

## Chapter – 5 Governance Issues

*This chapter deals with the issues relating to governance by the Board of Directors and the oversight by the Administrative Ministry.*

### Governance by the Board of Directors

5.1 The Board of Directors is responsible for good governance in the Company and providing stewardship and direction and, therefore, it is imperative that the Board monitors the key areas of operations and directs suitable remedial action wherever the operations are not progressing as intended. The effectiveness of the Board lies in the Management actually implementing the remedial action directed by the Board.

5.2 As discussed in the earlier chapters, our analysis revealed:

- delays in the two Capacity Expansion projects (Deposit 11B and Kumaraswamy project);
- inadequate Evacuation Capacity at Bailadila sector; and
- infirmities in fixation of prices for sale of ore.

5.3 Although a total of 63 Board Meetings were held between April 2005 and March 2012, audit review of the Board Meetings revealed that the Board did not adequately monitor the progress of the projects and did not provide guidance to safeguard Company's interests in the domestic LTA as discussed below:

- Although the Board discussed in several meetings, the award of works for appointment of consultants for project Deposit 11B and Kumaraswamy project and the additional capital outlay for these projects, the progress of implementation of these projects was not discussed by the Board. Later in March 2010, as per the directions (January 2010) of the Ministry of Steel, the Board constituted a sub-committee of Directors to monitor the progress of expansion schemes.
- Seven meetings of the sub-committee of the Board have been held since April 2010 till March 2012 to review the progress of various projects. The sub-committee has been insisting on the expeditious completion of project activities and analysis of delays in implementation. The minutes of the committee are being put up to the Board. While the overall effectiveness of such reviews will be known in due course, it is felt that for each project, the sub-committee minutes should invariably indicate the work planned to be

**The Board of Directors is responsible for good governance in the company and is expected to monitor key areas of operations and take remedial actions if the operations are found not to progress as intended.**

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**There were delays in implementation of two capacity expansion projects. NMDC was also saddled with inadequate evacuation capacity at Bailadila sector. There were issues relating to price revision as well.**

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**Although the NMDC's Board held 63 meetings between April 2005 and March 2012, we noticed that the Board did not adequately monitor certain high risk areas of operations.**

completed, actually completed, reasons for delay, if any and the proposed work to be completed after the meeting date with specific milestones and timeframes.

- The issue of inadequate evacuation facility at Bailadila sector was discussed in the Board Meeting held in July 2008 wherein, in-principle approval was given for laying of slurry pipeline from Bailadila to Visakhapatnam at an estimated cost of ₹ 2,500 crore. However, work for preparation of Techno Economic Feasibility Report (TEFR) was awarded to MECON only in June 2010 after a period of nearly two years. The Board failed to take feedback on the progress of the project.
- The Ganeshan Committee recommendations which proposed revision in prices on mid-term basis were approved by the Board in July 2005 and the same recommendations were included in the Domestic LTA signed in August 2005. The Board, however, did not provide any guidance regarding clarity of terms relating to revision in prices, i.e., when exactly to effect the revision in prices and by how much. There remained ambiguity in terms of LTA which resulted in the Company suffering loss of revenue.

### Oversight by the Administrative Ministry

5.4 The Company enters into MOU with the administrative ministry (Ministry of Steel) every year. As per the achievements, the performance of the Company was ranked as “Excellent”. However, the observations of Audit on the MoU targets are given below.

**Table 18: Table indicating the MoU parameters relating to project implementation during the last three years ended March 2012**

Year	Parameter (Target - Weightage)	Remarks of Audit
2009-10	<ul style="list-style-type: none"> <li>• 11B – Completion of sub-station work (31.12.2009 - 2)</li> <li>• 11B – Starting of trial run of Package-1 (31.01.2010 - 1)</li> <li>• 11B – Starting of trial run of Package-2 (31.01.2010 - 1)</li> <li>• KIOM – Award of works for Package-1 (30.09.2009 - 1)</li> </ul>	No weightage was given to the projects viz., doubling of KK line between Kirandul and Jagdapur and laying of pipeline from Kirandul to Vizag, which were proposed to be taken up for increasing the evacuation capacity.
2010-11	<ul style="list-style-type: none"> <li>• KIOM – Placement of order for Package-3 (31.12.2010 - 1)</li> <li>• Preparation of TEFR for beneficiation, transportation of fines/ slimes from Bailadila to Vizag through pipeline and pellet plant at Jagdalpur (31.01.2011 - 1)</li> </ul>	<ul style="list-style-type: none"> <li>• Even though the 11B project, with envisaged production capacity of 7 MTPA, was delayed beyond scheduled completion, no weightage was given for this project during 2010-11 and 2011-12.</li> </ul>
2011-12	<ul style="list-style-type: none"> <li>• KIOM – Completion of design and engineering for the Crushing Plant Package (30.11.2011 - 1)</li> </ul>	<ul style="list-style-type: none"> <li>• No weightage was given to projects facilitating evacuation during 2011-12.</li> </ul>

5.5 The Ministry in its Results Framework Document (RFD) for 2010-11 and 2011-12 set the following parameters in relation to execution of projects under implementation.

**Table 19: Table indicating the parameters in the RFD relating to execution of projects**

Year	Parameter (Target - Weightage)	Remarks of Audit
2010-11	<ul style="list-style-type: none"> <li>• KIOM – Ensuring placement for Package-3 (31.01.2011 – 4)</li> <li>• Preparation of TEFR for beneficiation, transportation of fines/ slimes from Bailadila to Vizag through pipeline and pellet plant at Jagdalpur (31.01.2011 – 2)</li> </ul>	The RFD is silent about 11B Project taken up at Bailadila Sector for creation of additional production capacity of 7 MTPA. As regards Kumaraswamy project, though there are five other packages (Packages 1, 2, 4, 5 and 6), which were not awarded till March 2010, no target date was set in the RFD.
2011-12	<ul style="list-style-type: none"> <li>• 11B – Starting trial production (31.01.2012 – 2)</li> <li>• KIOM – Completion of design and engineering for Crushing Plant package</li> </ul>	In respect of Kumaraswamy Project, though there were three packages (Package 4, 5 and 6) which were not awarded till March 2011, no target date was set in the RFD.

KIOM – Kumaraswamy Iron Ore Mine.

5.6 We are of the view that the Ministry needs to set targets for all important activities/projects of the Company.

### Response of the Ministry

5.7 *In reply the Ministry stated (July 2012) that the Board of Directors of the Company meets frequently and takes stock of the progress of various projects mainly during evaluation of the Quarterly results of the Company and intensive discussions take place. The Budget Estimates and Revised Budget Estimates of capital expenditure envisaged during the current and next financial year are also discussed comprehensively, against actual achievements.*

5.8 *MOU evaluation also contains progress reports on capital expenditure programmes which is reviewed by functional directors & put up for information of Board. In addition, a Board sub committee has been constituted to monitor project implementation exclusively. The sub-committee includes two independent directors.*

5.9 The monitoring activities stated by the Ministry are routine actions, and the specific review of the projects was started by the Board sub-committee only in April 2010. The review of Board meetings minutes for 2005-06 to 2011-12 shows inadequate and ineffective monitoring by the Company's Board as explained above.

5.10 *The Ministry in its reply (July 2012) also stated that:*

- *Due care is taken to include the projects of NMDC in the MoU in order of their priority. However, it may be appreciated that it may not be always possible to include*

*all the packages/ sub packages of a project in the MoU with NMDC in view of the limited weightage assigned to this parameter as per DPE guidelines.*

- *Only those targets which are considered important milestones in the annual action plans of the Company are included in the RFD of the Ministry.*

5.11 The reply is not convincing in view of the following:

- As per DPEs guidelines, static/ financial parameters are fixed and are given a weightage of 50. Dynamic parameters, Sector specific parameters and Enterprise specific parameters have a combined weightage of 50. Hence, the Ministry can very well ensure that projects get higher weightage and the targets are realistic. Development of Deposit 11B, which has a capacity to enhance production by 7 MTPA was not at all given any weightage in the MoUs for 2010-11 and 2011-12.
- NMDC is a major CPSE in the Ministry of Steel, next to SAIL and RINL. The parameters included in the RFD against NMDC should be important in view of its growth and financial achievement. Package 3 of KIOM was included as a parameter for 2010-11 instead of Package 1/ 2. Package 3 relating to electrical works is a non critical package. Similarly, in the year 2011-12, design and engineering for Package I of KIOM was given a weightage and the target was set as January 2012. The fact is that Package I of KIOM was awarded in August 2010 and was scheduled for completion by May 2012. When compared to the scheduled completion, the target set for just design and engineering for the Package seems to be too soft.

5.12 **The governance by the Board and the oversight by the Administrative Ministry needs to improve.**

***Recommendation # 5***

***The Board of Directors of the company need to review the progress of ongoing projects periodically and suggest remedial action wherever warranted so that the projects are completed as envisaged.***