be renewed.

(v) Labour who have attained the age of 58 years should not be engaged by the Contractors; No replacement is to be made against any such wastages;

(vi) Divisions may also consider introduction of mechanization in suitable measures, awarding contract for the total work by way of service contract by indicating comprehensively scope of work to be carried out rather than number of labour required;

(vii) Distancing of HAL employees (Executives & Workmen) from the Contract Labour be done by :-

(a) Supervision of contract labour is to be made by supervisors of the Contractors only

(b) Deployment of the Contract labour by the

5. Keeping the above aspects in view and to safeguard interests of HAL against any adverse impact on this account, the Divisions should critically review the issue and effectively reduce the number of existing contract labour - SCLs & TCLs, to the extent of at least 15%, by adopting various measures like mechanization, clearly defining the scope of work and other ways as brought out in para 4 above, at the time of entering into fresh contracts from now onwards.

6. Action plan drawn out by Divisions in this regard may please be intimated to me by 15th December 1997, positively.

(HAL/P&A/20(18)-3/PF/96/1266 dated 17 Nov 1997)

2.2 Engagement Of Casual Labour/Term Contract Labour Etc

As you would recall, the implication of engaging contract Labour/Continuing with the Contract Labour System, as a result of the following developments, was discussed in the Directors Meeting with the Chairman on 1/2nd March 1999 :-

- (i) Judgement of the Hon'ble Supreme Court in the Air India Statutory Corporate Case;
- (ii) Central Government becoming the Appropriate Government for Central PSEs, for the purpose of the Contract Labour Regulation and Abolition Act, consequent to the above Judgement;
- (iii) Prohibition of the Contract Labour System in Sweeping, Cleaning, Dusting and Watching of Buildings vide Central Government Notification No SIO 779(E) dtd 9-12-1976, which is applicable to HAL now, consequent to (i) and (ii) above.

2. After discussions, the following decisions were taken:

- i) Divisions should scrupulously follow the guidelines contained in Corporate Office letter No JHAL/P&A/20(18)-3/PF/96 dated 7th Nov 97 in dealing with the Contract Labour System. IN particular, it should invariably be ensured that:-
 - a) Regular Workmen and CL/TCL/SCLs are not employed/engaged for the same/similar work in the Division/Office.
 - b) Contracts are awarded only to register Companies/Firms who are having their own permanent employees and who satisfy the following criteria:-
 - Who have own Terms and Conditions for employing Permanent Labour;
 - Their employees are issued with regular offers of appointment etc;
 - Whose employees are transferable from one company to another (i.e. Labour not engaged exclusively for HAL) etc.

It was felt that once Contracts are awarded to such Companies/Firms only, requirements of complying with various Statutory Provisions (like PF, ESI etc) would automatically be taken care of by those Companies.

- ii) If existing Contractors are fulfilling the specified conditions, they can also be considered.
- iii) Tender Documents should be drafted in such a way that all the specified requirements are taken care of. Scope of Work to be clearly spelt out in the documents. Number of Workmen should not be mentioned anywhere. Quotations should be invited only for Companies/Firms who meet the specified conditions.
- iv) Existing Contracts, when renewed, should also conform to the specified Parameters.

3. In addition to the above general approach, the immediate problem of Contract Labour in the prohibited areas of Sweeping, Cleaning, Dusting and Watching of Buildings was also discussed at length. Though the matter has been taken up with the Government seeking exemption from the 1976 Notification and also for possible withdrawal of the said Notification(Scope's Review Petition before the Hon'ble Supreme Court also refers), it was felt that we should evolve our own clear cut approach in this regard. Number of alternatives including interactions with the existing contractors, interactions with Firms like Sulabh Shouchalaya, Joint Venture Company, Subsidiary etc were discussed. While these avenues are to be explored to reach a long term solution, as an immediate step, it was decided that future Contracts in these areas should also be given to the registered Companies etc, who fulfill the laid down parameters only.

4. The issue being very sensitive, which would have far reaching implications, Chairman had advised MDs to take all necessary steps in this regard, through their GMs in consultation with GM(P&A), Corporate Office.

5. Further, it was also decided that there should be no increase in the strength of Casual Labour/Term Contract Labour, if any, engaged by the Divisions/Office.

6. You may take further necessary action in this regard, accordingly.

(HAL/P&A/20(18)-3/PF/99 dated 24 Mar 1999)

2.3 Guidelines On Service/Term Contracts And Their Extension

1. A large number of service contracts are being undertaken by the Divisions and other offices wherein a large outlay of company finance is

involved. The types of such contracts undertaken in HAL are:-

- (a) Horticulture Maintenance
- (b) Sanitation and House Keeping Services
- (c) Canteen Services
- (d) Supply of Canteen Grocery/vegetables/horticulture materials
- (e) Transport Contracts
- (f) Contracts for drivers
- (g) Annual Maintenance Contract for Computers
- (h) Term Contracts for Operation and maintenance of Generators
- (i) Miscellaneous job contracts of civil Works of Plant Maintenance
- (j) Cargo contracts
- (k) Term contract of civil works and plant maintenance

2. The study carried out on certain contracts has revealed that though the contracts were initially awarded for a particular period, they were thereafter successively extended on the following grounds:-

- (a) Provision in the contract conditions for initially awarding the contract for one year term and then extendable mutually for another year.
- (b) Delay in initiating tendering action for fresh contract prior to the expiry of previous contract.
- (c) Entire quantities of contract on works not executed within the contract period.
- (d) Progressive requirement of regular/routine repair complaints on civil/ plant maintenance works.

3. Extensions of contracts in such a manner may result in the loss to the Company due to the following main reasons: -

- (a) In certain contracts it was observed that estimates have not been prepared by the department at all and in the absence of a realistic estimate, the offers from the contractors is not evaluated reasonably. In certain cases the L-1 quote has been taken as estimates and even in few cases, some arbitrary percentage is added to indicate working out of estimates, which is highly irregular and results in huge losses to the Company. The very fact that the contractor has agreed to extend the previous contract on same terms and conditions much beyond its original contract period and value, indicates that at the first instance itself the contract would have been awarded at a higher margin to him.
- (b) The liberalized environments, recession in market and growing

competitiveness if not taken into account by way of fresh tendering the, Company may continue to loose money on account of higher value of extended contracts primarily due to non-preparation of proper/realistic estimates and inadequate competition at the time of initial tendering process.

4. Considering the financial implication in extending such contracts, on grounds mentioned in para 2 above, it is necessary to analyze the extension of contracts in a exhaustive manner by taking into account the aspects of the transparency in contract administration, cost effectiveness and also minimizing statutory liability of the Company on labour oriented contracts. It is, therefore, necessary that following guidelines are adhered to while handling extension of time of contracts:-

(a) The period of contract must be explicitly specified in the contract for one year or two year as the case may be. By specifying a definite contract period, the price offer received will be more competitive as the contractors will know the period of business which eventually could bring down the overheads in quotes. This will also obviate the chances of any malafides attributable to the contract handling person and likely favour, which could be extended to a particular contractor by way of repeated extensions.

(b) Provision/clause such as "extendable by another year by mutual agreement" should be removed/discontinued in future tenders, effective from the date of issue of this letter.

(c) Tendering for the fresh contract should be taken up by the Competent Authority well in advance as per the time frame required for notification and finalization of tenders as per procedures laid down in Works and Contracts Procedure and Purchase Manual, which should be minimum 3 months prior to the termination of the current contract. Since CVC guidelines lays down banning of negotiations other than L 1 party (Refer CVC letter No 8(1)(h)/98(1) dated 18 Nov 98), there are chances of certain unscrupulous parties not reducing the quotes during the negotiation stage, it would be prudent to cater for time required, if any, for the re-tendering process.

(d) Labour intensive contracts such as sanitation and housekeeping and horticulture maintenance wherein the minimum wages and statutory payments constitute the major portion of the contract amount, should invariably be framed with definite time period as most of these contracts have provision for catering the future increase in wages/statutory payments within the quoted amount of the contract. This eventually leads to higher quote due to the present practice of repeated extensions of the contracts since the quotes are based on

assumed future increases in minimum wages/statutory payments. It is desired that such contracts are not extended beyond their specified periods.

5. However, there can be certain unavoidable circumstances, wherein the Competent Authority feels that the extension of a particular contract will be financially beneficial to the organization and decides to extend the contract. In such cases, which should be exception rather than a routine, the initiating authority in his note shall make a speaking order giving very clearly the financial advantages the company shall have by way of extension and a certificate to the effect that "There is no financial loss to the Company on account of extension of time upto" should form part of the approval note, initiated by the concerned department handling the contract, which should be duly concurred by Finance and approved by the Competent Authority empowered to grant such an extension of time as per delegation of powers.

6. Detailed guidelines on award and execution of transport contract is enclosed at **Appendix-A**.

APPENDIX- A (Refer Para 6 to HAL CO Letter No. HAL/CO/VIG/47/2001/465 dt. 12 April 2001)

Guidelines On Award And Execution Of Transport Contract

1. Award of Transport contract should be on Kilometer basis, rather than lump sum. Award of contract on Kilometer basis is advantageous to the company, since vehicles are not required by the Divisions throughout the day. Following aspects may be considered while preparing the estimates:-

- (a) Fixed Cost
 - (i) Capital cost! Interest
 - (ii) Motor Vehicle Tax and/or Insurance
 - (iii) Crew wages
- (b) Variable Cost
 - (i) Fuel and lubricants
 - (ii) Spares
 - (iii) Labour charges
- (c) Capacity of the Bus

2. NIT should clearly specify the number of buses required by the company and the make of the buses. It should also specify that the tenderer should have all the buses on his own name, as on the date of submission of tender.
3. Under no circumstances, a party should be allowed to engage the buses of other parties including those who are party to the tender.
4. In case of partnership firms, the buses should be in the name of the firm, not in the name of individuals.
5. The tenderers should have proven record of executing similar contract in large industrial establishment/organisation for at least 5 years.
6. In case the contract is not based on Kilometre basis, NIT should clearly specify whether buses required are on full time basis or only during specified timings, in which case only variable cost should be paid.
7. The tenderer should furnish details pertaining IT clearance.
8. The party should be financially sound.
9. Clause for proportionate deduction from the bills should be introduced for Sunday/ Holiday/un-utilized days.
10. The contractor should produce receipts for all taxes paid, along with his bill submitted for payment failing which payment may be withheld.
11. Penalties for late arrival of buses should be proportionate to the man-hours lost due to late arrival of buses.
12. The committee of technically competent persons should be formed to assess the tenders and hold negotiations with the lowest tenderer.
13. At any cost, negotiation should not be held with other than L-1. In case the negotiations with L-1 does not yield acceptable result, retendering could be ordered, in this connection please refer Para 2.4 of CVC letter No 8(1) (h)/98(1) dt 18 Nov 98, 98/ORD/1 dt 15 Mar 99 and 98/ORD/1 dt 24 Aug 2000(enclosed)
14. Preference should be given to State owned transport corporation or other Public Sectors in the award of contract. However, equal opportunity should be provided to all parties to have better competitive quotes.
15. A proper record should be maintained for issue of documents and receipt of tenders from the parties. A committee should be constituted for this purpose. Please refer Para 1 (a) of HAL Corporate letter No

HAL/CO/VIG/64/23 dt 06 January 2000(Check under the heading Common Irregularities in Works-Observations by CTE- Instruction regarding).

16. Prior to issue of tender documents, the credential of the parties should be verified in order to avoid any litigation or formation of cartel.

17. The contractor should provide vehicles with fuel and driver.

18. The vehicle should give trouble free performance and should be always kept clean and hygienic..

19. All vehicles should be registered with appropriate RTO authorities for movement in any part of the city and should have white and black registration board.

20. In case of accident/breakdown, the contractor should attend the formalities, with Traffic Police, RTO authorities as well as court proceedings including Motor Vehicle Act claim, if any and the contractor should provide alternative service on all such occasions. HAL should not be made to bear any expenses in this regard.

21. Each vehicle should be provided with one log book to record the mileage/Kms covered and for the time taken.

22. The contractor should ensure that vehicles ply only on HAL authorized routes specified for each vehicle as per route survey and no deviation/violation is permitted.

23. Circumstances beyond control viz VIP visits, Traffic obstructions, riots disturbances enroute, and other reasons beyond control should be brought to notice immediately.

24. Contractor should submit a list of vehicles with Registration No earmarked for this contract to the Transport Department for identification, with copy to Purchase Dept. In advance, the replacement vehicle Registration No. is also to be informed.

25. The drivers should be polite with pleasing manners, Co-operative and disciplined and should not be drunk, smoke while on duty and drivers should have proper and valid driving license.

26. The drivers should keep up punctuality while reporting for duty at the pickup/dropping points. A minimum waiting period should be allowed while picking up/dropping points.

27. In case of break down/accident en-route the driver should immediately

inform over phone about the incident to HAL transport authorities as well as the contractor to make immediate alternative arrangements to transport the officers/pass holders and for other needful action.

28. The contractor will be held responsible for proper conduct, behaviour and safety of drivers and HAL will not be in any way responsible for the improper conduct, behaviour of the contractor's drivers/staff.

29. The contractor should arrange any extension of route if required by HAL as and when need arises.

30. HAL will not be responsible for any loss, damage, loss of life of contractor's drivers and any others' in case of accident. MACT/any other compensation should be settled by the contractor himself through his own means.

31. The contractor should ensure that unauthorized passengers are not picked up by the drivers while transporting of officers/pass holders enroute.

32. The contractor should ensure that comprehensive insurance coverage is provided to the officers/pass holders on the board.

33. The contractor should provide required staff at HAL premises to ensure proper operation of the trips and maintain the schedules.

34. Distance covered in Kms as per schedule route to be certified by our Transportation allocation in-charge at the end of each trip.

35. Bills in triplicate duly certified by our Transport authorities for the total distance covered by each vehicle in each month with satisfactory performance should be sent to Purchase Department before 10th of each month for scrutiny and payment action.

36. The rate quoted is firm throughout the period of the contract and no increase in rate what-so-ever is applicable. General terms and conditions of the HAL contract wherever is applicable will be applied.

37. In case of any unpunctuality because of break-down or for any other reason attributed to contractor and if such delay is more than 30 minutes at the original point HAL is entitled to pay only 50% of the hire charges. In case of non-operation for reasons attributable to contractor, HAL is entitled to recover from the Bill, cost of the trip and penalty as decided by the committee thereof for the trip missed.

38. In the event of any upward price revision of Diesel by Government of India and any other levies imposed, the same will be negotiated for proportionate increase or decrease on kilometer basis, worked out on

average per kilometer to a litre.

39. Care should be taken to prevent Cartelization of transportation contracts through submission of tenders under different names, at times they belong to a single family which lead to monopoly over services at the cost of genuine tenderers.

40. Verification of experience and ownership certificates of transporters should be carried out to prevent induction of inexperienced parties not owning the required fleet of trucks.

41. Failure to take note of consistent acts of malpractices by the transport contractors results in loss to the Company. The same should be monitored and prompt action should be taken.

42. Security Dept of the Division should be made responsible for maintaining records for physical reporting of buses. Reports about late arrivals should be submitted by Security dept to the Finance Deptt with a copy to Transport/Admin Deptts for effecting necessary recovery. The Security Dept will also conduct surprise checks of driver, cleaner, driving license, RC book, insurance, fitness, No of bonafide travelers etc in co-ordination with Transport/Admin Depts.

43. The contractor at the time of agreement should intimate in writing about any supervisor, if appointed, to P&A, Security and Finance simultaneously.

44. In contract price, escalation factor should be assessed carefully from financial angle.

45. The contractor should remit Security Deposit as per Para 18 & 19(Page 29) of HAL Works and Contracts Procedure Manual, which will not earn the party any interest and principal amount will be refunded at the end of the successful completion of the contract.

46. Security Deposit will be forfeited for any default or non-completion of contract.

47. HAL will have the right to cancel/stop the contract increase/decrease the number of vehicles required at any time without prior notice and without assigning any reasons and corresponding amount will be paid/deducted to/from the contractor's bill.

(Above is Para 6 to HAL CO Letter No. HAL/CO/VIG/47/2001/465 dated 12 April 2001)

2.4 Codification Of Service Contracts Awarded By HAL

1. Refer this office letter No HAL/CO/VIG/47/2001/465 dt 12 Apr 2001.

2. It is seen that HAL has quite a few service contracts, which are awarded year after year. A list of such contracts is enclosed at Appendix 'A'. It is noticed that there is no codified manual or instructions for handling these contracts and staff in the Divisions is left to handle these contracts based on the HAL Purchase Manual, Works & Contract Procedure Manual, DOP and individual experiences. During the routine vigilance inspections and system study conducted on service contracts, following are noticed:-

(a) No uniform procedure is followed in the Company, and at times even within the Divisions, which is due to lack of unambiguous guidelines/instructions .

(b) Due to lack of codified procedures/guidelines, the staff ends up making recommendations which come under observations of Government Audit, System & Audit, as well as Vigilance. This leads to avoidable waste of time in answering queries, unnecessary harassment and delay in execution of contracts.

(c) In some cases non-existence of codified procedures/guidelines leads to malpractices by unscrupulous employees resulting in pecuniary losses to the Company.

(d) In few instances CBI has taken up cases in the recent past which has resulted in avoidable demoralization and loss of faith in the system by the honest employees, resulting in play safe technique being adopted.

3. In order to overcome the above problems and to ensure that the Company does not lose precious time and money, there is an urgent need to codify procedures for various service contracts. Considering the long list of service contracts being handled by the Company, there is a need to distribute preparation of procedures of these service contracts Complex-wise. Accordingly the type of service contract to be codified is listed against each Complex as per Appendix 'B'. Documents prepared by the Complex should be complete in all respects for the particular group of service contracts comprising procedures and formats compiled in a book form. You are requested to please direct your GMs to have it prepared and send it to the undersigned by 31 Aug 2001 for compilation in a book form. It is requested that besides sending these details in a book form (hard copy) the data may please be sent on a floppy (worked on MS-WORD) for working on computer in this office.

Service Contracts In HAL

Appendix `A'

1. Transport Contracts.
2. Cargo Contracts related to transportation of goods.
3. Fire Alarm Systems.
4. Industrial/Office furniture repairs.
5. Sanitation and Housing Keeping Services.
6. Horticulture Maintenance.
7. Access Configuration/ Attendance System.
8. Lifts/Cranes/Hoists.
9. Mechanical Transport on hire.
10. Other labour intensive service contracts in Factory/Township.
11. Contracts for Drivers.
12. Term Contracts for Operation & Maintenance of Generators and Compressors.
13. Miscellaneous job contracts of Civil Works and Plant Maintenance.
14. AMC for Computers.
15. Office Equipment (Photocopier, FAX machines, exchange/ EPABX, Telephones, Air Conditioning equipments etc).
16. UPS System.
17. CNC/NC Machine.
18. Water supply installations and distribution (Operation & \ Maintenance).
19. Effluent treatment plants/sewage treatment plants and Water recycling plants (Operation & Maintenance).
20. Air Conditioning installations maintenance/operations.
21. Canteen Services (Labour contract).
22. Supply of Canteen Grocery/vegetables/horticulture materials.
23. Annual Contract for providing Security Guards.
24. Operation of Incinerators.

Appendix -B

Complex Wise List Of Service Contracts For Codification

List A (MiG Complex)

1. Horticulture Maintenance.
2. Access Configuration/ Attendance System.
3. Lifts/Cranes/Hoists.
4. Mechanical Transport on hire.
5. Other labour intensive service contract in Factory/Township.

List B (Bangalore Complex)

1. Contracts for Drivers.

2. Term Contracts for Operation & Maintenance of Generators and Compressors.
3. Water supply installations and distribution (Operation and \ Maintenance).
4. Effluent treatment plants/sewage treatment plants and Water recycling plants (Operation & Maintenance).
5. Air Conditioning installations maintenance/operations.
6. Canteen Services (Labour contract).
7. Supply of Canteen Grocery/vegetables/horticulture materials.
8. Annual Contract for providing Security Guards.
9. Operation of Incinerators.
10. Other labour intensive service contract in Factory/Township.

List C (Accessories Complex) .

1. Fire Alarm Systems.
2. Industrial/office furniture repairs.
3. Transport Contracts.
4. Cargo' Contracts related to transportation of goods from stores.
5. Sanitation and House Keeping Services.
6. Miscellaneous job contracts of Civil Works and Plant Maintenance.
7. Other labour intensive service contract in Factory/Township.

List D (Design Complex)

1. AMC for Computers.
2. Office Equipment (Photocopier, FAX machines, exchange/ EPABX, Telephone, Air Conditioning equipments etc).
3. UPS System.
4. CNC/NC Machine.
5. Other labour intensive service contract in Factory/Township.

(HAL/CO/VIG/47/2001/690 dated 04 Jun 2001)

2.5 Complaint from Contract Labour req. – PF contributions

1. Corporate Office is in receipt of a complaint regarding non-deposition/transfer/settlement of PF amounts Contract Labour engaged by different Contractors to whom works are awarded by various Divisions. The Complainants have also expressed the apprehension that huge amounts of PF Contribution (from the employed & the employee) are not being deposited with the Statutory Authorities/not credited to their PF Accounts, etc.
2. Complaints of above nature and the difficulties/hardships being faced by the Contract Labour regarding deposition of the contribution to the respective PF Accounts, difficulties in transfer, settlements etc., project a negative image of the Company as the principal Employer, apart from being oblivious to the difficulties

of the concerned Contract Labour. Non – compliance of such obligations will entail serious sanctions to the Divisional Head.

3. HAL has prescribed elaborate procedures to be followed regarding remittances of Statutory payments by Contractors vide Corporate Office letter No. HAL/P&A/20(18)-3/05 dated 24.03.2005 that would obviate the need for complaints of the above nature. The Divisions/Offices are required to ensure recovery of statutory payments, their timely remittance to the concerned Authorities etc.,.

4. Accordingly, Divisions/Officers are advised to take necessary action to ensure remittance a statutory payment to the respective accounts with Statutory Authorities as envisaged in the prevailing instructions.

(HAL/P&A/20(18)-3/12 dated 02 Feb 2012)

2.6 Complaint form Contract Labour regarding settlement of PF dues

1. Copies of the following letters, which are self-explanatory, are enclosed.

(i) Letter No. HAL/CO/VIG/62(8) 2011/386 dated 13.02.2012 from CVO, HAL addressed to Addl. Central PF Commissioner, Bangalore;

(ii) Letter No. EPFO/ACC(K&G)/BNG-4/1368/2011-12 dated 20.02.2012 from the Addl. Central PF Commissioner, addressed to the RPFC, Bangalore & Officer In-Charge, Sub Regional Office K R Puram,, with a copy to CVO, HAL.

2. Necessary Co-operation may be extended to the PF Authorities during their visit, ensuring attendance of the respective Contractors and production of necessary records etc. by them.

3. Further, as the principal Employer, HAL needs to ensure compliance of all statutory requirements, by the Contractors, including timely remittance of PF & ESI contributions to the respective Authorities.

4. You are requested to advise all the concerned in the Divisions under the Complex, suitably please.

(HAL/P&A/20(18)-1 dated 02 Apr 2012)

3. SUB-CONTRACTING

3.1 Long Term Business Agreements

Majority of HAL's project purchasing is on proprietary basis from foreign manufacturer / licensors/ primary vendors/sources etc. Thus, there is very little

scope for buying based on competitive tendering. Most of our requirements for production, repair, overhaul etc. are of repetitive nature. In spite of these specific features of our project purchases, it has been observed that our purchasing is mainly based on individual enquiry, offer & ordering thereof. Such a system of purchasing will lead to extra effort/manpower, enhanced cycle time, high procurement cost and still may not lead to the best price. Thus, there is need to enter into long term business arrangement with maximum no. of suppliers which will lead to following benefits:

- Better price & terms/ conditions
- Reduction in cycle time
- Improved vendor relationship
- Reduction in procurement cost & effort

2. Although this issue has been discussed & appreciated in various forum, very little effort has been put in this direction by most of the Divisions. In order to achieve tangible results in this area leading to material cost reduction & efficiency in purchase, the following course of action is required to be followed:

- (a) Divisions should furnish a list of 'A' class vendors based on descending order of annual value of purchases from whom procurement is made on proprietary basis. The vendors with whom long term business agreements are proposed to be entered into in the first instance may also be indicated.
- (b) List of existing long term business agreements, if any, with copy thereof may be furnished. Thereafter, monthly progress report on the effort & result of new agreements need to be forwarded to Corporate Office in the format as per Annexure-I.
- (c) In order to obtain maximum benefit to the organization by bulking the requirement for common vendors, if require such agreement may required to be entered into at Complex/ Corporate Office level.
- (d) An annual target for purchase through long term agreements with year to year increase like 10% in 1st year, 20% in 2nd year & so on is required to be fixed.
- (e) Reduction in Material cost achieved through purchasing through long term agreements should be quantified with supporting data & the same needs to be furnished.

The above information with the first return should be furnished to the Dy. General Manager (Commercial), Corporate Office latest by 15th Dec 97 and thereafter by the 10th of every month for report upto proceeding month.

(CD/440/ZB-6/97/582 dated 19 Nov 1997)

3.2 **Guidelines For Indigenization & Sub-Contracting**

INTRODUCTION

1. Sub-Contracting is a form of off-loading part of Company's work or certain activity to outside agency in private/public sector when work load is beyond in-house capacity and increase of capacity is not justifiable due to techno-economic consideration. This includes reservation of available in-house capacity for crucial & more difficult items. Sub-contracting covers machining, grinding, milling, turning, casting, fabrication and further processing like heat treatment, plating etc.

2. Indigenization is development of substitutes for imported raw materials, aeronautical systems/components by outside agencies in private/public sector having required specialization, either as design/development contracts or development contracts to Company's design/specification justifiable techno-economically or need for self reliance.

Selection Of Vendors

1. Selection of vendors for the type of work indicated above is extremely important. To achieve the desired result, extensive market survey shall be carried out through normal procedures of open advertisements/or by inviting offers from known sources in the country/ abroad if so required. It shall be ensured that the vendor has adequate facilities, management systems, engineering systems, quality systems, reasonable skills, reliable track-record and financial soundness & stability. These can be assessed either by obtaining documents from the probable vendors or by visiting their works if found necessary.

General Principles For Source Development

1. The following number of vendors may be developed for indigenization/sub- contract work depending upon the value per annum per item:

Category	Annual requirement In value per item	Suggested number of Sources
Indigenization	Upto Rs 20 lakhs	1
	Above Rs 20 lakhs but less than 50 lakhs	2
	Above Rs 50 lakhs	3
Sub-Contracting	Upto Rs 5 lakhs	1
	Above Rs 5 lakhs but less than Rs 10	2
	Above Rs 10 lakhs	3

2. Having successfully developed source/sources by normal commercial procedures, it must be ensured that orders are placed on the same source/sources without resorting to further tendering but based on rate contract or on a mutually agreed price/price escalation.

3. In case of items requiring two or more sources and in case of succeeding in the development of only one source in the initial attempt, efforts must continue for developing second/third source as the case may be. However, bulk order should continue to be placed on the first source developed and only trial orders on the others until the second or third source is established.

4. While all efforts should be made to sustain and ensure growth of the source/ sources developed, further tendering for the same item should be resorted to only in case of following :

- (a) If there is a tendency for slippages in delivery/quality.
- (b) Non-adherence to agreed prices.
- (c) Inability to meet delivery of the quantity required by the customer due to capacity constraints.

(HAL/CD/617/99/1183 dated 24 May 1999)

3.3 Long Term Business Agreements

Reference is made to instructions issued vide CD/440ZB-6/99 dated 17 Nov 1999 on the subject. The instructions clearly specify the Divisions to enter into Long Term Agreements where there is clear visibility about the requirements based on consumption pattern, repair and overhaul task/forecast projected by the customer as per approved firm & forecast tasks.

2. Chairman has directed that Divisions must explore the possibility of indigenous development of items, keeping in view of Long Term requirements and obtain prior approval of Chairman before proceeding with any LTBA proposal with foreign vendors.

3. The Divisions must comply to above instructions and are advised to consider all techno/economical aspects before considering an LTBA with foreign vendors.

(HAL/CD/617/2002 dated 3 Oct 2002)

3.4 Selection of Sub-contractor

1. In certain cases of Defence Sector and power Sector mainly related with the turnkey projects, the Commission has observed that the process of selection

of sub-contractors by the main contractor lacks requisite transparency. In such cases, it is found that the principal (client) incorporates a condition in the bid documents stating therein that the sub-contract cannot be give to any vendor without the approval of the principal. At the time of selection of sub-vendor, the principal accepts or rejects the firms arbitrarily, thereby misusing the provisions of the contract.

2. In order to make the process of selection of sub-vendors more transparent, the condition of seeking prior approval from Principal for selection of sub-vendors should be dispensed with. However, to ensure that the work is sub-contracted to a genuine and reliable firm, the principal may specify a suitable qualification criteria and may even suggest an approved list of sub vendors to the main contractor. In cads the main contactor happens to be a PSU company, the selection of sub vendor may be done preferably by calling open tenders or through limited tenders from the empanelled firms meeting with the qualification criteria specified by the principal. The list of sub vendors given by the Principal may also be added to the existing panel of sub vendors so as generate adequate competition.

(CVC Letter No. 2 EE-1-CTE-3(Part) dated 24 May 2005)

3.5 Long Term Business Agreements

1. Reference Material Management Circulars 22.
2. Following is deleted from Para 2:

“and obtain prior approval of Chairman before proceeding with any LTBA proposal with foreign vendors”

3. Further, in case LTBA has projections of quantity which will be ordered by HAL annually under the agreement, it should include provision for adjusting the annual ordering quantity according to the requirements to provide for variations between the forecast ROH task, firm task and actual inductions.

4. All LTBA are subject to Para 7.9 of Delegation of Powers 2002, reproduced below:

“With regard to entering in to LTBA's with vendors for recurring requirement of items, the appropriate CFA for approval of LTBA would have to be reckoned in line with the value of total requirement during the period for which duration the LTBA is being finalized”.

(HAL/CD/617/2006 dated 4 Jul 2006)

3.6 Procedure For Outsourcing / Sub-Contracting Of Tooling, Components And Assemblies

Policy

1. In the fulfillment of their mission and goals, the Divisions shall consider outsourcing of its workload where such outsourcing could improve efficiency and effectiveness and allow the Divisions to dedicate itself to its core mission of meeting the annual production targets.
2. The Divisions will undertake outsourcing with care and due diligence. Proposals to outsource will include a cost benefit analysis that takes into account both economic and technical factors.
3. **“Full utilization of available facilities/ Capacities” shall** remain the guiding principle for any outsourcing decisions.
4. Outsourcing may be resorted for any of the following reasons:
 - (a) Lack of internal capacity for the outsourced work
 - (b) Lack of time to complete the task
 - (c) Non-availability of Facilities for the intended Outsource work
 - (d) Savings in cost
 - (e) Reduction in cycle time of the final product
 - (f) Any other reasons, to be recorded.

Market Exploration and Registration of Sub-Contractor/s

5. In case of work, for which sub-contractors are not already registered with the Divisions, or in case of additional work, where adequate number of subcontractors are not registered, Divisions shall carry out intensive market survey. For this purpose, the requirements shall be put up on HAL website in detail. Further, if considered necessary, Vendor Directory of similar industry within MoD may be referred. Further, press advertisements, if necessary, may be issued as laid down in Purchase Manual, for issue of open tenders.
6. Vendors desirous of registering shall be issued with an application form for registration as Sub-Contractor. Copy of the Draft application format is placed at Annexure-I. Application form shall also be made available on HAL Web Site for intending Sub-contractors to download and apply. The advertisement / invitation to register must clearly specify the department / agency, to whom the application forms need to be submitted.
7. Vendors, who seek registration on their own, may be asked to provide information in the prescribed application form (Annexure 1) and considered for registration.

8. Application forms complete in all respects and received by the Division shall be evaluated by a Committee nominated by GM for the purpose, consisting members from appropriate technical disciplines, Quality Control Dept., head of Outsourcing & Finance or their authorized representatives. Divisions will ensure that, for registration of Sub- Contractors, complete information as per the prescribed format is insisted upon and is obtained.

9. After preliminary screening of the applications received from intending Sub- Contractors, the Committee may visit the vendors' works, if considered necessary, for better assessment of their technical capabilities and financial strength / standing before registration. In the case of assessment of subcontractors for the manufacture of airborne/ aeronautical standard components / assemblies, it is suggested to include CRI representative also in the Committee visiting the vendor's works. The Committee shall evaluate the intending sub-contractors for registration considering the following criteria:

- Facilities available with the sub-contractor for manufacture of tools, components and assemblies
- Experience of the sub-contractor in the manufacture of tools, components & assemblies etc.
- Past performance of the sub-contractor if registered / dealt with previously.
- Adequacy of systems and procedures
- Elimination of sub-contractor who do not have their own main facilities for the intended job
- Elimination of vendors not conforming to quality standards (based on past performance).
- Financial Standing
- Profile of customers; if required feedback regarding subcontractor's performance / credibility may be obtained directly from the customers.
- After sales organization & depth of service

10. The Committee shall also record reasons / justification for the subcontractors rejected/ not considered for registration. The Committee shall categorize the sub-contractors according to their capabilities / interest as suppliers of Cutting tools / Jigs and Fixtures/ Press tools / Ground Handling Equipment or Sheet metal / Machined (general purpose / CNC) / nonmetallic components, Sub-Assemblies, Assemblies etc. The Committee shall make recommendation for registration of the sub-contractor as per sample format Annexure - II. Documents used for registration of Vendors are to be properly maintained for future access & verification. The process of registration shall be completed in shortest possible time, but in no case, later than 2 calendar months from date of application. If, for any reasons, such process is taking longer, the applicant sub- contractors shall be informed.

11. Divisions need to shortlist 5 – 10 Sub-Contractors for each category of items to ensure availability of good Sub-Contractor base to take the load and also generate adequate competition. Data collected during registration process and assessment of Sub-contractors is to be shared with other Divisions, to avoid duplication of efforts. All the Divisions would exchange the list of shortlisted Sub-Contractors.

12. A vendor, who has been registered as a sub-contractor with any of the Divisions of HAL, shall be considered for registration as approved supplier by other Divisions for similar / same family of items without resorting to the formality of fresh application and scrutiny. If necessary, records may be called for from the Divisions who have registered them. However, if one Division has registered a vendor for 'tooling' and the other Division intends to sub-contract 'components', it needs to re-assess the Sub-Contractor for suitability to take up components.

13. Registration of same sub-contractor for more than one category of work is acceptable, provided the sub-contractor has adequate capacity and capability to take up work.

14. As and when a Sub-Contractor informs the Divisions with regard to any material change in the information declared by him at the time of registration, the Divisions shall note such changes and update the records with a view to decide whether the Sub- Contractor can be entrusted with further subcontract work or otherwise. Notwithstanding voluntarily disclosure, i.e., the Divisions need to ascertain any material changes to the information, declared by the Sub-Contractor at the time of registration, at least once in six months and update the records accordingly and share the information with other Divisions.

Directory of Sub-Contractors

15. The respective Division / Office shall maintain a directory of Sub-Contractors registered by them. The directory shall be updated at least once in a year with appropriate additions / deletions depending upon performance of the registered sub- contractors and new registrations done by the Division.

16. For the purpose of a consolidated "Directory of Sub-Contractors", the Divisions shall forward their directory in soft copy by 31st December of each year to IMM at Corporate Office for consolidation and issue of a companywide directory till a system is put in place, whereby Divisions shall access and update a common Vendor Directory on HAL LAN/ WAN system.

17. Divisions shall issue enquiries / RFQs to currently registered sub-contractors only.

Sub-Contractor Rating

18. A Performance Evaluation Committee shall rate the registered sub-contractors, category-wise at least once in a year on their performance on the previous supplies. The responsibility of Sub-Contractor rating will rest with Head of Sub-Contracting Group of the Division. A Committee comprising of Members from appropriate Technical disciplines (Tool Engineering, Production, and Quality etc.), Head of Sub-Contracting Group and Finance or their authorized representative will review Sub-Contractor performance based on quality, price and delivery. The Committee shall rate the performance level of each Sub-Contractor on a scale of 100 on cumulative basis considering weightage for each criterion as follows:

- Quality assessed for 50 marks based on the formula

$$\frac{\text{No. of Items accepted without re-work}}{\text{Total No. of Items received.}} \times 50$$

- Delivery of Items assessed for 30 marks based on the formula

$$\frac{\text{No. of Items received in time}}{\text{Total No. of Items received.}} \times 30$$

- Price is assessed for 20 marks based on the formula

$$\frac{\text{Sub-Contractor Unit Cost}}{1 - \text{HAL estimated cost}} \times 20$$

Weightage on price shall at the minimum be zero and not negative.

19. Sub-Contractors should be classified as Class-‘A’ (performance rating 80% and above), ‘B’ (performance rating between 60% and 80%), and ‘C’ (performance rating less than 60%). The performance rating needs to be communicated to the Sub-Contractor to give an opportunity for improvement, wherever warranted. Future enquiries may not be sent, for the same category of items, to a Sub-Contractor falling under Class-C for two immediately preceding years. In case of a necessity to place orders on a Class-C sub-contractor, the same shall be specifically recorded and performance shall be closely monitored by the Divisions. This information may also be shared with other Divisions.

20. Further, in case of any adverse reports from Vigilance and others for any breach of contract, indulgence in malpractice, fraud by the Sub-Contractor, the Performance Evaluation Committee shall look into the same immediately on receipt of such reports and take appropriate action. Proper records shall be maintained in support of such decision.

Procedure for Out-sourcing

21. Outsourcing shall be considered for clearly spelt out reasons. In case the reason is stated as shortage in capacity, measure of the internal capacity will be based on available man-hours for the specific work centre. Guidelines for determination of internal capacity, in a uniform manner across all Divisions, shall be issued separately by Management Services Deptt., Corporate Office. The guiding principles would be that the capacity needs to be determined taking into account the availability of machines and the manning levels in the Division. Further, the OT hours sanctioned, and the higher efficiency levels attained by the Divisions would also be reckoned for working out the capacity. Instructions being issued by Management Services Deptt., Corporate Office shall be followed in this regard.

Material Sub-contracting Request (MSR):

22. MSR is an authority for outsourcing of tools/components etc. from the subcontractors. Division's Sub-Contracting Cell shall centrally receive all MSRs, raised by concerned departments, like Production Engineering / Methods (for production tasks), Tool Engineering / Methods (for tooling requirements) etc. after due approval. MSR shall indicate drawing number, nomenclature, quantity required and recommended names of the vendors to whom enquiries are to be sent (from the approved register) & likely requirement for next 3-5 years along with year wise requirements. The reason and the necessity for subcontracting the item shall be recorded on MSR and coordinated by the Facility Planning/ Management Services department. No estimates of SMH/ Cost shall be indicated on MSR.

23. Man-hours / estimates required to manufacture the tools / components will be assessed by the management Services / Production Engineering Department in co- ordination with Finance Deptt. Further, Production Engineering Department shall provide assessment of materials & the quantity thereof required for executing each item and with indication of cutting & machining allowances. The estimates, thus prepared, shall be approved by authority approving the MSR. The Deptt initiating the MSR shall be responsible for obtaining approval of MSR and shall send the MSR along with approved estimates (placed in confidential cover) to the Sub-Contracting Cell. The confidential cover, containing the estimates, shall be opened along with the quotes received for the tools / components to arrive at reasonability of the quotes.

Competitive Bidding:

24. For the purposes of issuing request for quotations, selection of Sub-Contractors will be done from Directory of registered sub-contractors only.

25. For Tooling, the enquiries / RFQ shall be issued by Outsourcing

Group (or the deptt. entrusted for this task by the Division) of the Divisions following Commercial procedures indicating type of tool and delivery requirement as per sample format (Annexure - III). Every RFQ shall have sub-contractor's registration number. Division will provide required Tool drawings and other technical details etc. along with the enquiry to all the Sub-Contractors. Sub-Contractors will be required to submit their offer indicating price for fabrication of tool including the material. In cases where HAL needs to give the material for fabrication of tool, the same shall be clearly indicated in the enquiry and the Sub-Contractors would be required to quote only for the labour charges. Sealed offers from registered Sub-Contractors only will be opened following the commercial procedure.

26. Negotiations, if required, may be carried out with L1 Sub-Contractor by a negotiating committee as per DOP and orders placed, with such terms & conditions as agreed upon, as per Commercial Procedure.

27. "Commercial procedure" covers Purchase Manual as well as guidelines issued by way of Materials Management Circulars / CVC guidelines / MoD guidelines etc. issued from time to time.

28. In case of Components & Assemblies, the registered vendors category-wise may be officially invited, if considered necessary, to show the drawings / items proposed for sub-contract, and to explain the important features, requirements, technologies etc. as well as to clarify technical doubts. Thereafter, enquiry will be issued as per the normal Commercial procedure. In all cases of sub-contracting of assembly work packages without exception, and the detailed components, wherever considered necessary, two-bid system shall be followed.

29. The RFQ should include a projection to the Sub-contractor on total number of sets / assemblies planned to be out-sourced over a specified number of years (say 3-5 years) to enable Sub-Contractor quote best price keeping in view the long term requirement. RFQ may also indicate HAL's willingness to enter into a Long Term Agreement with Sub-contractor on satisfactory completion of initial orders considering the recurring and non-recurring costs as well as possible cost reduction due to effect of learning curve.

30. RFQ shall specifically require bidders to reflect the cost benefits in base price accruing on account of learning, improvement in productivity etc. and indicate corresponding reduction in base price in the subsequent batches after the initial development batch.

31. In order to generate adequate competition and a good sub-contractor base, it is suggested to have as many Sub-Contractors as possible (at least 5 Sub-Contractors). However, Para 7.2 of Annexure III of Delegation of Powers,

approved by the Board, provides, that “where the number of available sources of supply is less than five, the number of suppliers to be addressed may be reduced at the discretion of the General Manager”. Accordingly GM, based on a recorded justification, may take a decision.

32. RFQs for sub-contracting must clearly specify, whether BOIs / Raw Material etc. shall be issued by the Division or the sub-contractor is required to arrange for the same on his own. In the later case, RFQ should stipulate that the cost of BOIs / Raw Materials/ Consumables, to be procured by Sub-Contractor, is quoted separately and clearly.

33. Offers received from Sub-Contractors will be evaluated and order processed as per commercial procedures.

Purchase Order Placement:

34. Purchase order will be placed on the selected L-1 Sub-Contractor by the Division in accordance with DoP.

35. General Terms & Conditions of the order are placed at Annexure –IV, as a guideline. However, the purchase order must lay down clearly norms of material consumption, if supplied by the Division, agreement on methodology to regulate the scrap etc.

36. The order should also indicate that go ahead for the supply of pilot batch will be given only after successful manufacture / supply of first off sample and further orders after successful execution of the pilot batch. The order may also include a provision to the effect that a long-term agreement may be entered into for supply of the component, depending upon Sub-Contractor’s performance.

37. While the Purchase Orders are released to the maximum capacity declared by the Sub-Contractor or / as agreed to between the Sub-Contractor and HAL based on competitive bidding, there should be close and continuous monitoring to ensure that the Sub-Contractor is not overloaded beyond the declared / agreed capacity after taking into consideration the mutually agreed delivery schedule.

38. RFQ should stipulate that reproduction of drawings / documents without written permission from the Division is an offence and prohibited. Divisions shall collect back drawings / documents from unsuccessful tenderers. Division may also consider entering into a Non-Disclosure Agreement (NDA) with the successful bidder in the case of assemblies of vital nature.

39. The Sub-contract Order shall clearly indicate the Part No., Description/ Specification, Drawing No. (latest issue), Quantity, Price, Delivery Schedule, Work Order No., and the bill of materials that will be provided by

HAL 'free of charge' as well as those on chargeable basis. If possible, the order will also indicate the details of tools, gauges, Parts/sample supplied on returnable basis. The Production Engineering Dept. will provide assessment of the materials & the quantity required for executing each item and also indicates cutting and machining allowances.

40 In respect of assembly jobs, it is suggested to issue the materials in matching quantities (kits) to avoid delay in executing the order and to avoid inventory built-up at sub-contractor's premises.

41. In the case of component sub-contract, once the component has been proved successfully, it is suggested to place orders for yearly requirement with staggered deliveries. If the requirement of the components exist on a continuous basis for a longer period, say 3-5 years, it is suggested to enter into Long Term Agreement with the same Sub-Contractor and repeat orders placed on the basis of base price (fixed for long term) with reduction considering the benefit of Learning and Technical assistance provided by Division. In exceptional cases, escalation to the base values may be agreed to, before the contract is finalized.

42. Division must take into account the benefits of long term relationship and nurturing such relationships, especially in case of items involving high development costs and areas where there is necessity for taking advantage of Sub-Contractor's specialization and technical expertise. To the extent possible, fresh RFQ from the vendor should be avoided once the component has been proved successfully.

43. Divisions also need to widen sub-contractor base to cut costs and encourage competition between sub-contractors. Necessity for multiple sources, to reduce the risk associated with depending on a single subcontractor, is to be recognized and a well balanced approach is to be taken.

44. Divisions may firm up standard commercial terms & conditions with the Sub- Contractors at the placement of first order, to avoid repetition of the same every time while placing the orders on the same Sub-Contractors.

45. The primary contractor on whom HAL has placed the order should avoid involvement of other sub-contractors in executing the contract. Wherever it is inescapable for the primary sub-contractor to have another sub-contractor for technical reasons to be recorded, specific approval of the competent authority, who approved the contract, should be taken. The Division needs to assess and take a view, if the requirement of primary Sub-contractor to subcontract a part of the work to his sub-contractors, is necessary and acceptable keeping in view criticality of operations and ensuring that key operations are performed by primary sub-contractor.

However, in such a case, the contract with primary sub-contractor must clearly state his responsibilities to quality and adherence to work procedures as defined by HAL as also guarantee for the work done.

Material Supply:

46. As far as possible the Sub-Contractors shall be asked to quote the price for the tooling including the cost of materials. In cases where the materials required for tool manufacture will have to be supplied by HAL, the same would be based on HAL's estimate and such HAL's estimate for material including wastages will be binding on the part of the Sub-Contractor. Such material will be supplied against furnishing an Indemnity bond covering the cost of material in favour of HAL by the Sub-Contractor. The Sub-Contractor will also be required to take a comprehensive insurance policy covering all risks including fire, theft, damages / loss of material etc., while HAL's supplied materials are in his custody and such Insurance Policies will be assigned to HAL.

47. In view of the nature and type of raw materials / items for airborne components / Assemblies, quantity required and to ensure quality, it may be necessary for the Division to supply the raw materials / items of correct specification in required quantities to the Sub-Contractor. Such issues shall be against indemnity bond / insurance cover. The Sub-contractor, in turn needs to ensure that the raw materials / items are classified as aeronautical (bonded) stores and are properly tagged and stored separately to avoid any mix-up with commercial materials. Division must also ensure that the raw material is accompanied by copies of route card, accepted raw material tag (process sheet in case of process developed in-house) etc. For monitoring of storage and consumption, periodic verification of quality of storage and quantity shall be carried out at the Sub-Contractor's premises. Such verification shall be as often as considered adequate, but in all cases at least once in a year.

Assistance to Sub-Contractor:

48. In view of the high quality and accuracies inherent in airborne components / items, Division needs to continuously inter-act with the Sub-Contractor for any assistance required with respect to technologies as well as Special Tools, Gauges etc. for manufacturing the components and provide the same, wherever considered necessary. A proper record of the Tools, Gauges etc supplied to the Sub-Contractor is to be kept and the items collected back once the job is completed.

49. Wherever the material has to be supplied by HAL, proper accounting system needs to be followed for costing, requisition, coding, accounting etc. In case material is supplied by HAL, the rejection allowances and recovery etc. shall be as under:

a) The maximum permissible rejection allowance shall be ___ ___ (to be indicated by the respective Division, taking into account in-house norms). In case the rejection exceeds _____, the cost of raw materials rejected beyond _____ shall be recovered from the Sub-Contractor at prevailing market rate of materials supplied to Sub-Contractor. All rejected materials shall be returned to Divisions by the Sub-Contractor on FOR _____ Division basis.

b) Should the Sub-contractor default for payment towards cost of rejection, the recovery will be affected by the Division from their other pending bills or otherwise invoking indemnity bond furnished by the Sub-Contractor. In such cases, no labour charges / conversion charges will be paid to the Sub-Contractor.

c) Wherever inherent defects are noticed by the Sub-Contractor during machining of raw material and Sub-Contractor has promptly brought the same to the notice of HAL, the Sub-Contractor can be considered for compensation. The extent of compensation would be in terms of labour charges upto the stage of rejection. The labour charges need to be approved by the same CFA who had approved the original order after obtaining the concurrence of the appropriate Finance and based on certification of HAL inspector.

50. Further, in cases where Division procures the material for supply to vendor / sub- contractor, Division needs to avail the tax rebates / duty exemption available to HAL as a Defence Undertaking, wherever permissible.

51. As per the normal practice the transportation of raw material to subcontractor and finished goods to HAL shall be insured under the open policy to cover damage / loss in transit.

Inspection and consequences of rejection

52. Inspection should be carried out preferably at Sub-Contractor's works, and dispatch to HAL should be authorized only after carrying out necessary rectification if any. However, final inspection and acceptance will be at HAL premises only.

53. In case of any deviation, the Inspector shall prepare a report indicating the deviation observed. This shall be examined if required by a Committee consisting of representatives of Quality control, Production Planning, Design & Outsourcing Cell, as per the practice being followed at the Division. The Committee shall recommend the disposal as follows:

a) Accept item with deviation, if the deviation is minor and no re-work is required and interchangeability is not affected or

b) Re-work by HAL and charge the Sub-Contractor for the same. Approval for rework cost may be accorded by the same CFA who had approved the original order after obtaining the concurrence of the appropriate finance. Outsourcing Cell shall advise the Accounts Department and the Sub- Contractor the cost details of rectification to be deducted from the Sub- Contractor's bills.

c) Return the item to Sub-Contractor for rectification and return back within an agreed timeframe.

Bank Guarantee:

54. General Bank Guarantee: Outsourcing cell shall obtain General Bank Guarantee from the Sub-Contractor as under on yearly renewable basis:-

Max. Value (in Rs.) of materials held with Sub-Contractor at any point of time during the year	Value of Bank Guarantee (Rs) (or value of material, Whichever is lower)
Upto 1,00,000	10,000
1,00,001 to 3,00,000	20,000
3,00,001 to 10,00,000	30,000
Beyond 10,00,000	40,000

55. For the purpose of estimating the value of Bank guarantee, the value of materials is based on landed cost including cost of tools (supplied by HAL as well as fabricated by the Sub-contractor and paid by HAL), prototype / samples supplied on returnable basis. The costs need to be got coordinated by the Finance Deptt.

56. Since the value of the Bank Guarantee does not fully cover the cost of HAL supplied material, the value of materials issued to the Sub-Contractors would need to be regulated & monitored on a continuous basis to ensure that the materials are issued progressively against completion of orders and there is no excess stock left with the sub- contractors.

Bank guarantee for advance.

57. Outsourcing cell shall obtain a bank guarantee from the Sub-Contractor for an amount equal to the advance made towards development work, fabrication of tools / components / subassembly etc., which shall be valid till the completion / supply of items Sub-contracted.

Indemnity Bond

58. To cover the value of materials / other items to be supplied by the Division in excess of the Bank guarantee, the outsourcing cell shall obtain an

indemnity bond from the Sub- Contractor valid till required finished items (manufactured out of the materials supplied) and balance if any are delivered to HAL. The indemnity bond shall be in favour of HAL.

Insurance

59. The sub-Contractor shall take an insurance against loss / damage in favour of HAL for the value of materials supplied by HAL.

Ancillary Units

60. Ancillary Units need not provide Bank Guarantee for materials. However, they should furnish indemnity bond and insurance as mentioned above. The Ancillary Units should also furnish necessary Bank Guarantee to cover the advance payment, if any.

Monitoring:

61. Out-sourcing of tooling / components on sub contract basis shall be under the supervision and control of Sub-Contracting Cell of the Division.

62. Considering the stringent requirements and nature of aeronautical industry, Division shall fully support the Sub-Contractors during the initial stages. Division will also continuously interact with the Sub-Contractor for any assistance required with respect to technologies. Divisions will ensure that the tools, gauges etc., given to the Sub- Contractor by HAL are properly maintained / calibrated as per the quality requirement.

63. Division will continuously monitor the performance of each sub-contractor on Quality, Delivery, Price etc., and advise corrective action, wherever required. Persistent failure in timely delivery / quality compliance would entail cancellation of registration and same need to be informed to the subcontractor and as well as other Divisions.

Reporting and Assessment of Sub-Contracting Activities

64. Outsourcing Cell will submit a Quarterly report to the Head of the Division, highlighting the details of extent of Sub-Contracting done with each Sub-Contractor in terms of nature of job, extent of Hours loaded, pending jobs & performance of Sub- Contractor.

65. Savings from sub-contracting can not be separately identified as income. Therefore, the savings should be worked out, on monthly basis and reported, as per guidelines to be issued separately by Corporate Office Finance.

Note:- [For all above annexure details I to IV, kindly refer the letter mentioned below]

(Letter No. HAL/CD/552[1]/2007 dated 14 Feb 2007)

3.7 Procedure for sub-contracting of Tooling/Components

1. Difficulties were being experienced to continuously follow-up and monitor the vendors who were spread across the country. Further, deficiency of sub-contractors in project management and scheduling activities had been causing delays in execution / completion of contracts / orders. A need was felt to allow engagement of Service Providers acting as Tier-I suppliers between HAL and their Tier-II suppliers/manufacturing entities.
2. Accordingly, the procedure for Sub-Contracting has been revised to allow for registration of Service Providers for Out-sourcing jobs and is enclosed herewith as Rev. 03 dt.12 Nov 2009.
3. This supersedes procedure (Rev.02) issued vide Corporate Office letter No. HAL/CD/552(1)/2007 dt. 14 February 2007.
4. The Divisions are advised to comply with/adhere to the laid down procedures.
5. This issues with the approval of Chairman.

(HAL/CD/552(1)/2009 dated 12 Nov 2009)

3.8 Compliance of procedure for sub-contracting of Tooling/Components

1. Reference is made to Para 28 of Procedure for subcontract of Tooling/Components (Rev-03) issued vide Corporate Office letter No. HAL/CD/552(1)/2009 dt. 12th Nov 2009.
2. It is observed from proposals received from various Divisions that MSR along with approved estimates (placed in confidential cover) are not being forwarded to Sub-contracting cell.
3. In view of the above the Divisions are advised to comply with/adhere to the laid down procedure.

(Letter No. HAL/CD/552(Sub-contracting)/2011 dated 16 Aug 2011)

TENDERING

4. NOTICE INVITING TENDERS

4.1 Anti-Corruption Work - Tender Enquiries

Reference is made to Circular No HAL/CO/VIG/47/2000/86 dated 27 Jan 2000 issued by ED (V).

2. ED (Vig) has also clarified that in order to provide level playing field to both categories i.e., local and outside vendors/contractors and to avoid any scope for complaints, Tender enquiries/documents are sent only through Registered Post Acknowledgement Due.

3. Further, utilization of courier services may also be resorted to for forwarding tenders under exceptional circumstances rather than routine. The receipt obtained from the vendor by the courier service should be collected and filled in the relevant enquiry file.

4. The above instructions would be applicable for obtaining quotations for Civil Woks etc., also and should be strictly complied with.

(CD/616(F)/2000/1397 dated 28 Feb 2000)

4.2 Notice inviting tenders

1. The Commission has observed that some of the Notice Inviting Tenders (NITs) have a clause that the tender applications could be rejected without assigning any reason. This clause is apparently incorporated in tender enquiries to safeguard the interest of the organization in exceptional circumstance and to avoid any legal dispute, in such cases.

2. The Commission has discussed the issue and it is emphasized that the above clause in the bid document does not mean that the tender accepting authority is free to take decision in an arbitrary manner. He is bound to record clear, logical reasons for any such action of rejection/recall of tenders on the file.

3. This should be noted for compliance by all tender accepting authorities.

(OFF-1-CTE-1(Pt) V dated the 24 Mar 2005)

4.3 Irregularities Noticed By Chief Technical Examiner (CTE) During Inviting And Opening Of Tenders

1. The CTE during the course of Intensive Examination of one of the

Division of HAL had observed the following lapse:

- a) Time of submission of bids was not indicated in the tender enquiry (RFQ). Further, Date and time of opening of bids was also not indicated. The technical bids were also not opened in presence of bidder's representatives. It was observed by the CTE that in these time of openness and transparency, HAL is following a procedure which is totally non-transparent, highly objectionable and against the sanctity of tender of tender system as there is every possibility of tampering with and interpolation offers and advised CVO to look into this aspect and ensure that a proper system is put in place and adhered to for handling of tenders in a transparent manner.
2. HAL Purchase Manual, chapter – V Para 5.1 and Chapter-VII, Para 7.3 is very clear regarding the tender opening system and other related aspects. The provisions of the Purchase Manual are reiterated below:

Chapter – V. Para – 5.1

- (i) All requests for quotations / tender enquiry must specify “Last date for submission of quotes”. The tender must also state “Tenders received after due date and time shall not be opened and shall not be considered”. This should be prominently mentioned in the tender enquiry. In cases where bidders representative are required to be offered to witness the tender opening, date and time of opening of tender shall also be mentioned in tender/enquiry.

Two Bid System: In this system, the firms are requested to give two separate offers both in sealed covers. It is explained to the vendors that both the offers will be exactly the same, except the offer NO. 1 will have all prices / rates / values blanked out and will be called technical bid. The offer No. 2 will be commercial / complete bid including the prices. Each bid will be put in a separate sealed covers, each marked with tender number due date and as technical bid or commercial bid as the case may be. Both the sealed covers will be put in a single cover, which will be again sealed and super scribed with tender number and due date. On opening date, only the technical bids are opened in the presence of the representatives of the firms, who have quoted and chose to be present. The offer No. 2 (Commercial Bid) will be opened only after technical bids are technically evaluated. The commercial bid of only those firms, whose technical bids are found to be technically acceptable will be opened with due notice to be present for opening, if they chose to.

Chapter – VII. Para – 7.3

- a) Authorized suppliers or their agents who submit tenders are permitted to

witness the tender opening. A record of the tenderers / agents present at the tender opening should be maintained. The officer opening the tender shall read out the important particulars regarding quality, price, etc. and shall prepare an abstract of the tenders received.

b) No amendments to the tenders shall on any account be permitted after the opening of the tenders has commenced. Further, in case two bid system, after opening of the technical bids, the price bids, which are to be opened subsequently, will not be kept as loose envelopes. It is to be ensured that the tender opening officer / committee has signed on the envelopes and the envelopes are placed in a bigger envelope / box duly sealed and signed by the tender opening officer / committee.

4. Further, in view of CVC guidelines, all the NIT (Open/Limited) pertaining to Stores/Purchase and Contracts to be hosted on HAL web-site.

(HAL/CO/VIG/47/2008/272 dated 19 Mar 2008)

4.4 Consideration of the quotations received against RFQ - regarding

In the context of review of proposals referred to Corporate Office for approval, it is observed that there is a need for uniformity in the procedure in dealing with the quotations received from the vendors including the quotes received through Fax and E-mails to ensure transparency in the process. Following guidelines are issued for processing the case in this regard

i) **Due Date For Submission Of Response:-** It is essential to indicate the designated date and time for receipt of tenders in the RFQ and the vendor is requested to reproduce the same in the response to the RFQ. It may be clarified in the RFQ that the tenders which are received after designated date and time shall be liable for rejection. Any tender which is received beyond the designated date and time shall be automatically notified to the Head of Department and the same should be processed in accordance with the instruction vide commercial circular No. 24 dated 03-07-2003

ii) **Quotations Received Through Fax / E-Mail:-** Guidelines have already been issued vide Letter No. HAL/CD/701-A/2000/480; dated 10.05.2000 regarding the acceptance of quotation through FAX / E-mail, compliance of this needs to be ensured. In addition, it is suggested that after opening of the tender and preparation of the comparative statement, the fact of receipt of quotation through Fax or E-mail is disclosed specifically in the case of L1 tenderer.

iii) **Evaluation Of The Offers In Different Foreign Currencies:-**

a) The foreign exchange rates to be adopted for conversion of the

quotes in foreign currency by various vendors shall be the rate valid on the date of the opening of the tender. This rate shall be the TT selling rate as published in the leading newspapers such as Financial Express and the Economic times.

b) The paper clipping should be placed in the file as a back-up document.

c) Should there be a considerable time gap in the date of preparation of the comparative statement and submission of the proposal to the Competent Authority for approval, during which there has been movement in the foreign exchange which is likely to affect the determination of the CFA, the rate of Foreign exchange as at the time of preparation of the case for CFA's approval shall be considered in respect of the selected party. The backup for the rates as indicated above should be placed in the file.

d) In case of necessity where Exchange rate in Indian rupees is not available for a particular Foreign Currency, the cross currency rates as published in the newspaper could be used to convert the foreign currency for which exchange rate in rupees is not available to another currency for which the exchange rate in rupees is available. If this is not feasible, the exchange rate could be ascertained from the Bank.

(DE/100-28/08/212 Dated 9 Jun 2008)

4.5 Acceptance Of Quotations Through Fax/E-Mail Etc.

Corporate Office had issued guidelines vide letter No HAL/CD/701-A/2000 dated 10 May 2000 detailing the procedures to be followed in the case of quotations if received by fax / e-mail etc.

Vigilance Dept has carried out a "System Study on Tender responses from vendors received by Fax/E-mail and other Electronic Media" and have brought out a number of observations which are not in line with the prevailing guidelines/ CO directives.

a) The process of handling tender response received via Fax/E-Mail needs to be properly regulated, monitored and accounted. The CO guidelines in this regard needs to be followed in letter and spirit, to have a system of accountability.

b) Discourage Fax/E-mail quotations in limited tender cases. Only in case of procurement from proprietary manufacturers and single developed sources, the vendors may be given this option to avoid delays to meet emergency requirement; Quotations through Fax/E-Mail may be resorted to only after obtaining approval from Competent

Financial Authority (CFA) with proper justification. Fax/E-mail quotations are to be accepted only in exceptional cases and not as a matter of routine.

c) Receipt of quotations should be restricted to only the FAX machine installed / dedicated in the Head of Dept (HOD) of IMM/Purchase. GM's Office Fax Machine can be used only in case of exigencies, with proper justification and recordings. RFQ should invariably have the exclusive Fax No of the Fax Machine kept in the Office of the HOD IMM/Purchase.

d) The IMM/Purchase Dept should create an exclusive official E-Mail ID with adequate mailbox capacity for receiving quotations, which should be invariably mentioned in all the Tender Enquiries (RFQs) with a special note (Ref Annexure-A). For general correspondence, other than submission of quotations, a separate e-mail to be created and mentioned in all the tender enquiries. The e-mail IDs to be "password" protected and should be changed frequently to ensure information security. Official Fax No/E-Mail ID should be made available on the website.

e) Too many officials accessing tenders received via fax/e-mail should be regulated immediately. A Three Member Committee from Purchase/IMM and Finance (or any other Dept) de-facto headed by the IMM/Purchase HOD should be constituted. The Committee (on daily basis) should be responsible for downloading of quotations, making entries in the register, putting them in envelop, super scribing with the Enquiry Ref No with due date, time and date of receipt of the quotation and thereafter putting it to the HOD of IMM/ Purchase Dept for countersignature and finally dropping it in the tender box. An employee of IMM/Purchase Dept can be nominated for assisting the job. The Committee should also handle the quotations received through Fax. The Committee members should be responsible and accountable for maintaining confidentiality. Only designated/ authorized officers/workmen should have access to the quotations received through Fax/E-Mail. Random selection and frequent rotation of committee members and assistants should be done on periodical basis. A record should be maintained on accessing of E-Mails as per format given at Annexure-B.

f) A proper record of the quotations received via Fax/E-Mail needs to be maintained before the same is dropped in the tender box. Pages of Fax/E- mail Register should be serially numbered and properly authenticated by the HOD in the beginning of the register. (Format of Register is given as Annexure-C).

g) Quotations through Fax/E-mail should be received at a single

point/ place. It is necessary to install the Computer Terminal with Internet connection, Fax Machine in a separate enclosure / room. Fax Machines connected to computer system for uploading of fax messages into the system by default/automatically can be explored. Access to the Fax/Computer Room/enclosure should be strictly controlled with entry only for authorized persons.

h) Accessing the E-mail ID / Mail Box for receiving quotations from a system other than the one installed in Fax Room should not be permitted. In case the Mail Box is accessed from any other system due to reasons like system or internet connection failure, the same should be clearly recorded in the "Remarks" column of the Register. In all such cases, ensuring proper accounting and confidentiality of quotations will be the responsibility of Committee Members.

i) In case of quotations received as an attachment to the E-Mail messages, print of both the attachment and E-mail should be put together in the sealed envelope. In case of receipt of illegible Fax quotations, the vendor should be contacted and directed to re-send the quotation. Both the quotations should be countersigned by the HOD of IMM/Purchase Dept and before dropping it in the tender box, the committee members should clearly record the fact in the "Remarks" column of the Register.

j) Mail box should be opened on all working days and print out reflecting the number of mails received, sender of the mail, subject of the mail, date and receipt of the mail etc should be taken and proper records of these print outs should be maintained in a folder. Print out of all the mails received in the inbox should invariably be taken. Downloading/copying of quotations to hard disk of the system or to any other media like floppy, CD etc should not be permitted. In order to create space for new quotations, once a hard copy of the quotation has been taken, then it should be immediately deleted from the mailbox or a methodology for retention of data for a specified time frame can be explored. The deletion should be recorded in a register. Format given at Annexure-D.

Divisions are directed to take note of and ensure strict compliance with the above recommendations.

Annexure - A

Special Note:

Incorporation for Tender Enquiries / RFQs

Please submit your quotations with RFQ reference and due date super

scribed on the cover on or before closing date by _____ hrs.

Kindly note that HAL does not entertain Fax/E-Mail Quotations unless otherwise specifically requested by us in our RFQ.

In exigencies and in exceptional cases, the tenders can submit the quotation either through Fax or E-mail on the following Fax Nos / E-mail ID only. Quotations sent on any other Fax/E-mail IDs will not be considered and deemed to be an invalid quote.

Fax No _____ E-Mail ID _____

For general correspondence other than submission of quotations kindly make use of the (Fax No _____ E-Mail ID _____)

Annexure-B

SI No	Date/Time of Receipt	E-Mail/ Fax	Name of vendor/ firm	Tender enquiry No	Remarks	Signature of tender handling Officer/ Employee

Annexure – C

Sample Format for Access Record Register

SI No	Date/Time	Name of the Officer	Details of RFQs downloaded	Signature of the Officer

Annexure – D

Sample Format for E-mail Deletion Record Register

SI No	Date/Time	Name of the Officer	Details of RFQs Deleted	Signature of the Officer

(HAL/CD/616(F)/2008 dated 10 Nov 2008)

5. **CONSULTANTS**

5.1 **Appointment Of Consultants**

Guidelines in connection with the selection of consultants by public sector enterprises for preparation of project reports have been laid down by Bureau of Public Enterprises vide letter No BPE/GL-028/78/Prodn/PCR/2/77/BPE/Prodn dated 15 Jul 1978. The guidelines in brief are laid down as under:-

- a) For any new projects, expansions, authorized /modification of the existing projects involving an expenditure of Rs 5 crore and above these guidelines are applicable.
- b) The pre-qualification public notice should be issued to enlist names of suitable consultants.
- c) The pre-qualification bid should be screened by a screening committee.
- d) The final selection and Commissioning of the consultant should be done with the approval of the board of public sector enterprise.
- e) Based on the above guidelines each enterprise should prepare their own instructions and procedure duly approved by the board for the appointment of consultants to ensure that the selection is made with maximum consideration to their suitability competence and proven experience.

The Chief Technical Examiner's Organisation under the control of the Commission has had occasion to examine and comment upon works undertaken by public sector undertakings. Common irregularities/lapses noticed in the construction works undertaken by the public sector undertakings/banks have already brought to your notice vide Commission's letter No 3L PRC 1 dt 12 Nov 82. During examination of engineering works it was observed that consultants were appointed on ad-hoc basis without going through proper formalities as suggested by BPE and / or the consultant was chosen from a old panel thereby restricting competition. In most of the cases public sector enterprises have not framed their own instructions and procedures duly approved by the board.

Even though individually such works are less than Rs 5 crores it is necessary that the appointment of consultant should not be made arbitrary or adhoc.

It is, therefore, necessary that urgent action is taken to formulate a rational policy for employment of consultants based on the broad outlines given by BPE.

(CVC (CTE's Organization letter No 3L PRC 1 dated 10 Jan 1983)

5.2 **Appointment of Consultants**

While highlighting the common lapses/ irregularities observed in the Construction works undertaken by the PSUs/Banks, under the guidance of Consultants, the Commission had issued certain guidelines vide letter No. 3L PRC 1 dated 12.11.1982 [copy enclosed-Annexure-1] so as to avoid recurrence of such lapses. These were further emphasized vide letter No. 3L-IRC-1 dated 10.1.1983 [copy enclosed-Annexure-II], inter- alia, bringing out the guidelines circulated by the Bureau of Public Enterprises in their letter no. DPE/GL- 025/78/Prodn./PCR/2/77/BPE/Prodn. Dated 15.07.1978 and it was reiterated that the appointment of Consultants should be made in a transparent manner.

2. However, it has been observed during intensive examination of various works/contracts by the CTEO that these instructions are not being followed by a large number of organizations. The consultants are still appointed in an ad-hoc and arbitrary manner without inviting tenders and without collecting adequate data about their performance, capability and experience. In some cases, the consultants were appointed after holding direct discussions with only one firm without clearly indicating the job content and consultation fee payable to them. Often the scope of work entrusted to the consultants is either not defined properly or the consultants are given a free hand to handle the case due to which they experiment with impractical, fanciful and exotic ideas resulting in unwarranted costs. The organizations display an over-dependence on consultants and invariably abdicate their responsibility completely to the latter. The officials do not oversee the working of the consultants resulting in the latter exploiting the circumstances and at times, in collusion with the contractors, give biased recommendations in favour of a particular firm. It has also been noticed that the consultants recommend acceptance of inferior items/equipments / payment for inadmissible items and also give undue benefit to the contractors like non-recovery of penalties for the delayed completion. The position in respect of projects with multiple consultants is still worse as the self-interest of so many outside agencies takes precedence over the loyalty towards the organization. These agencies tend to collude or collide with each other, and both the situations are detrimental to the smooth implementation of the project.

3. Some of the common irregularities/lapses observed during the last four years or so in this regard are highlighted as under:-

- i) One organization engaged architect from a very old panel, prepared about 15 years back.
- ii) An organization invited and short-listed 5 consultants but

awarded the contract to the highest bidder on the plea that the bidder had done a very good job in some other project with the organization. Extra amount of account of travel expenses, boarding and lodging was also sanctioned beyond contractual terms.

iii) A bank for construction of its Head Office in Mumbai, shortlisted three firms after a thorough scrutiny of offers submitted by a large number of bidders. The price bids of these firms were opened, but in a surprising manner, the work of consultancy was awarded to an L-2 firm thus compromising all ethics of tendering.

iv) The payment terms to the contractors are often allowed quite liberally. In one case, the consultant's fee was paid on quarterly basis without linking the same with the progress of the project. Full payments had been authorized even before the completion of the project. In another work, the consultants were paid substantial amount at an early stage of the project though they had submitted only preliminary drawings. Subsequently, the consultants failed to complete the job and the department took no action against them. In yet another case, the consultant was allowed extra payment for additional documents that he had to generate due to retendering of the case. However, the reasons for re-tendering were found attributable to the consultants and instead of penalizing; they were rewarded with extra payment.

v) The consultants tend to increase the cost of the work for more fees as generally the fee of the consultants is fixed at a certain percentage of the final cost of project. In an office building work, tender was accepted for Rs.10.00 crores but during execution, specifications were changed and actual cost on completion was twice the tendered cost. Thus, the consultant was unduly benefited as there was no maximum limit fixed for the consultant's fee.

vi) In the consultancy agreement generally the nature of repetitive type of work is not defined. In one work, 4 similar blocks comprising of 100 hostel rooms each were constructed. The consultants were paid same standard fees for each block. Due to this, the organization suffered loss at the cost of the consultant.

vii) There is no check on consultant's planning, design and execution. In one work, pile foundation for a workshop building was designed with the capacity of the piles, capable of carrying twice the required load. In the same project, high capacity piles (450 mm Dia, 20 m deep) were provided for a single- storeyed ordinary office building, which did not require pile foundation at all.

viii) In another case, the project was for a design and construction of a

training institute on a big plot of land in a very posh and expensive area. The whole construction was two storeyed with no scope for future expansion ironically all other buildings in the vicinity are multi-storeyed highlighting the fact that space utilization here was very poor. Further, the walls in the reception area and on the outside of the auditorium were provided with acoustic insulation with no rationale. For air-conditioning of the library instead of providing a single AHU of suitable capacity with ducting, etc. 20 plus AHUs had been provided in the room. Such fanciful ideas along with poor planning and supervision resulted in the project suffering heavy cost and time overruns. In one of the works for a bank in Mumbai, the substation equipment has been installed in the basement area, jeopardizing the safety aspect, as Mumbai gets its fair share of heavy rains and the area is also in close proximity to the sea.

4. In many cases, the consultants charge exorbitant traveling expenses. For a work in Punjab, Mumbai based Architects were appointed. The fee payable to them was Rs.6.00 lakhs, but the actual traveling expenses ultimately paid to them were to the tune of Rs.7.5 lakhs.

a) Sometimes the consultants pass on their responsibility to the contractor. In one work, the consultant was supposed to give design and drawing as per the consultancy agreement. While preparing the tender document for construction work, the responsibility for the preparation of drawings and structural design was entrusted with the construction contractor by adding a condition to that effect. The contractors loaded the quoted rates for the above work and the consultant was benefited at the cost of the organization.

b) In case of road projects, it was observed that consultants under different categories like general consultants, planning & design consultants and construction management consultants were appointed for almost all the activities of the projects without competitive bidding. The work done by the consultants is not checked by the departmental engineers who feel their job is mainly to issue cheques to the consultants/ contractors.

5. The above list is only illustrative and not exhaustive. The Commission would like to reiterate the instructions regarding appointment of consultants. The appointment of consultants should be absolutely need based and for specialized jobs only. The selection of consultants should be made in a transparent manner through competitive bidding. The scope of work and role of consultants should be clearly defined and the contract should incorporate clauses having adequate provisions for penalizing the consultants in case of defaults by them at any stage of the project including delays attributable

to the consultants. As far as possible a Project Implementation Schedule indicating maximum permissible time for each activity should be prepared with a view to arrest time overruns of the projects. There should be no major deviation in the scope of work after the contract is awarded and the consultant should be penalized for poor planning and supervision if the deviations result in excessive cost overruns. Further, the consultant's fee should be pegged based on the original contract value. The role of the consultants should be advisory and recommendatory and final authority and responsibility should be with the departmental officers only. It is suggested that these instructions may be circulated amongst the concerned officials of your organization for guidance in appointment/working of consultants in the engineering works/contracts. These instructions are also available on CVC's web site, <http://cvc.nic.in>

(No. OFF-1 CTE-1 dated 25 Nov 2002)

5.3 Participation of consultants in tender- guidelines regarding.

Consultants are **appointed** by the authorized for preparation of project report. These appointments are made for any **new projects, expansions, modernization/ modification of the existing projects etc.** The selection **is** made with maximum **attention** to the suitability, **competence** and **proven track record**.

2. Further, during the CVO's Conference convened by the Commission in Sept.1997, the Central Vigilance Commissioner had constituted a Committee of CVOs to go into the system of contracts prevalent in PSUs and to suggest, wherever required, methods of streamlining the contracting provisions. The **Committee** after going through the **contract system** of various organizations had made **recommendations** on consultants as under:-

Consultants: - A **firm** which has been **engaged by** the PSU to provide **goods or works** for a **project** and any of its **affiliates** will be **disqualified** from providing **consulting services** for the **same project**. **Conversely**, a firm **hired to** provide **consulting services** for the **preparation or implementation** of a **project**, and any of its affiliates, will be **disqualified** from subsequently providing **goods or works or services** related to the initial assignment for the **same project**. Consultants or any of their affiliates will not be hired for any assignment, which by its nature, may be in conflict with another assignment of the consultants.

3. It has come to the notice of the Commission that in a tendering process of a PSU, the **consultant was** also permitted to **quote for work** for which

they had themselves estimated the rates and the consultant quoted **20% above their own estimated** rates as against the **awarded** rates which were **20% below** the estimated cost. Such **over dependence on the consultant can** lead to **wasteful and in fructuous expenditure** which the authorized regrets in the long run. Meticulous and intelligent examination of the consultant's proposal is therefore essential for successful and viable completion of the project.

4. The **Commission reiterates the recommendations** made by the **Committee** that the consultants/firm hired to provide consulting services for the preparation or implementation of a project, and any of its affiliates, will be **disqualified from subsequently providing goods or works or services related to the initial assignment for the same project.**

(98/DSP/3 dated 24 Dec 2004)

5.4 **Policy for Engagement of Consultants/Experts**

1. In order to augment the internal resources, the Company has been engaging the services of external Consultants/Experts, in required areas. While the Delegation of Powers (CDoP) enable engagement of the Consultants/Experts, a specified procedure for their engagement is not existing in the Company.

2. The need for laying down the guidelines to be followed for engagement of Consultants/Experts was being felt for some time.

3 Accordingly, Guidelines for engagement of Consultants/ Experts, as indicated in Annexure-I, are notified in the Company, with immediate effect.

4. Divisions/Offices should note that engagement of Consultants/ Experts on nomination basis is not permitted, except with the approval of the Board of Directors. The system presently followed for engagement of Retainers, Part Time engagement of Professionals/Advisors etc. may, however, be continued (para-S of Annexure-I refers).

(Personal Circular No. 685 dated 4 Feb 2010)

5.5 Policy for Engagement of Consultants/Experts

1. The Policy for engagement of Consultants/Experts was notified in the Company vide Personnel Circular No. 685 dated 4.2.10.
2. The following changes/amendments are notified in the Policy:

Para No. in PC 685	Existing Provision	Amended Provision/New Para
7.3.4	Engagement of all Consultants will be against specific tasks & delivery principles. The problem which needs to be attended to by the Consultant will be clearly defined with the implications as they exist, as far as possible. The improvements expected out of the Consultant will also be defined clearly. The duration of the engagement and frequency of visits will also be clearly delineated.	Engagement of all Consultants will be against specific tasks & delivery principles. The problem which needs to be attended to by the Consultant will be clearly defined with the implications as they exist, as far as possible. The improvements expected out of the Consultant will also be defined clearly (not in broader terms) to enable them to be monitored / physically verified. Measurable, quantifiable and verifiable Terms & Conditions would be prescribed in the Notice Inviting Tender. The duration of the engagement and frequency of visits will also be clearly delineated.
7.8.6 (New Para)		Appropriate Security Deposit/ Performance Bank Guarantee would be obtained from the Consultants/ Advisors, wherever required, in order to safeguard the interest of the Company against under performance/breach of contract by the Consultants/ Advisors.

8.1	<p>The Divisions have been engaging Part Time Professional Advisors like Doctors, Advocates, Tax Consultants, etc, on retainer ship basis with payment of monthly remuneration or on payment of specific fee, in accordance with Item 45(ii) of the DoP. Generally, services of such Consultants / Advisors, which was started in the past, are continued with extensions from time to time. Wherever required, new Consultants/ Advisors are also engaged, including Firms of Chartered Accountants, Cost Accountants etc. Such engagements are generally done on nomination basis, as they are professionally precluded from solicitation. This practice will be continued. The engagement/ extension would be approved by the CFA, on best judgment basis, based on the recommendations of the Initiating Department. All such engagements will not be included within the purview of engagement on nomination basis, for reporting to the Board as per the CVC Guidelines.</p>	<p>The Divisions have been engaging Part Time Professional Advisors like Doctors, Advocates, Tax Consultants, etc, on retainer ship basis with payment of monthly remuneration or on payment of specific Fee, in accordance with Item 45(ii) of the DoP. Generally, services of such Consultants/Advisors, which was started in the past, are continued with extensions from time to time. Wherever required, new Consultants/ Advisors are also engaged, including Firms of Chartered Accountants, Cost Accountants etc. Such engagements are generally done on nomination basis, as they are professionally precluded from solicitation. This practice will be continued. The engagement will be reviewed periodically and changes made, wherever required. The engagement / extension would be approved by the CFA, on best judgment basis, based on the recommendations of the Initiating Department. All such engagements will not be included within the purview of engagement on nomination basis, for reporting to the Board as per the CVC Guidelines.</p>
8.2 (New Para)		For Engagement of Consultants/ Experts as at para-8.1, tendering action, wherever feasible, will be resorted to.
8.3	Exiting para-8.2 is re-numbered as new Para 8.3	

3. The above amendments will come into force with immediate effect.
4. Divisions / Offices may take further necessary action accordingly.

(HAL/P&A/18(55)/10 dt 17 Sep 2010)

5.6 Selection and Employment of Consultants

1. The issue of role and professional liability of consultants in government contracts has been under consideration in the Commission for quite some time. The Commission has decided that following guidelines, be kept in view while finalizing the contracts for engaging consultants.

2. **Conflict of Interest.** The consultant shall not receive any remuneration in connection with the assignment except as provided in the contract. The consultant and its affiliates shall not engage in consulting or other activities that conflict with the interest of the employer under the contract.

3. The contract shall include provisions limiting future engagement of the consultant for other services resulting from or directly related to the firm's consulting services in accordance with following requirements:-

4. The consultants shall provide professional, objective, and Impartial advice and at all times hold the employer's interests paramount, without any consideration for future work, and that in providing advice they avoid conflicts with other assignments and their own interests. Consultants shall not be hired for any assignment that would be in conflict with their prior or current obligations [O other employers. or that may place them in a position of being unable to carry out the assignment in the best interest of the employer. Without limitation on the generality of the foregoing, consultants shall not be hired under the circumstances set forth below:

(i) **Conflict between consulting activities and procurement of goods, works or non-consulting services (i.e., services other than consulting services covered by these Guidelines)** - A firm that has been engaged by the employer to provide goods, works or non-consulting services for a project, or any affiliate that directly or indirectly controls, is controlled by or is under common control with that firm, shall be disqualified from providing consulting services resulting from or directly related to those goods, works or non-consulting services. Conversely, a firm hired to provide consulting services for the preparation or implementation of a project, or any affiliate that directly or indirectly controls is controlled by or is under common control with that firm, shall be disqualified from subsequently providing goods, works or services (other than consulting services covered by these Guidelines) resulting from or directly related to the consulting services for such preparation or implementation. This provision does not apply to the

various firms (consultants, contractors or suppliers) which together are performing the Contractor's obligations under a turnkey or design and build contract.

(ii) **Conflict among consulting assignments** - Neither consultants (including their personnel and sub-consultants), nor any affiliate that directly or indirectly controls, is controlled by or is under common control with that firm, shall be hired for any assignment that, by its nature, may be in conflict with another assignment of the consultants. As an example, consultants assigning an employer in the privatization of public assets shall neither purchase, nor advise purchasers of, such assets. Similarly, consultants hired to prepare Terms of Reference (TOR) for an assignment shall not be hired for the assignment in question.

(iii) **Relationship with Employer's staff** - Consultants (including their experts and other personnel, and sub-consultants) that have a close business or family relationship with a professional staff of the Employer (or of the project implementing agency) who are directly or indirectly involved in any part of: (i) the preparation of the TOR for the assignment, (ii) the selection process for the contract, or (iii) the supervision of such contract may not be awarded a contract, unless the conflict stemming from this relationship has been resolved in a manner acceptable to the Employer throughout the selection process and the execution of the contract.

(iv) **A consultant shall submit, only one proposal**, either individually or as a joint venture partner in another proposal. If a consultant, including a joint venture partner, submits or participates in more than one proposal, all such proposals shall be disqualified. This does not, however, preclude a consulting firm to participate as a sub-consultant, or an individual to participate as a team member, in more than one proposal when circumstances justify and if permitted by the RFP.

(v) **Unfair Competitive Advantage** - Fairness and transparency in the selection process require that consultants or their affiliates competing for a specific assignment do not derive a competitive advantage from having provided consulting services related to the assignment in question. To that end, the Employer shall make available to all the short listed consultants, together with the request for proposals, all information that would in that respect give a consultant a competitive advantage.

5. **Professional Liability** - The consultant is expected to carry out its assignment with due diligence and in accordance with prevailing standards or the profession. As the consultant liability to the Employer will be governed by the applicable law, the contract need not deal with this matter. The client (purchaser) may, however, prescribe other liabilities depending on the requirement in each case without any restriction on the Consultant's liability as per the applicable law.

The Commission desires that the above guidelines be brought into the notice of all concerned.

(11/VGL/063 Circular No. 08/06/11 dated 24 Jun 2011)

5.7 **Policy for Engagement of Consultants/Experts**

Ref: i) Personnel Circular No. 685 dated 04.02.10
ii) Circular No. HAL/P&A/18(55)110 dt 17.09.10

1. Further to the Policy on the subject notified vide the Circulars referred at (i) & (H) above, it was brought out that the draft Terms & Conditions for engagement of Consultants/Experts, barring specific/core areas of expertise/service, may be notified for uniform application across the Company. Specific/core areas of expertise/service required would be incorporated in the Terms & Conditions by the concerned Division/Office.

2. Accordingly, items to be covered in the Terms & Conditions for engagement of Consultants/Experts are formulated and are indicated in Annexure-I.

3. Divisions/Offices engaging Consultants/Experts -as per the subject Policy would draft the Terms & Conditions of engagement, covering the items indicated in Annexure-I, with required details/amplifications. Specific/core areas of expertise/ service required would be incorporated by the Division/Office in clear terms in the Offer, Any further items required to be specified would also be covered in the Terms & Conditions.

4. Divisions/Offices may take further necessary action accordingly.

(HAL/P&A/18(55)/11 dated 22 Aug 2011)

5.8 **Policy for Engagement of Consultants/Experts**

- Ref: i) Personnel Circular No. 685 dated 04.02.10
ii) Circular No. HAL/P&A/18(55)/10 dated 17.09.10
iii) Circular No. HAL/P&A/18(55)/11 dated 22.08.11

1. Further to the Circulars on the subject referred above, a copy of Central Vigilance Commission Circular No. 08/06/11, notified vide No. 011/VGL/063 dated 24.6.11, on the subject of 'Selection and employment of Consultants', is enclosed for information, guidance & compliance.
2. Compliance of the provisions of the said Circular would also be ensured in cases of engagement of superannuated HAL employees on contract basis under the Scheme notified vide PC No. 681 dated 26.2.08, as required.
3. Adherence to the contents of the CVC Circular dated 24.6.11 would be indicated in all proposals being made for engagement of consultants/EM.

(HAL/P&A/18(55)/11 Dated 08 Sep 2011)

5.9 **Policy for Engagement of Consultants/Experts**

- Ref: i) Personnel Circular No, 685 dated 4.2.10
ii) Circular' No. HAL/P&A/18(55)/10 dt 17,9.10
iii) Circular No. HAL/P&A/18(55)/11 dt 22.8.11

1. Further to the provisions contained in the Circulars referred above on the subject! participating Consultancy Firms would also be asked to provide 'registration details with the Service Tax Authorities", in the proposals/quotations submitted by them to the Company for engagement as Consultants/Experts.
2. Divisions/Offices may take further necessary action, accordingly.

(HAL/P&A/18(55)/12 Dated 10 May 2012)

6. **Mobilization Advance**

6.1 **Grant of interest free mobilization advance**

1. It has come to the notice of this Commission that PSUs are stipulating payment of interest free mobilization advance in their tenders. Many times mobilization advance is allowed after acceptance of tender also. The amount of mobilization advance thus paid to the contractor is prone to be used by him for

building his own capital or for the purpose other than the one for which it is disbursed. For big projects mobilization advance of 5 to 10% stipulated in the contract works out to a huge amount and the contractor is likely to be benefited with interest free amount to a very big extent. Normally while preparing justification, elements of gain in terms of interest on capital investment by way of mobilization advance is also not considered and thus the contractor gets higher rates than that may be justified. In case there is a delay in commencement of work the contractor is likely to get undue benefit by way of retention of huge money.

2. It is, therefore, desired that adequate steps may be taken to ensure stipulation of mobilization advance only for selected works and advance should be interest bearing so that contractor does not draw undue benefit. Timely execution/completion of all projects is an essential requirement and the contractor would like to draw interest bearing mobilization advance only when he needs to maintain his cash flow.

(UU/POL/19 Dated 08 Oct 1997)

6.2 Mobilization Advance

In order to address the problem of misuse of mobilization advance provision in the civil and other works, the Commission had issued an O.M. dated 8.12.1997 for grant of interest bearing 'Mobilization Advance' in selected works. In view of references from certain organizations on this issue, the Commission has reviewed the issue and it has been decided to modify and add the following provisions in the existing O.M. This may be read as addendum to the Commission's O.M. dt.8.12.1997.

If the advance is to be given, it should be expressly stated in the NIT/Bid Documents, indicating the amount, rate of interest and submission of BG of equivalent amount.

The advance payment may be released in stages depending upon the progress of the work and mobilization of required equipments etc.

There should be a provision in the contract for adjustment of advance progressively even as the bills are cleared for payment.

(No. 4CC-1-CTE-2 Dated 08 Jun 2004)

6.3 Mobilization Advance.

Commission has reviewed the existing guidelines on 'Mobilization Advance' issued vide OM No.UU/POL/18 dt 08.12.97 and OM No.4CC-1-CTE-2 dt 08.6.04. The following guidelines are issued in supersession of earlier guidelines issued by the Commission on 'Mobilization Advance':-

1. Provision of mobilization advance should essentially be need-based. Decision to provide such advance should rest at the level of Board (with concurrence of Finance) in the organization.
2. Though the Commission does not encourage interest free mobilization advance, but, if the Management feels it necessity in specific cases then it should be clearly stipulated in the tender document and its recovery should be time based not linked with progress of work. This would ensure that even if the contractor is not executing the work or executing it at a slow pace, recovery of advance could commence and scope for misuse of such advance could be reduced.
3. Part 'Bank Guarantees' (BGs) against the mobilization advance should be taken in as many numbers as the proposed recovery installments and should be equivalent to the amount of each installment. This would ensure that at any point of time even if the contractor's money on account of work done is not available with the organization, recovery of such advance could be ensured by encasing the BG for the work supposed to be completed within a particular period of time.
4. There should be a clear stipulation of interest to be charged on delayed recoveries either due to the late submission of bill by the contractor or any other reason besides the reason giving rise to the encashment of BG, as stated above.
5. The amount of mobilization advance, interest to be charged, if any; its recovery schedule and any other relevant detail should be explicitly stipulated in the tendered document upfront.
6. Relevant format for BG should be provided in the tender document, which should be enforced strictly and authenticity of such BGs should also be invariably verified from the issuing bank, confidentially and independently by the organization.
7. In case of 'Machinery and Equipment advance', insurance and hypothecation to the employer should be ensured.
8. Utilization certificate from the contractor for the mob advance should be obtained. Preferably, mob adv should be given in installments and subsequent installments should be released after getting satisfactory utilization certificate from the contractor for the earlier installment.

(No. 4CC-1-CTE-2 Dated 10 Apr 2007)

6.4 **Corrigendum Circular No. 5/2/08**

Mobilization Advance

1. The commission has reviewed the existing guidelines on Mobilization advance Circular No. 10/4/07 [issued vide OM No. 4CC-1-CTE-2; dated 10-04-07]. Para 1 of the above circular may be read as under:

“Decision to stipulate free mobilization advance in the tender document should rest at the level of Board [with concurrence of Finance] in the organizations. However in case of interest bearing mobilization advance, organizations may delegate powers at appropriate levels such as the CMD or Functional Directors/

(No.4CC-1-CTE-2 Dated 05 Feb 2008)

6.5 **Advanced payment to the Vendor**

1. CVC vide Corrigendum No. 5/2/08 has informed that "decision to stipulate free mobilization advance in the tender document should rest at the level of Board (with concurrence of Finance) in the organizations. However, in case of interest bearing mobilization advance, organization may delegate powers at appropriate levels such as the CMD or Functional Directors". Copy enclosed.

2. In line with the above, the following instructions are issued for compliance:

(i) The RFQs should not indicate any advance in the payment terms.

(ii) In case of an insistence of advance by vendor, interests on Advance Payments should be loaded in the CSQ to arrive at the L1.

(iii) During the correspondence/discussions/negotiations with vendors (who have demanded for advance payment), Division should explore the possibility of obtaining vendor's concurrence for (i) making 100% payment against supply & acceptance or (ii) making advance payment with interest at the prevailing Bank Rate i.e LIBOR plus 2% in the case of Foreign suppliers & PLR(prime Lending Rate) in the case of Indian suppliers.

(iv) The cases where vendors agree for interest bearing advance, the CFA for approving the advance payment will be the Functional Directors. The interest on advance payment should be adjusted from the balance payments to be made to the vendor. A suitable provision in this regard be incorporated in such pas.

(v) The cases where vendors do not agree for interest bearing advance, Divisions are advised to forward self contained draft Board Paper to seek the approval of the Board for making advance payment (irrespective of value). A draft format for putting up to the Board for approval is enclosed.

(vi) As per Defence Procurement Procedure (DPP), advance payment can be made only upto 15%. In case vendors insist for advance more than 15%, the same is to be put to the Board for approval.

3. Further, instructions issued vide letter No. HAL/CD/499/2005 dated 19th October 2005 on advance payment-Bank Guarantee remains unaltered, subject to applicability of interest on advance payments as per the CVC guidelines.

(HAL/CD/617 (Advance Payment)/2010 Dated 05 May 2010)

6.6 Mobilization Advance

1. Commission had earlier issued guidelines on granting of 'Mobilization Advance' vide OM No. UU/POLII8 dated 08.12.1997, OM No. 4CC-I-CTE-2 dated 08.06.2004 and OM No. 4CC-I-CTE-2 dated 10.04.2007.

2. The matter has been further reviewed and it has decided by the Commission that following additional guidelines may be followed in case of grant of Mobilisation Advance.

(i) The Bank Guarantee etc. taken towards security of 'Mobilisation Advance' should be at least 110% of the advance so as to enable recovery of not only principal amount but also the interest portion, if so required.

(ii) The mobilisation advance should not be paid in less than two installments except in special circumstances for the reasons to be recorded. This will keep check on contractor mis-utilizing the full utilisation advance when the work is delayed considerably.

(iii) A clause in the tender enquiry and the contract of cases providing for interest free mobilisation advances may be stipulated that if the contract is terminated due to default of the contractor the 'Mobilisation Advance' would be deemed as interest bearing advance at an interest rate of %, *(to be stipulated depending on the*

prevailing rate at the time of issue of NIT) to be compounded quarterly.

(01-11-CTE-SH-100 – Circular No. 02/02/11 Dated 17.02.2011)

6.7 Mobilization Advance

1. Reference is made to CVC Circular No. OM No. 01-11-CTE-SH-100 dt 17.02.11 (copy enclosed).

2. CVC has intimated that the matter of Mobilisation *Advance* has been further reviewed and it has been decided by the Commission that following additional guidelines may be followed in case of grant of Mobilization *Advance*:

(i) The Bank Guarantee etc, taken towards scrutiny of Mobilization Advance Should be atleast 110/10 of the advance so as to enable recovery of not only principal amount but also the interest portion, if so required.

(ii) The 'Mobilisation Advance' should not be paid in less than two installments except in special circumstances for the reasons to be recorded. This will keep check on contractor misutilising the full utilization advance when the work is delayed considerably.

(iii) A clause in the tender enquiry and the contract of cases providing for interest free mobilization advance may be stipulated that if the contract is terminated due to default of the contractor, the 'Mobilisation Advance' would be deemed as interest bearing *advance* at an interest rate of %, (to be stipulated depending on the prevailing rate at the time of issue of NIT) to be compounded quarterly.

3. This may be noted for compliance.

(HAL/WE/617/2011 Dated 15.04.2011)

7. GUIDELINES ON TENDERING SYSTEM

7.1 Pre-qualification criteria (PQ)

The Commission has received complaints regarding discriminatory prequalification criteria incorporated in the tender documents by various Depts./Organizations. It has also been observed during intensive examination of various works/contracts by CTEO that the prequalification criteria is either not

clearly specified or made very stringent/very lax to restrict/facilitate the entry of bidders.

2. The prequalification criteria is a yardstick to allow or disallow the firms to participate in the bids. A vaguely defined PQ criteria results in stalling the process of finalizing the contract or award of the contract in a non-transparent manner. It has been noticed that organizations, at times pick up the PQ criteria from some similar work executed in the past, without appropriately amending the different parameters according to the requirements of the present work. Very often it is seen that only contractors known to the officials of the organization and to the Architects are placed on the select list. This system gives considerable scope for malpractices, favoritism and corruption. It is, therefore, necessary to fix in advance the minimum qualification, experience and number of similar works of a minimum magnitude satisfactorily executed in terms of quality and period of execution.

3. Some of the common irregularities/lapses observed in this regard are highlighted as under:

i) For a work with an estimated cost of Rs. 15 crores to be completed in two years, the criteria for average turnover in the last 5 years was kept as Rs.15 crores although the amount of work to be executed in one year was only Rs. 7.5 crores. The above resulted in prequalification of a single firm.

ii) One organization for purchase of Computer hardware kept the criteria for financial annual turnover of Rs.100 crores although the value of purchase was less than Rs.10 crores, resulting in disqualification of reputed computer firms.

iii) In one case of purchase of Computer hardware, the prequalification criteria stipulated was that the firms should have made profit in the last two years and should possess ISO Certification. It resulted in disqualification of reputed vendors including a PSU.

iv) In a work for supply and installation of A. C. Plant, retendering was resorted to with diluted prequalification criteria without adequate justification, to favour selection of a particular firm.

v) An organization invited tenders for hiring of D.G. Sets with eligibility of having 3 years experience in supplying D.G. Sets. The cut off dates regarding work experience were not clearly indicated. The above resulted in qualification of firms which had conducted such business for 3 years, some 20 years back. On account of this vague condition, some firms that were currently not even in the business were also qualified.

vi) In many cases, "Similar works" is not clearly defined in the tender documents. In one such case, the supply and installation of A. C. ducting and the work of installation of false ceiling were combined together. Such works are normally not executed together as A. C. ducting work is normally executed as a part of A. C. work while false ceiling work is a part of civil construction or interior design works. Therefore, no firm can possibly qualify for such work with experience of similar work. The above resulted in qualification of A. C. Contractors without having any experience of false ceiling work although the major portion of the work constituted false ceiling work.

4. The above list is illustrative and not exhaustive. While framing the prequalification criteria, the end purpose of doing so should be kept in view. The purpose of any selection procedure is to attract the participation of reputed and capable firms with proper track records. The PQ conditions should be exhaustive, yet specific. The factors that may be kept in view while framing the PQ Criteria includes the scope and nature of work, experience of firms in the same field and financial soundness of firms.

5. The following points must be kept in view while fixing the eligibility criteria:-

For Civil/Electrical Works

i) Average **Annual financial turnover** during the **last 3 years**, ending **31st March of the previous financial year**, should be at least **30% of the estimated cost**.

ii) Experience of having successfully completed **similar works** during last **7 years ending last day of month previous** to the one in which **applications** are invited should be either of the following: -

a. **Three similar completed** works costing not less than the amount **equal to 40% of the estimated cost**.

Or

b. **Two similar** completed works costing not less than the amount equal to **50% of the estimated cost**.

Or

c. **One similar** completed work costing not less than the amount equal to **80% of the estimated cost**.

iii) Definition of "similar work" should be clearly defined.

In addition to above, the criteria regarding **satisfactory performance of works, personnel, establishment, plant, equipment etc. may be**

incorporated according to the requirement of the Project.

For Store/Purchase Contract

Prequalification/Post Qualification shall be based entirely upon the capability and resources of proactive bidders to perform the particular contract satisfactorily, taking into account their

- (i) Experience and past performance on similar contracts for last 2 years
- (ii) Capabilities with respect to personnel, equipment and manufacturing facilities
- (iii) Financial standing through latest I.T.C.C., Annual report (balance sheet and Profit & Loss Account) of last 3 years.

The quantity, delivery and value requirement shall be kept in view, while fixing the PQ criteria. No bidder should be denied prequalification/post qualification for reasons unrelated to its capability and resources to successfully perform the contract.

It is suggested that these instructions may be circulated amongst the concerned officials of your organization for guidance in fixing prequalification criteria. These instructions are also available on CVC's website, <http://cvc.nic.in>.

(No. 12-02-1-CTE-6 Dated 17 Dec 2002)

7.2 Tender Sample Clause

The Commission has received complaints that some Organizations, while procuring clothing and other textile items insist on submission of a tender sample by the bidders though detailed specifications for such items exist. The offers are rejected on the basis of tender samples not confirming to the requirements of feel, finish and workmanship as per the 'Master Sample' through the bidders confirm in their bids that supply shall be made as per tender specifications, stipulated in the bid documents.

While it is recognized that samples may be required to be approved to provide a basis respect of indeterminable parameters such as shade feel, finish & workmanship for supplies of such items but system of approving/rejecting tender samples at the time of decision making is too subjective and is not considered suitable, especially for items which have detailed specifications. The lack of competition in such cases is also likely to result in award of contracts at high rates.

It is thus advised that Government Departments/Organizations should

consider procurement of such items on the basis of detailed specifications. If required, provision for submission of an advance sample by successful bidder (s) may be stipulated for indeterminable parameters such as, shade/tone, size, make-up, feel, finish and workmanship, before giving clearance for bulk production of the supply. Such a system would not only avoid subjectivity at the tender decision stage but would also ensure healthy competition among bidders and thus take care of quality aspect as well as reasonableness of prices.

It is requested that these guidelines may be circulated amongst the concerned officials of your organization for guidance. These are also available on the CVC web-site, <http://cvc.nic.in>

(No. 2EE-1-CTE-3 Dated 15 Oct 2003)

7.3 Back to Back Tie up by PSUs- instructions regarding

It has been observed during intensive examination of various works/contracts awarded by construction PSUs on back to back basis that the works are being awarded in an ad-hoc and arbitrary manner without inviting tenders and ascertaining the performance, capability and experience of the tenderers. In some cases, the works were awarded on single tender basis/limited tender basis though sufficient time was available with the Organisation to invite open tenders.

2. Some of the common irregularities/lapses observed during the examination of works were as under:

- a) No transparency in selection of contractor for the back to back tie up which is the main source of corruption.
- b) Collusion among the contractors was observed where more than one contractor was involved at various stages.
- c) Ineligible contractor obtains the contract through the PSUs.
- d) Purchase preference misused by the PSUs.
- e) PSUs sublet the complete work to a private contractor without obtaining permission from the client which invariably put a condition insisting such permission since the client is generally not interested in such back to back sublet of the work.
- f) In fructuous work (to the exchequer) due to the involvement of intermediary PSUs and cost of project goes up ultimately.

- g) No supervision by the PSU as they put the staff mainly for coordination work.
 - h) Quality ultimately suffers due to lack of supervision by the PSUs.
3. Commission is of the view that the practice of award of works to PSUs on nomination basis by Govt. of India/PSUs needs to be reviewed forthwith.
4. The irregularities observed during intensive examination of work and difficulties being faced by the PSUs in inviting tenders were considered and it has been decided that the procedure to be followed for award of work by Construction PSUs shall be authorized by taking into account the following points:
- a) PSUs (when bag the contract from the client Department) as a contractor, has to execute the work by functioning like a contractor instead of sub-letting the 100% work on back to back basis.
 - b) Open tenders to be invited for selection of sub-contractors as far as possible.
 - c) In case, it is not possible to invite open tenders, selection should be carried out by inviting limited tenders from the panel approved in the following manner. Panel of contractors are to be prepared for different categories monetary limits, regions, in a transparent manner clearly publishing the eligibility criteria etc. The above panel is to be updated every year.
 - d) Tenders to be opened confidentially by a high level committee to maintain the secrecy of rates, if required. Tender opening register should be maintained in this regard duly signed by the officers opening the tender and kept confidentially. This should be available for perusal when required by audit/ vigilance.
 - e) The terms and conditions of the contract of the client especially those pertaining to subletting of works should be strictly adhered to by the PSUs.
 - f) Adequate staff to be deployed by the PSUs to ensure quality in construction etc.
 - g) The record of enlistment/updation of contractor and tender opening register shall be produced to the CTEO as well as audit officials when demanded for scrutiny.

h) It is, therefore, suggested that the procedure for award of work on back to back basis be authorized by keeping in view the above points and circulated amongst the concerned officials of your authorized for strict compliance in future works.

(No. 06-03-02-CTE-34 Dated 20 Oct 2003)

7.4 Pre-qualification Criteria (PQ)

Guidelines were prescribed in this office OM of even number dated 17/12/2002, on the above-cited subject to ensure that the pre-qualification criteria specified in the **tender document should neither be made very stringent nor very lax to restrict/facilitate the entry of bidders**. It is clarified that the guidelines issued are illustrative and the organizations may suitably **modify these guidelines for specialized jobs/works**, if considered necessary. However, it should be ensured that the **PQ criteria are exhaustive**, yet specific and there is fair competition. It should also be ensured that the **PQ criteria are clearly stipulated in unambiguous terms in the bid documents**.

(12-02-1-CTE-6 Dated 7 May 2004)

7.5 Transparency in tendering system- Guidelines regarding

In order to maintain transparency and fairness, it would be appropriate that **authorized** should evolve a practice of **finalizing** the acceptability of the **bidding firms** in respect of the **qualifying criteria before or during holding technical negotiations** with him. Obtaining **revised price bids** from the firms, which **do not meet the qualification criteria**, would be **incorrect**. Therefore the exercise of **short listing** of the **qualifying firms must** be completed **prior to** seeking the revised **price bids**. Moreover, the intimation of **rejection** to the **firms** whose **bids** have been evaluated but found **not to meet the qualification criteria**, along with the **return of the un-opened price bid**, will **enhance transparency and plug the loop-holes in the tendering system**. All authorized departments are **advised to frame a policy accordingly**.

(No.004/ORD/9 Dated 10 Dec 2004)

7.6 EMD - Circular No. 32

The following guidelines are to be observed while calling for Earnest Money Deposit –

- (a) Earnest Money Deposit (EMD) shall be specified in all cases of Open Tender.
- (b) The EMD to be charged shall be a fixed amount, based on

estimated value of stores as follows:

Estimated value of Tendered Equipment	EMD	
	Indian Rs. lakhs	Foreign US\$
Rs. 1 – 25 Lakhs	0.20	400
Rs. 25 -50 Lakhs	0.40	800
Rs. 50 -100 Lakhs	0.75	1500
Rs. 100 -250 Lakhs	1.75	3500
Rs, 250 Lakhs and above	3.00	6000

*may be rounded to nearest \$10, depending upon exchange rate.

(c) For tenders of the value of rupees one lakh or less, EMD need not be called for.

(d) The tender documents/ Notice inviting Tenders must clearly specify:

(i) The form in which EMD shall be acceptable (Cash /DD/ Bankers Cheque / pay order/ Bank Guarantee). In case, EMD has been specified to be deposited in Cash/ DD only, no other form of EMD should be accepted. In case EMD is specified as Bank Guarantee, the same is to be submitted in the form of irrevocable Bank Guarantee from the schedule Banks (or. In case of foreign suppliers, from Bank of International Repute) valid for 28 days beyond the validity of the Bid.

(ii) That offers not accompanied with *requisite* amount of EMD or EMD not submitted in the specified form shall be summarily rejected.

(iii) That, in case of 2 – Bid system, EMD should be submitted along with Technical Bid/ Offer.

(iv) That, Vendors exempted from the payment of Tender fee and / or submission of EMD as per Govt. of India directives must submit certified copy of GOI's authority for such exemption in lieu of Tender Fee/EMD.

(e) EMD received along with tenders should be forwarded to the Finance Deptt. within 3 days of the opening of the Tenders with the details of the participating firms.

(f) EMD furnished by the successful bidder may be appropriated

for security deposit or performance Guarantee for the warranty period.

(g) EMD furnished by other participating firms will be returned as soon as possible after the expiration of the period of tender validity but not later than 15 days of the award of the contract.

(h) EMD will not carry any interest for the period it is retained with HAL and that EMD shall be forfeited if a tender withdraws, amends, impairs, and/ or derogates from tender within validity. This shall be made clear in the Terms & conditions in enquiry.

(No. HAL/CD/617/2005 Dated 22 Mar 2006)

7.7 Providing a Level Playing Field between the Indian Industry vis-à-vis Foreign Suppliers in the Area of Defence Procurement

MoD vide ID No 3(1)/2002/D(S-11) dated 04 Oct 2006 have issued directions on the subject for compliance (copy enclosed).

2. In order to provide a level playing field in the area of Defence procurement between Indian Companies, which are liable to pay duties and local taxes and foreign companies, who do not have such a liability, the following directions have been issued to neutralize the impact of taxes and duties payable by Indian industry while carrying out evaluation of bids to determine L1 vendor:

i) In case of foreign supplier, the basic cost (CIF) quoted by him should be the basis for the purpose of comparison of various tenders.

(ii) In case of indigenous suppliers, Excise duty on fully formed equipment be offloaded.

(iii) Ignore tax and other levies, i.e. Octroi, entry tax etc. in case of indigenous suppliers including Defence PSUs/OFs.

3. In addition, it has also been decided that the payment condition should be similar for domestic private suppliers, Defence PSUs/Ordnance Factories and the foreign suppliers.

4. As far as the issue regarding offloading of Customs Duty and Countervailing Duties paid on raw materials/components/Sub-assemblies by the Indian Private Sector for comparing prices to determine the L-1 is concerned, a Committee has been set up, by the Government under the Chairmanship of Finance Secretary comprising of Secretary (Industrial Policy & Promotion) and Secretary (Defence Production) to suggest relevant modalities. A decision in this regard, when taken, would be communicated separately by the Ministry.

5. The above approach and principles have to be followed, while making purchases of items (other than raw materials, components, assemblies, sub-assemblies, etc.) for their own production through the public and private sector as well as through foreign sources, by incorporating the same in the tenders before issue.

6. Both Indian and foreign vendors will be asked to quote the basic unit price, taxes and levies (in case of Indian vendors) and transportation and insurance charges separately. A fair estimation of the transportation costs may be added to arrive at Delivery at destination. These conditions may be clearly stipulated in the tender.

7. Divisions are directed to comply.

(HAL/CD/617/2005 dated 05 Dec 2006)

7.8 Use Of Products With Standard Specification

A case has come to the notice of the Commission that the user department one organization requisitioned an item of non-standard size. Requisitioning of item with non- standard size resulted in issue of non-standard size was already available in the stock. Citing urgency, the item was procured by the user department at 10 times the cost of the standard item by inviting limited quotations.

In order to avoid such occurrences, it is reiterated that the items with standard only should be stipulated in the bid documents. Incase, items may be recorded and reasonability of rates must be checked before placing order.

(OM No.98-VGL-25 dated 14 Apr 2007)

7.9 Price/Purchase Preference (DPE/Guidelines/VI/12)

Review of Purchase Preference Policy for Products and Services of Central Public Sector Enterprises (CPSEs) in view of the judgement of the Supreme Court of India in the matter of M/s Caterpillar India Pvt. Ltd. v/s Western Coalfields Limited and Ors dated 18.5.2007.

The undersigned is directed to refer to this Department's O.M. no. DPE.13 (12)/2003-Fin. Vol. II dated 18.7.2005 regarding extension of Purchase Preference Policy for Products and Services of CPSEs for a further period of three years beyond 31.3.2005 with certain modifications.

2. The Supreme Court of India in its judgement in the transferred Civil Petitions of 2004 from the different High Courts in the matter of M/s Caterpillar India Pvt. Limited v/s Western Coalfields Limited and Ors. Observed that

imposing a condition like purchase preference no option is left and a monopoly is being created. Any increase in the effectiveness of PSEs cannot be done on a uniform basis without examination as to whether such protection is necessary for a particular PSE. Further, it has to be examined on a case to case basis as to whether any differential treatment is called for. There may not be any competition left if 10% margin is allowed. It was also contended that the preference should be given PSE specific and the margin to be allowed should be examined rationally. Because of the substitution of the word 'may' by 'will' there is essentially a reversal of the policy. While giving its judgment, the Supreme Court also expressed its views which inter-alia includes the following:

- a) Industry-wise assessment to be done by the concerned Ministries and in case of cost effectiveness is achieved by any PSEs there may not be any need for extending preference to such PSEs. Such examination should be done on the line as to whether any preference is at all called for and the extent of margin of preference to be allowed, which would also ensure level playing field for others. Further, while splitting the tenders, the minimum quantity/amount should be so fixed as to ensure that it is rational and there is no element of uncertainty. In other words, there should not be any rigid / inflexible purchase preference policy without examination as to whether such protection is necessary for a particular PSE;
- (b) Present practice of allowing uniform margin of 10% over the L-1 bidder, as purchase preference to CPSEs, has to be reviewed and margin should be fixed PSE specific by the concerned Ministry on a rational basis;
- c) The overall impact of such preference to be allowed on foreign direct investment has also to be assessed / considered.

The Supreme Court through its judgement dated 18.5.2007 inter alia directed that the exercise, as noted above shall be undertaken by the concerned Ministry of the Central Government within a period of 4 months from the date of the judgement.

3. In view of the above mentioned judgement of the Supreme Court of India, the Government again reviewed the Purchase Preference Policy for Products and services of Central Public sector Enterprises on 25.10.2007 and decided to reiterate its decision dated 30.6.2005 that the purchase preference policy will be terminated with effect from 31.3.2008. The Government also decided that the preferential purchase policies framed for the specific sectors by the concerned Ministries/ Departments within relevant Act of Parliament or otherwise do not come within the purview of this decision. The concerned

Ministry/Department may independently evolve/review preferential policies for the sectors of their concern, as per their requirement.

4. All the administrative Ministries/Departments are requested to take note of the above mentioned decision of the Government and also bring it to the notice of the CPSEs under their administrative control for information and necessary compliance.

(DPE OM No. DPE/13(15)/2007-Fin dated 21 Nov 2007)

7.10 **Acceptance Of Bank Guarantee**

Commission has noticed forged / fake BGs by the contractors / suppliers. Organizations concerned have also not made any effective attempt to verify the genuineness / authenticity of these Bank Guarantees at the time of submission.

2) To streamline the system and to eliminate the possibility of forged / fake BGs, following guidelines to be adhered to strictly:

a) Copy of proper prescribed format on which BGs are accepted from the contractors should be enclosed with the tender document and it should be verified verbatim on receipt with original document. The standard format for acceptance of Bank Guarantees has been circulated vide Circular No. FIN/C-12/BANKS/04-05/28; dated 19-11-2004

b) It should be insisted upon the contractors, suppliers etc, that BGs to be submitted by them should be sent to HAL directly by issuing bank under Registered Post [AD].

c) In exceptional cases, where the BGs are received through the contractors, suppliers etc, the issuing branch should be requested to immediately send by Registered Post [AD] an unstamped duplicate copy of the guarantee directly to HAL with a covering letter to compare with the original BGs and confirm that it is in order

3) In the light of the above it may be ensured that in all cases,

i) Bank Guarantee received from banks / vendors are duly vetted by IMM / Works / respective departments for compliance with the Standard format before acceptance

ii) It should be insisted upon the contractors, suppliers etc, that BGs to be submitted by them should be sent to HAL directly by issuing bank under

Registered Post [AD]. A proper clause should be inserted in the purchase order / contract accordingly.

iii) In exceptional cases, where the BGs are received through the contractors, suppliers etc the issuing branch should be requested to immediately send by Registered Post [AD] an unstamped duplicate copy of the guarantee directly to HAL with a covering letter to compare with the original BGs and confirm that it is in order.

iv) After vetting IMM / Works / respective departments should send original Bank Guarantee to bills payable departments for keeping in the safe custody maintained with cash department after taking proper acknowledgement from B/P department. A Xerox copy of the Bank Guarantee may be kept in the respective file.

v) Before sending original Bank Guarantee to bills payable department for keeping in the safe custody, IMM / works / respective department must diarize expiry date of the bank guarantee for timely renewal and timely encashment of BGs without fail

vi) Cash department should enter Bank Guarantee details with expiry date into Bank Guarantee Custody register and keep the BGs in the safe custody.

(FIN/C-12/BG/07-08/62 dated 8 Feb 2008)

7.11 Acceptance Of Bank Guarantee

A number of instances have come to the notice of the Commission where forged / fake bank guarantees have been submitted by the contractors / suppliers. Organizations concerned have also not made any effective attempt to verify the genuineness / authenticity of these bank guarantees at the time of submission.

2. In this background, all organizations are advised to streamline the system of acceptance of Bank Guarantees from contractors / suppliers to eliminate the possibility of acceptance of any forged / fake bank guarantees.

3. The guidelines on this subject issued by Canara Bank provides for an elaborate procedure, which may be found helpful for the organizations in eliminating the possibility of acceptance of forged / fake bank guarantees. The guidelines issued by Canara Bank provide that:-

“The original guarantee should be sent to the beneficiary directly under Registered Post [AD]. However, in exceptional cases, where the guarantee is handed over to the customer for any genuine reasons, the branch should immediately send by Registered Post [AD] an unstamped

duplicate copy of the guarantee directly to the beneficiary with a covering letter requesting them to compare with the original received from their customer and confirm that is in order. The AD card should be kept with the loan papers of the relevant guarantee.

At times, branches may receive letters from beneficiaries viz central / state Governments, public sector undertakings, requiring bank's confirmation for having issued the guarantee, branches must send the confirmation letter to the concerned authorities promptly without fail

4. Therefore, all organizations are advised to evolve the procedure for acceptance of BGs, which is compatible with the guidelines of Banks / Reserve Bank of India.

(No. 02-07-01-CTE-30 dated 31 Dec 2008)

7.12 Preferential Purchase Policies (PPP) for Products and Services of CPSUs

This is regarding the issue of Preferential Purchase Policies (PPP) for products and services of CPSUs.

2. As per Dept of Public Enterprise's OM No DP/13/(15)2007-Fin dt 21.11.2007, the Government has terminated the PPP with effect from 31.03.2009. However, the Government has also decided that preferential purchase policies may be independently evolved/reviewed by the Ministries/Departments concerned, for the sectors of their concern, as per requirements.

3. In this regard, the Commission desires to hear from Ministries/Depts and CPSUs if they have independently evolved preferential policy on a sectoral basis in line with the above DPE guidelines.

(01-02-01-CTE-03 dated 24 Aug 2009)

7.13 Review of Purchase Reference policy for Product and Services of CPSEs

1. The Department of Public Enterprises has issued guidelines vide O.M. No. DPE/13(15)/2007-Fin. Dated 21.11.2007 on the subject cited above which reiterates OPE's earlier guidelines dated 18.07.2005 to the effect that the Purchase Preference Policy would stand terminated w.e.f. 31.03.2008. Further, it also provides that Preferential Policy framed for the specific sectors by the concerned Ministry/Department within relevant Act of Parliament or otherwise don't come within the purview of these guidelines. However, the OPE OM. Dated 21/11/2007, lays down that the concerned Ministry/Department may independently evolve/review preferential policies for the sectors of their concern as per their requirement. A copy of OPE's O.M dated 21/11/2007 is enclosed for reference.

2. The Commission has desired that if any Ministry/Department has evolved a Purchase Preference Policy pursuant to the OPE Guidelines, the same may be brought to the notice of the Commission.

(009/VGL/055 – Circular No. 31/10/09 Dated 09 Nov 2009)

7.14 Freight and Insurance charges

1. During the course of scrutiny in one of the Division, it is reported that freight & insurance charges were added as certain percentage of the offer quotation of the vendor unilaterally as the vendor had not added this element while submitting the Commercial Offer. It was also reported that basis on which a particular percentage of freight & insurance added to the price quoted by the vendor is based on a 'convention' that is being followed.

2. Considering a certain fixed percentage on a 'convention basis' appears to be an arbitrary and questionable decision. The following guidelines, in respect of freight & insurance charges for evaluation of offers received from different vendors wherever it becomes necessary to consider the freight & insurance charges in absence of non-availability in the quote, needs to be followed:

3. The percentage of freight & insurance to be adopted shall be based on the 'percentage of total freight & insurance paid to purchases during the preceding year'. This percentage will be forwarded by the Divisional Finance to the IMM department of the Division and shall be applicable during the year for the evaluation purpose. These rates shall be announced once in a year in first week of Financial year.

(HAL/CD/617/2010 Dated 05 Mar 2010)

7.15 Return of Bank Guarantee received against Earnest Money Deposit (EMD)/ Advance Payment/Performance Bank Guarantee:

1. BANK GUARANTEE Circular No. GM(F) BC/19-03/120/08 dt. 24th April 2008 provides the guidelines for acceptance of Bank Guarantee from Contractors and Suppliers.

2. During the investigation of some of the Purchase Orders placed by Divisions, Vigilance has observed that the EMD submitted during 2005-06 by a firm against some of the tenders where they were unsuccessful have not been refunded yet.

3. It is also seen from various correspondence received from Banks to HAL asking return of Original Bank Guarantee either expired or performed to avoid any misuse further.

4. In order to avoid recurrence of such eventualities and to bring accountability, responsibility & transparency the following needs to be followed.

4.1 Once the L1 has been identified after evaluation of tenders, BGs received in lieu of EMD of unsuccessful parties should be refunded forthwith or before placement of purchase order. In case of re-tendering, original BGs shall be refunded to all the vendors within a week from the date of approval accorded by CFA for re-tender. However, if re-tender is resorted due to withdraw of L1 bidder, then BGs received in lieu of EMD from the L1 bidder will be encashed. To ensure the same, it is advised that the proposal being put up to CFA seeking approval for placement of a purchase order / award of contract shall contain a confirmation that BGs of unsuccessful parties has been refunded and the same to be endorsed by the Finance Dept.

4.2 Bank Guarantees received from Suppliers against advance payments shall be returned after getting respective goods and R/Rs are established.

4.3 Bank Guarantees received against Performance of any contract shall be returned after successful performance of the contract.

4.4 Concerned dept.(IMM, Civil, Maintenance, HR, etc.) and Finance departments should maintain a register having details of BGs submitted by the parties & its refund/return and to monitor outstanding cases of non refund/return of BGs. Suggested format for the register is as under.

4.5 Finance Dept. should invariably forward the details of BGs refunded/returned to concerned departments (IMM/works/other user Department) for updating their records.

4.6 Records should primarily be maintained electronically and payments (dues in/out) are recorded in the similar means.

5. Generally Bank Guarantees received by Divisions are opened in the name of HAL, Corporate Office. It is very difficult for corporate office to find out the beneficiary division whenever correspondence from banks received. Divisions to take up the matter with Vendors / Suppliers to insert divisions name invariably.

6. Divisions are requested to take note of this for strict compliance

(FIN/C-12/BG/10-11 Dated 31 Jan 2011)

7.16 Transparency in Tendering System

1. There have been instances where the equipment/plant to be procured is of complex nature and the procuring organization may not possess the full knowledge of the various technical solutions available in the market to meet the desired objectives of a transparent procurement that ensures value for money spent simultaneously ensuring upgradation of technology & capacity building.

2. The Commission advise that in such procurement cases where technical specifications need to be iterated more than once, it would be prudent to invite expression of interest and proceed to finalise specifications based on technical discussions/presentations with the experienced manufacturers/suppliers in a transparent manner. In such cases, two stage tendering process may be useful and be preferred. During the first stage of tendering, acceptable technical solutions can be evaluated after calling for the Expression of Interest (EOI) from the leading experienced and knowledgeable manufacturers / suppliers in the field of the proposed procurement. The broad objectives, constraints etc. could be published while calling for EOI. On receipt of the Expressions of Interest, technical discussions/presentations may be held with the short-listed manufacturers/ suppliers, who are prima facie considered technically and financially capable of supplying the material or executing the proposed work. During these technical discussions stage the procurement agency may also add those other stake holder in the discussions who could add value to the decision making on the various technical aspects and evaluation criteria. Based on the discussions/presentations so held, one or more acceptable technical solutions could be decided upon laying down detailed technical specifications for each acceptable technical solution, quality bench marks, warranty requirements, delivery milestones etc., in a manner that is consistent with the objectives of the transparent procurement. At the same time care should be taken to make the specifications generic in nature so as to provide equitable opportunities to the prospective bidders. Proper record of discussions/presentations and the process of decision making should be kept.

3. Once the technical specifications and evaluation criteria are finalized, the second stage of tendering could consist of calling for techno commercial bids as per the usual tendering system under single bid or two bid system, as per the requirement of each case. Final selection at this stage would depend upon the quoted financial bids and the evaluation matrix decided upon.

4. Commission desires that organizations formulate specific guidelines and circulate the same to all concerned before going ahead with such procurements.

(011/VGL/014 – Circular No. 01/02/11 dated 11 Feb 2011)

7.17 Design, supply, installation, testing and commissioning of Air conditioning plants - Reg

1. 'With reference to the "Intensive Examination report of Electrical works air conditioning plant" carried out by Vigilance Dept. vide Lr. No. HAL/CO/VIG/ 47/2011/1114 dated 30.07.2011 the above nature of works / services are to be got done as per guide lines issued as under:

2. The nature of subject work is such that it needs to be carried out through Works & Services Dept. The award of work and Maintenance services are to be followed as per Works & Contract procedure. The above work/Purchase and Maintenance works / services are being got done by Works & Services Depts.

3. The supply installation testing and commissioning of readily available standard capacity Air-conditioners provided by Manufacturers/ Dealers including attending related works are the activities of purchase. Further, Purchase of above items may include maintenance services. The installation of above items need to be got done by following purchase procedure and Maintenance service is to be got done by following Works & Contract procedure. The above purchase and Maintenance works /services are being got done by IMM Depts.

4. The Division/Complex are requested to comply with the above procedures depending on the nature of works/services to achieve desired results as required by the Company.

(HAL/CO/WE/DGN-SUP/11/402 dated 17 Aug 2011)

7.18 Guidelines On Purchase Procedures

1. Based on the study/scrutiny of various proposals at Division by CO vigilance, CVO has forwarded their observations/suggestions advising to issue guidelines & instructions to the Divisions reiterating the Divisions to comply with the laid down policy/guidelines/circulars issued from time to time. In this regard, the following instructions/guidelines are issue for strict compliance.

Reference	Brief Vigilance observation	Guideline/Instruction
HAL/CO/VIG/SAMP/ARK/2011/1940 Dtd 3.11.2011 (Revision of	There are no specific guidelines	(i) The Division should not open any bids or

Purchase Manual)	to handle in case of single tender received, should open the offer or return the same to the bidders as it is.	offers after taking a decision to cancel the procurement and shall return such unopened bids or offers with reasons for such decision. (ii) The EMD received should be returned to the vendor as per the Corp. Office circular No. HAL/CD/617/EMD/2011 dtd 31 Jan 2011.
V2 Vol./26/November/2011 (Action of Salvage materials)	Proper guidelines for effective control, maintenance of salvage yard and disposal of salvage material has not been prepared/ followed by some of the Divisions. E-auction is not being done in some of the Divisions.	The Divisions are advised to follow the procedure as laid down in the Stores Manual for disposal of salvage/scrap/surplus items. All the salvage/scrap/surplus materials are to be e-auctioned through M/s. MSTC Ltd. only as per the selling agency agreement No. HAL/CD/802(1)/91 Dtd 28 Aug 1991 and its extension dt 14 Nov 2011, valid till 30 Sep 2014.
HAL/CO/VIG/62(16)/2011/2594 dt. 28/12/2011 (Verification of Vendors before Registration)	Scrutiny of documents submitted by a vendor for registration for the purpose of transacting business with one of the Division has revealed several anomalies viz. Independent checks not conducted by the Division concerned.	Para-3.4 & 3.5 of Purchase Manual provides the procedure for vendor registration. Para 3.4 of Purchase Manual states that "a party who has been registered as a Supplier/Sub-contractor in any of the Divisions of HAL shall be considered for registration as approved supplier resorting to the formality of application and scrutiny. If necessary

		<p>records may be called for from the Divisions who have registered them.”</p> <p>However, Divisions need to ensure that information provided by the vendor is the same as provided in the registration besides meeting the Division requirement. If needed, independent check should be conducted for the same.</p>
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2. Divisions are requested to take a note of this guideline for strict compliant.

(HAL/CD/617(CVO-observation)/2012 dated 20 Mar 2012)

7.19 Preparation of Work estimates according to latest MES SSR

1. With reference to Vigilance Department letter No. HAL/CO/VIG/55/PC/2012/808 dated 23t March 2012. They have observed that certain Divisions are following old MES SSR 2004 with escalation for estimating civil/Electrical/Maintenance work. In this regard all Divisions are requested to follow the latest MES SSR 2010 for preparation of estimate.

2. Follow strict compliance on the above please.

(HAL/CO/WE/12/260 dated 15 May 2012)

7.20 Guidelines for Tendering System – Procurement of Capital Items

1. There are certain inconsistencies reported in some cases w. r. t procurement of capital items such as:

- (a) No technical committee was formed to finalize / approve the technical specific of the equipment to be procured.
- (b) Specification finalized tending to suit to a particular vendor.
- (c) Estimate prepared without any adequate market survey.
- (d) Scope of work/ supply has been changed during PNC with vendor which could result in not providing equal opportunity and level playing field to the prospective vendors.

2. Para – 7.9 of purchase Manual provides the procedure to be followed for procurement of Capital equipment viz.

(a) Formation of Technical committee for preparation of technical specifications / features of their products to meet the requirements,

(b) Identification of Essential and Desirable parameters of the Machine tool,

(c) Providing technical specification to IMM Dept. By Technical Committee after approval.

(d) Specifications should not reflect to approach any one particular vendor,

(e) Technical Evaluation Committee (TEC) to carry out selection of accessories, special tooling, maintenance requirements and spares, special civil works ect. , if any, needed, in respect of Technically acceptable offices.

3. Para – 4.1 of purchase Manual stipulates “as the estimated rate is a vital element in establishing the reasonableness of prices, it is important that the same is worked out in a realistic and objective manner on the basis of prevailing market rates, last purchase prices, economic indices for the raw material / labour, other input costs, wherever application and assessment based on engineering estimates, intrinsic values etc.” Further, refer circular No. HAL/CD/616(F)/2008 dt. 26th Dec 2008 reiterating the same.

It is reiterated that Divisions are advised to ensure the compliance on the procedures indicated in the purchase manual and the guidelines issued from to time in procurement of capital items.

4. Divisions are advised to take note of this strict compliance.

5. The issues with the approval of competent Authority.

(HAL/CD/617(tender)/2012 dated 01 Jun 2012)

7.21 Issue of Revised Bank Guarantee format

1. Several guidelines on Bank Guarantees have been issued in the past. In order to streamline the operation and administration of Bank Guarantee, a consolidated circular containing various issues including the responsibilities of the concerned Departments viz. IMM, Finance, Works and IT has been formulated and enclosed herewith for implementation with immediate effect.

2. The Bank Guarantee format as per Purchase Manual for advance payment and security deposit mentions that "The validity of Bank Guarantee will –r–, automatically stand extended for further period of time that would be taken for the performance of the said Agreement / Contract / Order plus 60 days after such extended period for performance of the contract". Similarly Performance Bank Guarantee format has also a provision for automatic extension.

3. It has been brought to notice by various Divisions that some of the vendors have expressed their inability to comply with the condition, i.e. the validity of Bank Guarantee will automatically stand extended for further period. In view of the above, the issue was taken up with State Bank of India, our legal adviser M/s Sundarswamy & Ramdas. It has been confirmed by them that any B.G. issued by the bank should have defined time period and not to be open ended..

4. Accordingly, revised format of B.G. was put up to Management Committee for approval. Management Committee vide its 251st meeting held on 24th August 2012 has approved the Revised format of Bank Guarantee.

5. Divisions are advised to incorporate appropriate clause in the RFQ / Purchase order/Contract w.r.t submission of BG accordingly, in order to avoid any ambiguity in future.

Bank Guarantee

1. Several guidelines have been issued by Corporate Office with regard to the genuineness/ authenticity of the Bank Guarantees. Formats as well as action to be taken by HAL on receipt of Bank Guarantee were forwarded vide CO letter No. FIN/C-12/BG/07-08 Dated 08/02/2008 from Director (Finance) with the following guidelines:

(a) Copy of prescribed format on which BGs are accepted from the contractors should be enclosed with the tender document and it should be verified verbatim on receipt w.r.t. t prescribed format.

(b) It should be insisted upon the contractor, suppliers, etc that BGs to be submitted by them should be sent to HAL directly by the issuing Bank under Registered Post (A.D.)

(c) In exceptional cases, where the BGs are received through the contractors, suppliers etc, the issuing branch should be requested to immediately send by Registered Post (A.D.)an unstamped duplicate copy of the BG directly to HAL with a

covering letter to compare with the original BGs and confirm that it is in order.

(d) As an additional measure of abundant precaution, all BGs should be independently verified by the organization.

2. In order to streamline the procedure of handling Bank guarantees by fixing responsibilities of each department and also to eliminate the possibility of acceptance of any forged/fake BGs, the following guidelines are issued for compliance by all divisions, in supersession of all earlier instruction / guidelines on this matter.

3.1 Responsibilities of Works/IMM/any other user department :-

(a) BGs should normally not be accepted by the Divisions directly from contractor / suppliers. It should be insisted upon the contractor / suppliers, that BGs to be submitted by them should be sent to HAL directly by the issuing Bank under Registered Post (A.D.),!In this regard, a proper clause is to be inserted in the Contract/Purchase Order. No. Confirmation of B.G. is required to be obtained from issuing Bank, if the B .G. executed by Scheduled / Nationalized Banks is received in Banker's sealed envelope.

(b) However, in case of BG to be submitted in lieu of EMD, the original BG should be enclosed along with the offer as per the tender condition and a copy of the same to be sent to HAL directly by issuing bank.(b) In exceptional cases, where the BGs are received through the contractors/ suppliers etc, the issuing branch should be requested to immediately send by Registered Post (A.D.) an unstamped duplicate copy of the guarantee directly to HAL with a covering letter to compare with the original BGs and confirm that the same is in order. The reasons for receiving BGs directly from the contractor / supplier should be recorded in writing.

(c) If Bank Guarantees are received from Foreign Banks, the foreign vendor may submit BG issued by foreign branches of banks operating in India. Where the foreign bank does not have branches operating in India, the BG issue by the foreign banks should be got confirmed by one of the Scheduled Banks in India. The charges for confirmation of the BG should be borne by the foreign vendor. In case of BG to be issued by foreign banks towards EMD, the

original BG should accompany with authentication letter received from schedule bank in India. Otherwise the BG submitted by foreign bank will not be considered.

(i) Foreign Bank Guarantee may be obtained as an unconditional, irrevocable standby Letter of Credit or a guarantee from an international bank of repute .. situated outside India or a guarantee of an AD Category - I bank in India, if such a guarantee is issued against the counter-guarantee of an international bank of repute situated outside India.

(ii) If Foreign Bank Guarantee is received directly from Foreign Bank then it should be ensured that :

(a) Original Bank Guarantee is in SWIFTMT 760 Format.

(b) Any amendment is in SWIFTMT 767 Format.

(c) Any correspondence is in SWIFT MT 799 Format to avoid any forgery.

(iii) Authentication of International Bank of repute should be obtained from AD Category - I bank in India.

(d) It should be ensured that Bank Guarantee shall be free from all typographical error/deletions/inclusions, riders etc., requires to be authenticated by Bank's signatory with official seal.

(e) Bank guarantees submitted by bidders/ contractors/ suppliers should be unconditional and be in the specified formats. The standard format has been circulated vide letter No. FIN/C12/BANKS/04-05/28 dated 19.11.2004. The BGs are to be vetted for compliance with the standard format before acceptance. In case of any specific deviations in the Bank Guarantee submitted by the vendors, approval of the CFA approving the PO is to be obtained.

(f) In case of work contract, Bank Guarantees placed against Security Deposits for the Civil & Capital item procurement cases, should cover the defect liability period and can be returned on expiry of the defect liability period on production of a certificate from Head of the civil/head of the user department. In case of procurement of capital item through Purchase Orders by IMM, Bank Guarantee towards Security Deposit needs to be obtained for the

fulfillment of the performance of the contract/ order and can be returned on execution of contract against production of completion certificate from Head of user department. A separate Performance BG to be obtained to cover warranty period before release of final payment and can be returned on expiry of the warranty period.

(g) In order to have genuineness of the BG, the name, designation and code numbers of the Bank officer/officers signing the BGs should be incorporated under the signature(s) of the officials signing the BGs.

(h) In respect of the works contracts costing more than Rs. 10.00 Lakhs, a Bank Guarantee in the prescribed format acceptable to HAL may be accepted in lieu of Security Deposit, Defect Liability Deposit and against Mobilization Advance.

(i) On the completion of the work, the contractor submits the final bill duly signed and certified by the Engineer-in-charge alongwith the various documents prescribed under work procedure. One half of the Security Deposit refundable to the contractor is retained as Defect Liability Period and on the expiry of the Defect Liability Period, the Defect Liability Deposit is refunded to the contractor on the basis of the certificate of the Engineer-in-charge that there are no defects and that there are no dues from the contractor. In this regard, the amount is refunded when it was received in the form of Demand Draft. In case of the Bank Guarantee, the contractor may submit one half of the Security Deposit in form of Bank Guarantee covering 60 days more than the Defect Liability Period before expiry of the Original Bank Guarantee which was deposited in lieu of Security Deposit as per the terms & conditions of the contract at the beginning. The new BG will be retained by the division till the expiry of the same.

(j) Maintenance of records having details of BGs, prominently the expiry date and retention of Xerox copy in the respective file and to monitor the progress of execution against P.O. / Work order vis-a-vis the expiry date of BG concerned.

(k) Initiating/ taking action for renewal / encashment / return of B.G.

(l) Forwarding of BG in original along with copy of the confirmation received from the issuing Bank to Bills Payable Section of Finance Dept within 3 working days under covering

letter against acknowledgement of section-in-charge for keeping the same in safe custody. A copy of the confirmation received from the issuing Bank is also required to be enclosed with the Original Bank Guarantee while forwarding the same to Bills Payable Section.

(m) Advising Bills Payable section to return the original BG for forwarding it back to the supplier / contractor after the transaction is over.

3.2 Responsibilities of Bills Payable Section :-

(a) Receipt of Original Bank Guarantee from Works/IMM/ any other user department under covering letter against the acknowledgement by section-in-charge of Bills Payable.

(b) Authenticity/validity of the Bank Guarantee is to be ensured within 15 working days from the issuing Bank W.r.t. the regard to the purpose for which is has been issued.

(c) Maintenance of a Bank Guarantee Register (in case of Foreign Bank Guarantee, a separate register is to be maintained) in the format available in the Accounts Manual (Annexure 1-14).

(d) Section-in-charge of Cash Section shall monitor maintenance of BG register and put up the same for verification by Finance Head at least once in a month.

(e) Keeping of the Original Bank Guarantee in the safe custody. BGs are to be kept in an orderly manner in the safety vault & keeping expired BGs in separate lot. The same is to be forwarded to Cash Section against acknowledgment by the Cash section-in-charge.

(f) Section-in-charge of Bills Payable shall monitor maintenance of BG register and put up the same for verification by Finance Head at least once in a month.

(g) Forwarding monthly report of unreturned expired BG to Works/IMM/any other user department with a copy to ED/GM of the division.

(h) Section-in-charge of Bills Payable shall put up a monthly report to Finance Head in respect of the Bank

Guarantees getting expired in the next two months. In case of the same is not renewed during the month, the same is to be highlighted in bold letters in the next monthly report.

(i) Finance Head shall forward the monthly report (para g above) to the Works/IMM/any other user department with a copy to ED/GM of the division for seeking the necessary action from their side.

(j) Forwarding the Original Bank Guarantees to Works/IMM/ any other user department on their written request after obtaining the full signature with designation of the representative of Works/IMM/ any other user department.

(k) BGs which have expired after discharge of obligations by the contractor/vendors are to be sent to Works/IMM/any other User department for returning the same to the contractor/vendors. In this regard, a request is to be received from the Works/IMM/any other User department.

(l) In case, the contractor, supplier etc, fails to submit the Security Deposit either in form of Bank Guarantee or Demand Draft, the deduction could be made from the 1st RAR bill to the extend of the Security Deposit amount.

(m) Failing to submit the BG in time would also attract interest at the Bank Overdraft Rates which is to be deducted along with the penalty clause available in the Contract/Purchase Order.

(n) In respect of Bank Guarantees received in lieu of Security Deposit, Advance Payment, Defect Liability Deposit and Mobilization Advance. If the renewal of Bank Guarantee is not received by Bills Payable section within one week prior to the due date of expiry, action will be taken to inform the issuing bank invoking the Bank Guarantee with the stipulation that the same can be ignored if the Bank Guarantee is renewed. Due intimation to the concerned department could be given in this regard.

3.3 Responsibilities of Cash & Bank Section: -

(a) Receipt of Original Bank Guarantee from Bills Payable Section against the acknowledgement by section-in-charge of Bills Payable.

(b) Maintenance of a Bank Guarantee Register (in case of Foreign Bank Guarantee, a separate register is to be maintained) in the format available in the Accounts Manual (Annexure 1-14) wherein the column stating date of handing over to cash section will be mentioned as Date of Receipt from Bills Payable and the column stating Acknowledgement of Cash section will be mentioned Acknowledgement of Bills payable section.

(c) Keeping of the Original Bank Guarantee in the safe custody. BGs are to be kept in an orderly manner in the safety vault & keeping the expired BGs in separate lot.

(d) Section-in-charge of Cash Section shall monitor maintenance of BG register and put up the same for verification by Finance Head at least once in a month.

(e) Forwarding the Original BG to Bills Payable section after obtaining the full signature with designation of the representative of Bills Payable section.

(f) Submitting a monthly report to Finance Head in respect of the expired Bank Guarantees which are kept in a separate lot.

3.4 Responsibilities of IT Department:- IT department need to incorporate suitable provision in the ERP system of the Division for review and monitoring of BGs by all concerned like creation of database for BG containing value of BG as per terms of each Contract, validity period, timely receipt of BG and its value as per terms of Contact, validity of BG, list of BGs expiring during the month and subsequent month, to ensure extension of BGs in case of extension of time schedule, generation of exceptional list like Contractor/ Vendor who has not furnished BG, BGs received through Contractor but yet to be verified, Contract extended but validity of BG is yet to be extended etc.

3.5 Revised Bank Guarantee formats are enclosed herewith for:

- (i) Advance payment Bank Guarantee
- (ii) Bank Guarantee for Security Deposit
- (iii) Performance Bank Guarantee

(HAL/FIN/BG/2012-13 dated 10 Oct 2012)

8. **INTEGRITY PACT**

8.1 **Adoption of Integrity Pact in major Government Procurement Activities**

Ensuring transparency, equity and competitiveness in public procurement has been a major concern of the Central Vigilance Commission and various steps have been taken by it to bring this about. Leveraging technology especially wider use of the web- sites for disseminating information on tenders, tightly defining the pre-qualification criteria and other terms and conditions of the tender are some of the steps recently taken at the instance of the Commission in order to bring about greater transparency and competition in the procurement/award of tender.

2. In this context, Integrity Pact, a vigilance tool first promoted by the Transparency International, has been found to be useful. The Pact essentially envisages an agreement between the prospective vendors/bidders and the buyer committing the persons/officials of both the parties, not to exercise any corrupt influence on any aspect of the contract. Only those vendors/bidders who have entered into such an Integrity Pact with the buyer would be competent to participate in the bidding. In other words, entering into this Pact would be a preliminary qualification. The Integrity Pact in respect of a particular contract would be effective from the stage of invitation of bids till the complete execution of the contract.

3. The Integrity Pact envisages a panel of Independent External Monitors (IEMs) approved for the organization. The IEM is to review independently and objectively, whether and to what extent parties have complied with their obligations under the Pact. He has right of access to all project documentation. The Monitor may examine any complaint received by him and submit a report to the Chief Executive of the organization, at the earliest. He may also submit a report directly to the CVO and the Commission, in case of suspicion of serious irregularities attracting the provisions of the PC Act.

However, even though a contract may be covered by an Integrity Pact, the Central Vigilance Commission may, at its discretion, have any complaint received by it relating to such a contract, investigated.

4. The Commission would recommend the Integrity Pact concept and encourage its adoption and implementation in respect of all major procurements of the Govt. organizations. As it is necessary that the Monitors appointed should be of high integrity and reputation, it has been decided that the Commission would approve the names of the persons to be included in the panel. The Government Organizations are, therefore, required

to submit a panel of names of eminent persons of high integrity and repute and experience in the relevant field, through their administrative Ministry, for consideration and approval by the Commission as Independent External Monitors. The terms and conditions including the remuneration payable to the Monitors need not be a part of the Integrity Pact and the same could be separately communicated. It has also to be ensured by an appropriate provision in the contract, that the Integrity Pact is deemed as part of the contract in order to ensure that the parties are bound by the recommendation of the IEMs, in case any complaint relating to the contract is found substantiated.

5. A copy of the Integrity Pact, which the SAIL got vetted by the Addl. Solicitor General is available on the Commission's web-site i.e. www.cvc.nic.in as an attachment to this Office Order in downloadable form, which may be used in original or may be suitably modified in order to meet the individual organization's requirements.

Steel Authority of India Limited (SAIL) hereinafter referred to as "The Principal". Andhereinafter referred to as "The Bidder/Contractor"

Preamble

The Principal intends to award, under laid down organizational procedures, contract/s for.....The Principal values full compliance with all relevant laws of the land, rules, regulations, economic use of resources and of fairness/transparency in its relations with its Bidder(s) and /or Contractor(s).

In order to achieve these goals, the Principal will appoint an Independent External Monitor (IEM), who will monitor the tender process and the execution of the contract for compliance with the principles mentioned above.

Section 1- Commitments of the Principal.

1. The Principal commits itself to take all measures necessary to prevent corruption and to observe the following principles:-

a. No employee of the Principal, personally or through family members, will in connection with the tender for, or the execution of a contract, demand, take a promise for or accept, for self or third person, any material or immaterial benefit which the person is not legally entitled to.

b. The Principal will during the tender process treat all Bidder(s) with equity and reason. The Principal will in particular, before and during the tender process, provide to all Bidder(s) the same information and will

not provide to any Bidder(s) confidential/additional information through which the Bidder(s) could obtain an advantage in relation to the process or the contract execution.

c. The Principal will exclude from the process all known prejudiced persons.

2. If the Principal obtains information on the conduct of any of its employees which is a criminal offence under the IPC/PC Act, or if there be a substantive suspicion in this regard, the Principal will inform the Chief Vigilance Officer and in addition can initiate disciplinary actions.

Section 2 – Commitments of the Bidder(s)/ Contractor(s)

1. The Bidder(s)/Contractor(s) commit himself to take all measures necessary to prevent corruption. He commits himself to observe the following principles during his participation in the tender process and during the contract execution.

a. The Bidder(s) / contractor(s) will not, directly or through any other persons or firm, offer promise or give to any of the Principal's employees involved in the tender process or the execution of the contract or to any third person any material or other benefit which he/she is not legally entitled to, in order to obtain in exchange any advantage or during the execution of the contract.

b. The Bidder(s)/Contractor(s) will not enter with other Bidders into any undisclosed agreement or understanding, whether formal or informal. This applies in particular to prices, specifications, certifications, subsidiary contracts, submission or non submission of bids or any other actions to restrict competitiveness or to introduce cartelization in the bidding process.

c. The Bidder(s)/Contractor(s) will not commit any offence under the relevant IPC/PC Act; further the Bidder(s) /Contractors will not use improperly, for purposes of competition or personal gain, or pass on to others, any information or document provided by the Principal as part of the business relationship, regarding plans, technical proposals and business details, including information contained or transmitted electronically.

d. The Bidder(s)/Contractor(s) of foreign origin shall disclose the name and address of the Agents/representatives in India, if any. Similarly, the bidder(s)/contractor(s) of Indian Nationality shall furnish the name and address of the foreign principals, if any. Further details as mentioned in the "Guidelines on Indian Agents of Foreign Suppliers" shall be disclosed by the Bidder(s)/Contractor(s). Further, as

mentioned in the Guidelines all the payments made to the Indian agent/representative have to be in Indian Rupees only. Copy of the “Guidelines on Indian Agents of Foreign Suppliers’ as annexed and marked as Annexure.

e. The Bidder(s)/Contractor(s) will, when presenting his bid, disclose any and all payments he has made, is committed to or intends to make to agents, brokers or any other intermediaries in connection with the award of the contract.

2. The Bidder(s)/Contractor(s) will not instigate third persons to commit offences outlined above or be an accessory to such offences.

Section 3: Disqualification from tender process and exclusion from future contracts

If the Bidder(s)/Contractor(s), before award or during execution has committed a transgression through a violation of Section 2, above or in any other form such as to put his reliability or credibility in question, the Principal is entitled to disqualify the Bidder(s)/Contractor(s) from the tender process or take action as per the procedure mentioned in the “Guidelines on Banning of business dealings”. Copy of the “Guidelines on Banning of business dealings” is annexed and marked as Annexure -“B”.

Section 4 : Compensation for Damages

1. If the Principal has disqualified the Bidder(s) from the tender process prior to the award according to Section 3, the Principal is entitled to demand and recover the damages equivalent to Earnest Money Deposit/Bid Security.

2. If the Principal has terminated the contract according to Section 3, or if the Principal is entitled to terminate the contract according to Section 3, the Principal shall be entitled to demand and recover from the Contractor liquidated damages of the Contract value or the amount equivalent to Performance Bank Guarantee.

Section 5 : Previous Transgression

1. The Bidder declares that no previous transgressions occurred in the last three years with any other company in any country conforming to the anti corruption approach or with any other public sector enterprise in India that could justify his exclusion from the tender process.

2. If the bidder makes incorrect statement on this subject, he can be disqualified from the tender process for action can be taken as per the procedure mentioned in “Guidelines on Banning of business dealings”.

Section 6: Equal treatment of all Bidders/Contractors/Subcontractors.

1. The Bidder(s)/Contractor(s) undertake(s) to demand from all subcontractors a commitment in conformity with this Integrity Pact, and to submit it to the Principal before contract signing.
2. The Principal will enter into agreements with identical conditions as this one with all bidders, contractors and subcontractors.
3. The Principal will disqualify from the tender process all bidders who do not sign this Pact or violate its provisions.

Section 7: Criminal charges against violation Bidder(s)/Contractor(s)/Sub-Contractor(s)

If the Principal obtains knowledge of conduct of a Bidder, Contractor or Subcontractor, or of an employee or a representative or an associate of a Bidder, Contractor or Subcontractor which constitutes corruption, or if the Principal has substantive suspicion in this regard, the Principal will inform the same to the Chief Vigilance Officer.

Section 8: Independent External Monitor/Monitors

(1) The Principal appoints competent and credible Independent External Monitor for this Pact. The task of the Monitor is to review independently and objectively, whether and to what extent the parties comply with the obligations under this agreement.

(2) The Monitor is not subject to instructions by the representatives of the parties and performs his functions neutrally and independently. He reports to the Chairman, SAIL.

(3) The Bidder(s)/Contractor(s) accepts that the Monitor has the right to access without restriction to all project documentation of the Principal including that provided by the Contractor. The Contractor will also grant the Monitor, upon his request and demonstration of a valid interest, unrestricted and unconditional access to his project documentation. The same is applicable to Subcontractors. The Monitor is under contractual obligation to treat the information and documents of the Bidder(s)/Contractor(s)/Subcontractor(s) with confidentiality.

(4) The Principal will provide to the Monitor sufficient information about all meetings among the parties related to the Project provided such meetings could have an impact on the contractual relations between the Principal and the Contractor. The parties offer to the Monitor the option to participate in such meetings.

(5) As soon as the Monitor notices, or believes to notice, a violation of this agreement, he will so inform the Management of the Principal and request the Management to discontinue or take corrective action, or to take other relevant action. The monitor can in this regard submit non-binding recommendations. Beyond this, the Monitor has no right to demand from the parties that they act in a specific manner, refrain from action or tolerate action.

(6) The Monitor will submit a written report to the Chairman, SAIL within 8 to 10 weeks from the date of reference or intimation to him by the Principal and, should the occasion arise, submit proposals for correcting problematic situations.

(7) Monitor shall be entitle to compensation on the same terms as being extended to / provided to Independent Directors on the SAIL Board.

(8) If the Monitor has reported to the Chairman SAIL, a substantiated suspicion of an offence under relevant IPC/PC Act, and the Chairman SAIL has not, within the reasonable time taken visible action to proceed against such offence or reported it to the Chief Vigilance Officer, the Monitor may also transmit this information directly to the Central Vigilance Commissioner.

9) The word 'Monitor' would include both singular and plural.

Section 9 – Pact Duration

This pact begins when both parties have legally signed it. It expires for the Contractor 10 months after the last payment under the contract, and for all other Bidders & months ---- the contract has been awarded. If any claim is made / lodged during this time, the same shall be binding and continue to be valid despite the lapse of this pact as specified above, unless it is discharged / determined by Chairman of SAIL.

Section 10 – Other provisions

This agreement is subject to Indian Law, Place of performance and jurisdiction is the Registered Office of the Principal, i.e. New Delhi.

Changes and supplements as well as termination notices need to be made in writing. Side agreements have not been made.

If the Contractor is a partnership or a consortium, this agreement must be signed by all partners or consortium members.

Should one or several provisions of this agreement turn out to be invalid, the remainder of this agreement remains valid. In this case, the parties will strive to come to an agreement to their original intentions.

(For & on behalf of the Principal)
Contractor)

(For & On behalf of Bidder/

(Office Seal) (Office Seal)

Place _____

Date _____

Witness 1:

(Name & Address) _____

Witness 2:

(Name & Address) _____

(007/VGL/033 dated 04th Dec 2007 - Office Order No.4/12/07)

8.2 Adoption of Integrity Pact in major Government Procurement Activities

Reference is invited to Commission's office order no. 41/12/2007 circulated vide letter of even no. dated 4/12/2007 on the aforementioned subject.

2. The Commission vide para 4 of the aforementioned office order had directed that the organizations were required to forward a panel of names of the eminent persons of high integrity through their administrative ministries for consideration and approval by the Commission as IEMs.

3. The matter has been reconsidered by the Commission and in order to simplify the procedure and avoid delay, it has been decided that the organizations may forward the panel of names of eminent persons for appointment and consideration as IEMs directly to the Commission for approval.

4. Para 4 of the Commission's circular cited above stands amended to this extent.

(007/VGL/033 dated 28 Dec 2007)

8.3 Adoption of Integrity Pact in major Government Procurement Activities

The Commission vide its office order no. 41/12/07 dated 4/12/07 had circulated a letter no. 007/vgl/033 emphasizing the need to adopt Integrity Pact (IP) by government organizations in respect of their major procurement

activities. The Commission had also directed that in order to ensure compliance with the obligations under the pact by the parties concerned, Independent External Monitors (IEMs) are to be appointed after obtaining approval of the Commission for the names to be included in the panel.

2. As the role of IEMs is very important in ensuring implementation of the IP, it is necessary that the persons recommended for appointment have adequate experience in the relevant fields and are of high integrity and reputation.

3. The Commission would, therefore, forwarding the names of the persons for empanelment as IEMs should sent a detailed bio-data in respect of the each of the persons proposed. The bio-data should, among other things, include the posting / superannuation of the persons proposed as IEMs, in case the names relate to persons having worked in the government sector. The bio details regarding experience older than ten years before persons proposed as IEMs, if they have relevant domain experience in the activities of PSUs where they are considered as IEMs. This may be noted for future compliance.

(No. 008/VGL/001 dated 19 May 2008)

8.4 Adoption of Integrity Pact in major Government procurement activities

The Commission, vide its Circulars No. 41/12/07, dated 4.12.07 and 18/5/08 dated 19.5.08, has emphasized the necessity to adopt Integrity Pact (IP) in Government organizations in their major procurement activities. The Commission had also directed that in order to oversee the compliance of obligations under the Pact, by the parties concerned, Independent External Monitors (IEMs) should be nominated with the approval of the Commission, out of a panel of names proposed by an Organization.

2. As more and more organizations begin to adopt the Integrity Pact, several queries and operational issues have been raised. The Commission has examined these issues and suggested the following guidelines:

a) Adoption of Integrity Pact in an organization is voluntary, but once adopted, it should cover all tenders/procurements above a specified threshold value, which should be set by the organization itself.

b) IP should cover all phases of the contract i.e., from the stage of Notice Inviting Tender(NIT)/pre-bid stage to the stage of last payment or a still later stage, covered through warranty, guarantee etc.

c) IEMs are vital to the implementation of IP and atleast one IEM should be invariably cited in the NIT. However, for ensuring the desired transparency and objectivity in dealing with the complaints arising out of

any tendering process, the matter should be referred to the full panel of IEMs, who would examine the records, conduct the investigation and submit a report to the management, giving joint findings.

d) A maximum of three IEMs would be appointed in Navratna PSUs and upto two IEMs in other Public Sector Undertakings. The organizations may, however, forward a panel of more than three names for the Commission's approval. For the PSUs having a large territorial spread or those having several subsidiaries, the Commission may consider approving a large number of IEMs, but not more than two IEMs would be assigned to any one subsidiary.

e) Remuneration payable to the IEMs Directors in the organization.

f) In view of limited procurement activities in the Public Sector Banks, Insurance Companies and Financial Institution, they are exempted from adopting IP.

g) It needs no reiteration to realize the spirit and objective of the Integrity Pact. For further clarifications on its implementation or the role of IEMs, all concerned are advised to approach the Commission.

(No. 007/VGL/033 dated 05 Aug 2008)

8.5 **Integrity Pact**

MOD has since issued Defense Procurement Procedure 2008 (DPP-08), wherein certain additional clause/paras have been added with regard to Integrity Pact. Further, Integrity Pact has to be signed with vendors in case estimated value of each contract(s) exceeds Rs. 20 Crores.

2. Integrity Pact has been revised to incorporate the above changes and is enclosed herewith as Revision-I dtd. 04 November 2008.

3. This supersedes the Integrity Pact issued vide MM Circular No.36 dtd 2nd Jul 2008.

Note: For Annexure, please refer to enclosure of the letter No.

(HAL/CD/617/2008 dated 04 Nov 2008)

8.6 **Implementation of Integrity Pact**

1. This has reference to the Circular of Materials Management No. HAL/CD/617/20 dated 2nd July 2008 on the subject and subsequent amendment vide letter of even number dated 4th November 2008.

2. As you are aware, the Company had provided for execution of Integrity

Pact in all major Contracts / Purchase Orders / Agreements in line with the CVC Guidelines to bring transparency in the system.

3. Taking into consideration the Defence procurement procedure 2008, the Company had issued directives to the Divisions in November 2008 for signing of the Integrity Pact with the Vendors in contracts exceeding Rs. Twenty Crores.

4. As regards the Russian suppliers, the matter had been taken up with the MOD for a final decision in the matter.

5. It is reiterated that the Integrity Pact is required to be signed in respect of all Contracts / Purchase Orders / Agreements exceeding Rs. Twenty Crores.

6. Your co-operation for implementation of the procedure regarding Integrity Pact in all the Divisions is requested.

(HAL/CD/617/2008 dated 06 Jan 2009)

8.7 Adoption of Integrity Pact-Standard Operating Procedure-reg.

The Commission has formulated "Standard Operating Procedure" for adoption of Integrity Pact in major Govt. Department/authorized. A copy of the same is enclosed for information and necessary action.

1.0 Background

1.01 The Central Vigilance Commission has been promoting Integrity, transparency, equity and competitiveness in Government/PSU transactions and as a part of vigilance administration and superintendence. Public procurement is a major area of concern for the Central Vigilance Commission and various steps have been taken to put proper systems in place. Leveraging technology, especially wider use of the web sites for disseminating information on tenders, clearly defining the pre-qualification criteria and other terms and conditions of the tender are some of the steps recently taken at the instance of the Commission. In this context, Integrity Pact (IP), a vigilance tool conceptualized and promoted by the Transparency International, has been found to be useful. The Commission has, through its Office Orders No. 41/12/07 dated 04.12.07 and 43/12/07 dated 28.12.07 and Circulars No. 18/05/08 dated 19.05.08 and 24.08.08 dated 05.08.2008 (copies appended), recommended adoption of Integrity Pact and provided basic guidelines for its implementation in respect of major procurements in the Government Organizations.

2.0 Integrity Pact

a) The pact essentially envisages an agreement between the

prospective vendors/bidders and the buyer, committing the persons/officials of both sides, not to resort to any corrupt practices in any aspect/stage of the contract. Only those vendors/bidders, who commit themselves to such a Pact with the buyer, would be considered competent to participate in the bidding process. In other words, entering into this Pact would be a preliminary qualification. The essential ingredients of the Pact include:

- Promise on the part of the principal not to seek or accept any benefit, which is not legally available;
- Principal to treat all bidders with equity and reason;
- Promise on the part of bidders not to offer any benefit to the employees of the Principal not available legally;
- Bidders not to enter into any undisclosed agreement or understanding with other bidders with respect to prices, specifications, certifications, subsidiary contracts, etc.
- Bidders not to pass any information provided by Principal as part of business relationship to others and not to commit any offence under PC/ IPC Act;
- Foreign bidders to disclose the name and address of agents and representatives in India and Indian Bidders to disclose their foreign principals or associates;
- Bidders to disclose the payments to be made by them to agents / brokers or any other intermediary.
- Bidders to disclose any transgressions with any other company that may impinge on the anti corruption principle.

2.02 Integrity Pact, in respect of a particular contract, would be operative from the stage of invitation of bids till the final completion of the contract. Any violation of the same would entail disqualification of the bidders and exclusion from future business dealings.

3.0 **Implementation procedure:**

3.01 Adoption of IP is voluntary for any organization, but once adopted, it should cover all tenders /procurements above a specified threshold value.

3.02 The threshold value for the contracts to be covered through IP should be decided after conducting proper ABC analysis and should be fixed so as to cover 90-95% of the total procurements of the organization in monetary terms.

3.03 Apart from all high value contracts, any contract involving complicated or serious issues could be brought within the ambit of IP, after a considered decision of the management.

3.04 The Purchase / procurement wing of the organization would be the focal point for the implementation of IP.

3.05 The Vigilance Department would be responsible for review, enforcement, and reporting on all related vigilance issues.

3.06 It has to be ensured, through an appropriate provision in the contract, that IP is deemed as part of the contract so that the parties concerned are bound by its provisions.

3.07 IP should cover all phases of the contract, i.e. from the stage of Notice Inviting Tender (NIT)/pre-bid stage till the conclusion of the contract, i.e. the final payment or the duration of warranty/guarantee.

3.08 IP would be implemented through a panel of Independent External Monitors (IEMs), appointed by the organization. The IEM would review independently and objectively, whether and to what extent parties have complied with their obligations under the Pact.

3.09 Periodical Vendors' meets, as a familiarization and confidence building measure, would be desirable for a wider and realistic compliance of the principles of IP.

3.10 Information relating to tenders in progress and under finalization would need to be shared with the IEMs on monthly basis.

4.0 **Role /Functions of IEMs :**

4.01 IEM would have access to all Contract documents, whenever required. Ideally, all IEMs of an organization should meet in two months to take stock of the ongoing tendering processes.

4.02. It would be desirable to have structured meeting of the IEMs with the Chief Executive of the organization on a monthly basis to discuss/review the information on tenders awarded in the previous month.

4.03 The IEMs would examine all complaints received by them and give their recommendations/views to the Chief Executive of the organization, at the earliest. They may also send their report directly to the CVO and the Commission, in case of suspicion of serious irregularities requiring legal/administrative action.

4.04 At least one IEM should be invariably cited in the NIT. However, for ensuring the desired transparency and objectivity in dealing with the complaints arising out of any tendering process, the matter should be examined by the full panel of IEMs, who would look into the records, conduct an investigation, and submit their joint recommendations to the Management

4.05 The recommendations of IEMs would be in the nature of advice and would not be legally binding. At the same time, it must be understood that IEMs are not consultants to the Management. Their role is independent in nature and the advice once tendered would not be subject to review at the request of the organization.

4.06 The role of the CVO of the organization shall remain unaffected by the presence of IEMs. A matter being examined by the IEMs can be separately investigated by the CVO in terms of the provisions of the CVC Act or Vigilance Manual, if a complaint is received by him or directed to him by the Commission.

5.0 **Appointment of IEMs**

5.01 The IEMs appointed should be eminent personalities of high integrity and reputation. The Commission would approve the names of IEMs out of the panel of names, initiated by the organization concerned, in association/consultation with the CVO.

5.02 While forwarding the panel, the organization would enclose detailed bio-data in respect of all names proposed. The details would include postings before superannuation, special achievements, experience, etc., in Government sector. It is desirable that the persons proposed possess domain experience of the PSU activities or the relevant field with which they may be required to deal.

5.03 A maximum of three IEMs would be appointed for Navratna PSUs and up to two IEMs for others.

5.04 Organizations could propose a panel of more than three names for the consideration of the Commission.

5.05 Persons appointed as IEMs in two organizations would not be considered for a third organization.

5.06 For PSUs having a large territorial spread or those having several subsidiaries, there could be more IEMs, but not more than two IEMs would be assigned to one subsidiary.

5.07 Remuneration payable to the IEMs would be equivalent to that admissible to an Independent Director in the organization. This remuneration would be paid by the organization concerned.

5.08 The terms and conditions of appointment, including the remuneration payable to the IEMs, should not be included in the Integrity Pact or the NIT. They could be communicated individually to the IEMs concerned.

5.09 The normal term of appointment for an IEM would be 3 years, and it would be subject to renewal by the Commission thereafter.

6.0 **Review System** :

6.01 An internal assessment of the impact of IP shall be carried out periodically by the CVOs of the organizations and reported to the Commission.

6.02 Two additional reviews are envisaged for each organization in due course.

(i) Financial impact review, which could be conducted through an independent agency like auditors, and

(ii) Physical review, which could be done through an NGO of tested credibility in the particular field.

6.03 It is proposed to include the progress in the implementation of IP in the Annual Report of the Commission. CVOs of all organizations would keep the Commission posted with the implementation status through their monthly reports or special reports, wherever necessary.

7.0 All organizations are called upon to make sincere and sustained efforts to imbibe the spirit and principles of the Integrity Pact and carry it to its effective implementation.

(008/CRD/013 Dated 18 May 2009)

8.8 **Adoption of Integrity Pact – Periodical regarding**

1. The Commission in its various circular has emphasized the necessity to adopt Integrity Pact (IP) in Government organizations in their major procurement activities. The Commission had also directed that in order to oversee the compliance of obligations under the Pact, by the parties concerned, Independent External Monitors (IEMs) should be nominated with the approval of the Commission, out of a panel of names proposed by an Organization.

2. Further, the Commission vide its circular No. 10/5/09 dated 18.5.09 provided a review system for the CVOs wherein and internal assessment of the impact of Integrity Pact are to be carried out periodically and reported to the Commission. In this regard, it is clarified that such review should be on annual basis. The Organisation which has adopted Integrity Pact may report compliance of review system through monthly report.

3. This may be noted for future compliance.

(008/CRD/013 (Circular No. 22/08/09 dated 11 Aug 2009)

8.9 Integrity Pact

1. Instructions were issued vide letter No.HAL/CD/ 17/2008 dated 04th Nov 2008 (Amendment No.1 to MMC No.36) for signing of Integrity Pact with vendors wherever procurement/contracts value exceed Rs. 20 Crs. i line with DDP-2008.

2. Further, CO-Vigilance has forwarded a letter No. HAL/CO/VIG/411PC/2009/1314 dt. 02 Dec 2009 enclosing a copy of CVC Circular No. 10/5/09 dt. 18/5/09 with regard to Adaptation of Integrity Pact - Standard Operating Procedure (copy enclosed).

3. The main highlights of the above CVC circular are as Follows:

(a) Vendors / bidders, only those who commit themselves to IP with the buyer, would be: considered competent to participate in the bidding process. In other words, entering into this Pact would be preliminary qualification.

(b) **It** has to be ensured, through an appropriate provision in the contract that IP is deemed as a part of the contract so that the parties concerned are bound by its provisions.

(c) P should cover all phases of the contract i.e from the stage of Notice Inviting Tender (NIT)/Request for Quotation(RF) till the conclusion of the contract i.e the final payment or the duration of warranty/guarantee.

(d) At least one IEM (Independent External Monitor should be invariably cited in the NIT/RFQ.

(e) IEM would have access to all contract documents, whenever required.

(f) Implementation status report needs to be shared with the IEMs on monthly basis.

4. Appointment of IEMs have already been communicated to Divisions vide WAN message dt. 18/05/09 and further their names & addressee have also been hosted in HAL's Website.

5. **It** is proposed to indicate Shri Subir Dutta, IAS(Retd) as IEM in the NIT /RFQs pertaining to Bangalore Complex / Design Complex/ Helicopter Complex/Corporate Office and Shri S.C. Tripathy, IAS (Retd.) as IEM in the NIT/RFQs pertaining to MiG Complex/Accessories Complex.

(HAL/CD/617/2009 dated 14 Dec 2009)

8.10 Amendment No. 2 to Material Management Circular No. 36 – Integrity Pact

1. Reference is made to MM Circular No. 36 Amendment No.1 issued vide Corporate Office letter No. HALICD/617/2008 dated 04-11-2008 on Integrity Pact.

2. The guidelines stipulated in Clause 8 - EMD of Integrity Pact is amended as stated below :

Existing	Amended as :																														
<p>8.1 (iii) : At present amount of Earnest Money / Security Deposit are as follows</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Estimated value of Tender</td> <td style="width: 30%; text-align: center;"><i>EMD/SD</i></td> <td></td> </tr> <tr> <td>Above Rs. 20-50CrS.</td> <td style="text-align: center;">Rs.20 Lakhs</td> <td></td> </tr> <tr> <td>Above Rs. 50-100 CrS.</td> <td style="text-align: center;">Rs.50 Lakhs</td> <td></td> </tr> <tr> <td>Above Rs.100-300 CrS.</td> <td style="text-align: center;">Rs.1 Cr.</td> <td></td> </tr> <tr> <td>Above Rs.300 CrS.</td> <td style="text-align: center;">Rs.3 CrS.</td> <td></td> </tr> </table> <p>8.6 Integrity Pact has to be signed with vendors in case estimated values of each contract(s) exceed iRs.20 Crs. Against the subject RFP, the vendor is required to sign and submit Integrity Pact and shall also deposit as mentioned at Para 8.1 * as earnest money deposit through any of the instruments mentioned therein. This would be submitted in a separate envelope clearly marked as IP and EMD at the time of submission of technical and price offers. Vendors not Submitting IP and EMD due to lesser value of their price offer vis-a-vis applicable price limit for Integrity Pact, must submit a certificate to this effect in lieu of IP and EMD.</p>	Estimated value of Tender	<i>EMD/SD</i>		Above Rs. 20-50CrS.	Rs.20 Lakhs		Above Rs. 50-100 CrS.	Rs.50 Lakhs		Above Rs.100-300 CrS.	Rs.1 Cr.		Above Rs.300 CrS.	Rs.3 CrS.		<p>8.1 (iii) : The amount of Earnest money deposit in Rs. / US\$" or Equivalent in Foreign Currency as hereunder:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">HAL's Estimated value</td> <td style="width: 30%; text-align: center;">EMD</td> <td style="width: 40%; text-align: center;">Foreign</td> </tr> <tr> <td>Above Rs.20-50 Crs.</td> <td style="text-align: center;">Rs.20 Lakhs</td> <td style="text-align: center;">44,450</td> </tr> <tr> <td>Above Rs.50-100CrS.</td> <td style="text-align: center;">Rs.50 Lakhs</td> <td style="text-align: center;">1,11,120</td> </tr> <tr> <td>Above Rs.50-100CrS.</td> <td style="text-align: center;">Rs.50 Lakhs</td> <td style="text-align: center;">1,11,120</td> </tr> <tr> <td>Above Rs.300 Crs.</td> <td style="text-align: center;">Rs.3 CrS.</td> <td style="text-align: center;">6,66,670</td> </tr> </table> <p>8.6 Integrity Pact has to be signed with vendors in case HAL's estimated value of each contract(s) exceed Rs.20 Crs. Against the subject RFP, the vendor is required to sign and submit Integrity Pact and shall also deposit as mentioned at Para 8.1 * as earnest money deposit through any of the instruments mentioned therein. This would be submitted in a separate envelope clearly marked as 'IP and EMD' at the time of submission of technical and commercial offers. The vendor is required to sign and submit Pre-Contract Integrity Pact irrespective of the value of the commercial bid submitted by the vendor.</p>	HAL's Estimated value	EMD	Foreign	Above Rs.20-50 Crs.	Rs.20 Lakhs	44,450	Above Rs.50-100CrS.	Rs.50 Lakhs	1,11,120	Above Rs.50-100CrS.	Rs.50 Lakhs	1,11,120	Above Rs.300 Crs.	Rs.3 CrS.	6,66,670
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3. The wordings in the following paragraphs in IP are amended as hereunder:

Para	FOR	AMENDED AS
8	Earnest Money / Security Deposit	Earnest Money Deposit
8.1	Earnest Money / Security Deposit	Earnest Money Deposit
8.2	Earnest Money / Security Deposit	Earnest Money Deposit
8.5	Earnest Money / Security Deposit	Earnest Money Deposit
10.1(ii)	Earnest Money / Security Deposit	Earnest Money Deposit

4. Addition .The following is incorporated as additional para under Clause 8 in IP : "8.1 (iv) EMD by Foreign Bidder shall be in the currency of Bidder's country or any other convertible equivalent Foreign Currency."

5. The existing Clause 12 Independent External Monitors (Para 12.1 to 12.9) of Integrity Pact to be replaced by a New Clause 12 Independent External Monitors (Para 12.1 to 12.6) as follows :

"12.1 The Buyer has appointed Independent Monitors' for this Pact in consultation with the Central Vigilance Commission (Names and Addresses of the Monitors to be given in RFQ).

12.2 As soon as the Integrity Pact is signed, the buyer shall provide a copy thereof, along with a brief background of the case to the Independent Monitors.

12.3 The bidder(s), if they deem it necessary, may furnish any information as relevant to their bid to the Independent Monitors.

12.4 If any complaint with regard to violation of the IP is received by the buyer in a procurement case, the buyer shall refer the complaint to the Independent Monitors for their comments / enquiry.

12.5 If the Independent Monitors need to peruse the records of the buyer in connection with the complaint sent to them by the buyer, the

buyer shall make arrangement for such perusal of records by the Independent Monitors.

12.6 The report of enquiry, if any, made by the Independent Monitors shall be submitted to Chairman, HAL for a final and appropriate decision in the matter keeping in view the provision of this pact."

(HAL/CD/617/2010 dated 7 Apr 2010)

8.11 Integrity Pact – Selection and Recommendation of Independent External Monitors (IEMs)

1. The Commission receives a number of requests for implementation of Integrity Pact in Government of India organizations and Public Sector Undertakings. Organizations desirous of implementing Integrity Pact are required to forward at most three names of Independent External Monitors along with the proposal to the Commission for its approval.

2. The Commission would consider names for appointment of Independent External Monitors of only those officers of Government of India departments or Public Sector Undertakings, who have retired from top management positions. The Commission would not consider the name of an officer in executive, who is either serving or who has retired from the same organization to be an IEM in that organization, although they may have served in the top management. Eminent persons, executives of private sector of considerable eminence could also be considered for functioning as Independent External Monitors and names recommended to the Commission for approval.

3. The appointment of Independent External Monitors would be for an initial period of three years and could be extended for another term of two years on a request received in the Commission from the organization appointing the Independent External Monitor. An Independent External Monitor can have a maximum tenure of 5 years in an organization with an initial term of three years and another term of two years.

4. Organizations recommending the names of Independent External Monitors are to select and forward the names to the Commission after due diligence and scrutiny.

(009/VGL/016 – Circular No. 17/04/10 dated 19 Apr 2010)

8.12 Earnest Money Deposit (EMD) – Integrity Pact

1. Para 5.2 (b) of the purchase manual (issue 2-2007) provides for EMD for open tender case wherever the estimated value of tender is above Rs. 1.00 lakh.

2. Materials Management (MM) Circular No. 36, amendment No. 2 dt. 07 Apr 2010 to integrity pact (IP) provides for signing of integrity pact with vendors wherever the estimated value of contract/procurement exceeded Rs. 20 Crs.

3. The requirement of EMD as per para 5.2 (b) of the purchase Manual and clause 8.1 (iii) of IP had resulted in ambiguity with regard to EMD and its applicability in case of value of procurement/contract exceeding Rs.20 Crs. Further, EMD amount prescribed for requirement and as per purchase Manual are different.

4. The following guidelines are issued for obtaining, EMD. RFQ should have a clause accordingly.

Category	Provision for EMD
Estimated value of contract /procurement upto Rs. 20 Crs. In case of open Tender	EMD will be obtained as per para 5.2 (b) of purchase Manual (issue 2.2007)
Estimated value of contract/procurement exceeding Rs. 20 Crs.	Single EMD will be obtained as per para 8.1 (iii) of MM Circular No. 36 on Integrity pact and terms of EMD will be as per SI No. 8 of IMM Circular No. 36. As such, this EMD will not be adjusted towards security Deposit, ect.

5. Further, instructions issued vide letter No. CD/617/PC/2009 dated 12th Nov 2009 on EMD remain unaltered.

6. Divisions are requested to take note of this for strict compliance.

7. This issues with the approval of Director (Finance)

(HAL/CD/617(EMD)/2010 dated 11 Aug 2010)

8.13 **Signing of Integrity Pacts (IPs) with vendors**

1. Reference is made to various guidelines / instructions issued in the past on the subject.

2. The following are reiterated for strict compliance.

a) Integrity Pact is required to be signed in respect of all Contracts / Purchase Orders! Agreements wherever the estimated value is exceeding Rs.20 Crs.

b) All the cases wherever signing of Integrity Pact is involved, RFQ should carry a clause on IP.

- c) In the RFQ, the concerned IEM's Name & Address is required to be included along with draft Integrity Pact format. On release of RFQs, a copy of the same along with all annexures should be forwarded to CO-IMM for updating the records.
 - d) Signing of IP is a Pre Contract requirement. Accordingly, signing of IP by both the parties is a pre-requisite before further processing of tenders.
 - e) As soon as the IP is signed, Divisions should forward a copy along with a brief background of the case to Corporate Office for updating the records and putting up to Independent External Monitors (IEMs) for their review.
3. Divisions are directed to take note of the above for strict compliance.
 4. This issues with the approval of DF.

(HAL/CD/617/2010 dated 12 Oct 2010)

8.14 Material Management Circular No. 38 – Integrity Pact

1. In line with Defence Procurement Procedure (DPP), an Integrity Pact (IP) has to be signed with vendors in case estimated value of each contract (s)/ Purchase Order (s) exceeds Rs. 20 Crs.
2. The existing IP format has been revised. A copy of the revised IP format is enclosed herewith at **Annexure-I**. The revised format will be implemented **w.e.f. 1st May, 2011 for all cases as follows:**
 - (a) For all new RFQ issued after 01-05-2011.
 - (b) For all RFQs already issued but where all the respondent vendors against each RFQ have not signed the earlier IP format.
 - (c) For all RFQs already issued where all the respondent vendors against each RFQ have signed the earlier IP format, the new format need not be implemented.
3. Further, it is reiterated that IP is required to be signed in respect of all Contracts/ Purchase Orders / Agreements wherever HAL's estimated value is exceeding ` 20 Crs. IP would be submitted in a separate envelope clearly marked as "Integrity Pact" at the time of submission of Pre-qualification in case of Three Bid system, or along with Technical & Commercial Offers in case of Two Bid system. Vendor is required to sign and submit Pre-Contract IP irrespective of the value of the Commercial Bid submitted by the vendor.

4. This supersedes MM Circular No. 36 Dt. 02-07-2008 and its Amendments issued earlier on IP.
5. Divisions are directed to take note of this and ensure strict compliance.
6. This issues with the approval of Chairman.

(HAL/CD/617/2011/861 dated 06 May 2011)

8.15 **Integrity pact**

1. Reference is made to Material Management Circular No. 38 issued vide letter No. HAL/CD/617/2011/861 dt. 06-05-2011, on implementation of the revised Integrity Pact with effect from 1st May 2011.
2. It is further clarified that the Integrity Pact is to be signed with the vendors for all cases where the order value is Rs 20 Crs or more even if the estimated value was less than Rs 20 Crs. This must be ensured before the proposal is forwarded to CO for CFA's approval.

(HAL/CD/617/2011/886 dated 30 May 2011)

8.16 **Authority to approve and sign Integrity Pact (IP)**

1. IP is to be signed with the vendors of the Company wherever estimated value is more than Rs. 20 Crs. As per DPP, the Revised Integrity Pact was adopted by the Company vide MM Circular No. 38 dt 06.05.2011. Accordingly, Divisions have been signing the IP with the vendor for the cases wherever IP is called for.
2. Based on the experience gained, a need was felt to streamline the authority to approve and sign the IP. Further, this was deliberated during 248th MC Meeting held on 23.05.2012. It was decided to adhere to the following:

(a) Authority to approve & sign Integrity Pact by HAL with Bidders who are HAL suppliers

- (i) Authority to sign without Deviation -- By GM of the Division
- (ii) Authority to approve with Deviations -- Board of Directors
(with information to MoD and
CVC through CVO)
- (iii) IP with respect to Divisions in both the cases (i) & (ii) above will be signed by GM of the Division.

(b) Authority to approve & sign Integrity Pact with rendering agency when HAL is participating in a tender

The CFA as per DoP No. 19, 20 & 21 in respect of contract where HAL is participating in the tender, will approve and sign the IP on behalf of the Company.

3. Divisions are directed to take note of this and ensure strict compliance.
4. This issues with the approval of Competent Authority.

(HAL/CD/617/IP/2012/334 Dated 09 Jul 2012)

9. HANDLING OF TENDERS

9.1 Rejection Of Conditional Tenders/Quotes Contrary To HAL Terms & Conditions

1. Subsequent to the issue of policy letter No.HAL/CO/VIG/46/167 dt 20 Apr 1999, banning negotiations with other than L 1 parties (Vendors /Contractors) by CVC, it has been observed that in a number of cases conditional tenders / quotes suitable to contractor /vendor are being accepted, which is contrary to the provisions given in HAL Manuals of Purchase and, Works & Contract Procedures.

2. It has also been found that in certain cases two bid or two envelope system is not being followed, in this connection please refer to HAL letter No. HAL/CSV/HO (23/88/303 dt. 06 May 88, and HAL/CD/ 617/99 dt. 02 Aug 99.

3. In order to provide transparency in commercial deals and execution of works, it is requested that all concerned may kindly be instructed, firstly to adhere to laid down procedure for two bid /envelope system, and secondly, all conditional tenders /quotes must be rejected unless even without the pre-conditions/conditions, the tenders are LI.

(HAL/CO/VIG/47/134/2000 dated 19 Feb 2000)

9.2 Tenders – Freak Rates And Corrections/Insertions/ Over-Writings In Documents Of Negotiations

1. In the recent Intensive Examination of works, CTE has observed that the constant of 1.5 adopted in HAL as per para 35 of Works and Contract Procedure for qualifying a rate as freak is high and requires revision to ensure that tenders are evaluated rationally. It has been suggested by CTE that the constant may be lowered to 1.25.

2. Above suggestion of CTE has been studied in detail and it is found that by adopting a lower constant of 1.25 for qualifying a tender rate as

freak rate, the Company will gain by restricting the freak rates at a lower margin to the contractor as compared to the present constant of 1.5. Besides this restricting the execution of the work of freak rate items with a lower constant of 1.25, as per the deviation limit for freak rate items prescribed in Para 38 of Works and Contract Procedure shall be more rational. Hence, Para 35 of HAL Works and Contract Procedure may be revised as under and implemented with immediate effect in all future tenders:-

- (a) **Para 35** shall read as: “Freak rate are those rates which are either unworkably low or unbelievably high. Such rates may be the result of genuine mistakes on the part of the tenderers such as quoting for One flat when the unit is a block of four or assuming the unit shown in the tender is hundred etc. Where the rate quoted by the contractor in a tender varies from the estimated rates based on latest edition of MES SSR rate or market rate (for items which are not found in the latest edition of MES SSR), exceeds or falls below the estimate rate by 25% and more shall be considered as FREAK RATE”.
3. While evaluating the lowest tender, it should be ensured that the net financial effect of the amounts of items with freak rates as compared to estimate i.e., arithmetical sum of difference of high freak rate item's amount (taken with plus sign) and low freak rates item's amount (taken with minus sign), is kept as minimum as possible, before considering acceptance of work.
4. CTE has also observed that the corrections/over-writings/insertions in the negotiation letters of contractors have not been marked by the authorities during negotiations.
5. It is emphasized here that the negotiations should be carried out in the most transparent manner by the accepting officer. The documents presented by the contractor during negotiations forms part of the contract agreement (refer para 48(m) of works and contract procedure). To ensure transparency in handling the documents during the negotiations following guidelines is reiterated:-

a) Any corrections/over-writings/insertions in the documents submitted by the contractor/supplier during negotiations must be authenticated by the chairman, Finance representative and User's representative of the negotiation committee and also by the contractor/supplier at the time of negotiation itself to avoid any future tampering. The responsibility to ensure is that of the Chairman of the Committee.

b) The above instructions may also be included in the HAL Works and Contract Procedure 1985 under revision by Bangalore

Complex. Till issue of revised Manual, Divisions will adhere to the above instructions.

(HAL/CO/VIG/64/2001/388 dated 22 Mar 2001)

9.3 **Acceptance Of Late/Delayed Tenders**

Study of a number of cases have revealed that procedures relating to opening of tenders and acceptance of late tenders are not being strictly adhered to and late offers/offers received after tender opening have been considered. This is against the principles of tendering and undermines the sanctity of tender system.

In view of the above, it has been decided to follow the following instructions strictly:-

a) All requests for quotations / tender enquiry must specify "Last Date for submission of Quotes". The tender must also state that "Late tenders shall not be opened and shall not be considered". This should be prominently mentioned in the tender enquiry.

b) Any bid received by the Company after the due date specified in tender/RFQ must be kept intact, un-opened/sealed and not considered. The same will be retained in the concerned purchase file.

c) Quotations/bids which are received late through Fax, shall also be treated in the same manner as at para (b) above.

d) In case, the tender is against "Single Tender" enquiry (Proprietary/Customer Nominated), a late tender may be considered after obtaining the approval of GM.

3. Above supersedes provisions of Purchase Manual on the subject at Para 7.6.

4. This issues with the approval of Competent Authority.

(HAL/CD/617/2003 dated 03 Jul 2003)

9.4 **Receipt and Opening of Tenders**

In the various booklets issued by the CTE Organization of the Commission, the need to **maintain transparency** in receipt and opening of the tenders has been emphasized and it has been suggested therein that suitable arrangements for **receipt of sealed tenders** at the **scheduled date and time** through **conspicuously located tender boxes need to be**

ensured. A **case** has come to the **notice** of the Commission, where due to the **bulky size** of tender documents the **bid conditions** envisaged **submission of tenders by hand to a designated officer.** However, it seems that **one of the bidders while trying to locate** the exact place of submission of tenders, **got delayed by few minutes** and the **tender was not accepted** leading to a complaint. In general, the receipt of tenders should be through tender boxes as suggested in our booklets. However, in cases where the tenders are required to be submitted by hand, it may be **ensured that the names and designation of at least two officers are mentioned in the bid documents.** The **information about these officers should also be displayed at the entrance/reception** of the premises where tenders are to be deposited so as to ensure **convenient approach for the bidders.** The tenders after receipt should be opened on the stipulated date and time in **presence of the intending bidders.**

(05-04-1-CTE-8 Dated 8 Jun 2004)

9.5 Undertaking by the Members of Tender Committee/Agency

1. In continuation of the Commission's directions vide Order 005/VGL/4 dated 16/3/2005 regarding transparency in the tender process, the Commission would advise that the members of the Tender Committee should give an undertaking at the appropriate time, that none of them has any personal interest in the Companies/Agencies participating in the tender process. Any member having interest in any Company should refrain from participating in the Tender Committee.
2. CVOs should bring this to the notice of all concerned.

(005/VGL/66 Dated 9 Dec 2005)

9.6 Participation in Approval Process

CVC, vide Office Order No. 71/12/05, Ref.005/VGL/66 dt 9/12/05 has advised that members of the Tender Committee should give an undertaking at the appropriate time, that none of them has any personal interest in the Companies/Agencies participating in the tender process. It further states that any member having interest in any company should refrain from participating in the Tender Committee.

2. As per DOP, procurement proposals are approved by GM/ED/MD/CH/PSC/Board as per the financial powers delegated to the CFA in DOP. As such, there is no Tender Committee constituted in Hal either for processing the procurement proposals or approval of the same (except for the limited purpose of opening the Tenders).

3. In view of above, it is directed that officials involved in following processes should give the undertaking on a format, sample as enclosed, at

the appropriate time before approval and the same shall be placed in respective purchase file.

- a. Tender Opening
- b. Technical Evaluation/ Acceptance
- c. Commercial Evaluation/ Acceptance
- d. Negotiating Committee
- e. Purchase Proposal

(HAL/CD/617/2006 dated 20 May 2006)

9.7 Tendering Opening Committee

1. Purchase Manual Chapter VII - Tender Receipt, Opening and Evaluation states that tender envelopes shall be opened by the tender opening authority. The Tender Opening Officers Committee shall be as follows:

- a) Tender value upto Rs. 5 lakhs Dy. Manager (IMM) and Dy. Manager (Fin)
- b) Tender value above Rs. 5 lakhs Sr. Manager (IMM) and Sr. Manager (Fin)

2. Divisions have sought clarification whether other Officers of lower or higher grade may be authorized in view of non-availability of officers in requisite grade. It is clarified that:

"Head of Division may authorize other officers of lower or higher grade for tender committee in coordination with Head of IMM and Finance where manpower of requisite grades are not available"

3. Divisions are requested to take note of this for strict compliance.
4. This issues with the approval of Director (Finance).

(HAL/CD/617/2010 dated 16 Jul 2010)

9.8 Participation in Tender Opening

1. The Purchase Manual at Chapter - VII provides for procedure to be followed for Tender Receipt, Opening and Evaluation. As per the Purchase Manual [para 7.3 (h)]. Bidders or their authorised persons are permitted to witness the tender opening. The opening of tenders in presence of Bidders' representatives needs to be scrupulously followed.

2. Some of the vendors have represented that the enquires received from the HAL does not indicate participation of vendors in Tender Opening.

3. It is once again reiterated that in all cases of Open/Limited Tendering, in addition to specifying Date, Time & Place of Opening of Tenders in the tender documents, the Tender shall make a specific mention that "Tenders shall be opened on stipulated date & time in presence of the intending Bidders and that Bidder or his authorised representative may attend the Tender Opening".

4. Divisions are requested to take note of this for strict compliance.

5. This issues with the approval of Director(Finance)

(HAL/CD/617/2010 dated 13 Sep 2010)

10. **TENDER NEGOTIATIONS**

10.1 **Improving Vigilance Administration - Tenders**

Please refer to CVC's instructions issued under letter No 8(1)(h)/98(I) dated 18/11/98 banning post tender negotiations except with L-1 i.e., the lowest tenderer. Some of the organizations have sought clarifications from the Commission as they are facing problems in implementing these instructions. The following clarifications are, therefore, issued with the approval of Central Vigilance Commissioner.

a) The Government of India has a purchase preference policy so far as the public sector enterprises are concerned. It is clarified that the ban on the post tender negotiations does not mean that the policy of the Government of India for purchase preference for public sector should not be implemented.

b) Incidentally, some organizations have been using the public sector as a shield or a conduit for getting costly inputs or for improper purchases. This also should be avoided.

c) Another issue that has been raised is that many a time the quantity to be ordered is much more than L1 alone can supply. In such cases the quantity order may be distributed in such a manner that the purchase is done in a fair transparent and equitable manner.

(CVC letter No. 98/ORD/1 dated 15 Mar 1999)

10.2 **Improving Vigilance Administration – Tenders**

Please refer to CVC's instructions issued under letter No 8(1)(h)/98(I) dated 18/11/98, banning post tender negotiations except with L-1.

2. The Commission has been getting a number of queries on how to handle the matter if the quantity to be ordered is more than L-1 can supply

or about placement of orders on Public Sector Undertakings. It is requested that such matters may be dealt with in accordance with the clarifications issued by the Commission vide its letter of even number dated 15.3.99(copy enclosed).

3. Some of the organizations have sought clarification as to whether they can consider the L-2 offer or negotiate with that firm if L-1 withdraws his offer before the work order is placed, or before the supply or execution of work order takes place. In this regard, it is clarified that such a situation may be avoided if a two-bid system is followed (techno-commercial) so that proper assessment of the offers is made before the award of work order. Therefore, if L-1 party backs out, there should be retendering in a transparent and fair manner. The authority may in such a situation call for limited or short notice tender if so justified in the interest of work and take a decision on the basis of lowest tender.

4. The Commission has also been getting references for its advice on the procedures being followed in individual cases of tenders. The Commission would not involve itself in the decision making process of individual authorized. It, however, would expects the organizations to implement its instructions dated 18.11.98, in its spirit and to ensure that the decisions of administrative authorities are transparent.

(CVC letter No 98/ORD/1 dated 24 Aug 2000)

10.3 Improving Vigilance Administration – Tenders

Please refer to the instructions issued by the Commission vide its communication No 8(1) (h)/98(1) dated 18 Nov 1998, banning post-tender negotiations except with L-1.

It is clarified that the CVC's instructions dated 18 Nov 98, banning post-tender negotiations except with L-1 (i.e., the lowest tenderer), pertain to the award of work/supply orders etc., where the Government or the Government Company has to make payment. If the tender is for sale of material by the Government or Government company, the post-tender negotiations are not be held except with H-1 (i.e., the highest tenderer), if required.

CVC letter No 98/ORD/1 dated 03 Aug 2001)

10.4 Tendering Process – Negotiation with L-1

A workshop was organized on 27th Jul 2005 at SCOPE New Delhi, by the Central Vigilance Commission, to discuss relating to tendering process including negotiation with L-1. Following the deliberations in the above mentioned Work Shop, the following issues are clarified with reference

to para 2.4 of Circular No.8(1) (h)/98(1) dated 18th November, 1998 on negotiation with L-1, which reflect the broad consensus arrived at in the workshop.

(i) There should not be any negotiations. Negotiations if at all shall be an exception and only in the case of proprietary items or in the case of items with limited source of supply. Negotiations shall be held with L-1 only. **Counter Offers tantamount to negotiations and should be treated at par with negotiation.**

(ii) Negotiations can be recommended in exceptional circumstances only after due application of mind and recording valid, logical reasons justifying negotiations. In case of inability to obtain the desired results by way of reduction in rates and negotiations prove in fruituous; satisfactory explanations are required to be recorded by the Committee who recommended the negotiations. The Committee shall be responsible for lack of application of mind in case its negotiations have only unnecessarily delayed the award of work/contract.

2. Further, it has been observed by the Commission that at times the Competent Authority takes unduly long time to exercise the power of accepting the tender or negotiate or re-tender. Accordingly, the model time frame for according such approval to completion of the entire process of Award of tenders should not exceed one month from the date of submission of recommendations. In case the file has to be approved at the next higher level a maximum of 15 days may be added for clearance at each level. The overall time frame should be within the validity period of the tender/contract.

3. In case of L-1 backing out there should be re-tendering as per extant instructions.

(No.005/CRD/12 Dated 25 Oct 2005)

10.5 Tendering process – Negotiation with L1

Reference is invited to Commission's instructions of even number dated 25.10.2005 on the above subject. A number of references have been received in the Commission, asking for clarification on issues pertaining to specific situations.

2. The Commission's guidelines were framed with a view to ensuring fair and transparent purchase procedure in the organizations. The guidelines are quite clear and it is for the organizations to take appropriate decision,

keeping these guidelines in view. In case they want to take action in deviation or modification of the guidelines, to suit their requirements, it is for them to do so by recording the reasons and obtaining the approval of the Competent Authority for the same. However, in no case, should there be any compromise to transparency, equity or fair treatment to all the participants in a tender.

(005/CRD/12 Dated 3 Oct 2006)

10.6 Tendering process – Negotiations with L-1

Reference is invited to the Commission's circulars of even number, dated 25.10.2005 and 3.10.2006, on the above cited subject. In supersession of the instructions contained therein, the following consolidated instructions are issued with immediate effect:-

- i) As post tender negotiations could often be a source of corruption, it is directed that there should be no post-tender negotiations with L-1, except in certain exceptional situations. Such exceptional situations would include procurement of proprietary items, items with limited sources of supply and items where there is suspicion of a cartel formation. The justification and details of such negotiations should be duly recorded and documented without any loss of time.
- ii) In cases where a decision is taken to go for re-tendering due to the unreasonableness of the quoted rates, but the requirements are urgent and a re-tender for the entire requirement would delay the availability of the item, thus jeopardizing the essential operations, maintenance and safety, negotiations would be permitted with L-1 bidder(s) for the supply of a bare minimum quantity. The balance quantity should, however, be procured expeditiously through a re-tender, following the normal tendering process.
- (iii) Negotiations should not be allowed to be misused as a tool for bargaining with L-1 with dubious intentions or lead to delays in decision-making. Convincing reasons must be recorded by the authority recommending negotiations. Competent authority should exercise due diligence while accepting a tender or ordering negotiations or calling for a re-tender and a definite timeframe should be indicated so that the time taken for according requisite approvals for the entire process of award of tenders does not exceed one month from the date of submission of recommendations. In cases where the proposal is to be approved at higher levels, a maximum of 15 days should be assigned for clearance at each level. In no case should the overall timeframe exceed the validity period of the tender and it should be ensured that tenders are invariably finalized within their validity period.

(iv) As regards the splitting of quantities, some authorized have expressed apprehension that pre-disclosing the distribution of quantities in the bid document may not be feasible, as the capacity of the L-1 firm may not be known in advance. It may be stated that if, after due processing, it is discovered that the quantity to be ordered is far more than what L-1 alone is capable of supplying and there was no prior decision to split the quantities, then the quantity being finally ordered should be distributed among the other bidders in a manner that is fair, transparent and equitable. It is essentially in cases where the authorized decide in advance to have more than one source of supply (due to critical or vital nature of the item) that the Commission insists on pre-disclosing the ratio of splitting the supply in the tender itself. This must be followed scrupulously.

(v) Counter-offers to L-1, in order to arrive at an acceptable price, shall amount to negotiations. However, any counter-offer thereafter to L-2, L-3, etc., (at the rates accepted by L-1) in case of splitting of quantities, as pre-disclosed in the tender, shall not be deemed to be a negotiation.

2. It is reiterated that in case L-1 backs-out, there should be a re-tender.

(No.005/CRD/012 Dated 3 Mar 2007)

10.7 Tendering Process – Negotiation with L1

1. Attention is invited to the Commission's circular No. 4/3/07 dated 3.3.07 on the issue of "Tendering Process- Negotiations with L1".

2. In the said circular it has, among other things, been stated "As post tender negotiations could often be a source of corruption, it is directed that there should be no post tender negotiations with L1, except in certain exceptional situations". It has come to Commission's notice that this has been interpreted to mean that there is a ban on post tender negotiations with L1 only and there could be post tender negotiations with other than L1 i.e. L2, L3 etc. This is not correct.

3. It is clarified to all concerned that there should normally be no post tender negotiations. If at all negotiations are warranted under exceptional circumstances, then it can be with L1 (Lowest tenderer) only if the tender pertains to the award of work/supply orders etc. where the Government or the Government company has to make payment. However, if the tender is for sale of material by the Government or the Govt. Company, the post tender negotiations are not to be held except with H1 (i.e. Highest tenderer) if required.

4. All other instructions as contained in the Circular of 3.3.2007 remain unchanged.

5. These instructions issue with the approval of the Commission and may please be noted for immediate compliance.

(005/CRD/012 – Circular No. 01/01/10 dated 20 Jan 2010)

10.8 PNC Recommendation

1. Sl. No.9, Annexure-22/23/24 of Purchase Manual stipulates that the Division should enclose the report of the PNC (along with the proposal) duly signed by all members and approved by the chairman of PNC, clearly bringing out the improvements due to negotiations and recommendations as per the Annexure-3D of Purchase Manual.

2. However, over a period of time it has been noticed that the PNC recommendations are not finalized immediately and are directly enclosed alongwith proposals for the signature of members of the PNC including chairman of PNC. It is considered necessary that PNC recommendation should be prepared & finalized immediately and signature of the members of PNC and approval of chairman of PNC should be taken before processing the proposal for CFA approval for placement of order.

3. Divisions are directed that PNC recommendation should be prepared and coordinated by the members of PNC and approval of chairman of PNC should be taken within a maximum period of one week of completion of PNC and the proposals for placement of orders are to be initiated only after finalization of PNC recommendations.

(HAL/CD/617(PNC)/2011/851 dated 18 Apr 2011)

11. USE OF WEBSITE

11.1 Use of Web-site in Government Procurement or Tender Process

1. Attention is invited to the instructions issued by the Commission vide communication No. 98/ORD/1 dated 28.03.2002 regarding publishing of tender documents on the web-site.

2. The Commission has received a number of references from various departments/organizations expressing reservations in implementation the said

instructions in toto. The matter has been reviewed in the Commission and it is observed that it is a fact that use of web-site for accessing the information has so far not picked up in the country and it would not be possible for the vendors to access the web-site of every organization to know the tender details. There is also no centralized web-site for the tenders

3. Therefore, it has been decided by the Commission that till such time the penetration of Information Technology is adequate and a dedicated web-site for Government tenderers is available, Departments/Organizations may continue with publishing of NIT in newspapers in concise format and put the detailed information in their respective web-sites.

(98/ORD/1 (Pt. IV) dated 12 Mar 2003)

11.2 E-procurement / Reverse Auction

The Commission has been receiving a number of references from different departments/organisations asking for a uniform policy in this matter. The departments/organisations may themselves decide on e-procurement/reverse auction for purchases or sales and work out the detailed procedure in this regard. It has, however, to be ensured that the entire process is conducted in a transparent and fair manner.

(98/ORD/1 (Office Order No. 46/9/03) dated 11 Sep 2003)

11.3 Improving Vigilance Administration: Increasing Transparency in Procurement / Sale

The Commission is of the opinion that in order to bring about greater transparency in the procurement and tendering processes there is need for widest possible publicity. There are many instances in which allegations have been made regarding inadequate or no publicity and procurement officials not making available bid documents, application forms etc. in order to restrict competition.

2. Improving vigilance administration is possible only when system improvements are made to prevent the possibilities of corruption. In order to bring about greater transparency and curb the mal-practices mentioned above the Central Vigilance Commission in the exercise of the powers conferred on it under Section 8(1)(h) issues following instructions for compliance by all Government departments, PSUs, Banks and other agencies over which the Commission has jurisdiction. These instructions are with regard to all cases where open tender system is resorted to for procurement of goods and services or for auction / sale etc. of goods and services.

(i) In addition to the existing rules and practices regarding giving publicity of tenders through newspapers, trade journals and providing tender documents manually and through post etc. the complete bid documents along with application form shall be published on the web site of the organization. It shall be ensured by the concerned organization that the parties making use of this facility of web site are not asked to again obtain some other related documents from the department manually for purpose of participating in the tender process i.e. all documents up to date should remain available and shall be equally legally valid for participation in the tender process as manual documents obtained from the department through manual process.

(ii) The complete application form should be available on the web site for purposes of downloading and application made on such a form shall be considered valid for participating in the tender process.

(iii) The concerned organization must give its web site address in the advertisement / NIT published in the newspapers.

(iv) If the concerned organization wishes to charge for the application form downloaded from the computer then they may ask the bidding party to pay the amount by draft/cheques etc. at the time of submission of the application form and bid documents.

3. While the above directions must be fully complied with, efforts should be made by organizations to eventually switch over to the process of e procurement/e-sale wherever it is found to be feasible and practical.

4. The above directions are issued in super session of all previous instructions issued by the CVC on the subject of use of web-site for tendering purposes. These instructions shall take effect from 1st January, 2004 for all such organizations whose web-sites are already functional. All other organizations must ensure that this facility is provided before 1st April, 2004.

(98/ORD/1 CVC dated 18 Dec 2003)

11.4 Improving Vigilance Administration –Increasing transparency in Procurement/Sale

The Commission has issued a directive vide No. 98/ORD/1 dated 18th December 2003 wherein detailed instructions are issued regarding the use of web-site for tendering process. The objective is to improve vigilance administration by increasing transparency- The instructions were to take effect from 1st January 2004. It is noticed that many authorized whose

web-sites are functional are still not putting their tenders on the web- site. The Commission has desired that CVOs should ensure compliance of the above directive. They should regularly pursue the Newspaper advertisements, the web-site of their authorized and in general keep track to ensure that the directives of the Commission on this subject are complied with. Further, the Commission has desired that the CVOs should indicate in their monthly report in the column pertaining to tender notices whether all the tenders have been put on the web-site, and if not, the reasons for non-compliance. The explanation of the concerned officers who are not complying with these directions should be called and further necessary action taken.

(No.98/ORD/1 Dated 9 Feb 2004)

11.5 Improving Vigilance Administration –Increasing transparency in procurement/ tender Process – use of Website - Regarding

In CPWD, MCD, Civil Construction Division of Post & Telecom departments and in many other departments/organizations, there is system of short term tenders (by whatever name it is called in different organizations), wherein works below a particular value are undertaken without resorting to publicity as is required in the open tenders. This practice is understandable because of cost and time involved in organizing publicity through newspapers. In all such cases, notice can be put on the Web-Site of the department as it does not take any time compared to giving advertisements in the newspapers and it practically does not cost anything. This will benefit the department by bringing in transparency and reducing opportunities for abuse of power. This will also help the organizations by bringing in more competition.

In view of the reasons given above, the Commission has decided that instructions given in the Commission's Circular No. 98/ORD/1 dated 18.12.2003 for the use of web- site will also apply to all such works awarded by the department/PSEs/other organizations over which the Commission has jurisdiction.

(No.98/ORD/1 Dated 11 Feb 2004)

11.6 Improving Vigilance Administration: Increasing Transparency and Cutting Delays by E-Payments and E-Receipt by Govt. Organizations etc.

The Commission has been receiving complaints about inordinate delays in making payments to the vendors and other suppliers to the Govt. organizations, Public Sector Undertakings etc. Similarly complaints are received about delays in getting refunds from taxation dept. and other departments. Apart from increasing the cost of procurement, the delays lead

to opportunities for corruption. A number of measures are required to cut down on delays in making payments. One such step is resorting to mechanism of e-payments and e-receipts wherever such banking facilities exist.

In the last few years tremendous progress has been made by the banking sector in computerization including net-working of branches, making it possible to do e-banking by making use of facilities like electronic clearing system (ECS) and electronic fund transfer (EFT) etc. These facilities are available in most of the banks including the State Bank of India as well as in private banks. A large number of corporate including public sector undertakings are already making e-payments to vendors and employees instead of making payments by issue of cheques.

The Commission has been receiving complaints that delay is intentionally caused with ulterior motives in the issue and dispatch of cheques in the accounts and finance wings of a large number of Govt. Organizations. As the e-payment facility is already available in the metros as well as practically in all the main urban centers of the country, in order to curb the above mentioned malpractices, the CVC in the exercise of powers conferred on it under Section 8(1) (h) issues following instructions for compliance by all govt. departments, PSUs, banks and other agencies over which the Commission has jurisdiction.

The payment to all suppliers/ vendors, refunds of various nature, and other payments which the organizations routinely make shall be made through electronic payment mechanism at all centres where such facilities are available in the banks.

Salary and other payments to the employees of the concerned organizations at such centres shall also be made through electronic clearing system (ECS) wherever such facilities exist.

As the organizations will have to collect bank account numbers from the vendor, suppliers, employees and others who have interface of this nature with the Govt. organisations, the concerned organisations may plan to switch over to e-payment system in a phased manner starting with transactions with the major suppliers in the beginning or in whatever manner is found more convenient.

It is expected that in three months i.e. by 1st July, 2004, 50% of the payment transactions both in value terms as well as in terms of number of transactions shall be made through ECS/EFT mechanism instead of payment through cheques. The remaining 50% payment transactions at all

centres where such facilities exist shall be made by 31st Dec. 2004.

These instructions are applicable to all the metro cities and other urban Centres where the banks provide ECS/EFT and similar other facilities.

The departments, PSUs, Banks etc. should also provide an enabling environment and facilities so that businessmen and other citizens can make payment of Govt. dues and payments to PSUs etc. electronically.

In addition to significantly reducing processing costs in preparation and dispatch of cheques, the above measures also reduce the risk of frauds by providing speed, efficiency and easier reconciliation of accounts.

(CVC circular No. 98/ORD/01 Dated 6 Apr 2004)

11.7 Improving Vigilance Administration: Increasing Transparency in Procurement /sale etc. – Use of Website Regarding

The Central Vigilance Commission has issued a directive on the above subject vide its Order No.981ORD11 dated 18th Dec 2003 making it mandatory to use web-site in all cases where open tender system is resorted to. These instructions have been further extended vide Office Order No.1012104 dated 11.2.2004 to tenders of short-term nature (by whatever name it is called in different organizations). Various organizations have been corresponding with the Commission seeking certain clarifications with regard to the above directives. The main issues pointed out by organizations are as follows:

Issue 1 - Size of Tender Documents

In cases of works/procurement of highly technical nature, tender documents run into several volumes with large number of drawings and specifications sheets, etc. It may not be possible to place these documents on website.

Clarification: These issues have been discussed with the technical experts and in their opinion; there is no technical and even practical difficulty in doing the same. These days almost all the organizations do their typing work on computers and not on manual typewriters. There is no significant additional effort involved in uploading the material typed on MS Word or any other word processing software on the website irrespective of the number of pages. The scanning of drawings is also a routine activity. Moreover if the volume and size of tender document is so large as to make it inconvenient for an intending tendering party to download it, they always have the option of obtaining the tender documents from the organization through traditional channels. The Commission has asked for putting tender documents on web-

site in addition to whatever methods are being presently used.

Issue 2 - Issues Connected with Data Security, Legality and Authenticity of Bid Document.

Certain organizations have expressed apprehensions regarding security of data, hacking of websites etc. They have also pointed out that certain bidding parties may alter the downloaded documents and submit their bids in such altered tender documents which may lead to legal complications.

Clarification: This issue has been examined both from technical and legal angles. Technically a high level of data security can be provided in the websites. The provisions of **digital signatures through Certifying Authority can be used to ensure that in case of any forgery or alteration in downloaded documents** it is technically feasible to prove what the original document was. There are sufficient legal provisions under IT Act to ensure that e-business can be conducted using the web- site. A copy of the remarks given by NIC on this issue is enclosed herewith.

Issue 3 - Some organizations have sought clarification whether web site is also to be used for proprietary items or items which are sourced from OEMs (Original Equipment Manufacturers) and OESs (Original Equipment Suppliers).

Clarification: It is clarified that Commission's instructions are with regard to goods, services and works procured through open tender system, so these instruction do not apply to proprietary items and items which necessarily need to be procured through OEMs and OESs.

Issue 4 – Do the instructions regarding ‘short term tenders’ given in the CVC Order No.98/ORD/1 dated 11th Feb 2004 apply to limited tenders also?

Clarification: In many organizations goods, services and works which as per laid down norms are to be procured/executed through open tender system many times due to urgency are done through short term tenders without resorting to wide publicity in newspapers because of time constraint. In all such cases short term tenders (by whatever name it is called) etc. should also be put on the website of the dept. as it does not involve any additional time or cost.

Regarding applicability of these instructions to limited tenders where the

number of suppliers/contractors is known to be small and as per the laid down norms limited tender system is to be resorted to through a system of approved/ registered vendors/contractors, the clarification are given below.

Issue 5 - Some organizations have pointed out that they make their procurement or execute their work through a system of approved/registered vendors and contractors and have sought clarification about the implications of CVC's instructions in such procurements/contracts.

Clarification: The Commission desires that in all such cases there should be wide publicity through the web site as well as through the other traditional channel at regular intervals for registration of contractors/suppliers. All the required Performa for registration, the pre-qualification criteria etc. should be always available on the web-site of the organization and it should be possible to download the same and apply to the organization.

There should not be any entry barriers or long gaps in the registration of suppliers/contractors. The intervals on which publicity is to be given through website and traditional means can be decided by each organization based on their own requirements and developments in the market conditions. It is expected that it should be done at least once in a year for upgrading the list of registered vendors/contractors.

The concerned organization should give web based publicity for limited tenders also except for items of minor value. If the organization desires to limit the access of the limited tender documents to only registered contractors/suppliers they can limit the access by issuing passwords to all registered contractors/suppliers. But it should be ensured that password access is given to all the registered contractors/suppliers and not denied to any of the registered suppliers. Any denial of password to a registered supplier/contractor will lead to presumption of malafide intention on the part of the tendering authority.

CENTRAL VIGILANCE COMMISSION Technical note from National Informatics Center Solution for Hosting of Signed Documents

1. Integrity of Document:

The documents should be digitally signed by the person submitting them. The web server to which the documents are submitted for hosting, should verify the signature before hosting each document.

2. **Secure Hosting:**

'HTTPS' should be used for both uploading and downloading of documents to avoid alteration of documents over the network.

3. **Digital Signing and submission:**

The documents submitted for hosting may be in PDF or MS-WORD format. The document is digitally signed at the document submission end by a digital signing tool and by using a private key stored in a smart card. The detached (PKCS#7) signature file is generated. The document and the signature are uploaded to the server. The uploading procedure may be automated through a program. This involves development effort. The web server can verify the digital signatures programmatically when the files are uploaded. The files and their verified signatures are hosted for downloading by end users. This procedure will ensure that the signer is confident of what he/she is signing. The person involved in web hosting is sure that the documents are properly signed. The end users benefit that the document they are downloading is authentic and that the integrity of the document is maintained.

4. **Download procedure:**

- a. The user verifies the digital signature of the document on the web site.
- b. User downloads both the documents and the signature.
- c. User can verify the signature of the documents by using any standards Compliant Document Signing Tool which can verify a PKCS#7 detached by signature.

5. **Certificate for Digital Signature:**

- a. The signature should be generated using a certificate issued by a Certification Authority (CA) trusted under Controller of Certifying Authorities (CCA). This is mandatory for legal validity of the digital signature.
- b. The end user should ensure that the certificate used for signing the document is issued by a trusted CA.

(No.98/ORD/1 Dated 2 Jul 2004)

11.8 **Improving Vigilance Administration : Increasing Transparency in Procurement / Sale etc.-Use of Web Site**

The Central Vigilance Commission has issued a directive on the above

subject vide its order no. 98/ORD/1 dated 18th Dec 2003 making it mandatory to use web-site in all cases where open tender system is resorted to. These instructions have been further extended vide office order No. 10/2/04 dated 11.2.2004 to tenders of short-term nature (by whatever name it is called in different organizations). Some of the PSUs and other Govt. organizations dealing with defense and national security related subjects have sought clarification on the following issue:

Issue: Items and works, which are of sensitive nature from the point of view of national security. It has been pointed out that in some cases the tender documents and specifications given therein are of highly sensitive nature and putting such information on the web site can have national security implications or is not in the national interest.

Clarification: It needs to be clarified that instructions of the commission are with regard to open tenders only where organizations are already giving advertisements in newspapers thus it is presumed procurement or works are not of secret nature. However if still CMD/CEO of a PSU or head of an Ordnance factory or head of a sensitive organization in Defence, Atomic Energy or Space sectors or the concerned administrative ministries are of the opinion that will not be feasible to put detailed tender documents on the website keeping in view their sensitive nature from national security point of view or from the point of view of national interest, they may take the decision not to put those documents or even the tender notice on website. But in all such cases the decision must be taken at the level of CMD or head of a PSU, head of an ordnance factory and in other government organizations at a level to be decided by the concerned administrative ministry. The specific reasons for not putting an open tender on web site should be recorded in the concerned file.

(CVC circular No. 98/ORD/1 Dated 5 Jul 2004)

11.9 Central Vigilance Commission's Directives on Use of Website in Public Tenders

A copy of the guidelines on the above mentioned subject and further clarification in this regard are enclosed herewith for information and necessary action.

(No.98/ORD/1 Dated 13 Jul 2004)

11.10 Improving Vigilance Administration: Increasing Transparency In Procurement / Sale Etc. – Use Of Web Site For Tenders Containing Classified / Secret Documentation

The Central Vigilance Commission had issued a directive vide order No.98/ORD/1 dt. 18.12.03 on the use of web site for publicizing open tenders

pertaining to the procurement and / or auction / sale of goods and services. The directions included making the complete bid documents (along with drawings etc.) available on the web for the prospective bidders to download and use for tender participation. Certain apprehensions have been received in the Commission regarding providing open web publicity to classified / secret documents. These classified / secret documents may include.

(i) Overall layouts of strategic installations like nuclear / atomic energy installations, refineries, power plants, research and defense installations etc.

(ii) Process schemes or process flow diagrams (e.g. for a refinery) which require prior approval of the process licensor before they are provided to the individual bidder.

(iii) Technology / design details which may be proprietary to a particular firm and require specific approval of the technology provide prior to making them available to the bidders.

2. The Commission has considered the representations and is of the view that for such open tenders which consist of documents of classified / secret nature, the organizations may go in for pre-qualification of the bidders in the first stage of the tender. Once the bidders are pre-qualified the complete tenders including the classified / secret documents which form a part of the tender may be made available to them for submitting their techno-commercial and price bids. The process of pre-qualification will involve publicizing the notice inviting tenders which could include the particulars of the tender along with the complete pre-qualification requirements. This notice inviting tender would follow all the procedures of publicity that are normally followed for open tenders including publicity on the web site. Once the suitability of the bidders has been assessed through the responses received against the pre-qualification notice, complete tenders will be issued to the pre-qualified bidders. The Organizations may adopt / follow their own procedures of maintaining secrecy of the classified / secret documents which form a part of these tenders. Thus only the select group of qualified bidders would be in possession of the classified / secret documentation. It may however be ensured that.

(i) Such procedure is followed only for the tenders which contain classified / secret documentation, after obtaining the approval of the competent authority for this purpose.

(ii) The NIT (having pre-qualification conditions) conforms to all extant instructions / guidelines for ensuring a transparent tendering.

(iii) Adequate opportunity and time is given to the pre-qualified bidders to bid for the work. Once the bidders have been pre-qualified, no further rejection takes place on the grounds of not meeting the prequalification criteria, in the later stages of the tender.

3. The post pre-qualification process of the tender may involve separate technical and financial bids. The pre-qualified bidders may be issued tenders directly or through web. In order to limit the access to the detailed tender documents on the web site at this stage, a password access can be resorted to organizations who need to put the classified / secret documents in their procurement / work tenders must put defined tendering procedures in place for such tenders in consultation with the CVO of the Organization, prior to operating such pre-qualification procedure for tenders containing classified / secret documents.

(CVC circular No. 005/VGL/7 Dated 28 Feb 2005)

11.11 Details On Award Of Tenders/Contracts Publishing On Websites/Bulletins

The Commission vide its Circular No. 8 (1) (h)/98(1) dated 18.11.1998 had directed that a practice must be adopted with immediate effect by all organizations within the purview of the CVC that they will publish on the notice board and in the organizations regular publications the details of all such cases regarding tenders or out of turn allotments or discretion exercised in favour of an employee/party. However, it has been observed by the Commission that some of the organizations are either not following the above mentioned practice or publishing the information with a lot of delay thereby defeating the purpose of this exercise viz. increasing transparency in administration and check on corruption induced decisions in such matters.

2. The Commission has desired that as follow up of its directive on use of “website in public tenders” all organizations must post a summary every month of all the contracts/purchases made above a certain threshold value to be decided by the CVO in consultation with the head of organization i.e. CEO/CMD etc. as per Annexure-I. The threshold value may be reported to the Commission for concurrence.

3. Subsequently, the website should give the details on the following:

- a) actual date of start of work
- b) actual date of completion
- c) reasons for delays if any

(CVC circular No. 005/VGL/4 Dated 16 Mar 2005)

11.12 Details on Award of Tenders/Contracts Publishing on Websites/Bulletins - Reminder Regarding

Reference is invited to Commission's **Office Order No.13/3/05 dated 16.3.2005** regarding above mentioned subject directing the organisations to publish every month the summary of contracts / purchases made above a threshold value on the website. **In this regard it is specified that the proposed threshold limit is acceptable to the Commission as long as it covers more than 60% of the value of the transactions every month.** This limit can be raised subsequently once the process stabilizes.

2. CVOs may, therefore, ensure that such details are posted on the website of the organisation immediately and compliance report in this regard should be sent by CVOs in their monthly report to the Commission.

(CVC circular No. 005/VGL/4 Dated 28 July 2005)

11.13 Details On Award Of Tenders/Contracts Publishing On Websites/Bulletins

It has been observed that despite Commission's directions vide its circulars dated 16/3/05 and 28/7/05, a number of organisations are yet to give details of the tenders finalized on the website of their organisations. Some of the organisations have informed that this is due to the delay in receipt of information from their Regional/Subordinate Offices.

2. In this regard it is clarified that placing of such information on the website will be a continuous process. The CVOs should ensure publishing of the details of the tenders awarded immediately with available information and subsequently update it. The threshold limits as proposed by the CVOs in consultation with CEOs can be taken as the starting point, which could be revised subsequently to cover 60% of the transactions in a year and further 100% on stabilization.

(CVC circular No. 005/VGL/4 Dated 20 Sep 2005)

11.14 Payment to Vendors / Contractors through Electronic Clearance System [ECS]

Presently, payments to inland vendors / contractors are being made through cheques. However, there is a need for adopting an efficient system bringing complete transparency in the dealings with the vendors / contractors and to avoid delay in receipt of payment by the vendors / contractors.

2. In view of the above, Divisions are requested to implement payment to Indian vendors / contractors through ECS where such facility has been made available by RBI. The ECS payment is effected through National Clearing Cell

[NCC] managed by RBI or designated banks. The list of centres where ECS is available is placed. Payments to existing vendors / contractors in these centres may be made mandatory over a period of 2-3 months. Some of the divisions are already using the ECS facility for salary remittances.

3. Payment through ECS can be arranged to those vendors / contractors who have an account with Bank branches participating in Electronic Clearing System through MICR cheques. Hence Divisions may insist on all Indian vendors / contractors located at ECS centres to open bank accounts with bank / branch with participate in electronic clearing to facilitate vendors / contractors getting early payments

4. **Procedure:**

- a) Obtain approval of CFCs as per DOP 42(ii) for the list of officers of finance department who would be authorized to advise the sponsor bank [HAL's operating bank] for ECS payment. Names of authorized signatories to be submitted by Divisions to CO from time to time
- b) Communicate list of authorized signatories for ECS payment to the sponsor bank.
- c) Apply to NCC [national clearing cell] for user code in the prescribed format [form E-1] through the sponsor bank [enclosed at E-2]
- d) Payment to vendors / contractors may be classified under "Miscellaneous Payments" in the application
- e) Obtain user code and necessary software from NCC
- f) Separate user code to be obtained for each sponsoring bank
- g) Obtain consent from Indian vendors / contractors for accepting payment through ECS and obtain required particulars from them regarding account no. type of account, vendor's branch and bank at per format at E-3
- h) Identify a specific PC for ECS operation where the ECS software is loaded; PC should be password protected and access to the PC should be limited to authorized signatories.
- i) Approval for payment to vendors / contractors is to be obtained as per existing DOP / accounts manual and laid down procedure
- j) Details of approved payments to vendors / contractors to be entered in the prescribed software with details of vendor's / contractor's account number, MICR number etc and copied to the floppy as per format at E-4.

- k) Hard copy of the data in floppy to be attached to the payment voucher duly approved and checksum as per the software to tally with voucher total
- l) Covering letter to the bank advising the ECS payment should be duly signed by authorized signatory [s]. Covering letter should specifically mention the total amount that is being advised to the Bank which should tally to voucher total. Hard copy of the data in the floppy also to be enclosed to covering letter.
- m) Covering letter duly signed by authorized signatory to be issued to the vendor intimating the payment through ECS together with details of payment such as PO / Contract No., Invoice No., date of payment, amount etc
- n) Divisions to ensure that the debit by the Bank towards ECS payment matches to the amount advised to the Bank.
- o) In case of returns, reasons for the returns may be analysed for correction in vendor's account no., MICR No. etc.

5. Further, Divisions may ensure the following;

- i) Request for quotations issued to India vendors / contractors should necessarily provide a clause for acceptance of payment through ECS by the vendor.
- ii) Payment terms of purchase order / contract should clearly mention that payments would be made only through ECS
- iii) All the existing vendors / contractors should be persuaded to accept ECS payment. Over a period of 2-3 months, payment to vendors / contractors through ECS to be made mandatory
- iv) In case of existing vendors / contractors who do not have account with MICR clearing branch may be persuaded to open account with bank / branches participating in MICR clearing
- v) Wherever Divisions are already having user code for salary payments, same user code could be used for vendor payment. However, separate advice to bank could be prepared so that specific value ceilings can be fixed separately for salary and vendor payments
- vi) The charges levied by sponsor bank is in line with bank wise charge as notified by RBI placed at E-5

6. Copy of the manual on ECS issued by RBI and frequently asked questions [FAQ] is enclosed herewith for ready reference. Divisions may report

to CO the status of implementation of payment to vendors / contractors through ECS from time to time. First report regarding implementation of ECS by Divisions may be forwarded to CO by 25th April 2006.

(No. FIN/C-12/BANKS/05-06: dated 15 Mar 2006)

11.15 Bank Charges On Payments To Vendors

Reference is made to the circulars / instructions issued by CO regarding applicability of Bank charges on payments to vendors. However, it is observed that divergent practices are followed among the Divisions with regard to incurrence of bank charges on payments made through LCs, collection of documents through banks and direct payments for both inland and foreign vendors.

In view of the above, the following guidelines are reiterated for compliance:

- a) Payments to foreign vendors
 - (i) Payment through LCs
 - (ii) Payment to foreign vendor by way of bills sent for collection through Bank
 - (iii) Direct payment

- b) Payment to Indian Vendors
 - (i) Payment of local LCs
 - (ii) Payment to local vendor by way of bills sent for collection through Bank
 - (iii) Direct payment

Divisions may ensure compliance of above guidelines, specific issues, if any relating to implementation of the above guidelines may be referred to Corporate Office for review.

(No. FIN/C-12/BANKS/05-06 dated 15 Mar 2006)

11.16 Posting Of Details On Award Of Tenders/Contracts On Websites/Bulletins

The Commission, vide its orders of even number dated 16.3.2005, 28.7.2005 and 20.9.2005, had directed all authorized to post every month a summary of all contracts/purchases made above a certain threshold value on the websites of the concerned authorized and it was specified that the proposed threshold limits would be acceptable to the Commission as long as they covered more than 60% of the value of the transactions every month in the first instance, to be revised subsequently after the system stabilized. The threshold values as decided by the Competent Authority were also to be communicated to the Commission separately for its perusal and record. CVOs

were required to monitor the progress in this regard and ensure that the requisite details were posted regularly on respective websites. They were also required to incorporate the compliance reports in this regard in their monthly reports.

2. The Commission has taken serious note that the aforementioned instructions are not being adhered to by the authorized. CVOs are, therefore, once again advised to ensure that details of the tenders awarded above the threshold value by the organizations are uploaded in time on the authorized official website and are updated every month. The position in this regard should be compulsorily reflected in the CVOs monthly reports to the Commission. CVOs should also specifically bring to the notice of the Commission, any violation of this order.

(005/VGL/4 Dated 1 Sep 2006)

11.17 Improving Vigilance administration by Leveraging Technology: Increasing transparency through effective use of websites in discharge of regulatory, Enforcement and other functions of Govt. Organizations

The Commission has been receiving a large number of complaints about inordinate delays and arbitrariness in the processing and issue of licenses, permissions, recognitions, various types of clearances, no objection certificates, etc., by various Govt. authorized Majority of these complaints pertain to delays and non-adherence to the 'first- come-first-served' principle. In a number of cases, there are complaints of ambiguities regarding the documents and information sought for the grant of such licenses, permissions, clearances, etc. There is also a tendency in some authorized to raise piece- meal/questionable queries on applications, often leading to the allegations of corruption. In order to reduce the scope for corruption, there is a need to bring about greater transparency and accountability in the discharge of regulatory, enforcement and other public dealings of the Govt. authorized

2. Improvement in vigilance administration can be possible only when systems improvements are made to prevent the possibilities of corruption. In order to achieve the desired transparency and curb the malpractices mentioned above, the Central Vigilance Commission, in exercise of the powers conferred on it under Section 8(1)(h) of the CVC Act, 2003, issues the following instructions for compliance by all Govt. Departments authorized / agencies over which the Commission has jurisdiction:-

- i) All Govt. authorized discharging regulatory/enforcement

functions or service delivery of any kind, which cause interface with the general public/private businesses, etc., shall provide complete information on their websites regarding the laws, rules and procedures governing the issue of licenses, permissions, clearances, etc. An illustrative list is given in the annexure. Each Ministry should prepare an exhaustive list of such applications/matters and submit a copy of same to the Commission for record and web-monitoring.

ii) All application forms/proformas should be made available on the websites in a downloadable form. If the authorized concerned wishes to charge for the application form downloaded from the computer, the same may be done at the time of the submission of the application forms.

iii) All documents to be enclosed or information to be provided by the applicant should be clearly explained on the websites and should also form part of the application forms.

iv) As far as possible, arrangements should be put in place so that immediately after the receipt of the application, the applicant is informed about the deficiencies, if any, in the documents/information submitted.

v) Repeated queries in a piece-meal manner should be viewed as a misconduct having vigilance angle.

vi) All authorized concerned should give adequate publicity about these facilities in the newspapers and such advertisements must give the website addresses of the authorized concerned.

3. In the second stage, the status of individual applications/matters should be made available on the authorized website and should be updated from time-to-time so that the applicants remain duly informed about the status of their applications.

4. In addition to the manual receipt of applications, all authorized should examine the feasibility of online receipt of applications and, wherever feasible, a timeframe for introducing the facility should be worked out. As a large number of Govt. authorized are opting for e-governance, they may consider integrating the above mentioned measures into their business

processes so that duplication is avoided.

5. Instructions at para-2 above shall take effect from 1st January, 2007, and instructions at para-3 shall become effective from 1st April, 2007. All Heads of Organisations/ Deptts. Are advised to get personally involved in the implementation of these important preventive vigilance measures. They should arrange close monitoring of the progress in order to ensure that the required information is placed on the website in a user-friendly manner before the expiry of the abovementioned deadlines. They should later ensure that the information is updated regularly.

Illustrative list

1. Land & Building Related Issues

i) Applications for mutation; conversion from leasehold to freehold of lands & buildings; approval of building plans by municipal authorities and landowning/regulating agencies like MCD; DDA; NDMC; L&DO and similar agencies in other UTs.

(ii) Application for registration deeds by Sub-Registrars/Registrars and other applications connected with land record management.

(iii) Application for allotment of land/flats, etc., by urban development agencies like Delhi Development Authority.

2. Contracts & Procurement.

(i) Applications for registration of contractors/suppliers/ consultants/ vendors, etc.

(ii) Status of all bill payments to contractors/suppliers, etc.

3. Transport Sector

Issue of driving licenses, registration of vehicles, fitness certificates, release of impounded vehicles etc. by RTAs.

4. Environment & Pollution Related Matters

Issue of environment and pollution clearances for setting up industries and other projects by Min. of Environment & Forests; Pollution Control Organizations, etc.

5. Food & Hotel Industry

Applications connected with clearances, licenses for food industry/hotels/ restaurants, etc.

6. **Ministry of Labour/Ministry of Overseas Indian Affairs.**

(i) Applications by beneficiaries and employers in connection with EPFO; ESI etc.

(ii) Applications by recruiting/placement agencies and individuals submitted to Protectorate General of Emigrants and the concerned Ministry.

(iii) Other applications connected with regulatory/enforcement systems of Labour Ministry.

7. **CBDT & Income Tax Deptt.**

(i) Application for PAN.

(ii) Applications submitted by NGOs for exemption from Income Tax.

(iii) Applications submitted for issue of certificates/income tax clearance for immigration/ public contracts or any other purposes.

(iv) Application for appointment of legal counsels/any other professionals.

8. **Customs & Central Excise & DGFT**

Applications/cases of Duty Drawback & other export incentives.

9. **Telecom (BSNL & MTNL)**

Applications for establishing STD booths, etc.

10. **Petroleum Sector**

Applications for allotment of petrol pumps/gas stations.

11. **Ministry of External Affairs**

(i) Applications for issue of passports.

(ii) Applications for issue of visas by Indian Embassies abroad.

12. **Ministry of Home Affairs**

(i) Applications submitted to FRRO.

(ii) Applications connected with FCRA.

13. **Ministry of Health**

Applications for recognition by Medical Council of India and similar other regulatory bodies.

14. **Education**

- (i) Applications for accreditation handled by bodies like AICTE & others.
- (ii) Applications for recognition of schools by Director of Education etc.
- (iii) Grant of E.C. by Director of Education.

15. **Agriculture, Dairying & Fisheries**

- (i) Various clearances/licenses, e.g. Clearance for operating fishing vessels.
- (ii) Quarantine related applications.

16. **Ministry of Social Justice/Tribal Affairs.**

Applications for sanction of funds to NGOs.

(No.006/VGL/117 Dated 22 Nov. 2006)

11.18 Details On Award Of Tenders/Contracts Publishing On Websites/Bulletins

Reference is made to ED (V)'s Circular No HAL/CO/VIG/41/2005/1119 dt 16 Aug 2005 on the subject (copy enclosed for ready reference).

2. It is observed that requisite details of Contracts/Purchase Orders placed, as directed vide above Circular and Commission's letter dated 16.3.2005 (also enclosed) are not being published on the Website.

3. You are directed to comply with the instructions and send the information in prescribed format to GM (MS&IT) at CO for updating on the Website with a copy to ED (V) for onward transmission to CVC. The information needs to be furnished every month.

4. It may be noted that Direct Project Materials as defined by Para 2.2 of Purchase Manual are to be excluded from the details to be published on Website.

(HAL/CD/616(F)/2006 dated 6 Dec 2006)

11.19 Improving Vigilance Administration By Leveraging Technology: Increasing Transparency Through Effective Use Of Website

Please refer to Commission's Circular No. 40/11/06 dated 22/11/2006 on the aforementioned subject & also Circular No. 13/3/05 dated 16/03/2005 & Circular No.46/7/05 dated 28/7/2005 regarding details of award of tenders/contracts publishing on Websites/Bulletin.

2. The Commission vide Circulars dated 16/3/05 & 28/7/05 had directed all organizations to post on their web-sites a summary, every month, of all the contracts/purchases made above the threshold value covering at least 60% of the transactions every month. A compliance report in this regard was to be submitted to the Commission by the CVOs through their monthly report to the Commission. However, it is seen that some of the departments have neither intimated the Commission about the threshold value decided for posting the details of tenders awarded on the web-sites, nor a compliance report is being sent through the monthly reports.

3. Further, vide circular dated 22/11/06, the Commission while emphasizing the need to leverage technology, as an effective tool in vigilance administration, in discharge of regulatory, enforcement and other functions had directed the organizations to upload on their websites, information in respect of the rules and procedures governing the issue of licenses/permissions etc. and to make available all the application forms on the websites in a downloadable form besides, making available the status of individual application on the organization's website. The Commission had directed the organizations to implement its guidelines in two phases. The first phase relating to the posting of all application forms on the website was to be implemented by 1/1/2007 and the second phase, by 1/4/2007. Although, the date for implementation of second phase has passed by, the departments are yet to intimate the Commission about the status of implementation of the two phases.

4. The Commission, therefore, while reiterating its aforementioned instructions directs the CVOs to convey to the Commission the following information latest by 30/4/07:-

- a) The threshold value decided by the organization for publishing on their web- site, details of award of tenders/contracts;
- b) The extent to which the details of awarded tenders are being posted on the web-site and whether the web-sites are being updated regularly or not;
- c) Whether first/second phase of the Commission's Circular dated 22/11/06 has been implemented or not;

d) If not, the reasons thereof: steps being taken by the organization to ensure implementation of the Commission's circular and the exact date by which both the phases as mentioned in the Commission's circular would be fully implemented;.

(CVC circular No. 006/VGL/117 Dated 18 Apr 2007)

11.20 Implementation Of E-Tendering Solutions

References are being received by the Commission regarding the methodology for selection of sole application service provider for the implementation of e-tendering solutions in various organizations. The Commission has examined the matter and is of the view that all organizations should invariably follow a fair, transparent and open tendering procedure to select the application service provider for implementing their e-tendering solutions. The standard guidelines on tendering procedure should hold good for the procurement of these services as well.

(009/VGL/002 dated 13 Jan 2009)

11.21 Posting Of Details On Award Of Tenders/Contracts On Websites

The Commission vide circulars dated 16.03.2005, 28.07.2005 and 18.04.2007 had directed all organisations to post on their web-sites a summary, every month, containing details of all the contracts/purchases made above a threshold value (to be fixed by the organisations) covering at least 60% of the value of the transactions every month to start with on a continuous basis. CVOs were required to monitor the progress and ensure that the requisite details were posted regularly on respective websites, and also to incorporate compliance status in their monthly report to the Commission.

2. On a review of the status of implementation by the organisations, it is observed that some organisations have not adhered to the instructions and implemented the same. Further, such information being posted on the websites are not being regularly updated on a continuous basis by certain organizations and, in some cases, the information published is disjointed and not as per the prescribed format laid down by the Commission. It is also seen that a few organisations have placed such information on restricted access through passwords to registered vendors/suppliers etc. which defeats the basic purpose of increasing transparency in administration.

3. The Commission, therefore, while reiterating its aforementioned instructions would direct all organisations/departments to strictly adhere and post summary of details of contracts/purchases awarded so as to cover 75% of the value of the transactions without any further delay. Any failure on the part of the organisations on this account would be viewed

seriously by the Commission.

(CVC circular No. 005/VGL/4 Dated 14 Jul 2009)

11.22 Implementation of E-tendering solutions

Guidelines were prescribed in this office OM of even number, dated 13/1/09 on the above-cited subject, advising organizations to follow a fair, transparent and open tendering procedure, to select the application service provider for implementing their e- tendering solutions.

2. It is clarified that while ensuring fair play, transparency and open tendering procedure for e-tendering solutions, the organizations must take due care to see that effective security provisions are made in the system to prevent any misuse. In this regard, the guidelines on security related issues in e-tendering systems are enclosed for information. Organizations concerned may follow these guidelines while implementing e- tendering solutions to contain the security related loop holes.

(Circular No 29/9/09 dated 17 Sept 2009)

11.23 Hosting of approved suppliers list with details on HAL's Website

1. In order to bring transparency and exchange of information between Divisions, it is felt necessary to host Approved Suppliers list with details on HAL's Website.

2. In this regard, the following guidelines are issued:

i) Approved Suppliers list with details shall be hosted by Divisions on HAL's Website. On hosting" a confirmation and a copy to be forwarded to CO-IMM for information and records.

ii) Divisions shall update their list of approved suppliers with details by 31st December of each year and host the same on HAL's Website.

3. The instructions issued by CO-MS&IT vide letter No.MSDI171072; 200811016 dated 16th May 2008 need to be complied to.

4. Divisions are requested to take note of this and ensure strict compliance.

(HAL/CD/617/2010 dated 30 Mar 2010)

11.24 Implementation of e-tendering solutions – check list

1. Guidelines were prescribed in this office OM of even number, dated 17.09.2009, on the above-cited subject, advising organisations to take due care to see that effective security provisions are made in the system to

prevent any misuse. It has been observed during security audit carried by CTEO that e-procurement solutions being used by some of the organisations lack security considerations as envisaged in the Commission's guidelines dated 17.09.2009. Some of the shortcomings / deficiencies are of repetitive nature.

2. A check list to achieve security considerations in e-Procurement solutions is enclosed for information. Organizations' concerned may follow the same while implementing e-tendering solutions to address the security related concerns.

(009/VGL/002 - Circular No 18/4/2010 dated 26 Apr 2010)

11.25 Hosting of approved vendor list with details on HAL's Website

1. Reference is made to earlier letter No.: *HAUCD/617/2010* dtd: 30.03.2010 requesting the Divisions to host the list of approved Suppliers on HAL's web-site.

2. In continuation to above, a system of review of Vendors directory needs to be carried out on quarterly basis by IMM with the representatives from Finance, Quality control, Methods Departments and, if necessary, from the concerned user Dept. by each Divisions.

3. On hosting the updated Vendor directory on quarterly basis a line of confirmation may be sent to Shri. V. Sunder, CM (IMM) who will be the nodal officer at Corporate Office for monitoring with regard to hosting of Vendors directory on HAL's web-site by the Divisions.

4. Although all Divisions hosted list of approved vendors but it is also observed from the list hosted by the Divisions that, each Division has followed their own format and uniformity is not maintained. In order to bring uniformity in the list being hosted in the web-site by the Divisions, standard format is enclosed herewith and Divisions are requested to provide the details strictly as per the enclosed format.

5. Divisions are requested to adhere strictly to above guidelines and approved Vendors list be hosted at the end of every quarter without fail.

(HAL/CD/617/2010 dated 24 May 2010)

11.26 Improving Vigilance Administration by Leveraging Technology

1. Various guidelines have been issued by CVC which have been circulated from time to time on Leveraging Technology for improving vigilance

administration. Based on these guidelines & CVC directions, a check list has been prepared which is enclosed.

2. It is hoped that the check list will facilitate adopting and implementing the various policies issued on the subject. Suitable instructions may therefore be issued and the check list forwarded to the concerned Dept. for necessary action.

Check List

1. All request for Quotations / Notice Inviting Tenders are to be placed on the HAL's website in addition to intimating to the registered vendors / suppliers in case of limited tender and publishing in the newspapers in open tender as the case may be in a concise manner, the web-site address must be given in the NIT advertisement published in the newspapers.

2. The web-site must be updated promptly and periodically.

3. The website hoisting must contain complete information regarding rules and procedures governing tenders, sales, recruitment, vendor registration, empanelment of contractors ect.

4. All application forms, complete bid document ect should be made available on website in a downloadable form and the parties making use to this facility from web-site should not be asked to again obtain some other documents from the organization manually for the purpose of participation in the tenders.

5. In the downloading of the application forms is to be made on chargeable basis, the same can be down while at the time of submission of them through Electronic Fund Transfer where such facility exists.

6. All the documents to be enclosed or information to be provided by tenders / applicants shall be clearly explained on the website and should also from part of such a[application / tender.

7. All the updated documents should remain available on the web-site and should be declared as legally valid for all purposes.

8. The tenders / application shall be informed of the deficiencies in their submissions.

9. Raising repeated queries in a piece meal manner should be viewed as a misconduct having angle.

10. Provide adequate publicity in newspaper about the facilities and information available in website address of Division/ Hal in all such advertisements.

11. Status of individual applications/tenders should be made available in the website and updated from time to time.
12. On-line applications should be encouraged.
13. All possible efforts should be made to switch over to e-governance mode and integrate all business processes.
14. Details of awarded contracts/ purchases made should be placed on website in the formal prescribed covering at least 60% of the transactions.
15. All bill payments to contract/suppliers etc. should be made through e-payment mechanism wherever such facilities exist.
16. Payment details to be placed on website on monthly basis indicating the date of receipt of the entire bill from the contractor / vendor/supplier and the date of release of payment by the company.
17. Provide enabling environment so that customers/businessmen can make the payment to the organization electronically.

(HAL/CO/VIG/83/PC/2010/845 dated 18 Jun 2010)

11.27 Leveraging of Technology for improving Vigilance Administration in the National E- Governance Plan

The Commission observes that e-procurement software, security and implementation is a new area and needs improvement. E-procurement provides a platform for the collaborative procurement of goods, works and services using electronic methods at every stage of the procurement process. The e-procurement platform transacts confidential procurement data and is exposed to several security threats. Department of Information Technology could be best placed to address issues relating to e-procurement. In order to ensure proper security of the e-procurement system all Departments/Organizations are advised to get their system certified by Department of Information Technology.

(Circular No 23/06/2010 dated 23 Jun 2010)

11.28 Transparency in System

1. Corporate office (MS&IT Dept.) vide letter No. MSD/171072/2008/1016 dt 16th May 2008 had directed the Divisions to forward summaries of enquiries

hosted on HAL web-site & Purchase orders released during a month for hosting on the web site by 5th of following month.

2. During the presentation to Secretary (DP) on 23 Feb 2011 on Transparency in system it was informed that the following are hosted in HAL web site w.r.t procurement of materials.

- (a) Enquires issued above Rs. 25 Lakhs
- (b) Orders placed valuing Rs. 25 Lakhs & above

3. Divisions are advised to ensure hosing the summaries of enquires issued & orders placed valuing Rs. 25 Lakhs & above on HAL web site as per the format provided in the above letter dt. 16th May 2008. Divisions are also advised to confirm that all the enquiries issued had a specific clause for making payment to vendors through ECS.

4. In this regard, Divisions are advised to forward a compliance statement to Corporate office- IMM Dept as per the format enclosed at annexure-I, duly signed by the head of the division, by 10th of following month to enable us to consolidate and put up to the Management Committee for compliance on transparency in system.

(HAL/CD/617(TS)/2011 dated 14 Mar 2011)

11.29 Hosting of Approved Vendors list with details on HAL's website

1. Reference is made to earlier guidelines issued by CO-IMM vide below mentioned letters on the subject.

- (a) HAL/CD/617/2010 dt. 30-03-2010
- (b) HAL/CD/617/2010 dt. 24-05-2010

2. Further to the above, it has now been decided for updating the Approved Vendors List and to host the same on HAL's Website on Monthly basis.

3. Accordingly, the updation and hosting are now required to be carried out on Monthly basis.

4. In this regard, the Divisions may update their Approved Vendor List and to host on HAL Website on 25th of every month as per the format enclosed along with CO's earlier letter dt. 24-05-2010 (Copy of format enclosed).

5. On hosting the updated approved vendors list on monthly basis, a line of confirmation by 30th of every month may be sent to CO-IMM for monitoring.

6. The instructions issued by CO-MS&IT vide their letters dt. 16-05-2008 and 28-07-2011 also need to be complied with.

(HAL/CD/617(TS)2011/AVL/947 dated 11 Aug 2011)

11.30 Guidelines for Compliance to Quality Requirements of e-Procurement Systems

1. Commission has been advocating leveraging of technology for activities prone to corruption since 2006 and one of the prominent initiatives was adoption of e-procurement for goods, works and services by all Ministries/Departments/Organizations'. Commission advised all Organizations to ensure security of the e-procurement systems and to get their system certified by Department of Information Technology (DIT).

2. DIT in turn requested its attached office STQC (Standardisation, Testing and Quality Certificate) Directorate to establish necessary processes and systems to enable certification of e-Procurement systems. Accordingly, the guidelines prepared by STQC in this regard approved and notified by the DIT is available on ego standards website [www.egovstandards.gov.In]. The guidelines are also available on Commission's website www.cvc.nic.in (link-circular/ instructions) All the Ministries/Departments/Organizations are advised to use these guidelines for compliance to Quality Requirements for certifying the e-Procurement systems.

(Circular No 01/01/2012 dated 12 Jan 2012)

11.31 Implementation of e-Procurement and Registration of Vendors/Suppliers in HAL e-Procurement Portal

1. Implementation of e-procurement has been driven by the MoD as a strategic initiative to bring transparency in Public Procurement. As a result, all the DPSUs & OFB have implemented e-procurement systems. In the recent meeting attended by Chairman with CVC, implementation of e-Procurement in HAL was main agenda for the discussion.

2. In spite of all our efforts, in implementing the e-Procurement system, it is disappointing that, the progress in vendor's registration is very slow. Also, the DSC has not yet been obtained by all the in house officials, required to operate e-procurement portal. Such abnormal delays will cause further delays in the implementation process.

3 Following needs to be complied by all the IMM heads, urgently:

(i) Registration by the Vendors: The list containing name of the vendor primarily associated with your Division is attached. Each vendor shall be contacted personally and necessary persuasion be done to get all the vendors registered by 1st April 2012 on priority basis.

(ii) DSC for IMM and Fin. Officials: This activity must be completed by 15th March 2012 and compliance report to be sent.

4. It may be noted that, the completion of above tasks will be considered as one of the important measure for judging the performance of Division IMM/ Works/ Out-sourcing/ Fin.

(HAL/CD/551/2012/155 dated 13 Feb 2012)

11.32 Hosting of Documents on HAL Website

- Ref :
- i. MSD/171072/2008/1016 dtd 16.05.2008
 - ii. CO/MS&IT/IT-21/425/2011 dtd 28.07.2011
 - iii. MS&IT/IT-21/515/2011 dtd 14.12.2011

1. Reference is made to above letters, wherein Divisions are advised to host information on the Company's website as stipulated by CVC guidelines on the subject i.e. ***"Improving Vigilance Administration by Leveraging Technology."***

2. In the meeting held on 27th December 2011 on implementation of e-Procurement in OFB/DPSUs under the Chairmanship of Additional Secretary (DP), it has been directed that Format 1(A) to Format 8(A) must be hosted on HAL website on a weekly basis instead of every fortnight as advised earlier vide reference letter No. CO/MS&IT/IT-21/425/2011 dt. 28th July, 2011.

3. The Divisions are directed to comply with the above instructions and the compliance report may be forwarded to Corporate Office to confirm the same to MoD.

(MS&IT/IT-21/612/2012 dated 14 Mar 2012)

11.33 IT enabled application in CVC for the Core Processes

1. Central Vigilance Commission has been working towards leveraging IT for not only simplification of processes but also enhancing interaction with all the stakeholders in the fight against corruption. An IT enabled application for Complaints processing online has been developed and implemented in the Commission. This application handles complaints from all sources in electronic form and ensures expeditious disposal.

2. In this process, complaints on which it has been decided to send the same for 'Necessary Action' (NA) are being forwarded to the CVO concerned by the Commission through this Application. Such complaints sent for necessary action would henceforth not be sent in hard copy and will be transmitted electronically. However, the complaints sent for investigation and report to the CVO will continue to be handled/sent by post in addition, the CVOs can also send the Monthly Reports electronically through this Portal.

3. E-mails and SMS systems are also being integrated by this application for sending alerts to all the CVOs and for status updates to the complainants.

4. All CVOs have to access their accounts with User ID and Passwords through the CVC portal <http://portal.cvc.gov.in>. For any further query/help please contact the following numbers : 011-24657642 & 24651087.

(012/VGL/022 dated 29 Mar 2012)

11.34 Implementation of e-procurement in HAL

1. Reference is made to CO letter NO. HAL/CD/551/2011 Dt. 14/07/2011 and Minutes OF Meeting held at HMA on 9th & 10th Sept. 2011 issued earlier vide letter No. HAL/CD/450/2011 Dt. 19.09.2011 on the above subject.

2. Accordingly, Divisions were directed to issue RFQs / Tenders wherever the estimated value is Rs. 10 Lakhs and above irrespective of type of tenders w.e.f. 1st September, 2011 through e- procurement mode.

3. Further, MoD have been reviewing the progress of implementation of electronic procurement in DPSUs & OFB. While reviewing in the recent meeting held on 19.03.2012. MoD have directed that the threshold value needs to be fixed uniformly at Rs. 5 Lakhs & above and the same should be implementation by all DPSUs 7 OFB by September, 2012.

4. Accordingly, Divisions are directed to issue RFQs / Tenders wherever the estimated value of procurement is Rs. 5 Lakhs and above irrespective of type of tenders w.e.f. 1st September, 2012 onwards through e-procurement mode.

(HAL/CD/617/e-P/2012/232 dated 24 Apr 2012)

12. PROCESSING OF PROCUREMENT

12.1 Purchase of Computer System by Govt. departments/organization

1. It has come to the notice of the Commission that some departments/ organizations are issuing tenders for purchase of computers where they mention and insist on the international brands. This not only encourages the monopolistic

practices but also vitiates the guidelines issued by the Ministry of Finance, D/o Expenditure vide its OM No. 8(4)- E.II(A) 98 dated 17.12.1998 (copy enclosed).

2. It is, therefore, advised that departments/organizations may follow the instructions issued by the Department of Expenditure.

3. The undersigned is directed to invite attention to the provisions of GFR 102(1) and the Annexure to the same according to which "Open Tender" system (that is, invitation to tender by public advertisement) should be used as a general rule in all cases in which the estimated value of demand is Rs. 50,000/- and above.

4. It has been brought to the notice of this Ministry by Deptt. of Electronics that certain Ministries/Deptts etc. issue tenders for purchase of personal computers where they specify the international brands like IBM, Compaq, HP, Digital, DELL or Gateway Micron. This vitiates the guidelines for open tender system laid down in GFRs and deprives other brands including domestic manufacturers of an opportunity to participate in the tender. Further Deptt. of Electronics have pointed out that brand names do not have any great advantage since at the broad level there is hardly any difference between the competing products because they predominantly use Intel microprocessors.

5. Separately, DGS&D have informed that generalised specifications for personal computers have been finalised and the process of concluding rate contract is being initiated.

6. It is, therefore advised that Ministries/Departments should follow the open tender system without vitiating it by specifying brand names in accordance with the provisions in GFRs for purchase of personal computers till a rate contract for computers is concluded by DGS&D. Thereafter, computers could be purchased on rate contract basis.

(98/ORD/1 dated 05 May 2003)

12.2 Turnkey contracts for net-working of Computer systems

1. The Commission has been receiving complaints that in turnkey contracts for net-working of computer systems a lot of unrelated products are being included in the contracts which are either not required or which are stand alone in nature and can be procured separately at much lower cost. Inclusion of these unrelated items creates opportunities for malpractices. The Commission is of the view that wherever possible it will be advisable to take an independent

third party view about the scope of turnkey projects so that the tendency to include unrelated products as part of the turnkey project is avoided.

(004/ORD/8 (Office Order No. 69/11/04 dated 03 Nov 2004)

12.3 Time Bound Processing of Procurement

The Commission has observed that at times the processing of tenders is inordinately delayed which may result in time and cost overruns and also invite criticism from the Trade Sector. It is, therefore, essential that tenders are finalized and contracts are awarded in a time bound manner within original validity of the tender, without seeking further extension of validity. While a short validity periodicals for prompt finalization by observing specific time-line for processing, a longer validity period has the advantage of vendors loading their offers in anticipation of likely increase in costs during the period. Hence, it is important to fix the period of validity with utmost care.

2. The Commission would, therefore, advise the organizations concerned to fix a reasonable time for the bids to remain valid while issuing tender enquiries, keeping in view the complexity of the tender, time required for processing the tender and seeking the approval of the Competent Authority, etc., and to ensure the finalization of tender within the stipulated original validity. Any delay, which is not due to unforeseen circumstances, should be viewed seriously and prompt action should be initiated against those found responsible for non-performance.

3. Cases requiring extension of validity should be rare. And in the exceptional situations where the validity period is sought to be extended, it should be imperative to bring on record in real time, **valid and logical grounds**, justifying extension of the said validity.

(008/VGL/083 Dated 6 Nov 2008)

12.4 Time Bound Processing Of Procurement

1. Central Vigilance Commission has issued instructions on Time Bound Processing of Procurement vide Circular No 31/11/08 dt 06 Nov 2008 (copy enclosed for reference).

2. Specific reference is made to para-3 of the above circular which is reproduced below:

“Cases requiring extension of validity should be rare. And in the exceptional situations where the validity period is sought to be extended, it should be imperative to bring on record in real time, valid and logical grounds, justifying extension of the said validity”.

3. Divisions are required to take note of the same and ensure strict

compliance with the above instruction.

(HAL/CD/617/2008 dated 05 Dec 2008)

12.5 Guidelines for Improvement in the Procurement System

1. During the investigation of some of the Purchase Orders (pertaining to raw materials) placed by Divisions, Vigilance has observed certain irregularities in the procurement proposal.

2. In order to avoid such deviation and to ensure uniformity following details and guidelines have been provided with a view to bring in better clarity and understanding;

3. MARKET EXPLORATION, SOURCE SELECTION AND DIRECTORY OF APPROVED SUPPLIERS: Chapter "" of Purchase Manual lays down procedures for Market exploration and source selection. It is reiterated that Divisions are to ensure the compliance on the procedures indicated in the Purchase Manual. Further, Divisions are advised to take a note of the following also for strict compliance.

3.1 Firms who seek registration on their own may also be considered for registration.

3.2 A party who has been registered as a supplier/sub-contractor in any of the Divisions shall be considered for registration as approved supplier by other Divisions for similar items.

3.3 Some of the manufacturers of repute/public sector undertakings normally do not apply for formal registration. In such cases, Head of IMM Dept shall send the applicable form (form at Annexure-I0 for indigenous vendor and Annexure-I1 for foreign vendors as per Purchase Manual) to prospective vendors, informing them of Hal's intentions to include their name on the approved supplier list and shall be registered upon approval of General Manager

3.4 Listing and classification of vendors to be done both product wise and alphabetically and specific registration number is to be given to a vendor. Vendors/ suppliers are to be rated periodically and based on vendor rating and Quality / cost and delivery parameters, their names in the list are to be updated /maintained.

3.5 Maintenance of Approved Suppliers' List (indigenous and foreign) and periodical updating of their list (at least once in a year) is the responsibility of the Head of IMM Dept. and the same must be ensured. The IMM Department shall also keep a hard copy of suppliers/ vendors list.

3.6 Approved suppliers list with details shall be hosted by the Divisions on HAL website and the updated vendor list should be hosted at the end of every quarter. In this regard Corporate Office guidelines issued vide letter NO.HAL/CD/617/2010 dated 30th March 2010 and even letter dated 24th May 2010 are to be complied with.

3.7 Whenever any OEM requires supplies to be made through their Distributor/ Authorized representative, the same should be first registered with the Company as per laid down guidelines before initiating procurement file for approval to know about the existence of the firm.

4. ISSUE OF TENDERS: To generate adequate competition, it is necessary that sufficient number of sources is addressed. Proof of dispatch of enquiries to the prospective bidders must be placed in the purchase file. Depending upon the mode of dispatch of enquiry, it could be Certificate of Registration in case of dispatch by post, or courier's receipt, or fax transmission records in case of fax or a receipt acknowledgment. Enquiries by e-Mail may be resorted to only after having ensured that system provides for confirmation regarding dispatch of enquiries. Chapter V of Purchase Manual lays down procedures for selection of appropriate mode of tendering. With respect to hosting of tenders in HAL website, Corporate Office guidelines issued vide letter NO.MSO/1710721Z008/1016 dated 16th May 2008 is to be complied with.

5. TENDER RECEIPT, OPENING AND EVALUATION: Chapter VII of Purchase Manual lays down procedures for Tender receipt, opening and evaluation. It is reiterated that Divisions are to ensure the compliance on the procedures indicated in the purchase manual. Further, Divisions are advised to take a note of the following also for strict compliance.

5.1 Tender Receipt:

- i. A locked and sealed tender box must be maintained in a prominent place for all tender
- ii. Individuals bringing tenders in person should be directed to hand them over in central registry or drop them in the tender box.

iii. In case of suppliers submitting the quote or dropping the quote through their authorized representatives, the sealed quotation should accompany an authorization letter from the tenderer (stapled on the top of the cover). In case the sealed quotation does not accompany with the authorization letter /postal or courier details of tenderer's country, the same will be considered as unsolicited offer and liable for summary rejection. In case suppliers' authorized representatives submitting the quote through courier, the quotation should accompany with a separate cover enclosing the copy of authorization letter from the tenderer (stapled with quotation cover) super scribed with "Authorization letter", Such terms needs to be indicated in RFQ/enquiry for appraisal of vendors to comply.

iv. In case, the bid document is bulky and is to be received by hand than name and designation of two officers who can receive the bid, is to be mentioned in tender document as per CYC Circular 05-04-1 CTE dt 8.6.04.

v. Unsigned quotation received from the vendor amounts to unsolicited quote and not to be considered. In case of quote received through e-mail, the same would be accepted only if it is authenticated by a valid digital signature. With respect to acceptance of quotations through FAX / E-Mail, Corporate Office guidelines issued vide letter NO.HALICDI701-AI2000 dated 10th May 2000 & HAL/CD(616(F)12008 dated 10th Nov 2008 are to be complied with.

vi. Acceptance of tenders received through fax / e-Mail: Discourage fax/e-mail quotations in open/limited tender cases. In spite of instructions discouraging fax/e-Mail, the quotations if still received by fax/e-mail should be immediately put in an envelope and sealed by Head of IMM Dept. super scribing the enquiry reference No., due date, time and date of receipt of quotation and the same to be put in a tender box maintained for the purpose. A responsibility is fixed on Tender Opening Committee to check up the veracity of fax/e-mail from its embedded numbers and valid digital signature. If it necessitates any verification the same may also be explored from the vendor by Tender Opening Committee and record the same in writing with countersignature by Head of IMM.

vii. All the tenders should contain fax No. of IMM Dept, official e-Mail ID, Divisions/Office address and contact person. In this regard Corp Office guidelines issued vide letter No.HAL/CD/616(F)/2008

dated io" Nov 2008 and letter No. HAL/CD/617/2010dated zs" Jan 2010 are to be complied with.

viii. In the RFQ it should be made mandatory to the vendors that their electronic correspondence would be accepted only if it is authenticated by a valid Digital Signature. Normal e-mail without digital signatures will not be entertained. Similarly all correspondence bye-Mail from the Division/Complex in relation to procurement/tendering/works etc; should necessarily be sent authenticated by a valid digital signature.

ix. Each division should obtain a digital signature to be used for all official functions on procurement. Similarly all the vendors are to be insisted to append digital signature to all their official correspondence so that the legal validity of the same as per Information Technology Act 2000 can be enforced.

5.2 TENDER OPENING:

i. Tender Box shall be opened by the authorized person/s or the Tender Committee. Only tenders due on that date shall be taken out and tender box shall be sealed thereafter. W.r.t formation of tender opening committee, direction given vide HALICD/617/2010dt 16.7.2010are to be complied with.

ii. Authorised suppliers or their representative (along with authorization letter from their OEM)who submit their tenders are permitted to witness the tender opening. A record of the tenders/representatives present at the tender opening should be maintained. In this regard Corp. Office guidelines issued vide MNIONO.31 dated 10th August2005and letter dated 13th Sep2010is to be complied.

iii. No explanation should be sought from the representative of bidders during opening of tender

iv. Any alterations in rate (printed or corrected by ink) shall be encircled and initialed to make it perfectly clear that such alterations were present on the tenders at the time of opening. It is desirable to write rate in words if not already written in the tender. Any erasing or cutting is observed, substituted words should be encircled and initiated to make it perfectly clear that such erasing/cutting of the original entry were present on the tenders at the time of opening.

- v. Blank space (against price or terms and conditions), if any is to be crossed out and initialed.
- vi. All deficiencies observed shall be recorded on the first page in red ink.
- vii. Follow up by any person other than the disclosed/authorized representative should not be encouraged. Before communicating any information (either oral or written) the information seeker should be identified reasonably and such disclosures should be recorded in the file and brought to the notice of higher ups.
- viii. Glaring abnormalities like striking similarities in text/language, format, contents etc, from different sources/firms should be a cause for reasonable concern and their admissibility or otherwise should be preceded by cross verification with the sender to whom the original RFQ/Correspondence were addressed by giving suitable time limit.
- ix. Proper record of EMD, Integrity Pact, authentication/authorization letters, etc needs to be made and recorded.
- x. On the spot summary of the tenders received, opened, etc. is to be prepared and signed by tender opening committee.
- xi. Opening of tenders under two bid system: In two bid system only the technical bids should be opened in the first instance. Commercial bids of only technically acceptable offers should be opened only after evaluate of the technical bids and recommendations of TE. The commercial bids of other offers, who are not found to comply with the technical requirements/tender conditions (EMD,IP, etc) will be returned to the vendors, in sealed and unopened condition as received. In this regard Corporate Office guidelines issued vide letter NO.HAL/CD/ 702/2008 dated 09 May2008 is to be complied with.
- xii. In case of quotations in two bid system, if party is submitting only one bid with rates and technical details in one envelope only, the same may be considered for acceptance with the approval of Head of the Division. However, the tender opening committee should take photo copy of the quotation after blocking the price details and duly

signed by the tender opening committee for technical evaluation and keep the original quotation in the original cover super scribing on the cover as "opened on dt.----- alongwith other quotes and re-sealed after taking photocopy of quote for technical evaluation since the vendor has not submitted separate bid for technical evaluation". Resealed bid should be opened as commercial bid only after acceptance of the offer by TEC.

xiii. If a single bid is received and it is decided to re-tender, the bid should not be opened.

xiv. Both delayed (ie tender received after due date) and late (tender received after tender opening) should be marked as such and be returned unopened.

xv. Preliminary screening of tenders by tender committee: In case of open/limited tender, the Purchase Department shall study offers and prepare a statement for endorsing the offers that are prima facie suitable (that is the offer is not an unsolicited or quote without signature as per Para 5.1. (iv), 'offer is accompanied by EMD if required, offer is accompanied with IP signed without any deviations by authorized person as per HAL Standard format). With respect to Integrity Pact Corp. Office guidelines issued vide letter No. HAL/CD/617/2009 dated 14th Dec 2009 and letter No. HAL/CD/617/2010 dated 7th April 2010 are to be complied with.

xvi. Undertaking by the members involved in tender opening evaluation and approval process: The members involved in tender opening, evaluation and approval process should give an undertaking at the appropriate time that none of them has any personal interest in the Companies/Agencies participating in the tender process. Any member having interest in any company should refrain from participating in tender opening, evaluation and approval process. In this regard Corp. Office guidelines issued vide letter No. HAL/CD/617/2006 dated 29th May 2006 is to be complied with.

6. Intending Department should not carryout correspondence with supplier. Method Engineering/ Facility Planning or the department preparing specification may correspond to trim up specification. All correspondence to be handled by IMM department only

7. Debarring/Blacklisting of vendor/supplier: Debarring/blacklisting of any vendor/supplier is to be done only after complying with procedure and after

having provided such vendor / supplier reasonable opportunity to explain his case. The successful vendor / supplier in last procurement process should not be excluded from list of vendors to be sent RFQ without first delisting him from the vendor's directory after due process.

8. **FILING SYSTEM:** The procurement files are very important and sensitive documents and thus there is a need to have a single file system with proper pagination. In case of urgency if opening of the part files is unavoidable, the same should thereafter be merged with the main file. The decisions and deliberations of the individuals or the members involved in tender opening, evaluation and approval process also need to be properly recorded and well documented.

9. **DELAYS IN PROCESSING TENDER / PAYMENTS:** Inordinate delays in processing tender/payments and seeking clarifications in a piece-meal manner etc are some of the major reasons for the Principals especially (foreign based) to engage agents, on the belief that such mediators would speed up the process. Most of the times, such engagements are not made known to HAL. As per Rules they are also against the laid down policies of the Company/MOD. Needless to point out that such unauthorized entities vitiate the sanctity of tendering system of HAL. Divisions are advised to avoid such situations during the tendering process. In this regard please refer para-8.8. & para-11.8 of purchase manual, Materials Management Circular No.14 dt. 31 Aug 1998 on non-involvement of agent and Corp. Office guidelines on finalization of Receiving Report issued vide letter NO.HALICD/617/2007 dated 24th Aug 2007 are to be complied with.

10. **FINALIZATION OF TECHNICAL SPECIFICATION:** The IMM Department in coordination with User Departments should firm up the specifications before issue of RFQ, instead of involving in protracted correspondence with the vendors. The technical specifications of the Part Nos./Alternate Part Nos. etc particularly of Raw Materials and Bought Out Items should be updated by User Departments from time to time. Misquoting of the proper specifications in the RFQ is the starting point of avoidable correspondence at a later stage, hence to be avoided.

11. **PLACEMENT OF ORDER WITHIN THE VALIDITY PERIOD:** Non-finalisation of tenders within the validity period of the offer is also another major cause for vendors backing out or escalating their prices. Such ad-hoc practices would also affect the entire supply chain and ultimately adversely affect production schedules. It is therefore essential that tenders are finalized and contracts are awarded in a

time bound manner within original validity of the tender without seeking further extension of validity. In this regard please refer para-11.1 of purchase manual and Corporate Office guidelines issued vide letter No.HAL/CD/617/2008 dated 5th Dec 2008 are to be complied with.

12. It should be realized by one and all that HAL being a Government Company impetus is also on issues like transparency, fairness, equality, accountability and value for money which form the basic tenets of Public Procurement. These aspects should be borne in mind by all concerned, at every stage of procurement.

13. Division/initiator is required to highlight all the deviations and approval of the Head of Division for the proposed action is to be taken. Subsequently, the proposal for approval of the CFA is to be put up bringing out the above.

14. The Divisions are advised to go through these instructions carefully and adhere to the procedure/CO guidelines/Purchase Manual/CVC guidelines which would not only aid to faster/quick procurement but also avoid non conformances.

15. This issues with the approval of Management Committee.

(HAL/CD/617/2011 dated 05 May 2011)

13. **AWARD OF CONTRACT ON NOMINATION BASIS**

13.1 **Transparency in Works/Purchase/Consultancy contracts awarded on nomination basis**

The Commission had, in its OM No. 06-03-02-CTE-34 dated 20.10.2003 on back to back tie up by PSUs, desired that the practice of award of works to PSUs on nomination basis by Govt. of India/PSUs needed to be reviewed forthwith. It is observed that in a number of cases, Works/Purchase/Consultancy contracts are awarded on nomination basis. There is a need to bring greater transparency and accountability in award of such contracts. While open tendering is the most preferred mode of tendering, even in the case of limited tendering, the Commission has been insisting upon transparency in the preparation of panel.

2. In the circumstances, if sometimes award of contract on nomination basis by the PSUs become inevitable, the Commission strongly feels that the following points should be strictly observed.

- (i) All works awarded on nomination basis should be brought to the notice of the Board of the respective PSUs for scrutiny and vetting post facto.
- (ii) The reports relating to such awards will be submitted to the Board every quarter.
- (iii) The audit committee may be required to check at least 10% of such cases.

(No.005/CRD/19 Dated 9 May 2006)

13.2 Transparency in Works / Purchase / Consultancy Contracts awarded on nomination basis

1. Reference is invited to the Commission's circular No.15/5/06 (issued vide letter No.005/CRD/19 dated 9.5.2006), wherein the need for award of contracts in a transparent and open manner has been emphasized.
2. A perusal of the queries and references pertaining to this circular, received from various organizations, indicates that several of them believe that mere post-facto approval of the Board is sufficient to award a contracts on nomination basis rather than the inevitability of the situation, as emphasized in the circular.
3. It is needless to state that tendering process or public auction is a basic requirement for the award of contract by any Government agency as any other method, especially award of contract on nomination basis, would amount to a breach of Article 14 of the Constitution guaranteeing right to equality, which implies right to equality to all interested parties.
4. A relevant extract from the recent Supreme Court of India judgment in the case of Nagar Nigam, Meerut Vs A1 Faheem Meat Export Pvt. Ltd. [arising out of SLP(civil) No.10174 of 2006] is reproduced below to reinforce this point.

“The law is well-settled that contracts by the State, its corporations, instrumentalities and agencies must be normally granted through public auction/public tender by inviting tenders from eligible persons and the notifications of the public-auction or inviting tenders should be advertised in well known dailies having wide circulation in the locality with all relevant details such as date, time and place of auction, subject matter of auction, technical specifications, estimated cost, earnest money deposit, etc. The award of Government contracts through public-auction/public tender is to ensure transparency in the public procurement, to maximize economy and efficiency

in Government procurement, to promote healthy competition among the tenderers, to provide for fair and equitable treatment of all tenderers, and to eliminate irregularities, interference and corrupt practices by the authorities concerned. This is required by Article 14 of the Constitution. However, in rare and exceptional cases, for instance, during natural calamities and emergencies declared by the Government; where the procurement is possible from a single source only; where the supplier or contractor has exclusive rights in respect of the goods or services and no reasonable alternative or substitute exists; where the auction was held on several dates but there were no bidders or the bids offered were too low, etc., this normal rule may be departed from and such contracts may be awarded through 'private negotiations'."

(Copy of the full judgment is available on the web-site of the Hon'ble Supreme Court of India, i.e., www.supremecourtindia.nic.in)

5. The Commission advises all CVOs to formally appraise their respective Boards/managements of the above observations as well as the full judgment of the Hon'ble Supreme Court for necessary observance. A confirmation of the action taken in this regard may be reflected in the CVO's monthly report.

6. Further, all nomination/single tender contracts be posted on the website ex post- facto.

(No.005/CRD/19 Dated 5 Jul 2007)

13.3 Transparency in Works/Purchase/Consultancy Contracts Awarded on Nomination basis

1. Commission vide Circular NO.15/5/06 dated 09/05/2006 had prescribed certain measures to be followed on works/purchase/consultancy contracts awarded on nomination basis by PSUs. These instructions have since been reviewed in the Commission and the Commission is of the view that the Board of the PSU is not required to scrutinize or post facto vet the actions of the operational managers and their decisions to award work on nomination basis.

2. Therefore, the following amendment is being made in sub-para (i) of Para 2 of Commission's above circular:-

..All works awarded on nomination basis should be brought to the notice of the Board of the respective PSUs for scrutiny and vetting post facto"

Read as

..All works awarded on nomination basis should be brought to the notice of the Board of the respective PSUs for information".

(No.005/CRD/19(part) – Office Order No. 19/05/10 Dated 19 May 2010)

13.4 Purchase contracts awarded on nomination/single tender basis – Reporting to the Board for Information

1. Para 7.3, Annexure-IV of DOP stipulates quarterly report on order placed on single tender basis be submitted to the Board. As per DOP (i) single tender refers to a case where a purchase enquiry is sent to only one supplier and (ii) single tender can be sent only to the following: -

- (a) OEM / Licenser / Collaborator
- (b) Nominated by OEM, other than the Agent,
- (c) Vendor Developed by HAL,
- (d) Joint Venture Companies promoted by HAL,
- (e) Sources specifically nominated by name by the customer.
- (f) Procurement of the strategic material from indigenized sources.
- (g) Manufacture's retail outlet for an item proprietary in nature.

2. Further, System Audit vide letter No. SYA/CO/Single Tender/09-10/144 dt 19th Aug 2009 has clarified that all single tender purchases including cases of proprietary, Russian Contracts, Services Outsourcing jobs consultancy contracts, training and other HR contracts are to be covered under POs placed on Single Tender Basis.

3. In order to streamline the reporting system, divisions are advised to forward the details of purchase orders placed on Single Tender Basis to their respective Complex offices. The report should also cover the approval accorded by CFA through note sheets for sourcing from single source (without placement of PO) Complex offices are advised to compile the details of order laced forwarded by the divisions as per the format enclosed at Annexure-I and forward the same in a consolidated manner to DGM (IMM)-S.K. Tandon. Corporate Office along with a self contained draft Board Paper one month before scheduled (next) Board Meeting for processing at Corporate Office.

(HAL/CD/617(single tender)/2012 Dated 7 Feb 2012)

14. DELAY IN PAYMENT TO VENDORS

14.1 Improving Vigilance Administration: Increasing Transparency and cutting delays by E-payments and E-receipt by Govt. Organisations etc.

The Commission has been receiving complaints about inordinate delays in **making payments to the vendors** and other suppliers to the

Govt. organisations, **Public Sector** Undertakings etc. Similarly complaints are received about delays in **getting refunds** from **taxation dept.** and other departments. Apart from increasing the **cost of procurement**, the **delays lead to opportunities for corruption**. A number of measures are required to cut down on delays in making payments. One such step is resorting to mechanism of **e-payments and e-receipts wherever such banking facilities exist**.

In the last few years tremendous progress has been made by the banking sector in computerization including net-working of branches, making it possible to do e-banking by making use of facilities like electronic clearing system (ECS) and electronic fund transfer (EFT) etc. These facilities are available in most of the banks including the State Bank of India as well as in private banks. A large number of corporate including public sector undertakings are already making e-payments to vendors and employees instead of making payments by issue of cheques.

The **Commission has** been receiving complaints **that delay is intentionally caused with ulterior motives in the issue** and dispatch of cheques in the accounts and finance wings of a large number of Govt. Organisations. As the e-payment facility is already available in the metros as well as practically in all the main urban centres of the country, in order to curb the above mentioned malpractices, the **CVC in the exercise of powers conferred on it under Section 8(1) (h) issues following instructions for compliance by all govt. departments, PSUs, banks and other agencies over which the Commission has jurisdiction**.

1. The **payment to all suppliers/vendors, refunds of various natures,** and other payments which the organisations routinely make **shall be made through electronic payment mechanism at all centres where such facilities are available in the banks**.

2. Salary and other payments to the employees of the concerned organisations at such centers shall also be made through electronic clearing system (ECS) wherever such facilities exist.

As the organizations will have to collect bank account numbers from the vendor, suppliers, employees and others who have interface of this nature with the Govt. organisations, **the concerned organisations may plan to switch over to e-payment system in a phased manner starting with transactions with the major suppliers in the beginning or in whatever manner is found more convenient**.

It is expected that in three months i.e. by **15t July, 2004, 50%** of the payment transactions both in value terms as well as in terms of number of transactions shall be made through ECS/EFT mechanism instead of payment through cheques. The remaining **50% payment transactions at all centres where such facilities exist shall be made by 31st Dec 2004.**

These instructions are applicable to all the metro cities and other urban centres where the banks provide ECS/EFT and similar other facilities. The departments, PSUs, Banks etc. should also provide an enabling environment and facilities so that businessmen and other citizens can make payment of Govt. dues and payments to PSUs etc. electronically.

In addition to significantly reducing processing costs in preparation and dispatch of cheques, the above measures also reduce the risk of frauds by providing speed, efficiency and easier reconciliation of accounts.

(No.98/ORD/1 Dated 6 Apr 2004)

14.2 Leveraging Technology – e-payment & e-receipt

1. Reference is invited to the Commission's Officer Order No. 20/4/04 dated 6.4.2004 regarding the above mentioned subject.

2. The Commission had directed that by July 2004, 50% of the payment transactions both in value terms as well as in lieu of number of transactions shall be made through ECS/EFT mechanism instead of payments through Cheques; and urged all Banks, PSUs and Departments to provide an enabling environment and facilities so that such an initiative is successful. It has been informed that some of the organizations are yet to initiate the process in this regard. The organizations are therefore, requested to forward the details regarding the implementation of e-payment mechanism, as per the enclosed format by November 15, 2004 positively.

Leveraging Technology – e-payments & e-receipts

(A) Details regarding payments of salary etc. to employees.

(1) Total No. of employees –

(2) No. of employees whose Bank A/c details including MICR have been received –

(3) % in terms of numbers of employees to whose salary & other dues are being paid through e-payments –

(B) Details regarding payments of dues to contractors/suppliers etc.

(1) Number of contractors/suppliers/agents/assesses etc. Dealt with regularly during the period July 2004-September 2004.

(2) Number of contractors/suppliers/agents/assesses etc. Whose Bank A/c details including MICR have been received.

(3) Total payment made to all contractors/suppliers/assesses/CHA's during the period July 2004 – September 2004 (Amount in Rupees in lakhs). [Payment should include refunds of earnest money/income tax etc.]

(4) Total payments made though e-payments during the above period (Amount in Rupees in lakhs).

(5) % of Bill (in terms of number of payments) in which e-payment is made.

(6) % of value of payments made through e-payments.

(7) List of nodal officers who have been entrusted with the responsibility of managing charge to e-payment system.

(C) E-receipts

Separate details as per (1)-(7) above may also be provided in respect of e-receipts of e-receipts by organisations getting regular payments in terms of license fee/income tax receipts/custom duty/sales tax/property tax/freight charges/consultancy fees etc. (The organisations can give the type of payments received).

(No.98/ORD/1 (Office Order No. 68/10/04 Dated 20 Oct 2004)

14.3 Delays in Payments to Contractors & Suppliers etc. – Reducing opportunities for corruption

The Commission has observed that in a large number of Government organisations and PSUs, payments to contractors/suppliers are inordinately delayed. This makes the system vulnerable to corruption, in addition to increasing the cost of procurement by the Government agencies.

2. The Commission has therefore directed that all the CVOs should undertake a review of bills received during the last six months. The review is meant to primarily determine the time taken in clearing the bills. Necessary

help from the concerned Finance/Administration departments may be taken wherever required. Wherever the systems have not yet been computerized there may be practical difficulties in conducting such a review for all the bills. The organizations may fix a cut off limit for review. It is suggested that the cut off limit for bills can be Rs.1 lakh i.e. time taken for payment of all bills above this amount should be seen. In smaller organizations the cut off limit can be lower depending on feasibility and convenience.

3. The CVOs should also review whether payments are being made on “first-come- first-serve” basis or not.

4. A compliance report in this regard may be sent to the Commission by 15.4.2005 as per the following details:

Statement on Delays in Bill Payments

- 1. Name of Organisation

- 2. Cut off limit : Rs.1 lakh (in respect of small Organizations).

- 3. **Bills received during Sept., 04-Feb 05** :
(From contractors/suppliers etc)

 - Total No. of Bills :
 - Total amount involved :

- 4. **Out of these** :

 - (a) Bills paid in 15 days : No.
of Bills :
Amount Involved :

 - (b) Bills paid in 15-30 days : No.
of Bills :
Amount Involved :

 - (c) Bills paid in 30-60 days : No.
of Bills :
Amount Involved :

 - (d) Bills paid from 60 days to 120 days : No.
of Bills :
Amount Involved :

 - (e) Bills paid over 120 days :

No. of Bills :
Amount Involved :

5. There are also complaints that most of the organisations take inordinately long time in releasing 5% bills amount which is normally retained as Performance guarantee after it becomes due. CVO may do a similar exercise with regard to release of this payment.

6. Has any ERP system or any other computerized system been installed or accounting purposes which can monitor bill payment?

6A. If not, is there any plan to do so in near future? If so, please indicate the time frame.

(No.005/ORD/1 Dated 10 Mar 2005)

14.4 Payment to Vendors/Contractors through Electronic Payment.

1. Vigilance Department vide Ltr. No. *HAUCONIG/42/4006/260* dtd. 01" March 2006 has emphasized the need for adopting the system of E-payments on ECS system to bring complete transparency in the dealings with the vendors / contractors -. The same has again been reiterated in the recent meetings held in MoD.

2. Divisions were requested vide Circular No. *FINIC-12/BANKS-09-10/38J* dtd. 24.11.2009 to implement 100% payment to Indian vendors / contractors through E-PAYMENT i.e. NEFT /RTGS.

3. Further, Divisions were requested to ensure the following:

(i) Request for Quotations issued to Indian vendors contractors should necessarily provide a clause for acceptance of payment through Electronic Fund Transfer mode by the vendor.

(ii) Payment terms of Purchase Order / Contract should clearly mention that payments would be made only through Electronic Fund Transfer mode.

(iii) All the existing vendors / contractors should be' persuaded to accept Electronic Fund Transfer mode payment. Over a period of 2-3 months, payment to vendors contractors through Electronic Fund Transfer mode to be made mandatory.

(iv) In case of existing vendors / contractors who do not have account with IFS Coded branch may be persuaded to open account with Bank branches participating in NEFT / RTGS.

(v) The charge levied by sponsor bank is in line with bank wise charge as notified by RBI and the same needs to be recovered from the beneficiary.

4. It is reiterated that 100% payments have not been made to vendors through E-Payment by Divisions till date. E-Payment facilitates increased transparency and cutting delays in payment to vendors. It is significant to mention that a perusal of the status of E- payments reveals that while many Divisions / Offices have achieved targets of 90% plus, division like Hyderabad & Kanpur Foundry and Forge, Facilities Management Division(in Bangalore Complex) need to make concerted efforts for fully adhering to the E-payment target of 100%.

5. It is imperative that all Divisions/ Offices must achieve 100% payment through E-Payment route by end of September 2011. This may kindly be monitored by the GM's of the respective Divisions.

6. A compliance report may be sent by 1st week of October 2011 to GM (F), CO (Shri A.K Trivedi).

(FIN/C-12/BANKS/11-12/ Dated 01 Aug 2011)

15. COMMON IRREGULARITIES

15.1 Short-comings in bid documents

1. The Commission has observed that in the award of contracts for goods and services, the detailed evaluation/exclusion criteria are not being stipulated in the bid document and at times is decided after the tender opening. This system is prone to criticism and complaints as it not only leads to a non-transparent and subjective system of evaluation of tenders but also vitiates the sanctity of the tender system.

2. The Commission would reiterate that whatever pre-qualification, evaluation/exclusion criteria, etc. which the organization wants to adopt should be made explicit at the time of inviting tenders so that basic concept of transparency and interests of equity and fairness are satisfied. The acceptance/rejection of any bid should not be arbitrary but on justified grounds as per the laid down specifications, evaluation/exclusion criteria leaving no room for complaints as after all, the bidders spend a lot of time and energy besides financial cost initially in preparing the bids and, thereafter, in following up with the organizations for submitting various clarifications and presentations.

3. This is issued for strict compliance by all concerned.

(98/ORD/1 (Office Order No. 33/7/03 Dated 09 Jul 2003)

15.2 Irregularities in the award of contract

1. While dealing with the case of a PSU, the Commission has observed that the qualification criteria incorporated in the bid documents was vague and no evaluation criterion was incorporated therein. It is also seen that the category-wise anticipated TEUs were not specified in the bid documents and the same was left for assumptions by Tender Evaluation Committee for comparative evaluation of financial bids, which led to comparative evaluation of bids on surmises and conjectures. Further, it was also provided as a condition in the tender bid that the tenderer should have previous experience in undertaking handling of similar work and/or transportation works preferably of ISO containers, however, no definition of 'similar works' was, indicated in the bid documents.

2. It should be ensured that pre-qualification criteria, performance criteria and evaluation criteria are incorporated in the bid documents in clear and unambiguous terms as these criterion very important to evaluate bids in a transparent manner. Whenever required the departments/organisations should have follow two-bid system, i.e. technical bid and price bid. The price bids should be opened only of those vendors who were technically qualified by the Deptt./ Organisation. The Commission would therefore advise that the Deptt./ Organisation may issue necessary guidelines in this regard for future tenders.

3. It has also observed that the orders were allegedly split in order to bring it within the powers of junior officers and that the proper records of machine breakdown were not being kept. It is therefore, decided that in the matters of petty purchase in emergency items all departments/organisations must keep proper records of all machine breakdown etc.

(No.98/ORD/1 Dated 04 Sep2003)

15.3 Common Irregularities in the award of contracts

The CTE Organisation of the Central Vigilance Commission conducts independent intensive examinations of various types of works and contracts executed by the organizations under its purview. The lapses and deficiencies observed during the course of such examinations are brought to the noticed of the CVOs, for suitable corrective action. With a view to prevent recurrence of such lapses and irregularities and for improving the systems and procedures in the organizations, a few booklets have also been issued by the CTEO. However, it is observed that certain common deficiencies and irregularities continue to plague the/systems in a large number of organizations. Some of these, noticed during recent inspections are enumerated as under:

Appointment of consultants continues to be done in an arbitrary manner. At times two or even three consultants are appointed for a work with no clear cut and some times overlapping responsibilities. A PSU, in a recent case, in addition to the engineering and project management consultants appointed an 'inspection and expediting' consultant with no well defined role for them.

The tendency of over dependence on the consultants continues. All activities are left completely to the consultants. In a recent inspection of an Oil PSU, the tenders for a big work of about Rs.20 crores were issued on the basis of a single page estimate submitted by the consultants and the same was revised by the latter upwards by 20% after opening of price bids, in order to justify the quoted rates. A detailed and realistic estimate must be prepared before issue of tender.

Some organizations prefer limited tendering system, restricting competition to their approved contractors. The selection of these contractors at times is arbitrary and due to lack of competition or cartel formation amongst such group of contractors, the contracts are awarded at high rates. This need to be discouraged and the organizations must ensure that contracts are awarded on the basis of competitive bidding at reasonable rates.

- The works are awarded without preparing any market rate justification. The comparison at times is made with works which were awarded few years back. This procedure cannot be considered objective and appropriate for justifying the awarded rates. The justification should be based on realistic prevailing rates.
- In a recent inspection of an Oil PSU, it was noticed that revised price bids were asked from all the bidders, as rates were high vis-à-vis the estimate. This tantamount to negotiations with firms other than L-1 and is a clear violation of CVC instructions in this regard. The negotiations should be an exception rather than a rule and should be conducted if required, only with the L-1 bidder.
- The organizations generally make provisions for a very small amount of say Rs.50,000/- or R.1 lakh as earnest money. This amount is grossly insufficient to safeguard the organization's interest in high rate tenders running into several crores of rupees. This needs to be revised to a sufficient amount.
- The post award amendments issued by the organizations, at times recommended by consultants, without taking into account the financial implications favour the contractors. Such post award deviations without financial adjustments are unwarranted and against the principles of competitive tendering.

- The tender documents and the agreement are maintained in loose condition, are not page numbered and not signed by both parties. This is highly objectionable. In order to ensure that agreements are enforceable in court of law, it is imperative that the agreements are well bound, page numbered, signed by both the parties and well secured. This shall also prevent any possibility of interpolation and tampering of the documents.
- Loose & incomplete implementation of contract clauses pertaining to insurance, Workmen's Compensation Act, ESIC, Labour Licenses etc. has been noticed, which give undue financial benefit to the contractors.
- Time is the essence of any contract. It has been observed that at times the work is extended and even payments released without a valid extension to the agreement. This has legal implications and in case of disputes, may jeopardize the interests of the organization. Timely extensions to the contracts and BGs if any must be ensured.

In order to make contract management more transparent and professional CVOs are requested to circulate this memorandum to the concerned officials in their organizations. This OM is also available in the Commission's website

(OFF-1-CTE-1 Dated 5 Feb 2004)

15.4 Examination of Public Procurement (Works / Purchases / Services) Contracts by CVOs.

The Commission has been emphasizing the need for close scrutiny by the CVO, of the Public Procurement (Works/ Purchases/Services) Contracts of his department/organisation concerned, to ensure that the laid down systems and procedures are followed, there is total transparency in the award of contracts, and there is no misuse of power in decision making.

2. A number of booklets have been issued by the Chief Technical Examiner Organisation of the Commission, bringing out the common irregularities/ lapses noticed in different contracts. A Manual for Intensive Examination of Works/ Purchase Contracts and guidelines on tendering has also been issued. These are available in the Commission's website.

3. The need for CTE type examinations by the CVOs has been emphasized in the Zonal meetings. The CVOs are required to reflect their examinations in the monthly reports. The Commission reiterates the importance of such examinations by the CVOs, as an effective preventive vigilance measure.

4. For this purpose, the CVOs are required to be well conversant with their organization's works/purchase manual. Wherever works/purchase

manuals are non-existent, they should be got prepared, particularly, in those organisations which have substantial procurement activities. CVOs should also ensure that the manuals are updated from time to time. They should check and ensure that the field staff is well conversant with the extant provisions of the manuals, and the guidelines issued by the Commission/CVOs from time to time. CVOs should have a full and active participation during the CTE inspections to know about the problem areas in the organization's procurement process.

5. CVOs must also familiarize themselves with the earlier CTE examination reports and ensure that the lapses previously noticed are not repeated. If lessons are not learnt from the past, there would be need to take a serious view of the repetition of lapses and initiate disciplinary proceedings against the officials found responsible for repetition of the lapses committed previously.

6. On the basis of the lapses noticed by the Chief Technical Examiner's Organisation over the years, a checklist has been prepared which could be used by the CVO while examining procurements contracts. The checklist may be seen in Annexure -1. If certain procurement contracts require an intensive examination by the CTEO, a reference may be made to them with adequate justification.

Please Note :

As mentioned at para 2 above, the Booklets and the Manuals available on the Commission's website are as follows:-

I Problem Areas of Corruption in Construction (Preventive Vigilance Publication).

This is a preventive vigilance publication from CTE's organization, CVC. An attempt has been made to locate areas vulnerable to corruption in the construction industry from the experience gained by the CTE organization during intensive examination of works. The problems under various areas are explained with illustrations as are as possible. The aim of this booklet is to reduce corruption in the construction industry.

The publication addresses the following:-

- a) **Administrative approval:** Non-accordance of approval, Inflated provisions in the estimates, Major changes during execution of work, Funds allotted to one head incurred on another, Cost overrun due to delay in award of work, No check on the preliminary estimate prepared by consultants etc.
- b) **Detailed Estimate and Technical Sanction:** Non-preparation

of Estimate, Non accordance of sanction for the estimate to ensure economy and structural soundness, Ambiguous nomenclature of items, Non- adherence to schedule rate of interests, Non-scheduled items without analysis etc.

c) **Consultancy:** Appointment being done without proper publicity, Appointment from old panel, Award of contract at Adhoc rates, Appointment when in-house facility is available, No punitive action taken even though consultants fail to perform the required services as per terms of the contract etc.

d) **Preparation of Tender Documents:** Issue of tender documents, prepared by consultants, without scrutiny and approval by the competent authority, Conflicting, vague and ambiguous provisions in the tender document, resulting in disputes, delays and financial losses, Ambiguous/stringent pre-qualifying criteria, 'Rate only' items are provided in the BoQ without giving quantity against item etc.

e) **Inviting and Opening of Tenders:** Restricting competition by not providing adequate time for publicity, Wide publicity not given in newspapers, Issue of tender documents to ineligible applicants, Non- maintenance of Sale and Opening of Tender Register etc.

f) **Tender Scrutiny and Award of Works:** Acceptance of Certificates for satisfactory completion of work executed for private organizations without TDS certificate, Non – evaluation of conditions quoted by the tenders and accepting undue conditions during negotiations to give undue benefits to the contractor, Non- finalization of tenders within validity period, Ignorance of L-1 on non – satisfactory performance or other flimsy ground etc.

g) **Works Agreement:** Unwanted papers in the agreement, Important papers such as negotiation letters missing, Performance guarantee obtained late, Non submission of Insurance policy or submission of policy for less period by the contractors, as per conditions, Bank Guarantee not verified through issuing bank etc.

h) **Payments to Contractors:** Excessive deviations allowed without approval of competent authority, Less quantity of abnormally low rated items executed and paid, More quantity of AHR items executed and paid, Items substituted to the advantages of contractor, Inadmissible extra items paid etc.

i) **Site records:** Registers with pages numbered serially not issued by the competent authority, Non-maintenance of Hindrance register, Non- maintenance of Site order book, Compliance in site

order book is not recorded by Engineer – in – change, Non-maintenance of MAS A/c registers etc.

j) **Quality in Construction**: Earth work, Concrete work, Brick work, Stone work, Wood work/Aluminum work, Steel work, Flooring, Roofing, Finishing, Horticulture works

II Common Irregularities / Lapses observed in Award and Execution of Electrical, Mechanical and other Allied Contracts and Guidelines for Improvement thereof.

This is another publication from the CTE's Organization of the CVC. Several pitfalls and lapses that were observed during intensive examination of contracts and purchases are highlighted in this publication. The objective of this publication is to help improve the systems and procedures in the organization so that the project / contract management is more objective, transparent and professional. Keeping this perspective in view, this publication highlights lapses / irregularities in the award and execution of electrical, mechanical and other allied contracts being issued. The lapses have been explained and discussed with illustrations.

This publication comprises of two parts addressing the following:-

Part-I

- a) Necessity and Justification of Works.
- b) Appointment of Consultants.
- c) Pre-Qualification Criteria.
- d) NIT / Processing of Tender / Post Tender Negotiations.
- e) Reasonableness of Prices / Market Rate Justification.
- f) Award of Works and Signing of Contract Agreement.
- g) Advance Payment, Bank Guarantee / Performance Bank Guarantee and Insurance.
- h) Completion schedule of Contracts.
- i) Defect Liability Period Clause.
- j) Payment Terms and applicability of Taxes & Duties.
- k) Post Contract Management.

Part-II: In this part, common irregularities observed in field / site inspection of following works, with illustration are given:-

1. Electrification Works (External & Internal)
2. Air-Conditioning Works
3. Lifts / Elevators
4. Fire Detection and Fire Fighting systems.

III. Common Irregularities / Lapses observed in Stores/Purchase Contracts and Guidelines for Improvement in Procurement System.

Published in Jan 2002, the publication primarily deals with Common Irregularities / Lapses noticed by CTE in Stores/Purchase Contracts. Elaborate guidelines to improve procurement system of organizations have also been enumerated in the publication.

IV. Shortcomings of General Nature Observed during Intensive Examination of Works/Contracts.

The publication was brought out in Apr 2004, deals with irregularities observed in Projects, Consultancy, Role of Consultant, Estimates, Award of Work, Post Award activities and Award of Contract Back-to-Back basis etc.

Annexure-1

Check list for examination of Procurement (Works/ Purchases/ Services) Contracts by CVOs

A - Pre-Award Stage

1. Financial and Technical sanction of competent authority is available.
2. Adequate and wide publicity is given. Advertisement is posted on website and tender documents are available for downloading.
3. Convenient tender receiving/opening time and address of the tender receiving officials/tender box are properly notified.
4. In the case of limited tender, panel is prepared in a transparent manner clearly publishing the eligibility criteria. The panel is updated regularly.
5. Pre-qualification criteria are properly defined/ notified.
6. Short listed firms/consultants are fulfilling the eligibility criteria. There is no deviation from notified criteria during evaluation.
7. Experience certificates submitted have been duly verified.
8. Tenders/bids are opened in the presence of bidders.
9. Corrections/omissions/additions etc., in price bid are properly numbered and attested and accounted page –wise. Tender summary note/ Tender opening register is scrupulously maintained.
10. Conditions having financial implications are not altered after opening of the price bids.

11. In case of consultancy contracts
 - (a) Upper ceiling limit is fixed for consultancy fee and
 - (b) Separate rates for repetitive works are fixed.

B - Post-award stage

(a) **General**

1. Agreement is complete with all relevant papers such as pre-bid conference minutes, etc.
2. Agreement is page-numbered, signed and sealed properly.
3. Bank Guarantee is verified from issuing bank.
4. Insurance policies, labour licence, performance guarantee are taken as per contract.
5. Technical personnel are deployed as per contract.
6. Plant and equipment are deployed as per contract.
7. Action for levy of liquidated damages is taken in case of delay/default.

(b) **Payments to contractors**

1. Price escalation is paid only as per contract.
2. Retention Money/Security Deposit is deducted as per contract.
3. Recovery of Mobilization & Equipment advance is made as per the provisions in the contract.
4. Recovery of Income Tax & Works Contract tax is made as per provisions in the contract.
5. Glaring deviations are supported with adequate justification and are not advantageous to the contractor.

(c) **Site Records**

1. Proper system of recording and compliance of the instructions issued to the contractors is maintained.
2. Proper record of hindrances is maintained for the purpose of timely removal of the hindrance and action for levy of liquidated damages.
3. Mandatory tests are carried out as per the frequency prescribed in the Agreement.

(F.No. 006/VGL/29 Dated 1 May 2006)

15.5 General guidelines to be followed in award of Horticulture Works Contract in HAL

1. The following general guidelines may be followed during the course of surprise checks / conduct of inspection etc in award of Horticulture Work Contract in HAL.

- (a) Estimate to be prepared as per landscape plan.
- (b) Landscape plan to indicate the location of plant and species.
- (c) Species to be selected as per environmental conditions.
- (d) Details of plant e.g. species, heights etc to be mentioned in the nomenclature of terms.
- (e) Mode of measurement of earth/manure supply to be indicated. Deductions of voids to be done.
- (f) Excavation/trenching to be done upto required depth at the time of development of new garden or regressing of lawn etc.
- (g) Fresh / semi decayed cow dung manure/farm yard manure accepted and not the decayed cow dung manure/farm yard manure.
- (h) Grass to be dibbled at specified distance during development/regressing of lawn.
- (i) Pit size for different types of plant to be mentioned in nomenclature of items.
- (j) Composition of refill mixture of earth and manure etc to be mentioned as per the requirement of particular species.
- (k) P. H value of earth to be checked before taking its supply to suit the type of plantation.
- (l) Manure mixed with earth stone and other extraneous materials not to be used.
- (m) Good earth not to be mixed with building rubbish.
- (n) Unhealthy/diseased plants not to be used.

(HAL/CO/VIG/64-PC/2010/340 Dated 10 Mar 2010)

15.6 Design Mix Concrete

1. During inspection of works of many organisations, it has been observed that provisions of IS 456:2000 are neither being followed for designing the concrete mix nor for acceptance criteria. Instances of acceptance of concrete on basis of false certification and without actually testing the cubes for 28 days strength have also been observed. The following deficiencies are brought to the notice of all organisations for immediate corrective action:

2. Minimum cement content, maximum water cement ratio and minimum grade of concrete for different exposures are not adopted as per the details given in Table 5 of above code.

3. Value of standard deviation is not being established on the basis of results of 30 samples as provided in Table 11 of the above code even for works where more than 30 samples have been tested.

4. For acceptance criteria mean of a group of 4 non overlapping consecutive test results is not being calculated.

5. The samples where individual variations are more than $\pm 15\%$ of average of three specimens are not declared invalid as per the provisions of clause 15.4 of the Code.

6. The concrete is being declared meeting the acceptance criteria which is not in conformity of codal provisions.

7. Most of the organisations are not even aware about the amendment No.3 of 2007 modifying clause 15.1.1 of IS 456:2000. All organisations are directed to ensure that provisions of IS 456:2000 read with amendment No. 3 should be followed scrupulously for cement concrete and reinforced cement concrete. Non compliance of the provisions shall be viewed seriously.

(010/VGL/066 – Circular No 34/10/10 Dated 07 Oct 2010)

15.7 Strict Compliance of Tender Opening Procedure as per Work Manual 2011

1. In an examination carried out, the Central Vigilance Commission has observed the following:

Cutting, over writings, corrections etc. were not marked by HAL on the price Bid of the bidder. All the cuttings, over writings, additions etc. should be

enumerated and must be clearly mentioned at each page to overrule the chances of any tampering at later stage.

2. The observation was the result of the Tender Opening Committee not following the Tender Opening Procedure stipulated in the Works Manual 2011 (Page 11.1 and its clauses refer). The Officers who had opened the Tender had failed to record cuttings, over- writings, corrections etc. in the Price Bid.

3. It is re-iterated that the Tender Opening Officers should follow the tender opening procedure as indicated in the Works Manual 2011, Para 11.1.9 of the Works Manual, which is referred above, is reproduced below for information :

“All corrections, over writings, additions etc found in the Tender Documents at the time of opening of the Documents should invariably be encircled in Red Ink; authorize and numbered by the officers opening the Tenders. The corrections in rate shall be made by opening Officers by writing the rates in words and figures in Red Ink and initialing the same. The number of corrections, over writings or additions should be recorded by the Officers opening the tenders at the bottom of each page. Tender with correction made in white Ink shall be liable for rejection.”

4. While opening Price Bids, strict compliance of all the applicable provisions should be ensured and observed by the Tender Opening Officers, please.

(HAL/CO/WE/WORK-M2011/12/626 Dated 03 Dec 2012)

16. **REPORTS & RETURNS**

16.1 **Intensive Examination Of Supplies Of Engineering Materials To Central Government Organisations**

The Central Vigilance Commissioner had desired that this Organisation should conduct Intensive Examinations of supplies of materials and Stores of Engineering materials in Central Government Organisations. For this purpose Quarterly Returns may be sent to this Organization in the enclosed proforma.

The return should include contracts for the supply of all Civil Engineering items for amounts Rs 15 lakhs and above and Electrical Engineering items for amounts of Rs 1 lakh and above entered during the preceding 12 months. The returns for Civil and Electrical items shall be furnished on separate sheets.

The Returns should be submitted quarterly for the quarters ending March,

June, September and December by the 10th of the succeeding month.

The receipt of this circular may please be acknowledged and the Returns for December 1985 may please be sent immediately.

(CVC letter No 1K VGL 1 dated 14 Mar 1986)

16.2 Examination of Works By CTE's Organization In CVC- Role of CVOs Vis-à- Vis CTEs

The Chief Technical Examiner's Organisation was created in 1957 in the then Ministry of Works, Housing and Supply for looking into the works being executed by the Central Vigilance Commission, the administrative control of this organization was transferred to the Commission on 1.11.1964. The jurisdiction of this organization in co- terminus with that of the Central Vigilance Commission. As such the works of all the Departments of the Government of India and all Union Territories as well as of the Central Public Sector Undertakings under their control can be examined by this organization.

2. Though the CTE's Organisation can examine original repair works of any magnitude, yet considering its own limited resources it generally examines works of a larger size only. For this purpose, all the Chief Vigilance Officers of the Departments of the Government of India, Union Territories, Central Public Sector Undertakings, other autonomous and similar bodies are required to furnish to CVC quarterly returns, as per Commission's letter No 1K VGL 1 dated 22.1.1981 in respect of civil works costing more than Rs 15 lakhs, electrical works costing more than Rs 1 lakh and horticulture works costing more than Rs 25,000 for the quarters ending March, June, September and December by the 15th day of the month following the quarter. The Chief Vigilance Officers should therefore, ensure that such returns are furnished to the CTE's by the stipulated dates. There may be occasions when the Chief Vigilance Officers might come to know, from their own sources, about the alleged serious irregularities committed by certain public servants in the works. They are; therefore, free to recommend to CTE, while submitting the reports, examination of a particular work mainly from a vigilance angle.

3. Out of the returns furnished by the Chief Vigilance Officers, the Chief Technical Examiners select certain works for intensive examination and intimate these to the CVOs concerned for arranging necessary records, such as certified true copies of the contract documents and of latest running account bills paid to the contractors etc. When the programme of actual intensive examination of works is finalized by the CTE, intimation is given by the CTE to the CVO who is expected to make available all relevant documents and such

other records as may be necessary, to the CTE's team examining the works.

4. Action to be Taken on CTE's Reports.

4.1 After intensive examination of a work is carried out by the CTE's Organisation, an Inspection Report is sent to the Chief Vigilance Officer. The CVO should obtain comments of various officers at the site of work or in the office at appropriate level, on this inspection note. The comments should include:-

(a) A statement regarding the correctness of facts stated in the report. If some of the facts are not correct, this should be clearly brought out and at the same time the correct facts, if different from the facts mentioned in the report, should also be indicated.

(b) A detailed justification for the acts of commission or omission brought out in the report naïve his own comments on the explanations received from the concerned technical officers.

4.2 Replies to the observations and rejoinders of the CTE organization should be sent promptly as far as possible within three months from the date of dispatch of the Reports/Rejoinder.

4.3 The Chief Vigilance Officers should arrange to have similar and complete examinations done in cases where the examination done by the Chief Technical Examiner's Organisation was only a representative one. He should thereafter act upon the findings of such examination and, where necessary, consult the CTE.

4.4 Arrangements should be made to get the defects, pointed out in the CTE's Report, removed either by the Contractor or otherwise (at the risk and cost of the contractor), wherever feasible.

4.5 Minor irregularities brought out in the report should be got regularized by the competent authority after ascertaining the reasons for the same and after investigating into the bonafides in each case. Appropriate preventive measures may be taken for future and the defaulters suitably warned so that such irregularities do not recur.

4.6 The Chief Vigilance Officers should arrange to have recoveries effected in cases where overpayments are pointed out in the CTE's Report and Recovery Statements should be supported by analysis of the rates at which recoveries have been effected. Such recoveries need not be postponed till

the payment of the final bill. In case, there is any difficulty in making recovery of the full amount of over-payment pointed out by the CTE's Organisation, the agreed amount of recovery should, at least, be effected from the next bill paid.

4.7 In cases where the work is treated as sub-standard in the CTE's Report, the sanction of the competent technical authority for accepting such sub-standard works may be obtained, and the rates/payments suitably reduced. Before sanctioning such Reduced Rate Statements, the structural soundness and functional adequacy of the substandard work should be established.

4.8 In respect of the paras which are specifically referred to the CVO by the CTE for investigation from a vigilance angle, the CVOs should treat such a communication as a complaint. For the purpose of Investigation, the CVO should get an independent and reliable Engineer appointed to assist him in identifying and seizing the relevant records, preparing scrutiny notes thereon, fixing responsibilities, drafting Memos, calling for explanations of the indicted officials, and preparing scrutiny notes on the explanations received. Each lapse should be dealt with separately. After investigation, the case should be referred to the Commission for advice, along with a self-contained note and other relevant documents, as per para 5.13, Chapter I of the Vigilance Manual Volume (copy enclosed). Even if the CVO comes to the conclusion that no vigilance angle is involved, the matter has to be referred to the Commission for advice as the complaint has emanated from the Commission itself.

4.9 The CTE might suggest preventive measures in certain areas as a safeguard against malpractices or corrupt practices and to plug loopholes in the procedures, rules, regulations etc. In such cases, the CVO should arrange to have suitable directions issued by the Chief Executive/Head of the Department and furnish copies of such directions to the CTE's Organisation.

4.10 In cases where the Consultants or the contractors or the suppliers have put the Organisation or the Department to a loss or have done grossly sub-standard work for which they have claimed full payment, the CTE will point out the need to take action against such an agency. The CVO should manage to take further action and keep the CTE informed about the action taken.

4.11 If a particular undertaking or the department does not have a Works Manual of its own, the CVO should take steps to have such a Manual prepared expeditiously to bring out clearly the financial powers delegated at various levels and the rules and guidelines for exercising such powers by

various officers. Whenever any such Manual is brought out, a copy of the same should be furnished to the CTE's Organisation indicating the date from which the provisions of the Manual will be effective. Until such a Manual is brought out, the Organisation may consider adopting Works Manual of an established Engineering Organisation like the MES, CPWD, and NBCC etc.

4.12 The CVO may consider obtaining assistance of technical officers from the concerned discipline, on a long term or permanent basis, for conducting detailed investigations and follow-up action.

(CVC letter No 7R ORD 37 dated 19 Aug 1987)

16.3 Examination Of Works By The CTEs Organization – Raising The Monetary Limit For Reporting The Works In Progress To The Chief Technical Examiners

Please refer to the Commission's O.M. No IK-VGL-1, dated 19.7.1985 requiring submission of quarterly progress reports (QPRs) to the CTE Organisation in respect of civil works costing more than Rs 15 lakhs, Electrical works costing more than Rs 1 lakh & horticulture works costing more than Rs 25,000/-.

2. In view of the rise in the cost of indices for construction of buildings and the related materials, the Commission has been considering to raise the monetary limit of the works to be reported by the Organisations to the CTEs. It has now been decided that henceforth all the Organisations may include only those works in the returns to be submitted to the CTE Organisation, whose accepted tender value exceeds Rs 40 lakhs for civil works, Rs 3 lakhs for Electrical works and Rs 50,000/- for Horticulture works. The works whose accepted/tendered value is less than these limits need not be included in the returns. However, those Organisations who are undertaking such works but the monetary value of all such works is less than the fresh limits prescribed above may report two largest works in progress in each discipline (i.e. Civil, Electrical and Horticulture).

3. While submitting the returns to the CTE Organisation, the following points may be kept in mind:-

(a) The cost of the work relates to the accepted/tendered value of the work and not the estimated cost.

(b) If the work has been entrusted by one Ministry/Deptt/Undertaking of the Central Government to another Ministry/Department/undertaking

of the Central Government for execution, it may be included in the return to be submitted by the executing organization.

(c) The return should be submitted only in the prescribed form circulated vide Commission's letter No IK-VGL-1, dated 19.7.85. A copy of the prescribed form is enclosed for ready reference.

(d) The location of the work must be indicated.

(e) Use of abbreviations which are not known to a common man should be avoided.

(f) Mechanical (including air-conditioning), Electronics & Telecommunication engineering works may be treated as 'Electrical works' are marine works and other engineering works may be treated as 'Civil works' for the purpose of reporting to the CTE Organization.

(g) The purchase of ready-built properties, materials and stores, if not purchased on DGS&D approved rates or at the rates approved by any other Government agency, may also be treated as works for the purpose of inclusion in the Quarterly Progress Reports. However, the cases in which the supplier via a Central Government Deptt or Central Government Undertakings need not be included.

(h) The QPRs of stores being submitted separately as per Commission's letter No IK-VGL-1 dated 14.3.86 may be discontinued.

(i) Some of the Departments have set-up Civil Wings for execution of their civil works. While such Civil Wings submit QPRs with regard to the works being executed by them, the other works being executed through the contractors or any other agency are not being reported to the CTEs. Such works should also be reported to the CTE Organisation by the concerned departments.

(j) All the works undertaken by the Organisations whether in India or outside India should be included in the QPRs.

(k) QPRs should be sent to the CTE Organisation every quarter, even if the information is nil.

(l) All works in progress, contracts awarded, and the works completed during quarter should be included in the QPRs. In respect of works completed during the relevant quarter, the actual date of

completion should be indicated.

(m) The QPRs in respect of civil works, Electrical Works & Horticulture works should be submitted on the separate sheet of paper so that it can be detached and given to the concerned TE.

(CVC letter No 9U-ORD-51 dated 24-Sep 1990)

16.4 Examination Of Works By CTE's Organization Raising The Monetary Limit For Reporting The Works In Progress To The CTE

REF: - Commission's OM No 98-VGL-25 dated 20-10-98.

In partial modification of office memorandum of even number, dated 20.10.98, para 2 may be read as follows:-

"2. In view of the rise in the cost indices for construction of buildings and the related materials, the Commission has been considering to raise the monetary limit of the works to be reported by the Organisation to the CTEs. It has been decided that henceforth all the organizations may include only those works in the return to be submitted to the CTE's organization whose accepted/tender value exceeds Rs 1 crore for civil works, Rs 15 lakhs for Electrical works and Rs 2 lakhs for Horticulture works. The works whose accepted/tendered value is less than these limits need not be included in the returns. However, those organizations who are undertaking such works but the monetary value of all such works is less than the fresh limits prescribed above may report two largest works in progress in each discipline i.e., Civil, Electrical and Horticulture."

(CVC O.M. No 98-VGL-25 dated 18 Nov 1998)

16.5 Examination Of Stores/Purchase Contracts By The CTE's Organization

It is observed by the Commission that many a time the irregularities brought out during the inspection of Chief Technical Examiners' authorized of the Commission have been lost sight of and the same irregularities recurred in the subsequent works also. While reviewing the position it was considered desirable to have a works manual prepared and updated from time to time, suiting the requirement of the individual Organisation. Accordingly, it is advised that all PSUs/Organisations may prepare a works manual, if not done so far, within a time frame of 2-3 months and re[port compliance to the commission.

In continuation of the above referred office memoranda, it has now been decided to examine the stores/purchase contracts entered into by the

various Central Government Ministries/Departments, PSUs, Banks and U.Ts in addition to the works contracts being examined hitherto. It is, therefore, requested that all the organizations may forthwith send quarterly statements, with details of contracts valuing above Rs 2 crores in the enclosed proforma. The statements should be furnished by 10th of the month of the quarter starting from January. The first statement may be sent to the CTE's Organisation by 10th April 1999. The scope of supply contracts (including imports) shall not only mean the value of materials/components but the installation and commissioning charges also, wherever applicable.

(CVC O.M. No 98-VGL-25(j) dated 12 Mar 1999)

16.6 Examination Of Works By CTE's Organization For Reporting The Works In Progress To The CTE's Organization

Ref: This Organisation Office Memorandum of even number dated 20 Oct 98. Amended vide Office Memorandum dated 18 Nov 98 and 98-VGL-25(l) dated 12 Mar 99.

The revised monetary limits for Civil, Electrical and Horticulture works was intimated vide Office Memorandum under reference. These revised monetary limit fixed was as under:

- (a) Civil Works - Rs 1.00 Crore
- (b) Electrical Works - Rs 15.00 lakhs.
(This should include Mechanical/
Electronics/Telecommunication and
Other allied works).
- c) Horticulture Works - Rs 2.00 lakhs

It was also intimated vide office memoranda under reference that there is no need to include the details of works costing less than the monetary limit except for those organization under which cost of all the works is less than the monetary limits. Such organization may furnish the details of two largest works in progress in each discipline. It is observed that certain organizations are including details of works costing less than the monetary limit. The practice shall be stopped immediately and QPR be furnished as per monetary limits mentioned above. `Nil' QPRs are also required to be submitted.

QPRs in respect of Civil and Horticulture works shall be submitted separately in future with a separate forwarding letter to CTE (A) and QPR's pertaining to Electrical/ Mechanical (including air-conditioning/Electronics

and telecommunication works) and Stores purchase ;contracts above Rs 2 crores shall be separately addressed to CTE (J), CTEO/CVC for proper monitoring of QPRs.

Extract from Para 5.13 Chapter-I of Vigilance Manual Volume-I

Communications meant for the Commission should ordinarily be sent to the Secretary, CVC by designation. If the communication is of a confidential nature or is in connection with an old reference, this should be addressed to the concerned officer of the Commission by name. While referring cases to the Commission, a self-contained note should be sent to the Commission clearly mentioning the facts of the case and the specific point(s) on which Commission's advice is sought for. The self-contained note is meant to supplement and not to substitute the sending of the files and records. All relevant documents/files of the case should be sent along with the self-contained note. The note should invariably be accompanied by information relating to the officer involved in the case in the prescribed proforma.

(CVC O.M. No 98-VGL-25 dated 20 Jul 2001)

16.7 Intensive Examination Of Works – Regarding

Ref: Commission's letter No. OFF-1-CTE-2 dated 2.11.2001

Please refer to the booklet "Intensive Examination of works (Guidelines)" enclosed with the above referred letter.

As per Chapter-11 of the above booklet, the CVO is to carry out periodical inspection of works with the assistance of his technical staff in line with the CTE's inspection. However, no report in this regard has been received. Now the CVC desires the following in this regard:

- a) The CVOs shall conduct inspection of works on the pattern of CTE's Organization periodically.
- b) The result of such inspections should be sent to the CTEO along with the Quarterly Progress Reports, in the enclosed Proforma.
- c) The works should be inspected before the close of contracts, so that defects, if any, could be got rectified and the recoveries made wherever necessary.

STATEMENT SHOWING THE PERIODICALLY INSPECTION OF WORKS

Name of work	Estimated Cost / Tender Cost	Stipulated date of start	Stipulated date of completion	Name of contractor	Progress at the time of inspection	Date of inspection	Details of serious lapses requiring detailed investigation	Any other comments by CVO
1	2	3	4	5	6	7	8	9

Please also refer:-

(a) **Guidelines on Intensive Examination of Works.**

This publication, published in Nov 2001, draws attention of officials dealing with the works and also the CVO on various finer aspects to be looked into while conducting of Intensive Examination of Works. The publication contains exclusive procedures to be followed right from the selection of the work to its completion and also guidelines to conduct Intensive Examination of the same by CVO in line with CTE's Procedure and submission of relevant reports.

(b) **Manual for Intensive Examination of Works/Purchase Contracts for PSUs, Autonomous Bodies, Banks, Insurance Companies and Financial Institutions.**

This publication, published in Jun 2004, facilitates conduct of CTE Type of Inspection by CVOs on CTE pattern is elaborated in the Manual with relevant appendices.

(No.OFF-1-CTE-2 Dated 22 Oct 2002)

16.8 Intensive Examination Of Works By CTE's Organization Submission Of Quarterly Progress Report

Please refer to Commission's OM No.98-VGL-25 dated 16.5.2005 wherein it was clarified that the consultancy contracts, all service contracts equipment & supplies of medicines to hospitals etc. are to be included in the QPRs being furnished to the CTE's Organisation.

2. It was also enjoined upon all the CVOs to certify on the QPRs that all the works/purchase/consultancy and other contracts in progress as per the prescribed monetary limit have been included in the QPR.

3. It has been observed that many of the QPRs do not contain the consultancy contracts, service contracts and equipment & medicine purchase contracts and also the requisite certificates from the CVOs.

4. It is once again enjoined upon all the CVOs that the QPRs should contain all the ongoing contracts above prescribed financial limit, separately, for the below mentioned categories:-

Civil	Rs.1.00 Crore and above
Elect/Mech. Works	Rs.30 Lakhs & above
Store Purchase	Rs.2 Crore and above
Horticulture	Rs.2 lakhs and above
Medical equipment	Rs.1 Crore & above
Consultancy	2 largest value contracts.
Service contracts	2 largest value contracts
Supplies of medicines	4 largest value contract

5. In case authorized, which are undertaking such works in the areas mentioned above where the monetary value of all such works is less than the limits prescribed above, they may report 2 largest works in progress in each discipline. If the authorized is not undertaking any work under any particular discipline, a 'Nil' report should be furnished.

(CVC O.M. No 98-VGL-25 Dated 11 Nov 2005)

16.9 Submission Of Quarterly Progress Report In Respect Of Civil Work Contracts. Electrical / Mechanical & Engineering Contracts. Store & Purchase Contracts. Horticulture Contracts. Purchase Of Medical Equipments. Consultancy Contracts. Service Contracts And Supplies Of Medicines.

1. Enclosed please find herewith a copy of Circular received from CVC (CTE's Org) vide its letter No.98-VGL-25 dated 11 Nov 2005, pertaining to the above subject.

2. The Quarterly Progress Report (QPR) is to be reported as per the following, Prescribed Monetary Limit only:

(a) Civil	-	Rs.1.00 Crore & above.
(b) Elec./Mechanical & Engg.	-	Rs.30 Lakhs & above
(c) Store/Purchase	-	Rs. 2.00 Crore & above.
(d) Medical Equipment	-	Rs. 1.00 Crore & above.
(e) Consultancy Contracts	-	Two Largest Value contracts
(f) Service Contracts	-	Two Largest Value contracts
(g) Supplies of Medicines	-	Four Largest Value contracts.

3. In case, the Complexes/Divisions have not executed the contract for the above said limit, then it may be noted that any Two Largest Value of the contract executed (i.e. Civil, Electrical / Mechanical / Engineering, Store /

Purchase and Medical Equipments) may be reported/reflected in the QPR's.

4. It is also requested that the said QPR's are to be duly filled as per the enclosed Format only and ensure that all columns are covered under it.

5. It is observed that Complexes/Divisions are mentioning the foreign currencies in the QPR's (i.e. Dollars / Euros /Pounds etc) where the procurement and transactions with foreign vendors are done. The same to be converted into Indian Rupees and to be reported/reflected in the respective QPR's. This decreases the time consumption, while compiling the reports, by this office.

6. The Heads of the Complexes/Divisions, are requested to advise their respective HoD's of the concerned departments that, the above said QPR's are submitted to the respective Vigilance Department HoD's by every "20th day of the quarter ending month", positively. This enables this office to compile the reports and for onward submission to the CVC (CTE's Org) in time.

(HAL/CO/VIG/47/2006/268 dated 04 Mar 2006)

16.10 Forwarding Of Certificate In Respect Of All CTE Quarterly Progress Reports

1. Please refer this office letter No.HAL/CO/VIG/41/2005/1272 dated 19.12.2005, under which a policy letter No.98-VGL-25 dated 11.11.2005 was forwarded.

2. It is required to forward a certificate, certifying that the works/purchase/consultancy and other contracts in progress are as per the prescribed monetary limit for following reports sent by the HoDs:

- a. Civil
- b. Electrical./Mechanical Works
- c. Store Purchase
- d. Horticulture
- e. Medical Equipments
- f. Consultancy
- g. Service Contracts
- h. Supplies of Medicines

3. The above certificate may please be forwarded by **RETURN FAX**. This may also be noted that, future QPRs are accompanied with the above certificate.

(HAL/CO/VIG/47/2008/08 dated 03 Jan 2008)

16.11 Deficiencies In Respect Of Quarterly Progress Reports (QPRs) Noticed By The Chief Technical Examiner. CVC (CTE's Organization), New Delhi.

1. Reference is made to the following letters, on the subject:
 - (a) HAL/CO/VIG/47/2006/268, dated 04th March 2006.
 - (b) CVC's (CTE's Org) letter No.98-VGL-25, dated 11th Nov 2005.
2. The Chief Technical Examiner, CVC (CTE's Org) vide OFFICE MEMORANDUM No.98-VGL-25 dated 29th May 2009 (**Copy enclosed for ready reference**) has brought to the notice of CVO, HAL that, certain deficiencies have been observed, while submitting the Quarterly Progress Reports (QPRs) by various Organizations.
3. The above matter was emphasized by CVO vide letter under reference as at Para-1 (a), above. It is once again reiterated that, the QPRs are duly filled in their respective formats only and also ensure that all the columns are covered, without any deficiencies, before submitting the QPRs to HODs of Vigilance Departments.
4. In connection with the O.M. No.98-VGL-25 dt.29th May 2009 of CTE, the Heads of Complexes/Divisions of HAL are requested to advise/issue directives to their respective HoDs of concerned Departments/Offices, to furnish QPRs with due care keeping in view of the deficiencies noticed by CTE.

(HAL/CO/VIG/64/2009/690 dated 25 Jun 2009)

16.12 Intensive Examination By CVC (CTE's Org) Of Horticulture Works In HAL

During the course of an "Intensive Examination carried out by CVC (CTE's Org) in respect of "Horticulture Works Contract" awarded in one of the Divisions of HAL, the Technical Examiner (CTE's Org), observed following lacunae/lapses awarded in the contract:-

- (a) The method of weighing compost manure was not correct. The quality of compost should have been taken up in bags, so it could be measured by weight.
- (b) The details of measurement (Plot wise) under Maintenance & Development of Lawn Area are not measured during

award of contract to the agency.

(c) Signing the contract agreement and obtaining labour license in time was not incorporated in tender, while awarding the contract.

(d) The site records were not maintained properly. In this regard, concerned HODs of Complexes, Divisions & Offices may issue necessary instructions/directives to the concerned Officers of the Dept/Divisions to ensure that files/documents/records are page numbered / indexed / filed & maintained properly.

(e) Keeping in view of the necessity/durability and life of garden tools, the same needs to be purchased every year.

(f) In this regard, concerned HODs of Complexes, Divisions & Offices may issue necessary instructions/directives to the concerned Officers of the Dept/Divisions.

(g) As a part of preventive vigilance and also as per directions of the Commission, necessary corrective measures may please be taken up and a circular be issued to the respective HoDs of Complexes/Divisions / Offices, to strictly adhere to the guidelines of CVC (CTE's Org).

(HAL/CO/VIG/64-PC/2009/926 dated 10 Aug 2009)

16.13 Intensive Examination of CTE – Steps for early finalization of pending vigilance references with CVOs – reg.

The Chief Technical Examiner's Organization of the Commission conducts independent technical examination of various types of works/contracts/procurements awarded by the organizations, falling within the jurisdiction of the Commission. After intensive examination of the work is carried out by the CTE's organization, an inspection report is sent to the CVO. The CVO is required to obtain comments of various officers of the organization at appropriate levels and furnish the same to the CTE along with CVOs comments thereon. In cases, wherein the organization is required to investigate and submit a report/reference to the Commission.

2. On a review of the pending CTE paras referred for vigilance investigation to the various CVOs, the Commission observes that a large number of references are pending for submission of reports with the CVOs inordinately. Another factor which contributes to the delay is absence of clarity and also incomplete/inconclusive reports/references made by CVOs. In order to sort out the long pending paras referred for vigilance investigation with the organizations and to appreciate the perceived vigilance angle in such references of CTE, the CVOs of the organizations may consider arranging

interactive discussions with the CTE either at Delhi or during the visit of CTE at various stations for guidance in the matter of preparing vigilance investigation reports.

(Circular No 13/6/09 dated 11 Aug 2009)

16.14 Revised threshold values for submission of Quarterly Progress Report – QPR

In supersession to the Commission's earlier OMs on the subject, the threshold limits for reporting of the contracts in the QPR to the Commission, are revised as under;

Works / Contracts	Revised Value
Category-I: (a) Civil Works	
(b) Turnkey Works Contracts	
(c) Stores & Purchase	Rs.5 Crores & above
(d) PPP-Public Private Partnership [Cost / Revenue values]	
(e) Sale of Goods / Scrap / Land	
Category-II (f) Electrical/Mechanical works / Maintenance/Service contracts including Electronics/Instrumentation/ Telecommunication/Manpower Supply, etc.	Rs.1 Crore & above
(g) Medical Equipment	Rs.50Lakhs & above
(h) Consultancy contracts	Rs. Crore & above
Category-III: (i) Horticulture Works	Rs.10Lakhs & above
(j) Supply of Medicines	4 Largest Value contracts

2. QPRs should be submitted both in softcopy (in MS Excel format) through e-mail at gpr.te.general@nic.in as well as hardcopy separately for each sub-category mentioned above. For contracts below the threshold value, CVO may conduct CTE type of inspections and intimate the outcome to the Commission through their regular monthly/quarterly reports.

3. The revised limits would come into effect from July-September 2012 Quarter onwards.

4. The Commission is in the process of 'On-line' submission of QPR. The detailed instructions on this would follow. Meanwhile, organizations are requested to make necessary arrangement for on-line submission of QPRs and also documents (if called for). These facilities may be developed in next two months and confirmed to the Commission.

5. The following explanatory notes are for guidance regarding the QPRs.

(i) Civil works also include marine, mining, excavation and transportation works.

(ii) Electrical / Mechanical works also include air conditioning, fire fighting, fire alarm and all other allied works.

(iii) In case there are no works awarded more than the threshold value mentioned under each sub-category, 2 contracts with highest value in of such sub-category should be reported. In case no contracts are awarded, "Nil" QPRs may be sent.

(iv) In case orders are placed in foreign currency, the threshold limit would be determined based on conversion of foreign currency with Indian Rupee at the exchange rate defined in the tender documents. However, the currency of payments may also be indicated as per the contract.

(v) Contracts awarded on Assignments / Nomination / Single Tender / OEM / OES / PAC (*) basis falling in the above categories shall also be reported.

(*) OEM : Original Equipment Manufacturer
OES : Original Equipment Supplier
PAC : Proprietary Equipment Certificate.

(vi) For furnishing the QPR related to Sale Contracts [sub-category-I], the QPR may also to indicate the value as per reserve price besides the sale price.

(vii) The organization shall reports all types of contracts irrespective of their role as Client / Owner or Engineer-in-Charge of the contract or project management / supervision consultant.

(viii) All works whether in India or outside India in progress, contracts awarded and the works completed during the quarter shall be included in the QPR. In respect of works completed during the relevant quarter, the actual date of completion shall be indicated.

(ix) CVO to clarify on the QPR that all the Works / Purchases / Consultancies and other contracts required to be reported as per circular have been included in the QPR.

6. In case of any doubt regarding threshold value or the type of contract, the CTE Organization of the Commission may be consulted.

(Circular No 15/7/12 dated 30 Jul 2012)

16.15 Deficiencies in QPRs

1. From a perusal of the QPRs being received from various organizations, the following deficiencies have been observed :

- (i) QPRs are not being submitted in the prescribed format.
- (ii) The required certificate from the CVOs that all the qualifying works have been reported is not being given in the QPRs.
- (iii) Estimated cost/Tendered Value of work is not being indicated in lacs uniformly. For some works in the same QPR, Estimated Cost/Tendered Value is being indicated in Rupees, Lacs and Crores which creates confusion.
- (iv) QPRs received from various units of the organization are forwarded to CTEO as it is, without scrutiny and compilation by CVOs, in the formats as used by units.
- (v) In case the work in progress is less than the prescribed value, only two highest value works are to be reported, whereas a number of works below the prescribed value are being reported unnecessarily.
- (vi) Clear name of works including locations is not being provided in a number of cases.
- (vii) Full designation and location of the Engineer in charge is not being indicated in the QPRs.
- (viii) Date of start and date of completion are not being indicated in dd-mm-yy format, rather unwanted information such as number of days allowed to the agency to start the work after issue of LOI etc. are being given.
- (ix) Against the requirement of indicating the physical progress of the work in % terms, the quantities of various items of work are being given, which are not required.
- (x) In the column 'Tender Amount', only 'Item Rate' is being mentioned which does not serve the purpose.

Therefore, all CVOs are advised to furnish QPRs with due care keeping in view the deficiencies noted above.

(CVC O.M. No. 98/VGL/25 dated 29 May 2009)

17. **MISCELLANEOUS**

17.1 **Examination Of Works By The CTE Organization – Full Co-operation To Be Extended**

In order to conduct an independent and effective examination of civil and other works from the vigilance angle, the CTE's Organisation has been functioning in the Commission since Nov 1964. The main function of this organization is to offer technical advice on the civil and other construction works being executed by the Central Government Departments/ Undertakings etc and to carry out vigilance oriented inspections of works undertaken by such organizations. The jurisdiction of this organization is co-terminus with that of the CVC.

In order to enable the CTE Organisation to carry out its functions effectively, it is necessary that full cooperation is extended to them by arranging necessary records such as certified true copies of the contract documents, latest running account bills paid to the contractors and other relevant documents/records as may be necessary. Further in order to enable them to concentrate on those civil works which had been carried out under the supervision of the officers appearing on the "agreed lists", a copy of the "agreed list", when desired by the CTE Organisation may also be supplied to them.

(CVC O.M. No 5T DSP 18 dated 02 Jun 1989)

17.2 **Examination of Works by the CTE Organization – raising monetary limit for reporting the works in progress to Chief Technical Examiners**

1. Please refer to the Commission's O.M. No. 7AA/VGL -10 dated 22.7.1996 requiring submission of quarterly progress reports (QPRs) to the CTE's Organisation in respect of Civil Works costing more than Rs. 70 lakhs, Electrical Works costing more than Rs. 10 lakhs and Horticulture works costing more than Rs 1 lakh.

2. In view of the rise in the cost indices for construction of building and the related materials, the Commission has been considering to raise the monetary limit of the work to be reported by the Organisations to the CTEs. It has been decided that henceforth all the organisations may include only those work in the to be submitted to the DTS's Organisation whose accepted/tender value exceeds Rs. 1 crore for Civil works Rs. 15 lakhs for Electrical Works and 2 lakhs for Horticulture work. The works whose accepted/tendered value is less than these limits need not be included in the returns.

3. While submitting the returns to the CTS's Organisation, the following points may be kept in mind:

- (a) The cost of the work relates to the accepted/tendered value of the work and not the estimated cost.
- (b) If the work has been entrusted by one Ministry/Deptt./Undertaking of the Central Govt. for execution it may be included in the return to be submitted by the executing Organisation.
- (c) The return should be submitted only in the prescribed form circulated vide Commission's letter no 9u-CRD-51 dated 24.09.1990.
- (d) The location of the work must be indicated.
- (e) Use of abbreviations which are not known to a common man should be avoided.
- (f) Mechanical (including air-conditioning), Electronics & Telecommunication engineering work may be treated as "Electrical Works" and marine work and other engineering works may be treated as "Civil Works" for the purpose of reporting to the CTE's Organisation.
- (g) The purchase of ready-built properties, materials and stores, if not purchased on DGS&D approved rates or at the rates approved by any other Govt. agency, may also be treated as works for the purchase of inclusion in the Quarterly Progress Reports. However, the cases in which the supplier is a Central Govt. Department or Central Govt Undertakings need not be included.
- (h) Some of the Departments have set-up Civil Wings for execution of their Civil works. While each Civil Wings submitted QPRs with regard to the works being executed by them the other works being executed through the contractors or any other agency are not being reported to the CTE. Such works should also be reported to the CTE's organisation by the concerned departments.
- (i) All the work undertaken by the Organisation whether in India or outside India should be including in the QPRs.
- (j) QPRs should be sent to the CTE's Organisation every quarter even if the information is nil.
- (k) All works in progress, contracts awarded, and the works completed during quarter should be included in the QPRs in respect of works completed during the relevant quarter, the actual date of completion should be indicated.

(l) The QPRs in respect of Civil Works, Electrical Works and Horticulture works should be submitted on the separate sheet of paper so that it can be detached and given to the concerned Technical Examiner.

The receipt of this letter may please be acknowledged.

Statement showing the Quarterly Progress of Original Works for Quarters ending March/June/September

Civil works costing Rs.1 Crore and above.

Electrical works costing Rs. 15 lakhs and above.

Horticulture works costing Rs. 2 lakhs and above.

S. No	Name of work and location	Est. Cost	Tendered cost	% above/below SOR	Agmt . No.	Agency	Date of start	Time of Comp	Physical Progress	Name of E in C with addresses	Remarks

(CVC O.M. No. 98/VGL/25 dated 20 Oct 1998)

17.3 **Procurement Against Proprietary Certificate**

During the course of System Audit it has been observed that:

- The procurements are made as "Proprietary" without recording reasons for such classification;
- Items initially proposed for proprietary procurement are subsequently tendered out at the purchase order stage;
- Certain branded products are procured without any proprietary/ standardization certificate.

2. To streamline the procedure and to ensure uniformity, following guidelines may be followed while procuring materials certified as proprietary

- (a) Proprietary certificate is to be approved only when:
- i) No equivalent or near equivalent is available from any other source.
 - ii) An item made or marketed by a firm having the exclusive right to market the product.
 - (iii) Procurement of a product from a vendor when the product is exclusively developed for HAL by that vendor

(with or without NRC).

(iv) Procurement of spares from OEM.

(v) Requirement of a particular branded product among the class of products available for ensuring standardization.

(b) Proprietary certificate is to be approved by GM in cases where the purchase proposal is to be approved by MD/CH and by a suitable senior officer who has been nominated for this purpose by GM for the proposals requiring GM's approval.

(c) Proprietary certificate should invariably state the sub-clause under which (para (a) above) the procurement is proposed for and the reasons for resorting to such proprietary procurement is to be recorded in the certificate itself. For example, if the item is certified under a(ii) above, certificate obtained from the vendor for having such exclusive right may be enclosed with the certificate. If the requirement is classified under a(iii), reasons for preference to particular brand among the brands available may be recorded with the concurrence of the indenting department.

(d) For procurement of branded product as a matter of policy, enquiry should be sent to the manufacturer to get the price advantage as well as to ensure good quality and assured delivery in time.

(e) If MPR is raised for procurement of proprietary item (including branded products), Proprietary certificate is to be attached along with the MPR.

(f) Procurement from customer nominated single source need not be classified as proprietary and is to be dealt as per the existing DOP (Annexure III(13)).

(g) Approval for procurement under proprietary certificate is to be accorded as per the Delegation of Powers (Annexure III-11(d)).

(h) As per Corporate Officer Circular No HAL/CSV/HO/23 dated 13 Jul 85(See Appendix below), a register is to be maintained giving full details for purchase made as per proprietary item.

(SYA/GENL/99-00/10/240 dated 19 May 2000)

17.4 Mentioning Of Name- Designation & Date By Signatories On Note Sheets And Documents/Correspondences

1. Vigilance Staff are carrying out the inspections and checks as per the action plan drawn for Anti corruption work and preventive vigilance by the Vigilance department of Corporate Office. The HOD and the staff of Vigilance dept. in the Divisions/Complexes during their Vigilance inspections are experiencing difficulties in verifying the particulars of the signatories on note sheets/letters of correspondence etc. This is causing avoidable delay in speedy investigations, resulting in wastage of the time of concern author, and their personnel who are required to confirm the name of signatories. At times ignorance is expressed by the Dept/employees to identify the signatures of originator of Note sheet/ papers/documents with intention to delay in investigation. All concerned in all the Depts of the Company may please be advised to follow the procedure given below with immediate effect:-

(a) In the Note sheets, the signatories should invariably write their name, designation and date very clearly in hand/stamp.

(b) In the letter/documents of normal correspondence the signatories should put the date and their stamp, which indicates name, designation and dept.

c) The above will facilitate in verification of signatures and save valuable time of the Company. It will also help in determining the time of movement of files/correspondence, which can be analysed, and steps taken to speed up the movement of files between the departments in Divisions/complexes and avoid possibility of losses of the same in transit.

(HAL/CO/VIG/47/2000/804 dated 24 Aug 2000)

17.5 Material Issued To Sub-Contractor

During the course of System Audit, certain shortcomings were noticed in respect of materials issued to Sub-Contractors.

2. To avoid such situations and to safeguard HAL's interest, it is suggested that the following measures may be taken:-

(a) The estimated percentage of scrap and rejection should be indicated in the tender itself to ensure like to like comparison of the offers and the same is to be incorporated in the contract.

(b) If the value of material issued to the sub-contractor exceeds

Rs 5.00 lakhs, Bank Guarantee (BG) to the extent of the value of material supplied is to be obtained (instead of indemnity bond) with a validity of at least 30 days more than the agreed delivery date. The additional 30 days is to facilitate encashment of the BG, if the sub-contractor fails to deliver the material by the scheduled date. 30 days would need to be provided in case of extensions also.

c) Anticipated date of supply of material by HAL may also be indicated in the contract for identifying source of delay at a later date.

(d) Material should be supplied to the sub-contractor only after the receipt of indemnity bond/Bank Guarantee.

(e) The contract should provide for the return of scrap/rejected material. If the contractor does not return the same, proportionate recovery is to be effected.

(SYA/GENL/99-00/009/241 dated 19 May 2001)

17.6 Consideration Of Indian Agents

The Commission has received a complaint alleging that in Government tenders at times an Indian Agent participates on behalf of two different foreign suppliers and in the event of only offers of these two suppliers getting short-listed, then the Indian representative knowing the prices of the two foreign suppliers/ manufacturers may take an undue advantage.

2. The issue has been deliberated in the Commission. In order to maintain sanctity of the tender system, it is advised that one Agent cannot represent two suppliers or quote on their behalf in a particular tender.

3. It is suggested that these instructions may be circulated amongst concerned officials of your organization for guidance.

(12-02-6-CTE/SPI (I)-2 dated 07 Jan 2003)

17.7 Consideration of Indian Agents

The Commission has received a complaint alleging that in Government tenders an agent participates by representing a company officially and another bid is submitted as a 'direct offer' from the manufacturer. At times, the agent represents a foreign company in one particular tender and in another tender the said foreign company participates directly and the agent represents another foreign company. There is a possibility of cartelization in such cases and thus award of contract at higher prices.

2. The issue has been deliberated in the Commission. In order to

maintain the sanctity of tendering system, it is advised that the purchases should preferably be made directly from the manufacturers. Either the Indian Agent on behalf of the foreign principal or the foreign principal directly could bid in a tender but not both. Further, in cases where an agent participates in a tender on behalf of one manufacturer, he should not be allowed to quote on behalf of another manufacturer along with the first manufacturer in a subsequent / parallel tender for the same item.

3. It is suggested that these guidelines may be circulated amongst the concerned officials of your organization for guidance.

(Office Order No. 25/04/04 dated 21 Apr 2004)

17.8 Sources For Purchase Of Aeronautical Products And Materials From Russia And Other Ex CIS Countries

Reference is made to various materials management circulars identifying some of the approved sources for purchase of Russian Military Purpose Products. In view of the continuous process of identifying enterprises by the Russian Federal Agencies, authorized to conduct independent export business, based on criterion determined by the Federation, following guidelines are issued concerning procurement from sources across Russian Federation as well as other Ex-CIS countries:

Category 1: Aircraft Components, ready made articles & spares specific to Aircraft, Aero Engines and other Accessories of Russian origin and Overhaul of the same, are to be sourced from:

Russian Government approved Agencies, dealing in products & services required by Hal, as per the lists circulated by the Russian Govt. from time to time.

M/s IRAL, Nasik, subject to items being sourced/ got overhauled by M/s IRAL from Government approved sources from Russia.

Category 2: Aircraft components, ready-made articles & spares specific to Aircraft, Aero Engines, other Accessories of Ex-CIS countries origin and Overhaul of the same, are to be sourced from:

Respective Government approved Agencies, dealing in products & services required by HAL, as per the lists circulated by the Govt. from time to time. M/s IRAL, Nasik, subject to items being sourced/ got overhauled by M/s IRAL from Government approved sources from Ex-CIS Countries.

Category 3: Other Goods like Raw Materials, Castings & Forgings, Consumables and items of General Industrial Applications (GIA) etc may be procured from Govt. approved sources of Russian/ Ex-CIS Countries having a valid relevant export licence, as per laid down commercial procedures.

2. **Quality:** It will be ensured, that procurement takes due care of Quality requirements and that necessary certifications/ approval of Airworthiness Authority are available. Trace-ability of materials shall also be ensured.

3. A "Directory of Approved Sources for Purchases of Aeronautical Military Purpose Products from Russia and other Ex-CIS Countries", listing sources approved as of date, is placed at Annex – 1. In case the Divisions need to procure items from additional sources, the details of such Govt. approved sources together with copies of the Govt. approval documents will be forwarded to Corporate Office, with the concerned Director's recommendation for obtaining chairman's approval. Based on approvals granted, the Directory shall be updated on quarterly basis and forwarded to the Divisions.

(Circular No 29 dated 7 Oct 2004)

17.9 Banning of Business dealings with firms/contractors-clarification regarding

1. Para 31 of Chapter XIII, Vigilance Manual Part-I provides that business dealings with the firms/contractors may be banned wherever necessary. It was also suggested that for banning of the business with such firms/contractors or for withdrawal of banning orders, advice of the Central Vigilance Commission need not be sought.

2. It is however observed by the Commission that some of the departments/organizations cite the Commission as the authority behind the decision in their orders while banning of the firms/contractors. This is not appropriate. **The Commission once again reiterates its instructions that banning of business is an administrative matter to be decided by the management of the organization and the Central Vigilance Commission does not give its advice in such matters.** This may please be noted for strict compliance.

(000/VGL/161 (Office Order No. 18/3/05) dated 24 Mar 2005)

17.10 Insurance Policies

Vide commercial circular No. 10; dated March 1979, approved pattern was laid down for various types of insurance policies to be taken, risks to be covered and types of assets and value for which insurance need to be taken by

the Divisions.

The broad guidelines of above circular are reiterated below with clarifications

- i) Fire risk policy
- ii) Transit risk policy
- iii) Ground & Flight risk insurance
- iv) Insured value

Following may be ensured for finalization of insurance policies

- a) The commercial procedure laid down is to be strictly followed for calling the quotations.
- b) RFQ is to be issued to all Insurance agencies approved by IRDA
- c) Confidentiality of the rates offered by various firms should be ensured by the following tender box system.
- d) Receipt of FAX / E-mail quotations to be discouraged completely as far as insurance policies are concerned. Action as envisaged vide HAL/CD/701- A/2000/1480; dated 10th May 2000 to be followed only in exceptional circumstances of emergency with the prior approval of GM of the Division

(No. FIN/C-12/INS/05-06 dated 14 Mar 2006)

17.11 The Directory Of Approved Sources Of Aeronautical Military Purpose Products From Russia - Amendment No 2

The "Directory of approved sources for Purchase of Aeronautical Military Purpose Products from Russia and other Ex-CIS Countries" is hereby amended to Issue-3 to include the name of M/s Kharkov Machinery Plant "PED" Kharkov (a state enterprise of Ukraine Govt.), Ukraine and M/s Aviazapchast, Russia at SI No 9 and 10 respectively.

2. Further, under the "Products" column against IRAL at SI No 7, the entry has been amended to as follows"

"Russian Origin Raw Material, spares, components, aggregates and overhaul of aggregates subject to the items being sourced/got overhauled from Govt approved sources or OEMs from Russia and other CIS-Countries having Passport or Label with OTK or BTK or Plant Number Stamp".

3. The revised "Directory" issue 3 is enclosed herewith. The procedure

and other contents of the Material Management Circular, except above, remain unaltered.

4. This supersedes letter of even reference dated 13 Jun 2007 issued earlier.

(HAL/CD/617/2007 dated 26 Jul 2007)

17.12 Measures To Curb The Menace Of Counterfeit And Refurbished IT Products

With the increasing use of IT to leverage technology, a large number of Government organizations are either upgrading or in the process of procurement of new computer hardware and software. It is often difficult to know the difference between PC made of “**Genuine Parts**” and that made of “**Counterfeit Parts**”. It may also be the case often that while various authorized order and pay for brand new equipment, they end up getting an inferior PC with counterfeit and second hand/refurbished parts disguised as new in new/original cabinets to various customers designated as consignees by the ordering agencies at the headquarters of these organizations who are ignorant or have little or no technical knowledge in the matter.

In effect, this amounts to the authorized not getting what they actually ordered and paid for. The supplies of such PC in the long run would defeat the very purpose of going for a new system. COUNTERFEITING is designed to cheat naive consumers/ organizations.

This current circular is intended to help/ inform and enable due diligence as well as curbing the menace of counterfeit and refurbished IT products disguised as new. As a first step, there is a need for all buyers in the Government Departments/ PSU to insist on a signed undertaking (sample format enclosed) from some authority not lower than the Company Secretary of the system OEM that would certify that all the components/parts/assembly/software used in the Desktops and Servers like Hard disk, Monitors, Memory etc were original/new components/parts/assembly/software, and that no refurbished/duplicate/second hand components /parts / assembly / software were being used or would be used, so that the buying organizations were not cheated and get the original equipments as ordered by them. Also one could ask for ‘Factory Sealed Boxes’ with System OEM seal to ensure that the contents have not been changed en route.

Following advisory checkpoints it is hoped shall help identify the fraudulent practices that have come to notice and help guard against spurious and refurbished/duplicate/second hand components/parts/ assembly / software being received by purchasers and consignees who receive such

goods and may not have much technical knowledge.

1. **CPU.** Buyers are cautioned against buying IT Hardware with remarked CPUs that are freely / readily available in the market today. Entry Level processors get **Remarkd / Over clocked** and sold as high end processors. These CPUs, come disguised as higher clock speed processors (e.g. a Celeron CPU can be remarked as a P4 CPU) while their real clock speed may be lower. Since Operating System is loaded from CD bundled with Motherboard, the CD contains image of configured OS. Hence information as seen in ' **My Computer**' – '**System Properties**' shall give deceptive information. In other words, a Celeron CPU remarked as a P4 CPU, shall be seen as a P4 CPU only. Buyers should therefore, use various tool / utilities like the '**CPU-Z**' Utility or the '**sSpecNo.**' For ascertaining the real parameters of the CPU. Utility like CPU-Z (approximately 1.3 MB size) are available free on the web.

2. **Hard Disk** IT Hardware with refurbished Hard Disks that are actually 2nd hand/ repaired hard disks are readily available at low cost. In hard disk drives, the factory repaired hard disk drives, which are mainly used in the warranty replacements are substituted in the new machines. Same is the case observed with floppy drive and Optical disk drives many times. Most of the competent hard disk makers use a sticker on such hard disks sold by them that clearly distinguishes such hard disks from the fresh ones. For example, manufacturer '**Seagate**' marks **Green Border** and label of "**Certified Repaired HDD**" to distinguish such disk drives from **New Genuine HDD**. There is **No border** or **Refurbished** label on genuine new HDD. In addition to this, buyers may also use **HDTUNE_210** Utility. This utility shall return Hard Disk Manufacturers' Serial no. and Date of manufacturing of the Hard Disk. These parameters can be used to cross-verify with the hard disk vendor. Various Hard Disk vendors also put a date code on the hard disk. A mismatch between this date and the one returned by HDTUNE_210 Utility can also be viewed as tampering with the actual information of the hard disk.

3. **Monitors.** IT Hardware with refurbished Monitors that are actually 2nd hand / repaired monitors are given a "new look" by changing the body, with internal components remaining "old / repaired". These CRT monitors are usually discarded from developed countries like US and Europe. There are also B Grade (New but Low Quality) CRT Monitors used in place of new monitors. Many times these can be distinguished by opening the cabinet body and noticing that the label on the tube does not carry various certifications and there are scratch marks on the tube. While 'Genuine' Picture Tubes have all mandatory Certifications, 'Counterfeit' Picture Tubes would not have these certifications. Certification gives an assurance of Reliability. Further many such cathode ray tubes (Picture Tubes) **are** found to need extra magnets to achieve focusing and earthing also is missing. Genuine Monitors rely on 'Yoke Coil' alone to focus electronic beam. Counterfeit Monitors typically require

Numerous Magnetic Strips in addition to Yoke Coil to focus electronic beam. Further, 'Earthing' and 'Shielding' provide ESD (Electro Static Discharge) protection. **Genuine Picture Tubes** have proper "Earthing and Shielding". Earthing and Shielding is compromised in counterfeit Picture Tubes to reduce cost. In 'B' Grade LCD Monitors, panels used are B grade in which the number of spots may be higher, response time & brightness of lower specs than what is stated. Above monitors are all available at low cost. The "**Signed Undertaking**" as suggested shall serve as a deterrent and as a safeguard to ensure that bidders are not fleecing them by supplying such monitors.

a) Operating System. Purchasers should check the IT Hardware supplied (randomly selected IT Hardware) for Certificate of Authenticity (COA) pasted on the PC for product serial number and OEM's / Supplier's name to be printed on it. In Operating systems, pirated OS software with fake Certificates of Authenticity are used by some suppliers to cut costs. They look as good as the real ones. In PCs, counterfeiters buy legitimate software and copy the box design and packaging. Using sophisticated and expensive copiers, many copies of illegal CDs are created in a day. Purchasers should guard against buying IT Hardware with pirated copies of Operating Systems. Such Operating Systems, though, available at low prices, do not have the updated patches and security features that help safeguarding the PC and also improve its lifespan. Purchasers, therefore, may use the standard testing procedures (randomly on randomly selected IT Hardware) available on the following URL for ascertaining the in authenticity of the operating system installed on their PC:

<http://www.microsoft.com/resources/howtotell/ww/windows/default.mspx>

4. Microsoft provides an inbuilt tool to diagnose the "Genuineness of its Operating System". One could go to 'My Documents', and 'Help', from where one shall get step by step instructions to find out whether the windows installed is genuine.

<http://www.microsoft.com/resources/howtotell/ww/windows/default.mspx>

5. **Mechanical Keyboards:** Fake mechanical keyboards that are partially mechanical, with only the key plunger being that of a real mechanical keyboard and rest of the keyboard features remaining the same as those of membrane keyboard are being passed on as true mechanical keyboards. While these keyboards are available at low prices, they do not offer the robustness and long key-stroke life expected of a real mechanical keyboard. Real Mechanical Keyboards are expected to have Keystroke life of 50 Million as against 10 million for Membrane and Semi-Mechanical Keyboards. In case of bulk orders, it is recommended to physically examine

a few keyboards for their construct to ascertain the genuineness of their being real mechanical keyboards.

6. **Low Quality Memory Module** – Memory chips are remarked or downgraded wafers are plastic packed under unknown brands or remarked with names of well known brands. Such memory modules have lower performance levels. It is better to go in for proven reputed brands such as Kingston, Transcend, Corsair, Samsung and Hynix to name a few available in the market.

7. **Fraudulently Marked SMPS** – In power supplies, wrong marking of the wattage is done. The power supplies do not carry all required certifications. While 'Genuine' Power supplies carry all mandatory certifications, in counterfeit Power supplies these certifications shall be found missing. Further Short circuit & over voltage protection circuitry could be missing in counterfeit Power Supply to reduce cost.

8. **Counterfeited Consumables** – Counterfeited consumables such as printer cartridges etc are used which are refilled with ink of poor quality leading to poor performance and clogging, smudging in printers etc. It is advisable to buy such consumables from OEM authorized suppliers or distributors to ensure quality and longevity of the printer equipment.

9. Annexure: Model Undertaking of Authenticity form

(007/CRD/008 Dated 15 Feb 2008)

17.13 **IT Procurement**

Minutes of the above seminar were circulated vide letter no 3/CTE (2)-VR/2007 dated 3.10.2007. It has come to the notice of the Commission that despite specific instructions / guidelines and booklets issued by the Commission from time to time, and the holding of an exclusive seminar referred to above for the benefit of the Bank's executives dealing with IT procurements along with respective CVO's, Bank officials do not appear to adhere to these instructions / guidelines as expected of them, which leaves room for various irregularities. As such Commission desires that you organize seminars/workshops and lecture classes at frequent intervals to keep the officials of the bank, particularly those dealing with procurement activities educated and updated regarding procurement procedures, CVC guidelines. Instances have also come to the notice of the Commission indicating that a number of bank officials lack basic skills in computer operations and knowledge of the banking software. There is also a tendency on the part of senior officers to disclose their password to junior officials / staff for operating the system on their behalf, citing reasons, including work

pressure and ignorance which you would appreciate is not acceptable. Therefore, there is an urgent need to impart proper training to such officers and staff at various levels particularly those working in the branches so that they have up-to-date knowledge of the computer system for day to day operations and are not dependent on their colleagues. You are, accordingly, advised to arrange such programmes for training on an on going basis for the benefit of bank officials. Please note to keep the Commission apprised of the steps taken in this regard and the progress so achieved.

(008/VGL/016 Dated 18 Feb 2008)

17.14 Guidelines On Financial Concurrence

In continuation of the guidelines “**on obtaining the financial concurrence prior to CFA approval**” issued vide letter No. DF/100/28/07-08; dated 27-11-07, it has been decided that the fact of according the financial concurrence will have to be explicitly quoted in all the approvals to facilitate traceability / verification before release of payments. In this regard, it is suggested that a Financial Concurrence Number [FCN] along with a circular seal may be endorsed on all the approvals after the financial concurrence. Following procedures needs to be adopted;

- (i) All proposals other than the placement of purchase orders will have to be endorsed with Financial Concurrence Number and seal
- (ii) The FCN is a running serial number with the date which will be incorporated in a circular seal by the Finance Department
- (iii) The number is centrally allocated by the office of the Head of the Finance Department after registering the particulars of financial concurrence in a separate register
- (iv) Registration of a case for endorsing the FCN could be made with the following details:
 - a) FCN No.
 - b) Originator
 - c) File reference
 - d) Brief description of the case
 - e) DOP
 - f) Concurring Authority
 - g) CFA
 - h) Estimated value
- (v) No. FCN will be allotted with confirmation of the availability of the budget and without quoting DOP reference

(vi) Any approval obtained without the FCN will not be auctioned for payment unless regularized. A report on all such cases of regularization will have to be rendered to the Complex Head of Finance. The originator will be responsibility for obtaining the financial concurrence.

(DE/100-28/08 dated 23 May 2008)

17.15 Referring Cases Of Procurement To The Commission

The Commission has noted a significant rise in the number of references made to it involving procurement at different stages. These relate to specific cases and are not generic in nature. Essentially they belong to the domain of managerial decision making and the matter needs to be decided at that level. The Central Vigilance Commission and its Chief Vigilance Officers, as a matter of policy do not interfere in the process of decision making, which is a management function of the respective organization.

The Commission has issued various circulars/guidelines /instructions in order to promote transparency, improve competition and ensure equity among participants. However, if any organization faces difficulty in the application of any of the circulars/guidelines/instructions issued by the Commission, then it may approach the Commission bringing out the difficulties along with a proposed generic solution listing out the ingredients of the special circumstances for examination and review by the Commission. References of a general nature having elements of managerial decision making and concerning a particular procurement should be avoided.

(No.008 /CRD/008 Dated 24 Jul 2008)

17.16 Mandatory requirement of Permanent Account Number (PAN) from Foreign Vendor

1. Divisions are making remittances to foreign companies / non residents for various purposes such as license fees, royalties, fees for technical services etc. Before making any payment, tax is required to be deducted and deposited to the Government Account.

2. In case where PAN is not provided by the deductee higher rate of tax will be applicable as per section 206AA. With effect from 1.04.2010, Section 206AA of the Income Tax Act, 1961, provides that "any person entitled to receive any sum or income or amount, on which tax is deductible under Chapter XVIIIB shall furnish his Permanent Account Number to the person responsible for deducting such tax, failing which tax shall be deducted at the **higher** of the following rates, namely:

(i) at the rate specified in the relevant provision of the Act ;or

- (ii) at the rate or rates in force; or
- (iii) at the rate of **twenty** per cent."

3. As per section 115A, in respect of Tax on dividends, royalty and technical service fees to foreign companies, only those assesses are not required to file return of income under section 139(1) whose gross total income consists of the income referred in clause (a) of sub-section 1 of section 115A i.e. by way of dividends, interest and units. Hence, all other assesses are required to file their return of income and obtain PAN from the Income Tax Department. Since, obtaining the PAN is the responsibility of Vendors, any expenditure to be incurred shall be borne by the vendors only.

4. Procedure for obtaining PAN online along with prescribed fees for Non Resident as received from PwC is enclosed as Annexure-I of this letter.

5. In view of the above it is suggested that, divisions before finalizing any contract with foreign vendors, include a clause to obtain PAN from the Income Tax Department failing which additional tax if any will be recovered from the vendor's Account. So far as existing contract is concerned, divisions are required to take up with all the foreign vendor to provide the PAN and remittance of TDS be made only after furnishing PAN.

(CO/Tax/PAN/2010-11 Dated 02 Aug 2010)

17.17 Recoveries arising out of Intensive Examination conducted by Chief Technical Examiner Organization (CTEO) of the commission

1. Instances have come to notice that some organizations while notifying / effecting recoveries from the contractors bills indicate that the recoveries are consequent to the observations made by the CTEO.

2. In this connection, it may be noted that the contracts are primarily between the executing agency and the contractor. Any endorsements that the recoveries are being made at the instance of a third party could weaken the department's case during arbitration or court proceedings. Further, the observations / advice of the Commission are required to be considered by the executing agencies in terms of the contract and recoveries are to be enforced as admissible as per the conditions of the contract. The organizations are advised that justification / reasons for recoveries in line with contract clauses should be recorded while notifying / effecting recoveries from the contractors.

(Circular No.11/09/2011 Dated 12 Sep 2011)

17.18 Cash Office – Control Measures

1. Based on the procedures followed earlier in the centralized cash office, Bangalore Complex, before bifurcation to the Divisions, the following control measures are indicated with a request for strict compliance:

(a) The Cash Vault should be embedded on the floor / wall to ensure that it is immovable;

(b) The Cash Vault is to provide for 2 Key operation;

(c) One key will be held by the officer-in-charge of cash office and the second key will be held by another officer of the Finance Department working in other sections of Finance. This will be on a "Rotation basis" and it is advisable to draw up a roster of such Officers;

(d) The Officer mentioned in sub-para (3) above will hold the 2nd key for a month;

(e) Beside the Cash Vault, two separate similar safes with double locking facility, also embedded in the wall / floor making them immovable should also be available.

(f) One of the safe's keys (at sub-para 5 above) will be under the control of the Officer-in-charge of cash office and he will be keeping the cash vault key in that safe;

(g) The second safe key will be under the control of the officer holding the 2nd vault key on rotation basis and he will keep the 2ⁿ vault key in that safe;

(h) This will ensure that the keys of the vault do not leave the factory premises at any time and only the keys of the safes will be taken by the respective officers. In the evening before putting the cash into the Vault, the cash will be arranged denomination-wise by the Cash Office in charge and the same will be Listed out in a regular format and the cash balance struck. The Officer holding the 2nd key on rotation will check the denominations and attest the total cash balance. The denomination list showing cash balance will be signed by both the officers holding the keys to the cash vault.

(i) The signed denomination list along with the physical cash will be put into the cash vault and the vault double locked;

(j) Every morning the vault will be opened by the two officers holding the keys and the cash denomination will be checked, with the cash in the

vault and verification will be signed on that list. This list should be filed separately in box files kept date-wise for subsequent control/audit verification.

(k) The Roster arrangement should provide for a 'stand-by' officer in case the Officer holding the 2nd key goes on leave.

(l) In the unlikely event of high volume of cash kept overnight in the cash vault (above Rs.50 lakhs) with prior intimation to the Insurance Company, the Division may also consider posting a security guard till such high volume of cash are maintained in the Cash Vault;

2. While the above points are the minimum condition for safe keeping of cash, they are not exhaustive and the Divisions may consider additional measures also for safe handling of cash keeping this specific context in mind. Further, it is imperative that the cash in Vault and the cash-in-transit policies are carefully examined and action taken to ensure that the conditions contingent to the liability of the Insurance Company under the Policy are strictly adhered to. The significance of this arises in the context of lodging of claims with Insurance companies in case of fraud etc.

3. GMs are requested to review with FCs the above control measures and facilitate the infrastructural requirements wherever necessary.

4. By a copy of this 10M, Systems Audit Chiefs may report compliance of these points along with the report on verification of cash on a monthly basis currently being done under monthly tasks.

(SYA/CO/C.Office/Memo/2011-12/297 Dated 16 Nov 2011)

17.19 Consideration of Indian Agents

1. The Commission has been stressing on the need for observing transparency and determination of prices in a fair market competition while dealing with the tenders relating to procurement. The above OMs were issued to reduce the possibility of collusion and cartelization among the bidders so that competitive fair market price of the items of procurement can be determined.

2. A number of references have been received in the Commission citing certain specific situations and difficulties being faced in dealing with tenders. Therefore, the matter has been again examined by the Commission.

3. In supersession to the earlier OMs dated 7.01.2003 and 21.04.2004, Commission has decided that in all cases of procurement, the following guidelines may be followed:

(a) In a tender, either the Indian agent on behalf of the Principal/OEM or Principal/OEM itself can bid but both cannot bid simultaneously for the same item product in the same tender.

(b) If an agent submits bid on behalf of the Principal/OEM, the same agent shall not submit a bid on behalf of another Principal/OEM in the same tender for the same item/product.

4. The tender conditions may be carefully prepared keeping in view the above guidelines.

(Circular No.03/01/2012 Dated 13 Jan 2012)

17.20 Recoveries from contractor's Bill

1. Reference is made to the CVC Circular No. TE (NH)/2011/Recoveries/144262 dt 12.09.2011 (copy enclosed).

2. CVC has intimated that instances have come to the notice that some organizations while notifying/effecting recoveries made by the CTEO.

In this connection it may be noted that the contracts are primarily between the executing agency and the contractor. The observations / advice of the Commission are required to be considered by the executing agency in terms of the contract and recoveries are to be enforced and admissible as per the condition of the contract. In view of the above the following guidelines are issued:

(i) Justification/ reasons for recoveries in line with the contract clauses should be recorded while notifying/ effecting recoveries from the contractor.

(ii) While endorsing the recoveries, not to indicate that recoveries are consequent to the observation/ advice made by the CTEO.

(HAL/WE/617/2012 Dated 21 Feb 2012)

17.21 System Audit – Internal control tasks

3. Reference is invited to the Regular monthly tasks circulated under the System Audit plan for 2011-12. It will be seen there from that BRS, review of

imprest accounts, review of bank guarantees, and any other aspects which the system audit feel needs to be looked into and commented upon.

4. It has been seen from recent visits to some divisions that, access to data is highly restricted to the system audit, especially in areas where the divisions apprehend that errors on their part would get highlighted, or facts brought out unless monitored would put them in a bad light. Generally the overall atmosphere has been to discourage interaction with the System Audit.

5. It is emphasized that the System Audit department is part of the internal control of the company and can contribute effectively in checking areas of vulnerability like payments, controls in outsourcing, recruitment, advances to employees, control exercised over bank guarantees, confirmation of balances carried over at the year end to the next and the effective operation of internal check etc. where opportunity for undesirable trends to emerge exist. Accordingly isolation and non-interaction with the System Audit and restriction of data can, as has recently been seen, expose the division to vulnerabilities arising out of weak internal control.

6. System Audit chiefs are now being asked to conduct a detailed transaction audit at voucher level initially in respect of all payments in all the divisions and GMs are requested to ensure that the division extends the fullest co-operation in this regard to ensure that internal control is firmly established. GMs may also review the progress of this audit periodically with the system audit chiefs to ensure that they are fully aware of the internal control issues, neglect of which may embarrass the Divisions. It is desirable to have these discussions minuted in speaking terms so as to ensure that record of thorough review is built up to safeguard against untoward incidents and also to establish that such incidents if and when they do occur have done so despite careful efforts at internal control.

7. By a copy of this letter Systems Audit chiefs are to take up a review of all transactions related to payments and liability set up to ensure correctness and also validate that they are in respect of Bona Fide party's with adequate documentation through purchase orders etc. approved by Competent Financial Authority as defined under the Delegation of Powers.

(SYA/CO/44/vol 2/2012/44 Dated 26 Mar 2012)

17.22 Guidelines on consideration of Exchange Rate while preparing Price Comparative Statement for BIDs Received.

8. Reference is made to the Corp. Office circular No. DE/100.28/08/212 dt. 09th Jun 2008 issued on guideline for consideration of quotation received against RFQ.

9. Some of the Divisions have sought clarification that whether the exchange rate prevailing as on date of opening of technical bid or date of opening of the price bid to be considered for preparation of comparative statement for determination of L-1 vendor.

10. It is clarified that when bids are received in different currencies / combination of currencies, the price comparative statement should be made in Rupees by adopting the exchange rate as on the day of opening of price bid in case of three / two system and date of bid opening in case of single bid system.

11. It is also suggested that a suitable clause to this effect should be introduced in the RFQ.

(HAL/CD/617(ERV)/2012 Dated 02 Apr 2012)

17.23 System Audit – Internal control tasks

1. Further to our letter No. SYA/CO/44/vol 2/2012/44 dated 26th March 2012 on the above subject and as a result of Systems Audit examination of the situation in one of the Divisions, it has been observed that the operations in the IFS meant to ensure internal checks have been by passed, allowing one individual to operate both elements of the internal check.

2. Further, as has been pointed out in earlier letters by Systems Audit, the Systems Audit has not been given access to or training in the IFS System, and also there does not appear to be an Audit module in the IFS System which will enable the Audit to have “Read only access” to various IFS reports in order to detect possible malpractices. This has severely limited the role of the Systems Audit in evaluation of the internal controls.

3. It is requested that the GM's address the issues of Audit module in the IFS System. Further, the provision of adequate training to the Systems Audit personnel in the division, on IFS may kindly be looked into. This is imperative for the division to fully utilize the Systems Audit resource at its disposal.

(SYA/CO/44/vol 2/2012/49 Dated 03 Apr 2012)

17.24 Purchases from OEMs

1. Corp. Office vide letter NO. HAL/CD/S.987/7/2002 dated 02nd Aug 2002 instructed that orders should be placed on OEMs and stockiest should be avoided as far as possible.

2. While forwarding of report of team constituted for ascertaining credential of dealing with a particular vendor from abroad, it is clearly brought out that:

2.1 All Divisions of further orders must take up with the OEM for direct dealing between OEMs/HAL to have direct supply relationship with HAL in order to avoid any loss, legal implications and avoid FEMA etc. violation if any.

2.2 The Divisional IMM heads and General Managers of the Divisions to take up also with all other OEMS for direct dealing between OEMs/HAL, have direct supply relationship with HAL. If OEMs still pursue to deal with / through distributions, the matter needs to be taken at Director's level with highest levels of OEMs.

3. In view of the above, the following instructions are issued for strict compliance.

3.1 Division should send RFQs only to original Equipment Manufacturer. To generate interest from the OEMs, long term requirement based on approved programme / forecast task may be projected with a provision for staggered annual deliveries.

3.2 Divisions should ensure that supplies are directly received from OEMs to HAL.

4. Divisions are requested to take note or this for strict compliance.

(HAL/CD/617(OEM)/2012 Dated 28 Jun 2012)