

CHAPTER XIX: MINISTRY OF STEEL

KIOCL Limited

19.1.1 Extra expenditure due to payment of higher tariff and congestion surcharge on transportation of iron ore

Failure of the Company to get its railway siding declared as ‘other than stations/sidings serving port’ immediately on starting the operations resulted in payment of higher tariff of Rs.6.05 crore and surcharge of Rs.73.15 crore on transportation of iron ore.

KIOCL Limited (Company) transported Iron ore from NMDC Limited’s mines at Donimalai (Karnataka) to Panamburu railway siding through south western railways (SWR) & Bailadila (Orissa) from Kirandul railway siding of east coast railways (ECR) through Vizag via ship to Mangalore.

As per Railways tariff, Panamburu siding was a port serving siding which attracts higher tariff than the iron ore transported for ‘other than Port serving siding’. The Company’s own siding at Panamburu station became operational w.e.f., January 2006, hence the Company was eligible for a lower tariff for transportation of iron ore. The Railways levied Congestion Surcharge (CS) w.e.f., 1 April 2007 as a percentage of base freight which varied from time to time and was abolished from 22 May 2008. As per Railways, CS was not applicable for iron ore transported to independent sidings and for domestic use.

Audit observed that:

- **The Company took up with Railways for declaration of its siding as ‘independent siding’ (other than stations/sidings serving port) only in June 2007 and Railways declared it as such only w.e.f., 1 March 2008. This delay in getting its siding declared as independent siding resulted in payment of higher tariff of Rs.6.05 crore from 14 January 2006 to 31 March 2007. The Company did not prefer a formal claim with Railways for refund of the extra freight even as on date (November 2009).**
- **Though the Company was eligible for non levy of CS but due to delay in getting its siding declared as independent siding, it paid Rs.68.78 crore towards CS from 1 April 2007 to 21 May 2008.**
- **Despite reduction (15 April 2008) in surcharge to 30 per cent of base freight in respect of transportation to serving ports for domestic consumption purpose, the Company continued to pay it at higher rate of 100 per cent in respect of transportation from Kirandul siding to Vizag port siding during 15 April 2008 to 21 May 2008 resulting an extra payment of Rs.4.37 crore.**

The Management/Ministry stated (November/December 2009) that:

- There was no delay in taking action and the benefit of reduced rate of CS in respect of Kirandul siding could not be availed immediately as documents were required to be submitted to Railways.
- The Company had to pay higher tariff as the tariff classification was decided by Railways.

The replies are not convincing since:

- Despite being aware that Panamburu was not declared as an independent siding immediately on opening in January 2006, the issue for declaration as independent siding was taken up with the Railways only in June 2007. Failure on the part of the Company to vigorously pursue with railways to get official declaration of its independent siding as such from date of operation not only deprived the Company of lower basic freight but also payment of congestion surcharge. A formal claim for refund of CS on transportation to own siding is yet to be made.
- In respect of extra payment of CS for Kirandul siding, the reply on lack of proper documentation could be attributed to the failure of the internal control system in the Company.

Thus, failure of the Company resulted in payment of higher tariff and surcharge of Rs.79.20 crore* on Transportation of iron ore.

Rashtriya Ispat Nigam Limited

19.2.1 Loss of revenue due to cancellation of tender for export of pig iron

The cancellation of tender for export of pig iron despite huge stock level resulted in loss of revenue of Rs.3.63 crore.

Rashtriya Ispat Nigam Limited (Company) issued (March 2008) a Global Tender for export of 25,000 MT of pig iron in May 2008. In response, the Company received (April 2008) offers from three parties of which the highest offer was for Rs.26,400 per MT (US\$646.16). The Company cancelled (April 2008) the tender without any recorded reasons. Resultantly, no export of pig iron took place despite sufficient stock level. The revenue loss in the process worked out to Rs.3.63 crore being the difference between the export price and the domestic price of pig iron during the same period.

The Management in its reply (January 2009) mainly contended the following:

- The export tender was cancelled in view of the guidelines (April 2008) of the Ministry of Steel to steel manufacturers to exercise self restraint in exports to ensure availability of stocks in the country.

* Rs.6.05 crore on basic freight+Rs.68.78 crore on CS, Panamburu+Rs.4.37 crore on CS kirandul

- The stock of pig iron suddenly rose to alarming levels by June 2008 with very little movement in domestic market and therefore the Management sought permission from Ministry for export of 50,000 MT pig iron which was accepted (June 2008).

The Ministry endorsed (November 2009) the views of the Management.

The contention of the Management/Ministry is not convincing in view of the following:

- There was a suggestion from the Ministry of Steel to exercise self restraint in export and **not a direction to the Company to stop the export.**
- Further, the pig iron stock was 91,551 MT in May 2008 which declined to 70,973 MT in June 2008 when the Company sought the permission of Ministry to export 50,000 MT of pig iron. **Thus, it would have been appropriate for the Company to go in for export in May 2008 when the stock level was high.**

Thus, the cancellation of export tender despite having huge stock level resulted in loss of revenue of Rs.3.63 crore. **It is recommended that the Company should analyse financial implication before making any decision relating to export.**

Steel Authority of India Limited

19.3.1 Irregular payment to employees

The amendment to the LTC rules was not followed uniformly across the Company. The Durgapur Steel Plant (DSP), Alloy Steel Plant (ASP) and Bhilai Steel Plant (BSP) of Steel Authority of India Limited in deviation to Company's rules allowed their employees to avail the facility of air travel while availing LTC to Andaman & Nicobar Islands for the second time resulting in an irregular expenditure of Rs.42.46 crore.

Steel Authority of India Limited (Company) amended Leave Travel Concession (LTC) rules on 1 March 2008 providing that the facility of air travel while availing LTC to Andaman & Nicobar Islands would be allowed only once in the service period of the employees. The amendment effective from 1 March 2008 is applicable to all the employees whether entitled to travel by air or not and includes all the previous journeys performed by them to Andaman & Nicobar Islands on LTC, if any.

In this regard Audit observed the following:

- **The above amendment to the LTC rules was not followed uniformly across the Company. DSP, ASP and BSP of the Company allowed their employees to avail the facility of air travel while availing LTC to Andaman & Nicobar Islands for the second time. On the other hand, Rourkela Steel Plant (RSP) of the Company did not allow it.**

- Those employees (4134) who had been paid LTC advance before 1 March 2008 or where control number had been generated before 1 March 2008 but advance had not been released, were allowed to perform journey to Andaman & Nicobar Islands for the second time.
- The above deviation to Company's LTC rules by DSP, ASP and BSP resulted in an irregular expenditure of Rs.42.46 crore.

The Management in its reply contended (June 2009) that:

- The decision was taken to avoid industrial relations problems.
- Further, no employee was allowed (sanctioned) LTC to Andaman & Nicobar Islands for the second time after 1 March 2008. Only those employees, whom LTC had already been sanctioned on or before 1 March 2008, were permitted to perform the journey.

The contention of the Management is not convincing in view of the following:

- The industrial relation problem is an after thought of the Management as other units of the Company did not allow their employees to perform journey on LTC to Andaman & Nicobar Islands second time after 1 March 2008 and there was no industrial relation problem as such in these units. In RSP of the Company, employees who had already drawn advance prior to issue of the above circular refunded the advance.
- Since the rules as amended by the Company were applicable with effect from 1 March 2008 equally to all the units of Company and it was not justified on the part of the Management of DSP, ASP and BSP to relax the LTC rule.

Thus, relaxation of Company's LTC rules by DSP, BSP and ASP resulted in an irregular expenditure of Rs.42.46 crore. It is recommended that the policies, rules and regulations of the Company should be followed uniformly across the Company. In case of deviations, the concerned officials be held accountable.

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).

19.3.2 Irregular payment of reward to the employees

Steel Authority of India Limited made irregular payment of reward of Rs.8.60 crore to its employees in contravention of the guidelines issued by Department of Public Enterprises.

The Department of Public Enterprises (DPE) issued instruction on 20 November 1997 to all public sector undertakings (PSUs), *inter alia*, directing that employees of PSUs drawing wage/salary exceeding Rs.3500 per mensem (increased to Rs.10000 per mensem w.e.f., April 2006) would not be paid bonus, *ex-gratia*, honorarium, reward and special incentive etc unless the amount is authorised under a duly approved incentive scheme.

Audit observed that:

- Steel Authority of India Limited (Company) organised foundation stone laying ceremony for modernisation and expansion projects at Bokaro Steel Plant (BSL) and Salem Steel Plant (SSP) on 22 April 2008 and 5 September 2008 respectively. **On both the occasions, Minister of Steel, Chemicals & Fertilizer announced granting of Rs.3000/- to each employee of Company.**
- To give effect to the announcement thus made, the Board of Directors (Board) of the Company approved (October 2008) a proposal to make one time payment of Rs.3000/- to each employee of BSL and SSP. The Board also approved a guideline for one time payment of Rs.3000/- as Motivational Reward to the employee of a plant/mine wherever foundation stone would be laid under the modernisation and expansion plans for a period of one year with effect from 1 April 2008.
- The Company paid Rs.8.20 crore to the employees of BSL in September 2008 i.e., before approval of the Board. The payment of Rs.40 lakh was made to the employees of SSP in January 2009. This was in addition to the performance linked incentive paid regularly. The payments were not based on any performance related incentive scheme but were *ad hoc* in nature, which was prohibited as per the above guidelines of DPE.

The Management in its reply contended (May 2009) that:

- The payments were made as one time incentive to the employees of BSL and SSP to boost their morale and motivate them for better performance although the name to the scheme was kept as “Motivational Reward for Modernisation & Expansion”.
- As per DPE guidelines dated 25 June 1999, PSUs were allowed to pay perquisites and allowances including incentives to reward its employees up to the ceiling of 50 per cent of basic pay.

The contention of the Management is not convincing in view of the following:

- An incentive is paid for achievement of specific target and not for better performance in future. However, the scheme approved by the Board was not based on any specific criteria and was *ad hoc* in nature. The scheme approved by the Board in October 2008 was evident to give effect to the announcement made by the Minister of Steel, Chemicals & Fertilizer and not to achieve any milestone.
- DPE guidelines quoted by the Management in its reply are not relevant in this case as the payment of reward does not come into the ambit of perquisites or allowances.

Thus, payment of reward of Rs.8.60 crore to the employees in contravention of the guidelines issued by DPE, was irregular. **It is recommended that the Company should not violate DPE's instructions while making payments to its employees.**

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).

19.3.3 Extra expenditure due to delay in taking action

The failure of the Company in taking timely action during the pendency of the contract to get the supply of material as per the delivery schedule and delay in taking legal action against the supplier, resulted in an extra expenditure of Rs.3.50 crore on procurement of 1103 MT of Silico Manganese at higher rate.

Steel Authority of India Limited (Company), placed purchase order (September 2006) on Bishwanath Ferro Alloys Limited, Kolkata for procurement of 2,000 MT of Silico Manganese at a price of Rs.23,300 per MT with delivery period from September 2006 to February 2007. As per the terms of the purchase order, the price was firm and the quantity was subject to a tolerance of plus/minus 10 *per cent* at buyer's discretion. In case of failure by the seller to deliver the materials or any consignments thereof, the Company had the option to cancel the contract either fully or partly and to purchase the material at the risk and cost of the seller. In December 2006, the Company increased the quantity from 2,000 MT to 2,200 MT and extended the delivery schedule to March 2007.

Audit noticed the following:

- The supply of material was not as per the schedule right from beginning and out of the total quantity of 2,200 MT, only 1,097 MT was supplied till March 2007 leaving a balance of 1,103 MT pending for delivery.
- **The Company did not take timely action during the pendency of the contract to get the supply of material as per the delivery schedule.**
- The seller refused (June 2007) to supply the balance quantity stating that the contract ceased to subsist and there was no question of any supply under such lapsed contract. The Company went (June 2007) in for risk purchase action under the terms of purchase order and purchased (December 2007) the shortfall quantity (1,103 MT) from an alternate source at a higher price of Rs.49,801 per MT, which resulted in an extra expenditure of Rs.3.50 crore.
- The supplier had given a bank guarantee (BG) for Rs.29.39 lakh which was valid up to 31 May 2007. However, the Company did not encash the bank guarantee and lost the opportunity of compensating the loss by Rs.29.39 lakh.
- The Company acted belatedly in taking legal action against the supplier to recover the extra expenditure incurred by the Company.

The Management in reply contended (August 2009) the following:

- Contractual delivery of the material remains spread over a period of several months and as such practically it was not feasible to take Risk Purchase action against defaulted quantities on monthly basis.

- The BG submitted by the supplier, was of limited value of five *per cent* and was valid for a period of three months from the date of last supply. In any case, the loss on account of non-supply was of much larger value. Also to avoid any future possibility of non-encashment of BG, a procedure had been devised for dealing with BGS submitted as Security deposit or Performance Guarantee.
- A money suit had been filed on 20 April 2009 at Chas court, Bokaro against the supplier.

The Reply of the Management is not convincing in view of the following:

- As the supply of material was not as per the schedule right from beginning, the Company should have taken timely action during the pendency of the contract to get the supply of material as per the delivery schedule by invoking risk purchase clause.
- The Management failed to encash the BG within its validity and lost an opportunity to reduce the loss by Rs.29.39 lakh. Though the BG was of small value, the Management should have shown prudence in encashing it in time. The Management's failure in this regard also indicates weakness in its internal control and monitoring.

Thus, the Company incurred an extra expenditure of Rs.3.50 crore in procurement of Silico Manganese due to delay in taking action against the supplier.

It is recommended that the Company should monitor the performance of contract regularly and take prompt remedial action wherever delays are noticed.

The matter was reported to the Ministry in September 2009; their reply was awaited (November 2009).