

Chapter 1: Introduction

1.1 Compliance Audit - Report Outline

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 field formations pertaining to the year 2010-11.

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 in keeping with the generally accepted auditing standards and is intended to aid the Executive in instituting corrective actions/mechanisms to bring about improved governance and better financial management. In particular, the Report explores the performance/implementation issues of nine selected themes as briefly highlighted in Para 1.4. The detailed audit findings are presented department-wise from Chapters 2 - 6 to enable better clarity in terms of accountability of the audited entity, both the policy-arm at the Board level and the implementing agency at the field level.

Para 1.2 to 1.5 of this Chapter outlines the broad profile of the Ministry of Railways and its subordinate field offices, basis of selection of units and issues for audit investigation and the reporting procedure for inclusion of audit observations in the Audit Report. Para 1.6 to 1.10 provide a summary of the year-wise pendency of audit observations vis-à-vis response received from the Railway authorities and present impact of audit in terms of recoveries effected and important remedial actions taken.

1.2 Audited Entity

Presently the Indian Railways, a premier transport organization of the country is the largest rail network in Asia and the second largest in the world under one management.

Indian Railways is a multi-gauge, multi-traction system with a total route length of 64015 kms (as on 31 March 2011)

	Broad Gauge (1676 mm)	Meter Gauge (1000 mm)	Narrow Gauge (762/610 mm)	Total
Track Kilometers	86,526	18,529	3,651	108,706
	Electrified	Total		
Route Kilometers	16,001	64,015		

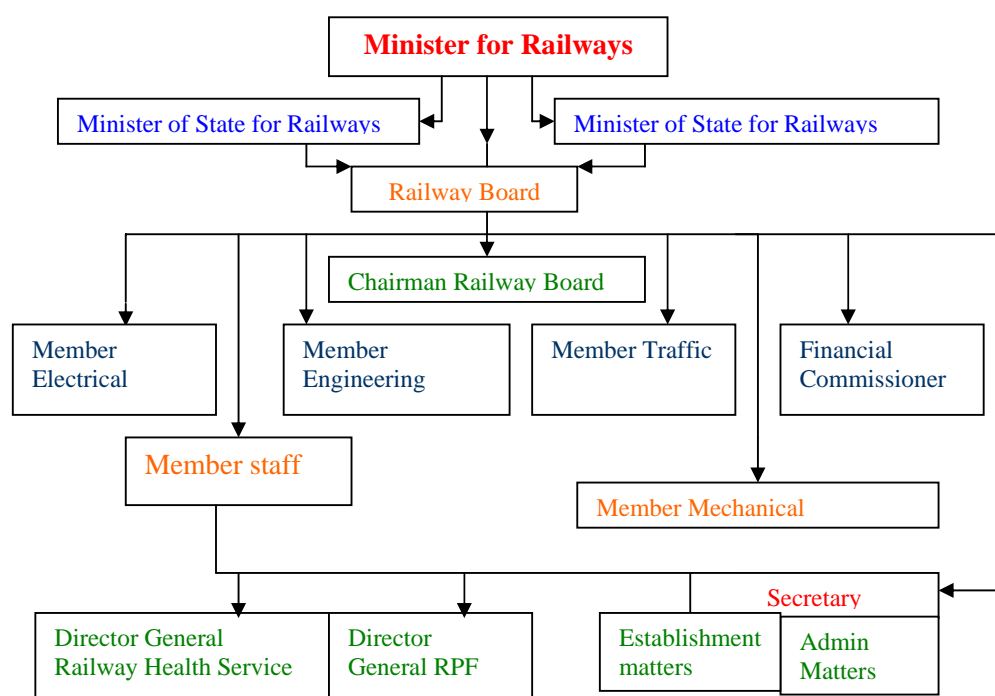
Indian Railways runs around 11,000 trains everyday of which 7,000 are passenger trains. They carry approximately 19 million passengers and more than a million tonne of freight traffic daily. As on 31 March 2011, the Indian Railways owned and maintained infrastructural assets and rolling stock as in Table below:

Locomotives	Coaching Vehicles	Freight wagons	Stations
7,566	37,840	2,22,147	6,853
Yards	Goods Sheds	Repair Shops	Work Force
300	2,300	700	1.54 million

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 Railway Board is responsible for regulating pricing of both passenger and freight tariffs.

The Functional Directorates under each Member assist and aid in decision-making and its further monitoring.



At the field level, there are 17 Railway Zones, one research wing namely, Research & Development Organisation (RDSO) Lucknow, a 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 and axle plant at Yelahanka and a diesel modernization works at Patiala. The names of Railway Zones with their headquarters and total route kilometers are given below:

Railways	Headquarters	Route kms.
Central	Mumbai	3,905
Eastern	Kolkata	2,414
East Central	Hajipur	3,557
East Coast	Bhubaneshwar	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
Metro Railway	Kolkata	
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.

Besides above, there are 12 Public sector undertakings (PSUs) functioning under administrative control 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 a risk assessment with regard to the level of budgets planned, resources allocated and deployed, extent of compliance with internal controls, scope of delegation of powers, sensitivity and criticality of function/activity,

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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 3,457 audited entities of the Railways out of a total of 13,887 units was carried out during 2010-11.

The audit plan in particular focused on nine selected themes of significance in terms of policy and its implementation inter-alia covering freight tariffs, passenger services and safety works. Each study is accompanied by recommendations/suggestions on the basis of audit findings, reported under department specific chapters, so that the authorities concerned may act upon to obtain better results in terms of the policy/scheme objectives. In brief, the themes covered the issues as under:

Chapter 2 – Traffic - Commercial and operations

Up-gradation of Goods sheds - The Ministry had announced an initiative for up-gradation of 100 goods sheds for being augmented to cope with increasing traffic demand.

- Audit study focused on the pace of identification and efficiency in implementation of the selected goods sheds and the consequential impact on rakes handled as originally envisaged

MEMU/DEMU Services in Indian Railways - With a view to decongest the busy routes, Ministry of Railway had envisaged replacement of conventional coach trains with the more efficient and faster moving MEMU/DEMU for commuting public near metros and other major cities.

- Audit reviewed the performance of the efficiency of these services in all the Zones for the period 2008-09 to 2010-11 with focus on rake management and their maintenance in light of the current shortfall of overall availability of passenger coaches.

Running of freight trains with enhanced loading in wagons up to CC+8+2 - Railway Board had permitted enhanced loading beyond the permissible carrying capacity with the objective to carry more tonne per wagon to increase the throughput on congested routes reducing the unit cost of operations by saving on locomotives, additional wagons, staff and path to move additional trains.

- Audit reviewed the progress on follow-up of requirements to be complied with as per the recommendations of the PAC (19th Report of 2009-10) for permitting enhanced loading.

Movement of traffic at 'Train Load Class Rates' - The policy of providing lower train load rates was envisaged with a view that Railways would achieve saving by way of reduction in operational costs due to minimized marshalling and lesser detention to rolling stock. The benefit so accrued was to be passed on to the consumers.

- Audit study focused on the compliance by Zonal offices of extending trainload benefit in stations notified for handling full rakes and the actual efficiency in managing the rakes.

Chapter 3- Engineering (Open line and Construction)

Commercial Utilization of Surplus Railway Land in Indian Railways –

- Audit conducted a study across the Indian Railway to evaluate the implementation of policy framed by the Railway Board in commercial exploitation of its surplus land as well as recommendations of the PAC for setting up a time frame for executing/ renewal of agreements and to ensure that the license fee in respect of land licensed to private parties, departments and Public Sector Undertakings (PSUs) was calculated on the market value of land and recovered accordingly.

Civil Engineering Workshops in Indian Railways - Civil Engineering Workshops (CEWs) manufacture bridge girders, track components, Platform shelters, foot over bridges and various components to meet the internal demands of Indian Railways.

- Audit reviewed the performance of all the ten CEWs to assess whether these were well equipped to meet the growing demand of fabrication requirements for bridge rebuilding as well as for construction of bridges on new lines.

Safety works – Level Crossings, Road Over Bridges and Road Under Bridges - Level crossings (LCs) at railroad intersections present a significant risk of accidents. For enhancement of safety standards at manned LCs instructions were issued by Railway Board for interlocking of LCs, Provision of Lifting Barriers and Telephones, elimination of LCs by construction of ROBs/RUBs/Limited Use Subways/Limited Height.

- Audit reviewed the progress of implementation of these works as a follow-up to the earlier audit study (Report No.9 of 2005).

Chapter 4 – Mechanical - Zonal Headquarters, Workshops and Productions units

Plant and Machinery Procured by COFMOW - COFMOW was set up as a service organization dedicated to induct updated technology in the IR through bulk procurement of specialized plant and machinery.

- Audit reviewed performance efficiency of COFEMOW vis-a-via Zonal offices in pre-and post-procurement phases in respect of selected Machinery and Plant (M&P).

Chapter 5 – Signal and Telecommunication

Safety work over Indian Railways – Anti Collision Device (ACD) and Train Protection and Warning System (TPWS) - The performance of pilot project for installation of ACD over Northeast Frontier Railway (NFR) was reported to Parliament (Report No. 26 of 2008-09 tabled on 24 July 2009). Railway Board in their reply had stated that ACD was successfully implemented on trial basis on Northeast Frontier Railway and would be extended to three other Railways.

- Audit reviewed the progress and outcome of the trials conducted so far by selected Zonal Railways to form an assessment.

1.5 Reporting

The thematic studies were conducted across the Zonal Railways using sampling methodology and accessing relevant records and documents of the field units including those of the Railway Board. The audit findings were issued to the respective Zonal Managements for their response. Similarly, Audit Notes/Inspection Reports (IRs)/Special letters arising out of regular audit of vouchers and tenders 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 166 draft paragraphs including observations on thematic topics were issued to the General Managers of the Railway Administration up to August 2011. The response of the Railway Administration was received only in 26 cases. After considering the replies wherever received, 25 Provisional paragraphs (including nine thematic studies) proposed for inclusion in this Report were forwarded to the Chairman Railway Board, Members concerned and the Financial Commissioner between August 2011 and January 2012. Ministry of Railways had not replied to any of these cases up to January 2011.

1.7 Audit objections issued, settled and outstanding

During the year 2010-11, based on the results of test audit, a total of 13,967 Audit objections involving financial irregularities of ₹6999.74 crore were issued through Special letters, Part-I Audit Notes and Inspection Reports. Besides these, there was a carry forward of 30,099 audit objections pertaining to the previous years. A total of 17,422 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 26,644 audit objections outstanding as on 31 March 2011 involved financial irregularities amounting to ₹13500 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 the year 2010-11, an amount of ₹118.92 crore was accepted for recovery (₹105.56 crore was recovered and ₹13.36 crore was agreed to be recovered). Four Zonal Railways accounted for recoveries exceeding ₹10 crore: Northeast Frontier (₹33.42 crore), West Central (₹23.05 crore), North Western (₹18.46

crore) and Northern (₹10.84 crore) Out of the total amount of ₹118.92 crore recovery accepted, an amount of ₹53.96 crore pertained to transactions that were already checked by Accounts. As a result of further review carried out by Accounts another ₹13.10 crore were recovered.

1.9 Remedial actions

In addition, Railway Board also initiated remedial action in response to audit observations by way of action for recovery in case of short realization, appropriate changes in freight tariffs and issue of instructions during 2010-11 for better and improved compliance (Table below).

Para (Year)	No.	Audit observations	Action Taken by Ministry
5.5 (No. 8 of 2004)		Railway Administrations had not implemented the revised Railway Employees liberalized Health Scheme (RELHS), 1997 as amended in December 2002. Thus incorrect recovery of the contribution towards scheme from retired employees and their spouses had resulted in short realization of ₹0.81 crore.	Railway Board admitted the lapse on the part of implementing offices and issued instructions (March 2011) to Zonal Railways for recovery of the balance amount.
3.2.4 (No. 6 of 2007)		Delay of 11 years in completion of the work of laying additional pipe line mainly because of lack of coordination among various Government Departments viz. non-clearance by Forest Department, had caused idling of assets costing ₹4.65 crore.	The Railway Board while accepting the Audit contention issued instructions to all Zonal Railways to ensure proper coordination among various departments so that the works are completed in time and idling of invested was avoided.
5.3.2 (No. 6 of 2007)		Incorrect adoption of capital cost of BFKI wagons by Northern Railway committee had resulted in short recovery of maintenance charges of ₹14.20 crore. Further non-adoption of rates of maintenance charges as recommended by multi disciplinary committee had also resulted loss of ₹180.51 crore	Railway Board while accepting the loss also revised the system from 1 April 2006. The new system provide for setting up a percentage of haulage charges recovered from container operators towards maintenance cost of their rolling stock. This amount is apportioned from the haulage charges and kept in a Centralized Deposit Account.
4.1.13 (No. 6 of 2008)		The costly items of signal and telecommunication procured during 1999 to 2006 for use in specific works were lying unutilized resulting in idling of investment of ₹1.10 crore.	Railway Board accepted the audit contention and issued instructions (January 2010) to all Zonal Railways to be more careful in procurement of signaling items.
2.1.10 (No. 19 of 2008-09)		North Eastern Railway had suffered a loss of ₹1.79 crore on account of attaching dummy wagons to the oil tank rake carrying vegetable oil which are provided to rakes loaded with explosive material.	The Railway Board accepted that there was no need to provide dummy wagons to rakes of vegetable oil and instructed the Zonal Railways to dispense with the practice of providing dummy wagons to such rakes.

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Para No. (Year)	Audit observations	Action Taken by Ministry
3.1.9 (No. 19 of 2008-09)	Constructions of staff quarters without obtaining approval from the Municipal Corporation of Greater Mumbai had led to unproductive expenditure of ₹1.09 crore and loss of ₹0.35 crore on account of non-utilization of assets.	Ministry of Railways had issued instructions in July 2010 to all Zonal Railways to obtain necessary clearance from local bodies before commencement of work so that the expenditure incurred was utilized gainfully.
6.3.5 (No. 19 of 2008-09)	Delay in assessment of the requirement of traction power and enter into revised agreement indicating the correct contract demands had resulted in payment of penalty of ₹2.76 crore on account of exceeding the contract demand.	Railway Board admitted that some delay had occurred in assessing the correct requirement of traction power. They, therefore, issued instructions (January 2011) to all Zonal Railways to monitor the maximum demand at each power supply point and take immediate action for revision of the contract demand as per requirement so that the penalty on this account was avoided.
3.1.5 (No. 11 of 2010-11)	Injudicious creation of the passenger amenities in excess of the prescribed norms and execution of works not related to passenger amenities or Railway's working had resulted in additional expenditure of ₹9.99 crore.	Accepting the audit contention, Railway Board issued instructions (March 2011) to the Zonal Railways to ensure the passenger amenities at stations were provided as per norms and unnecessary work be avoided.
2.1 (No. 34 of 2010-11)	Allowing container operators including CONCOR to carry bulk commodities traditionally carried by Indian Railway at haulage rates had exposed the Railways to the risk of huge loss in revenue and potential for diversion of regular rail traffic.	While admitting the audit finding as partial correct, Railway Board revised the freight tariff (RC No. 30 of 2010 effective from) by stipulating separate rates for nine commodities (predominantly carried by IR) equal to IR rates minus a percentage allowance to container operators.

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.

The position of ATNs furnished by the Railway Board (January 2012) 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 2011 is given below:

Year	Total para	No. of para on which ATN Finalized	No. of Paragraphs on which ATNs are pending				Total
			Not received	ATN on which comments sent to Railway Board	ATNs finally vetted	ATN under verification by Audit	
1996-97	95	94	0	0	1	0	1
1997-98	96	95	0	1	0	0	1
1998-99	106	104	0	0	0	2	2
1999-00	101	99	0	1	1	0	2
2000-01	101	98	0	2	0	1	3
2001-02	101	90	0	8	1	2	11
2002-03	110	105	0	2	3	0	05
2003-04	114	101	0	11	1	1	13
2004-05	105	91	0	7	4	3	14
2005-06	138	117	0	15	3	3	21
2006-07	165	112	0	28	14	11	53
2007-08	172	106	0	41	11	14	66
2008-09	104	51	0	31	8	14	53
2009-10	59	4	29	8	2	16	55
Total	1567	1267	29	155	49	67	300

ATNs in respect of nine Paragraphs relating to the Report for the year 2009-10 were not furnished till January 2012. Besides, 163 ATNs received for vetting by audit were returned with observations for lack of adequate remedial action. In 71 cases, the action stated to have been taken was under verification by Audit.