



CAG Report Summary

CAG Report on National Mining Development Corporation

Background

The Comptroller and Auditor General (CAG) released a Report on the “Performance Audit on Production and Sale of Iron Ore by NMDC Limited” on December 20, 2012. The CAG conducted a performance audit of National Mining Development Corporation’s (NMDC) activities relating to the production, evacuation and sale of iron ore covering the period from 2005-06 to 2009-10.

Findings and Recommendations

The key findings and recommendations of the CAG are:

- The production capacity (volume of product produced) stood at 32 million tonnes per annum in 2010-11, which was in line with the target. Though, NMDC fulfilled its capacity utilization (extent to which installed productive capacity is used) ranging from 74 % to 105 %, it did not meet its annual production targets in four of the seven years.
- The shortfall in the NMDC’s production was mainly on account of evacuation constraints. The CAG noticed that the options available to enhance the evacuation capacity were not pursued vigorously. (Evacuation refers to transporting of iron ore from mines to buyers’ sites.)
- A delay in the implementation of two projects and change in scope of work caused the cost of the projects to increase from Rs 592 crore to Rs 1,506 crore. The delay in implementation was caused due to delays in getting statutory clearances and in awarding contracts. The CAG has observed that some of these delays could have been avoided and pointed towards deficiencies in the project management by the NMDC.
- The NMDC suffered a loss of Rs 1574.11 crore during 2007-11. The CAG notes that this loss was due to infirmities in the domestic Long Term Agreements, increase in export price and inadequate action by the NMDC to revise the prices in view of market trends.
- At present, the ‘net back method’ and ‘domestic price parity method’ is followed to fix the domestic price of iron ore. (The net back price is fixed after deducting expenses such as export railway freight, port charges, royalty and export duty from the export price. The domestic price parity method is based on Orissa Mining Corporation prices.) The net back method suppresses the domestic price due to higher export related expenses. This has resulted in domestic buyers being charged lower rates than the overseas buyers. Given that the end-product (steel) prices are market driven, the CAG has suggested that the NMDC should establish a new pricing mechanism where the price reflects the market scenario.
- The CAG observed that the performance of the Board of Directors of NMDC fell short of the expected standards of governance. They need to review the progress of ongoing projects periodically and suggest remedial action wherever warranted so that the projects are completed as envisaged. Additionally, the oversight of the Ministry was deficient, as it did not set appropriate targets in the Results Framework Document for the projects under implementation.
- There are total iron ore reserves of 1,565 MT with NMDC out of total proven reserves of 28,526 MT in India. NMDC needs to formulate a strategy for acquisition of new mines so as to maintain operations on a longer horizon.
- The CAG has highlighted that NMDC needs to enhance its project management capability by focusing on project planning, implementation and monitoring.

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