

## 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 the Railway Budget by the Ministry of Railways and its field formations pertaining to the year 2012-13 are highlighted in this Compliance Audit Report.

This Report presents 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 Report explores the performance/implementation of three selected themes covering all the zonal railways. The detailed findings of these audits are presented department-wise in this Report. In addition, detailed audit findings of 17 paragraphs including three long paragraphs are presented department-wise from Chapters 2 to 5 of this Report. These 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 665436 kms (as on 31 March 2013). Presently, the Indian Railways, a premier transport organization of the country is one of the world's largest rail network under one management.

*Table 1.1*

	<b>Broad Gauge (1676 mm)</b>	<b>Meter Gauge (1000 mm)</b>	<b>Narrow Gauge (762/610 mm)</b>	<b>Total</b>
Route Kilometers	57,140	5,999	2,297	64,436
Running Track Kilometers	80,507	6,432	2,297	89,236
Total track kms.	105,701	7,553	2,579	115,833

Electrified route Kms				20,884
Electrified running track kms.				38,236

Indian Railways runs around 12,617 passenger trains and 7,421 Goods trains every day. It carried 23.07 million passengers and 2.77 million tonnes freight each day during 2012-13. As on 31 March 2013, the Indian Railways owned and maintained infrastructural assets and rolling stock as shown in the Table below:

**Table 1.2**

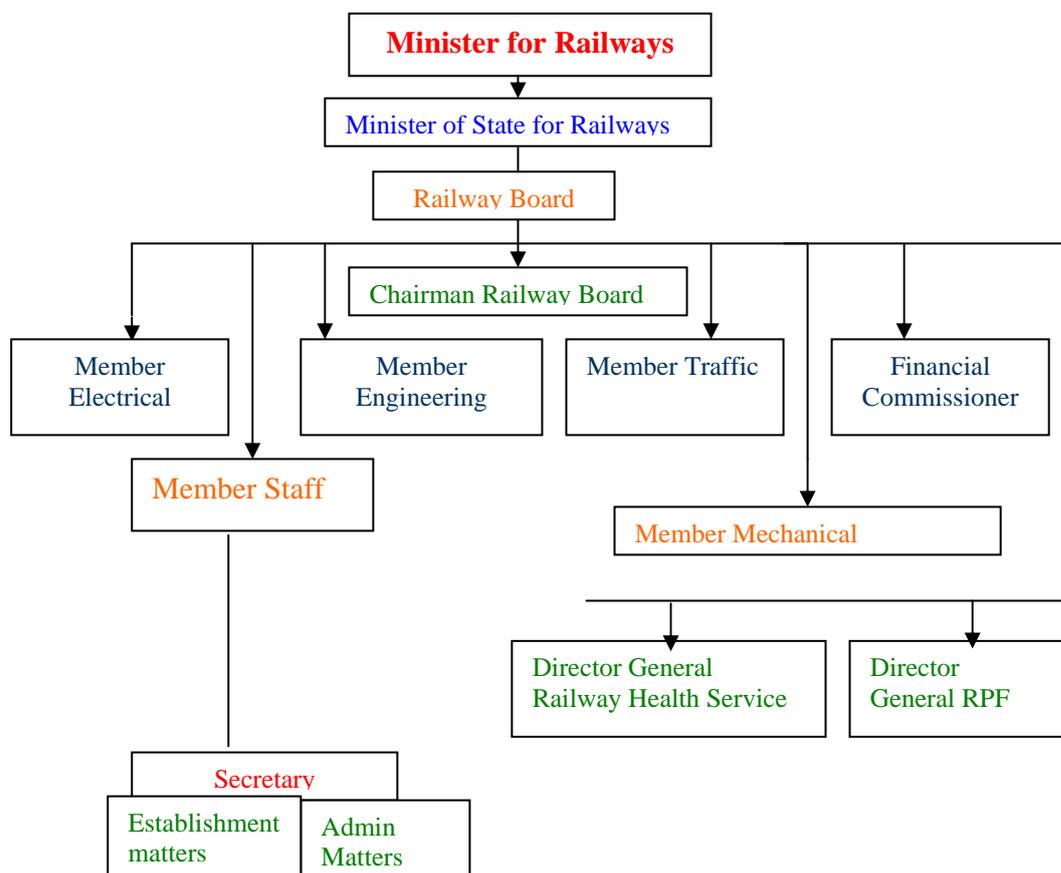
Locomotives	9,956	Yards	300
Coaching Vehicles	63, 870	Goods Sheds	2300
Freight wagons	2,44,731	Repair Shops	700
Stations	7,146	Work Force	1.31 million

Source – Indian Railways year book 2012-13 and Indian Railways' website

### 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. It 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 monitoring of railway operation.

**Fig.1.1**



At the field level, there are 17 Railway Zones, one research and standards organization 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 diesel modernization works at Patiala.

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

**Table 1.3**

<b>Railways</b>	<b>Headquarters</b>	<b>Route kms.</b>
Central	Mumbai	4,042
Eastern	Kolkata	2,546
East Central	Hajipur	3,706
East Coast	Bhubaneshwar	2,655
Northern	New Delhi	7,125
North Central	Allahabad	3,151
North Eastern	Gorakhpur	3,806
Northeast Frontier	Maligaon (Guwahati)	3,965
North Western	Jaipur	5,527
Southern	Chennai	5,079
South Central	Secunderabad	5,852
South Eastern	Kolkata	2,711
South East Central	Bilaspur	2,488
South Western	Hubli	3,327
Western	Mumbai	6,439
West Central	Jabalpur	2,992
Metro Railway	Kolkata	25
<b>Total</b>		<b>65,436</b>

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 the above, there are 27 Public Sector Undertakings (PSUs) and 2 Autonomous Bodies (ABs) functioning under the administrative control of the Ministry of Railways (as on 31 March 2013). The operations of these PSUs cover a wide spectrum i.e. from providing passenger and freight container services to 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 headed 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 4526 audited entities of the Railways out of a total of 18121 units was carried out during 2012-13.

The audit plan in particular focused on selected themes of significant nature 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 them to obtain better results in terms of the policy/scheme objectives.

The findings of the Thematic Audits on 'Performance of Weighbridges in Indian Railways' and 'Works implemented under Material Modification', have been included in this Report. In addition, lapses on part of Railways were also commented upon in the Thematic Audit on 'Mahakumbh Mela 2013'. Besides, 17 paragraphs including three long paragraphs are also included in this Report.

#### **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 94 Draft Paragraphs including Thematic Audits were issued to the General Managers of the concerned Zonal Railway up to October 2013. After considering the replies of Railway Administrations wherever received, 20 Provisional Paragraphs (including three Thematic Audits) proposed for inclusion in Compliance Audit Report, were forwarded to the Chairman Railway Board, Members concerned and the Financial Commissioner, Railway Board between **21<sup>st</sup> February 2014 and 23<sup>rd</sup> June 2014**. Ministry of Railways had replied to one Provisional Paragraph till July 2014.

**1.7 Audit objections issued, settled and outstanding**

During the year 2012-13, based on the results of test audit, a total of 4608 Audit objections involving financial irregularities of `20462.06 crore were issued through Special letters, Part-I Audit Notes and Inspection Reports. Besides these, there was a carry forward of 7233 audit objections pertaining to the previous years. A total of 3781 Audit objections were settled during the year as Railway Administrations recovered/ agreed to recover the amounts involved or had initiated corrective/ remedial action. The balance 8060 audit objections outstanding as on 31 March 2013 involved financial irregularities amounting to `28548.38 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 `323.59 crore in the various Zonal Railways during the year 2012-13. An amount of `248.62 crore was accepted for recovery (`98.14 crore was recovered and `150.48 crore was agreed to be recovered). Six Zonal Railways accounted for recoveries exceeding `10 crore each - East Coast (`84.38 crore), East Central (`64.16 crore), Northern (`28.01 crore), North Central (`11.70 crore), Northeast Frontier (`11.37 crore) and South Central (`11.16 crore). Out of the total amount of `248.62 crore recovery accepted, an amount of `56.64 crore pertained to transactions that were already checked by Accounts department of concerned Railways and `151.32 crore were other than those checked by Accounts department. As a result of further review carried out by Accounts department another `40.65 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 2012-13 for better and improved compliance. Some of the important cases are illustrated in Table 1.4 below:

**Table 1.4**

<b>Para No. of the Report</b>	<b>Audit observations</b>	<b>Action Taken by Ministry</b>
<b>Para 6.2.2 of Report No. CA 19 of 2008-09</b>	Failure of the CR Administration to maintain and keep the records of land in safe custody has led to non-relinquishment of land worth `18.18 crore for the last nine years	Railway Board has issued (May 2012) necessary instructions to CR Administration and directed that if the State Government is unwilling to acquire the land, action be taken to dispose of the same by offering to the third party as stipulated in Para 1038 of Engineering Code.
<b>Para 6.1.1. of Report No. CA 19 of 2008-09</b>	As per the standard format of siding agreement for defence siding, maintenance charges should be revalued after every five years. Ignorance of this rule by CR Administration resulted in short recovery of maintenance charges.	Chief Engineer/ CR has issued instructions (May 2012) to the concerned department to review the agreements of Private and Defence sidings and ensure the compliance of the procedure for recovery of outstanding dues. Further realization of the short recovery is being followed up with the Defence Authorities.
<b>Para 6.4.2 of Report No. CA 19 of 2008-09</b>	SCR – Improper planning on part of Railway for unloading of rails and avoidable transportation of the rails by road resulted in extra expenditure of `4.25 crore	As a remedial measure, Railway Board instructed (February 2013) SCR Administration to ensure proper planning and adequate action to prevent such occurrences in future.
<b>Para 3.1.8 of Report No. CA 6 of 2008</b>	SCR - Idle expenditure on construction of staff quarters without assessing the demand.47 Staff quarters constructed by SCR at a cost of `3.17 crore remained unoccupied	As a remedial measure, Railway Board instructed SCR for fixing the responsibility for the bad planning and post staff at the stations where surplus quarters exist. Railway Board also instructed (May 2012) all Zonal Railways to undertake a critical review of existing quarters. Assessment of requirement of quarters should be done in consultation with the DRMs before construction of new quarters in any project even if the provision exists for quarters in the estimate.

<b>Para 3.13 of CA-08 of 2004 (DP-01/2002-03)</b>	Failure of CR Railway Administration to adhere to codal provision for “Deposit Works” resulting in non-recovery of expenditure incurred in excess of deposit made by the parties.	Railway Board issued instructions (May 2012) to all Zonal Railways to review all such cases and to ensure that the necessary action is taken as prescribed in the Para Nos. 1134 and 1849 of Engineering Code. Board also issued strict instructions to all concerned Railways that non-observance of codal provisions would be viewed seriously and responsibility shall be fixed. In the instant case, 75 per cent of the amount pointed out by Audit has been recovered by CR Administration.
<b>DP No.03/2012/ ECR</b>	As per rules, where placement and/ or withdrawal of wagons are done by multiple engines, the siding charges should be calculated taking into account the multiple engines. In contrary, wrong fixation of siding charges using single engine led to loss of `14.59 crore to the Railway.	The ECR Administration accepted the audit contention and instructed (July 2012) Operating Department to notify the number of locos used for placement and/or withdrawal of wagons in specific siding. After such notification, siding charges would be rectified at this end and division would be advised accordingly to calculate and levy correct siding charges. The concerned division were also advised to realize under charges after rectification of siding charges earlier fixed.
<b>Special letter/SECR dated 24.03.2011</b>	SECR - Wrong fixation of siding charges from serving station instead of Depot station as the placement of rakes were done from the depot station. This led to the loss of ` 30.24 lakhs to SECR on account of short recovery of siding charges.	SECR Administration accepted (May 2013) the audit contention and ensured to carry out fresh “Time & Motion study” for implementation of correct siding charges.
<b>Special letter/SECR dated 28.09.2010</b>	SECR - Irregular grant of train Load Benefit to Food Corporation of India (FCI) led to loss of `0.83 crore.	SECR Administration accepted the audit contention and stated (December 2010) that the debt has been raised against FCI for realization of the short recovery.
<b>Part I inspection Report /SECR dated 21.03.2012</b>	SECR - Inward parcels booked to the Kotma station from different locations were over carried to Chirmiri station.	SECR Administration issued (March 2013) instructions to the concerned department to take extra care and arrange to unload the parcels and avoid over carrying of parcels in future failing which the matter will be viewed seriously.

### 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 (July 2014) 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 2012 is given below:

**Table 1.5**

Year	Total para included in the Reports	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	0	0	1	1
1998-99	106	105	0	0	0	1	1
2000-01	101	99	0	1	0	1	1
2001-02	101	97	0	3	0	1	4
2002-03	110	109	0	0	0	1	1
2003-04	114	111	0	2	0	1	3
2004-05	105	101	0	2	0	2	4
2005-06	138	129	0	7	0	2	9
2006-07	165	160	0	4	0	1	5
2007-08	172	166	0	4	0	2	6
2008-09	104	96	0	4	1	3	8
2009-10	59	45	0	9	1	4	14
2010-11	34	13	0	12	0	9	21
2011-12	28	1	11	7	2	7	16
<b>Total</b>	<b>1433</b>	<b>1327</b>	<b>11</b>	<b>55</b>	<b>4</b>	<b>36</b>	<b>95</b>

ATNs in respect of 11 Paragraphs relating to the Report for the year 2011-12 were not received within the prescribed period of four months. 55 ATNs received for vetting by audit were returned with observations for lack of adequate remedial action. Four ATNs, vetted by audit, are yet to be finalized by Ministry of Railways. In 36 cases, the action stated to have been taken is under verification by Audit.