CHAPTER V

Analysis of Memoranda of Understanding between Administrative Ministries and CPSEs

5.1 Introduction

Memorandum of Understanding (MOU) is a mutually negotiated agreement between the Administrative Ministry and the Management of Central Public Sector Enterprises (CPSE) to fix targets before the beginning of a financial year and is intended to evaluate the performance of the CPSE vis-à-vis these targets. It contains the intentions, obligations and mutual responsibilities of the CPSE and the Government and is directed towards strengthening CPSE management by results and objectives rather than management by controls and procedures. The subsidiary companies of CPSEs are required to sign MOUs with their holding companies.

5.2 Institutional arrangement

Department of Public Enterprises (DPE) serves as a facilitator between the CPSEs and Administrative Ministries and provides a mechanism to evaluate the performance of the management of CPSEs. It provides a system through which MOU targets are set and the commitments of both the parties are evaluated at the end of the year. The institutional arrangements and their inter-linkages are as follows:

- **High Power Committee:** At the apex level, a High Power Committee (HPC) headed by the Cabinet Secretary approves the final evaluation as to how far the commitments made by both the parties have been met.
- **Inter-Ministerial Committee:** The Inter-Ministerial Committee (IMC) consists of Secretary DPE as its Chairman, Secretary of concerned Administrative Ministry or his representative, Secretary, Ministry of Statistics and Programme Implementation or his representative, Additional Secretary, NITI Ayog or his representative as its other members. Secretary, DPE may also co-opt any officer who is a finance expert, in case the need is felt. The role of IMC is to assist the HPC on MOU and DPE in setting MOU targets of CPSEs before the beginning of the financial year and performance evaluation of MOU after completion of that year.
- **MOU Division at DPE:** The HPC and IMC are assisted by the MOU Division in DPE, which also acts as the permanent secretariat to HPC and IMC.

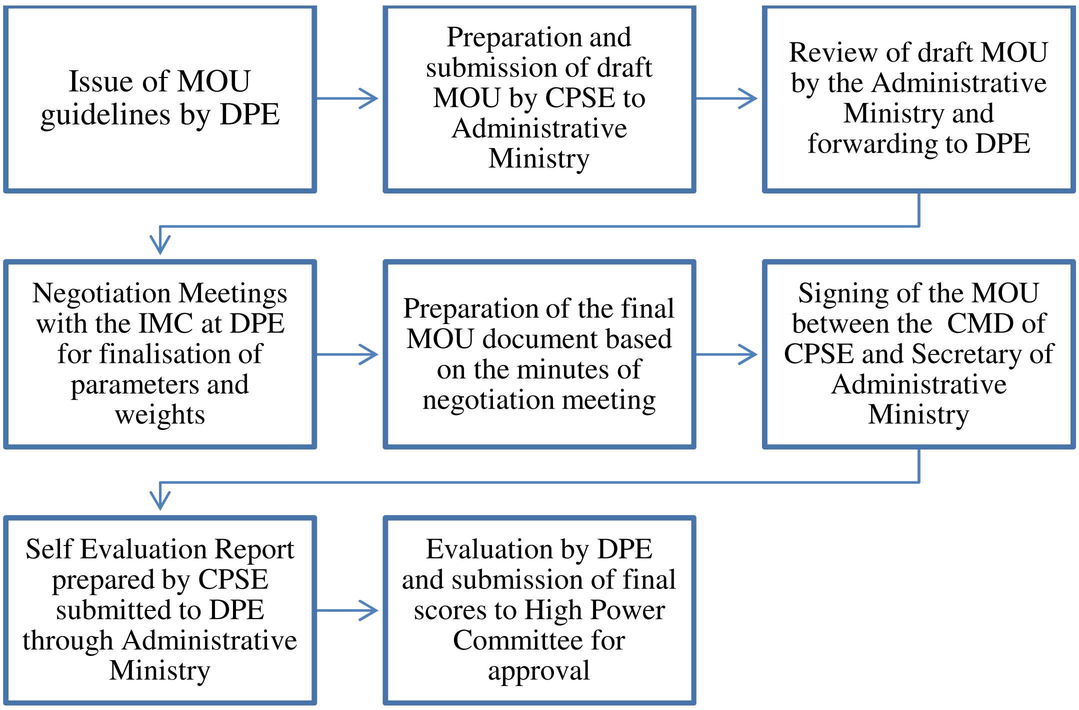
5.3 MOU targets for performance assessment and rating

MOU 2015-16 consisted of two parts, financial targets or static parameters and non-financial targets or dynamic parameters, having equal weights of 50 *per cent* each. Financial parameters relate to turnover, profitability and various financial ratios whereas non-financial parameters cover project implementation, productivity and internal processes, technology, quality, innovative practices as well as sector specific parameters. However, in the MOU 2016-17 no such segregation was done. The IMC, in consultation with the CPSE and Administrative Ministry, fixes the target and weight for each parameter.

With a view to distinguish 'Excellent' and 'Poor' performance, each parameter is evaluated on a five point scale, i.e., five for 'Excellent' followed by a reduction of one point each for 'Very Good', 'Good', 'Fair' and 'Poor'. The actual performance of the CPSE is reflected in the raw score for each parameter and a composite score calculated by aggregating the weighted scores of individual parameters.

5.4 Process of finalisation and evaluation of MOU

The process of MOU target setting and evaluation is given below:



5.5 Coverage of analysis

This analysis covers MOU of 17 'Navratna' CPSEs for the years 2015-16 and 2016-17. While various aspects relating to finalisation and evaluation of MOU for the year 2015-

16 were examined in audit, evaluation of MOU for the year 2016-17 was not examined since the same was not completed (September 2017). Details of the 17 'Navratna' companies selected for analysis and their MOU rating for the period 2011-12 to 2015-16 are given in **Appendix-XIV.**

5.6 Objectives of analysis

The objective of analysis was to assess whether:

(i) MOU was finalised in accordance with DPE guidelines and targets were realistic and as per the Annual Plan of CPSEs;

(ii) There was effective mechanism in DPE/Administrative Ministries for validation of the information/data submitted by CPSEs;

(iii) The CPSEs received commitment/assistance from the Government as agreed to in the MOU;

(iv) Periodical returns/reports were submitted by CPSEs to Administrative Ministry /DPE in time; and

(v) Achievements were in line with MOU targets.

5.7 Audit findings

Audit examined the MOU 2015-16 and MOU 2016-17 signed by the 17 'Navratna' CPSEs with their Administrative Ministries and their Performance Evaluation Reports (PER) for the year 2015-16. Audit findings are discussed in the succeeding paragraphs. The replies of CPSEs, wherever received, have been suitably incorporated.

5.7.1 Setting of soft MOU targets

MOU guidelines 2015-16 and 2016-17 provided that targets should be realistic yet growth oriented, inspirational and consistent with the proposed Annual Plan, Budget, Corporate Plan of the CPSE and Results Framework Document of the Ministry/ Department. The targets should be the maximum achievable under the given and anticipated circumstances and the basic target of relevant financial parameter should be determined on the basis of projection based on actual achievement of last five years. Audit noticed that targets were not fixed in line with the MOU guidelines in seven out of 17 ‘Navratna’ CPSEs covered in audit. CPSE-wise observations noticed are discussed below:

5.7.1.1 Audit observed that MOU targets[55] for Power Finance Corporation Limited (PFC) were fixed lower than the actual achievement in previous years in respect of some parameters as detailed in Table 5.1 below:

[55] ***All target references are for ‘Excellent’ target***

Table 5.1

Parameter	Target/Actual	2014-15	2015-16	2016-17
Resource mobilisation (₹ crore)	Target	44000	44400	Not a parameter (NAP)
	Actual	60276	63974	
Sanctions excluding IPDS (₹ crore)	Target	55000	55000	55000
	Actual	60784	65042	Awaited
Revenue from operation (₹ crore)	Target	NAP	NAP	26000
	Actual	24862	27474	26716
Operating profit (₹ crore)	Target	NAP	NAP	8130
	Actual	8333	8969	Awaited
PAT/Net-worth (Percentage)	Target	14.69	16.47	14.50
	Actual	18.50	17.09	Awaited
PAT/No. of employees (₹ crore)	Target	8.47	11.32	NAP
	Actual	13.36	13.59	

PFC stated (September 2017) that the targets were set by IMC based on existing power sector scenario and reasons for lower target were discussed and recorded in IMC meetings.

5.7.1.2 In case of parameters related to Rural Electrification Corporation Limited (REC) indicated in the following table, targets were fixed on lower side compared to its actual achievement in previous years.

Table 5.2

Parameter	Target/Actual	2014-15	2015-16	2016-17
Revenue from operations (₹ crore)	Target	Not a parameter (NAP)		21500
	Actual	20230	23638	23351
Loans sanctioned (₹ crore)	Target	NAP		56000
	Actual	61421	65471	Awaited
Operating profit as a percentage of revenue from operation	Target	NAP		26
	Actual	35.93	33.53	Awaited
Borrowing/Net-worth (%)	Target	NAP		460
	Actual	528	485	Awaited
PAT/Net-worth (%)	Target	14.8	16.83	17
	Actual	21.16	19.66	Awaited
PAT per employee (₹ lakh)	Target	480	628	NAP
	Actual	864	932	NA
NPA/Loan assets (Gross) (%)	Target	3.9	3	NAP
	Actual	0.74	2.11	NA
Interest rate spread (Rate)	Target	2.6	2.69	NAP
	Actual	3.68	3.4	NA

Sanctions (₹ crore)	Target	50000	56100	NAP
	Actual	61421	65471	NA
Resource mobilisation (₹ crore)	Target	26000	35000	NAP
	Actual	41190	52027	NA

REC stated (October 2017) that justification for lower targets were explained to the MoP before they were forwarded to DPE and again deliberated in IMC. It also stated that sector specific parameters may not be directly correlated with previous targets as these might vary from year to year based on the priorities of the government programmes.

The reply is not tenable as the performance has improved consistently over time, indicating that the targets were under-pitched by the Company.

5.7.1.3 Power Grid Corporation of India Limited (PGCIL) fixed targets on lower side compared to its actual achievement in the previous years for some parameters as tabulated below.

Table 5.3

Parameter	Target/Actual	2014-15	2015-16	2016-17
PAT/Net-worth (%)	Target	Not a parameter (NAP)	12.33	13.80
	Actual	13.09	14.15	Awaited
No. of tripping per line attributable to PGCIL	Target	1.50	1.50	NAP
	Actual	0.53	0.66	NA
Certification of PGCIL employees in project management	Target	33	50	NAP
	Actual	83	132	NA

PGCIL stated (October 2017) that the parameter on PAT/Net-worth was not available prior to 2015-16. The target for 2015-16 was set considering revised tariff regulation (2014-19) and available estimates as the audited financial results of 2014-15 were not available. Tripping per line were unpredictable and it was not possible to improve the parameter further and hence the same was dropped from the MOU for 2016-17.

The reply is not acceptable. The targets were to be proposed based on the past performance for the last five years and not based on the performance of immediately preceding year. It was seen that the actual performance of the above parameters in previous years were higher than the target fixed in 2015-16 and 2016-17. PGCIL did not offer any comment on MOU target for 'certification of PGCIL employees'.

5.7.1.4 MOU target of Hindustan Aeronautics Limited (HAL) for 2015-16 in respect of 'EBITDA/Net block' was fixed lower than the actual achievement in the previous five years.

Reply from HAL was awaited (November 2017).

5.7.1.5 The targets fixed for National Aluminium Company Limited (NALCO) in MOU 2015-16 in respect of 'PAT/Net-worth' and 'EBIT/Average capital employed' were lower than the actual achievement in the previous year.

NALCO stated (October 2017) that better performance over and above the MOU target was secured due to operational improvements.

The reply is not tenable. MOU guidelines mandate fixing targets on realistic and growth oriented manner, which was not done in this case.

5.7.1.6 Targets of NLC India Limited (NLC) in respect of 'EBIT/ Average Capital Employed' and 'Current ratio' in MOU 2015-16 and 'Dividend to Net-worth' in MOU 2016-17 were fixed lower than the actual achievement in the previous years. The target for 'utilisation of fly ash' was fixed at 70 *per cent*, though Ministry of Environment and Forest had prescribed 100 *percent* utilisation.

NLC stated (September 2017) that the targets might not always be comparable with achievement in previous years. Parameter on fly ash utilisation was not included in draft MOU, but later Standing Committee/IMC proposed for it.

The reply is not acceptable. In terms of MOU guidelines, basic target of relevant parameter was required to be determined on the basis of projections based on actuals of last five years. Besides, the guidelines mandating 100 *per cent* fly ash utilisation was also not adhered to.

5.7.1.7 NLC did not include mandatory parameters on 'costs and output efficiency' as part of MOU 2015-16. Similarly, weightage of parameter on 'profitability' exceeded the limits prescribed in the guidelines.

NLC stated (September 2017) that after detailed deliberation, it was decided to consider more important and relevant parameters.

The reply is not acceptable as the non-inclusion of mandatory parameters and excess weightage to parameters were not in line with MOU guidelines.

5.7.1.8 The Shipping Corporation of India Limited **(**SCI) assigned a weightage of 14 to the parameter on 'Sales turnover excluding interest and other income' in MOU 2015-16 and the same was distributed among three segments. For an 'Excellent' rating, weightage of 7 was assigned to 'Bulk carrier and tankers' segment (turnover: ₹3256 crore), weightage of 4 was assigned to 'Offshore' segment (turnover: ₹286 crore) and weightage of 3 was assigned to 'Liner' segment (turnover: ₹1079 crore). The weights assigned to the segments were thus disproportionate to their contribution of revenue.

SCI stated (September 2017) that the weightages were recommended based upon the prospects of the segment in the ensuing year and the same was accepted by the IMC.

The reply needs to be viewed against the fact that the weight was not equitably allocated to the targets proposed in the MOU for different segments. The prospects of the revenue earning capability of segments was reflected in the targets fixed for achievement.

DPE stated (March 2018) that MoU targets of a parameter are negotiated by task force/IMC with management of CPSEs based on past achievements and projections of current year considering the macro economic scenario and sector/CPSE specific condition.

The reply that MOU targets were based on past achievements is not tenable as in a number of CPSEs reviewed (7 out of 17), the MoU targets were fixed lower than the actual achievement in previous years.

5.7.2 Performance under MOU and self-evaluation by CPSEs

5.7.2.1 Inconsistency in parameter value in PER and IMC meeting

MOU 2015-16 target of NBCC (India) Limited (NBCC) for parameter 'ratio of new consultancy work orders on nomination basis to work orders on tender basis' was fixed as 70:30. As per the PER (November 2016) for 2015-16, achievement against this parameter was 75:25 ('Very good' rating). On the other hand, while fixing targets for MOU 2016-17, NBCC informed (June 2016) the IMC that the achievement against this target in 2015-16 was approximately 90:10 due to which a soft target of 90:10 was set for 2016-17.

NBCC stated (September 2017) that based upon historic trend, during IMC meeting, it informed that the ratio was 90:10 (approx.) and this statement could not be considered a specific statement with regard to any MOU parameter but a general statement based on the trend of business orders secured over the years. Also, the achievement of ratio of 75:25 for the year 2015-16 could not be considered as a standard achievement for NBCC over the years. DPE further stated (March 2018) that 'Ratio of New Consultancy work orders on nomination basis to work orders on tender basis' was not given as parameter for the MOU of NBCC for the year 2016-17.

The reply is not acceptable as NBCC reported 75:25 ratio in PER 2015-16, whereas in IMC meeting for finalisation of MOU target for 2016-17 the same was intimated as 90:10. Though the parameter for 2016-17 had changed to "New consultancy orders secured during the year", it was evaluated considering a 90:10 ratio of work orders secured through nomination basis and through competitive bidding.

5.7.2.2 Improper evaluation of achievement

Audit observed the following regarding evaluation of achievement of the selected CPSEs:

(i) While evaluating achievement against MOU 2015-16, Bharat Petroleum Corporation Limited (BPCL) used product rates considered at the time of fixing targets for working out turnover. DPE had instructed (November 2016) to adjust the targets at the time of evaluation in case of variation in product price. Hence, the turnover (both target and achieved) should have been worked out based on actual rates, which was not done leading to reporting of better performance.

BPCL agreed (October 2017) that signed MOU specified that adjustments would be allowed for any variations in selling prices. DPE stated (March 2018) that the assumptions of product prices for evaluation had been taken from the minutes of task force meeting conducted for target fixing of BPCL for the FY 2015-16.

The reply of DPE confirms that no adjustment was carried out in the prices proposed in the MOU vis-à-vis actual prices.

(ii) As per MOU guidelines 2016-17, CPSEs which were not 'Excellent' rated had to comply with some additional conditions, failing which their rating was to be reduced by score of 5 from the composite score. One such condition was that there should not be any adverse observation by C&AG on annual accounts pointing out misappropriation of funds of any amount/ over/ under statement of profit/ loss (surplus/ deficit) assets/ liabilities amounting to 0.1 percent of revenue from operations. Annual accounts of SCI[56] for the year 2016-17 included C&AG's comment on 'overstatement of profit and trade receivables by ₹6.05 crore'. The impact of this comment worked out to 0.176 percent of the revenue from the operations (₹3447 crore). SCI, however, did not reduce its composite score in the PER 2016-17.

SCI stated (October 2017) that reduction in marks on account of non-compliance of the additional eligibility criteria would be done at the discretion of the Standing Committee/IMC.

The Department of Public Enterprises (DPE) stated (March 2018) that due to the adverse observation of CAG on annual accounts of SCI pointing out 'overstatement of profit and trade receivables, 5 marks have been reduced from the composite score during evaluation of performance at DPE.

5.7.2.3 Imperfectly defined parameter

MOU 2015-16 of NBCC did not specify the basis for assessing the parameter 'New orders during the year'. NBCC, in the PER for MOU 2015-16, considered a list of 61 projects as new orders secured during 2015-16. However, MOU for 20 out of these 61 projects were signed during 2014-15. As such, these 20 projects should not have been considered as new orders secured in 2015-16.

Also the parameter 'New orders during the year' of MOU 2015-16 did not specify whether real estate acquisitions/ developments of NBCC should be counted for achievement against this parameter. NBCC included works valuing ₹426.19 crore in respect of real estate projects as work orders secured during 2015-16. Real estate

[56] *SCI had been rated 'Very Good' for 2012-13 to 2015-16*

works, being NBCC's own works, should not have been considered as new orders secured during 2015-16.

NBCC stated (September 2017) that for taking a project as secured, many parameters such as availability of land by client, approval of concept plan/estimates, statutory clearances etc. were to be considered and real estate works were secured through investment/internal resources. It also stated that real estate projects also contribute towards company's turnover, profits and net-worth and therefore, these could not be treated as own projects and were rightfully considered as 'New work orders secured'.

DPE further stated (March 2018) that figures were taken from the Annual report for the purpose of evaluation of performance.

Audit noticed that some MOUs entered in 2014-15 were considered as order secured during the year 2015-16 for the purpose of evaluation of performance. Thus, ambiguity in defining this parameter has resulted in reckoning of performance beyond the prescribed period and own works as new work orders secured.

5.7.3 Benchmarking with national and international peers

As per MOU guidelines 2015-16 and 2016-17, CPSEs were to provide information on national/international benchmarks pertaining to financial/non-financial parameters as applicable. The Ministry/Department was also required to give a background note on the performance of the sector as well as CPSE along with applicable benchmarks while sending the MOU for 2015-16 for consideration of the IMC. MOU guidelines 2016-17 also required benchmarking of MOU parameter of Navratna CPSEs at least with best performing company in private sector at national level. Audit observed that:

(i) PGCIL did not carry out benchmarking exercise in 2016-17 with comparable global transmission utilities.

(ii) Bharat Electronics Limited (BEL), HAL and SCI did not carry out benchmarking exercise with national and international peers during the year 2015-16 and 2016-17.

(iii) NALCO did not carry out benchmarking exercise with peer companies on national and international level during the year 2015-16.

(iv) Benchmarking exercise of NLC restricted comparison of two parameters, viz., 'Output per man shift' with Coal India Limited (CIL) and 'Plant load factor' with all India, Central sectors and NTPC Limited.

The CPSEs replied as under:

- PGCIL stated (October 2017) that it did not carry out benchmarking with international utilities since the guidelines were modified in 2016-17.

- HAL stated (October 2017) that since it was operating in a unique aerospace sector with multiple products/ divisions, benchmarking with global companies was difficult.
- SCI stated (September 2017) that comparison was not feasible with other shipping companies specialising in specific segments/routes only.
- NLC stated (September 2017) that it was unjust to compare any mining industry considering the uniqueness of mining operation.
- BEL and NALCO did not offer any reply.

DPE stated (March 2018) that as per MoU guidelines, targets were to be proposed based on benchmarking studies by the CPSEs through the Administrative Ministry after taking into consideration appropriate targets based on benchmark for the industry. Since Administrative Ministry have forwarded MOU targets, these were duly considered by Task Force/IMC.

The replies confirm that the CPSEs did not adhere to the MOU guidelines and purpose for which the benchmarking was stipulated did not materialise. Though, in case of some CPSEs (PGCIL, HAL, SCI etc.), national level comparison was not feasible due to their unique position in the market, international comparison could have been carried out. Regarding PGCIL's reply that the guidelines in this regard were modified in 2016-17, it may be noted that the modification required comparison with best performing private sector player at national level. Comparison with international peers was required as per MOU guidelines of 2015-16 and 2016-17. CPSEs did not comply with the MOU guidelines for benchmarking against national and international peers.

5.7.4 Commitment from Administrative Ministry

MOU guidelines 2015-16 stipulated that considering the importance of Independent Directors, specific commitment from the Administrative Ministries/Departments regarding timely action on filling up position of non-official directors on the Board of CPSE concerned would be incorporated in MOU of the CPSEs concerned, wherever applicable. The MOU guidelines 2016-17 provided an additional eligibility criterion for 'Excellent' rating whereby CPSEs were asked to adhere to the compliances of provisions of Listing Agreement and Companies Act, 2013 to the extent the same were within the ambit of CPSEs and compliance of DPE guidelines having financial implications.

As per Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and DPE guidelines on Corporate Governance for CPSEs 2010, Board of Directors of CPSEs should consist of 50 *percent* Independent Directors. In this regard Sections 149(4) and 149(1) of the Companies Act, 2013 also require every listed public company to have at least one-third of the total number of Directors as Independent Directors and at least one woman Director, respectively.

In this regard, it was observed that:

- The Board of Directors of PFC, PGCIL, BPCL, BEL and CONCOR were not represented by required number of Independent Directors during 2015-16 and 2016-17 while Hindustan Petroleum Corporation Limited (HPCL) and Engineers India Limited (EIL) did not have required number of Independent Directors on its Board during 2015-16.
- There has been no woman Director on PFC Board since 2012-13 though statutorily required to have at least one. BPCL Board also had no woman Director during 2016-17.
- Specific commitment from the Administrative Ministry for filling up of the required number of Independent Directors was not incorporated in the MOU 2015-16 of BEL.

REC, BEL PFC, PGCIL and EIL stated (September /October 2017) that they had been taking up the matter with the Administrative Ministry from time to time. HPCL stated (October 2017) that appointment of Independent Directors was done by the Ministry of Petroleum & Natural Gas (MoPNG) and requirement for timely action from the Ministry towards this was incorporated in the MOU. DPE stated (March 2018) that the report on commitment assistance provided by Administrative Ministry was put up to the Chairman HPC along with MOU evaluation.

The reply of DPE does not address the under representation of non-official directors (independent/women directors) in the CPSEs commented upon.

5.7.5 Non-compliance of guidelines on MSME

As per MOU guidelines 2015-16, CPSEs were required to comply with the Public Procurement Policy for Micro, Small and Medium Enterprises (MSMEs) Order dated 25.04.2012. Non-compliance of this would be penalised up to one mark. The above order also required that from 2015-16 onwards, at least 20 *percent* of CPSEs requirement should be procured from MSME. Audit observed that PFC, PGCIL and Mahanagar Telephone Nigam Limited (MTNL) did not achieve the above target during 2015-16.

PFC stated (August 2017) that one mark was deducted from its composite score of 2015-16 on this account. PGCIL stated (October 2017) that majority of its procurement did not fall in the category of products and services offered by MSMEs. MTNL stated (November 2017) that these guidelines were against its interest in view of the competitive environment and fast changing telecom technology.

DPE stated (March 2018) that while evaluating the actual performance of CPSEs, one mark has been deducted from the composite score of PFC, PGCIL and MTNL for non-compliance of Public Procurement Policy.

The reply of CPSEs is not tenable as an exemption from the applicability of MSME orders was not obtained nor were the constraints in achieving the target incorporated in MOU. Further, the reply of DPE substantiates the audit point.

5.7.6 Submission and signing of MOU

5.7.6.1 Submission of MOU to DPE/ Administrative Ministry

- MOU guidelines 2015-16 required submission of main copy of MOU to DPE latest by 19.12.2014. However, it was observed that HAL sent the main copy of MOU 2015-16 to DPE on 27.01.2015, after a delay of 38 days.
- MOU guidelines 2016-17 required a CPSE to submit its draft MOU to the Ministry concerned by the due date (15.05.2016), after due approval from its Board. However, it was observed that MTNL submitted draft MOU 2016-17 to the Department of Telecommunications without approval from its Board.

While HAL did not offer any comments, MTNL stated (October 2017) that the draft copy of the MOU for 2016-17 was submitted on 15.01.2016 after due approval of CMD. DPE stated (March 2018) that it had considered the MOU and Self Evaluation as forwarded by the Administrative Ministry of the CPSEs.

5.7.6.2 Signing of MOU

As per MOU guidelines 2016-17, the MOU with all documents/annexures, after the approval of Administrative Ministry/Department should be sent to DPE by 15.05.2016. It further provided that MOU between CPSE and Administrative Ministry/Department and between subsidiary and apex/holding CPSEs should be signed by 30.06.2016 or within 15 days from the issue of minutes of IMC meeting, whichever was later. Audit observed that there were delays in signing the MOU:

- PFC signed MOU 2016-17 on 01.09.2016, after a delay of 32 days from the prescribed timelines.
- REC signed MOU 2016-17 on 23.08.2016, after a delay of 26 days from the prescribed timelines and MOU between REC and its subsidiary REC Transmission Projects Limited was signed on 09.11.2016.
- In the case of NMDC Limited (NMDC), the IMC meeting for MOU 2016-17 was held on 10.06.2016 and minutes issued on 20.06.2016 whereas MOU was not signed till 06.10.2016.

PFC stated (September 2017) that 15 day timeline was to be considered from the date of authentication of MOU by DPE and it signed MOU within 15 days from the date of its authentication (23.08.2016). REC stated (October 2017) that there was no delay in signing MOU with MoP or with RECTPCL because DPE issued authenticated copies of MOU on 28.07.2016 and 08.11.2016, respectively. NMDC did not furnish its comments.

DPE stated (March 2018) signing of MOU depends on conclusion of meeting for finalisation of MOU targets. MOU Guidelines 2016-17 has not prescribed any penalty for late signing of MOU.

5.7.7 General

DPE encourages hosting of the MOU of the CPSEs on their respective websites. It was, however, observed that PFC, HAL and SCI did not host their MOU for both 2015-16 and 2016-17 on their websites. Similarly, REC and MTNL did not host MOU 2015-16 and MOU 2016-17 respectively on their website.

PFC and SCI stated (September 2017) that MOU were not hosted on websites on account of confidentiality of business targets. PFC, REC, HAL and MTNL stated (September/ November 2017) that web hosting of MOU was not mandatory.

DPE stated (March 2018) that after authentication of MOUs, it advised Administrative Ministry/CPSEs to lay signed MOU in Parliament and upload the same on their website.

CPSEs, however, have not adhered to the DPE directives.

5.8 Conclusion and recommendations

Analysis of MOU of 17 'Navratna' companies for 2015-16 and 2016-17 revealed that the targets fixed in MOU by seven of them were not in line with the MOU guidelines, the targets fixed being lower than the actual achievement against these parameters in the previous years. The under-pitching of targets helped the CPSEs to achieve better ratings. Improper evaluation of parameters were also noticed in three CPSEs. The MOU guidelines mandated benchmarking of parameters with reference to national and international peers. However, six CPSEs did not carry out the benchmarking exercise. Though the MOU guidelines mandated the CPSEs to incorporate necessary commitment from Administrative Ministry in the MOU for filling up of non-official Directors on their Board and for compliance of provisions of Listing Agreement and Companies Act regarding independent and woman Directors, some positions of independent and woman Directors in 8 CPSEs were lying vacant.

Audit suggests the following recommendations for the consideration and implementation by DPE, CPSEs and their Administrative Ministries:

- **It may be ensured that the MOU are prepared and finalized within stipulated time, in accordance with the DPE guidelines with due attention on fixing targets that can lead to improved performance of CPSEs.**
- **The validation process at DPE may be strengthened to ensure that any incomplete or incorrect information and/or certification can be detected before final evaluation of the MOU through proper coordination with other Ministries and stakeholders.**

DPE stated (March 2018) that a new para in respect of setting up of targets has been added in the MOU Guideline 2017-18 and most of the concerns expressed by Audit were taken care of.

Audit noted the action taken by DPE.