

**MINISTRY OF SHIPPING**

**CHAPTER VIII**

**The Shipping Corporation of India**

**System of collection and accounting of freight and other charges from agents**

***Highlights***

During 2005-06, 95 per cent of the agents did not submit voyage accounts within the prescribed 20 days.

***(Para 8.5.1)***

Due to delay in receipt of accounts and their reconciliation, unreconciled amount kept on increasing and amounted to Rs.122 crore as of March 2006.

***(Para 8.5.2)***

In violation of contractual provisions, 17 agents did not open separate bank accounts for depositing freight and other charges collected by them on behalf of the Company. The Company did not take any action.

***(Para 8.5.4)***

The Company failed to recover Rs.2.02 crore due to non-enforcement of contractual provisions regarding timely deposit of freight by M/s Norton Lily, USA.

M/s. Strachan Shipping Agency had been remitting freight and other charges collected on behalf of the Company with a delay of one month to two months resulting in loss of interest to the Company. As of November 2006, the Company was to receive Rs.2.86 crore from the Agent.

The Company did not take legal action against the Arcadia Shipping Limited for the outstanding amount Rs.7.01 crore for the year 1997-98 in spite of termination of the agreement in November 2001.

The Company did not take timely action for recovery from M/s. Mathuradas Narandas and Sons, leading to non-recovery of Rs.4.97 crore.

***(Paras 8.5.4.1, 8.5.4.2 to 8.5.4.5)***

The Company failed to ensure opening of separate disbursement account by agents. Out of 44 major agents, only six agents opened such accounts.

***(Para 8.5.5)***

The Company failed to prevent overcharging of telephone expenses of Rs.1.79 crore by M/s. Strachan Shipping Agency who subsequently agreed to refund the same in 24 monthly instalments payable from April 2005.

**(Para 8.5.6.1)**

The Company failed to prevent overcharging of Rs.1.50 crore toward container monitoring fees by the Far Eastern Services Private Limited during the period from August 1997 to March 2002. It did not deduct the same from the amount paid to the Agent. The amount remained blocked till August 2005. Besides this, in a settlement (April 2003) with the Agent, the Company paid Rs.85.31 lakh towards disbursement charges to the Agent which were not prescribed in the agreement

**(Para 8.5.6.2)**

### **Recommendations**

The Company needs to evolve an unambiguous and comprehensive master agreement to be executed with agents which may be changed according to the local and individual requirements as may be required. It should be ensured that all freight and other charges collected by agents are deposited directly into the account of the Company in time and only *bona fide* expenditure is claimed by the agents. With the development of faster means of communications, the Company is required to develop an effective system of timely receipt of accounts and information from the agents. Accounts have to be reconciled in time and in case of any ambiguity, the same should be resolved without loss of time.

#### **8.1 Introduction**

The Shipping Corporation of India Limited (Company), Mumbai was established on 2 October 1961 by amalgamating Eastern Shipping Corporation and Western Shipping Corporation. As on 31 March 2006, the Company had a fleet of 83 ships. The Company had a network of offices at New Delhi, Chennai, Kolkata, London and Shanghai and 128 agents\* at various Indian and foreign ports.

The Company conducts its business through three operating divisions viz Bulk Carrier and Tanker (B&T), Technical and Offshore Services (T&OS) and Liner and Passenger Services (L&PS). B&T business involves chartering out of entire vessel to a single party, directly or through brokers. T&OS division transports goods between the offshore facilities of Oil and Natural Gas Corporation Limited and mainland. L&PS transports passengers and cargo booked directly or through agents.

The agents appointed by the Company provide the following services:

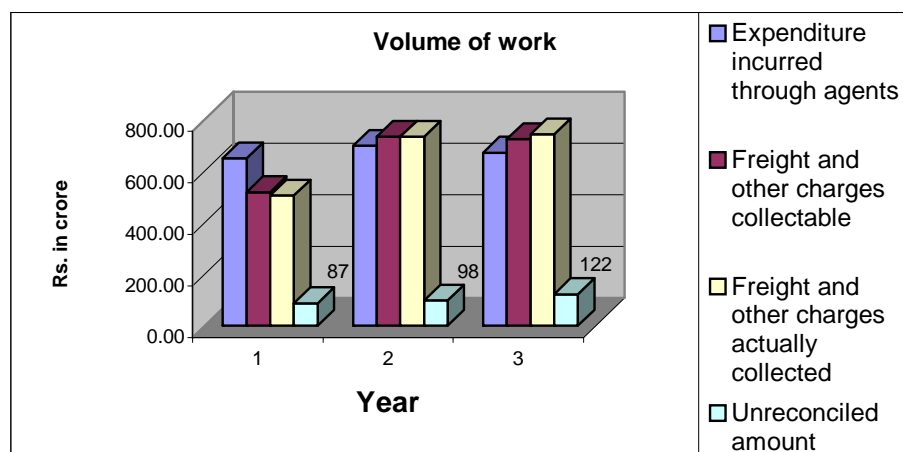
- Securing L&PS business
- Collection and remittance of freight and terminal charges
- Handling of cargo and containers
- Husbanding business

**8.1.1** The graph given below indicates the expenditure incurred through agents, freight and other charges collectable, amount actually collected and unreconciled amount. It

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\* 84 regular agents and 44 ad hoc agents

could be seen that unreconciled amount had been increasing during last three years in spite write off of unmatched collection (receivable Rs.97 crore and payable Rs.119.58 crore) in 2004-06.



## 8.2 Audit objectives

Performance audit was carried out to assess:

- (i) Whether there was a proper system to ensure that freight and terminal handling charges were collected and deposited into the bank account.
- (ii) Whether there was a proper system of accounting of freight and terminal handling charges.

## 8.3 Audit criteria

The audit was carried out and audit conclusions were drawn keeping in view the terms and conditions of the agreement and the procedures prescribed by the Company for receipt of accounts and its reconciliation.

## 8.4 Audit methodology and acknowledgement

The records of accounts rendered by agents, their reconciliation and settlement of account with agents during the three years from 2003-04 to 2005-06 were examined in the course of Performance audit. The audit programme and objectives were discussed at the entry conference held with the Management on 23 May 2006. The audit findings were discussed at the exit meeting held on 12 September 2006.

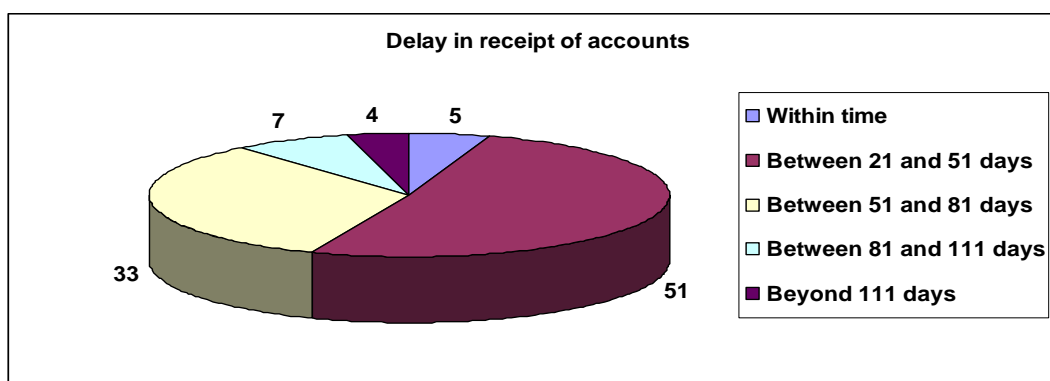
The cooperation of the Management in the course of audit and during the meetings is thankfully acknowledged.

## 8.5 Audit findings

Review of the records relating to the status of account balances of agents, their reconciliation and settlement of accounts disclosed the following:

### 8.5.1 Delay in submission of accounts by agents

In August 2002, the Company instructed all the agents that in case of delay beyond the stipulated deadline for submission of accounts, a penalty of US\$ 100 for each day of delay would be levied. For submission of accounts by agents, the Company fixed (September 2004) a limit of 20 days from sailing the vessel. A review of the voyage accounts for the year 2005-06 disclosed that accounts were generally not received in time as could be seen from following graph.



A review of the record maintained by the Company to monitor the receipt of information disclosed that in many cases entries were not complete in a manual register maintained by the Company.

The Management admitted that it had not recovered any amount from agents by way of penalty and stated (October 2006) that delay in submission of voyage accounts were noted and the same was taken up with the agents periodically.

The Company needs to strengthen the mechanism for the monitoring of timely receipt of accounts.

### 8.5.2 Delay in reconciliation of account

Due to delay in receipt of accounts statement and their reconciliation, the unreconciled amount kept on increasing. The Company appointed M/s Khandelwal Jain and Company, Chartered Accountants to reconcile an amount of Rs.4070 crore for the period 1997-2004. However, they could not reconcile Rs.198 crore. Of this, the Company made a provision for Rs.14.13 crore and wrote off Rs.97.03 crore (Rs.119.58 crore was also written back as income) while it did not take any action on the remaining Rs. 86.83 crore for the period 2002-04. For the period 2004-06, the Company made efforts to reconcile the amount departmentally. As of October 2006, there was an unreconciled amount of Rs.35.21 crore as per **Annexure-17**.

### 8.5.3 Collection without collectable and collectable without collections

A further review of data for the year 2005-06 relating to 17 selected agents and four offices of the Company revealed that in 3,737 cases there were collections without collectables amounting to Rs.11.45 crore and in 1,208 cases there were collectables without collections amounting to Rs.12.73 crore indicating that the booking of collectables and collections were inaccurate.

The Management stated (October 2006) that the freight collection details for some bills of lading were erroneously reported under incorrect account codes. It further stated that freight reconciliation involves identifying the reasons for the mismatched amount, thereafter making the necessary rectification entries and thereby minimising the mismatches to the extent possible. The reply amply emphasised the need for a better system of booking of freight collectable and collection.

#### **8.5.4 Separate bank account for freight and other receivables**

As per the agency agreement, agent should open a separate account in the name of 'the Shipping Corporation of India Limited – Freight Account' for crediting the freight and all other monies due and payable to the Company on the same day or maximum on the following day. Where the account could not be in the name of the Company, it should be opened in the name of agent as 'Freight Account–as Agents of SCI'. It was the responsibility of agent to ensure that all monies and other receivables collected on behalf of the Company were deposited into the account immediately on collection to facilitate monitoring and reconciliation of collection on a daily basis. It was, however, noted that out of 38 major freight collecting agents, 17 agents did not open separate freight accounts. The agreements were silent on the consequences of any agent not opening a separate bank account.

The Management did not furnish any reply.

Failure of the Company to enforce opening and operating of separate bank account for freight resulted in the following irregularities:

**8.5.4.1** M/s Norton Lily was agent at USA for 36 years. In April 1999, when agreement with them was terminated due to delay in deposit of freight collected and other irregularities\*, the Company was to receive US\$ 1.013 million (Rs.4.95 crore<sup>♥</sup>) from the Agent. To recover the outstanding amount, the Company filed (December 2000) a suit in the United States District Court, New York and reached (June 2002) an out of court settlement, whereby the Company received a sum of US\$ 0.6 million (Rs.2.93 crore) only. Thus, due to non-enforcement of agreement for timely deposit of freight, the Company incurred a loss of US\$ 0.413 million (Rs.2.02 crore).

The Management accepted the facts.

**8.5.4.2** M/s. Strachan Shipping Agency, (SSA) the Agent of the Company in USA had been collecting freight cheques and other receipts in their name and deposited the same in their account instead of the collection account of the Company. Like other major agents, SSA enjoyed a freight float of one to two months of freight collections ranging from Rs.20 crore to Rs.25 crore for more than two years. The float was brought down to 15 days in November 2002. The Company suffered loss of interest on account of the float allowed to agents.

A special audit of the transactions with SSA was conducted by a team appointed by the Company, due to irregularities committed by the Agent. To resolve the issues noticed, a commercial settlement was reached (March 2005) with the Agent. Even after the commercial settlement, the Agent had been remitting the money with a delay ranging from 6 to 67 days. Freight and terminal handling charges due from the Agent for the

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\* *Accumulation of containers, inadequate monitoring and conflict of interest*

♥ *At exchange rate of one US\$=Rs. 48.90*

years 2004-05 and 2005-06 amounted to Rs.2.60 crore and Rs.26.28 lakh respectively as of November 2006.

The Management stated (October 2006) that the Agent had recently opened two separate bank accounts for the purpose of depositing freight collections as well as for debiting disbursements and with the opening of these accounts, the delay in remittance of freight was not expected to take place.

According to the settlement, all pending issues were to be reconciled and settled by April 2005. However, freight amounting to Rs.84.29 lakh for 2000-01 to 2005-06 had not been reconciled so far (October 2006).

The Management stated (October 2006) that the unreconciled amount was mainly on account of non-receipt of documentary evidences for cases where the agents had indicated that the freight can not be recovered from the consignees for reasons like abandoned cargo and litigation matters, etc.

SSA had reduced the freight payable by US\$ 332,189 (Rs.1.46 crore at an exchange rate of one US\$= Rs.43.805) in April 2005 and US\$ 177,484 (Rs.81.54 lakh at an exchange rate of one US\$=Rs.45.94) in November 2005 as compared to the freight booked. However, the Management could not furnish reasons and the authority for the freight reduction.

**8.5.4.3** The Company entered (November 1993) into a Memorandum of Understanding (MOU) with Arcadia Shipping Limited (ASL), Mumbai for shipment from India. As per the MOU, the freight was required to be paid by M/s. Puyvast Chartering, Rotterdam (Principal of Arcadia Shipping Limited) to the Company's account with State Bank of India, London. The Company's office at London was to forward details on monthly basis to its Accounts Department. During the year 1997-98, total freight booked for granite shipments amounted to US\$ 3.115 million, out of which the Company could not recover US\$ 1.629 million (Rs.7.01 crore). Agency agreement with ASL was terminated (November 2001) for committing a fraud. The Company repeatedly asked ASL to furnish details of remittance of US\$ 1.629 million, but, their response was not satisfactory. The Company treated the amount of Rs.7.01 crore as doubtful of recovery in the accounts for the year 2004-05.

The Management stated (October 2006) that the matter for recovery had been referred to lawyers who required documents like MOU, ledger accounts and correspondence with the parties to proceed. It further stated that due to passage of time it was difficult to locate all the documents required by Audit.

Reply of the Management showed that they failed to take timely legal action to recover Rs.7.01 crore in spite of termination (November 2001) of agreement with the ASL for involvement in a fraud.

**8.5.4.4** The Company started cellular container services on India-Europe sector in January 1994. The slots in the container services were marketed by the Container Movement (Bombay) Private Limited, Mumbai, marketing agent. Since utilisation of the slots was not satisfactory, it was decided to offer slots to slot operators. Accordingly, M/s. Mathuradas Narandas and Sons (MNS) were marketing the container slots regularly since June 1994. Invoices in respect of slot containers were raised by the marketing agents.

The Marketing agent intimated (June/July 1997) to the Company that the outstanding amount due from MNS was increasing. However, the Company did not take any action against the party and the outstanding amount went up to Rs.4.66 crore. In March 1998, when the Management took up the matter with MNS, the latter issued 49 cheques totalling Rs.2.33 crore. They hypothecated 37 trucks and mortgaged three immovable properties as security for the stated value of Rs. three crore. But all the cheques were dishonoured when presented to the bank. In response to another opportunity given by the Company to clear dues, they issued 14 fresh post dated cheques of Rs.2.45 lakh each payable from 15 June 1998 onwards on daily basis. However, those cheques also bounced when presented to the bank.

The Company filed four criminal cases (August and September 1998) against MNS and a civil suit (June 1999) in the Mumbai High Court. At the direction of the Court, the matter was referred (October 1999) for arbitration.

Against the total receivable of Rs.5.18 crore, the arbitrator awarded (January 2003) Rs.5.04 crore in favour of the Company. However, the Company could recover only Rs.6.81 lakh from auction of 16 trucks seized and auctioned by the court receiver. Other immovable properties mortgaged with the Company could not be auctioned as one property i.e., office space (stated to be valued at Rs.90 lakh) leased from Mumbai Port Trust was taken over by the Port Trust. As stated by the Management, there was no response for the remaining properties at Kandla and New Delhi.

Thus, laxity of the Company in ensuring timely realisation of its dues resulted in non-recovery of Rs. 4.97 crore.

**8.5.4.5** Seaster Shipping Lines Limited., Bangladesh appointed as Agent in April 1998 was not regular in remitting the freight collected. The delay ranged between 58 and 230 days, the average period of delay being 159 days. As of August 2006, the freight outstanding from them was US\$ 614374 (Rs.2.86 crore\*).

The Management stated (October 2006) that delayed remittance of freight from Bangladesh was recognised as part of the trade practice and during meeting with the Agent, it was agreed to enhance the bank guarantee from US\$ 100000 to US\$ 250000 and efforts were on to reduce the credit period allowed by the Agent to the trade. It was, however, observed (September 2006) that the Company had not obtained bank guarantee of US\$ 250000 from Seaster Shipping Lines to protect its interests.

#### **8.5.5 Separate disbursement account**

As per the agency agreement, agent would maintain a separate disbursement bank account to keep the funds remitted by the Company for attending to vessels on the basis of 'Cash Requirement Report'. It was, however, noted in audit that out of 44 major agents, only six agents opened separate disbursement account.

Pending reconciliation with agents, the Company was showing net amount receivable/payable from agents. As of March 2006, the Company was to receive Rs.18.84 crore (Rs.17.12 crore from 44 agents and Rs.1.72 crore from 25 former agents) and pay Rs.29.84 crore (Rs.22.77 crore to 74 agents and Rs.7.07 to 29 former agents) **Annexure-18.**

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\*At exchange rate of one US\$=Rs.46.55

The Management stated (October 2006) that the matter regarding opening of bank account for disbursements was in progress. In addition, the Company was also contemplating implementation of Global Cash Management System, which if implemented, would take care of this issue.

#### **8.5.6 Control over amount claimed by agents**

**8.5.6.1** Upto April 2001, M/s. Strachan Shipping Agency, (SSA) was seeking prior approval of the Company for reimbursement of expenses. However, from May 2001, it started netting the expenses from the amount payable to the Company. The Company instead of enforcing compliance regularised the arrangement and thereby lost control over the amount charged by SSA. SSA overcharged container monitoring fee by US\$ 281228 (Rs. 1.26 crore at an exchange rate of one US\$=Rs. 44.655), commission by US\$ 145589 (Rs. 65.01 lakh) and also other charges which could not be quantified. According to the commercial settlement of April 2006, SSA agreed to refund US\$ 54363 (Rs.25.28 lakh) to the Company. Further, SSA also agreed to refund a sum of US\$ 400000 (Rs.1.79 crore) towards telephone charges overcharged by them in 24 monthly instalments from April 2005 onwards.

The Management stated (October 2006) that the commercial settlement had been reached considering various aspects including agents' cash flow position and recoverability of the money and US\$ 283222 (Rs.1.26 crore) had been recovered. Clearly, the Company initially failed to monitor the expenditure charged by the Agent and there was no justification for granting time for recovery of the amount overcharged by the SSA.

#### ***Excess fee charged by the Far Eastern Services Private Limited***

**8.5.6.2** Far Eastern Services Private Limited, Singapore was appointed (August 1989) agent of the Company. By an amendment (February 1992) to the agreement, the agency fees and agency commission payable were fixed with retrospective effect from 15 July 1991. The amendment *inter alia* prescribed handling charges for transshipment containers and container monitoring fee. However, the amendment did not mention anything by way of monitoring fees on consortium partners', ship owner's and slot containers. But, Far Eastern Services Private Limited had been billing the Company for such containers. The excess container monitoring fees charged by the Agent during the period from August 1997 to March 2002 amounted to Singapore dollar 887759 (Rs.2.38 crore at an exchange rate of 1 Singapore \$= Rs.26.83).

M/s. Strait Ship Chandlers, Singapore (under the same management as that of Far Eastern Services Private Limited, Singapore) were the contractors for supplying various stores and spares at Singapore. Their bills for various items supplied upto 31 March 2003 amounting to Singapore \$1.241 million were pending for resolution of disputes like non-receipt of invoice, non-receipt of put on board certificate, very old bills pertaining to the period September 1987 to March 1997, etc. After negotiations with M/s. Strait Ship Chandlers and Far Eastern Services Private Limited, the Company arrived (April 2003) at a global settlement. Review of the settlement disclosed the following:

(a) According to the addendum of February 1992, no disbursement commission was payable to Far Eastern Services Private Limited. Further, there was no claim from them for such charges from the beginning. It was only at the time of global settlement in April 2003 that these charges were claimed by it. As such, payment of disbursement surcharge



of Singapore \$326000 (Rs.85.31 lakh\*) to Far Eastern Services Private Limited was irregular.

(b) The Company paid Singapore \$ 157398 (Rs.42.23 lakh at the exchange rate of one Singapore \$=Rs.26.83) to M/s. Straits Ship Chandlers without put on board certificate and non-contract approval. This payment was irregular as it did not fall within the laid down procedure for payment of bills by the Company.

(c) According to the settlement, the Company was to pay Singapore \$ 1.07 million (Rs.2.87 crore at the exchange rate of Singapore \$1=Rs.26.83) to M/s. Strait Ship Chandlers and receive Singapore \$ 0.56 million (Rs.1.50 crore) due from the Far Eastern Services. However, the Company paid (up to March 2003) Singapore \$ 0.91 million without deducting the receivable amount of Singapore \$0.56 million which was subsequently paid by the Far Eastern Services Private Limited in August 2005 after a delay of two years. This resulted in loss of interest and reflects lack of effective internal control in implementation of commercial settlement.

The Management stated (October 2006) that the fees charged by the Agent were as per their interpretation of the agency terms and the matter was resolved commercially by recovering the amounts charged for partners' containers.

The reply is not tenable as there was no proper system of checking the accounts submitted by M/s. Strait Ship Chandlers and Far Eastern Services Private Limited. If the accounts were properly checked in time, the excess charging by them would have been noticed and remedial action taken.

#### **8.5.7 Bank guarantee**

The procedure for appointment approved in December 1995 provided for obtaining bank guarantee from agents. However, the Company obtained bank guarantee from only 18 agents as of October 2006 out of total 84 regular agents. In case of M/s. Strachan Shipping Agency, though the Finance Division repeatedly suggested collecting a bank guarantee of US\$ one million, the Company did not obtain any bank guarantee from the Agent till May 2006 when it obtained a bank guarantee of US \$ 100000 only.

The Management stated (October 2006) that the procedural guidelines for obtaining bank guarantee from agents were under revision and a new set of guidelines would be put in place very soon.

#### **8.5.8 Deposits with customs, port trust, etc.**

The Company had to deposit in advance the statutory payments with the customs and port trust authorities. The Company opened running accounts with these authorities and the funds remitted by the Company and the expenditure incurred towards customs or port trust dues were credited/debited to the account opened in the name of the Company. The payments were made by way of demand draft/electronic fund transfer in favour of the respective port trust/customs authority.

As per the agreements with agents, they were required to submit the "Port Deposit" reconciliations on monthly as well as quarterly basis. On receipt of the monthly

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\*At an exchange rate of Singapore dollar 1 = Rs.26.17 as of August 2005

statement from the port authorities, agents would validate the various port related entries from their own accounts and prepare the reconciliation statement.

There were 70 such deposit accounts as on 31 March 2006. Though the Company was specifically requested (June 2006) to furnish the balance confirmation obtained from these agencies, the Company produced confirmation in the case of only 18 port authorities, out of which, only in five cases the balances exactly tallied with the book balance of the Company. Out of the 13 cases where the balances did not tally, in 11 cases the balance as per confirmation statement was Rs.3.09 crore whereas the balance as per the Company's books was Rs.12.55 crore. In the remaining two cases there was a negative balance of Rs.24 lakh as per confirmation statement whereas the balance as per the Company's books was a negative balance of Rs.3.06 crore which showed that deposits had not been made in time. Normally, there should not be any such negative balance.

It would be observed from the above that the system of obtaining balance confirmation was very weak and the Company should have held agents responsible for reconciling the balance with port trust/customs authorities.

#### ***Recommendation***

- Reconciliation of port/customs deposits on a regular basis as required in the agency agreement need to be ensured safeguarding the interests of the Company.

The Management stated (October 2006) that the recommendation had been noted.

#### ***8.5.9 Submission of audited freight and disbursement account***

As per the agency agreements, agents were required to submit every year freight and disbursement account audited by a Certified Public Accountant. However, so far only three agents out of 128 had submitted audited freight and disbursement accounts. The Company should have insisted on audited freight and disbursement accounts to ensure that all monies due to the Company were collected and deposited/remitted to the Company and only genuine expenses were included in the disbursement accounts.

The Management stated (October 2005) that the observations were noted for following up with agents.

#### ***8.6 Conclusions***

The Company did not have an effective system to ensure compliance with the contractual terms with agents regarding the following:

- (i) Opening of separate bank account and depositing all freight and other charges collected within prescribed time;
- (ii) Opening of separate bank account for expenditure and preventing netting of expenditure from freight collected;
- (iii) Timely receipt of accounts;
- (iv) Furnishing of bank guarantee.

The Company could not carry out timely reconciliation of accounts and resolution of ambiguities and the disputed terms and conditions. This led to blocking of Company's

funds and the agents charging the Company with excessive expenses besides involving the Company in unnecessary litigation.

The matter was reported to the Ministry in December 2006; reply was awaited (January 2007).