

Session on MoU Evaluation 2013-14

At

**Tagore Hall, SCOPE Complex
New Delhi**

29.08.2014

Outline of MoU Evaluation presentation

1. Self Performance Evaluation Report by CPSEs through Administrative Ministry/Department;
2. Documents to be considered in MoU Evaluation 2013-14;
3. Internal Evaluation by DPE;
4. MoU Evaluation by the Task Force;
5. Some common reasons of difference between scores of CPSEs & DPE in previous years;
6. New Features in MoU 2013-14 Evaluation;
7. Timelines.

1. Self Performance Evaluation Report by CPSEs

- ❑ CPSEs are required to submit performance **Self evaluation Sheet** on the basis of audited data along with Annual Accounts/Report, other documentary evidences in support of achievement of financial and non-financial parameters, etc. within the target date of 31st August, 2014;
 - ✓ Documents submitted should be authenticated and conclusive;
 - ✓ Compliance of DPE Guidelines as per MoU ;
 - ✓ Submit actual performance of the CPSE as per the Minutes or MoU.
- ❑ **Self evaluation sheet** should be approved by BoD of the CPSE and is to be submitted through Administrative Ministry by due date;
- ❑ **Self Evaluation sheet** includes, composite score as well as rating, calculated by CPSE;

2. Documents to be considered in MoU Evaluation 2013-14

The following documents are considered by DPE during MoU Evaluation;

- ❖ Minutes of the MoU Negotiation Meeting;
- ❖ Signed MoU along with Annexure;
- ❖ Self Evaluation Sheet submitted by CPSE through Administrative ministry/Holding CPSE ;
- ❖ In support of the self evaluation sheet following documents are required as detailed in MoU ;
 - ✓ Annual Report;
 - ✓ External Certificates.
 - ✓ Internal certificates signed by appropriate authority
- ❖ Specific comments or recommendations of Administrative Ministry :
- ❖ Report on commitment and assistance by Admin ministry/ Department
- ❖ Report on compliance of Corporate Governance;
- ❖ Certificate on compliance of DPE guidelines.

3(a) Internal Evaluation by DPE: Financial Parameter

- ❖ Computation of financial achievements should be as per definitions given in MoU Guidelines issued by DPE and Generally Accepted Accounting Principles & rules.
- ❖ Financial achievements should be as per Audited Annual Accounts.
- ❖ Financial achievements should be considered after making suitable adjustments for specific comment / recommendations as mentioned in Minutes of Negotiation meeting or MoU. So that actual performance reported is in line with as considered in MoU targets.

Example: Adjustment for Plant Shutdown, change in policy during the year for subsidy calculation, valuation of stock, foreign exchange rate variation etc.

- ❖ If there is any inconsistency between signed MoU and Minutes of Negotiation meeting, generally minutes of negotiation meeting is considered by Task Force .

3(b) Internal Evaluation by DPE: Non-Financial Parameter

- ❖ Non-Financial achievements should be as per the MoU Guidelines issued by DPE and as mentioned in Minutes or MoU. So that actual performance reported is in line with as considered in MoU targets;
- ❖ To the extent possible, the documents submitted in support of non-financial achievements should be independently verifiable and conclusive;
- ❖ In absence of the supporting documents for Non-financial achievements, this may entail an automatic downgrading by at least one notch from the rating claimed by CPSEs in respect of the parameters for which documentary evidence have not been submitted to DPE.

4. MoU Evaluation by the Task Force

- ❑ DPE evaluates Self Evaluation score sheets submitted by CPSEs through Administrative Ministry/Holding CPSE and send alongwith observations and comments to the concerned Task Force members;
- ❑ Task Force may accept the view of CPSE/ Ministry or DPE in specific circumstances or may take decision independently;
- ❑ Task Force finalizes the Minutes of Meeting (MoM) and recommends MoU Scores and Ratings for approval of HPC.
- ❑ If the rating of CPSEs gets adversely affected during internal evaluation (i.e. downgrading in rating between the self assessed score of CPSE and tentative score calculated by DPE), then opportunity by way of written/oral re-presentation is given to the concerned CPSE through administrative Ministry/Department .

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4. MoU Evaluation by the Task Force contd

- ❑ **Offsets:** Specific recommendation of the Administrative ministry regarding non achievement of specific targets by CPSEs for reasons beyond the control of CPSEs , if qualified , is examined and recommended for approval of HPC by the Task Force . However, the power to permit offsets in MoU evaluation for reasons developments beyond the control of the CPSE (force majeure), is with the High Power Committee.
- ❑ **Over-achievement of Targets:** It is observed that some CPSEs under-pitch their projected targets for the coming year during MoU negotiation meeting to plead their case for soft or low targets. In such cases, during MoU evaluation DPE/ Task Force may call upon the CMD of the CPSE to explain plausible reasons for such over-achievement due to under pitching of targets.

5(a) Financial Parameters : Common Definition/Interpretational Errors.

- Gross Margin/Gross Profit should be before Prior period adjustments or extra ordinary items.
- CPSEs include other income in Gross Sales/Gross Turnover.
- Sometimes, CPSEs include sales tax in calculation of the Gross sales .
- Net worth/Capital employed /gross block should be worked out on the basis of audited accounts of the CPSE as a whole, instead of considering only specific or individual Plant/units.
- Adjustment for Plant Shutdown Period has not been taken in to account while calculating financial as well as in non-financial parameters.
- In calculation of Gross Margin, CPSEs also consider other borrowing costs such as commitment charges, processing fee etc. as interest expenses, which should not be included in interest.
- For calculating the Added Value, CPSE consider Net profit instead of Gross margin.

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5(a) Financial Parameters: Common Definition/Interpretational Errors. Contd

- For arriving at the value of Gross Block, CPSE do not include Intangible assets, which should also be part of Gross Block.
- CPSE should take closing capital employed unless minutes state otherwise.
- While calculating Capital Employed; CPSE add CWIP in Gross Block which is not to be added as per DPE Guidelines.
- Secured & Unsecured loans, capital Grant Reserve and capital Grant are accounted by some CPSE for calculating working capital.
- Calculation of Cash Generation from operation should be as per AS-3.
- For working out PBDIT/Total Employment few CPSE has projected higher total employment (nos) but at the end of the year actual total employment (nos) is much lower. During Evaluation total employment as projected by CPSE at the time of MoU Negotiation is considered based on which MoU target was negotiated.

5(b) Non Financial Parameters: Common reasons of difference between calculation of CPSE & DPE during Previous Years.

- **Documentation** : No or inadequate documentation
- **Expenditure on R & D (%age of PAT):** CPSE has taken the parameter by considering R & D Expenditure as % of current year's PAT. However, as per guidelines it should be as per previous year's PAT.
- **Quality:** CPSE has taken 'Excellent score' as achievement for this sub parameter. However, Date of issue is not mentioned on certificates to support actual achievement of MoU targets.
- **Customer Satisfaction (No. of Acceptance /No. of transactions) (%):** CPSE has not submitted self evaluation and score as evaluated by the external agency appointed by the CPSE.
- **Reduction in Receivables (Sundry Debtors):** CPSE has taken achievement for this parameter on net basis i.e Net of increase of receivables and decrease of payables.

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5(b) Non Financial Parameters: Common reasons of difference between calculation of CPSE & DPE during Previous years Contd

- **Completion of unit under Project Implementation parameter.** The CPSE has shown as achieved with improper milestones whereas upon clarifications explained that the project subsequently was found to be unviable and the company has further decided not to implement. .
- **CPSE has considered a fixed % utilization (good) of CAPEX fund for infrastructural development.** As per documents produced, actual utilization of the fund has not taken place during the year.
- **CPSE has claimed excellent rating on Quality (Implementation of HACCP, Organic Certificate, GAP and ISO 22000).** However, the same is not implemented during the year.

6 (a) New Features in MoU 2013-14 Evaluation Report on Commitment & Assistance

The performance of CPSEs is to be assessed with reference to the commitments made and actual assistance given by Administrative ministry to CPSEs ,which is to be quantified and a Report along with Performance Evaluation Score of CPSEs is to be submitted by the Administrative Ministries/Departments to DPE. This report will be put up DPE for review by HPC, which is headed by Cabinet Secretary.

Some illustrative examples are :

- Submission of proposal for approval of Cabinet .
- Payment of Subsidy or financial package to CPSE.
- Expediting environmental clearance or land acquisition cases through state governments.
- Appointment of Functional or independent Directors .

6(b) New Features in MoU 2013-14 Evaluation

Negative Marking: DPE Guidelines

- CPSEs have to give a Certificate regarding implementation of Guidelines issued by DPE as per OM No.-DPE/14(38)/10-Fin dated 28th June, 2011.
- Non compliance of DPE guidelines on the basis of certificate submitted will be penalized up to 1 mark as the discretion of Task Force (i.e. MoU score can be increased by 0.04) based on the degree of Non Compliance .

6(c) New Features in MoU 2013-14 Evaluation Negative Marking: Corporate Governance

- Non-Compliance of Corporate Governance will be penalized by way of negative marking and MoU score will be increased in the following manner in accordance with DPE OM 18(8)/2005-GM, dated 22nd June, 2011.

SI	Annual Score	Grading	Penalty Marks	Diff.in Score from 'Excellent' Grade
1	85% and Above	Excellent	0	0.00
2	75%-84%	V.Good	0	0.00
3	60%-74%	Good	0.5	0.02
4	50%-59%	Fair	0.5	0.02
5	Below 50%	Poor	1.0	0.04

7. Timelines for MoU 2013-14 Evaluation

- ❖ CPSE has to submit self evaluation report latest by 31st August, 2014 through Administrative Ministry/Department to DPE.
- ❖ CPSE also has to submit online survey data by 31st August, 2014 .
- ❖ CPSE also has to submit MoU 2013-14 in the online MoU system i.e. RFMS-MoU system by 31st August, 2014 .

Thank You