

**FERRO SCRAP NIGAM LIMITED**

**PURCHASE AND STORE MANUAL**

**INNOVATION CONSULTANTS PRIVATE LIMITED**

Innovation Consultant Private Limited are retained by Ferro Scrap limited to prepare a purchase and stores manual for the company.

This manual covers the policies, system and procedures of inventory control, purchases and store keeping

The manual has been prepared after studying the existing procedures and practices and after extensive discussion with the chief manager, material management and chief manager, finance and accounts and their officers.

# Ferro Scrap Nigam limited

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# Chapter-1

## INTRODUCTION

- 1.01 The primary objectives in management of materials are the procurements of required materials at the right price, high turnover, low procurement and storage cost, continuity of supply, prevention of stock outs, consistency in quantity and good supplier relations.
- 1.02 The integrated materials management encompasses within its sphere the three related functions of purchasing inventory control and store keeping.
- 1.03 The main functions of purchasing and inventory control are to administer controls over the inventory in order to buy the right quantity of the right quality at the right time at the right price and on right terms. It has to be ensured that provision of stores and spares are made on a planned basis so that the inventory holding is minimum consistent with levels of operation and maintenance expected by the management.
- 1.04 Store keeping has to be ensure that materials are stored properly so that they are not effected by deterioration, fire etc. and are safeguarded against theft/pilferage and arrange issue of the material against demands placed by competent authority. This wing also performs the receipt function, which ensure that the materials received and accepted are of the right quality. In addition, disposal of surplus, unwanted material, scrap etc. is also the function of store keeping, finally any storekeeping system has to have an efficient system of stock verifications to check and ensure that the book balances tally with he physical balances.
- 1.05 The following chapters described the policies, system and procedures required to be followed in this regard in Ferro Scrap Nigam Limited.

## Chapter 2

### MATERIALS MANAGEMENT IN FSNL

2.01 Each unit has a materials department with the following functions:

- (a) Purchase of all the materials including printing and stationary and works contracts of the unit except those received for centralized procurement/contracting by the corporate materials department.
- (b) Receipt, issues and safe custody of all materials in the stores.
- (c) Inventory control.

The unit materials departments are under the administrative control of the respective of the unit heads. However, functional control over these departments is with the corporate materials department that department provides guidance regarding system and procedures to be followed and the related matters.

2.02 The material departments in the corporate office has the responsibility for:

- (i) Procurement of all capital equipments required by the units.
- (ii) Procurements of all imported equipment and spares.
- (iii) Procurement of development items.
- (iv) Purchase of items reserved for bulk procurement insured and high value items. Items received for centralized purchase are listed in annexure-I.
- (v) Purchasing planning and annual purchase budgets.
- (vi) Systems and procedures.
- (vii) Overall inventory control in the company.

2.03 To enable the corporate materials developments to discharge its functions effectively, the unit developments will furnish effectively, the unit departments will furnish the following:

- (a) Indents for equipments, stores and spares, which are to be purchased centrally in accordance with the time schedule laid down by the chief manager, materials management from time to time.

- (b) Monthly statement of purchase orders issues, this will facilitate exercise of budgetary control.
- (c) Annual inventory statements and statements of non-moving and slow-moving items of stores and spares parts.
- (d) The corporate office may require such other reports and returns as.

### **Functional Responsibility**

2.04 The materials departments in the units consists of two wings, viz. purchase wing and stores wing. Their functional responsibilities will be given below: -

#### **Purchase Wing**

- (i) Receive the purchase requisition, check and process these.
- (ii) Invite tenders and purchase the same as per laid down policies and procedures.
- (iii) Issue the purchase order after obtaining requisite approvals.
- (iv) Carry out all post purchase order work.
- (v) Maintain the list of approved suppliers.
- (vi) Received indents for capital equipments and items reserved for centralized purchase , check and process these for transmission to the corporate materials departments.
- (vii) Received indents for repairs, check and process these invite tenders and issue work orders for repairs.
- (viii) Maintain all the records and books.

#### **Stores Wing**

- (i) Received the materials supplied by the suppliers or sent by the user departments with return notes or transferred from other units.
- (ii) Arrange physical and quality inspection.

- (iii) Maintain records of rejection goods and return these to the suppliers.
- (iv) Lodge claims against suppliers/carriers/ insurers for storages/damages.
- (v) Take the materials on stock and raised GRNS.
- (vi) Receive the materials requisition-cum-store issue vouchers and arrange issue materials against these.
- (vii) Arrange for proper warehousing and custody of stores and maintain numerical records of the same on kardex.
- (viii) Receive surplus/redundant stores and scrap material, maintain records for the same and arrange their disposal.
- (ix) Prepare indents for stock items and follow up of the same with for placement of orders and prompt deliveries.
- (x) House keeping and other allied work relating/stores.
- (xi) Maintain records/books relating to the above functions.

### **Material Planning Cells**

2.05 Material planning cells have been set up at each of the units and also at the corporate office. Their constitution and function are given below:

#### **A. Units**

These cells are constituted of the following:

- (i) Head of the material department of the unit (convenor)
- (ii) Representative of finance department of unit.
- (iii) Representative of maintenance department/indenting department of the units.

These cells will hold weekly meeting and approve the indents before procurements section action is taken the following aspects will be scrutinized.

- (a) Ensure that correct specifications, items code number, annual consumption of previous three years stock and dues-in position, maximum and minimum levels etc. are stated on the indents and the check list enclosed with the indents are properly filled up.

- (b) Review of the indented quantities on the basis of average annual consumption norms and stocks.
- (c) Whether procurement from external source is necessary or whether the items can be made in the unit workshop.
- (d) Deciding the mode of tendering.
- (e) Select the vendors who are to be asked for tenders/quotations.

## **B. Corporate Office**

The material planning cell at the corporate office will comprise of the following:

- (i) General manager (operation) or his representative.
- (ii) Chief manager (F&A) or his representative.
- (iii) Chief manager (material management) or his rep. (Convenor)

This cell carries out the following functions in respect of purchase in excess of Rs. 50,000/-

- (a) Review of the indented quantities and deciding the quantities to be ordered on the basis of average annual consumption, norms, stock and dues in, so as to prevent overstocking.
- (b) Deciding whether procurement from external source is necessary or whether the item can be made in the company work shops.
- (c) Deciding whether import or indigenous procurements action is to be taken.
- (d) Deciding the mode of tendering.
- (e) Approval of the vendors to whom the enquiry is to be sent.

## **Delegation of Powers**

2.06 Powers have been delegated, separately for the units and the corporate office for the following: -

- (a) Purchase of stores and spares including emergency purchase with or without financial concurrence in central cases. Where the purchase are

made without financial concurrence, monthly statement of such purchases is furnished to the finance.

- (b) According financial concurrence.
- (c) Placement of purchase orders.
- (d) Award of works contracts.

The power delegated are revived from time to time by the management.

## Chapter 3

### INVENTORY CONTROL IN FSNL

3.01 The objective of any inventory management system are to keep down the capital investment in inventories to the barest minimum, to keep the inventory carrying costs as well as the obsolescence losses to the minimum and at the same time endeavour to give maximum services to the indentors so as to reduce ideal time of men and machine causes by storage of stores, spares parts etc.

Some essential of a good inventory management system are:

- (i) Codification of inventory items.
- (ii) Fixation of lead time for procurement of difference items of stores and spare parts.
- (iii) Determination of lead time usage, safety stock and re-order points.
- (iv) Fixation of economical order quantities.
- (v) ABC analysis.
- (vi) Standardization.
- (vii) Review and control of non-moving/slow-moving/surplus items.
- (viii) Budgetary control.

Codification of items has been dealt with in paragraph.

4.02 Later other requirements of inventory management system are being considered here.

#### **Lead Time, Lead Time Usage and Safety Stocks**

3.02 Lead time is the time taken in procurement of an item from the time an indent is prepared to the time the material becomes physically available for issue. Lead time will include the time taken for preparation of the indent and transmission of the same to the purchase wing, time taken by the purchase wing to place the purchase order, time allowed to the vendor to effect supplies time taken received and inspect the stores, etc. the lead time worked out by the corporate materials

departments for certain groups are given in annexure. Lead time, however, never remains constant. It varies from purchase to purchase of the same item and depends from purchase to purchase of the same item and depends on various factors like availability of the required stores and spares in the market, the pre-occupation of vendors with other orders, etc. as, however, lead time directly affects the inventory level, the effort has to be made to reduce the lead time to the maximum possible extent. Lead times will, therefore, be reviewed every year.

- 3.03 The lead time usage is the quantity of stores etc. required during the lead time period. Thus, the lead time usage is equal to the lead time in months multiplied by the forecast consumption during a month.
- 3.04 To take into account the fluctuation in lead time or consumption, safety stock has to be added. It is quite possible that the lead time goes up/down or the consumption varies. So, it is necessary to work out the safety stock, i.e. the quantity that should be added to lead time usage, so as to satisfy all reasonable demands without going out of stock.
- 3.05 Two other essential tools for inventory controls are determination of re-order (stock orders) points and optimum quantity to be purchased at a time. The stores officer will fix the two limits based on his experience till such time it is decided to follow the more sophisticated methods. Safety stocks and re-ordered points so worked out will be recorded on the kardex cards.

### **Kardex Cards**

- 3.06 The stores wings maintain numerical accounts for material stocked in the stores. A register will be maintained of the kardex cards which are current.

Following are some guidelines for maintenance of the cards:

- (i) The cards will contain a complete record of transactions i.e. numerical account of the quantities received/issue and the closing balance, the stocking limits and the optimum order quantity.
- (ii) Normally there will be only one card for the particular material. However, more than one card be opened for different qualities of the material.
- (iii) Complete cards will be stores for a period not less than 5 years.

- (iv) Normally the numerical balance on the cards will be reconciled with the corresponding price ledger balance once a quarter.
- (v) For each entry on the card, there will be a corresponding vouchers.
- (vi) All receipts and issue vouchers will be posted within 24 hours of the date to which the vouchers pertained. It will be ensured that the missing vouchers, if any, are obtained and posted. similarly, adjustments authorized as a result a physical verification ill be posted immediately on authorization.
- (vii) An indent will be raised when the stock does touchor goes below the re-ordered point. consumption will be watched so that necessary charges in the stocking limits be made.

### **Fixation of Maximum, Minimum and Re-order Levels**

3.07 Maximum, minimum and re-order levels for consumption stores such as nuts and bolts, v-belts, filters, elements, tooth repointers, wire ropes, tyres and tubes etc. will be shown on the kardex cards for such items. These limits will be determined on the basis of consumption, availability in the market and lead time for procurement.

Minimum level is the safety stock which be maintained to guard against uncertainties of delivery from suppliers.

### **ABC Analysis**

3.08 Generally, 10 to 15 percent by number of items stocked account for approximately 70 percent of the value of stores in stock. The next 20 percent of the number of items account for approximately 20 percent of the value of stock and finally 65 and 70 percent of the number of items account for the balance 10 percent of the value. It is clear that for an effective control over inventories, it is important to suggest the few items which account for the maximum value. These items are called A items. The next group is called B items and the balance are called the C items.

To segregate the A, B and C items a distribution by value analysis should be worked out once a year in the following tabular form:

Sl. No.	Code No.	Quantity Required Per year	Unit Price	Annual usage (Rs.)	Percentage to total consumption in items of value
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The table will facilitate drawing of items.

Control of A items will have to be strict and will have to be at the highest level in materials department. Review of such items will have to be carried out more frequently. B items may be reviewed at a slightly lower level.

### **Standardization**

3.09 The objective of any standardisation programme are development of standard terminology, codes etc. and standardization of the items so as to reduce to the minimum number of sizes, kinds, types of products essential for efficient operation. Standardization requires a joint in depth study by the purchase and user. It is a pre-requisite that each items proposed to be stocked or purchased must have a proper specification. All specifications are subject to periodic re-examination.

The average of standardization programme are reduced in inventories, better inspection storage problems, facilitating disposal of slow moving items, lower purchasing and inventory carrying cost etc.

The progress made in standardization will be watched by means of an annual statement to the M.D./Board.

### **Review and Control of Slow Non-Moving Items.**

3.10 The factors mainly responsible for accumulation of obsolete or unserviceable or surplus materials are:

- (i) Change in design of equipment.
- (ii) Replacement of existing equipment.
- (iii) Erroneous estimated and purchase of requirements.

All these factors and especially the last factor need to be controlled to prevent accumulation or obsolete and unserviceable stores or surplus stores.

In spite of the best of precautions that are taken cases may arise where consumption of certain items in stock become low or nil or the stock become excessive compared to the consumption pattern.

If an item continues to move but at an extremely slow pace the existing stock will fall into the category of over stocks. The item is still required but it will take considerable length of time for the quantity in stock to be used. The position should be checked in consultation with the user department in regard to the reason for the slow movement. In case the position is likely to continue to be the same, immediately action is taken to cancel outstanding purchase orders, to stop further purchase and to dispose of the quantities in surplus of the estimated consumption.

Another category would be where the existing stock has not moved during the last two years. It should be checked up whether the item falls under insurance spares. These are the items which may not have a regular consumption but which have to be kept in stock as insurance against costly break down or sub-normal operations. Items falling in this category will move only once in a while and therefore, if such items have not moved it should not normally cause anxiety. In regard to the items which cannot to be classified as insurance spares, the item should be examined in consultation with the user department and where these are not likely to move for the next 3 years, these should be categorized as surplus.

- 3.11 A survey committee should critically inspect the condition of the stores put up to it by the materials departments in regards to items have not moved for the last 2 years, that have deteriorated in value, that have broken or damaged in transit, that are lying in custody but are unserviceable due to obsolescence and that have been received as scrap. After examination, the committee will decide on:
- (i) Classification as live or dead surplus.
  - (ii) Items to be disposed of.
  - (iii) Classification as second hand and scrap
  - (iv) Mode of disposal.
- 3.12 An Annual statement showing the position of non-moving, slow moving and surplus materials will be prepared and submitted to MD/Board.

## **Budgetary Control**

- 3.13 An annual purchase budget will be prepared for unit purchase and for centralized purchases based on earlier years consumptions, norms of consumptions, production programme for the year, stocks and dues in and the anticipation requirements. The budget will be detailed for A and B category terms, for C category items, lump sum provision will be made groupwise. The annual purchase budget will be approved by the MD/Board as part of unit/corporate revenue budget and all purchase will be made within the respective budget provisions. Actual purchase will be monitored on a monthly basis to ensure that the cumulative value of the purchase orders from any unit and central purchase remain within the budget allocation.

## **Annual Review of Inventory**

- 3.14 The corporate materials department will prepare a consolidated annual inventory statement which will show whether inventory of different items/groups of items is excessive or reasonable (in the units and for the company as whole) and also measures proposed to be taken to reduce the inventory in cases where it is in excess. Data for preparation of this statement will be furnished by the unit materials departments to the corporate materials departments.

## Chapter-4

### CODIFICATION OF STORES AND SPARES

#### Objective of Codification

4.01 The main objectives of codification are:

- (a) To classify the items on functional basis so that one item is kept under one code.
- (b) To bring together the items according to their degree of similarity so as to reveal and suggest suitable substitutes available.
- (c) To prepare a catalogue indicating complete details for procurements action.
- (d) To make available the catalogue to indentors to enable them to requisition an item.

#### Item Code

4.02 Every item of stores and spares has been codified, having 10 digits as below:

1<sup>st</sup> digit represents the plant

2<sup>nd</sup> digit represents the equipment

3<sup>rd</sup> digit represents the type of equipment

4<sup>th</sup> digit represents the major assembly

5<sup>th</sup> and 6<sup>th</sup> digit represents the sub-assembly

7<sup>th</sup> and 8<sup>th</sup> digit represents the Sl. No. of the parts of each sub-assembly.

9<sup>th</sup> digit represents the source, i.e. imported or indigenous.

10<sup>th</sup> digit represents the check digit given EDP.

This item code is an identification mark and will be indicated on all the documents connected with receipt and issue of stores and spares.

## **Grouping of Stores and Spares**

4.03 All the stores and spares of the company are grouped as under:

- Operating materials
- Maintenance stores and supplies
- Repair parts- automotive
- Repair parts- plant equipment
- Repair parts- shop equipment

## **Physical Arrangements**

4.04 Materials are stored in bins on the basis of groups and equipments. General shop supply items like nuts and bolts, rivets, V-belts etc. are kept at one place. Spares of one type of equipment are stock in adjustment bins.

The location i.e. bin no. for each item is mentioned on the kardex card of that item. The spare parts are given tags indicating description, part no. type of equipment and sub-assembly concerned for easy identification.

Bigger items like wire ropes, conveyor belts, lancing tube, steel material etc. are kept in sheds outside.

The store items are stocked in such a way that all the items are easily accessible for the purpose of issue and for the counting, measurement, weighment etc. at the time of physical verification.

## **Custody of Stores and Spares**

4.05 The stores are under the custody of a store officer who is responsible for the following function:

- (i) Safe custody.
- (ii) Receipts and issues.
- (iii) Maintenance of records.

## **Security of The Stores**

4.06 Following guidelines/instructions will be observed for safe custody of materials in this regards:

- (i) Items which are of the pilferable nature will always be kept under lock and key. All issues of such items must be personally supervised by the store keeper.
- (ii) While closing the store at closing hour, it will be ensured that all strong rooms, cupboards, lockers etc. are properly locked.
- (iii) Proper duty list of different personnel will be prepared and observed.
- (iv) All stores premises including warehouse, stores yard etc. shall be protected against fire risk by provision of fire extinguishers, water tanks and other fire fighting equipments. In stocking of materials care will be take so as to restrict the fire hazard.
- (v) Storage of proper types will be provided for different categories of stores.

The security arrangements will be provided revised and in addition, there will be surprised verification as well.

## Chapter –5

### RAISING OF INDENTS

5.01 Indents or demands may fall into one of the following categories:

- (a) Maintenance/operational requirements – recoupable.
- (b) Maintenance/operational requirements non-recoupable.
- (c) Capital requirements.

The indent for a recoupable items will be raised by the stores officer when stock of the item reaches the re-order level. Indents for non-recoupable items and capital items will be raised by authorized indentors only.

Indents will be signed by the heads of departments or other authorized officers.

5.02 indents will be raised by the stores/user departments through combined purchase requirements-cum-order request.

Form this will show, inter-alia, the following:

- (a) whether the requisition is for s stock or non-stock item.
- (b) Normal lead time for the items.
- (c) Whether it is a capital or revenue purchase.
- (d) Whether it is for repair of an equipment.
- (e) Whether the requisition is for special purchase or replacement of stock or it is for routine or special repairs or whether it is A,B or C item.

The requisitions will also contain the code number, specifications, drawing number specifications drawing if any head of account to which expenditure is to be charged, date which material is required , budget/ provision reference etc . Information as at (a) to (b) will be filled in by the maintenance operations . information at (e) along with reference to previous supply including vendor name maximum and maximum levels consumption for the last 3 years ,quantity on hand particulars of dues in etc .will be given by the stores wing. The stores will also record whether the part number and description has been verified .

5.03 When some materials are required urgently to meet situations of break –downs/ shut –down/ overhauling /preventive maintenance /repair , the indent will be raised by Form Maintenance operations on Emergency purchase Requisition –cum- Approval slip .

The requisition will contain the following details:

- (i) Break down particulars and the expected dates of job being taken up.
- (ii) Maximum allowable time for procurement.
- (iii) Details of any previous indents.
- (iv) Approximate value involved in the ERP.
- (v) Stock or non-stock item.
- (vi) Item code number, part number, quantity required, reference to last P.O., vendor etc.

Information at (i) to (iii) in the ERP will be filled in by the indenting department. The store will give the balance information.

### **Routing of Requisitions**

5.04 The purchase requisition are sent to purchase wing through stores. The stores checks the completeness of the indent and incorporates the date relating to past consumption, availability of stock, code no. etc. if the requisition is found to be incomplete in any respect, the stores returns it to the concerned user department or obtains clarifications.

### **Important Requirements of Purchase Requisition**

5.05 While preparing the purchase requisitions, the following require special attention:

- (i) Indents for non-recoupable and special items may be raised for minimum quantities considered necessary for the purpose. For recoupable items, it should be the optimum quantity laid down to be procure at a time.

- (ii) Last purchase rate must be given wherever the items have been purchased in the past. The purchase order, number and date and the name of the last supplier must be indicated.
- (iii) Great care is required to be exercised in filling up realistic dates for requirement of material. The purchase wing is to be allowed time in according with the establishment lead time. In really urgent cases, the purchase wing will entertain indents giving lesser period but such demands should preferably be secutinised by the head of the department and must be accompanied by proper justification.
- (iv) Details of outstanding orders viz. the purchase order number, name of supplier, quantity order, balance quantity, delivery date, etc. must be indicated.
- (v) Indents for spares may be prepared for a number of items but such clubbing should restricted to on sub-group only per indent as per codified list.
- (vi) The description and specifications must be complete in all respect and unambiguous. The specifications should include reference to standards, type or grade actually required (where applicable) and weather a sample is required.

### **Check List**

5.06 The requisitions will be accompanied by checklist form (separate for capital items) which are to be filled in by the indenting department/stores/purchase wings. These check list are intended to ensure that the required actions have been taken before sending to the purchase wings as well as to finance department. The main points to be certified therein are:

### **Revenue Items**

- (a) Indenting department
  - (i) Whether delivery time has been started.
  - (ii) Whether correct description, part number, sub-assembly or group number have been shown.

- (iii) Whether item code has been mentioned.
  - (iv) Whether materials are asked being asked as per specification and exact requirements and that there is no other indent pending.
- (b) Stores wing
- (i) Whether 3 years consumption has been shown.
  - (ii) Whether quantity indented is within yearly average consumption, if not, whether proper justification has been obtained from the concerned engineering departments.
  - (iii) Stock on hand and dues in have been stated.
  - (iv) Past purchase reference, i.e. vendor's name, purchase order number and date have been given.

### **Capital Items**

- (a) Indenting departments
- (i) Whether this is an addition or replacement item. If a replacement items, whether recommendation of the survey committee for write-off has been enclosed.
  - (ii) Whether estimated value stated.
  - (iii) Whether complete specifications of the item.
  - (iv) Whether required delivery time stated.
  - (v) Whether material is being indented as per specification and exact requirement.
  - (vi) Whether any indent for the same material is pending.

### **Register of Purchase Indents**

5.07 All indents on receipt in the purchase wing from indentors will be entered into the prescribed register. Watch on processing of indents will be kept through this register.

## Chapter 6

### TENDERING

#### Types Tendering

- 6.01 The following types of tendering may be issued:
- (a) Single
  - (b) Limited
  - (c) Open or advertised
- 6.02 A single tender will be issued for items of a captive or proprietary nature or where a repetitive order is to be issued within a short period due to emergency. The indending/materials departments will record the proprietary article certificate etc. on the indent for such a purchase.
- 6.03 A limited tender will be issued to the supplier on the approved list in the following cases:
- (a) Where the estimated value of a demand for an individual items is below Rs. 50,000/-
  - (b) When the items to be procured from the manufacturers or their accredited representative.
  - (c) Where the item to be purchased are of the nature of import substitution.
  - (d) When the demand is so urgent that the time required to issue and settle a public tender is just not available, the indentor will be required to certify urgency when forwarding such a demand.

For issue of limited tender for cases falling under (b) and (c) prior approval of the competent authority will be taken as per the existing delegation of powers. For items falling enquiry is to sent will be approved by the purchase officer within whose power the purchase lies or the material planning cell as the case may be.

Following guidelines will be kept in view while inviting enquires:

- (i) In deciding the desire delivery period, one has to be cautions as restricted of delivery period generally results in prices going up.

- (ii) In case escalations are asked for by the tender, the base rate and the method of calculating the ultimate payable price must be unambiguously defined.
- (iii) Tenders must be asked if their rates are inclusive of exercise duty. They should also indicate the current excise duty irrespective of whether they have included or excluded it in their offer.
- (iv) In case of imported items the tenders must advise both FOB and CIF rates and preferably indicate the current customs duty.

### **Earnest Money And Security Deposits**

6.07 Firms from whom tenders for proprietary articles are invited/firms registered with national small scale industries corporation or with the directors of industries of the state governments need not pay earnest money or security deposits. Other firms who quote against open tenders are required to pay earnest money deposit equal to 2 percent of the value of tender. The earnest money deposit may be forfeited if the tender withdraws his tender within the validity period.

The earnest money deposit will be refunded by the purchaser officer in whose competence the purchase lies, to unsuccessful tenders on settlement of the tender and within 15 days of placement of the purchase order. It will be refunded to tender if not settled within that period.

The earnest money deposit of successful tenderers will be retained as security deposit for due fulfillment of the contract. This will be forfeited if the contractor is found to be unsatisfactory in any respect on successful completion of the purchase order, security deposit must be refunded within a maximum period of 2 months of such completion.

The earnest money and security deposited in the following forms:

- (a) In cash (cheques will not be accepted)
- (b) Deposit at call receipts/demands drafts on any nationalized bank.
- (c) Guarantee bond executed by a schedule bank. No interest would be payable.

## **Time Allowed To Tenderers**

- 6.08 Two to three weeks will be allowed to likely tenderers to submit their quotations in case of single and limited tenders. This period can be reduced in exceptional cases where demand is urgent. Clear 30 days will be allowed in the case of open tenders. This period may be reduces to 21 days if the demand is urgent. Reduction of the period, however, required lot of care as this may result in failure of a tender or in a number of late/delay tenders.

## **Receipt or Tenders**

- 6.09 The date and time up to which tenders are to be received will be clearly specified in the enquiry form. In case of open tenders, the time of opening of tenders will also be indicated.

Tenderers will be instructed to return their quotation in sealed covers superscribed with the enquiry number, due date and quotation. Tenders may be received through posts or dropped in the tender box maintained under lock and key. The lock of the box will be sealed by the finance representative and will be opened on the date of opening of quotations.

## **Opening of Tenders**

- 6.10 Tenders will be taken out from tenders box at the appointed time by the purchaser officer and finance officer. Tenders received will be serially numbered. The two officers will jointly examine the tenders for ensure, overwriting, alterations, additions, deletions etc. and they will initial each one of them. The tenders will then be entered in the register of tenders received. Both the officers will initial each page of the and also in the register. However, where it is considered that the names of likely suppliers are not known, public tenders may be invited even if the value of a demand is below 50,000.

Limited enquiries will be sent to al least 5 firms by rotation from the approved list of suppliers. The last one/two suppliers will however, be included invariably.

- 6.04 In all others cases tenders will be advertised through press.

## Tender documents

6.05 The tender document will consist of:

- (a) Enquiry form which will stipulate the item number, quantity, part number description of the item. Terms and conditions of enquiry are printed on back side of the form.
- (b) Drawing, if any.

In addition to the terms and conditions of enquiry pointed on the back side of the enquiry form, there are other terms and conditions which are supplied along with the enquiry form. Those conditions relate to statutory levies, transit insurance, estimate freight rate to the different units, validity period, levy of liquidated damages and risk purchase in case of failure to supply.

In addition to the general printed terms and conditions of purchase/contract, certain special conditions may have to be laid down for some tenders.

The important terms and conditions of enquiry require the tenders to:

- (i) Quote for the minimum validity period of 60 days.
- (ii) Indicate whether the prices will be firm through delivery or whether priced ruling at the time of delivery will be acceptable.
- (iii) Indicate the estimated freight charges by road/rail to unit destinations.
- (iv) Specify the percentage of all stationary levies such as excise duty, sales tax, octroi etc.
- (v) Quote F.O.R price.
- (vi) Specify the percentage of all statutory levies such as excise duty, sales tax, octroi etc.
- (vii) Quote F.O.R price.

6.06 Following guidance will be kept in view while inviting enquiries:

- (i) In deciding the desired delivery period, one has to be cautious as restriction of delivery period generally results in prices going up.
- (ii) In case escalations are asked for by the tender the base rate and the method of calculating the ultimate payable price must be unambiguously defined.

- (iii) Tenders must be asked if their rates are inclusive of excise duty. They should also indicate the current excise duty irrespective of whether they have included or excluded it in their offer.
- (iv) In case of importer items the tenderers must advise both FOB and CIF rates and preferably indicate the current customs duty.

### **Earnest Money and Security Deposits**

6.07 Firms from whom tenders for proprietary articles are invited/firms registered with national small scale industries corporation or with the directors of industries of the state governments need to pay earnest money or security deposit. Other firms who quote against open tenders are required to pay earnest money deposit equal to 2 percent of the value of the tender. The earnest money deposit may be forfeited if the tender withdraws his tender within the validity period.

The earnest money deposit will be refunded by the purchase officer in whose competence the purchase lies, to unsuccessful tenders on settlement of the tender and within 15 days of placement of the purchase order. It will also be refunded to firms who decline to extend validity period if a tender is not settled within that period. The earnest money deposit of successful tenderers will be retained as security deposit for due fulfillment of the contract. This will be forfeited if the performance of the contractor is found to be unsatisfactory in any respect.

On successful completion of the purchase order, the security deposit must be refunded within the maximum period of two months completion:

The earnest money and security deposit may be deposited in the following forms:

- (a) In case (cheques will not be accepted).
- (b) Deposit at call receipts/demands drafts on any nationalized bank.
- (c) Guarantee bond executed by a scheduled bank. No interest would be payable.

## **Time Allowance To Tenderers**

- 6.08 Two or three weeks will be allowed to likely tenders to submit their quotations in case of single and limited tenders. This period can be reduced in exceptional; cases where demand is urgent. Clear 30 days will be allowed in the case of open tenders. This period may be reduced to 21 days if the demand is urgent. Reduction of the period, however, requires lot of care as this may result in failure of a tender or in a number of late/delayed tenders.

## **Receipts Of Tenders**

- 6.09 The date and time up to which tenders are to be received will be clearly specified in the enquiry form. In case of open tenders, the time of opening of tenders will also be indicated.

Tenderers will be instructed to return their quotation in sealed covers superscribed with the enquiry number, due date and quotation. Tenders may be received through post or dropped in the tender box maintained under lock and key. The lock of the box will be sealed by finance representative and will be opened on the date of opening of quotations.

## **Opening of Tenders**

- 6.10 Tenders will be taken out tender box at the appointed time by the purchased officer and finance officer. Tenders received will be serially numbered. The two officers will jointly examined the tenders for erasures, overwriting, corrections, additions, deletions etc. and they will initial each one of them. The tenders will then be entered in the register received. Both the officers will initial each page of the tender and also in the register.

Advertised tenders will be opened in the present of such of the representatives of the tenders who choose to remain present. At this meeting the rates quote by different firms and important conditions stipulated by them will be read out. No information on the tenders will be given to the parties after the tenders have been open.

## **Extensive of Time for Tenders**

- 6.11 In case where there is lack of adequate response by the last date of receipt of tenders i.e. where the number of quotations received is less than three, it may become necessary sometimes to extend the date. In such case, the extension of date will be approved by the chief manager (M.M.)/Head of materials in the units and a written letter of information sent to all the parties originally asked as well as to some addition parties, if available in the approved listed.

## **Late Tenders**

- 6.12 Late tenders or tenders received late i.e. posted after the time and date prescribed for opening them, are ordinarily not to be considered. In exceptional cases, reasons for which must be recorded, such tendered may be considered. Some such cases may be where less than 3 quotations have been received but all have quote for the product for the same manufacturer or were there is suspicion of formation or ring or where there is needed to develop new sources or tender is from a real manufacturer or a right type of firm whom one cannot afford to miss.

The purchase officer within whose competence the acceptance of the tender lies will obtained the approval of the next higher officer for consideration of such a tender the envelopes in which late tenders are received will be preserved.

## **Delay Tenders**

- 6.13 Tenders received between the closing time of the tender and the time prescribed for opening i.e. posted prior to the time and date of opening but received after the prescribed time for opening, are called delayed tenders and may be considered only when the purchase has not been finalized and acceptance communication to the selected supplier. The envelopes in which delayed tenders are received must however, be preserved.

## **Comparative Statements**

- 6.14 After the quotations/tenders have been open a comparative statement will be prepared by the purchaser wing in the prescribed form. The statement will be

indicate the price and the amount quoted by the each by the parties for each of the items and also the total. Apart from the price, elements of sales tax, insurance, freight etc. will also be included, so as to arrive at all inclusive for destination price. The statement will also show the escalation asked for by a vendor, if any delivery period, terms of delivery and any other important information relevant to the consideration of the tender.

This statement will be signed jointly by the purchase officer and account officer.

### **Processing of Purchase Proposal**

6.15 After the purchase wing has scrutinized the comparative statement it will send the case to the indenter for technical clarification acceptance whenever necessary. The purchase proposal will then be sent to finance for vetting the comparative statement and according financial concurrence.

If the recommendation is for a vendor other than L-1, sufficient justification would have to be given for the same.

### **Negotiations**

6.16 The purchase or the Finance Department may recommend negotiation in cases it is considered that there is scope for reduction of rates or quantity .Negotiations will be entered into mainly for securing advantage in rates As ordinarily, sanctity of tenders is to be maintained, negotiations should be an exception rather than a rule.

The following guidelines will be observed for negotiations ;

- a) Technical scrutiny of tenders will precede the decision to negotiate. Tenders whose offers are technically acceptable , must be called .
- b) Firms selected for negotiations will be addressed advising them that their rates have been considered high and requesting them to come for negotiations on the specific date , time and place.
- c) The firms will be asked to give a declaration that in the event of failure of negotiations , their original tender will hold good .

- d) Those attending negotiations will be instructed to bring a letter of authority empowering them to act on their firms behalf .
- e) After the position is explained to them , the representatives of the firms will be asked to think over and return at specified hour on the same day with their revised rates in sealed covers .
- f) There will be only one round of negotiations .if even after the negotiations, rates received are considered high, tenders will be reinvited.

### **Guidelines Acceptance of a Tender**

6.17 Each tender has to be dealt with on merits, however, the following guidelines are down in this regard:

- (i) Only such tenders will be considered which are complete in all respects and duly signed by the tenders.
- (ii) All other things bringing equal the lowest tender will be accepted. This rule regarding the lowest acceptable tender bringing accepted may not always be workable. Other factors such as the following may have to be given due weight age:
  - (a) Servicing facilities provided by the supplier at the initial stage and later.
  - (b) Availability of spare parts ex-stock or at short notice.
  - (c) Technical superiority of particular make.
  - (d) Estimated operational cost.
  - (e) Delivery to match requirements.
  - (f) Life of equipment offered being better.
  - (g) The existence of similar equipments in service of the company to facilitate stocking spare parts for maintenance, etc.
- (iii) Prices to be accepted must be firm. Were, however, it is not possible to enter into firm price contracts, the base price must be clearly laid down and the manner in which the escalations which are agreed to will be applied, should also be clearly laid down. As far as possible, the tenderer must be prevailed upon to accept a certain percentage ceiling beyond which the price raise

cannot be claimed. Documents to be furnished by the supplier in support of escalation claims must be clearly mentioned.

- (iv) Tenders not be company's specifications will ordinarily be passed over. Such tenders can be considered only if the deviation in specification is considered minor or not of a material nature.
- (v) Spitting up of large value orders to more than one firm may be considered. Assure continuity of suppliers even if one supplier fails. Spitting the orders may also be done where performed of the lowest acceptable tenderer cannot be judged. In such case a small trail/educational order may be placed on such a firm and order for the major quality may be place on the known and proved supplier.
- (vi) Where it becomes necessary to pass over a lower offer as the delivery period quoted by the tenderer is considered unsuitable, it should be seen if the order can be distributed between such lowest tenderer with a longer delivery period and another tenderer who has quoted a higher price but for a favorable delivery period.

In case of time preferences orders i.e. where higher rates are paid for favorable delivery, time becomes the essence of the contract and delayed deliveries may have to be accepted at lower rates.

- (vii) The delivery date should be firm and not vague.

6.18 There is the system that the purchase proposal is accompanied by the check list. The check list indicates the following:

- (i) Whether enquiry was floated to more than 5 or more approved vendors.
- (ii) In case of single tender, whether it is a proprietary quotation from manufacturer or from his authorized dealer.
- (iii) Whether approval of the appropriate authority has been obtained for placement of orders on single tender.
- (iv) Whether the comparative statement has been prepared for all quotations after considering the quotations on f.o.r. units basis and after including sales tax and T.O.T.

- (v) Whether it is an import or import substitution items. In case of an import item, whether all the formalities prescribed under the import control regulations were followed.
- (vi) Whether budget provision exists.
- (vii) In case of capital purchase, whether the value of proposal is within approved provision for that item in the capital budget. In case of excess, whether approval of competent authority has been obtained for exceeding the approved provision.

### **Payment Conditions**

- 6.19 Full payment will, ordinarily, be allowed after receipt in good condition, inspection and acceptance of stores at company's warehouse. At the option of purchase officer, however, advance payment up to 95% may be allowed with the concurrence of finance if store are to be paid after receipts of the stores in good condition inspection and acceptance. Advance payment in excess of 95% will not be allowed except in exceptional cases and only to firms of repute.

### **Approval of Purchase Proposal**

- 6.20 After the concurrence of finance has been obtained, whether required, to the purchase proposal, it will be submitted to the competent authority for approval in accordance with the current delegation of powers.

## Chapter 7

### TYPES OF CONTRACTS

- 7.01 The purchase contracts entered into by the company are either fixed contracts or running rate contracts.
- 7.02 A fixed contract is a contract where both the rates (subject to such escalations or variations as agreed upon between the company and the supplier) and the quantities are fixed.
- 7.03 A running contract is a contract under which the rates of the item are fixed for the contract (subject to such escalations or variations as agreed upon between the company and the supplier) and in addition the company undertakes to order and the supplier undertakes to supply a certain quantity with a tolerance which is agreed upon in advance, during the period of the contract.
- 7.04 A rate contract is a contract under which rates of items are fixed for the contract period ((subject to such escalations or variations as agreed between the company and the supplier) but the contract to be procured are not specifically included in the contract. A rule idea of the requirements during the contract period is however given at the time of tendering.
- 7.05 While fixed contracts are entered into both by the corporate office as well as the units, only the corporate office will conclude running/rate contracts. The units order the materials against the letter contracts. Copies of such contacts are endorsed to the unit purchases wings.
- 7.06 The period of running and rates contracts will be for one year or more than one year depending upon the circumstances of each case. As far as possible the policy will be to enter into as many running contracts as possible for items required by the units all the year round. For items whose consumption is not so regular or for ad-hoc indents fixed contacts will be arranged.
- 7.07 In regard to rate contracts, parallel contracts may be arraigned on more that one party. These may, as far as possible be at the same rate and on the same delivery terms. Where parallel contracts exist, normally business will be equitably distributed having regard to the prices in each of the parallel contracts.

- 7.08 Both in regard to running and rate contract the delivery terms will be defined clearly. A clear stipulation will be made on the time allowed to the supplier for executing orders of different magnitudes. It will also be made clear that purchase orders will be placed up to the last date of currency of the contract and those will have to be executed within the time allowed.
- 7.09 For items covered by running contracts/rate contract purchase order must be issued within 7 days of receipt of an indent in the purchase wing.
- 7.10 The corporate materials department will issue to the units an up-to-date list of rates/running contracts every quarter.
- 7.11 While placing orders against running contracts. The units will endorse copies of the purchase orders to the corporate office to enable it to keep centralized control on quantities ordered. When however the cumulative quantities are likely to go behind the permissible tolerance, the quantity in the contract will be increased with the consent of the supplier and approval of the competent authority. Such increase, however, will not exceed the original quantity by more than 50 percent. Only after the increase in quantity in contract is agreed upon, further purchase orders will be placed.

## **CHAPTER –8**

### **PURCHASE ORDERS**

#### **General**

- 8.01 A purchase order must clearly reproduce all decisions taken it shall define in clear unambiguous terms what the contractor is to supply and the terms of supply .Form purchase orders will be issued in the approved standard form the general terms and conditions of the contract including the packing and dispatch instructions insurance of materials while in transit, sending of RRS and other dispatch documents, submission and payment of buy more or less up to 25 per cent of goods covered by purchase order and guarantee of materials , are printed at the back of the form the terms and conditions also include mode of dispatch , terms of payment , terms on which variations and deviations , if any are to be permitted , measures to be adopted in the event of a breach of the contract and the method of settling disputes , if any Additionally , any special conditions agreed up on between the contractor and the Company will be reproduced in full.
- 8.02 Care will be taken that if the validity of the acceptable tender has expired ,to get it extended the purchase order is actually issued .
- 8.03 A purchase order will be signed only by officers authorized to do so in accordance with the delegation of powers Before issue , it will also be checked by an Accounts Executive .
- 8.04 The purchase orders will be numbered in such away that these indicate the materials group and enable stores wing and Accounts sections to check up if they have received all purchase orders and if not to call for missing number.

#### **Vetting by Finance**

- 8.05 As slated above , all the purchase orders are vetted by Finance. This involves the following checks :

##### **Revenue Items**

- i) Whether the purchase procedure has been followed correctly.
- ii) Whether the purchase amount is with in the approved budget.

- iii) Whether all the commercial aspects have been properly complied with.

### **Capital Items**

- i) Whether the proposal has been included in the capital budget approved by the Board .
- ii) Whether the amount / quantity is with in the approved limit.
- iii) Whether all the commercial aspects have been examined by purchase .

### **Extension of Delivery Period And Liquidated Damages**

8.06 Where a firm is unable to complete supplies with in the stipulated delivery period , it may seek extension of delivery period occasionally it may become necessary to consider granting extension even without a formal request . the following principles will be followed in granting extensions :

- (a) All extensions must be given only when it is considered that given the extension there is a reasonable chance of the supplies materializing and that fresh purchase, if made is likely to take longer time or the fresh purchase is going to be costlier.
- (b) Liquidated damages is not a source of revenue but is a form of deterrant to firms habitually delaying suppliers. The action should not therefore, be to levy liquidated damages and earn money but to get supplies quicker.
- (c) If the conditions laid down in 'force majeure' clause are fulfilled, extension may be granted without imposing damages.
- (d) In case of a time preference purchase order gather though is required to be given when granting any extension. When it is decided to grant an extension in such case, it should ordinarily be with penalty.
- (e) In the amendment to purchase order giving extension, it should be clearly specified that no increase in price shall be admissible.

### **Risk Purchase**

8.07 In case of non-supply of part or full quantity against a purchase order, a fresh purchases at the risk and expense of the defaulting firm can be considered. Where

risk purchases penalty is imposed, the difference in cost between the defaulter and the new supplier will be recovered from the defaulter.

Following principles will be observed in these cases:

- (a) Risk purchaser is not tenable if there is a change in description of material or if it is not made within a reasonable time of default (within 3 months of the date on which the old purchaser's order on the defaulter is cancelled).
- (b) For a risk purchase to be effective the mode of purchase should not be more restrictive than the original purchase e.g. fresh purchase should not be made against limited tenders if the original purchase was made against open tender.
- (c) Before placing the risk order, it may be checked if it will be possible to recover the risk purchase amount as otherwise, it would be desirable to forfeit the security deposit instead of imposing risk purchase penalty.
- (d) Ordinarily, risk purchase may not be made against purchaser order up to Rs 25,000/- for such order security deposit may be forfeited or where there is no security deposit, a penalty of ten percent of the value of the order may be charged and recovered from the outstanding bills of the defaulter.

### **Change of Terms and Condition**

8.08 Requests from firms regarding change of terms and conditions will be carefully considered and will be agreed to if these do not result in any financial benefit being passed on to the company. However, no amendment will be agreed to after the execution of the contract.

### **Repeat Orders**

8.09 Repeat orders may be placed within 6 months of original order. The value of repeat order(s) should not exceed the value of the original order. Any number of repeat orders may be placed subject to these two conditions. It is essential that agreement of the firm to placement of repeat order is obtained beforehand (if it is not provided in the original contract). Placement of repeat orders will be approved by the officer who approved the original order, but if the placement of repeat order

takes the total value of the ordered quantity(original plus the repeat order) beyond his powers, sanction from the competent authority in whose powers the total value lies, will be taken.

Concurrence of finance will be obtained for all repeat orders.

### **Variations of Rates**

8.10 Lowering of the rates can be agreed to by the purchase officer who approved the original order. Were, however, the rates has to be increased, it will be checked whether with the increase in rate, the value of the contract still remains with in his competence. If it doesn't the approval of the competent officer will be taken. It will also be checked that the amended rate does not become higher than the next acceptable lower rates.

### **Mode of Transport**

8.11 It may, occasionally, in the increase of work, become necessary to authorised a mode of transport other than the one originally agreed upon and include in the purchase order. In case of alternative suggested by the supplier is cheaper, the benefit should pass to the company. In case where an alternative is suggested by the supplied and that is more expensive, the cost differential must be bore by the latter.

### **Imported Materials**

8.12 The material imported y the company fall under the following two categories.

- (i) Capital equipments
- (ii) Spares

The capital equipments are imported against specific licence for capital goods. The spare are imported under open general licence or specific licenses for restricted spare depending on the category of spare.

Before applying for the import licence for capital equipments, the requirements have to be advertised in the Indian trade journal and Indian export bulletin for a period of 45 days.

- 8.13 All imports of equipments/spares are arranged by the corporate materials department. The units will send their requirements (indents) of equipment/spares to be imported in the beginning of the financial year. The corporate materials departments will examine these requirements, consolidate and issue enquiries to foreign manufacturers and/or their authorised dealers. Normally five to six weeks time will be allowed for submission of quotations by foreign suppliers. The Corporate materials departments will also arrange to obtain necessary import licences.

### **Letter of Credit**

- 8.14 Payment for imported spares and equipments is made through irrevocable letters of credit opened for the purpose. Whenever the payment to a foreign supplier is to be made, the corporate materials departments will send requisition for opening a letter of credit to the accounts department in the prescribed form with the following details:

- (a) Name and full address of the party.
- (b) Name of the country.
- (c) Amount foreign/Indian currency.
- (d) Brief description of material.
- (e) Date of delivery/shipment.
- (f) Validity date of letter of credit.
- (g) Country of origin of goods.
- (h) Port of shipment.
- (i) Exchange control copy of the import licence or licence reference number.
- (j) Copies of purchase order/amendments.

The letter of credit will thereafter be arranged with the bank by the accounts department.

## **Procurement from Steel Plant**

8.15 Sometimes, the units obtain their emergent requirements of stores and spares from the steel plant in cases of break-down and even for preventive maintenance. The following procedure will be followed such cases.

- (i) The purchases from the steel plant, will be made after check that item required is not available in the store. An emergency purchases requisition will be prepared for such purchases and send to the purchased wing by the indentor.
- (ii) The purchase order will be issued by the purchases wing for each such item. If the price of the material cannot be obtained for the steel plant the last purchases price are the market price of the material will be shown on the purchases order how ever, the original copy of the purchase order will not be dispatched to the steel plant since it is meant for internal regularisation only.
- (iii) Financial concurrence will be obtained for each of these purchase orders.
- (iv) A monthly statement of such order will be submitted by purchase wing to finance department for adjustment of the financial concurrence values on the basis of the prices charged in the bills.
- (v) When the bills are subsequently paid by the accounts department the difference in value will be adjusted by direct charge to cost of production.
- (vi) Goods received notes and store issue vouchers will be raised as is done for other purchases and kardex cards/inventory ledger will be posted for receipt as well as issued.
- (vii) The value of purchases for the steel plants will be added to those from the market and the overall budget limits will be adhered to.

## Chapter –9

### ENLISTMENT OF VENDORS

#### Registration Procedures

- 9.01 The corporate materials department will maintain list of approved vendors and this will be made available to the units every year.
- 9.02 Manufacturer/suppliers desirous of getting registered, will be required to submit an application for enlistment to the corporate/units materials departments along with the following details/documents:
- (i) Groups of store/spares/equipments for which they want to get registered.
  - (ii) In case of manufactures, list of workshop equipment and facilities available with them stating equipment capabilities in case of tenders, agencies / representations / other facilities available with them.
  - (iii) Copy of income tax clearance certificate.
  - (iv) Copy of deed of partnership, if a partnership firm, copy of articles and memorandum of association and latest copy of published accounts, if a company
  - (v) Copy of small scale industries registration certificate in case it is a SSI unit or registration with the director general, suppliers and disposals or with other public sector undertakings.
- 9.03 On receipt of an application and where a firm is not registered with SSI/DGSD/public sector undertaking, it will be necessary to make on the spot investigation at the firm's premises. This will be done by deputing an inspection team comprising representatives of materials and operation/maintenance department to the premises/workshop of the applicant. The team will conduct investigations submit report on the equipment and facilities available with the manufacturer and capability and suitability to satisfactorily execute the contracts of the company etc. this report will be specifically state the type of jobs for which the applicant has been found suitable and the stores and spares which can be supplied by him. Were an inspection team is sent by the unit, its report is

submitted to the unit materials head who will forward it with his comments to corporate material department.

- 9.04 These reports will be examined by the corporate material department in consultation with finance. Approval of the competent authority to the enlistment of a vendor will be obtained.
- 9.05 While registering a firm, it will be necessary to decide:
- (i) Group or groups of stores, spares and the manufactured items etc. for which the firm should be registered.
  - (ii) Size of an individual order which it would be possible for it to execute.
  - (iii) Total business which can be entrusted on the firm in a year.
- 9.06 After registration of the firm as an approved supplier, its performance has to be watched. The respective vendor files will, therefore, contain details of business secured by the firm from the company during the year, the business actually executed by them by way of supplies physically made as also the business, which they were unable to transact after securing the order. Details regarding quality of material, rejections and short suppliers' etc. will be also kept in the file.

### **Performance Appraisal of The Vendors**

- 9.07 The corporate materials department will maintain record of performance of the vendors. The performance record will contain details of all the orders issued to a vendor, the price, the quality of suppliers and the performance with record to delivery schedule etc. the rating of vendors will be done the basis of the date recorded in the performance record. Vendors with satisfactory performance on quality and delivery will be given performance for sending enquiries. Where a firm is found indulging in malpractice of a serious nature, it will be necessary to black list the firm (for a period to be indicated) or to delete it altogether.

The units will send details reports on the performance of the vendors to the corporate material department which will scrutinize the same carefully and give its recommendation to the managing director for deletions, etc.

- 9.08 Performance of the vendors will be reviewed once a year to remove from the approved list, firms which were incompetent to handle business given to them or

which could not adhere to the delivery schedules or the quality was unsatisfactory, or which were found to be indulging in irregularities and malpractices.

9.09 The material department will make efforts continually to locate vendors for:

- (i) Items where the number of vendors, registered is small.
- (ii) Hard to fill items.
- (iii) Items/equipments which have been imported in the past.
- (iv) Finding alternatives for import spares.

## Chapter 10

### RECEIPT OF MATERIALS AND INSPECTIONS

10.01 As far possible all materials will first be received in the receipt section of the stores wing and no mix up of such materials should take place with the existing stock.

The receipt section will be responsible for:

- (i) Maintaining purchases order files.
- (ii) Taking delivery of the materials from the contracts, railways, and road transports carries and others.
- (iii) Verification/arraigning verification of the materials on receipt quantitatively and reporting cases where delays have taken place.
- (iv) Issuing GRNs and rejection advices.
- (v) Preferring claims against carries for shortages, damages, losses etc.

#### **Purchase Orders**

10.02 The purchase orders placed by the purchase wing will be received in the receipt section and entered in the prescribed register. Since all purchases orders are serially numbered, the receipt section will call for such orders as not received by it.

#### **Receipt of Materials**

10.03 The materials may either be delivered by the suppliers at the store or those they may be collected from the vendors or from the railways or a transport company by presentation of R.R. and other relevant documents. Immediately the material is received, a consignment arrival report will be prepared and sent to the suppliers, purchase wing and the indenter. It will be clearly mentioned there in that the material received has not been checked up both in regards to quality and quantity. A good receipt register will be maintained for all receipts watch the progress of processing of the receipts up to stage of acceptance/rejection.

## **Shortages/Damages**

- 10.04 All consignment on receipt will be checked up for outward damage to the package, if any. If outward damage is noticed, open delivery of the consignment will be insisted upon from the carrier and if any damage/shortage is noticed to the consignment, a joint report will be prepared. A copy of this report will be sent to insurance also. This report will be followed up with formal claim on the carriers if the responsibility for damage/shortage is attributed to them or on the supplier firm if the latter is responsible. Claims on the carriers will be preferred within the time limited fixed for the purpose. Where the packages are received in outwardly damaged condition or any shortages/excesses are observed, a shortage / excess / damage material report will be prepared.
- 10.05 Weight shown on the receipt documents and weight actually found will be tallied. Also the quantity received in other units will be physically verified. Ultimately this will be the quantity which will either have to be accepted or rejected. If there is a discrepancy in the quantity received, the supplier will be advised immediately.
- 10.06 Railway receipts (RRs) will be entered in a register and if consignment is not received within a reasonable time of the receipt of RR a claim will be preferred on the carriers. A claim register will be maintained for a proper follow up of claims.

## **Material Verification Report**

- 10.07 On receipt of materials the store officer will make a request to the operations/maintenance department to inspect the materials. The material verification report will contain details of the party from whom material are received, plant order number, challan and details of materials. The operations/maintenance will carry out the inspection within two network days and report on the following.
- (i) Whether they strictly conform to the specification and make laid down in the purchase order or the same supplied before hand.
  - (ii) Whether the quantity supplied is correct.
  - (iii) Whether there is any damage or breakage.

In case the materials are not found to be satisfactory, reasons will be recorded. In case the materials have already been inspected at the suppliers premises, this fact will also be mentioned in the material verification report.

Normally the inspection will be done by an agency other than the indendor.

No material will be accepted without proper inspection.

- 10.08 The pre-dispatch inspection in case of advance payment will be arrange on receipt of request to this effect from the suppliers. Such materials will be re-inspected on receipt.
- 10.09 Where material fails to conform qualitatively to the specification on the purchase order, the rejection will be entered in the rejection register and a rejection memo to the supplier issue within a reasonable time. The rejection advice will give in clear and unambiguous terms, the reasons for rejection, the supplier will also to be told that the rejected material is lied at the risk in the store and he should remove the material within a specified time or advise the company regarding its disposal. If the supplier does not respond within the time limit, the material will be returned to him at his risk on freight to pay basis. Inward freight charges if paid by the company will be recovered from the suppliers; any advances payment made will also be recovered. Where the supplier offers to replace the material, the rejected materials will be returned after replacement supply has been made.
- 10.10 Where the material received is marginally different from the specification and it is possible to accept and use the same a reduction in rate will be obtained in consultation with finance before accepting the material
- 10.11 Any rejection of material covered by a supplier's warranty will be issue within the warranty period and all necessary actions to ensure this will be taken by stores/user.
- 10.12 The return/disposal of rejected will be watched through the receipt register.

### **Preparation of Goods Receipt Notice**

- 10.13 After the receipt of the material verification report and acceptance of the material, goods receipt notes (GRNS) will be issued. Besides the details of the purchase order and the challan and the mane of the supplier, full description of the material including the item code, inventory group, quantity received, quantity

accepted/rejected and the order numbers shown in this document. One copy of GRN is sent to purchase department, two copies to account department, one copy to vendor and two copies meant for stores, out of which one is used for feeding data to computer. The supplier will claim payment direct from the accounts department for the accepted material by enclosing copy of the GRN.

- 10.14 No material will be issued without it having been inspected and GRN having been raised. Issue of materials before taking those on stock will be in exceptional cases and that also only after the materials have been inspected qualitatively and accepted.
- 10.15 The accepted stores will be handed over by the receipt section to the stores section the store will tally the quantity with that shown on the GRN and acknowledge receipt of the same.

### **Return Notes**

- 10.16 Drawn out materials, which are not used and also not likely to be used in the near future will be returned to store with return note. These materials will be entered on the kardex cards and their value adjusted by debit to inventory and credit to the account head which was originally changed at the rate at which these were issued. In addition, certain items which are repeated in the work shop and the items which are partly used but are in serviceable condition are also returned to store for safe custody till future use. A return note will be prepared for those items also but these will be taken on stock at no charge basis.

After the return note is registered the stores received will be physically checked to ensure that the distribution of the material given on the return note and the code number, and the quantity tally with the material receive.

A register of return notes will be maintained to watch the receipt taking into the custody and account/disposal of all such materials.

### **Posting Receipts on Kardes Cards**

- 10.16 Kardex cards are maintained for all materials in stock. There are two cards for each item – one for receipt and the other for issue and balance. Description of the material, part no, item code and inventory account code and location are recorded on each card. On receipt of a copy of the good receipt note/return not an entry will be made on the receipt card and fresh balance will be struck.

## Chapter 11

### STORES ISSUES

#### Material Requisition-Cum-Store Voucher

11.01 Materials will be issued from the stores to the indentors on material requisition-cum-stores issue vouchers. The indenting department will give the description of the material, part number, quantity and job order and also indicate whether old items are returned or not. The store will fill in the quantity actually issued, stock before issue and will acknowledge the receipt of old item where returned. The voucher is used by the accounts departments to give the unit rate value of material issued. The facts of posting the issue on the kardex card and in the stores ledger are also recorded in the voucher.

#### Procedure For Issue

11.02 The following procedure will be followed in issuing materials.

- (i) The indentor will prefer the material requisition separately for each item required and it will be signed by an authorised officer of the indenting department.
- (ii) On receipt of the material requisition the same will be registered in the requisition register date-wise according to the date shown on the requisition.
- (iii) Quantity issued against the requisition will be clearly stated.
- (iv) When issuing the material care will be taken to ensure that it is issued on the basis of 'first in, first out.
- (v) The person presenting the material requisition will be allowed to take delivery of the material against the requisition provided he is in a position to give proof of his identity.
- (vi) For all materials issued and going out of plant area, (to a contractor for fabrication, for example), delivery challans will be prepared.

- (vii) A copy of the requisition duly completed sent to the kardex group for being pasted on the kardex card.
- (viii) At the end of each day the completed material requisitions will be forwarded to the ledger section of the account department with a summary of store requisitions.

### **Field Requisitions**

11.03 In certain e.g. items of consumable nature, materials requisition-cum-vouchers are not prepared for each small issue. In these cases, field requisition will be used, which are serially numbered and are addressed to the stores officer, giving the description of the material, part number quantity required. These requisition will be noted in chronological order in a daily stores issue register. The signature of the receiver will also be obtained in the register. At the end of the month, all the field requisitions will be consolidated and a covering store issue voucher will be prepared.

### **Issues to contractors**

11.04 The materials issued to contractors for repair jobs at the site will be drawn by the indentors through material requisition –cum –store issue vouchers in the same way as for departmental jobs. It will be responsibility of the in-entring department to keep a proper account of these materials.

As issue note a delivery challan will be prepared for the materials issue to the contracts for doing some job at their own premises. The delivery challan will contain reference to order number and full details of the material. Return of these materials will be watched through these challans.

### **Inter Plant Transfers**

11.05 The material sent to other units will be accounted for through inter plant transfer memos which will contain full description of the material including unit number part number and the quantity transferred. The receipt of stores so transferred are

acknowledged on this memo with or without report of any loss or damage. A stock transfer sheet will also be prepared as authorization to en-rout check pasts.

### **Posting of Issue**

11.06 After the issue of stores, these will be posted on kardex cards on the issue side and a fresh balance will be struck.

Two copies of store issue vouchers will be sent to accounts. The ledger keeper will post the issues in the ledger and sign both the copies. One copy will be used for preparation of summery of stores requisition at the end of the month. At the time of ledger posting, particular care will be taken to see that the stock issues tallies. If the balance shown in the issue voucher does not tally with the balance as per the ledger, the ledger keeper will point out the discrepancy to the stores for reconciliation.

## Chapter 12

### STOCK VERIFICATION

#### Object of Stock Verification

12.01 The object of stock verification is to ensure that:

- (i) All materials in stock account with the description and specification as shown in the kardex cards.
- (ii) Physical balance agree with the balance as per kardex card, and
- (iii) Excesses and deficiencies found during verification are properly investigated, explained and account for.

#### Responsibility for Verification

12.02 The stock verification will be carried out by representative of the account department.

#### Frequency of Verification

12.03 Perpetual verification/count of stores and spares will be carried out through the year; annual programme of verification will be prepared before the commencement of the year and got approved from the competent authority. The programme will be evenly distributed throughout the year.

No items of stock will be left out of verification except for valid reasons and all such items will be taken up in earlier half for the next year's programmes, exclusion of items from a year's programme will be got approved from the competent authority.

#### Inventory Count Sheet

12.04 Stock verifiers will record results of verification initially in their fields books from which results will be entered into the inventory count sheets. The count sheets will

show the location description of item verification, part no. And group, book balance according to Kardex card, ledger balance.

Actual balance found excess or shortage, value of the excess or shortage, etc. the count sheet will be signed by the store officer or his representative in acceptance of the physical balance. A copy of count sheet will be given to the store office for receipts.

## **Guidelines**

12.05 Following given guidelines will be observed for stock verification:

- (i) Usually one day's notice will be given to the storekeeper in regard to the group of stores verification of which is proposed to start.
- (ii) Normally all articles in the stores will be verification by physically measuring, counting, weighing, etc. these may, however, be some exceptions to the general rule e.g. packages of electrical material liable to damage or certain items of ball bearing etc. which have to be preserved in the manufacturer's original packing. In such case, the stock verification will obtain a certificate from the stores officer that the quantities shown on the packages are correct.
- (iii) Stock verification will not enter the book balances in the count sheet from the kardex cards or the stores ledger before completion of verification of the items in question.
- (iv) He will obtain a certificate that all available stores have been presented for verification.
- (v) Presence of storekeeper or his representative is require during stock verification. The representative of stores shall sign token of his acceptance of verification results.
- (vi) Large discrepancies found during verification will be investigate in accordance with the prescribed procedure.
- (vii) In addition to the physical verification of stock, the stock verifier will also look into the following:

- (a) case of errors classification i.e. items which have not been classified correctly in accordance with the codification list.
- (b) Adequacy of security arrangements.
- (c) Items declare surplus but not moved for one year thereafter.
- (d) Unauthorized or unaccounted stock, if any; where unaccounted material is found, proper investigation will be made to ascertain how the material found its way to the warehouse.
- (e) Whether issues are being made on age basis.

### **Discrepancies During Stock Verification**

12.06 The stores officer will explain the discrepancies found as shown on the count sheet within one month of receipt of such sheet, from the stock verifiers. While explaining the differences, following will be kept in view:

- (a) Where the accounting unit is in number, there should not be any large discrepancy except where cross issue items are taken.
- (b) In explaining the excess against one item by clubbing it with shortage against another items, only similar items are taken.
- (c) In regard to weighment, errors large than 2 percent of the total transactions, cannot be allowed.
- (d) Any shrinkage of an item must be within permissible limits.

12.07 The discrepancies between the physical balance and the kardex card balance adjusted with the approval of the competent authority. Appropriate certificate that the discrepancies have been adjusted after due examination will be recovered by the stores officer on the count sheet.

12.08 The difference between the physical balance and the store ledger balance will then be valued, and the total amount of difference will be transferred to account code "store suspense account" by credit/debit to the relevant inventory account code with the approval of the head of the unit.

These differences will be properly investigated and submitted to the board for approval of write off the shortages and adjusted of surpluses.

## **Department Verification**

12.09 In addition to independent stock verification, the store officer may also order departmental verification himself. This will ensure that his staff are on alert all the times. The store officer will give particular attention to high value items liable to easy pilferage. Normally such verification will be carried out when a particular kardex card is completed and a continuation card is to be opened.

## **Monthly Report on Stock Verification**

12.10 A monthly report on the progress of stock verification will be sent by the unit accounts department to the corporate accounts department detailing the number of items held in stock, number verified during the month, progressive total, variances and value of variances. Both during the month and cumulative.

## Chapter 13

### DISPOSAL OF SURPLUS/REDUNDANT MATERIALS

#### Nature of Material

13.01 The material to be disposed of may be new, second hand or scrap. No material will be disposed of unless it has first been examined by survey committee and the disposal action has been approved the competent authority.

#### Method of Disposal

13.02 For purpose of disposal suitable lots will be formed of the items to be disposed of. It will be ensure that in the formation of such lots, new, second hand and scrap materials do not get mixed up as the price that can be secured for the three types of materials will be different.

Disposal of stores will be either by call of tender are the auction. However, as far as possible, material will be disposed off by action. Generally, auction sales are preferred because on the spot decisions are taken regarding sale and earnest money is collected on the spot. Where, however, it is found that the bidders in the auction have formed a ring as a result of which or where due to other reasons, proper rates are not forthcoming, tender sales may be restored to.

#### Conditions of Auction / Tender

13.03 Both in respect of call of tenders and auction, standard conditions will be prescribed. Some important stipulations will be:

- (i) The successful bidder in the auction will have to deposit a sum of 10 per cent of his bid at the fall of hammer. In the sale by tenderer will be required to send 10 percent of his bid as earnest money a long with his tender.
- (ii) A time schedule will be laid down for payment of balance money.
- (iii) The store will be sold on "as is where is" basis and the bidder/tenderer is expected to examine the lot fully.

- (iv) The quantity given in the auction schedule/tender is approximate. Delivery will be given only to the extent of material found in lost.
- (v) No sorting of material will be allowed.
- (vi) The company will be reserve the right to withdraw any lot from the sale.
- (vii) The successful bidder/tenderer will take delivery in accordance with the stipulated delivery schedule.
- (viii) In the event of successful bidder/tenderer not lifting the material with in the time stipulated or the extended time the sale will be cancelled any amount deposited by him by way of earnest money or sale price will be forfeited.

13.04 The successful bidder/tenderer will be requited to deposit he balance amount with the accounts department before delivery of the material can be given. Delivery of sold material will be given in the presence of a representative of the finance department.

13.05 The store department will maintain a resister in which all sales through tender or auction will be listed. Progress of deliveries will also be noted in the register

## Chapter 14

### WORKS CONTRACTS

#### Nature of Work Contracts

14.01 Work contracts will either be for construction of building, fabrications/erection of equipments/plant installation etc. or for repairs and maintenance including special repairs. A special repair is that repair to equipment whose estimated cost is no less Rs. One lakh.

#### Capital Budget Provision

14.02 Following will be checked in the material department before inviting tenders for capital works/special repairs.

- (a) Whether there is provision for the capital work/special repair in the approved capital/special repairs budget.
- (b) Whether approval of the competent authority has been obtained to the capital work/special repairs after detailed examinations of the need and costs/benefits.
- (c) Whether detailed estimates of the capital work/special repairs have been prepared and approved by the competent authority.

#### Approved List of Contactors

14.03 The procedure of registration of contracts for capital works/special repairs will be generally be similar to that for registration of suppliers. In their case, applicant contactors for registration will have to furnish authentic proof of their:

- (a) Capacity to undertake works of different valued and types.
- (b) Financial status.
- (c) Equipments and other resource besides the income tax clearance and other certificates.

The list drawn up of the contracts to be approved will be scrutinised and finalized by the committee consisting of representatives of purchases, operations / maintenance and finance department . the list of approved contractors will be kept up to date by deletions/additions with the sanction of the competent authority.

### **Repairs of Indents**

14.04 The procedure prescribed for capital purchases will generally be followed in these days cases as well.

### **Tenders**

14.05 Open tenders will be invited in all case involving the award work exceeding Rs one lakh. Limited tenders will be invited for works estimated to cost less than Rs. Lakh each, from the contractors on the approved list the period of notice given to the tenderers will not be less than one month except in the case of minor works were local contractors only would be interested.

Were for works of more than Rs. One lakh limited tenders are resorted to due to urgency or any other reasons, the reasons for resorting to limited tender preference to open tender will be recorded by the officer authorised under the delegation of powers.

At least five sources among the most likely suitable tenderer will be addressed and where the number of addresses is less than five, approval of the unit head/managing director will be obtained

Single tender will be invited only in case were the value of work does not exceed Rs. 25,000/-. The competent authority will record the reasons for single tender where the estimated value exceeds Rs 25,000/-.

### **Processing Tenders**

14.06 The system and procedure of processing the tenders including consideration of delayed/late tenders and preparation of comparative statement and negotiations for purchases, will be followed in the case of works tenders as well. The comparative statement prepares for works tenders will include free issue of

material to the contractors, free supply of services like power and water and monetary effect of any special condition included by contractors in their tenders.

### **Single Response**

14.07 The single response against an open tender will be excepted after examination and establishing the reasonableness of the rate. A single response against a limited tender will, however, not be excepted and the work will be retendered. Where for special reasons which should be only in exceptional cases, a single response against a limited tender is accepted approval of an officer next higher to the one who is authorize to award the work, will be obtained.

### **Earnest Money**

14.08 Earnest money up 2 percent of the estimated cost subject to a maximum of Rs 20,000/- will be obtained in all cases and where this condition is waived approval of the managing director/unit head will be obtained.

Earnest money will be forfeited if the contractor revokes his tender within the stipulated period after opening the tender are increases his earlier quoted rate or he does not commence the work after it is awarded to him.

### **Schedule of Rates and Detailed Estimate**

14.09 Detailed estimates will prepare for all contracts for more and minor works or repairs/maintenance based on schedule of rates.

### **Annual Maintenance Contracts**

14.10 Annual maintenance contracts may be entered into as far as possible on the basis of open or limited tender and more than one such contract may be entered into covering different units.

## **Issue of materials**

14.11 Where the works contract provides for supply of materials by the company either free of charge or on charge, the responsibility of drawl of materials for the stores, handling over to the contractor, keeping quantity control and preparing a reconciliation statement of issues of to the contractor, quantities used in the works and the balance and the contractor will be that of the indenting department.

## **Regularization of Excess Over Estimated**

14.12 The expenditure on a particular work/special repair will invariably be kept in the budget provision and sanction estimate. Where the budget/sanction estimate is exceeded, approval of the competent authority as per the delegations of powered will be obtained.

Approval of MD/ board will be obtained for the following:

- (a) Re-appropriation of fund provided in the approved budget.
- (b) Expenditure is excess of lump sum provision made in the budget for minor/revenue charged items.

## **Extension of Time**

14.13 Approval of the Managing Director/unit head or such other competent authority to whom the power is delegated, will be obtained d for extension of time in respect of all contractors including single tenders and justification for the same will be recorded in every case.

## **Financial Concurrence**

14.14 All case of estimates and award of contracts will be sent to the finance department or concurrence as per the delegation of power before the sanction of the competent authority is obtained.

## **Contractors Bills**

14.15 All bills of the contractors for the capital works/special repairs will be received and the processed in the corporate finance department.

The contractors bills will be supported with:

- (i) Certificate measurement/certificate of work done.
- (ii) Certificate statements of materials issued (wherever provided in the contracts), consumed, returned and recoverable.
- (iii) Certified statements of service provided to the contractors.

The final bills supported by a 'No claim certificate' from the contractors

## **Completion Report**

14.16 The indenting department prepare a completion report on completion of the capital work/special repair. Among others, the report will show the actual expenditure on the job and compare it with the approved estimates. The variances, both excesses/ shortages, will be explained.

The completion report will be examined and vetted in the finance department before being submitted to the competent authority for acceptance.