Chapter-I: Introduction

1.1. Steel Authority of India Limited (the Company or SAIL) is a Maharatna Company under the administrative control of the Ministry of Steel, Government of India. The Company is headed by an executive Chairman who is also the Chairman of the Board of Directors (Board). The SAIL Board consists of seven functional directors, two government nominee directors, and nine independent directors. The integrated steel plants are headed by the Chief Executive Officers who are permanent invitees in the Board Meeting. Other plants and organisations are headed by the Executive Director or General Manager.

In the face of buoyancy in steel demand during 2001-02 to 2004-05 due to India's high GDP growth the National Steel Policy 2005 envisaged achievement of steel production of 110 million tonne (mt) by 2019-20 from the 2004-05 level of 38 mt per annum.

SAIL's gross sales increased from ₹ 15,502 crore in 2001-02 to ₹ 31,805 crore in 2004-05. SAIL had a market share of 25 *per cent* of total saleable steel. As per Corporate Plan (CP) - 2012 prepared in 2004, the overall growth in domestic steel consumption was expected to be in the vicinity of eight *per cent* up to 2012. SAIL decided to take advantage of the emerging opportunity and envisaged building of organisation-wide production capacity and sustainable competencies in CP - 2012.

1.2 Company's Business Strategy and Strategic Goals

Strategic business goals formulated by the Company included enhancing market share; improving profitability by productivity improvements, cost reduction, value addition, and customer satisfaction; securing availability of key raw materials; and alleviating infrastructure bottleneck. Detailed plant-wise strategies consistent with the strategies for capacity expansion and cost and quality competitiveness were also envisaged in CP - 2012. The Company undertook the implementation of Modernisation and Expansion plan (MEP) in 2006 - 2007 in the five integrated steel plants[1]and Salem Steel Plant (SSP) to enhance its existing installed crude steel making capacity from 12.84 million tonnes (MT) to 21.40 MT per annum by year 2010 as shown in Table 1. October 2008 onwards, global economic and market scenario had changed which resulted in demand contraction in the global steel market. But the steel demand scenario in India was better and the Board decided to stay focussed on implementation of the ongoing MEP.

[1]Bhilai Steel Plant (BSP) in Chhattisgarh, Bokaro Steel Plant (BSL) in Jharkhand, Rourkela Steel Plant (RSP) in Odisha, Durgapur Steel Plant (DSP) and IISCO Steel Plant (ISP) in West Bengal

Table 1: Details of proposed capacity expansion under MEP

(Production Capacity in mtpa)

Plant	Total capacity at the beginning (2006-07)			Total capacity after planned expansion		
	Hot Metal	Crude Steel	Saleable Steel	Hot Metal	Crude Steel	Saleable Steel
ISP	0.85	0.50	0.42	2.91	2.50	2.39
BSP	4.08	3.93	3.15	7.50	7.00	6.56
BSL	4.59	4.36	3.78	5.77	4.61	4.18
DSP	2.09	1.80	1.59	2.45	2.20	2.12
RSP	2.00	1.90	1.67	4.50	4.20	3.99
SSP	-	-	0.18	-	0.18	0.34
ASP	-	0.23	0.18	-	0.48	0.43
VISP	0.22	0.12	0.10	0.33	0.23	0.22
Total	13.83	12.84	11.07	23.46	21.40	20.23

1.3 Capital Expenditure Commitment

The Board accorded In-principle approval for implementation of MEP projects in its five integrated steel plants and Salem Steel Plant during June 2006-July 2007 at a total estimated cost of ₹ 43,142 crore. These estimates had to be revised to ₹ 77,691 crore in July 2008 when quoted price for various projects were found to be higher than the estimated approved cost. In RSP, BSP and BSL the quoted prices were found to be as high as 70 - 100 *per cent* above the estimated cost. The Board decided to continue with the MEP projects to take advantage of going early in production, and after reducing some scope of work in RSP and DSP, approved (July 2008) the revised cost estimates of ₹ 72,997 crore. A year later, the Company planned expenditure of ₹ 10,264 crore on augmentation/developments of captive mines which was not envisaged earlier, and total capital expenditure of ₹ 83,261 crore was found to be unsustainable. Board therefore deferred/excluded some packages of MEP worth ₹ 18,375 crore which were not ordered by then, and approved (June 2009) the MEP at revised total cost of ₹ 64,886 crore including ₹ 10,264 crore for captive mines. Cost of implementation of MEP projects in ISP increased (February 2011) to ₹ 16,408 crore from ₹ 14,443 crore, thereby escalating the total cost to ₹ 66,851 crore.

1.4 Organizational Structure for formulation and appraisal of capital investment

Investment Planning Unit (IPU) was the nodal agency at respective plants to plan, formulate and appraise the capital investment proposals. Investment proposals were then appraised by plant level Project Appraisal Group (PAG) and were approved by the Chief Executive Officers (CEO) of the respective plants. The MEP projects which exceeded the CEOs' financial delegation were submitted to Project Directorate (PD) at Corporate Office, a nodal agency for coordinating appraisals and approvals of the MEP projects. PD, after appraisal of the proposals, would seek approval of the competent authority as per the financial delegation of power.

1.5 Audit Objectives

The objectives of this Performance Audit were to assess whether: (i) The MEP was initiated after assessing market demand and adequate availability of competent equipment vendors, contractors and project management capacity; (ii) The project contracts were concluded in a transparent, competitive and fair manner and were executed efficiently and expeditiously; and (iii) System and procedures for monitoring were adequate and effective at all levels, and the reasons of delays and impact were analysed and adequately addressed.

1.6 Scope of Audit

The Performance Audit covered the management processes and activities including project procurement and project management activities relating to the implementation of the MEP undertaken in five integrated steel plants, Salem Steel Plant, and captive mines. As implementation of MEP projects was still not complete, audit conducted a mid-term review of its implementation, and total period covered was from 2006-07 to 2012-13.The status was further updated where necessary.

Out of 852 MEP contracts valued at ₹ 48,810 crore awarded up to March 2013, 244 contracts valuing ₹ 43,825 crore (90 *per cent*) were selected for review. All the contracts of ₹ 100 crore and more valuing ₹ 37,274 crore were reviewed in audit.

Pending financial closure of MEP projects as of March 2014, some area of contract administration, like realisation of liquidated damages, CENVAT and VAT credit realisation, and other adjustments/claims against the contractors for MEP projects were excluded from the scope of work.

1.7 Audit Methodology and Criteria

An entry conference was held with the Company and the Ministry of Steel on 16 August 2013 to discuss the audit objectives, scope, sample selection, methodology and criteria for this audit. Audit teams conducted the field audit during August 2013 to March 2014 and examined the records of the plants, mines, corporate office and the Ministry of Steel. Performance of MEP was assessed against the following audit criteria:

- Company's Corporate Plan - 2012 prepared in 2004 and MEP Plan; agenda and minutes of meetings of the Board, Board Sub-Committee and Plant Level Committee, decisions taken at level of Ministry of Steel, replies of Plant management to preliminary audit observations and minutes of the discussion between the management and the auditors;

- Technical and financial estimates as per Composite Project Feasibility Reports (CPFR) and revision therein wherever made, Notice Inviting Tender documents, technical and commercial evaluation reports, and contracts/ agreements; notes and records in the relevant departmental files, Management Information System (MIS) reports on projects, and Project Completion Report (PCRs);

- Delegation of powers, Purchase/Contract Procedures, and Central Vigilance Commission (CVC)'s procurement guidelines.

Draft Performance Audit Report was issued to the Company and the Ministry of Steel on 14 September 2014 for confirmation of facts/figures and reply. Exit conference with the Company and Ministry officials was held on 8 October 2014. Clarifications and comments made during the exit conference and replies of Ministry dated 12 February 2015 were suitably considered in this Report.