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Oversight Mechanism

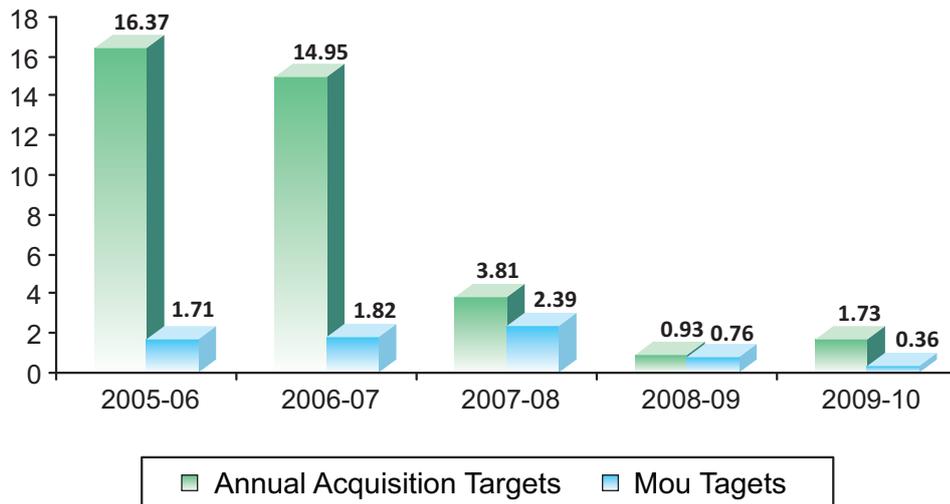
6.1 Monitoring by the Ministry of Shipping

The Government monitors the performance of the Company through Memorandum Of Understandings (MOUs) and during the period under review, the Company achieved “excellent” ratings in all the years¹⁵.

Audit, however, noticed that the targets for tonnage acquisition which is one of the key performance parameter, as per MOUs, were far below the annual acquisition plans targets as discussed below:

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Comparison between annual acquisition targets with MOU targets



¹⁵ Rating for 2009-10 is based on results reported by the Company to the Ministry

Table - 10 Gross Tonnage in Lakh MTs

Year	Annual Acquisition Plan (GT)	MOU Target (GT)	Actual (GT)	Percentage of actual with reference to Annual Acquisition Plan	Percentage of actual with reference to MOU Target
2005-06	16.37	1.71	3.20	19.55	187.13
2006-07	14.95	1.82	3.86	25.82	212.09
2007-08	3.81	3.39	5.64	148.03	166.37
2008-09	0.93	0.76	1.72	184.95	226.32
2009-10	1.73	0.36	0.38	21.97	105.56

As could be seen from the above table, the Company was rated 'excellent' despite their lacklustre performance with reference to their own target set in the annual plan in three out of five years.

The Ministry stated (April 2011) that due to extreme uncertainty regarding how much tonnage would be approved for ordering (by Government), the MOU targets were kept lower than the Annual Plans. It further stated that the actual achievements in tonnage acquisition were considerably higher than the MOU targets which indicated high level of motivation to achieve the highest possible performance.

The above reply is not tenable as tonnage acquisition i. e. capacity building, is a critical component of a shipping company and therefore, needs closer monitoring at different levels. The MOU with the Government is in fact one instrument through which this activity could be given a momentum. Downsizing the target in MOU would only hamper the long term acquisition plans of the company. Further, the fact remains that there cannot be two sets of targets, one for rating purpose and other for business requirement.

Though the Company failed to achieve the annual targets set by them in three out of the five year period but the fact remains that with the scaled down MOU targets with the GOI, the Company was given full weightage on the key performance parameter of tonnage acquisition in all the years. Thus, the underlying principle of an MOU to motivate the Company to strive for further growth was defeated.

6.2 Monitoring by Management

Management Information System (MIS) is a vital tool with the management to monitor various activities and to take business decisions. Audit observed structural deficiencies in the MIS such as:

- mismatches in various information- generated through MIS and as appearing in the annual accounts of the Company regarding sector-wise profitability,

- MIS was not able to work out the trip wise profitability of vessels chartered out on time charter basis,
- data relating to debit note raised in terms of charter party agreements / COAs available in the system was not integrated with financial accounting system and thereby was exposed to manual intervention and
- the database lacked proper validation as out of a sample of 875 entries for the year 2009-10 checked in Audit, 66 entries for an amount of ₹117.77 crore were found without voyage numbers which is a crucial data,

Though these deficiencies were encountered while preparing the Corporate Plans of 2000 and 2005, these were still persisting (March 2010). Thus, the fact is that the management was taking important decisions based on the data which was not adequate and reliable.

The Ministry while noting the audit observations stated (April 2011) that with the implementation of new ERP system and linkage of all the business activities into the new system, it would be possible to generate precise MIS reports for guidance of the Management.