

Chapter 1: Introduction

1.1 About this Report

This Report seeks to highlight matters arising out of compliance audit of the transactions incurred out of Railway Budget by the Railway Board and its Zonal offices pertaining to the year 2009-10. In addition, the Report also incorporates 10 cases pertaining to previous years that were not noticed by audit earlier.

Compliance audit refers to scrutiny of the transactions relating to expenditure, receipts, assets and liabilities of the audited entities to obtain an assurance that the provisions of the Constitution of India, the applicable laws, the subordinate legislations and other rules and regulations are being duly complied with. This also includes an examination of the adequacy, legality, transparency, etc of the relevant rules to ascertain whether these ensure effective control over public expenditure and safeguard against misuse, waste and loss.

This Report presents only such audit findings of significant materiality, having regard to the totality of nature, volume and size of public spending, requiring corrective actions in keeping with the widely accepted auditing standards. The primary purpose of this Report is to bring to the notice of the Parliament the key issues arising out of audit of the transactions of the Ministry of Railways including its various field formations and to enable the Executive to bring about improved governance and better financial management.

This chapter attempts to explain broadly, the basis of selection of units and issues for audit investigation and the reporting procedure leading to the inclusion of audit observations in the Audit Report and ends with a summary of the year-wise pendency of audit observations vis-à-vis response received from the Railway authorities as well as impact of audit in terms of recoveries effected and important remedial actions taken.

From this year on, the detailed audit findings on the Ministry of Railways are presented department-wise from Chapters 2 - 7 to enable better clarity in terms of accountability of the auditee, both the policy-arm at the Board level and the implementing agency at the field level.

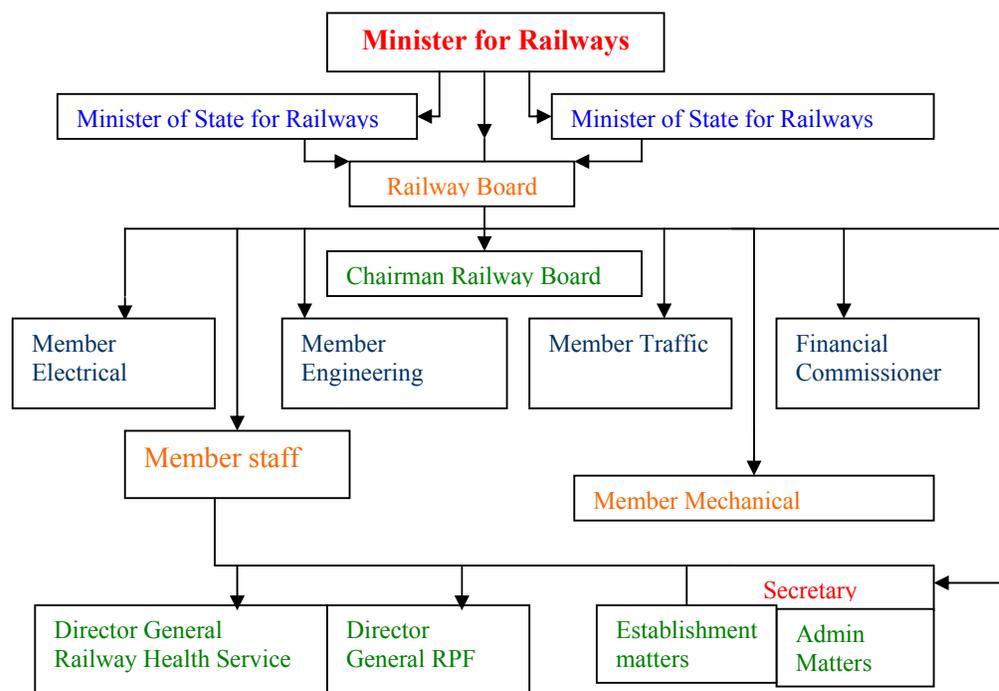
1.2 Auditee Profile

The Indian Railway is one of the world's largest rail networks with 64,015 route kms as on 31.3.2010, comprising broad gauge (52,508 kms), meter

gauge (8,473 kms) and narrow gauge 2,734 kms). As a major mass public and freight carrier, Indian Railways own a fleet of 2,16,073 wagons (units), 40,734 conventional coaches, 5877 EMU coaches and 8,562 number of locomotives and manage to run 18,518 trains daily including about 10,673 passenger trains. They carry more than a million tonne of freight traffic and about 19 million passengers covering 6,856 numbers of stations daily.

Organization Structure

The Railway Board comprising six Members (Electrical, Mechanical, Traffic, staff, Engineering and Finance Commissioner), headed by the Chairman reporting to the Minister of Railways, is responsible for laying down policies on all matters of operations, maintenance, finance and acquisition of assets and monitoring their implementation across zones. The Functional Directorates under each Member assist and aid in decision-making and its further monitoring.



At the field level, there are 16 Railway Zones, one research wing namely, Research & Development Organisation (RDSO) Lucknow, Central Organisation for Modernization of Workshops (COFMOW) for procurement of specialized machinery, two Diesel locomotive works at Varanasi and Chittaranjan, two coach factories at Kapurthala and Perambur, one wheel plant at Yelahanka and diesel modernization works at Patiala. The names of

Railway Zones with their headquarters and total route kilometers are given below:

Zones	Headquarters	Route kms.
Central	Mumbai	3,905
Eastern	Kolkata	2,414
East Central	Hajipur	3,557
East Coast	Bhubaneswar	2,568
Northern	New Delhi	6,935
North Central	Allahabad	3,151
North Eastern	Gorakhpur	3,634
Northeast Frontier	Maligaon (Guwahati)	3,758
North Western	Jaipur	5,535
Southern	Chennai	5,145
South Central	Secunderabad	5,749
South Eastern	Kolkata	2,635
South East Central	Bilaspur	2,448
South Western	Hubli	3,107
Western	Mumbai	6,509
West Central	Jabalpur	2,965
Total		64,015

Each Zone is headed by a General Manager who is assisted by Principal Heads of Departments namely Civil Engineering, Electrical, Mechanical, Stores, Accounts and Railway Protection Force.

Railway Board frames policies on all related matters of finance, operations, maintenance and acquisition of assets. The policies framed by Railway Board are implemented by the Zonal Railways and other units.

Besides above, Indian Railways (IR) have 12 Public sector undertakings (PSUs) functioning under overall oversight of the Ministry of Railways. The operations of these PSUs cover a wide spectrum i.e from providing passenger and freight container services to lend-lease financing, tourism and catering.

1.3 Integrated Financial Advice and Control

A fully integrated financial advice and control system exists both at the Railway Board led by the Financial Commissioner and the Financial Advisers and Chief Accounts Officers at the Zonal level. The Financial Heads are responsible for rendering advice and scrutinizing all proposals involving expenditure from the public exchequer.

1.4 Audit Planning

Broadly, the selection of the units for audit of the Railways was planned on the basis of certain vital risk parameters such as level of budgets planned, resources allocated and deployed, extent of compliance with internal controls,

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scope of delegation of powers, sensitivity and criticality of function/activity, external environment factors, etc. Previous audit findings, PAC's recommendations, media reports, where relevant, were also considered.

Based on such risk assessment, test audit of 2,634 auditee units of the Railways out of a total of 13,887 units was carried out during 2009-10.

In addition, studies on the following themes were conducted having regard to their significance and sensitivity in relation to public policy and its implementation. Each study is accompanied by recommendations/suggestions on the basis of audit findings, so that the Executive may act upon to obtain better results in terms of the policy/scheme objectives.

- (i) Container Operations by Private container operators including CONCOR

The theme explores the issues pertaining to freight policy on container traffic and its implications on railway's revenue.

- (ii) Construction activities in new lines projects on socio economic considerations sanctioned more than 10 years ago.

The theme looks into the constraints and deficiencies in project planning and implementation of ongoing new line socially desirable projects left incomplete over decades.

- (iii) Tatkal and Advance Reservation system

The study deals with the issues of transparency and the role of railway agents in the implementation of the scheme designed for passenger convenience.

- (iv) Agreement of Indian Railways with RailTel corporation of India Limited

- (v) Functioning of Rail Vikas Nigam Limited

The above two themes look into the functioning of the working arrangements provided in the Memorandum of Understanding between the Ministry of Railways and RailTel Corporation of India Ltd (RCIL) and Rail Vikas Nigam Limited (RVNL) regarding transfer of assets, revenue share, resource mobilization, etc.

1.5 Reporting

On conclusion of audit of vouchers & tenders in the Accounts Offices and inspection of the field units, Audit Notes/Inspection Reports (IRs)/Special letters containing audit findings were issued to the Associated Finance and Head of the unit for obtaining their replies. Audit findings were either settled or further action for compliance was advised depending upon action taken. Important audit observations, not having been complied with, were followed up through draft paragraphs addressed to the General Managers of Zonal Railway with copies endorsed to the FA&CAOs and Heads of the Departments for reply within the prescribed period. Selected issues raised in these draft paragraphs were taken up as Provisional Paragraphs with the Ministry of Railway (Railway Board) for furnishing their reply within a period of six weeks (as prescribed by the Public Accounts Committee) before their inclusion in the Audit Report.

1.6 Response of the Ministry/Department to Provisional Paragraphs

A total of 52 Provisional paragraphs proposed for inclusion in this Report were forwarded to the Chairman Railway Board, Members concerned and the Financial Commissioner between August 2010 and October 2010. Ministry of Railways had given replies to 20 of these cases up to January 2011.

1.7 Audit objections issued, settled and outstanding

During the year 2009-10, based on the results of test audit, a total of 14,917 Audit objections were issued through Special letters, Part-I Audit Notes and Inspection Reports. Besides these, there was a carry forward of 31,316 audit objections pertaining to the previous years. A total of 16,144 Audit objections were settled during the year after the Railway Administration recovered/agreed to recover the amounts involved or had initiated corrective/ remedial action. The balance 30,089 audit objections outstanding as on 31 March 2010 involved financial irregularities amounting to ₹17,962.65 crore.

1.8 Recoveries at the instance of audit

As a result of cases of undercharges in realization of freight and other earnings, overpayments to staff and other agencies, non-recovery of dues of the Railway etc. brought to the notice of the Railway Administration during

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the year 2009-10, an amount of ₹79.43 crore was accepted for recovery (₹62.67 crore was recovered and ₹16.76 crore was agreed to be recovered). Four Zonal Railways accounted for recoveries exceeding `5 crore: East Central (₹20.07 crore), Northeast Frontier (₹11.54 crore), Northern (₹8.07 crore), North Eastern (₹6.42 crore). Out of the total amount of ₹79.43 crore accepted for recovery, an amount of ₹25.70 crore pertained to transactions that were checked by Accounts but the errors not detected. An amount of ₹0.93 crore pertained to recoveries made by Railway Administration, as a result of further review done by them, on the basis of audit objections.

1.9 Remedial actions

Apart from recoveries pointed out in para 1.8 above, Railway Board took remedial action during 2008-09 and 2009-10 in response to audit observations by way of appropriate changes in freight tariffs, classification of trains, inter-alia, as detailed below:

Para No. (Year)	Audit observations	Action Taken by Ministry
2.4.2 (No.8 of 2005)	Injudicious rationalization of parcel rates by Railway Board with effect from April 2003 resulted in loss of revenue of ₹9.05 crore at 22 stations reviewed with far greater financial implications for the entire Indian Railways.	Ministry of Railways after due consideration increased the parcel rates in Railway Budget 2004-05 with effect from 6 August 2004. Rates under Scale-P were increased by 33 per cent, Scale-E was abolished and the commodities charged under this scale were merged with Scale-S (100 per cent increase) and that of Scale-R by 7.14 per cent.
2.1.11 (No. 6 of 2006)	Incorrect feeding of distances in Railways fare system resulted in short-realization of fare to the extent of ₹0.96 crore in three years.	The distance discrepancy between trains and pairs of stations pointed out was rectified and Travelling Inspectors of Accounts and Commercial Inspectors were instructed to look into the distances fed into the system and verify the same with the available distance tables during their inspections.
2.1.2 (No.6 of 2007)	The introduction of a luxury train without proper traffic survey and without assessing the financial repercussions resulted in a loss of ₹4.89 crore during two years alone.	Railway reviewed the policy of sharing the cost of newly introduced luxury trains and decided that from April 2008 onwards Railways would recover haulage cost from the commencement of operations of luxury trains that would include a mark up by way of revenue share after three years.

3.3.5 (No.6 of 2008) & 3.2.5 (No.19 of 2008-09)	Contracts were awarded by Railways without finalizing and providing requisite plans and drawings before the award of contracts. Delay in approval of drawings and handing over the same to contractors led to disputes and resulted in termination/ short closure of contracts.	Railway Board reiterated the instructions and directed that Railway Administration should foresee all delays in preparation and approval of drawings to the extent possible and decide calling of tenders only when they were fully prepared to hand over the sites and supply the plans etc. Railway Board also directed Railway Administrations that there should be close coordination between various executing agencies for timely completion of the work as per sanctioned scope of work.
2.1.5 (No.8 of 2004)	Non-inclusion of trains in the category of 'superfast trains' in spite of their fulfilling the prescribed criteria, led to loss of revenue of ₹1.57 crore.	Three trains as pointed out by Audit (Train Nos.3015/3016, 3029/3030 and 3035/3036) were declared superfast by Railway Board vide letter No.2006/ CHG-II/30/1 dated 27.04.2006 and accordingly the superfast surcharge was recovered.
4.3.6 (CA 6 of 2008)	Approval of prototype of CMS Obtuse Crossings by RDSO without sufficient trials and subsequent procurement and installation thereof resulted in cracks and premature replacement requiring extra expenditure.	Railway Board directed the RDSO to ensure that whenever new product was introduced on Indian Railways, they should conduct trials and product validation as per instructions in force.
Provisional Paragraph No. 6 of 2009-10	Improper monitoring of movement of trains resulted in over carriage of rake/wagon involving wasteful haulage cost and loss of earning capacity to the tune of ₹1.02 crore.	Railway Board admitted that over carriage of the wagons was caused by feeding incorrect code of the destination station. To avoid such mistakes, they issued instructions to all concerned for ascertaining the correct code of stations by physical checking of Card Labels of the goods train.

1.10 Paragraphs on which Action Taken Note received/pending

To ensure the accountability of the Executive on all issues dealt with in the Report of the Comptroller and Auditor General of India, the PAC had decided (1982) that the concerned Ministries/ Departments of the Government of India should furnish corrective/ remedial Action Taken Note (ATNs) on all paragraphs contained therein and had further desired in their Ninth Report (Eleventh Lok Sabha) presented to Parliament on 22 April 1997 that henceforth corrective/ remedial ATNs, duly vetted by Audit, on all paragraphs included in the Reports be furnished within four months after the Report was laid on the table of the Parliament.

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The position of ATNs furnished by the Railway Board (January 2011) on the paragraphs included in the Reports of the Comptroller and Auditor General of India – Union Government (Railways) up to the year ended 31 March 2009 is given below:

Year	Total para	No. of para on which ATN Finalized	No. of Paragraphs on which ATNs are pending				
			Not received	ATN on which comments sent to Railway Board	ATNs finally vetted	ATN under verification by Audit	Total
1995-96	85	84	0	1	0	0	1
1996-97	95	94	0	0	0	1	1
1997-98	96	93	0	0	0	3	3
1998-99	106	100	1	0	1	4	6
1999-00	101	96	0	1	2	2	5
2000-01	101	97	0	0	0	4	4
2001-02	101	87	1	1	1	11	14
2002-03	110	93	0	0	4	13	17
2003-04	114	96	0	5	4	9	18
2004-05	105	80	0	2	7	16	25
2005-06	138	101	0	7	8	22	37
2006-07	165	71	0	21	16	57	94
2007-08	172	63	3	29	17	60	109
2008-09	104	15	4	17	5	63	89
Total	1593	1170	9	84	65	265	423

ATNs in respect of nine Paragraphs relating to the Report for the year 1998-99 to 2008-09 were not furnished till January 2011. Besides, 84 ATNs received for vetting by audit were returned with observations for lack of adequate remedial action. In 265 cases, the action stated to have been taken was under verification by Audit.