

## Chapter – 4 Project Monitoring

### 4.1 PROJECT MONITORING SYSTEM

The following layers of authority were responsible for providing stewardship and direction for the effective implementation of the capacity expansion project within the time and cost approved by GoI:

- Director (Projects);
- High Power Steering Committee (HPSC) as constituted in February 2006 headed by Chairman-cum-Managing Director, Director (Finance), Director (Projects), Joint Secretary (MoS) and one independent Director as members of committee to oversee the implementation of the Expansion Project;
- Board of Directors (BOD) and
- Ministry of Steel (MoS)

The effectiveness of monitoring of implementation of the expansion project at various levels is discussed in the succeeding paragraphs.

### 4.2 APPLICATION OF PROJECT MONITORING TOOLS

The Master Network and PERT<sup>44</sup> network were required for monitoring the activities of the Capacity Expansion against the key milestones agreed in network. Further, a vital project monitoring tool (PERT network) was belatedly prepared in July 2007 that too after placement of orders for the main packages based on the directions from GoI. Apart from the above, the Consultant prepared L2 network by using project management tool viz. 'PRIMAVERA' software for tracking all the activities right from the tendering stage to commissioning of the Expansion units. The original PERT Network and L2 Network had not been revised in the absence of approval from MoS. However, the networks were being updated on monthly basis based on the progress of the project.

RINL in its reply stated (April 2014) that the project was delayed though the progress of the Project has been monitored closely by MoS, BOD, HPSC as well as other official agencies for timely remedial actions. Though corrective measures were taken under monitoring mechanism by taking periodical reviews at various levels, certain delays could not be averted because of complexity in nature of the project work.

The reply of RINL needs to be viewed against the fact that despite the stated monitoring, RINL went on changing the scheduled commissioning dates in the Monthly Progress Reports. The frequent change of commissioning dates and granting number of extensions to the contractors indicated that the project monitoring mechanism of RINL was not efficient. Though RINL committed different dates to MoS, RINL had not fulfilled its commitments.

<sup>44</sup> *Project Evolution and Review Technique*

### 4.3 DIRECTOR (PROJECTS)

#### A. Appointment of Director (Projects)

As per O.M.No.13013/2/92-PMD (April 1998) issued by the MPPI<sup>45</sup>, which contains the GoI directions on project formulation, appraisal and approval, a nodal officer (Chief Executive for the Project) responsible for project implementation should be appointed for the project duration and he should have leftover service of at least five years to ensure his involvement in the project up to its completion stage so that he could be made fully responsible for the implementation of project. In line with the above directions, RINL requested the MoS for appointment of Director (Projects) in July 2005. Further, as per the Note for CCEA cleared by PIB in June 2005, exclusive department was to be formed for projects to take care of the capacity expansion. Despite specific directions for ensuring the accountability for time and cost overrun, the Director (Projects) was appointed only in June 2009. Meantime, during the intervening period of 44 months, four Functional Directors and CMD held additional charge of Director (Projects).

Examination in Audit revealed the following:

- Though BOD of RINL had given directions (June 2004) to RINL for preparation of FR for approval of MoS, the CMD made a request for appointment of Director (P) in July 2005 not supported with Board approval, that too after more than a year. The same proposal was turned down by MoS and the proposal was re-submitted with approval of the Board in November 2005. Thus there was a delay of 17 months exclusively on the part of RINL.
- While making the proposal, neither RINL nor MoS ensured compliance with the DPE guidelines<sup>46</sup> that total number of Functional Directors should not exceed 50 *per cent* of the total number of BOD. At the time of proposal put up to MoS, the BOD of RINL consists of five Functional Directors including the CMD and two Government Directors only. Thus at the request of RINL, after 10 months three more part time directors (September 2006) were appointed and later on the post of Director (Projects) was sanctioned in September 2006. The above delay was also attributable to RINL for not making the proposal for appointment of part time directors to GoI in time.

RINL in its reply stated (April 2014) that though Director (Projects) was not positioned, there was no complacency in monitoring the progress of the Project as either CMD or one of the Directors of RINL was always holding additional charge to look after the day to day activities of the Project. MoS in its reply endorsed (December 2014) the views of RINL.

The reply of RINL / MoS needs to be viewed against the fact that as per O.M.No. 13013/2/92-PMD (April 1998) issued by the MPPI<sup>47</sup>, a nodal officer (Chief Executive for the Project) responsible for project implementation should be appointed for the project duration and he should have leftover service of at least five years to ensure his involvement

<sup>45</sup> Ministry of Planning and Programme Implementation

<sup>46</sup> DPE OM No.9 (15)/99-GM-GL-29 dated 9 October 2000

<sup>47</sup> Ministry of Planning and Programme Implementation

in the project up to its completion stage so that he could be made fully responsible for the implementation of project. Hence, there was no accountability and responsibility for delay in completion of the project in absence of Director (Projects), though CMD or one of the other Director were holding additional charges for looking after day to day activities. Further, though the BOD of RINL had given direction for preparation of Feasibility Report in June 2004 itself, it was only after 17 months that RINL obtained the approval of BOD for appointment of Director (Projects) which lacked justification.

### **B. Monitoring by the Director (Projects)**

MoS had given specific direction (October 2005) that new Project Department be formed exclusively for taking care of the capacity expansion to be headed by the Director (Projects). As per the approved project schedule, all the Stage-I units were to be commissioned by October 2008 and the Stage-II units were to be commissioned between July-October 2009. Full time Functional Director for Projects division was, however, posted in June 2009 i.e., after expiry of seven months from the original completion schedule for Stage-I (October 2008). Thus, during the crucial period of capacity expansion, RINL was deprived of effective and continuous day to day monitoring of the capacity expansion project despite direction of MoS.

RINL replied (April 2014) that CMD, Director (Personnel), Director (Operations) & Director (Finance) of RINL were given additional charge at various periods of time to take care of the activities of Project Division prior to the appointment of Director (Projects) in June 2009. Thus, all the times a Director of RINL was in position to look after the progress of the projects. The reply of RINL is not tenable as CMD, Director (Personnel), Director (Operations) & Director (Finance) were given additional charge from time to time and were not available for full time and continuous monitoring of the capacity expansion project.

### **4.4 MONITORING BY THE HIGH POWER STEERING COMMITTEE (HPSC)**

As per the directive of MoS (October 2005), HPSC had to be constituted to oversee the implementation of the Expansion Project. Subsequently in February 2006, BOD of RINL constituted HPSC and directed it to meet once in a quarter or more frequently as required to monitor the progress of the implementation of the Expansion Project. The first meeting of the HPSC was held in April 2006 and details of subsequent meeting held are given below:

**Table-9**

Sl. No.	Year	Minimum No. of meetings to be held	No. of meetings held	Shortfall
1.	2006-07	4	10	-
2.	2007-08	4	4	-
3.	2008-09	4	4	-
4.	2009-10	4	2	2
5.	2010-11	4	3	1
6.	2011-12	4	4	-
7.	2012-13	4	5	-

Thus during the years 2009-10 and 2010-11, HPSC had fallen short in the number of review meetings that were expected of it in respect of the project.

RINL in its reply stated (April 2014) that although the number of HPSC's meetings held was less during the year 2009-10 and 2010-11 compared to other years, the performance/ progress of Expansion was monitored by BOD of RINL where the HPSC members were also present and hence it could be construed that due monitoring by HPSC was done.

The reply of RINL does not dispute the fact that there was shortfall in the number of mandated review meetings.

#### 4.5 MONITORING BY THE BOARD OF DIRECTORS (BOD)

MoS granted approval to the project in October 2005 and the BOD of RINL (April 2006) had directed that progress report on the activities of capacity expansion should be submitted to it in every subsequent Board Meetings (BMs). The details of the BMs held, the agenda items put up to BOD, directions given by the BOD, details of BMs where the agenda was deferred etc., during the period from July 2006 to September 2013 are detailed below :

**Table-11**

Year	No. of Board Meetings (BMs) Conducted	No of BMs in which progress report on Expansion Project was submitted	No. of BMs in which the Agenda item was considered	No. of BMs in which the Agenda item was deferred	No. of BMs in which the Board had given directions	No. of BMs the minutes recorded as Noted
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2006-07	13 (212 to 224)	8	7	1	4	3
2007-08	9 (225 to 233)	7	3	4	1	2
2008-09	6 (234 to 239)	6	2	4	0	2
2009-10	6 (240 to 245)	4	2	2	0	2
2010-11	5 (246 to 250)	3	3	0	1	2
2011-12	8 (251 to 258)	6	5	1	4	1
2012-13	8 (259 to 266)	4	4	0	2	2
2013-14	11 (267 to 277)	1	1	0	0	1
<b>Totals</b>	<b>66</b>	<b>39</b>	<b>27</b>	<b>12</b>	<b>12</b>	<b>15</b>

The following could be observed from the above table :-

- 1) The BOD met 66 times during the period April 2006 to March 2014 but report on Expansion Project was submitted before it only on 39 occasions.
- 2) Out of the 39 occasions in which report on Expansion Project was submitted to the BOD, only on 27 occasions the BOD could consider the said reports and on 12 occasions they were deferred.
- 3) Out of the 27 occasions, the BOD could consider the said reports on 15 occasions and the BOD just noted the progress despite the fact that the progress of capacity expansion was very unsatisfactory and on 12 occasions only the BOD gave directions on the project implementation.

Thus, neither RINL ensured compliance of its BOD's decision to ensure proper project monitoring by putting up the progress of capacity expansion in each and every Board Meeting nor the BOD insisted for compliance of its own directive issued in April 2006.

RINL in its reply stated (April 2014) that critical issues related to expansion were being put up to the BOD on continuous basis for its direction and on several occasions the BOD has given its guidelines to resolve the issues at the earliest. MoS in its reply stated (December 2014) that out of the 66 Board meetings referred, 25 Board meetings took place within a period of 3 to 30 days due to various exigencies and accordingly the agenda on progress of Project was not put up to BOD as a formal agenda. In any case, Agenda was put up in 39 occasions and BOD was practically being kept informed about the progress of Expansion in almost all the Board meetings and got the directions / approvals as and when required.

The reply needs to be viewed against the fact as per the BOD's decision (April 2006), RINL was required to place the progress report on Expansion Project before the BOD in each and every Board Meeting. Further out of 25 Board meetings wherein agenda on capacity expansion included during the original completion period i.e., from 28 October 2005 to October 2009, the agenda in 11 Board Meetings was deferred and in the nine Board meetings, it was simply recorded as noted. This indicates that the BOD had not given proper directions / monitoring during the crucial time period of the project execution. Hence, RINL's contention that the critical issues related to expansion were being put up to the Board on continuous basis for its direction and on several occasions BOD has given guidelines to resolve the issues does not compensate the deficiency in the number of meetings of BOD or the absence of effective and continuous review of the progress of work at that level.

#### **4.6 MONITORING BY MINISTRY OF STEEL (MOS)**

On a review of quarterly meetings on the capacity expansion progress by the Secretary, MoS, Audit observed that contrary to the instructions of the O.M. No.13013/2/92-PMD dated 26 March 1997, against the six quarterly review meetings scheduled to be taken up in the initial first one and half years from the zero date i.e., from 28 October 2005 to March 2007, the Secretary, MoS had taken up no review meeting. The frequency of the review meetings decreased year after year. Details of review meetings taken up from October 2005 to April 2014 were given below :

**Table-10**

<b>Year</b>	<b>Scheduled No. of meetings</b>	<b>No of meetings held</b>	<b>Shortage</b>	<b>Year</b>	<b>Scheduled No. of meetings</b>	<b>No of meetings held</b>	<b>Shortage</b>
<b>2005-06</b>	2	0	2	<b>2010-11</b>	4	2	2
<b>2006-07</b>	4	0	4	<b>2011-12</b>	4	0	4
<b>2007-08</b>	4	6	Nil	<b>2012-13</b>	4	1	3
<b>2008-09</b>	4	2	2	<b>2013-14</b>	2	1	1
<b>2009-10</b>	4	1	3	<b>Totals</b>	<b>32</b>	<b>13</b>	<b>21</b>

In the review meeting held on 3 November 2010, though RINL made a commitment to the Secretary of MoS to implement and commission all the packages of Stage-I by March 2011 and for Stage-II projects (Special Bar Mill and Structural Mill) that physical erection would be completed by third quarter of 2011-12, the capacity expansion was abnormally delayed by more than 60 months and cost overrun was about ₹ 4,553 crore<sup>48</sup> ( ₹ 12,291 crore - ₹ 7,738 crore) which was likely to be increased further.

Review meetings at the level of Secretary could in fact, have helped in containing, if not eliminating many slippages that had occurred during October 2005 to March 2007, in appointment of consultant, delayed release of specifications by the consultant, abnormal delay in finalization of the tenders, time and cost overrun etc.

RINL in its reply stated (April 2014) that as many as 26 review meetings (including 2 cases reviewed along with MoS and review meetings of ₹ 20 crore & above projects which includes expansion) were held by Secretary (Steel) as against 13 meetings considered by Audit. MoS in its reply stated (December 2014) that during the period from October 2005 to March 2007, the High Power Steering Meeting (HPSC) met 10 times wherein Joint Secretary, MoS was a member.

The reply needs to be viewed against the fact that as per O.M. No.13013/2/92-PMD dated 26 March 1997 responsibility of reviewing the implementation of projects rests with the administrative Ministries apart from the monitoring of implementation of projects costing ₹ 20 crore and above. The review meetings by MoS were also apart from the HPSC review meetings. Hence the review meetings conducted by the Ministry were 13 only. In case MoS conducted quarterly review regularly the time and cost overrun could have been minimised.

#### **4.7 MONITORING BY THE CONSULTANT**

The capacity expansion was divided into 16 zones. However, none of the zones was commissioned as per the time schedule. As per the terms of the contract, payment to the consultant was based on achievement of 14 milestones against the time schedules given in the bar charts of the respective zones. The terms of the contract also prescribed penalties and incentives. As seen from the conditions of the incentives, the consultant had not fulfilled any conditions and as such was not eligible for incentive. Instead, the consultant was responsible for delay in completion of the project and penalties were recoverable as per the terms of the contract. From the running account bills furnished to Audit, it was observed that the consultant had claimed an amount of ₹ 197.34 crore and RINL released payments to the extent of ₹ 186.18 crore after withholding ₹ 11.16 crore towards ad-hoc recoveries (for milestone penalties and liquidated damages).

RINL in its reply stated (April 2014) that against the payable contract value of ₹ 245 crore (excluding SLTM), the consultant has been paid about ₹ 191 crore as on date and the balance payable would be about ₹ 42 crore. An amount of about ₹ 12 crore was recovered / withheld towards LD. All recoveries as per contractual provisions shall be made including recovery of

<sup>48</sup> Without considering the escalation related major packages of Power Plant – I&II and SLTM

Milestone penalties and levy of LD based on detailed delay analysis after completion of the Project. MoS endorsed (December 2014) the view of RINL.

The reply of RINL / MoS needs to be viewed against the fact that in many cases Audit already pointed out the delays / lapses of the consultant in the earlier paras of this report. Thus, MoS's contention that action would be initiated against the consultant if it was proved that delays were attributable to the consultant based on detailed delay analysis after completion of the project was not tenable as by this time RINL should have evaluated the delays of the consultant since all the Stage-I units stood commissioned.

#### **4.8 MEMORANDUM OF UNDERSTANDING (MOU)**

RINL made commitments in the Memorandum of Understanding (MOU) entered with MoS for the year 2008-09 to commission the 6.3 MTPA capacity expansion by 2010-11. Though it could not achieve the MOU target, it continued to make similar commitments in MOUs for the years 2009-10, 2011-12 and 2012-13 with revised commissioning dates extended up to December 2012. RINL could not keep up any of the agreed dates.

MoS replied (December 2014) that challenging milestones have been targeted / accepted to accelerate the pace of progress and all out efforts were made to achieve the unfulfilled targets in the successive years, wherever delays took place due to reasons beyond reasonable control. Therefore, MoU targets committed were appropriate and quite challenging which is evidenced by the very fact that some of the targets could not be fulfilled.

The reply of MoS needs to be viewed against the fact that it agreed that RINL had not achieved some of the targets. Further MoS's reply did not deny the fact that MOU targets fixed were neither in line with the original commissioning schedule of the project nor with the dates in the approved RCE. Also, the MOU targets entered with MoS were on lower side and not commensurate with the commissioning schedule of project approved. As a result, even though the overall project was originally envisaged to be completed within 48 months (i.e., by October 2009), the MOU targets, however, were continued to be fixed upto the year 2014 because of the delays in execution. Therefore the MOU between MoS and RINL did not serve as an effective monitoring tool.

#### **4.9 COMMITTEE ON PUBLIC UNDERTAKINGS (COPU) RECOMMENDATIONS**

The COPU recommended (December 2010) that RINL should take steps to ensure minimum further delay, evolve a comprehensive and effective project planning and monitoring mechanism to minimize the future delays and associated escalation of cost and such steps were to be communicated to COPU committee within six months.

RINL assured COPU of the following steps in this regard:

- Regarding commissioning of the Stage-I and Stage-II, RINL replied that efforts were on hand to commission the various units without commitment of exact date of completion of capacity expansion. Commissioning of two converters of SMS simultaneously to avoid time overrun; the periodical reviews were taken up by HSPC, CMD, Secretary (Steel),

other officials of MoS etc., depending upon criticality, issues were taken up with other Ministries, and Embassies;

- Offloading the jobs of failing contractors, timely payment of bills, free issue of steel, providing own cranes etc., further helped to compress the completion schedule of the project; and
- There was no major cost escalation over and above ₹ 12,291 crore except due to statutory variations during project cycle like exchange rate variation, taxes etc.

However, the assurance of RINL did not indicate the effective date of completing the project at the earliest. In spite of commitment to commission two convertors at a time, only one convertor was commissioned in October 2013 and second convertor was commissioned in March 2014. In spite of taking up project reviews at various monitoring levels, RINL kept on changing the effective commissioning dates which indicated that RINL had no effective control over the execution of the capacity expansion. Further, RINL's contention that there was no increase in the project cost was factually incorrect and actual variation was about 35.44 *per cent*.

#### 4.10 ACCOUNTABILITY MECHANISM FOR TIME AND COST OVERRUN

As per the decision (June 1998) of Cabinet Committee of Economic Affairs (CCEA) in every case, where the project cost overrun is over 20 *per cent* along with time overrun of above 10 *per cent*, the revised cost estimates should be brought up for approval of the CCEA only after fixing up responsibility for the cost and time over-run and a standing committee has to be set up for the fixation of responsibility. It was further clarified (November 2007) that every PIB note should mandatorily be appended by a report on the recommendations of the standing committee and action taken thereon. Despite the specific directions, neither RINL nor MoS insisted on accountability for time and cost overrun.

The project cost stood at ₹ 7,738 crore, after exclusion of the cost of dropped SLTM (₹ 954 crore) from approved project cost of ₹ 8,692 crore (Base date June 2005). RINL had revised the cost estimates to ₹ 12,291 crore (base February 2011). The revised cost did not include the cost of PP-I & II of ₹ 853.82 crore originally envisaged under BOO basis and finally taken up by RINL under capital cost. The cost overrun beyond allowable three factors<sup>49</sup> was worked out by audit at 35.44 *per cent* (₹ 2,742.82 crore) of approved cost (₹ 7,738 crore<sup>50</sup>) to end of May 2008.

For the first time, the Board approved the RCE and submitted to MoS in PIB format in March 2009 for an amount of ₹ 12,228 crore. Though review of RCE was mandatory as per CCEA directions issued in August 1998, no such review was done by MoS. RINL again submitted PIB Note for RCE to the MoS in April 2010 updated at ₹ 14,489 crore with base date in December 2009 against the original approved cost of ₹ 8,692 crore. After lapse of

<sup>49</sup> (a) statutory levies (b) exchange rate variations and (c) price escalation within the originally approved project time cycle

<sup>50</sup> ₹ 7,738 = ₹ 8,692 - ₹ 954 (SLTM Cost estimate).



substantial time, in February 2011, the MoS informed RINL to obtain the approval of the Board for the RCE in view of the Navratna status conferred on RINL.

Thus, though clear instructions exist for approval of the RCE, substantial time was consumed by RINL and MoS between June 2008 and March 2011. Ultimately, the Board approved (July 2011) the RCE at ₹ 12,291 crore (base February 2011) without completing the exercise of fixing up of responsibility for both time overrun (above 100 *per cent*) and overall cost overrun (59 *per cent*) on the grounds that RINL was conferred with Navratna status.

RINL in its reply stated (April 2014) that while furnishing proposal for approval of RCE it had put up checklist for determining the responsibility for time and cost overrun to GoI with approval of BOD. The reply of RINL is not tenable since as per Planning Commission's D.O. No.O-14015/2/98-PAMD (August 1998), where the project cost overrun is above 20 *per cent* along with time overrun of above 10 *per cent*, the revised cost estimates should be brought up for approval of the CCEA only after fixing up responsibility. For fixing up responsibility, a standing committee has to be set up. However, no standing committee has been set up by the MoS.

**Recommendations :-**

- 4. RINL may strengthen the monitoring mechanism to minimize controllable delays in project execution and delivery by fixing periodicity and levels of monitoring up to the Board of Directors.**
- 5. MoS/RINL may ensure that there is a verifiable link between MOU targets and actual execution of work relating to capacity expansion.**