HINDUSTAN SHIPYARD LIMITED: VISAKHAPATNAM
VIGILANCE DEPARTMENT

CIRCULAR

DGM (V)/CIR/ 03 /2020

SYSTEMIC IMPROVEMENT REPORTS

Vigilance department is submitting reports on improvement of the existing systems after analysing the systems / procedures. Central Vigilance Commissioner during video conference with the CVOs of DPSUs & OFB held on 04 Nov 2020 directed that these systemic improvement reports shall be displayed on the organization’s website seeking suggestions for further improvement.

2. Five systemic improvement reports submitted by Vigilance department are displayed on HSL intranet for information to all. Suggestions for further improvement, if any, on these systemic improvements may be sent to DGM (Vigilance) through intra-mail by 31-12-2020.

3. This issues with the approval of CVO.

(R. Raja Babu)
DGM (Vigilance)
Systemic Improvement No.1

Uniform delivery terms in tender terms and conditions for indigenous and imported supplies.

Background:

It was observed that certain tenders were floated with different delivery terms and conditions for indigenous and imported bidders. The condition stipulated was that indigenous material shall be delivered at HSL stores and all the imported material shall be delivered on DAP HSL stores basis. It was also indicated that in case of imported material, HSL is responsible for the customs clearance of the goods at Visakhapatnam and the payment of any taxes / duties and also unloading charges of the goods at Stores. However, loading of these customs duty & taxes to the imported bid to make it on par with indigenous bid was not mentioned in tender terms & conditions.

International Commercial terms defines DAP as Delivered at Place. As per DAP terms, the seller delivers when the goods are placed at the disposal of the buyer on the arriving means of transport, ready for unloading at the named place of destination. Further, all charges as well as delivery to the buyer facilities will be arranged by the seller. Customs clearance cost can be arranged by either the seller or the buyer depending on the agreement at the time of freight booking. Import duty and taxes will be paid by the buyer at destination.

Vigilance wing has suggested the following Systemic Improvements:

(a) All the tender terms & conditions should be uniform for both indigenous and imported supplies including delivery terms.

(b) RFP should mention clearly that customs duty and taxes to be paid by HSL will be suitably loaded during price comparison / evaluation.

HSL should avoid making such discriminatory provisions in future procurements and strictly abide by the provisions contained under HSL’s Manual on procurement of Goods and Services.
Systemic Improvement No.2

Inspection and accounting of material prior to usage on board.

Background:

In a particular division / complex, it was observed that the materials are being received directly by the user department without offering physical inspection and accounting of materials at centralized Stores of Material department.

Many valuable materials were piled up unaccounted from the last several years at a rarely operated godown. The same were used on current projects with the initiative of Vigilance Department.

Vigilance wing has suggested the following Systemic Improvements:

(a) The materials received for all the divisions of HSL including this particular division shall be received by the official concerned of centralized stores and the physical inspection shall be carried out by Centralized Material Inspection Department. Goods Receipt Note (GRN) required for processing of the invoice must be raised by respective Centralized Stores.

(b) Materials shall be drawn by the respective user departments from the Centralised Stores and used on board only after generating GRN.

(c) All stores shall be under the control of Centralized Materials Department.

Systemic Improvement No.3
Inspection of Major Equipment and Machinery:

Background:

Vigilance department has come across a case wherein shortages as per the order technical specification were not taken up with the suppliers. It was noticed only after owners insisted for the same after handing over of the vessel.

In the existed system, Inspection of materials / machinery / equipment was done by Material Inspection department. As confirmed by the Inspection Department, the basis for inspection was supplier's packing list but not order specifications. Shortages will be identified based on the materials received against the supplier's packing list. Copies of Inspection reports are shared with the commercial department and indenting department.

While examining the relevant file, the following deficiencies were observed by Vigilance department.

(a) The Owners specified certain spares in the Build Specification in addition to the Main equipment spares as recommended by the OEM. Due to lack of clarity / actual requirement complete spares as per owners need could not be included in the technical specification of the tender.

(b) There are deviations in the quantity of certain items like sensors as agreed by the suppliers during technical negotiations and specified in the technical specification enclosed to the order.

(c) Inspection was carried out by inspection department as per the supplier's packing list without considering order technical specification. Technical specification containing detailed list of items / spares was also not available.

(d) Non availability of item code numbers to each of the items / spare parts.

(e) No mechanism available to trace the items after drawing the machinery / equipment from stores till handing over to owners.
Vigilance wing has suggested the following Systemic Improvements:

(a) All the requirements of the owners, particularly in case of major equipment / machinery shall be covered in the technical specification of the tender for that equipment / machinery. Owner concurrence / vetting for the technical specification of the tender shall be obtained to the extent possible.

(b) Owner's representative shall be involved during the technical negotiations. Signature of Owner's representative shall be obtained on the minutes of the TNC.

(c) The indenting department shall ensure that all the finally agreed terms & conditions shall form part of order technical specification.

(d) Inspection shall be jointly be carried out by Material Inspection department, representative of indenting department. Owner’s representative and supplier’s representative (to the extent of availability) may also be involved during inspection to the extent feasible.

(e) Inspection shall be carried out as per order technical specification and supplier's packing list together and shortages if any, shall be recorded. Indenting department shall take up with suppliers for replenishment of short supplies.

(f) The possibility of giving item code numbers to all the parts, tools, accessories and auxiliaries etc., while ordering equipment, shall be implemented to facilitate tracking of receipt of each of the item.

(g) Bidder / supplier shall be informed to pack the spares and tools separately and a separate packing list to be enclosed for the same for easy reference.

(h) The possibility of drawing materials from stores using item code numbers through SAP by the user department shall be explored.

Systemic Improvement No.4
Renewal of Rate contracts on time to avoid placing of nomination orders on expired rate contract rates.

**Background:-**

It was observed from the series of orders placed on nomination / repeat orders, for certain period, majority of nomination orders placed based on the rates of expired rate contracts (RCs) and perpetual repeat orders without considering the prevailing price trend and justification.

**Vigilance wing has suggested the following Systemic Improvements:-**

The practice of routinely placing orders on nomination / repeat orders should be stopped. It should be resorted to only as a matter of a rare exception.

There shall be a threshold limit of order value for nomination / repeat orders. Minimal value should be allowed for such orders and under exceptional situations. Manual on procurement of goods and services to be updated accordingly.

The indenter, who raise indent on nomination / repeat order shall be directed to clearly indicate the justification, reasons / advantages of placement of the order in the proposal itself.

The Rate contracts of the particular wing shall be concluded before expiry of the existent Rate contract, so that placement of nomination / repeat orders can be avoided.

The requirement for the whole year or a particular period shall be assessed considering all the parameters so as to get the advantage of more competitive offers for increased quantum of work, in case of rate contracts.

**Systemic Improvement No.5**

Inspection and accounting of material prior to usage on board:
Background:-

It was observed that many sections / departments are doing de-centralized procurement activity and not following uniform procedures while processing the procurement proposals.

It was also observed that many valuable materials were piled up unaccountable from the last several years at a rarely operated godown. The same were used on current projects with the initiative of Vigilance Department.

Systemic improvements Recommended:-

Systemic improvement was suggested for merging of commercial section of Ship Repair Complex (SRC) with main commercial division to have uniform procedures for procurement and also to have previous purchase data integrated in SAP for future reference.

DGM (Vigilance)