

Chapter 1: Introduction

1.1 Compliance Audit - Report Outline

Compliance audit refers to scrutiny of 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.

The matters arising out of compliance audit of the transactions incurred out of Railway Budget by the Ministry of Railways and its field formations pertaining to the year 2011-12 are highlighted in Compliance Audit Reports Vol. - I and Vol. – II. Volume I of the Compliance Audit Report has been laid on the Table of both the Houses of Parliament on 13 August 2013.

These Reports present only such audit findings of significant materiality with 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 Reports explore the performance/implementation of issues of seven selected themes and a Performance Audit. The detailed audit findings of three Thematic Audits and one Performance Audit are presented department-wise in Volume I of the Report. The detailed audit findings of four Thematic Audits and 13 individual paras are presented department-wise from Chapters 2 to 5 of this Report (Compliance Audit Report Vol. II). This would enable better clarity in terms of accountability of the audited entity, both at 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

Indian Railways is a multi-gauge, multi-traction system with a total route length of 64,600 kms (as on 31 March 2012). 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.

Table 1.1

	Broad Gauge (1676 mm)	Meter Gauge (1000 mm)	Narrow Gauge (762/610 mm)	Total
Route Kilometers	55,956	6,347	2,297	64,600
Running Track Kilometers	80,779	6,725	2,297	89,801
Total track kms.	104,693	7,801	2,568	115,062
Electrified route Kms				20,275
Electrified running track kms.				38,669

Indian Railways runs around 11,000 trains everyday of which 7,000 are passenger trains. They carry approximately one million passengers and one million tonne of freight traffic daily. As on 31 March 2012, the Indian Railways owned and maintained infrastructural assets and rolling stock as in the Table below:

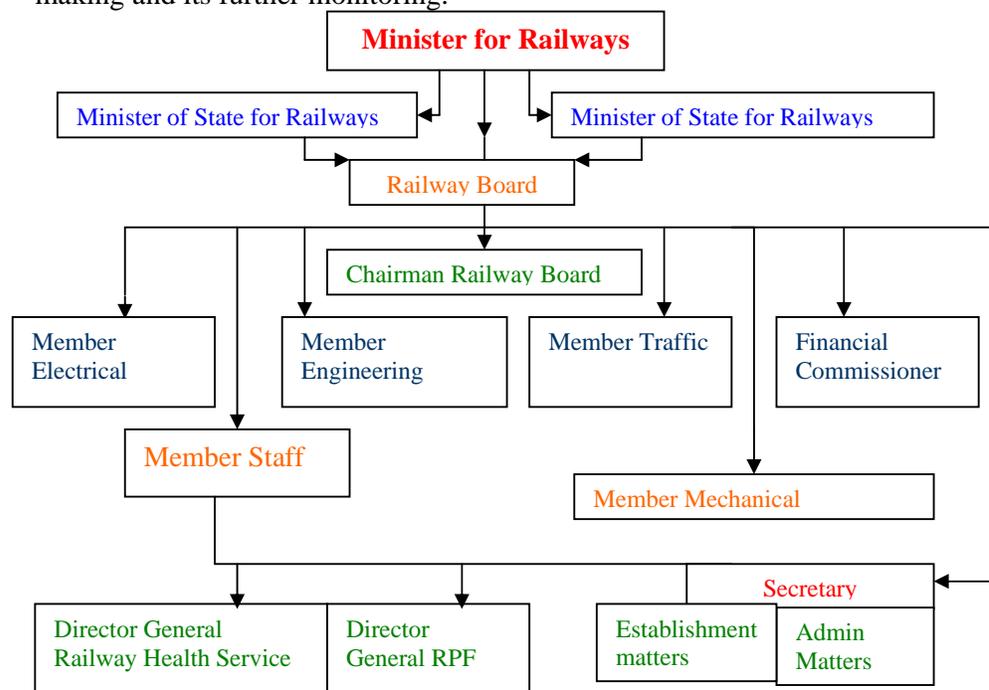
Table 1.2

Locomotives	9,549	Yards	300
Coaching Vehicles	61899	Goods Sheds	2,300
Freight wagons	2,39,321	Repair Shops	700
Stations	7,146	Work Force	1.54 million

Organization Structure

The Railway Board comprising six Members (Electrical, Mechanical, Traffic, Staff, Engineering and Financial 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 fares 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, Designs and Standards Organization (RDSO) Lucknow; a Central Organization for Modernization of Workshops (COFMOW) for procurement of specialized machinery; two locomotive manufacturing units (DLW and CLW) at Varanasi and Chittaranjan; three coach factories at Kapurthala, Raebareli 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:

Table 1.3

Railways	Headquarters	Route kms.
Central	Mumbai	3,905
Eastern	Kolkata	2,447
East Central	Hajipur	3,656
East Coast	Bhubaneswar	2,676
Northern	New Delhi	6,990
North Central	Allahabad	3,151
North Eastern	Gorakhpur	3,767
Northeast Frontier	Maligaon (Guwahati)	3,965
North Western	Jaipur	5,502
Southern	Chennai	4,994
South Central	Secunderabad	5,810
South Eastern	Kolkata	2,661
South East Central	Bilaspur	2,455
South Western	Hubli	3,191
Western	Mumbai	6,440
West Central	Jabalpur	2,965
Metro Railway	Kolkata	25
Total		64,600

Each Zone is headed by a General Manager who is assisted by Principal Heads of Departments, such as Operating, Commercial, Engineering, Electrical, Mechanical, Stores, Accounts, Signal & Telecommunication, Personnel, Safety, Medical etc.

Besides above, there are 25 Public Sector Undertakings (PSUs) functioning under the 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, 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 4239 audited entities of the Railways out of a total of 13,887 units was carried out during 2011-12.

The audit plan in particular focused on selected themes of significance in terms of policy and its implementation inter-alia covering freight traffic, Railways Earnings, infrastructural development, passenger amenity activities, asset management, material management 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.

The findings of the Thematic Audits on 'Commercial Publicity in Indian Railways', 'Implementation of line capacity augmentations works', 'Performance efficiency of Signalling assets' and Performance Audit on 'Cleanliness and Sanitation in Indian Railways' have been included in Volume I. The audit findings of other Thematic Audits viz., Rationalization of routing of freight (goods) carried over longer route; Procurement and Utilization of Permanent Way Materials on IR; Procurement of PAC items in Indian Railways; and Maintenance of Locomotives in Indian Railways are included in this volume (Volume II). Besides, 13 individual paras are also included in this volume.

1.5 Reporting

The Thematic Audits 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 180 Draft Paragraphs including observations on Thematic Audits were issued to the General Managers of the Railway Administration up to November 2012. The response of the Railway Administrations was received only in 38 cases. After considering the replies wherever received, 17 Provisional Paragraphs (including four Thematic Audits) proposed for inclusion in Compliance Audit Report Volume II were forwarded to the Chairman Railway Board, Members concerned and the Financial Commissioner between 21st March 2013 and 10th June 2013. Ministry of Railways had not replied to any of these cases upto 30th June 2013 except in one individual Provisional Para.

1.7 Audit objections issued, settled and outstanding

During the year 2011-12, based on the results of test audit, a total of 16271 Audit objections involving financial irregularities of ₹12467.76 crore were issued through Special letters, Part-I Audit Notes and Inspection Reports. Besides these, there was a carry forward of 30,408 audit objections pertaining to the previous years. A total of 19177 Audit objections were settled during the year after Railway Administrations recovered/ agreed to recover the amounts involved or had initiated corrective/ remedial action. The balance 27502 audit objections outstanding as on 31 March 2012 involved financial irregularities amounting to ₹16133.95 crore.

1.8 Recoveries at the instance of Audit

Audit has pointed out the cases of under charges in realization of freight and other earnings, over payments to staff and other agencies, non-recovery of dues of the Railways etc. amounting to ₹342.24 crore in the various Zonal Railways during the year 2011-12. Out of this, an amount of ₹215.41 crore was accepted for recovery (₹138.51 crore was recovered and ₹76.90 crore was agreed to be recovered). Four Zonal Railways accounted for recoveries exceeding ₹10 crore - East Central (₹49.96 crore), Western (₹38.20 Crore), Northeast Frontier (₹41.31 crore) and Northern (₹33.86 crore). Out of the total amount of ₹215.41 crore recovery accepted, an amount of ₹ 120.09 crore pertained to transactions that were already checked by Accounts and ₹95.21crore were other than those checked by Accounts. As a result of further review carried out by Accounts another ₹0.10 crore were recovered/agreed to be recovered.

1.9 Remedial Actions

In addition, Railway Board initiated remedial action in response to audit observations by appropriate changes in freight tariffs and issue of instructions during 2011-12 for better and improved compliance (Table 1.4 below).

Table 1.4

Para No. of the Report	Audit observations	Action Taken by Ministry
Para 3.2.2 of RAR 9 of 1999	Failure of the Zonal Railway Administration to follow the Rules in regard to rounding off of length of private sidings as per standard form of agreement for maintenance of sidings (Clause 8 (b) (I)) led to short recovery of charges amounting to ₹ 4.26 crore	Railway Board has expressed serious concern over repeated cases of non-recovery of dues from siding owners and instructed all Zonal Railways to put in place a proper monitoring mechanism to ensure signing of agreements and timely billings and recoveries of Railway dues.
Para 4.3.1 of RAR 9 of 2001	Failure of Zonal Railway Administration to execute agreements with Oil companies resulted in non-realization of Rs.26.58 crore on account of maintenance charges in respect of jointly owned LPG tank wagons and interest thereon of ₹12.34 crore	Railway Board has issued instructions to be followed by all Zonal Railways on the issue of maintenance charges of jointly owned tank wagons.
Para no.2.2.2 of CA-6 of 2008	Central Railway could not recover maintenance charges of ₹2.30 crore from M/s Bulk Cement Corporation of India for maintenance of 125 special type of wagons owned by them	Railway Board has advised FA&CAO, Central Railway that the capital cost of the wagons/under frame/barrel of special type of wagons should be revised in every three years.
Para no. 4.1.1 of CA-6 of 2008	Adoption of Price Index of metallic minerals instead of steel ingots of steel for calculating PVC in respect of supply of wheels resulting in extra expenditure and unintended benefit to M/s SAIL	Railway Board has started process of reworking the price variation formula and also assured to keep the audit observation in view.
3.2.11 for the year 2007-08	Delay on the part of Zonal Railway Administration in finalizing site and drawings for Foot Over Bridge led to blocking of fund of ₹0.73 crore including wasteful expenditure of ₹0.19 crore	Suitable instruction has been issued by Railway Board to all concerned to closely monitor the works in progress to avoid such instances in future.
Para 6.4.1 of CA-19/2008-09	Lack of proper organizational set up for commercial publicity at Zonal and divisional levels and lackadaisical implementation of guidelines resulted in a loss of ₹32.34 crore	Railway Board has issued instructions to all zonal railways that all proposals for advertisement should be cleared within a period of 45 days from conceptualization to finalization of tenders. Railway Board has advised all zonal railways to increase the earning through commercial publicity and to send the information in this regard to Railway Board by 10th of every

		month for review.
4.2.3 of CA-19 of 2008-09	Injudicious award of the contract to a firm with poor track record	The firm was re-inspected and downgraded. The system of feedback regarding vendors' performance from the consignees through MIS/e-mail and their examination in the CME (Planning)'s quarterly meeting held at COFMOW was introduced.
4.1.1 of 2009-10	Injudicious procurement of non stock stores items	A Survey Committee has been constituted and disposal of surplus materials is in progress
2.2 of Report No.34 of 2010-11	Tatkal and Advance Reservation System in IR – Audit has pointed out shortcomings in reservations systems especially in tatkal bookings. Irregularities such as booking beyond business hours, unscrupulous activities of railway agents in connivance of booking agents, misuse of duplicate tatkal ticket facility etc. were also observed.	Railway Board directed (October 2011) Zonal Railways to keep a regular watch on booking transactions for unscrupulous activities by agents/ booking clerks, particularly during opening hours of tatkal bookings. Besides, Railway Board reduced the advance reservation period for tatkal booking and withdrew the facility of issuing duplicate tatkal tickets. It also stopped bookings by agents in the openings hours of reservation etc.
2.7 of Report No. 34 of 2010-11	Loss due to non-rationalization of longer route.	As a corrective measure, Zonal Railway Administration has rationalized the longer route from April 2011.
4.4 of 2010-11	Railway Administrative failed to levy empty haulage as well as stabling charges of ₹ 0.61 crore on tank wagons received for periodical overhauling without degassing. This also resulted in loss of earning potential of ₹18.71 crore on account of avoidable detention of tank wagons (49791 days).	Instructions were issued by Railway Administration to dispatching Yards/ Divisions not to dispatch gas tank wagons without degassing certificate. Traffic Department was advised to recover empty haulage charges for the wagons improperly degassed by Oil Companies.
PDA/MYS/S pl.-Ltr/659-660 of 25.02.2010	During the leave period, Running Staff are entitled for Absence Mileage Allowance (AMA) at the rate of 30% of basic pay. However it was observed that the AMA was calculated at the rate of 130% of the basic pay resulting in overpayment of ₹18.37 lakh for the September 2008 to September 2010	Necessary changes in the "PRIME" were made

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 (June 2013) 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:

Table 1.5

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	
1997-98	96	95	0	1	0	0	1
1998-99	106	105	0	0	0	1	1
1999-00	101	100	0	0	1	0	1
2000-01	101	99	0	2	0	0	2
2001-02	101	93	0	5	3	0	8
2002-03	110	107	0	1	1	1	3
2003-04	114	105	0	5	3	1	9
2004-05	105	96	0	4	3	2	9
2005-06	138	124	0	6	2	6	14
2006-07	165	138	0	13	9	5	27
2007-08	172	138	0	13	15	6	34
2008-09	104	80	0	5	12	7	24
2009-10	59	22	0	17	9	11	37
2010-11	34	1	9	8	6	10	33
Total	1506	1303	9	80	64	50	203

ATNs in respect of nine Paragraphs relating to the Report for the year 2010-11 were not furnished till June 2013. Besides, 80 ATNs received for vetting by audit were returned with observations for lack of adequate remedial action. 64 ATNs, vetted by audit, are yet to be finalized by Ministry of Railways. In 50 cases, the action stated to have been taken is under verification by Audit.