

Chapter 2: Traffic - Commercial and Operations

The Traffic Department comprises two main streams – Commercial and Operations. The Commercial Department is responsible for marketing, sale of transportation provided by a railway, for developing traffic, improving quality of service provided to customers and regulating tariffs of passenger, freight and other coaching traffic and monitoring their collection, accountal and remittance.

The Operating Department is responsible for planning of transportation services – both long-term and short-term, managing day to day running of trains including their time tabling, ensuring availability and proper maintenance of rolling stock to meet the expected demand and conditions for safe running of trains.

At the Railway Board level, the Traffic Department is headed by Member Traffic, who is assisted by Additional Members/ Advisors. At the zonal level, the Operating and Commercial Departments are headed by Chief Operations Manager (COM) and Chief Commercial Manager (CCM). At the divisional level, the Operating and Commercial Departments are headed by Senior Divisional Operations Manager (Sr. DOM) and Senior Divisional Commercial Manager (Sr. DCM).

The total expenditure of the Traffic Department during the year 2011-12 was ₹ 8,876 crore. During the year, apart from regular audit of vouchers and tenders etc., 453 offices of the department including 658 stations were inspected.

This chapter includes a Thematic Audit on "**Rationalization of routing of freight traffic (goods) carried over longer route**" conducted across the Zonal Railways. Audit has commented on the ad-hoc approach of Zonal Railways either to rationalize the longer route or to remove bottlenecks that deterred the movement of traffic by shorter route. Audit has assessed the loss due to carrying of freight by the longer route and charging of freight by the shorter route.

In addition, this chapter incorporates four Audit Paragraphs highlighting individual irregularities pertaining to excess lease payment and freight concession. These include a long Paragraph, covering three Zones (East Coast, South Eastern and South Western Railways), on revenue loss due to irregular grant of concessional tariff rate for booking of iron ore traffic in these Zones. In this Paragraph, Audit highlighted severe lapses in the internal control system of the Railways in booking of iron ore traffic at domestic rate.

2.1 Rationalization of routing of freight traffic (goods) carried over longer route

Executive Summary

As per Para 125(1)(a) and (b) of Indian Railway Conference Association, Goods Tariff No.41, Goods will be dispatched by the operationally feasible route and freight charges recovered by the shortest route. This resulted in loss of revenue and at the same time in the incurring of extra operational cost for hauling the trains via a longer route.

To reduce the loss of revenue due to carriage of freight traffic by the longer route, the Railway Board issued a consolidated Rationalization Scheme in January 1976. Subsequently, Railway Board has been directing the Zonal Railways from time to time to review the Rationalization Schemes critically and suggest additions/ deletions with justification.

Audit observed (August 2012) that the Railway Administrations had taken limited action to forward proposals to Railway Board for rationalization of routes whereby they could charge freight by the actual route of carriage. Further, action to remove bottlenecks that deterred the movement of such traffic by shorter routes was limited and whenever undertaken was frequently delayed.

Test check by Audit of routes where the distance between the charged (shorter route) and the actual carried route was more than 100 kms., revealed that originating traffic of Zonal Railways (except NWR, WCR, ECoR, NFR, RPU & Metro Railway) was being carried via longer routes in 187 cases. The routes on which freight traffic was carried were longer at least to the extent of 107 kms and extended upto even 952 kms. In Eastern Railway (one route) and North Eastern Railway (fifteen routes), the longer route had been in existence for about ten years or more. Freight was being collected via the shorter route as a regular measure and no proposals were made to overcome the bottleneck in most of the routes. No action was taken for rationalization of these routes.

In respect of five selected stations over Zonal Railways (except WCR and RPU & Metro), the Railways incurred a loss of ₹ 422.74 crore over the period 2010-12 due to transportation of freight traffic by the longer route and charging by the shorter route.

In a number of cases over eight Zonal Railways due to technical constraints [non availability of direct approach line requiring engine reversal (13 cases), gap in non-electrification of the shorter route (76 cases)], were forced to carry the traffic via the longer route. This resulted in excess expenditure of ₹ 90.86 crore during the period 2010-12.

2.1.1 Introduction

In terms of Rule 125 (1) (a) and (b) of Indian Railway Conference Association Goods Tariff No.41, unless specified by the sender, goods will be dispatched by the route operationally feasible and freight charges recovered by the shortest route. In the absence of specific instructions in writing from the sender or his

authorized agent, goods will be dispatched by the route by which the freight charges are the lowest. This rule has resulted in routinely carrying freight traffic by the longer route and charging by the shorter route and has been commented upon in previous Audit Reports.

To reduce the loss of revenue due to carriage of freight traffic by the longer route the Railway Board, issued a consolidated Rationalization Scheme¹ in January 1976. Subsequently, Railway Board vide their letter No.76.TT/III/27/1, dated 13 February 1976, advised the Zonal Railways to mention the reasons for carrying the traffic by the longer route along with the proposed action to be taken to overcome such difficulties in the future. Zonal Railways were also directed to review the Rationalization Schemes critically and suggest additions/ deletions with justification.

2.1.2 Previous Audit Reports

Details of the Audit Paras printed in the Railway Audit Report on Rationalization in the succeeding five years i.e. from 2006-07 to 2010-11 are as follows:

Table 2.1

Sl. No.	Details of the Para and the Action Taken Note	Railway Audit Report for the year
1	Western Railway: Loss of revenue due to incorrect booking and withdrawal of route from the purview of Rationalization Scheme. The ATN was finalized by appending the audit observations.	2006-07
2	North Western Railway: Loss due to movement of rakes by longer route. The ATN was finalized since after opening of the shorter route, the traffic gradually started moving via the shorter route.	2007-08
3	East Coast Railway: Loss of revenue due to deficiency in rationalization scheme. The ATN was finalized since the longer route was rationalized.	2008-09
4	Eastern Railway: Non-rationalization of longer route. The ATN was not yet finalized. Ministry of Railways stated that burdening the customer with additional costs may lead to diversion of traffic. Audit contended that even if the subject route is rationalized and freight is levied accordingly, the cost of road transport would still be much more than the cost of rail transport.	2008-09
5	Southern Railway: Less realization of freight due to non-rationalization of a longer carried route. The ATN was finalized since the rakes are now moving via shorter route.	2008-09
6	East Central: Loss due to non-rationalization of longer route. The ATN was finalized by appending the audit observations.	2009-10
7	South Western: Loss of earnings due to injudicious deletion of rationalization order. The ATN was finalized since the traffic was started moving via the shorter route.	2010-11
8	Central and Western Railways: Loss of revenue on account of moving traffic by longer route and charging by shortest route. The ATN on the Audit Para has not yet been received from the Ministry of Railways.	2011-12

¹ Rationalization Scheme: To regularize the longer route through which the traffic is carried and charges freight accordingly.

Out of the above Audit Paras, seven Action Taken Notes (ATNs) have been finalized and the remaining one ATN is yet to be finalized.

2.1.3 Audit Objectives

Analysis of last five years Audit Reports revealed that Railways were regularly carrying freight tariff via longer routes and charging by the shorter route. In view of this, it was decided to conduct an Audit over all Zonal Railways to examine the following:

- (i) To ascertain the number of routes where the traffic was regularly carried by the longer routes for years together;
- (ii) To assess revenue impact of carrying freight traffic by longer route;
- (iii) To compare the road rates with rail rates where Railways had not proposed rationalization as future traffic could be diverted to road.

2.1.4 Methodology and Sample Size

Records of Zonal Railways²/ Divisional Offices and Stations from where the traffic was moved via the longer route/ other than the booked routes were examined. Routes in existence over the period 2010-11 to 2011-12, where difference in distance between the charged (shorter route) and the actual carried route (longer route) is more than 100 kms were test-checked.

2.1.5 Audit Findings

Audit examined the movement of freight traffic across the Zonal Railways (2010-12) and noticed that despite the traffic being carried regularly by the longer routes, Railways had neither forwarded proposals to the Railway Board for bringing such streams of traffic under the purview of Rationalization Orders nor initiated improvement works to remove the hurdles that caused the diversion of traffic by the longer routes as enumerated in the following paragraphs.

2.1.5.1 Number of routes, where the difference between the carried route and the charged route are more than 100 kms

Audit examined (July – August 2012) routes, where the distance between the charged (shorter route) and the actual carried route was more than 100 kms. Results of audit examination are given in Table 2.2 below:

² Except North Western, West Central and RPU & Metro Railways, where no case of carriage of originating traffic of that Zonal Railway via longer route were noticed. The distance between the charged (shorter route) and the actual carried route (longer route) in respect of East Coast and Northeast Frontier Railways are less than 100 kms.

Table 2.2
Table showing additional distance covered for carriage of freight traffic

Railway	No. of routes where the traffic is carried by the longer route and the freight is charged by the shorter route	Difference in distance in Kms. between the shortest route and the actual carried route	Since when carried	Main Reasons
1	2	3	4	5
CR	39	952 to 150	2007	Over saturation of shorter route
ER	1	163 to 113	9 – 10 years	Congestion in shorter route, non-availability of direct approach line
NR	4	199 to 122	March 2006	Longer route fully electrified
SR	48	279 to 115	January 1997	Shorter route has steep raising gradient, inadequate super elevation and sharp deep curve
WR	17	245	December 2006	Shortage of diesel locomotives
ECR	2	302 to 124	2006	Engine reversal problem, capacity constraint
NCR	1	113	5 – 6 years	Over saturation of shorter route, engine reversal problem
NER	15	808 to 178	10 years or more	Operational problems
SCR	3	405 to 131	April 1998	Route 1 – single line, non-electrified and non-availability of standard loop lines. Route 2 – Non-availability of direct approach, Route 3 – Raising gradient
SER	15	530 to 109	2009	Change of traction, single line
SWR	2	227 to 163	April 2007	Due to restriction in movement of number of trains in Ghat Section between Hassan-Mangalore
SECR	40	458 to 107	Jan- 2009	Single line, operational constraints
Total	187			

(Details of this Table are shown in Annexure I)

The above Table reveals that there were a total of 187 routes over Indian Railways where the distance between the charged (shorter route) and the actual carried route (longer route) was more than 100 kms. The originating traffic for these routes was spread over 12 Zones. The maximum number of routes where freight traffic was carried by the longer route, were SR with 48 such routes, followed by SECR with 40 such routes.

As per orders issued by Railway Board, the Railway Administration is required to initiate proposals to overcome the difficulties in carrying the traffic by the charged route (shorter route). It was, however, noticed that out of the above 187 routes, in 141 routes (75 per cent) no proposals were made to the Railway Board to overcome the bottleneck/ impediments in the shorter routes.

Freight for these routes was collected via the shorter route as a regular measure for reasons such as over saturation of shorter route, non-availability of direct approach line, non-electrification of shorter route, problems of engine reversal etc. In some of the cases the longer route has been in existence for about 10 years or more.

2.1.5.2 Revenue impact due to carrying of freight traffic by longer route and charging by shorter route

Audit scrutiny of traffic booked by the Zonal Railways also revealed that though the traffic from these stations was continuously booked and charged by the shortest route, the same was carried via longer route. Despite incurring additional operational costs, no action was taken to rationalize these routes for enabling the Zonal Railways to charge freight by the actually carried routes.

(i) Short realization of freight

Audit examined the loss of revenue incurred by carrying freight traffic by the longer route while charging for the shorter route. The loss of revenue in respect of traffic booked from five selected stations of Zonal Railways (except WCR, RPU & Metro) is brought out in Table 2.3.

Table 2.3

Table showing loss of revenue due to carriage of traffic via longer route and charging via shorter route

Railway	Five selected stations of each Zonal Railway where the traffic is carried by the longer route and the freight is charged by the shorter route covering extra distance of ___ kms.to ___ kms	Loss of revenue due to short collection of freight (₹ in crore)
1	2	5
CR	4 selected stations - 150 kms to 952 kms	18.19
ER	3 selected stations - of 113 kms to 163 kms	6.87
NR	122 kms to 199 kms	6.29
SR	67 kms to 267 kms	9.71
WR	163 kms to 245 kms	87.00
ECR	1 selected station - 225 kms to 302 kms	2.49
E Coast	2 selected stations - 7 kms	0.14
NCR	3 selected station – 33 kms to 113 kms	5.03
NER	178 kms to 808 kms	11.00
NFR	26 kms to 52 kms	4.49
NWR	1 selected station - 306 kms	1.68
SCR	131 kms. to 405 kms	35.74
SER	109 kms to 530 kms	46.30
SWR	124 kms to 227 kms	28.16
SECR	107 kms to 458 kms	159.65
Total		422.74

(Details of this Table are shown in Annexure II)

The above Table reveals that the Railways incurred a loss of ₹ 422.74 crore over the period 2010-11 to 2011-12 due to carrying of freight traffic by the longer route, and charging by shorter route covering an extra distance upto 952 kms. and charging by shorter route. This works out to an annual loss of ₹ 211.37 crore.

(ii) Loss of revenue due to carriage of traffic via longer routes due to non-availability of direct approach line

In a number of cases, Zones were compelled to carry freight traffic via the longer route as there are technical constraints such as detention to locomotives, problems of engine reversal etc. on the shorter route. This problem can be solved by construction of a direct approach line near the station. A test check by audit revealed that in the following 13 routes these problems existed as shown in the Table 2.4 below:

Table 2.4

Table showing list of routes where there are technical constraints in the shorter routes

Railway	No. of routes where the traffic is carried by the longer route and the freight is charged by the shorter route	Difference in distance in Kms. between the shortest route and the actual carried route	Excess expenditure incurred due to carriage of trains via longer route due to non construction of direct approach line (₹ in crore)
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
ER	1	61	4.92
WR	1	38	2.27
ECR	2	225 to 302	0.46
E Coast	1	0.60	0.22
NCR	2	95 to 113	0.41
NER	4	178 to 808	0.28
NFR	1	32	
SCR	1	325	0.24
Total	13		8.80

(Details of this Table are shown in Annexure III)

The above Table indicates that due to non-construction of direct approach line Railways incurred a loss of ₹ 8.80 crore due to carriage of train via longer route involving extra distance of up to 808 kms.

(iii) Loss of revenue due to non-electrification of the shorter route

Indian Railways is undertaking electrification of its major trunk routes. This, however, leaves parts of various freight routes as non-electrified sections requiring a change of locomotive. In order to avoid change of locomotive frequently, freight traffic is being moved by the longer route. A test check by audit revealed that 38 routes involving more than one Zone, where the traffic was moved by the longer route as the shorter routes were non-electrified sections requiring change of traction from electric to diesel as indicated in Table 2.5 below:

Table 2.5

Table showing excess expenditure incurred in the routes where the traffic is carried by the longer route due to non-electrification of the shorter route

Railway	No. of routes where the traffic is carried by the longer route and the freight is charged by the shorter route	Distance in Kms.			Excess expenditure incurred due to carriage of trains via longer route (₹ in crore)
		Carried route	Charged route	Difference	
1	2	3	4	5	6
NR	4	1529 to 2161	1330 to 2039	199 to 122	3.11
ER	1	258	187	71	4.75
WR	1	1313	1068	245	43.82
E Coast	1	1012.10	937.10	75	0.54
SCR	40	518 to 1309	549 to 1038	131 to 405	5.06
SER	11	1058 to 1755	949 to 1225	109 to 530	7.45
SW	1	2454	2276	178	1.30
SECR	17	497 to 852	390 to 590	107 to 262	16.01
Total	76				82.06

(Details of this Table are shown in Annexure IV)

The above Table indicated that due to non-electrification of the shorter route, excess expenditure of ₹ 82.06 crore has been incurred by the Zonal Railways due to carriage of trains via longer route involving additional distance up to 530 kms.

When the matter was brought to the notice of Zonal Railways (July 2012), South Central Railway stated (December 2012) that they were regularly analyzing the traffic flows and recommending rationalization of the longer route to Railway Board from time to time. Traffic Accounts office is regularly being given data of diverted traffic to ensure credit of their share of earnings. They further stated that due to shortage of diesel crew and line capacity constraints, they are sending the freight traffic via longer route. They also added that large numbers of traffic facility works were undertaken and with the completion of these works, it was hoped that traffic for this section can be sent by the booked route only.

Similarly, North Eastern Railway in their reply (November 2012) accepted that traffic was carried via longer route to avoid reversal of engine at Mankapur Jn. and Ayodhya to avoid extra detention. They also stated that traffic had been handed over to another Zone and the further route was decided by the receiving Railway.

The reply is however not acceptable because the traffic of South Central Railway is being carried via the longer route since April 1998, and no proposal for rationalizing the longer route has been forwarded to the Railway Board. In North Eastern Railway, the shortest route of Mankapur Jn. – Ayodhya was constructed at a cost of ₹ 95.31 crore to have better connectivity with other Zonal Railways. Thus, carrying of traffic via the longer route defeated the very purpose of constructing the shortest route.

2.1.5.3 Non-rationalization of longer routes due to likelihood of diversion of traffic to road

In a large number of cases it was observed that proposals for rationalization of the longer route were not initiated by the Zones/ rejected by the Railway Board on the plea that traffic would be diverted to road. The Railway's fear of diversion was not sustainable in a large number of cases because road freight rates (per km/ton) were higher by ₹ 5240 to ₹ 125.10 when compared to the Rail freight rate as shown in the Table 2.6 below.

Table 2.6

Table showing difference between Rail and Road Freight

Railway	No. of test checked routes where the traffic is carried by the longer route and the freight is charged by the shorter route	Rates from booking point to destination (₹ per KM/Ton)		
		By Rail	By road*	Difference [Col.3 (-) Col.4]
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
CR	39	463 to 2235	979 to 7520	516 to 5240
ER	1	424.55 to 1681.34	849.10 to 3362.68	424.55 to 1681.34
NR	4	1216 to 1495.40	2141.87 to 3283.66	925.87 to 1788.26
SR	48	1217.83 to 1632.17	2331 to 4773	1113.17 to 3140.83
WR	17	857.90	1484.90	627
ECR	2	364.50 to 951.00	1515/326 to 2830/609	1150.50 to 1879
NCR	1	625.60	500.50	125.10
NER	15	345.40 to 1824.00	1425.00 to 4495.00	1079.60 to 2670.60
SCR	3	479.70 to 1210.10	707.31 to 2617.83	227.61 to 1517.73
SER	15	976.55	1953.10	976.55
SWR	2	960 to 985	1300 to 1365	340 to 380
SECR	40	480.60 to 2035.80	900 to 5600	419.40 to 3564.20
Total	187			

(Annexure I)

* Road freight rates were obtained from the Transport Corporations of the concerned States / Local Transporters/ Websites

The above Table reveals that even if the longer route was rationalized, the traffic was sustainable on at least some of the routes and the customer could bear the freight of the longer route as in some of the cases, road freight rates were almost double than that of rail freight rate. Further, only 34 tonne (maximum) could be carried at a time per trailer/ truck whereas as 3835 tones (minimum) can be carried at a time per rake. Hence there was limited possibility for diversion of traffic by road as the rail rate was cheaper than the road rate.

2.1.6 Conclusions

As per the Rules 125 (1) (a) and (b) of Indian Railway Conference Association Goods Tariff No.41, goods are to be dispatched by the route operationally feasible and freight charges recovered by the shortest route. Railway Board has from time to time directed the Zonal Railways to forward Rationalization orders whereby they could charge freight by the actual route of carriage. However, it was noticed that Indian Railways regularly carries goods by the longer route while the freight was charged by the shorter route.

Test check by Audit of routes, where the distance between the charged (shorter route) and the actual carried route was more than 100 kms. revealed that originating traffic of 12 Zonal Railways were being carried via longer route in 187 cases. The routes on which freight traffic was carried were longer at least to the extent of 107 kms and extended upto even 952 kms. Freight was collected via shorter route as a regular measure. In some of the cases the longer route has been in existence for about 10 years or more.

Railways incurred a loss of ₹ 422.74 crore over the period 2010-11 to 2011-12 due to carrying of freight traffic by the longer route and charging by shorter route in respect of five selected stations of 15 Zonal Railways.

In a number of cases, Zones were forced to carry freight traffic via the longer route due to technical constraints. Due to non construction of direct approach line, Railways incurred a loss of ₹ 8.80 crore due to carriage of train via longer route involving extra distance upto 808 kms. Further due to non-electrification of the shorter route excess expenditure of ₹ 82.06 crore has been incurred by the Zonal Railways due to carriage of trains via longer route involving additional distance upto 530 kms.

The matter was brought to the notice of Railway Board in March 2013; their reply has not been received (July 2013).

2.2 East Coast, South Eastern: Revenue loss due to irregular grant of and South Western Railways concessional tariff rate for booking of iron ore traffic

2.2.1 Introduction

Earnings from the transportation of iron ore form an important constituent of the freight earnings of Indian Railways. Railway Board classifies the commodities transported by them and assigns separate rates for the same distance, taking into account the commercial, socio and economic factors. With effect from 22nd May 2008, transportation of iron ore was categorized into two different categories.

- Transportation of iron ore for domestic consumption- was assigned Class-170(domestic rate);
- Transportation of iron ore for other than domestic consumption- was assigned the higher class of 200 –X.

In effect, the difference in freight between the two classes was on an average more than three times.

Only manufactures of iron and steel were eligible for the domestic rate. In July 2008, iron pelletization units were added to this category. The Class-170 assigned to domestic consumption was changed to Class-180 (attracting a higher tariff rate) with effect from 13th November, 2008.

2.2.2 Revision and Modification of Freight Rules

With effect from 6th June 2009, the Railway Board revised the freight to be charged on iron ore traffic for other than domestic use, from Class **200X** to Class-180 plus a Distance Based Charge (DBC).

Iron ore pellets for export as well as iron ore moved for such pelletization for export was brought under this category. At this time, cement manufacturing units were also allowed to avail the domestic rate for domestic purposes.

2.2.3 Rules governing the grant of freight applicable for domestic users of iron ore

(a) Submission of Documents

Due to the substantial difference in the freight rate of transportation of iron ore for domestic purposes and for other than domestic purpose, the Railway Board had prescribed mandatory submission in May/July 2008, of the following documents before the consignees could avail the domestic rate:-

- Certified copies of six documents were required to be submitted by the parties to the Station Master / Chief Goods Supervisor of loading points against each booking. These included the Industrial Entrepreneur Memorandum; Consent For Operation (CFO) from State Pollution Control Boards; Factory Licence; Central Excise Registration Certificate and Monthly Excise Return etc. (A complete list of documents prescribed is shown in Statement – A at Page 29).

- At the time of booking, the consignor was required to make an endorsement in the Forwarding Note attached to the documents declaring that the consignment was for domestic consumption.

The above documents were required to be submitted at the time of registration of each indent.

(b) Affidavit and Indemnity Note

- An Affidavit certifying that the iron ore booked was meant for domestic consumption by the manufacturing unit and not meant for export was required to be furnished at both the loading and unloading points.
- An Indemnity Note was also to be furnished at loading/unloading points before affecting each delivery. This note indemnified the railways against a wrong declaration or misuse by the consignee.

For iron ore traffic booked to private/ assisted sidings of Iron and Steel Manufacturing units, the Affidavit and Indemnity Notes were to be submitted once to the Sr. Divisional Commercial Managers (Sr.DCM) of the loading points (except the Monthly Excise Return which was to be submitted every quarter). For other parties and for the pelletization units, all the prescribed documents were required to be submitted to the Station Master / Chief Goods Supervisor of loading points for *each booking*.

(c) Non submission of documents - The Railway Board had prescribed the submission of documents before a consignor could avail of the domestic rate for transporting iron ore. Non-submission of the prescribed documents would result in levy of freight rate applicable to other than domestic use. The instructions also specifically prescribed that failure to submit any of the prescribed excise-related documents would result in summary disqualification from eligibility of the domestic rate.

The Railway Board instructions dated May and July 2008 further stipulated that if it was detected at any stage that the endorsement mentioned in the Forwarding Note and/or affidavits were false, inaccurate or misleading, a penalty for mis-declaration would be imposed. Penalty in such cases of 4 times of the freight chargeable would be levied and such consignors and consignees would be blacklisted.

2.2.4 Earlier Audit Report

Para 2.5 of C&AG Audit Report No. 32 of 2011-12 (Railways) highlighted a revenue loss of ₹ 1795.51 crore due to irregularities in booking of iron ore for domestic consumption without the stipulated documents at various booking points. In their Action Taken Note, the Ministry of Railways (MoR) stated (October 2012) that the prescribed documents were only for establishing the status of parties as authorized domestic manufacturing units in running condition. As far as the end use of iron ore was concerned, the onus was on the consignor /consignee that the iron ore was being utilized for domestic consumption. In case it was post-facto established that the domestic manufacturing units had diverted iron ore that were stated to be for indigenous use, they would be perceived as having perpetuated a fraud. MoR further stated (October 2012) that in only about

two *per cent* of the cases (138 rakes) the documents as prescribed could not be linked during the scrutiny conducted by East Coast Railway Administration. They further added that of these, 67 rakes related to just one company viz. M/s. Kudremukh Iron Ore Company Limited (KIOCL) a Government of India Undertaking which had submitted requisite affidavits at the destination stations subsequently.

Audit appreciates the prudence of stipulating submission of the prescribed documents before a consignment of iron ore could be booked. These documents indicate both the production capacity and the actual use of iron ore in the manufacturing unit. However, the failure to ensure check of these documents at the time of booking or at specified intervals was a serious lapse and was in contravention of Railway Board's Rate Circular No. 30 of 2008. It also made the collection of such large number of documents purposeless.

A test check by Audit conducted (October 2012 to March 2013) to verify the documents submitted by the Railway Administrations revealed that in many cases, the documents submitted by the parties, were either incomplete or invalid and legally not tenable. There were instances of tampering of documents and back dated insertion of documents. A few examples are listed in Statement- B at Page 30.

2.2.5 Audit Examination

The earlier Audit Para was based on the transactions of ECoR only. As similar irregularities were reported from other Zones and in view of the financial implication of the issues raised, audit further examined the transactions of selected zonal railways (South Eastern, South Western and East Coast Railways) where the loading of iron ore was high.

2.2.6 Audit Objective and Scope

The audit objective was to check compliance with the laid down rules and procedures regarding levy of freight charges in respect of iron ore.

The period from 22nd May 2008³ to March 2012 was covered under the Audit. Records pertaining to the transportation of the iron ore in selected loading/unloading points and one time submission of the document in the divisional offices were reviewed in the Zonal Railways.

2.2.7 Audit Criteria and Methodology

Audit examined the transaction of some selected loading/ unloading points of three Zonal Railways where iron ore loading was maximum viz., SER, SWR and ECoR (transaction pertaining to the three loading points of ECoR covered earlier were omitted as they had been included in the earlier Audit Report).

The Rate Circulars 24 of 2008, 30 of 2008, 54 of 2008 and 36 of 2009 issued by the Railway Board were the sources of audit criteria used.

³ Rate Circular No.24 of 2008 was to be implemented with effect from 22nd May 2008

2.2.8 Sample Selection

Audit carried out a test check of 26 loading points (out of 70) and 10 unloading points (out of 41) over three Zonal Railways – SER, SWR and ECoR. The records of 30 Iron and Steel Manufacturing units were also examined to assess the quantity of iron ore booked at domestic tariff but not used by those companies for domestic purposes. The Audit findings are discussed below.

2.2.9 Audit Findings

The MoR in their Action Taken Note on Para 2.5 of C&AG Report No.32 of 2011-12 had stated that due to dual pricing introduced from May 2008, the cost of transportation of iron ore for export was on an average more than three times the cost of its transportation for domestic use. This is evident from the earnings reported by Railways both from domestic as well as export traffic of iron ore for the years 2008-11 which are given below:

Table. 2.7
Statement showing earnings from iron ore traffic both for domestic use and export as reported by Railways

Year	Domestic Traffic		Export Traffic		Earnings per million. T (₹ in crore)	
	Quantity in million. T	Earnings (₹ in crore)	Quantity in million. T	Earnings (₹ in crore)	Domestic	Export
2008-09	84.83	3623.41	45.75	5398.08	42.71	117.99
2009-10	89.09	3780.9	43.64	4570.60	42.44	104.74
2010-11	92.79	4067.4	25.60	5071.09	43.83	197.70

Audit observed that the quantity of iron ore transported by rail for export declined by 44 per cent during the period 2008-09 to 2011-12. In fact by 2010-11, iron ore for export constituted only 21 per cent of the total loading of iron ore and earned 55 per cent of the freight earnings from iron ore.

As such the risk factor in transportation of iron ore for domestic use was high. Thus, prudence demanded that adequate safeguards in the form of procedures and checks were put in place against misuse of the dual pricing in iron ore traffic. However, Audit observed a number of deficiencies which are discussed below.

2.2.9.1 Non-submission of documents

(a) Booking of iron ore at domestic rate without obtaining any of the prescribed documents

For availing the domestic rate, the parties had to submit several documents/affidavits, Indemnity Note and endorsement in the Forwarding Note as detailed in para 2.2.3 above.

A test check by Audit revealed that 153 parties did not submit any of the prescribed documents before booking and delivery of 699 rakes carrying iron ore, during the period 22nd May 2008 to 31st March 2012. The Railway Administrations permitted these parties to avail of the domestic rate despite non-

submission of any of the prescribed documents. Thus, the domestic rate was irregularly applied resulting in revenue loss of ₹ 258.38 crore. The details are as follows:

Table 2.8

Statement showing the details of revenue loss due to irregular booking of iron ore at domestic rate in cases where parties did not submit any of the prescribed documents/affidavit

Railways	SER	ECoR	SWR	Total
No. of Parties	126	15	12	153
No. of rakes	386	100	213	699
Loss due to irregular booking at domestic rate (₹ in crore)	126.78	18.97	112.63	258.38

The Railway Administrations of the respective Zones permitted the parties to avail of the concessional rate without submission of any of the prescribed documents indicating weak internal control systems.

(Annexure V)

(b) Booking of iron ore at domestic rate with partial submission of documents

Test check by Audit revealed that 205 parties availed the domestic rate without submitting some of the essential documents like the Monthly Excise Returns, Industrial Entrepreneur Certificate, Affidavit, Indemnity Bonds, etc. The details are given below:

Table 2.9

Statement showing details of essential documents that were not submitted by the parties in cases where Domestic rate was applied.

At the time of loading	SER	ECoR	SWR	Total
1. Industrial Entrepreneur Memorandum(IEM) / Certificate from Joint Plant Committee under Ministry of Steel indicating the licensed capacity of the plant etc.	75	31	1	107
2. Consent of Operation (CFO)	70	27	1	98
3. Factory License	66	4	1	71
4. Certificate of Registration under Contract Labour Act (CLA)	66	11	1	78
5. Central Excise Registration Certificate	62	0	1	63
6. Monthly Excise Return (MER)	105	28	1	134
7. Affidavit	86	0	1	87
8. Indemnity Note/Bond	84	0	1	85

As per the rules prescribed by the Railway Board, a monthly excise return was a precondition for availing the domestic rate. However, 134 parties which availed the domestic rate failed to submit the critical Monthly Excise Return while others failed to submit some of the other essential documents mentioned in Table 2.9 above.

Audit analysis revealed that 205 parties did not submit many of the prescribed essential documents before booking and delivery of 6306 rakes carrying iron ore, during the period 22nd May 2008 to 31st March 2012. The Railway

Administrations permitted these parties to avail of the domestic rate despite non-submission of some of the essential prescribed documents resulting in revenue loss of ₹ 2228.30 crore. The details are given below:

Table 2.10

Statement showing the details of revenue loss due to irregular booking of iron ore at domestic rate in cases where parties did not submit many essential prescribed documents/affidavit

Railways	SER	ECoR	SWR	Total
No. of Parties	159	45	1	205
No. of rakes	6066	120	120	6306
Loss due to irregular booking at domestic rate (₹ in crore)	2090.15	77.13	61.02	2228.30

There was thus a total revenue loss of ₹ 2486.68 crore due to non-submission/partial submission of documents.

(Annexure VI)

(c) Levy of Penalty

The Instructions issued by Railway Board in May and July 2008 specifically stipulated levy of penalty if it was detected at any stage that the endorsement of the Forwarding Note and/ or Affidavits were false, inaccurate or misleading. Thus a penalty was to be levied in case there was irregular use of the concessional freight.

Audit examination (October 2012 to March 2013) revealed that the above instructions of Railway Board laid down pre-conditions for availing the domestic rate. These pre-conditions stipulated the submission of separate documents before registration of indents⁴ and issue of Railway Receipts⁵. They also stipulated submission of an Affidavit and an Indemnity Bond at the time of delivery.

Through a test check carried out during October 2012-March 2013, Audit observed that 153 parties did not submit any of the documents while 205 parties failed to submit some of the essential documents. Railway Board's orders failed to specifically cover deliberate non-submission of documents. Test check by audit, however, revealed circumvention of the conditions governing the domestic rate through non-submission of documents. It would thus be essential that a penalty be levied in all these cases in accordance with the Instructions of the Railway Board.

The total penalty against 358 parties is estimated at ₹ 13869.86 crore. The details are as follows:

⁴ At the time of registration of each indent parties will furnish certified copies of six documents and endorsement in the Forwarding Note declaring that the consignment is meant for domestic consumption within India.

⁵ Submission of Affidavit at loading points certifying that the iron ore booked are meant for domestic consumption and not meant for export and an Indemnity Note.

Table 2.11
Statement showing the details of penalty due

Railways	SER	ECoR	SWR	Total
No. of Parties	285	60	13	358
No. of rakes	6452	220	333	7005
Penalty(₹ in core)	12373.71	559.59	936.56	13869.86

(Annexure V and VI)

(d) Test Check of Iron and Steel Manufacturing units

Audit examined the excise returns of 28 Iron and Steel Manufacturing units. The study of the actual use of iron ore by the parties for production of iron and steel etc. and its comparison with the actual quantity of iron ore transported for domestic use indicated that there were net surpluses. As per the details given in the Excise Returns, a portion of surplus quantities pertaining to SER and ECoR were shown as not consumed for domestic manufacturing i.e. used for non-domestic purposes like export, sale etc. The details are given in Table below:

Table 2.12

Statement showing iron ore used for other than domestic purposes

Railways	SER	ECoR	Total
No. of Parties	5	23	28
Total quantity Transported at domestic rate (lakh metric tonnes)	6.45	107.12	113.57
Quantity used for domestic production.	4.35	102.75	107.10
Quantity of iron ore used for non domestic purpose (lakh metric tonnes)	1.19	9.19	10.38

Thus there was a clear violation of commitment made by the companies in booking iron-ore for freight at domestic rate.

Thus the limited test check of the end use of iron ore by the manufacturing units revealed 28 parties where there was clear evidence that 10.38 lakhs MT iron ore was transported by rail by paying freight applicable to domestic use were used for other than domestic purpose, leading to loss of Railway Revenue.

(Annexure VII-A&B)

2.2.9.2 Cases for which demand/show cause notices issued by Railway Administration (SER)

- (i) Case of M/s Rashmi Metalliks Limited:- M/s. Rashmi Metalliks Limited is a manufacturing unit of iron and steel items as well as exporter of iron ore. In August 2011, South Eastern Railway issued a demand notice for ₹ 660 crore to this company, regarding short recovery of ₹132 crore as difference between domestic rate and other than domestic rate and penalty of ₹ 528 crore. The Company filed a writ petition before the Hon'ble High Court at Kolkata. In October 2012, an additional demand notice for ₹ 202 crore was issued to the party. Thus, ₹ 862 crore was still pending for realization from the party.

- (ii) Subsequently, the SER (Vigilance) detected another 14 such cases of freight evasion and issued show cause notices during the period September 2012 to March 2013 to the defaulting companies for remitting to Railways ₹ 1013.63 crore as difference between domestic rate and other than domestic rate as well as penalty fallen due.

Thus in total ₹ 1875.63 crore was pending recovery in 15 cases.

(Annexure VIII)

2.2.9.3 Loss on iron ore transported by rail for manufacture and export of iron ore pellets

In July 2008, iron pelletization units were brought at par with steel manufacturing units for eligibility of availing the domestic rate. They thus, had to submit the prescribed documents, affidavit and indemnity bonds for each booking. Subsequently, with effect from 6 June 2009 vide Rate Circular No.36 of 2009, the export of iron ore pellets was treated as export of iron ore for the purpose of charging freight, i.e. iron ore transported by rail for manufacturing of pellets for export, attracted the Distance Based Charges.

Audit examination during October 2012 to March 2013, revealed that the iron ore booked and delivered to the Kudremukh Iron Ore Company Limited (KIOCL), a Public Sector Company, located at Panambur near Mangalore, was charged freight applicable to domestic rate, even though the Company exported a substantial portion of their production (pellets). During the period from 6 June 2009 to March 2012, 32.30 lakh MT iron ore was transported from loading points of SWR by rail, out of which 11.90 lakh MT was utilized for export in the form of pellets resulting in short recovery of freight of ₹113.93 crore. During the same period, 22.67 lakhs MT of iron ore was transported from loading points of ECoR, out of which 7.45 lakh MT was utilized for export in the form of pellets, resulting in short recovery of ₹108.06 crore. There was thus a short recovery of ₹221.99 crore.

Despite change in rules regarding transportation of iron ore meant for exports of pellets in June 2009, KIOCL continued to book all consignments of iron ore giving a declaration in their Forwarding Note that the consignments were meant for domestic use. They are thus liable to pay penalty of ₹1448.58 crore (SWR – ₹798.58 crore & ECoR – ₹650 crore). The Company filed a civil suit in January 2012 on account of discrimination between manufacturers of pellets and other manufacturers of Iron and Steel who though exported final products did not need to pay the DBC. The case was pending in court (July 2013). Thus ₹1670.57 crore was pending for recovery against the party.

2.2.9.4 Deficiencies in the Rules framed by Railway Board

- (i) The Railway Board had prescribed six documents to be submitted at the time of registration of each indent. However, their purpose of submission was not made clear. These documents, apart from proving the bonafide credentials of the consignee as manufacturers of Iron and Steel etc. could be utilized for ascertaining the manufacturing capacity of the plant and actual utilization of

iron ore for domestic purposes. However, a system for check of cumulative transportation of iron ore per month/year with the monthly/annual capacity of production was not evolved and stipulated so as to restrict the transport of iron ore at Domestic Rate as per the installed capacity of the manufacturers. Similarly, there were no instructions for comparing iron ore transported with the monthly/yearly consumption of iron ore for domestic use with the aid of Excise Returns.

- (ii) The Railway Board's instructions stipulated submission of monthly excise returns before booking iron ore at domestic rate. Audit examination revealed that there are about six Excise Returns required to be submitted to the Central Excise Department by manufacturers. The Railway Board circular failed to specify which particular excise return should be submitted. As such those parties who submitted the excise returns submitted certified copies of different Excise Returns at different points of time.
- (iii) A periodic verification of prescribed documents especially the excise returns with Excise Department should have been stipulated from the very beginning as a safeguard against misuse by the consignors/consignees. This was, however, not done.
- (iv) Para 8 of Rate Circular 36 of 2009 pertaining to the manufacturers of iron & steel who export residual iron ore fines was vague. It permitted the transportation of iron ore from mine areas to their crushing units by paying freight at domestic rate even though an un-quantified amount of leftover iron ore fines would be exported. This was confusing and against the spirit of the dual pricing system prescribed since that portion of iron ore exported would not attract DBC from original loading point to the final destination where it is converted to fines.
- (v) The Railways have a large contingent of Travelling Inspectors of Station Accounts (TIA) and Commercial Inspectors who specifically check basic records of traffic transactions. Taking into account the high risk involved in iron ore traffic due to dual pricing, Railway Board did not assign special checks on these transactions by TIAs and Commercial Inspectors.
- (vi) The Railway Board circular had specified a uniform form of the affidavit to be submitted by the iron ore manufacturers for availing of the domestic rate. Railway Board however, failed to modify the language of the Affidavit to be submitted by iron pelletization units where the iron ore meant for manufacture of pellets to be exported was exempted from the eligibility of domestic rate.

2.2.10 Reply of Railway Administration

The Provisional Para on the subject was issued to Railway Board on 10th June 2013. No reply has been received from Railway Board (31th July 2013). However, South Eastern Railway Administration in their reply in June 2013 had stated that a team constituted by them had since traced Railway Receipts (RR) in 98 *per cent* of the cases.

Audit carried out a test check on the above in July 2013 and found that in almost all cases booking was done without obtaining the Monthly Excise Returns. As per Rules, failure of submission of Excise Returns calls for summary disqualification from eligibility. Audit observed that the Excise Returns to be submitted quarterly were submitted belatedly after two-three years (**Annexure IX**). Further, the test check revealed that even where documents had since been traced, in many cases, the documents were incomplete and deficient (**Annexure X**). Of 330 cases where certified documents were stated to be available by the Railways, Audit checked 34 cases. Only in eight cases out of these 34, involving short recovery of ₹2.96 crore, the documents were found valid. Details are shown in **Annexure XI**. Thus, the internal control system of the Zonal Railway Administration in this respect was very weak.

2.2.11 Conclusions

Thus, the test check by Audit of the transportation of iron ore by rail during the period May 2008 to March 2012 revealed a revenue loss of ₹ 2483.72 crore due to booking of iron ore at domestic rate without the essential prescribed documentation. This indicates a serious lapse on the part of the Railway Administration in allowing them to avail the domestic rate.

A penalty of ₹13851.77 crore was due for recovery from the consignors who by availing the domestic rate would get the benefit of the lower rate. Recovery from KIOCL of ₹1670.57 crore is due in case of export of pellets. So far the Railway Administration (SER) have acknowledged a freight evasion in 15 cases and raised Demand notice/ show cause notices of ₹ 1875.63 crore for short recovery and penalty fallen due.

Thus, the internal control system of the Railways was very weak and has allowed concessional tariff rate for iron ore without fulfilling the conditions governing the grant of a concessional rate. The lapses occurred at all levels including at the level of booking staff at loading/ un-loading points and commercial and accounts officials at the divisional and zonal levels. Considering the high risk involved in iron ore traffic due to dual pricing, the Railway Board failed to stipulate specific checks and balances for implementing their orders.

The matter was brought to the notice of Railway Board in June 2013; their reply has not been received (July 2013).

Statement –A**Statement showing six documents prescribed by Railway Board for submission by parties for availing domestic rate for iron ore transportation.**

1. Industrial Entrepreneur Memorandum (IEM) or certificate from Joint Plant committee under Ministry of Steel indicating the licensed capacity of the plant or a copy of the Memorandum of Understanding (MOU) between the Plant and the associated Ministry (in case of Public Sector Undertakings only).
2. Consent For Operation (CFO) from Pollution Control Board for the current financial year or a copy of the application addressed to the concerned PCB for renewal of CFO for the current year duly acknowledged by the PCB together with a CFO for any of the preceding years not more than three years old.
3. Factory license for the current financial year or copy of the application addressed to the Inspector of Factories of the concerned state government duly acknowledged by the addressee together with a copy of the factory license for any of the preceding years not more than three years old.
4. Certificate of registration under Contract Labor Act or an affidavit under oath certifying that this registration is not legally required to be done by the unit under the provisions of the Contract Labor Act.
5. Central Excise Registration Certificate.
6. Monthly Excise Return for the month prior to the current month.

Statement B

Examples of discrepancies found in the prescribed documents during test check by Audit on documents of loading point Bachel (BCHL) made available to Audit by ECoR Railway Admn. since the Audit Para 2.5 of Report No. 32 of 2011-12

Sl No	Name of the consignee	Documents checked for no of Rakes	Discrepancies noticed
1	Ispat Industries Ltd (IIL)	273	<ul style="list-style-type: none"> (i) Part B of IEM submitted in respect of the consignee, Ispat Industries Ltd was blank and not signed by the competent authority. (ii) Excise return submitted along with the 21 RRs of Feb'11 do not bear the signature and seal of Excise Department. (iii) IEM inserted at a later date as evident from double attestation by different notaries of different places (total 69 such RR are detected) (iv) Labour license inserted at a later date as evident from double attestation by different notaries of different places (v) Excise return inserted at a later date as evident from double attestation by different notaries of different places. (vi) Factory Licence for 2013 was attached with 55 RRs of 2011 and Factory licence was not submitted in eight cases. (vii) Affidavit paper was purchased after the date of RR in five cases. (viii) Affidavits submitted were without any attestation by notary.
2	Essar Steel Ltd (ESL)	152	In case of 28 Railway Receipts generated for the month of February, 2010 application for renewal of factory license was attached, but a copy of factory license of within preceding 3 years was not submitted.
3	Topworth Steels & Power Pvt. Ltd	7	<ul style="list-style-type: none"> (i) Factory license was not submitted for a rake booked against RR No.211004727 dt 28-3-2010. (ii) RR No. 211004727 dt 31-3-10 attached with Central Excise Return for the month of February, 2011, which proves later insertion of document to cover up lacunae.
4	P.D. Industries Pvt. Ltd	4	<ul style="list-style-type: none"> (i) Submitted factory license and renewal of consent to operation with validity upto 31st Dec'2010 and 30/06/2010 respectively [RR No.211005508 td.6/03/11]. Both the documents were invalid by the

			time of submission. (ii) Submitted factory license and application for renewal of consent to operation with issue date 25.02.11 and 28.03.11 respectively against the RR No. 211005439 dtd 16.02.11. iii) Par-A of IEM was submitted only with the 4 indents.
5	G.R. Sponge and Power Ltd.	7	Submitted renewal of consent to operation with issue date 14.07.11 against RR No. 211005402 dtd 4.02.11 and RR No.211005375 dtd 25.01.11 which proves later insertion of document to cover up lacunae.
6	Real Ispat and Power Ltd.	13	(i) Submitted factory license with issue date 24.12.2010 against RR No, 211004623 dt.27.02.10. (ii)The same party has submitted renewal of consent to operation with issue date 16.03.2009 against RR 211002686 dtd.13.01.09. (ii) This proves later insertion of document to cover up lacunae.
7	Aarti Sponge and Power Ltd.	4	(i) Submitted renewal of consent to operation with issue date 5.03.2009 against RR 211002954 dtd. 13.02.09. (ii) The same party has submitted factory license with attestation date of 4.09.2009 against RR No.211003297 Dt. 21.03.2009. This proves later insertion of document to cover up lacunae.
8	Crest	1	Documents were with multiple notary stamping.
9	Singhal Enterprises	1	In Indent No.266 ; RR No.211003059 dtd 25/02/09 the factory license lapsed on 31.12.08.
10	WMSL/Vikram Ispat	137	(1) Scrutiny of monthly excise returns of Welspun Maxsteel Ltd revealed that the same party exported Iron Ore Fines Gr-I & II between the review periods. A total of four such monthly excise returns showing iron ore export were collected as listed below:- (i) Feb-2011 :- 49233.565 T (ii) Feb-2010 :- 49626.820 T (iii) Jan-2010 :- 53116.706 T (iv) Dec-2008 :- 36983.034 T But domestic rate was allowed to the party. (2) The party has submitted only acknowledgement part of IEM.
11	SKS Ispat	31	(i) IEM not submitted. (ii) In case of 10 no of RRs the attestation of affidavit was done even before the date of loading.

12	Maa Mahamaya	6	<p>(i) IEM Part-A & B was not available with all the 6 RRs.</p> <p>(ii) License to factory was not up to date also.</p> <p>(iii) In case of 3 no of RRs the attestation of affidavit was done even before the date of loading.</p>
13	Drolia Elctrosteel	7	<p>(i) IEM Part-A & B was not available.</p> <p>(ii) Excise return was not submitted with RR No.211002669 dtd.11.01.09, RR No.211003021 dtd.21.02.09 and 211003203 dtd.12-03-09</p> <p>(iii) RR No.211003021 dtd.21.02.09 and 211003203 dtd.12-03-09 are submitted with Pollution Control Clearance application dated 25-09-07 .Previous clearance was valid upto 31-11-07 only.</p>
14	Sarda	15	<p>(i) IEM Part-A & B was not available with all the 15 RRs.</p> <p>(ii) Indemnity Note was not available with all the 15 RRs.</p> <p>(iii) Affidavits were not attested in respect of 13 RRs.</p> <p>(iv) All the photocopies were unattested.</p> <p>(v) Factory license issued on 6/04/11 was submitted with the RRs of previous months i.e Feb'11 and March'11. This proves later insertion of document to cover up lacunae.</p> <p>(vi) Excise return was not submitted with RR No.212000140 dated 20.02.11.</p> <p>(vii) In case of two RRs (RR No.2110004652; and RR No.211004481 dtd 3.01.10) affidavits were attested on 23.04.10 and 10.02.10 respectively.</p>
15	Monnet (MIEL)	19	<p>Documents were with multiple notary stamping with different dates and place.</p> <p>Environment (Water/Air) clearance submitted For RR of Feb'09 were valid till 31.1.08.</p>
16	Gopal Sponge & Power Ltd. (GSPL)	6	Labour Licence of 2004 is submitted for rakes of 2010.
17	Mahendra Sponge (MAHE)	6	Copies of IEM Acknowledgement only is submitted. IEM Part-I and Part-II are not submitted. In cases of two rakes, Affidavits pertaining to destination stations were received at the originating station.
18	Sri Nakoda	3	Copies of IEM Acknowledgement only is submitted. IEM Part-I and Part-II are not submitted. No document is attested either by the party or by any Notary. For one rake of Feb'10 Excise Return is not submitted.

19	Sri Shyam Sponge & Power (SSPL)	3	Copies of IEM Acknowledgement only is submitted. IEM Part-I and Part-II are not submitted. All documents have attestation by multiple Notaries of different places.
20	Sunil Sponge	6	Copies of IEM Acknowledgement is submitted. IEM Part-I and Part-II are not submitted. Copy of CFO is not submitted. For Rakes carried in Jan'09- Excise Return is not submitted.

Important points noticed in audit during verification of ATN:

- 1) No Party had submitted the IEM in complete form. Most of the parties had submitted the acknowledgement copy of Part-A only. While Proper Part-B of IEM was not submitted by any of the parties.
- 2) There is evidence of later insertion of documents, in many cases to cover up the lacunae detected in audit.
- 3) In case of 44 RRs of January 2011 for one party (IIL), copies of renewal of factory licence of 2013 were attached instead of the certified copy of Factory License of that financial year.
- 4) In case of same party (IIL) it was noticed that five stamp papers of affidavits attached with RRs were purchased after the date of issue of RRs. This proves that the RRs were issued without receiving of affidavits but attached later on for Audit check. The affidavits also do not bear any date of execution.
- 5) Excise returns do not bear stamp and signatures of the Excise Authority. Previous attested copies of documents were found re-attested without date by the notaries.
- 6) In eight RRs of February 2011 the factory licence was not submitted by the party.
- 7) In case of WMSL/Vikram Ispat, the Excise return submitted had shown that certain quantity of Iron ore had been exported by the party. Despite domestic rate was allowed to the party.
- 8) Multiple notary stamping were seen in the photocopied documents submitted by few parties like Crest, IIL and SSPL.

2.3 South Western Railway: Avoidable payment of lease charges due to ambiguity in agreement clause

Ambiguity in the agreement clause related to payment of lease charges under 'Own Your Wagon Scheme' resulted in avoidable payment to the extent of ₹ 27.04 crore.

M/s MSPL, Hospet, a Company which deals in Iron ore, procured (2006) wagons for six BOXN⁶ rakes at a total cost of ₹ 75.20 crore for leasing to Railway under 'Own Your Wagon Scheme' (OYWS)⁷. Under Category-B⁸ of the Scheme, the procured wagons were handed over to Eastern Railway and were merged in the general pool of wagons for operation of general services all over India. Six rakes were inducted into service in a phased manner in South Western Railway during March 2006 to July 2006. The South Western Railway Administration entered into lease agreements with the Company in March 2007 that provided for the following:

- (i) Quarterly payment of lease charges to the Company at prescribed rates in advance of every quarter for twenty years (Clause 5.1);
- (ii) Minimum guaranteed clearance of 73 rakes per month (219 rakes per quarter) by the Railway to the Company to run between specific points⁹ (Clause 7);
- (iii) In the event of the lessor being unable to use the guaranteed specified number of wagons to achieve the specified quantum of tonnage, the lease charges will not be payable for the number of days the wagons remain unutilized or stabled. The number of wagons idling will be those stabled in the Company's siding to the extent the Company has contributed the rakes/wagons. If, however, the wagons were utilized by the Railway, the lease charges would be payable to the Company (Clause 8.1);
- (iv) The guaranteed clearance will be subjected to among other factors, bans/restrictions imposed by the Central Government/State Government (Clause 7.1).

A review of records in Audit for the period from September 2006 to June 2011 revealed that the Company had been claiming lease charges at the prescribed rates

⁶ High-sided bogie open wagon with pneumatic brakes. This is most common wagon on IR used for bulk movement of coal, iron ore, stone etc.

⁷ Under OYWS, the party who procures wagons and lease them to the Railways is compensated by payment of lease charges at the rate of 16 *per cent* per annum for the primary period of ten years followed by one *per cent* for the next ten years on the investment.

⁸ In Category B of the scheme, clearance of a mutually agreed specified quantity/ tonnage of the specified commodity/ product during the specified period will be guaranteed.

⁹ ex. Vyasanakere, MSPL's AHB siding/Karigannuru and SDMG siding/YTG to Tinaighat / Sanvordem.

and payments to the extent of 90 *per cent* were being made. The rakes loaded by the Company during October 2006 to December 2011 was to the following extent:

Table 2.13

Period	No. of rakes to be supplied for minimum guaranteed clearance	No. of rakes loaded by the Company	Shortfall (Number of rakes)	Minimum number of rakes loaded per month	Maximum number of rakes loaded per month	Average number of rakes loaded per month
October 2006 to March 2007	438	375	63	39	70	62
2007-08	876	581	295	18	97	48
2008-09	876	360	516	4	75	30
2009-10	876	13	863	0	7	1
April 2010 to June 2010.	219	0	219	0	0	0
July 2010 to December 2011 ¹⁰	1314	0	1314	0	0	0

The Company had not loaded any rake between November 2009 and December 2011¹¹. The average number of rakes loaded by them per month in any quarter never touched the prescribed limit of minimum guaranteed clearance (73 rakes). The Company's average loading during October 2006 to June 2010 i.e. excluding the period covered under ban on iron ore mining was to the extent of 29 rakes per month only.

Traffic Accounts Authorities had been objecting repeatedly to the lease payments since May 2007 demanding the details of unutilized wagons under the provisions of Clause 8.1. The Commercial Authorities had stated in July 2007 and thereafter that the payment of lease charges were not linked with guaranteed clearance as the leased wagons had been included in the general pool of wagons and question of their non-utilization/ stabling did not arise. Accounts Authorities did not accept this argument (April 2010) as there was a large decline in the loading by the Company. Further, while dealing with the claim of balance lease charges (10 *per cent*), Financial Advisor and Chief Accounts officer, Workshop, Stores & Traffic/ Hubli again raised the issue (June 2011) and expressed a firm view that if the Company had loaded less than guaranteed clearance, lease charges would not be payable for unutilized wagons.

Subsequently, the Railway Administration referred the case to the Railway Board (July 2011) to seek clarification whether lease charges would be payable to the Company under the scheme even though they had not moved the guaranteed clearance and the wagons had been included in the general pool. Railway Board stated (July 2012) that the due amount of lease charges may be paid to the

¹⁰ A ban on iron ore mining in the Bellary District of Karnataka has been imposed by the Honorable Supreme Court in July 2010.

¹¹ Period from July 2010 to December 2011- covered under ban on iron ore mining.

Company on the lines of the agreement in consultation with the Finance Department. Railway Administration communicated the Railway Board's decision to Finance Department (August 2012) and stated that leased wagons were being utilized in the general pool of Indian Railways and the Company could not load the rakes due to force majeure i.e. ban on iron ore mining. There were no further developments (February 2013).

Audit examined the above issue and the following observations are made:-

- The lease agreements with the Company specified that the agreements were under 'category B' of the OYWS and leased wagons would be moved between specified points in a closed circuit. Under this category, the leased wagons may either be operated after merging with the general pool of wagons of Indian Railways or within closed circuits¹². The Railway Administration opted to merge the leased wagons with the general pool instead of formation of closed circuit rakes on South Western Railway itself.
- Railway Board had decided (June 2000)¹³ that the guaranteed clearance of the specified quantum of tonnage would be monitored by the Railway Administration on monthly basis. Railway Board (June 2007)¹⁴ had again stressed the need for verification of loading at loading points prior to payment of lease charges in case of OYWS (category B).
- The Company had been placing demands for rakes that were far below the prescribed minimum guaranteed clearance and Railway Administration was making available rakes as per demand. As such, there was no stabling of unutilized rakes in the Company's siding though the Company was not loading the minimum guaranteed rakes. In fact, the Railway Administration have been stating that it was not possible to check loading at loading points as the leased wagons had been merged with the general pool of Indian Railways. Here it is pertinent to mention that that percentage utilization of wagons on Indian Railways has ranged between 91 to 94 *per cent* over the period 2006-10.
- The lease agreements provided for the use of guaranteed specified number of wagons per month by the Company for loading specified quantum of tonnage and monitoring of loading on monthly basis. No method for monitoring the specified quantum of tonnage was prescribed in the agreements. The Railway Administration also did not prescribe any system of monitoring the loading, specifically after the issue of Railway Board's orders in June 2007 stressing the need of verification by the Railway of the loading and utilization of leased wagons at loading points prior to payment of lease charges. Instead, the wagons leased by the Company were inducted into the general pool of wagons of Indian Railways.
- Audit also observed that the agreement entered into with M/s MSPL stated that the number of wagons idling will be only those stabled in the Company's

¹² Railway Board letter No.92/TC/(M&S)/23/1(Policy) Pt. dated 30.9.1997.

¹³ Railway Board letter No.2000/TC(FM)/4/3 dated 29.6.2000

¹⁴ Freight Marketing Circular 18 of 2007 circulated vide No.2007/TC(FM)/4/14 dated 5.6.2007

siding. There was, thus an ambiguity in Clause 8.1 of the agreement. The contract entered into with the Company linked the non-payment of lease charges for unutilized wagons with the stabling of unutilized wagons in the Company's siding. As stated above, Railway failed to specify the method for verification of loading/ utilization of leased wagons at the loading points. The impact of merger of wagons with general pool was not considered as with the merger of leased wagons with the general pool the utilization of wagons was not susceptible to verification on South Western Railway.

The decision to merge the leased wagons in the general pool and ambiguity in the agreement clause, resulted in avoidable payment of ₹ 27.04 crore to the Company for the period September 2006 to June 2010 i.e. prior to the imposition of ban on iron ore mining.

The matter was brought to the notice of Railway Board in April 2013; their reply has not been received (July 2013).

2.4 Metro Railway: Injudicious decision of introduction of 'Smart Card'

Injudicious decision of Metro Railway to introduce 'Smart Card' facility with heavy concessions despite existence of poor operating ratio

Metro Railway, Kolkata rationalized (1995) its entire rail transport system of 16.45 Km within three zones viz. Zone I (0-5 Km), Zone II (5-10 Km) and Zone III (above 10 Km) with daily ticket fares of ₹4, ₹6 and ₹8 respectively (including Safety Surcharge of ₹1 at all stages which was introduced in September 2001). Thereafter fares had not been increased. Codal provision (Sector 30(1) of Railway Act, 1989) stipulates that the power to fix tariff rates is vested with the Central Government (Railway Board).

Contrary to the above codal provisions, Metro Railway introduced (January 2006) a 'Smart Card' facility without the prior approval of Railway Board. The 'Smart Card' was introduced with heavy concessions ranging from 33.16 *per cent* to 45.55 *per cent* of the ticket cost. Post facto approval was given by Railway Board after about three years (December 2008) of its introduction.

It is pertinent to mention that the concessions on 'Smart Card' were in addition to the existing concession facilities being given by Metro Railway in the form of MMR, LMR and EMR¹⁵ ranging between 8.33 *per cent* to 39 *per cent*. Besides, Metro Railway was running with a high operating ratio (more than 200 for the last six years) i.e. even its operational cost was not being covered.

Thus, introduction of 'Smart Card' facility with heavy discounts, was not justifiable especially in view of the poor operating ratio of the Railway. Audit calculated cumulative loss of ₹24.25 crore¹⁶ till March 2012 in the form of

¹⁵ MMR(Medium Multiple Ride) – 12 Rides on payment of 11 Rides – Valid for 21 Days

LMR (Limited Multiple Ride) – 40 Rides on payment of 30 Rides – Valid for 30 Days

EMR (Extended Multiple Ride) – 80 Rides on payment of 55 Rides – Valid for 90 Days

¹⁶ Loss was calculated considering the concession facilities on net fare after deducting safety surcharge from face value of the smart card

concessions allowed on the newly introduced 'Smart Cards' with a high concession rate.

When the matter was brought to the notice of Railway Board (February 2013); they stated (May 2013) that the idea behind the introduction of Smart Cards was mainly to provide value added service to its customers through saving of energy and time and avoiding congestion at the stations for issue of tickets. They further added that this method is a globally accepted phenomenon in the passengers' transportation sector and Smart Cards also prevented a large segment of passengers, who are unwilling to wait in the queue daily to purchase tickets, from switching over to alternate modes of ticketing.

The reply is, however, not relevant as the audit observations are not on introduction of the 'Smart Card' but its introduction with heavy discounts (ranging from 33.16 *per cent* to 45.55 *per cent*). The heavy discount was not justifiable especially in view of the heavy losses already being incurred by Metro Railway and also the various discounts already being given by Metro Railway in the form of MMR, LMR and EMR.

2.5 South East: *Incorrect charging of freight on 'through distance' basis*

Injudicious decision of Railway Administration to levy freight on 'through distance' basis in respect of sidings not qualified for the same led to loss of ₹17.80 crore towards siding charges

As per Para 1805 of Indian Railway Code for Traffic (Commercial) Department, if goods traffic originates from or terminates at a siding with a railway locomotive and does not require a service station for receiving or dispatch of trains, the traffic is termed as 'through traffic'. In this case, Railway Administration would levy freight charges on 'through distance' basis up to the buffer end¹⁷ of the siding.

Railway Board in its orders (October 1993 and June 2010) clarified that charging freight on through distance basis is applied, if the following criteria is fulfilled:

- (i) The traffic should be a trainload¹⁸;
- (ii) Traffic should go into the siding directly or indirectly with the engine pulling or pushing;
- (iii) There should be no detention of engines except for change of ends;
- (iv) No separate shunting staff is required exclusively for this purpose.

In case, the above conditions are not fulfilled, freight will be charged up to the serving station. Siding charges will be levied separately for haulage of the wagons.

During audit review (May 2012), it was noticed that the Railway Administration had notified (December 2009) charging of freight on 'through distance' basis to/from Bijuri Colliery Siding, Korea Tiger Hill colliery siding (Block No. I & II)

¹⁷ last end i.e. farthest end of the siding.

¹⁸ trainload traffic is the traffic which is booked as a single rake and freight is charged for the whole rake.

and Duman Hill colliery siding. However, these sidings did not fulfill the criteria (ii) and (iii) above because these sidings could not accommodate a full rake. Rather, it required splitting and amalgamation of the wagons either inside the siding or at the station yard of the serving station. This resulted in detention of the rake.

On the matter being referred (May 2012) to the Zonal Railway Administration, they agreed (April 2013) in principle with the audit contention. They further added that levy of charges on 'through distance' basis would be withdrawn after conducting a Time and Motion study. The Time and Motion study is, however, yet to be conducted and charges are still being realized on 'through distance' basis.

Thus, charging of freight on 'through distance' basis in respect of these three sidings even though the sidings did not fulfill the criteria for 'through traffic', resulted in a loss of ₹17.80 crore¹⁹ towards siding charges (upto January 2012).

The matter was brought to the notice of Railway Board in March 2013; their reply has not been received (July 2013).

¹⁹ Siding charges was calculated on basis of rate of siding charges for 4-wheeled wagons fixed by Railway Administration vide their rate circular No.104(G)/2009 dated 23 June 2009