

CHAPTER 4: STORES AND ASSETS MANAGEMENT

4.1 Blocking up of capital/ idling of assets

4.1.1 Southern Railway: Blocking up of capital due to delayed transport of bogies by road

Delay in finalisation of transportation arrangements of fabricated bogies led to blocking up of capital of Rs.10.19 crore and non-availability of material at workshops

Beside periodical overhauling (POH) of rolling stock, the Locomotive Workshop, (LW) Perambur also undertakes certain manufacturing activities like fabrication of bogies etc.

During the years 2003-04 to 2004-05, LW manufactured 113 AC DC EMU Trailer Coach Bogies and 150 ICF Bogies as per rolling stock programme approved by Railway Board. After fabrication, whereas the AC DC trailer coach bogies were to be sent to various workshops on Western Railway, the ICF bogies were meant for various workshops on 15 Zonal Railways. The transportation of the fabricated bogies required utilisation of separate type of wagons.

75 ICF bogies fabricated in 2003-04 were transported during the same year on wagons. But when the operating branch was approached (February 2005) by LW for allotment of wagons for the remaining bogies operational difficulties were cited and wagons were refused. Of the remaining bogies, only six AC DC bogies could be transported by March 2005. Subsequently, the Mechanical branch proposed and finalised contracts for road transport in February 2006. It took the Railway one entire year to call for tenders and finalise contracts for transport by road. Moreover, these contracts were also only for transportation of the bogies and not for the accessories thereon. A separate contract for transportation to Mahalaxmi Workshop of 26 sets of accessories worth Rs.1.68 crore manufactured by March 2005 was finalised only in August 2006. The material has yet to be transported out (September 2006).

Only 68 Bogies (30 AC DC EMU Trailer Coach Bogies and 38 ICF Bogies) out of the balance 182 valuing Rs.8.51 crore fabricated up to March 2005 were actually transported by March 2006.

Thus, the failure to plan ahead regarding the transportation of the bogies and their accessories to various workshops across the country and consequent delays has resulted not only in the idling of stock for various periods ranging from 11 months to 23 months and consequent block up of Rs10.19 crore but has also impacted upon the availability to various workshops as is evident from the undue detentions to wagons for want of material.

On this being taken up by audit, Railway stated (July 2006) that there was no avoidable delay in finalising the contract for road transport and outturn of related workshops could not have been affected as the bogies were unit exchange spares required to meet any contingency. Moreover, as the non despatch was due to sudden restriction for allotment of wagons, the period

awaiting despatch till alternative arrangements were made, cannot be termed as idle.

The Railway's reply is not acceptable as these bogies were manufactured to a specific programme as per requirement, and non-availability of bogies would affect the work of workshops. Ajmer and New Bongaigaon workshops have in fact stressed the urgency of their requirements as non availability of these bogies severely affected their outturn.

The matter was brought to the notice of Railway Board in September 2006; their reply was awaited (December 2006).

4.1.2 Research, Designs and: *Idling of investment due to non- Standards Organisation commissioning of high speed track recording car*

Due to delays at every stage in getting a high speed track recording car commissioned, there was a time overrun of more than six years and non achievement of intended benefits despite an investment of Rs.6.14 crore
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Track Recording Cars are used for recording specified track parameters and performing their real time analysis. The Ministry of Railways sanctioned procurement of a high speed track recording car (HSTRC) at a cost of Rs.5 crore and included the same in the Rolling Stock Programme of 1996-97 for recording track parameters at speed up to 200 kmph.

A study team was sent to Germany, Netherlands and United States of America in 1997 for studying HSTRCs available on the Railways of these countries and to identify the technology suitable to the Indian system. Based upon their inputs, RDSO invited (May 1998) a global tender for supply of one (High Speed Track Recording System) HSTRS in two packets (Technical and Commercial) which were opened in August 1998 and April 1999. RDSO took over two years and eight months for the deliberations and negotiations and finally awarded the contract only in February 2001, to M/s ENSCO Inc. of USA at a cost of Rs.5.10 crore.

As per the contract, the firm was to deliver the HSTRS by 20 November 2001 while RDSO was required to make reasonable efforts to accept the same within 120 days of its installation and calibration. Besides, the firm was to impart six weeks training to three officials of RDSO in the field of operation and maintenance of HSTRC at firm's premises. RDSO had also procured (November 2000) a coach, having a speed potential of 125 kmph, from Rail Coach Factory, Kapurthala at a cost of Rs.0.91 crore for mounting the HSTRS.

In October 2001, the firm intimated RDSO that the HSTRS would be ready by September 2001 and requested nomination of trainees and the Inspecting Officer. RDSO, however, nominated the trainees only in May 2002, who during their training observed certain discrepancies in the System hardware and software. RDSO pointed out (July 2002) these discrepancies to the firm which were rectified by June 2003.

The HSTRS was despatched and the firm was paid an amount of Rs.4.47 crore towards 90 per cent of the cost of HSTRS on the proof of inspection and despatch in October 2003. The HSTRS was received at RDSO in January 2004.

During installation and commissioning of HSTRS in March 2004, the Laser Gauge Sensors (LGS) of the system were found projecting beyond the Maximum Moving Dimension (MMD). In September 2004, RDSO requested the Board to condone the infringement of LGS. The Board communicated their approval only in August 2005. Trials were also suspended between October 2004 and October 2005 due to extraordinarily long time taken for carrying out the POH of the coach. The HSTRC continues to be under trial till date with various software deficiencies being communicated to the firm for rectification from time to time.

Thus, abnormal delays at every stage right from the award of contract, nomination of trainees, seeking condonation for infringement of LGS, completion of POH of HSTRC coach and failure to persuade the firm to get the HSTRC commissioned in time has led to a system proposed in the Rolling stock programme of 1996-97 not being put to use still (October 2006) after incurring more than Rs.6.14 crore. The excess time taken is more than six years even after allowing for adequate time at various stages such as finalisation of tender, supply, installation and commissioning of the system.

The Railway Board while explaining the reasons for delay at various stages stated (November 2006) that the time overruns have given them time to learn new technology on the job. They also stated that the negotiations had helped reduce the price quoted by Rs.0.39 crore. This is not acceptable as negotiations to obtain price deduction are not a rare phenomenon and need not have taken the unduly long period of nearly two years. Moreover, the objectives of procuring the HSTRC have yet to be met despite an investment of Rs.6.14 crore and time overrun of more than six years.

4.2 Deficiencies in procurement

4.2.1 Railway Board: *Extra expenditure due to lapses in contract management*

Extra expenditure of Rs.10.90 crore in the procurement of SGCI inserts due to inadequacies in contract management

The Spheroidal Graphite Cast Iron (SGCI) insert is a fixture which is embedded in PSC sleepers at the time of casting in sleeper plants. These inserts help hold the rails laid on the sleepers.

Railway Board floated an open tender in February 2002 for procurement of SGCI inserts required for the year 2002-03 and contracts were awarded for supply of 314.65 lakh inserts to 22 firms at a rate of Rs.31.50 per insert with original delivery period up to September 2003. Extensions were given to the firms for various periods up to September 2004. The firms, however, could supply only 239.47 lakh inserts leaving a shortage of 75.18 lakh inserts.

Contracts for eighteen firms were short closed/terminated from November 2003 to February 2006 under various clauses of the tender conditions without any financial repercussions on both the sides.

It was observed that:

- Railways issued release orders for only 286.99 lakh inserts against the ordered quantity of 314.65 lakh inserts leading to a shortage of 27.66 lakh inserts due to non issue of release orders.
- Of the released quantity, the firms supplied 239.47 lakh inserts within the original and extended delivery periods. Thus, there was a short supply by the firms to the extent of 47.52 lakh inserts. Of these, 18.6 lakh inserts could not be supplied since the zonal railways issued booking/consignee/despatch instructions towards the end of the delivery period or after the expiry of the due date of delivery resulting in their cancellation.
- In respect of five firms, the decision to terminate the contracts was delayed by more than one year after the expiry of the original/extended delivery periods thereby losing the opportunity of claiming risk and cost against subsequent orders.

Immediately after the contracts were awarded against this tender, Railway Board decentralised procurement of inserts to Zonal Railways (January 2003). Accordingly, the Zonal Railways entered into supply contracts at their end. Thus, there was an overlap of the supply period against Zonal Railway contracts with the supply period of the Railway Board contract. It was observed that while there were short supplies of inserts against the Railway Board contract, the Zonal Railways procured inserts at a higher price. Northern, Eastern and North Eastern Railways procured inserts at the rate of Rs.46, Rs.46.5 and Rs.47.1 respectively between February 2004 and August 2004. A test check revealed that in Eastern Railway, M/s. Star Iron Works supplied 2.39 lakh inserts against a contract placed in June 2004 at a higher rate but did not supply 3.24 lakh inserts in the Railway Board contract despite extension up to April 2004.

Thus, Railways had to incur an extra expenditure of Rs.10.9 crore in the procurement of 75.18 lakh inserts short supplied against their contract which were subsequently procured by the Zonal Railways at a higher cost. The short supply to the extent of 18.6 lakh inserts at least could have been avoided if the release orders had been issued in time and as per the contract. Similarly, the excess expenditure in respect of 17.34 lakh inserts could have been recovered in the form of risk and cost, had the Railways taken timely decision in respect of termination of five contracts. The extra expenditure in respect of these 35.94 lakh inserts alone is Rs.5.21 crore and clearly avoidable.

Railway Board stated (December 2006) that release orders were issued based on the requirements of the Zonal Railways. Further, they stated that firms failed to supply the ordered quantity even after extending the delivery period and their contracts were terminated by forfeiting the security deposits. The contention of Railway Board is not acceptable as the subject tender was

invited for 368 lakh inserts whereas orders were placed for only 314.65 lakh inserts. The firms failed to supply even the quantity for which the release orders (286.99 lakh inserts) were issued. Short supplies to some extent could have been avoided, had the release orders been placed in time. Further, Railway Board took a long time in terminating the contracts instead of considering risk and cost action. During this period, the Zonal Railways procured inserts at higher rates which otherwise could have been procured at the much lower rate of the subject tender.

4.2.2 Western Railway: Loss due to extra expenditure in purchase of high speed diesel oil

Injudicious decision of the Railway to purchase high speed diesel oil required for locations situated in the State of Gujarat from Maharashtra without considering all cost elements resulted in loss of Rs.7.18 crore on account of extra expenditure

Effective management involves not just judicious decision making but also a continuous review of decisions taken in the light of changed circumstances.

As the sales tax levied by some State Governments was very high and the fuel bill of the Railways had increased on this account, Railway Board instructed (July 1996) Zonal Railways to resort to purchases in such a way that the overall cost is brought down. As only 60 per cent of the total purchase of high speed diesel (HSD) oil was on payment of four per cent CST, Railway Board asked the Railways in July 2002 to increase this percentage.

Western Railway decided (September 2002) to obtain supply for eight Railway Consumer Depots (RCDs) situated in the State of Gujarat from Panewadi in Maharashtra State on the grounds that the sales tax for purchase made from within the State of Gujarat was 21.6 per cent and by resorting to purchase from Maharashtra they would be saving approximately Rs.1.19 crore per month as they would be paying only four per cent CST.

While taking this decision, however, the Railway Administration failed to take cognizance of the order of Gujarat State Government whereby an Entry Tax of 17.6 per cent was levied on purchases made from outside the State with effect from 1 September 2001 thereby nullifying the impact of concessional CST. Since tax was no longer the deciding factor the best option to decide the purchase point of HSD oil was to consider all other elements such as basic price, freight etc. It was noticed that the overall landed cost of HSD oil purchased from outside Gujarat was much higher than that purchased from supplying depots situated within Gujarat due to difference in basic price as well as the higher freight involved. As a result of this Railways incurred an extra expenditure of Rs.7.18 crore during the period October 2002 to January 2005 in respect of purchases made for ten RCDs situated in Gujarat State alone.

Railway in their reply (August 2006) stated that decision to resort to interstate purchase was taken in anticipation of exemption from payment of State Entry tax as the matter was taken up with the State Government at Railway Board's level. The reply was not tenable because the decision to resort to interstate

purchase was taken in September 2002 whereas the matter regarding obtaining exemption of State Entry tax was taken up in October 2002. Although State Government had not exempted the Railways from payment of State Entry tax as was evident from their demand raised, Railway took another eight months to reverse their decision.

Thus, the decision of the Railway Administration to purchase HSD oil required for locations situated in the State of Gujarat from Maharashtra without considering all cost elements resulted in loss of Rs.7.18 crore on account of extra expenditure.

The matter was brought to the notice of Railway Board in August 2006; their reply was awaited (December 2006).

4.2.3 Chittaranjan Locomotive: Avoidable expenditure on Works procurement of Tap Changers

Due to inconsistent policy in regard to procurement of Tap changers and also failure to take advantage of lower price offered for bulk purchase, CLW incurred an avoidable expenditure of Rs.0.91 crore

Tap Changer is one of the most vital components of Single Phase Locomotives i.e. WAG 7 and WAP 4 Electric Locomotives. On an average, at Chittaranjan Locomotive Works (CLW), 80 numbers of Tap Changers are annually required for production of these locomotives.

For the production year 2001-2002, a tender was opened in July 2000 for procurement of 70 sets of Tap Changers with a 30 per cent option clause. Since the unit rates quoted in the only two offers received were found to be much higher than the last purchase rate, the Tender Committee (TC) decided to negotiate with the lowest acceptable tenderer (M/s.Adtranz). As a sequel to the negotiations held, this tenderer offered to supply 70 to 100 sets at the basic unit rate of Rs.17.38 lakh, 101 sets and above at Rs.17.33 lakh and below 70 sets at Rs.17.55 lakh. The firm further made an offer of Rs.17 lakh per set for a minimum order quantity of 200 sets with a supply schedule up to December 2002 in view of their increased production capacity.

The TC in October 2000 recommended placement of order for 200 numbers to the firm with 30 per cent option clause at the basic rate of Rs.17 lakh per set with base date as 1 September 2000. Since the acceptance of the tender recommendation was beyond the powers of CLW, the matter was referred to the Ministry of Railways (Railway Board) in November 2000 for their acceptance.

Based on the deliberations of an Appreciation Committee at the Railway Board, purchase of 70 numbers was recommended with option clause at a rate of Rs.17 lakh. The firm, however, did not accept this counter offer.

Consequently, the Appreciation Committee of the Railway Board again deliberated the matter in May 2001 and endorsed the TC recommendations of CLW for procurement of 200 nos. with 30 per cent clause at a basic price of Rs.17 lakh, with the delivery period staggered over a period of two years i.e. 2001-02 and 2002-03, with a provision of further staggering over one more year on the same terms and conditions. However, the Board finally decided to

confine the order to only 70 numbers with option clause, since the production programme for single phase locos was likely to be decreased.

In August 2001, approval was given for placement of order for 70 numbers with 30 per cent option clause at the basic price of Rs.17.38 lakh against which the firm supplied 91 Tap Changers. Thus, the tender opened in July 2000 was finalised only in August 2001.

As per the targets for 2001-02, 2002-03 and 2003-04, 245 locos were to be manufactured in the subsequent three years against which 237 were actually manufactured. Since the entire process of loco production i.e. from conception to execution takes at least three years, material procurement normally needs to take into account the requirements for at least three years. Thus, purchase of 200 numbers of Tap Changers with a staggered supply would not have resulted in over stocking or obsolescence.

Between February 2001 and April 2003, CLW actually purchased 146 Tap Changers over and above the Railway Board order of 91 Tap Changers, all from the same firm viz., M/s.Adtranz. This included emergency purchases due to the delay in processing the case by Railway Board. All of these were procured from the same firm M/s.Adtranz, at the higher rate of Rs.17.38 lakh due to the piecemeal nature of purchases. Had the supply of a minimum of 200 sets at the rate of Rs.17 lakh per set been accepted, CLW could have avoided at least an extra expenditure of Rs.0.91 crore (all inclusive cost).

CLW stated (July 2006) that the requirement was generally assessed on annual basis and, therefore, getting benefit on account of bulk procurement of stores in anticipation of future requirement was not proper and would be tantamount to speculation. This contention goes against their own strong recommendation for procurement of 200 numbers of Tap Changers. On the basis of planned and targeted production, even allowing for a possible reduction due to switch over to 3-phase locos, the purchase of a larger number of Tap Changers at a lower rate would have been beneficial to the Railways. Moreover, any phasing out would have been gradual and spread over a number of years. Thus, the decision to ignore a financially advantageous offer, without considering all aspects, resulted in an extra expenditure of Rs.0.91 crore.

The matter was brought to the notice of Railway Board in October 2006; their reply was awaited (December 2006).

**4.2.4 North Eastern: Avoidable loss due to delay in stitching
Railway of clothes**

Poor monitoring and follow up of the receipt of stitched uniforms has resulted in blocking up of Rs.0.54 crore for periods ranging from one to five years with possible deterioration of stock.

Indents for supply of uniforms and liveries from various Railway offices for distribution among entitled employees are received in the Uniform Ward of Stores Depot/ Gorakhpur (UW), which places work orders on the Cloth Cutting Factory (CCF) also functioning at Gorakhpur. The CCF receives cloth as per the work orders from the Cloth Ward (CW) and after cutting these into required sizes, sends them to the various stitching centres situated at

Izatnagar, Badshahnagar, Varanasi and Gorakhpur (North Eastern Railway) and Samastipur and Sonpur (East Central Railway). Stitched clothes are sent back to UW for onward supply to indenting units.

The capacities of these stitching centres have not been spelt out but have been stated to be sufficient. Some 46,684 pieces sent by CCF during 2001 to 2005 to the stitching centres had not been received back (August 2006) by UW even after a lapse of one to five years. In addition, a backlog of 6,580 pieces of cloths sent to stitching centres as far back as 1994-95 were still to be received back (October 2006). Similarly, 13,898 cloth pieces sent by CW during the same period for cutting are still lying with CCF. The total value of these pieces works out to Rs.0.54 crore.

Since uniforms are required to be supplied to the entitled employees every two years, it is evident that the bulk of the cloth would have outlived its normal life and, would, therefore, not be fit for utilisation.

The Railway Administration stated (July 2006) that the bulk of the work had been carried out and works had been pending due to non-availability of raw materials. The reply is not acceptable as the raw material required for stitching uniforms such as buttons and lining cloth cannot be cited as reasons for delays of more than five years. It is incumbent upon the Railway to arrange for the raw material required, particularly when any delay in supply of the uniforms would result in the denial of a staff facility as well as unnecessary block up of capital with the added danger of deterioration. The failure of the Railway to effectively monitor the supply and return of the material to the cutting and stitching centres has resulted, thus, in the block up of Rs.0.54 crore.

The matter was brought to the notice of Railway Board in October 2006; their reply was awaited (December 2006).

4.2.5 Central Organisation for: Delays in procurement of Modernisation of Workshops cranes

There were considerable lacunae in the procurement and commissioning of EOT cranes by COFMOW defeating the purpose for which it was set up
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The Central Organisation for Modernisation of Workshops (COFMOW) was set up in 1978 as the designated centralised agency responsible for modernisation of Railway Workshops and Production Units for providing industrial engineering, assess the suitability of technological developments in machine tool industry, process/ frame procurement methods including specification/ tendering, development of indigenous manufacturers for sophisticated machinery and plant etc.

All machinery and plants, including EOT cranes are sanctioned by the Railway Board in the Annual Machinery and Plant Programme (M&P). On the basis of sanctioned and vetted indents received, COFMOW prepares specifications and, after acquiring approval of consignee, places orders. A review of the procurement of EOT cranes in respect of 11 contracts out of the 22 contracts awarded during 2002 to 2005 revealed that there were considerable delays at every stage of the procurement as well as delays in

commissioning of the cranes. Even after commissioning, the performance of the cranes has not been satisfactory.

Delay in procurement

COFMOW has fixed 208/ 388 days for open tender without/ with new or modified specifications and 413 days in case of two packet tender without new or modified specifications as the acceptable time for the procurement process per se, from indenting to issue of Advance acceptance. In respect of six EOT cranes for which indents without new or modified specifications were received in 2001-02, excess time of 152 days (73 per cent) to 601 days (289 per cent), over and above the allotted 208 days were taken in processing the cases. Audit review revealed that the delays were mainly attributable to the Mechanical department in sending of indent to the Stores department, after preparing proper specification and Technical evaluation/commercial evaluation. COFMOW has stated (July 2006) that indents were not properly formulated in the field and certain parameters were not correctly specified resulting in a lot of correspondence seeking clarifications.

As an example, the indent for one 10 tonne EOT crane was received from Charbagh/ Lucknow in February 2002 for its bogie repair shop. However, by the time the matter could be processed by COFMOW and order placed in June 2004, after a time lag of 28 months, the site of installation and the span of the crane underwent a change, which resulted in further delays due to amendments to be issued and cost overruns since the cost of steel had increased meanwhile. Though the cost overrun was only Rs.0.03 crore, the fact remained that a crane indented in 2002 was yet to be procured and installed after four years. This indicated that neither the choice nor the requirement of the span for the crane had been adequately examined by either Charbagh/ Lucknow or by COFMOW.

Delay in commissioning

Even after procurement of cranes, delay in commissioning as well as sub-optimal utilisation due to non-completion of related works was observed in the case of records of four EOT cranes as shown below:

In the case of the EOT crane procured for SSE/C&W/Chandigarh, the order was placed in October 2002. Though the crane was to be commissioned within 90 days from the date of call from the consignee and the same was received in February 2004, the call for commissioning was given only in August 2005 and the crane was commissioned in September 2005, after a delay of 18 months after its receipt. The delay in commissioning of the crane was due to delays in construction of the sick line by the Construction Department. Even now, (August 2006), the crane was not being put to full use and the coaches were being sent to Saharanpur and Ambala for 'C-schedule' as part of the maintenance. This resulted in loss of earning capacity to the Railways to the extent of Rs.0.90 crore for 12 months (from the date of its commissioning – September 2005 to August 2006) at the rate of Rs.7.50 lakh per month. The loss will continue till the sick line is commissioned.

Similarly, in the case of an EOT crane procured for SSE/ Delhi, though the crane had been supplied in December 2005, the same was still lying un-

commissioned (August 2006), eight months after its receipt, due to non-completion of the shed for housing by the Dy.CE/Const./Tilak Bridge, New Delhi.

In another case, one EOT crane was received by CDO/ Bhatinda in March 2005. There was delay in providing foundation, other infrastructure and power supply required for installation/ commissioning. Consequently, the call for commissioning could be given only in August 2005, after a delay of five months, and the crane could be commissioned only in October 2005.

Delay in call for commissioning of four months (November 2005) was also observed in the case of the crane received by SSE/BW/ Jalandhar in June 2005. The crane could be commissioned only in January 2006. Due to this delay, the work had to be managed with the old crane.

Thus, delay in commissioning of these cranes resulted in blocking of assets worth Rs.0.71 crore for periods ranging from four to eighteen months, thereby seriously diluting the purpose for which these cranes were procured.

Further, there were inordinate break-downs after commissioning of EOT cranes. In the case of three EOT cranes supplied to Alambagh/ Lucknow, C&W/ Perambur and Jamalpur Workshop during March 2003/ July 2003 there were frequent break-downs and performance of the cranes, therefore, was below par. Frequent breakdowns of these assets procured at a total cost of Rs.0.70 crore hampered the smooth functioning of workshops. However, COFMOW has not been able to take any action to penalise the firms concerned.

The matter was taken up by Audit in May 2006. While the detailed remarks are still awaited (October 2006), COFMOW stated (July 2006) that instructions have been issued to all Railways to ensure that proper checks are made and indents with suitable specifications sent to COFMOW.

As evident from the incidents detailed above, however, there were lacunae at every stage of the procurement of the cranes, thereby defeating the purpose for which a specialised agency like COFMOW was set up.

The matter was brought to the notice of Railway Board in October 2006; their reply was awaited (December 2006).

4.2.6 Chittaranjan Locomotive: Inordinate delay in procurement and Works commissioning of a Horizontal Boring and Milling Machine

Defective clauses in the contract and release of payments without assessing the performance of a machine led to inordinate delays in commissioning and proving out of a machine

In order to replace an overaged machine, Chittaranjan Locomotive Works (CLW) placed (July 1996) an indent on Central Organisation for Modernisation of Workshops (COFMOW) for procurement of one Horizontal Boring and Milling Machine. The machine was to be utilised mainly for machining of WAG-9 and WAP-5 Stators. A tender for procurement of the machine was issued by COFMOW in October 1999 and the contract for the

supply of the machine was awarded to M/s. Heavy Engineering Corporation Limited (HEC) on 27 April 2000. The total quoted cost of the machine including duties and taxes was Rs.0.53 crore.

In terms of Clause 8.5.1 of the bid document, the proving out of the machine was to be done at the inspection stage itself at the supplier's premises for all components. Clause 1.1.7 of the contract, however, stated that inspection of the machine would be carried out by Rail India Technical and Economic Services (RITES) at the manufacturer's premises without any mention of 'proving'. Clause 11.2 of the same contract also provided for proving after commissioning by the supplier and these clauses were considered to supercede those in the bid documents. RITES accordingly merely inspected the machine before dispatch and 90 per cent payment amounting to Rs.0.45 crore was also released on this basis.

Though the machine was delivered in August 2001, it could not be commissioned till March 2004 due to the poor response of the firm to various problems encountered. The machine was in 'breakdown' condition for a period of 502 days during the period from August 2002 to July 2005. However, the Proving Out Certificate (PTC) was ultimately issued on 9 April 2005 inter alia bringing out failure to prove out WAP 5 stators. The residual amount of ten per cent of the cost of the machine was also released after deducting liquidated damages for delayed supply.

When this issue was taken up with RITES they quoted the contractual clause that proving out was to be done at the CLW premises and they had only to inspect the components. Moreover, the firm had also used this same reason for not carrying out proving trials before despatch to CLW though requested by RITES.

The Railway in their reply (July 2006) blamed RITES for not carrying out the proving out at the supplier's premises itself. They further stated that WAP 5 stators were not proved out as there was no production programme for WAP 5 locos, and that the machine was working effectively. The fact remains, however, that the machine was commissioned three years after procurement, was proved out partially one year later and has remained under breakdown for nearly 47 per cent of the machine time available. This could have been avoided had the contractual clauses been clear as to responsibilities and the major part of the payment had been made contingent on the successful commissioning and proving out.

The matter was brought to the notice of Railway Board in September 2006; their reply was awaited (December 2006).

4.3 Inadequacies in management of land

The procedure for acquisition, custody and management of land, one of the most important assets of the Indian Railways, is laid down in the Indian Railway Code for Engineering Department. Where land is relinquished, equitable value is to be recovered keeping market conditions in view. Similarly, where land is leased/licensed to other government departments or private parties, suitable agreements need to be entered into to ensure recovery of dues as per extant rules. In terms of the Indian Railways Way and Works

Manual, the Permanent Way Inspectors/ Inspectors of Works are responsible for demarcation and verification of land boundaries. Any encroachments are to be reported immediately and action taken to clear these. In other words, the railway interests need to be protected at every stage. The succeeding paragraphs bring out lapses in the effective management of land and in the recovery of dues thereon.

4.3.1 South Central: Transfer of Railway land for ineffective Railway sale consideration

Railway Administration ignored codal provisions laid down for the transfer of Railway land resulting in loss of Rs.34.12 crore to Railways
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Indian Railway Code for the Engineering Department stipulates that in all cases of disposal of Railway land to the State Government/Central Government Department, the amount payable would be the market price as on the date of transfer.

Vijayawada (BZA) - Gudivada (GDV) line consisted of two lines. One of the lines connecting Ramavarappadu Station (RMV) with Vijayawada station (BZA) via Satyanarayanapuram (STPM) passed through a thickly populated area of the town involving heavy traffic. The Vijayawada Municipal Corporation (VMC) approached (1973) the Railway Administration with a proposal for shifting of this branch line and handing over of the released Railway land enabling them to develop an 80 feet bye-pass road connecting NH5 with NH9.

Railway Board agreed (August 1995) in principle to remove the portion of branch line passing through STPM and to relinquish land to the extent of 25.30 acres provided suitable alternative land of equivalent value was given within the Municipal limits of Vijayawada besides depositing the cost of construction of enabling works. Railway Board, however, modified (June 1996) their decision as per which VMC had to pay a token amount of Rs.0.50 crore only towards cost of enabling railway works along with suitable alternative free hold land.

Different proposals of VMC for equitable exchange of land at Ajitsinghnagar were made but these were not agreed to initially by the Railway as 25.50 acres of land at Ajitsinghnagar valuing Rs.4.32 crore was not equitable exchange for Railway land to be handed over. Moreover, the land offered by VMC was not of any use for the Railway being far away from the Railway station. Railway even decided that market value as on the date of transfer should be paid by VMC in lieu of the land to be surrendered. However, finally 22.92 acres of land valuing Rs.38.44 crore were transferred with the approval of Railway Board resulting in a loss of Rs.34.12 crore to the Railway.

On this being taken up by Audit (January 2006), the Railway stated (May 2006) that land was exchanged under the provisions of para 1045 of Engineering Code as per which Railway Administration had discretionary powers to effect an equitable exchange of Railway land for other land equally suited to their requirement with or without monetary adjustments. Moreover, this exchange of land was with the approval of competent authority (Railway Board) in view of social obligations and public interests.

Railway's reply is not acceptable as the exchange of Railway land was for a land which was not only of no use to the Railway but also with considerably less market value. As such the exchange was not equitable. Thus the financial interests of the Railways have not been safeguarded.

The matter was brought to the notice of Railway Board in September 2006; their reply was awaited (December 2006).

4.3.2 North Western: Non-realisation/ non-adjustment of cost of Railway land occupied by Jaipur Development Authority

Non-observance of codal provisions for custody and disposal of Railway land has resulted in non realisation of Rs.27 crore for land occupied by Jaipur Development Authority
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One of the most important assets of the Railways is land and the safeguard of this asset is a prime responsibility of the Organisation. As of June 2006, Railway land to the extent of 2000 hectares was under encroachment on the Indian Railways out of which 19.08 hectares was stated to be in North Western Railway.

As per codal provisions the General Manager is responsible for ensuring the safe preservation of records of title of land, periodical inspection of boundaries and dealing promptly with encroachments. When land is found surplus or is not required, the Railway Administration may at its discretion effect an equitable exchange of land.

During the review of records of Jaipur Division of North Western Railway, it was noticed that a railway track (10.2 Km.) of M.G. line joining Getore Jagatpura station (on Jaipur-Rewari main line) and Shivdaspura (on Jaipur-Sawaimadhopur branch line) was closed for traffic long back and the track was subsequently dismantled. The Divisional Authorities failed, thereafter, to maintain the records of the related land (27.15 hectares) till the receipt of a request (September 1995) from Revenue Authorities to take action for removing the encroachments from the land under reference. It was after another three years, in 1998, after establishing that the land title was with them indeed, that the Railways inspected the site and noticed that the Jaipur Development Authority (JDA) had occupied the land and constructed a road thereon.

The Railways raised this issue with the JDA (November 1998) and after another four years, in a high level meeting in 2002, it was requested by Railway Board that monetary value of land should be adjusted against the Railway's requirement of land for various projects in Jaipur and other places. No serious efforts, however, were made by Railway Administration during the last four years for the realisation/ adjustment of the cost of land which is now estimated at Rs.27 crore. On the other hand, during the interim period, when the new zone was established, the Railways purchased JDA land to the extent of 23.02 hectares at a cost of Rs.12.10 crore for the Zonal headquarters and the Railway colony.

Audit took up the matter with the Railways in May 2000 and May 2005. Railway stated (March and September 2005) that the case would be pursued with JDA for recovery of the cost of land or adjustment of monetary value of this land with another transaction.

Thus, the Railways' failure to maintain records of land titles and protect their assets from encroachment, further compounded by their failure to get adequate compensation for encroached land either as cash or as equitable quantum of land, has resulted in loss of Rs.27 crore. More important, the details of this land do not appear in the reports of the Railway to the Railway Board as encroached land as on date (30 June 2006).

The matter was brought to the notice of Railway Board in August 2006; their reply was awaited (December 2006).

**4.3.3 South Central: *Blocking up of capital and loss of interest*
Railway *due to irregular advance deposit with State*
 Government towards compensation for
 *land***

Non-observance of codal provisions by Railway for regulating payments to State Government for allowing compensation during land acquisition resulted in blocking up of capital of Rs.6.67 crore for two and a half years besides a dividend liability of Rs.1.17 crore
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As per codal provisions (Para 940 of the Indian Railway Code for Engineering Department), Railway Administration should ensure that the amount deposited by them with the State Government towards the payment of award during land acquisition is only to the extent necessary for immediate payments and suitable arrangements are also entered into with the State Government to ascertain from them the requirement of funds every month in advance.

Railway Administration planned (December 2001) to take up the construction work of a new broad gauge line between Kotipalli and Narsapur (57.21 Kms.) in phases. In the first phase, the line between Kotipalli to Amalapuram (14 Kms.) was to be constructed for which acquisition of 282 acres of land was required. Railway Board accordingly approved as a special case (February 2002) the payment of Rs.8.80 crore to the State Government as deposit for the compensation subject to the sanction of Part Detailed Estimate.

Railway Administration deposited the entire amount in February 2002 without linking the actual requirement of funds with the payments to be made by the State Government as compensation for the acquisition of land, though the proposals for land acquisition had not been finalised and draft notifications not issued by Amalapuram Division. The joint survey for Rajahmundry Division was not conducted till March 2002. The State Government could acquire 133.233 acres only till September 2003 for which a compensation of Rs.2.13 crore was paid. No further expenditure has been incurred thereon after that (August 2006).

The Railway Board stated (November 2006) that the advance payment was made to the State Government as per their immediate demand, practice in vogue and as per approval of competent authority (Railway Board).

Moreover, Para 940 of Engineering Code also permits such deposit in advance if State Government desires subject to suitable adjustments later on.

Railway's contention is not acceptable as codal provisions clearly spell out that the amounts deposited with the state governments are only to the extent necessary for immediate payments and suitable arrangements need to be entered into for ascertaining the requirements of funds every month in advance. Land acquisition is a long drawn out process and though advance payments are involved, it is essential that Railways ensure that the payments are regulated in such a manner as to protect Railway's financial interests particularly when resource crunch has affected a number of projects on the Railways.

Thus, non-observance of codal provisions in respect of payments has resulted in blocking up of capital to the extent of Rs.6.67 crore for the last two and a half years (October 2003 to March 2006) besides a deferred dividend liability of Rs.1.17 crore.

**4.3.4 South Eastern: *Avoidable payment in acquisition and
Railway relinquishment of land***

Railway Administration's poor management in acquisition as well as relinquishment of land in the matter of payment led to avoidable payment of Rs.3.56 crore
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The poor planning and infructuous expenditure in the construction of a new Goods complex at Sankrail was commented on vide para 3.1.3 of Railway Audit Report No.10 of 1996. It was brought out therein that assets created for Rs.12.96 crore up to 1993 had not been productively utilised so far.

An examination of the records and subsequent payments relating to land acquisition revealed the following:

The total land acquired for this project was 692.53 acres and the land retained by Railway was 626.80 acres. Out of this, full payment was made for 307.72 acres and adhoc payment was made for 319.075 acres. The remaining 65.73 acres were acquired for private sidings without any advance payment.

According to West Bengal Land (Requisition and Acquisition) Act, 1948 (Act – II of 1948), the final payment of compensation was required to be made just after publication of notice in Kolkata Gazette.

The notices for 319.075 acres of land were published in Kolkata Gazette between September 1989 and April 1992. But the Railway Administration could not place the balance funds at the disposal of the State Government due to non-provision and non-availability of funds as required.

The Railway, however, knew very well about the quantum of balance payment due as far back as in 1992, when the State Government had placed their demand for additional funds. While making several requests for payment of the balance amount, the State Government also apprised the Railway (August 1994) of the forthcoming amendment to the Act of 1948 to be effective from 1 April 1997, that included a provision of 12 per cent additional compensation for any delayed payment. In spite of this, the Railway in consultation with

Railway Board took more than 11 years (Railway Board took eight years to decide) to arrange the funds and discharged their liabilities only in 2003.

The land acquired for private sidings was subsequently found to be not required and was relinquished in 1995 but Railways made the payment of the 'relinquishment compensation' only in 2003.

To add to this delay, though the payment was made in 2003 itself, the additional and relinquishment compensation were charged up to 2005 by the State Government and paid also by the Railways without any question. Further, though the act clearly provided for six per cent relinquishment compensation, the State Government charged and were paid at 12 per cent. These errors in calculations were not verified by Accounts before the payments were made. The total payment made was to the tune of Rs.5.62 crore which included an avoidable payment of Rs.2.60 crore due to delays and Rs.0.38 crore due to errors in calculations in respect of 319.075 acres of land. Further, the payment of Rs.0.58 crore for 65.73 acres of land was also avoidable and indicated lack of proper planning in acquiring land in the initial stages.

When the matter was taken up (February 2006), the Railway while admitting the delays, brought out that Railway Board took an inordinately long time to decide on the issue.

Thus, inadequate planning in acquisition of land, inordinate delay on the part of the Railways to make payments thereon compounded by the failure to exercise due diligence in passing of bills has resulted in payment of Rs.3.56 crore which was clearly avoidable.

The matter was brought to the notice of Railway Board in September 2006; their reply was awaited (December 2006).

4.3.5 North Central: Loss due to non-recovery of licence fee at Railway revised rates from Indian Oil Corporation

Non-implementation of the Railway Board's orders resulted in non-recovery of licence fees at revised rates amounting to Rs.4.37 crore from Indian Oil Corporation

From time to time, the rates at which licence fee has to be recovered from parties has been advised by Railway Board. In all cases, it has been taken as a percentage of the land value. As per the extant orders, licence fee up to 2004 was to be recovered at 10 per cent of the land value, where land value is taken as the value on 1 January 1985, increased by 10 per cent every year. The rate of licence fee was revised to 7 ½ per cent from April 2004. In March 2001, Railway Board also delegated the powers to revise the licence fee to the Divisional Railway Managers (DRMs) in view of the large number of cases with them.

Railway land measuring 34.48 acres was licenced to M/s. Indian Oil Corporation (IOC) at Subedarganj for storing, receiving and distribution of petroleum products. The agreement executed in March 1983 was initially for the consideration of Rs.3,50,387 per annum, which was liable to be enhanced from time to time at the sole and absolute discretion of the Railways. The

agreement also provides for interest levy of 10 per cent in case of delays in payment of dues.

It was contingent upon the Railway to revise the licence fee periodically as per the extant orders from time to time and prefer bills accordingly. Consequent upon the 1995 orders of the Railway Board, the DRM, Allahabad Division revised the rates of licence fees (October 1997) and sent the same to the Zonal headquarters for approval. But, no further action was taken and bills remained unrevised. After the delegation of powers to the DRMs also Allahabad Division, which could have taken action to revise the licence fee failed to do so. The licence fee continues to be recovered from IOC at the old rate (July 2006).

Failure of the DRM to revise licence fees at revised rates for the land licensed to IOC, has, thus, resulted in non-recovery of Railway dues amounting to Rs.4.37 crore. There has also been a clear failure on the part of the Accounts department to watch the correctness of the recovery of licence fee. By not revising the bills in the first place, the Railway Administration cannot claim interest on unpaid dues either.

The matter was brought to the notice of Railway Board in September 2006; their reply was awaited (December 2006).

4.3.6 East Coast Railway: *Loss due to irregular licensing of Railway land*

Railway Administration's failure to get vacated Railway land despite illegal activities being under taken on Railway land licensed to a society under the 'Grow More Food' scheme resulted in a loss of Rs.3.68 crore

In October 1984, Railway Board issued fresh policy guidelines regarding surplus cultivable Railway land and the Zonal Railways were instructed to take the land back from all licensees except group 'D' employees. The land taken back was to be used for afforestation.

Scrutiny of records revealed that Railway Administration failed to implement these instructions in respect of prime Railway land measuring 20,607.93 sq.m at Visakapatnam allotted (1962 and 1968) to The South Eastern Railway Co-operative Labour Contract Society Ltd. as a part of the 'Grow More Food (GMF)' scheme. No agreement was entered into at the time of initial allotment of land in 1962. On the contrary, the society started occupying (January 1994) more Railway land unauthorisedly. The land was actually being used by the society for illegal and unauthorised commercial purposes (sub letting to a dairy farm, running of a nursery by outsiders, scooter repair shop, leasing of the area for marriage purposes etc.). In October 1997, the Divisional Administration becoming aware of the encroachment by the society as well as its use for unauthorised purposes, issued a notice but did not take any forceful action to take the land back. A total of 8,916.26 sq. m was encroached upon by the party taking the total land occupied to 29,524.19 sq.m.

In spite of the above situation, the Divisional Administration (Engineering branch) executed an agreement on 12 February 2001 with the Society for one year from 1 April 2000 to 31 March 2001 for the total land area of 29,524.19

sq.m for licensing under GMF. Meanwhile, the Railway Administration had proposed (September 2001) commercial exploitation of Railway land in order to earn more revenue by building shopping complexes. Therefore, in February 2002, the Railway Administration terminated the licence on the plea that the society had violated the terms and condition of the agreement of the licence and were running unauthorised activities. The society was directed to hand over the possession of the said land within 15 days since the land was required for commercial exploitation.

The society, however, did not vacate the land and also did not pay any licence fee after 2001. As late as in October 2004, the Railway Administration initiated action against the Society for their eviction under Public Premises (Eviction of Unauthorised Occupants) Act, 1971 for occupation of land unauthorisedly from 15 February 2002, but with no positive outcome so far (July 2006). Further scrutiny revealed that according to Railway's own admission if the said premises had been leased out for commercial purposes, they would have earned a revenue of Rs.0.92 crore per annum.

Thus, the Divisional Administration's tacit approval for retention and even encroachment of Railway land by the Society for illegal activities and inordinate delay of nearly 20 years to initiate vacation/ eviction proceedings has promoted the interests of the Society at the cost of Railway's financial interest. The lapse is more glaring in the background of specific orders of the Board in this regard. Even as per projection of revenue made by the Railways themselves, when commercial exploitation of Railway land was proposed, the loss suffered by Railways works out Rs.3.68 crore for the period 2002-03 to 2005-06 and would continue till the land is repossessed.

The matter was brought to the notice of Railway Board in August 2006; their reply was awaited (December 2006).

4.3.7 Southern, South Western: Non-levy/ short-recovery of licence and South Central fees for vertical extensions and Railways commercial plots

Delay in issue of and non implementation of Railway Board orders has resulted in non-levy/ short-recovery of Rs.2.45 crore
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Railways lease out land for the use of Rail Mail Service (RMS) as well as for various commercial purposes. The licence fee to be collected in respect of such land leased out is guided by orders issued by Railway Board from time to time.

Rail Mail Service buildings

As per Railway Board's orders of 1979, the rent for the land on which RMS buildings are constructed would have to be recovered at the rate of six per cent of the market value of the land. This was revised to 12 per cent in respect of covered areas from 1 April 1987. Railway Board's orders of 1982 further provided for recovery of proportionate rent for vertical extensions i.e. construction of upper floors on existing RMS buildings. The licence fee to be collected was based on the total built up area.

With reference to the value of the land, various instructions have been issued by the Railway Board from time to time regarding the method of arriving at a reasonable value. Prior to 1994-95 land value was to be revised every three or five years but after 1994-95 the land value was to be arrived at after providing an escalation of ten per cent over the previous year's value taking 1 January 1985 as the base year.

In respect of four divisions over Southern and South Western Railways, it was seen that the licence fee for the upper floors of the RMS buildings was not being recovered at all. In fact, on Mysore Division claims for vertical extensions were raised in December 1995 but withdrawn later on the grounds that the construction of the upper floors was at the cost of the Posts and Telecommunication (P&T) Departments and as such levy of licence fee would not be applicable. This stand is not acceptable since the Railway Board orders of 1979 and 1982 clearly bring out that they are applicable in respect of buildings constructed as deposit works and provide for lease rent in respect of the upper floors even where the ownership of such extensions vests with the P&T Department. In respect of the other three divisions, no bills were raised at all. The loss on this account was Rs.0.92 crore (South Western – Rs.0.58 crore and Southern – Rs.0.34 crore)

Moreover, in respect of the divisions on Southern Railway the land value itself had not been revised from time to time as per extant orders resulting in under recovery of licence fee in respect of the ground floor as well as the open area. This has resulted in a further short recovery of Rs.0.85 crore.

Commercial plots

In August 1995, Railway Board ordered that the minimum licence fee in respect of plots should be Rs.1000 per annum. However, the plot size was not specified. As a result, the South Central and South Western Railways took a plot to be a single unit of any size between 286 sqm. to 28,843 sqm. and recovered the licence fee as a percentage of the land value which was less than the minimum of Rs.1000 per annum per plot. This lacuna in the orders had resulted in recurring loss over the years.

It was only in October 1998 that South Central Railway sought a clarification from Railway Board. The Board took another five and a half years (April 2004) to clarify that an area of 100 sqm. was the maximum size of a plot for which licence fee of Rs.1000 per annum would be applicable. However, this clarificatory order was made applicable on existing cases with effect from 28 April 2004 and recovery for past period was not to be effected.

On Mysore, Hubli, Guntakal and Secunderabad Divisions, the loss due to not assessing the plot size correctly in the five year period from 1999 to April 2004 amounted to Rs.0.68 crore (South Western – Rs.0.48 crore and South Central – Rs.0.20 crore). This loss at least could have been avoided if the Railway Board had responded promptly to the doubts raised by the Zonal Railways.

On this being taken by audit (February 2006), Railway stated (April 2006) that it was a policy matter to be decided by the Railway Board.

Thus, the lacunae in the orders of the Railway Board compounded by their delay to clarify the issue, resulted in a loss of Rs.0.68 crore.

The matter was brought to the notice of Railway Board in September 2006; their reply was awaited (December 2006).

**4.3.8 South Western: Non-recovery of land licence fee refunded
Railway in excess to parties**

The vacillating nature of Railway Board orders changing the effect of the orders from retrospective to prospective, after a considerable time interval of more than eight years and inaction on the part of the Zonal Railway to recover the due amount has resulted in less recovery of Rs.1.54 crore

As per Railway Board orders (September 1985), licence fee in respect of commercial plots on Railway land was to be revised after every three years or five years, depending upon the classification of the place, taking into account the then market value of the land. In August 1995, Railway Board revised their earlier orders. According to the revised orders, market value of the licenced land was to be fixed on the basis of valuation of surrounding area as on 1 April 1985 and value so fixed was subject to notional increase every year on the first day of April at the rate of ten percent over the previous year's value. Railway Board's revised orders reducing the quantum of licence fee were based on the ground that licensing of commercial plots was linked to traffic offered to the Railway and high licence fees would act as a disincentive. These orders were applicable retrospectively. Further, where the Licencee had already deposited a lumpsum and the effect of the orders was to bring down the licence fee, the excess available with the Railways was to be adjusted against future payments.

However, after receiving a number of representations from licencees against the high value of annual licence fees and implementation of orders with retrospective effect, Railway Board, on the direction of Minister of Railways (MR), set up a committee (November 2002) to review the policy on commercial licencing of Railway land. The Committee's Report (February 2004) incorporated their recommendations to withdraw the retrospective effect of the orders of August 1995 on equity and fair play basis and made the orders applicable with effect from the year 1995-96 only. This meant that what had been refunded or adjusted against further payments became due for recovery again. Such orders were issued in March 2004.

A review of records maintained by Mysore Division revealed that after implementing the provisions of Railway Board's orders of August 1995, an excess recovery of Rs.1.54 crore was noted from seven licensees for the period 1 April 1986 to 31 March 1995. This amount was adjusted against licence fee accruals of subsequent years. After the issue of Railway Board orders in March 2004, the amount already adjusted became due for recovery. The amount, however, was not recovered by the Railway and remained outstanding.

On this being taken up by Audit (March 2006), the Railway stated (August 2006) that Railway Board's orders changing the effect were issued after nearly

nine years and now parties have been asked (August 2006) to remit the amount in suitable installments. It does not seem to be an easy task for the Zonal Railway as M/s. Indian Oil Corporation Limited, from whom the major portion of Rs.1.40 crore is due for recovery, have surrendered the Railway land in 2005 itself.

Thus, the vacillating nature of Railway Board orders changing the effect of the orders from retrospective to prospective, after a considerable time interval of more than eight years and inaction on the part of the Zonal Railway to recover the due amount has resulted in less recovery of Rs.1.54 crore.

The matter was brought to the notice of Railway Board in October 2006; their reply was awaited (December 2006).

4.3.9 West Central: Encroachment of Railway land by Railway Rajasthan Police Department

Failure of the Engineering department to take immediate action resulted in encroachment of Railway land worth Rs.1.81 crore by the Rajasthan State Police Department, apart from non-realisation of licence fee amounting to Rs.0.91 crore including interest

The Engineering code provides that in case of transfer of land or buildings to another government department, Railway Administration should charge full market value of land or buildings. It is also the duty of every Railway Administration to preserve unimpaired the title to all land in its occupation and to keep it free from encroachment.

The Rajasthan State Government had allotted a barren plot of land (Khasra No.5, Rang Talav at Kota) measuring 0.55 hectare to Rajasthan Police Department for construction of police station and residential quarters. Instead, the Rajasthan Police Department unlawfully occupied Railway land at Khasra No.177 at the border of Gowdi Village near new Railway colony valuing Rs.1.81 crore measuring 4,950 square metres and constructed the police station and residential quarters thereon in 2001-02.

Meanwhile, the Senior Section Engineer, Kota had noticed (December 1998) the encroachment of the Railway land and reported the matter. However, no action was taken till May 2004, when the Railway Administration asked the Rajasthan Police Department to vacate the land. By this time, the quarters had been constructed and occupied and in an attempt to regularise this fait accompli, the Superintendent of Police, Kota stated that since the land was in the custody of Police Department from 2002, the same may be allotted to them free of charge. Till July 2006, the Railways had neither demanded the market value of the land nor raised bills for licence fee. They had not taken any action for eviction proceedings either, since they felt that direct confrontation with the law and order authority was not advisable. It was only in July 2006, that the Director General of Rajasthan Police was addressed to treat the land as licensed.

More important, the details of encroachment of this land were not intimated to the Railway Board in their routine reports. This is indicative of serious failure in the Railway's control over land, an important asset.

The Railway Board stated (December 2006) that considering the role of the police in public protection and welfare Railway had asked the Police Department to regularize the encroached land by paying requisite licence fee. They also added that Police Department has now requested the Railway to give this land to them and that Railway has asked the Police Department to pay a one time licence fee of Rs. 0.66 crore and also a nominal licence fee of Rs.1,000 per annum.

The reply is not tenable as the Police Department has yet to accept the demand raised by the Railway. Moreover, the rate at which the licence fee is proposed to be recovered is far below the rate of six percent of the cost of land prescribed for other Government Departments.

Thus, the failure of the Railway to keep their land valuing Rs.1.81 crore free from encroachments in the first place and now to recover the licence fee as per laid down policy has resulted in a loss to the Railways.

4.3.10 Central Railway: Non-recovery of excess advance paid towards land acquisition

Failure of the Railway Administration to keep track of the expenditure made out of the advance paid for land acquisition and pursue the refund of balance amount has resulted in non-recovery of Rs.0.99 crore

An estimate for construction of a new line between Thane and Turbhe section of Central Railway was sanctioned by Railway Board in May 1996. Accordingly in March 1999 Central Railway deposited a sum of Rs.3.24 crore (Rs.1.44 crore with the Special Land Acquisition Officer (SLAO) for acquisition of 1,390.2 sq.m of private land and Rs.1.80 crore with Collector, Thane District for Government land measuring 11,581 sq.m). As a large number of private buildings were affected in the proposal, it was decided in August 2000 in consultation with State Government to reduce the land requirement of private land to a bare minimum. The requirement of private land was thus reduced from the existing 1390.2 sq.m to 1099.7 sq.m. In April 2001, the SLAO intimated Central Railway that an amount of Rs.0.41 crore had been paid as compensation for the private land acquired and a further charge of Rs.0.04 crore had been levied on account of establishment cost for acquisition of land. Thus the total expenditure, incurred for acquisition of land measuring 1099.7 sq.m worked out to Rs.0.45 crore. The line was constructed and commissioned in November 2004.

Though it was decided in August 2000 that no more private land would be acquired and Railway Administration was aware of the cost incurred by SLAO for private land they have not received the refund of balance amount of Rs.0.99 crore from SLAO mainly because of ineffective pursuance. Similarly till date (July 2006) Central Railway has not obtained the details of utilization of the Rs.1.80 crore deposited with Collector, Thane District.

Railway Board in their reply (November 2006) stated that Central Railway is making continuous efforts to obtain final accountal and refund of money from the State Government and will get the same shortly.

The fact remains that even seven years after depositing the money and two years after completion of project, the Railways still do not have complete details of expenditure nor they been able to get the refund due to them.

4.4 Miscellaneous irregularities

4.4.1 Diesel Locomotive Works: Non-settlement of insurance claim

Failure to take open delivery of an overseas consignment resulted in non-settlement of insurance claim amounting to Rs.3.66 crore

For indigenisation of production of GM locomotives one Creep Feed Grinding machine was sanctioned under Transfer of Technology (TOT) phase II project. Due to criticality of the operation for which the machine was required, Diesel Locomotive Works (DLW) placed a purchase order for supply of the machine together with accessories (March 2002) on M/s. Blohm Meschinenbau, Hamburg, Germany on FOB delivery basis at a total price of Euro 486,387 (Rs.2.07 crore). The machine was shipped from Germany in June 2003 and was received in Kolkata Port in August 2003.

According to the insurance cover, in the event of loss or damage to the interest insured, loss and/ or damage certificate was to be obtained from the carriers/ port authorities and immediate notice in writing was to be given to the Oriental Insurance Company Limited (OICL). The machine was released after paying Rs.1.33 crore as customs duty without, however, being inspected at the port since the size of the container was over dimensional and difficulty was experienced in opening the package. It was dispatched to DLW on 'said to contain' basis and the survey was to be conducted at DLW on receipt of the material.

The machine was delivered at DLW on 26 August 2003. On receipt of the machine, a joint survey of the consignment was finally held on 28 November 2003 at DLW with the representatives of M/s. Blohm Meschinenbau, Hamburg, Germany, M/s. INFIN Machine Tools, Bangalore (Indian agent of the supplying firm), survey and loss assessor of the insurer (the Oriental Insurance Company Ltd.) and Senior Section Engineer, Installation, DLW. At the time of the inspection numerous physical damages to the machine were noticed which could have been only due to heavy impact and consequent breaking of the inside components. The external packing, however, was intact.

A notice of claim (Rs.2.80 crore) for the damaged consignment was lodged (15 December 2003) with the insurer viz. OICL stating that the consignment had been damaged in transit. Claims were lodged with the Sea and Road Carriers too. But both the Carriers, Sea (Shipping Corporation of India Limited) as well as Road (M/s. Highway Road Carriers (P) Ltd.) rejected the insurance claim on the plea that no joint survey was held with them prior to the removal of the cargo from the port premises and that delivery had been made in seal packed condition. The insurance company has also not settled any claim in spite of protracted correspondence as the Damage Certificate from the carriers was wanting.

When the matter was taken up (August 2006), the Railway Board stated (October 2006) that the claim was likely to be settled soon. The fact remains that as on date no settlement has been done though the issue was to have been sorted out by March 2006 itself.

Since the insurance cover had clearly stipulated that the loss or damage certificate needs to be obtained from the Carrier/ Port authorities, it was imperative that inspection be carried out on receipt at the Port itself. When difficulty was faced in opening the packing, DLW failed to take up the matter immediately with the consignors/insurance agents. As the delivery of the consignment had been taken at the port without any inspection/ joint survey and without any serious thought to the consequences of such acceptance, the responsibility for the loss completely rests with the Railways.

In the absence of the machine, DLW is importing machined components and the objective of indigenization has been vitiated. Since the machine cannot be repaired and machining of components is not possible without it, import will have to continue. Thus, DLW not only incurred a loss of Rs.3.66 crore in the procurement of the Creep Feed Grinding Machine but also has had to compromise on the benefits of indigenisation because of failure in adopting laid down procedure.

4.4.2 Chittaranjan Locomotive: Injudicious manufacture of EMU Works Bogie Frames

Injudicious decision of CLW to manufacture EMU bogie frames to diversify their activities resulted in extra expenditure of Rs.2.04 crore
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Due to decrease in the loco outturn targets and consequent surplus capacity available, Chittaranjan Locomotive Works (CLW) decided to diversify its activities and manufacture bogie frames of EMU motor coaches for the Railways.

Accordingly, CLW asked (July 1999) seven Zonal Railways to place their demands for EMU bogies. CLW, however, had not made any detailed enquiry about the cost of EMU bogie frame from Integral Coach Factory (ICF) before taking the decision to manufacture nor was the decision taken consciously after analysing cost. Only Kanchrapara Workshop (KPA) of Eastern Railway responded with a firm indent for supply of bogie frames at the rate of Rs.6.69 lakh per set. Against the workshop's indent, CLW supplied ten EMU bogies to KPA as of March 2006. The actual expenditure incurred by CLW in manufacturing these ten bogie frames was Rs.184 lakh at the rate of Rs.18 lakh per bogie frame. At the time of accepting debits, KPA raised serious objections to the high rate of EMU bogie as compared to those manufactured by ICF. The rate of an ICF bogie was Rs.2 lakh only. The workshop even threatened to cancel further indents if the rate was not brought down.

An analysis shows that even the prime cost (Rs.4.27 lakh) of one bogie frame manufactured by CLW was more than twice the total cost (Rs.2.05 lakh) including overheads of the same item manufactured by ICF. The overhead charges per bogie frame (Rs.14.18 lakh) alone were more than three times the prime cost (Rs.4.27 lakh). In fact, Eastern Railway had procured the item at a price of Rs.2.60 lakh each from the market during 2005.

The Railways admitted (July 2006) the high cost of the bogie frame and attributed it to the high labour charges and also the fact that they did not have the required machinery or expertise for this work. They also stated that this was only a prototype.

This contention is not tenable as, if it had been only a prototype manufacture, only one or two bogies should have been manufactured. Moreover, CLW also did not take any serious steps during the manufacture to contain the expenditure. While diversification per se is not objectionable, the injudicious decision to manufacture without any experience, proper costing or analysis of the financial implications resulted not only in the extra expenditure of Rs.1.46 crore but also an unnecessary dividend payment of Rs.0.58 crore.

The matter was brought to the notice of Railway Board in September 2006; their reply was awaited (December 2006).

4.4.3 Northern, North Central,: Loss due to non-recovery of cost of Central, West Central, rejected stores South Eastern and Western Railways

The poor quality of inspection by the agencies nominated to do so and the Railways' failure to take effective action thereon resulted in a loss of Rs.1.49 crore due to rejection of material after inspection
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The Stores Department of Indian Railways is responsible for receipt, inspection and distribution of stores to the various stores depots for final issue to users.

Rules provide that all material received from suppliers should be got inspected before their acceptance to ensure that they conform to the specifications and quality ordered. Material purchased through DGS&D rate contracts are inspected by the Director of the Quality Assurance (DQA)/ Director of Inspection (DOI), while the material purchased directly by the Railways are inspected by Rail India Technical and Economic Services (RITES) and Research, Designs and Standard Organisation (RDSO) as required.

Advance payments ranging from 90 to 100 per cent of the total value are normally made on submission of proof of despatch and inspection certificates as specified in the purchase orders. On receipt in the depots, the material is again inspected by the Railways Stores department who issue rejection memos in case of non-conformity with the quality required. The supplier either replaces the material or refunds the amount or the Railway takes action to recover the amounts already released through other contracts available with them, if any. If the supplier fails to lift the items from the Railway premises within a period of 21 days, the Railway is at liberty to auction the items.

A review of the system on six of the Zonal Railways, however, showed serious deficiencies. In a number of cases, the material was rejected by the Stores department on receipt, indicative of poor inspection standards by DQA/DOI/RITES and RDSO who had carried out the initial inspection at the supplier's premises. Though over the years, these rejections have continued, the matter has not been addressed with any level of seriousness as evidenced

by the continued rejections over a period of more than two decades. In respect of stores purchased after 2001 alone, Rs.1.49 crore had been paid already as advances by the Railways. In all these cases, the Railways have failed to either recover the amounts paid or get the material replaced by the supplier. They further failed to dispose of the rejected materials resulting not only in their accumulation in the stores depots, but also failed to retrieve at least a part of the value through auctions indicating serious system failure.

Thus, the continued poor quality of inspection by the various agencies nominated to do so and the Railways' failure to take effective action thereon has resulted in a loss of Rs.1.49 crore for the period 2001-02 to 2005-06 due to rejection of material.

The matter was brought to the notice of Railway Board in October 2006; their reply was awaited (December 2006).