

	The Hub Power Company Limited		Procurement Procedure Manual
	Commercial Department		Effective Date: February 01, 2017
	Approvals	Name	Signatures
	Head of Commercial	Mustafa Giani	
Chief Executive Officer	Khalid Mansoor		

**PROCUREMENT PROCEDURE MANUAL
(Plant Spares, Machinery & Services)**

of

**THE HUB POWER COMPANY LIMITED
(Hub and Narowal plant)**



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1. INTRODUCTION

This procedure manual sets out the controls, procedures and documents to be followed for procurement of goods and services for Hub and Narowal plant.

2. PROCUREMENT NEED AND ANALYSIS

The need for procurement shall be identified at the time of preparing corporate plan. Each budget holder shall be responsible to make an assessment before including it in budget for approval. Procurement department shall assist budget holder at the time of formation of corporate plan. There may be circumstances where the need may not be foreseen (i.e. urgent nature, single tender or unbudgeted). In such exceptional cases, purchase order, work order up to Rs. 500,000/= (Rupees Five hundred thousand) shall be approved by Chief Financial Officer / Chief Technical Officer and above Rs. 500,000/= (Rupees Five hundred thousand) to be presented to Chief Executive Officer for approval.

3. PROCUREMENT POLICY

Company's Procurement Policy requires all individuals at Hub and Narowal plant to:

- i) follow the procedures laid down in this manual, where circumstances are such that require adjusting a deviation from this procedure then in that case approval from two HOD shall be obtained.
- ii) ensure that the end result of their efforts is acquisition of goods and services:
 - as per required specifications
 - at the most economical and competitive prices
 - within the required delivery time
 - at commercial terms most beneficial to the Company
 - from the most suitable and qualifying source
 - local sources to be given priority if meets the standards
 - without compromising on quality, reliability and general principles of ethics and transparency.

4. THE PROCUREMENT SYSTEM

The responsibility of procurement of all goods and services is entrusted to the **Procurement department** headed by the Senior Manager Commercial in company's corporate head office in Karachi, and his designees at the head offices and site offices at Hub and Narowal plant (if any).

Company's Treasury, Legal, Internal Audit, Operations, HR, Administration, Finance and Taxation Departments shall provide relevant functional support to the Procurement department in the entire process of procurement.

The Procurement department shall be responsible for carrying out all activities of procurement, from receiving a formal requisition up to the delivery of required goods and services. This shall include interaction and correspondence with suppliers regarding prices and commercial terms.



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However, in certain cases where Technical details are involved and the expertise is available with the end user's department, the said end user department may correspond with the suppliers on technical issues before raising the formal requisition for purchase of goods or services and also correspond after receipt of competitive offers through the Procurement Department. In such cases, the end user department shall keep the Procurement Department informed of all correspondence with potential suppliers through copies, e-mails, letters, etc.

Under the Company's procurement system, no department other than the Procurement Department is authorized to make any written or informal (i.e. verbal, vaguely written, or implied) commitment to procure, or the intent to procure, any goods and services from any supplier.

Procurement Department shall follow the procedures laid down in this manual for carrying out the procurement activities, in compliance with procurement policy written above. The procedures written in this manual together with the procurement policy constitute the Procurement System.

Vendors from local community of the plant's surrounding area shall also to be invited in submitting quotations for obtaining goods and services.

This procedure can be flexible for purchases of minor values up to Rs. 50,000/= (Rupees Fifty thousand only). However, PR's should be registered with Commercial Department in advance.

Any significant exceptions to the procurement procedures must have prior approval of the company's Chief Executive Officer (CEO) who may grant such approval on recommendation from the relevant department.

- **LOCAL AND FOREIGN PROCUREMENT:**
Procurement of goods and services may fall into either of the following two categories:
- **Local Procurement:**
Procurement of goods and services available from sources within Pakistan.
- **Foreign Procurement:**
Procurement of goods and services available from sources outside Pakistan.




Essence of both the above categories is same, and is nested in the procurement policy written above. But the statutory rules, regulations and procedures for local and foreign procurement fall under different domains.

Procurement Department shall seek advice from tax / legal department about the current duties, taxes and other levies applicable separately to both local and foreign procurements. This shall include the local trade and local taxation laws; and the foreign exchange regulations, import / export policy orders, customs tariff, foreign taxation, international trade regulations etc.

5. **PURCHASE REQUISITIONS (PR)**

- 5.1 Purchase Requisition (PR) for an item or a set of items (or services), shall be raised by the appropriate person of the relevant department in accordance with Company's authorization procedures. The request for procurement's specifications of the proposed good or service should be sufficiently detailed and should typically include specifications for the design of goods and performance of services, details of quantity, quality, timescale, budgetary / estimated costs and the



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suggested source(s) of the goods and services. (Using the "Purchase Requisition Form" – Annexure I).

In case of PRs for repeat purchases, the **estimated prices** and the **source / supplier** may be retrieved from its previous purchase history (by the Requisitioner).

Requisitions for procurements should clearly indicate the priority level (e.g. normal or urgent / critical) on the PR.

The Requisitioner should ensure that urgencies and criticalities indicated on the PR are genuine and qualified, before approving the PR for Procurement Department's action.

5.2 Authorized person of the Budget Holders shall approve the Purchase Requisitions for the required Goods / Services as per existing Limit of Authority Manual (LOAM).

The Limits of Authority are subject to revision when deemed necessary by Management.

5.3 Commercial Department shall act as per requirement and may co-ordinate with the originator of PR, if required, in selection / tendering of the items. Procurement function may ask for additional clarifications and information it feels needed.

5.4 Purchase Requisition should be completed sufficiently in advance of the requirement to allow a minimum period of ten (10) working days up to placement of order. Procurement department shall make all necessary efforts to meet the delivery time / priority level indicated on the PR. However, if in the best judgment of the Head of Procurement, an item cannot be procured within the time indicated on PR, the Procurement department shall inform the end user accordingly.

5.5 Approved PR will be allocated sequential number and its record shall be maintained by the Procurement department.




Taxation department should also be consulted wherever essential.

5.6 Where any goods or services are procured from any vendor in which the Directors, executives or any employee or their immediate family members have a beneficial interest, such person shall fully disclose the nature of relationship with that supplier and details of such transaction shall be disclosed to the Chief Executive Officer who should be requested to endorse the PR (Please refer to Account Payable procedure manual, Conflict of Interest and Related Party Transaction policy of the Company).

5.7 If transactions with a related party, which have not been previously approved by Board is being entered into then these are required to be vetted by BAC before the transaction is executed.

5.8 If a proposed procurement action is not listed in the overall procurement plan or inconsistent with organizational policies, the procurement department should assess the circumstances of the case and ensure suitable authorization is obtained before processing the request.



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6. SELECTION OF SUPPLIER

- 6.1 On receipt of approved Purchase Requisition, the Procurement Department shall obtain quotations from suppliers. Budget holder / user may also assist in identifying suitable supplier. Quotation should be verified / recommended by the requisition department.
- 6.2 Renowned suppliers with requisite experience should be preferred. However, new suppliers may be selected after proper evaluation. If necessary, sample materials may be requested for approval by the end user.
- 6.3 For purchases Rs. 100,000 (Rupees one hundred thousand) or above, quotations from at least three suppliers must be obtained before placing the order. Repeat orders may however, be placed directly if the supplier has satisfactorily fulfilled all obligations in the past and there are no major price variations.
- 6.4 If vendor is required to pay advance of Rs. 500,000 (Rupees five hundred thousand) or above, a Bank Guarantee or Insurance Guarantee or Corporate Guarantee (in case of reputable firm and prior approval of CEO / CFO / CTO) from a reliable source is required to be obtained from vendor.
- 6.5 The procurement function should ensure the security and confidentiality of documents it sends to and receives from potential suppliers.
- 6.6 For all goods or services other than OEM, specialized service and urgent items where total value exceeds Rs. 10,000,000/= (Rupees Ten million), for civil works the bidders shall be required to submit these bids in sealed envelopes. In case of civil work, the request for quotation (RFQ) shall include this requirement. For civil work, bids shall be opened in the presence of three responsible Officers, (one each from commercial, internal audit and from the budget holder department). Where circumstances allow receipt of bids through e-mail, those bids should be directly addressed to @ corporateaudit@hubpower.com.
- 6.7 The comparative statement shall be prepared by Procurement department and shall be signed by all present at time of bid opening including Assistant Manager Procurement or Officer Procurement. The statement shall be forwarded to Senior Manager Commercial for approval. The supplier with the lowest bid shall be recommended to the budget holder for approval in order to raise the PO. If the budget holder does not agree with the recommendations based on technical grounds he shall discuss it with Senior Manager Commercial and provide justification which shall be documented in the comparative sheet.
- 6.8 All negotiations with short listed suppliers shall be carried out by Procurement department only.
- 6.10 Conditions under which single tender action is permissible are as follows:
- Where, for Supply Contracts, additional deliveries or works are needed and a change from those originally provided would result in incompatible materials, products or disproportionate technical difficulties in operation and maintenance. *(Repeat Order)*
 - Repeat orders may be placed directly if the supplier has satisfactorily fulfilled all obligations in the past and there are no major price variations. *(Repeat Order)*
 - Where, for technical or special character reasons, the requirement can only be met by a particular Supplier / Contractor or if it is connected with the protection of exclusive rights. *(OEM)*



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- Where a Sole Supplier is evidenced. The definition of 'Sole / Authorized Supplier' will be where there is only one source of supply within the market. In this situation, the market position must be clearly stated under section 'Reason for Requesting a Single Tender Action.' (*Sole / Authorized Supplier*)
- Where unforeseeable circumstances cause a case of extreme urgency. Unforeseen circumstances mean those circumstances beyond the control or capacity of the Company to anticipate them. It is not intended to cover internal short-comings or circumstances which could have been overcome by internal administration. (*Urgently Required*)
- Where a bargain situation exists, i.e. failure to act would lead to a foreseeable fundamental loss to the Company. (*Bargain Situation*)
- Purchases equal to less than Rs. 100,000. (*Purchase below threshold*)

7. PURCHASE ORDER (PO)/WORK ORDER (WO) / CONTRACT/SERVICE AGREEMENT

- 7.1 Purchase Order (PO) (**Annexure-II**), Contract or Service Agreement will be prepared by the Procurement Department.
- 7.2 Purchase Order / Contract Agreement will be approved by the authorized budget holders as per the LOAM.
- 7.3 In case of contract for goods / service agreement (if not previously reviewed by Legal / Internal audit) for Rs. 5 million or above or in case there is any material change in the terms of such contract/ Agreement, Procurement department will send a draft of the Contract / Service Agreement for review of Legal / Internal audit.
- 7.4 In case of Services, safety procedure approved by HSE department and general site conditions are to be provided to the Supplier which shall be part of the PO / WO / Contract and shall be duly signed and accepted by the supplier.
- 7.5 The Procurement Department, shall maintain a file of Purchase Orders / Contracts in sequential order.
- 7.6 A copy of the PO shall be sent to the Supplier and copies shall be forwarded to Treasury, Finance and Insurance if required.
- 7.7 Contracts for goods / services shall be provided to legal department for internal registration / stamp duty payment in accordance with the Guidelines for Contract Review.
- 7.8 Executed copy of contract / service agreement shall be internally registered by legal department by putting a stamp and allocating an ID number.
- 7.9 The registered copy of the contract / service agreement shall be passed onto finance department who will ensure that payment against those contracts / service agreements shall be made only upon receipt of registered contract / service agreement.

8 RECEIPT OF GOODS AND SERVICES

- 8.1 All shipping documents for Foreign Purchase items should clearly state that the consignee Name.
- The L/C opening Bank, with 'notify party: The Hub Power Company Ltd., in case of import against Letter of Credit or Registered Bank contract



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- The Hub Power Company Ltd., in case of imports against advance payments as per State Banks rules

8.2 For Foreign Purchase items, the Supplier should courier the below mentioned documents in original, to Hubco Procurement Department, which should be reached at least 15 days before expected date of arrival of vessel at Pakistani port / airport.

- 1-Commercial Invoice in favor of Hubco
- 2- Itemized Packing List in details
- 3-Certificate of Origin Country
- 4-Bill of Lading / AWB in duplicate
- 5- Advice to Hubco's Insurance Company

Electronic copies of above documents must be sent through e-mail, by the Supplier to Hubco immediately after shipment.

8.3 Local Purchase items shall be delivered by the supplier directly at the required place as indicated at plant site or other locations which will be indicated in the PO. Authorized person should not only check the existence of received goods and services but should also ensure its quality. In case of delivery to site, appropriate transportation shall be arranged by the procurement department.

All necessary documents i.e. Warranty Letter, Certificate of Origin, Completion Certificate etc. will be obtained from the supplier or service provider by procurement department.

8.2 In case of Service Contract, the work shall be handed over to the Contractor by Technical Officer (TO) of the contract and he will be responsible to supervise / verify the work and issue the Completion Certificate as per the terms of contract.

8.3 In case of variation in PO/WO a Variation Order (**Annexure-III**) shall be issued by the Department / TO, showing details of the additional work and on the basis of the details Procurement Department, shall agree the additional cost and final variation shall be approved by the Budget Holder.

8.4 Where the goods received are rejected due to any deficiency or deviation from PO specification or quality issues and are required to be returned for replacement / rectification, the end-user or requested department shall inform immediately along with the detailed reasons for rejection to Procurement department for onward necessary action and the Procurement department shall contact the supplier for replacement as per terms of the Contract / Purchase Order.


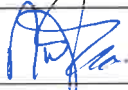

8.5 Where any dispute arises as to the quantity, quality, pricing etc., the same shall be communicated to supplier by the Procurement Officer. Once the dispute is resolved the same should be recorded on the copy of the Purchase Order.

9 **RECEIPT OF INVOICES**

9.1 Invoices should normally be received by the concerned department for payment, the concerned department will verify the invoice, ensure goods are received and will attach the relevant support and budget sheet duly approved and submit the same to Accounts Payable for processing of payment.

9.2 In case of advance payment to supplier, Procurement department shall submit advance Proforma invoice / invoice to accounts payable.



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9.3 Accounts Payable will ensure timely payment of goods and services in accordance with the terms of PO and AP procedure manual.

10 PERFORMANCE EVALUATION




Procurement department shall overview the performance of major vendors having value of PKR.2,000,000/= (Pak Rupees Two million only) or above in relevant fiscal year on an ongoing basis (at least annually) in order to ensure adequate performance of the goods / services received by the Company. This may involve periodic inspection of the quality of goods / services received and maintenance of a record of complaints received about the service provided by the vendor. Feedback shall also be obtained from the user department at least twice in a year on the feedback form attached in **(Annexure IV)** and they shall be requested to carry out their own performance evaluation of the vendors.

Based on that feedback supplier database shall be maintained and vendors having negative feedback shall be disgraced/regretted.

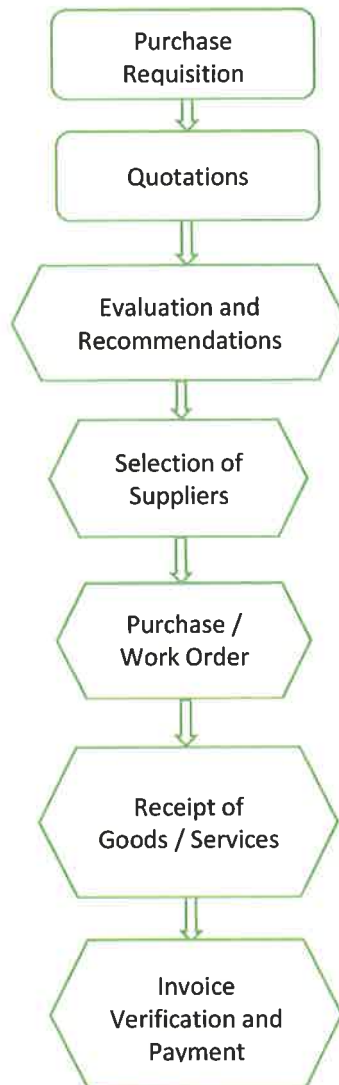
11 EXCEPTIONS


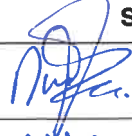

This procedure should be adhered for all purchases / contracts except for purchases of minor values up to Rs. 50,000/= (Rupees fifty thousand) or of Emergency nature.



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11. PROCUREMENT PROCESS FLOWCHART




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Annexure-I

PURCHASE REQUISITION FORM

No.	Date

PARTICULARS

Requisitioning Department:	Delivery required at:	Date required:

SR. NO.	Description	Unit	Qty.	Estimated Cost		P.O. Ref.
				Per Unit	Total	
TOTAL					0.00	

BUDGET INFORMATION

Within budget Yes No PS: If item is not budgeted than please refer to the column at the end for Unbudgeted items. Account Title & Code : Total line/item budget: <input type="text"/> Utilised todate: <input type="text"/> Balance available: <input type="text" value="0.00"/> Signature of Manager Budgeting _____	Requested by: _____ Date: _____ Approved by: _____ Date: _____
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SINGLE TENDER ACTION JUSTIFICATION (Please refer to Accounts Payable Procedure manual) UNBUDGETED ITEM JUSTIFICATION (Please refer to Accounts Payable Procedure manual)


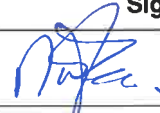

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DATE WHEN SINGLE TENDER ACTION / PURCHASE OF UNBUDGETED ITEM WAS REPORTED TO MANAGEMENT COMMITTEE:

DISTRIBUTION

Approved Purchase Requisition in triplicate will be passed on to Admin. Dept. who will allocate sequential number, maintain the register and pass on one copy to the



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Annexure-II

PURCHASE ORDER

Supplier's name and address:

No.	Date
Delivery terms	
Payment terms	
Delivery time	
Warranty	

Please supply undermentioned goods subject to terms and conditions stated hereon:

Reference:

SR. NO.	DESCRIPTIONS	QTY/ UNIT	UNIT PRICE (ECU)	TOTAL AMOUNT (ECU)
(EURO xxxxx xxxx thousand xxxxx hundred xxxxx xxxxx only)			TOTAL EURO	0.00
Authorized Signature _____ For The Hub Power Company Limited				

Signature: _____


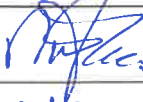

Date: _____

Note: General conditions of purchase 2013 apply

Original:
Copy 1:
Copy 2:

Supplier
Legal
Insurance


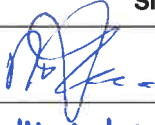




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Annexure-III

VARIATION ORDER FORM	
Order Ref. No. _____	Date. _____
Title / Description _____	
Approved Order PKR. _____	
Variation Amount PKR. _____	
<u>Variation work:</u>	
Signed by T.O. _____	Date _____
<u>Commercial Assessment:</u>	
Signed by C.P.O. _____	Date _____
Reported by: _____	
Approved by: _____	



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		Annexure - IV		
Supplier Evaluation Form				
Supplier name				
Address				
Tel., cell & e-mail				
Review date				
Rating: Please complete this form for evaluating the supplier by using the rating 1 - 5 (1 is lowest/5 is best).				
		Yes	No.	Rating
Already working with Hubco				
Having reasonable and supportive team members				
Maintain up-to-date inventory and stock				
Offers competitive / cost saving pricing				
Provide status of orders timely				
Accept to follow the company rules and regulations				
Addresses complaints within a reasonable time				
Delivers goods and/or services on time				
Able to provide technical assistance				
Timely inform about delivery of good and/or services				
End User Remarks:				
Please mention the overall satisfaction level of the supplier				
Signature/date		Signature/date		

