

## Chapter V

### Internal Control and Monitoring

#### 5.1 Monitoring and effectiveness of internal control

Internal control is an important management tool and comprises methods and procedures adopted by the Management of an entity to assist in achieving Management's objective of ensuring orderly and efficient conduct of its business, including adherence to policies, safeguarding of assets, prevention and detection of fraud and error. A well-defined monitoring mechanism is imperative to make available timely, adequate and accurate information to the relevant authority for decision making.

The following internal control mechanisms were in place:

- a) Audit Committee consisting of five members, viz., four Independent Directors and Director (Technical) as member. The other Functional Directors were invited on need basis. The functions of Audit Committee was to oversee the financial reporting process of the Company, approval of financial statements before its submission to Board, reviewing and monitoring the work of Independent Auditors', Internal Auditors' scrutiny of investments, evaluation of internal controls and risk management, discussion with the Internal Auditors with regard to any significant audit findings etc.
- b) Sub-Committee consisting of Joint Secretary, Director (Technical) and two Independent Directors to review all ongoing projects. The mandate of the committee was to review the progress of all ongoing projects like KIOP, NISP, Pellet Plant etc.
- c) The Company had devised manuals for Procurement, Human Resources, Contracts, Works and Sales etc.
- d) The internal audit function of the Company, covering both the Head Office and its units, were outsourced to firms of Chartered Accountants which covered transaction audit as well as the audit of systems and procedures adopted in different units of the Company. High and medium risk internal audit observations would be reviewed by the Audit Committee.

Though a system of control mechanisms existed as stated above, it was noticed that:

- (i) The Sub-Committee for reviewing ongoing projects did not fix any timelines with clear milestones to be achieved which could be reviewed in its subsequent meeting. Although it was seen that some broad remedial actions were suggested on the bottlenecks projected to it in respect of ongoing projects, the monitoring by the Sub-Committee did not reflect the progress in achievement of these projects in quantifiable terms. Further, the Sub-Committee was not properly apprised of the delays in getting statutory clearances for Screening Plant-II, Screening Plant-III and Deposit-13 which were pending for a long time and hence, the Sub-

Committee could not suggest any remedial action on these delays. Consequently, the Board too was not kept abreast of the developments in this regard.

- (ii) No specific milestones were fixed with accountability despite 11B mine and KIOM project works crossing the scheduled completion dates by April 2012 itself. Even after completion of major packages viz., Crushing Plant and Downhill Conveyor System Packages in respect of 11B mine (August 2015), remaining packages were yet to be completed indicating lack of proper monitoring by Board level Sub-Committee.
- (iii) For Screening Plant-II, delay on the part of the Company in submission of the required information was not acted upon by Board Sub-Committee.
- (iv) The decision taken by the Management on major investments like ₹100.60 crore for acquisition of disputed iron-ore mine in Odisha (NINL), investment of ₹376.36 crore in ICVL were made without conducting proper due diligence on its own before making such investment. These issues were subsequently referred to the advisory committees when the Management noticed the risks involved in such investments.
- (v) Further, the decisions/ suggestions made for turning around the loss making Sponge Iron Unit (SIU), Paloncha at the time of its acquisition (prior to July 2010) into profit making unit had not been implemented so far. As a result, the envisaged benefits expected at the time of acquisition were not achieved and the SIU was under continuous losses, which had accumulated to the tune of ₹194.77 crore as on 31 March 2017.
- (vi) The Management did not obtain the feedback of the user department about the performance of BEML make Dumpers prior to finalization of pre-qualification criteria for subsequent tenders and went ahead with their procurement. This resulted in procurement of poor performing equipment, the availability of which were less than 85 per cent, as prescribed in the tender documents for procurement, during the first year of operation.
- (vii) Periodical mid-term review of implementation of Strategic Management Plan – Vision 2025 as prescribed by the Board was not done as a result of which corrective actions for plugging shortfalls impeding the achievement of the projected targets were not carried out.
- (viii) A reference is also invited to the Recommendation No. 2 of CAG in Report No. 20 of 2012-13 wherein, it was recommended that the Company needs to enhance its project management capability by focusing on project planning, implementation and monitoring. The Company needs to specify the timeframes and milestones for all project activities and ensure their strict adherence through continuous monitoring and requisite remedial action. It was also recommended that 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. Though the Company accepted the recommendation, specific milestones and timeframes indicating the work planned

to be completed, actually completed, reasons for delay, if any, and the proposed work to be completed after the meeting date was not fixed in respect of all the ongoing projects in the 17 review meetings which were held during the period between April 2012 and December 2017.

The Company contended (March 2018) that internal control mechanism was in place in NMDC, and the Board of Directors had constituted a Sub-Committee for review of various ongoing projects and the minutes of the said Sub-Committee are placed for the information of Board at regular intervals.

We observed that despite the constitution of Sub-Committee for review of the ongoing projects, almost all the projects continued to be delayed due to lack of effective monitoring and appropriate follow-up action by the Sub-Committee.

Further to the reply of the Management, the Ministry stated (July 2018) that the Recommendation No.2 of the CAG's Report No. 20 of 2012-13 was settled in February 2015 by considering the steps taken for monitoring and speedy implementation of the projects.

The reply needs to be viewed in the light of the fact that the para pertaining to Recommendation No. 2 of CAG's Report No. 20 of 2012-13 was decided not to be pursued further, based on the Company's submission of timelines with milestones for implementation of 11B project, KIOM project and Donimalai Pellet Plant, with a rider that the same would be watched and verified in the subsequent audits. During the course of the current Performance Audit, we noticed that the Sub-Committee on Reviewing the Progress of the On-going Projects did not fix any milestones with timelines, revision of timelines and monitoring of the achievement of the same in respect of development of 11B Mine, KIOM Project and Pellet Plant though there were delays in completion of these projects.