CHAPTER 4: STORES AND ASSETS MANAGEMENT

4.1 Deficiencies in procurement

4.1.1 Eastern Railway: Injudicious procurement of non-stock stores items

Injudicious procurement of non-stock items leading to non-disposal of stores and overstocking resulted in blocking up of capital valuing Rs.24.66 crore

All stocks of stores on hand, whether with the Stores Department or other departments of the Railways, represent funds that are not productive. While stocks should be such that stores required are readily available, they should be kept to the minimum possible, and losses due to obsolescence or deterioration should also be kept to a minimum.

A review of transactions over various Stores Depots including at Andal and Asansol under Construction Department had revealed (2001-02) huge surplus track materials and the issue when taken up with the Railway Administration, it was reported to be under continuous monitoring for disposal of stores. Audit, however, noticed that effective remedial action for disposal of stores was not taken by the Railway Administration.

Scrutiny of records of above mentioned two Stores Depots during February 2008 revealed that 17 non-stock items (12 in Andal and five in Asansol Depots) valuing Rs.2.48 crore were still lying unutilised/un-disposed off over the last 15 years. The depot store keeper/Andal admitted (February 2009) that these items were lying idle since their procurement. Records further revealed that the quantities of 5 high value items had increased over the years in the Asansol depot resulting in huge overstocking of items valued at Rs.22.18 crore indicating lack of proper material management as evidenced under:

(a) The procurement of materials was in total disregard to their stock position and trend of issue.

(b) The above non-stock items were procured every year for stocking purpose which is a clear violation of codal provisions.

(c) Though some items were not utilised for years together, no action was taken to declare them as ‘dead surplus’ and dispose them off. Hence, their obsolescence/deterioration cannot be ruled out. The possibility of their future use has thus become very remote.

The matter was taken up (March of 2009) with the Railway Administration. In reply, they stated (June 2009) that materials were procured judiciously on the basis of actual requirement at site and some portion of materials became surplus due to modification of track structure. Eastern Railway has about 585 Km. new lines and 267 Km. doublings in progress and all these materials would be utilised in the near future. Further, this depot being a central depot, these materials are always required for emergency situations. The Railway Administration’s contention is not accepted because some of the items in Andal Store Depot were lying idle since their procurement 15 years ago.

Regarding utilization of these items in the ongoing new line and doubling of lines works, these works were started from the year 1999-2000 and 2000-2001 respectively and had the P. Way fittings lying unutilized in Asansol Depot been utilised in these works over the last four years (2005 to 2008), the question of such huge stock lying unused would not have arisen.

4.1.2 Eastern Railway: Avoidable loss due to delay in procurement process

Delay in procurement process, apart from incurrence of expenditure of Rs.2.58 crore on idle manpower resulted in production loss of Rs.7.30 crore on account of closure of foundary shops

Jamalpur Workshop is the prime manufacturer of Brake Blocks (a safety item) for Eastern Railway's own consumption as well as for supply to other nearby Railways. For manufacturing of Brake Blocks, B.P. Hard Coke (a special grade of foundry coke) is required.

Scrutiny of records revealed that though as of September 2003, the stock of the Coke was sufficient only for another six months (i.e., upto March 2004), the requisition for its procurement was sent to Zonal Headquarters at Kolkata only in January 2004. Despite the urgency, the Railway took another three months to finalise the tender and placed a Purchase Order on M/s Bharat Coking Coal Limited (BCCL) in April 2004 for supply of 2500 MT of Hard Coke. The firm's demand for Price Variation Clause (PVC) was not accepted. Of the ordered quantity, 200 MT was to be supplied immediately and the balance (2300 MT) by August 2004. An amount of Rs.8.35 lakhs towards value of 200 MT was deposited on 21 May 2004 and BCCL issued a sale order on 3 June 2004. No material was received up to 19 June 2004. The Railway Administration deposited a further amount of Rs.0.96 crore towards the value of 2300 MT on 12 July 2004. Thus a further period of three months had elapsed in making full payment for the total supply of the coke that was to be received.

In the meantime BCCL issued a notification on 21 July 2004 raising the price of Hard Coke to Rs.12,400/MT retrospectively with effect from 16 June 2004 and demanded (July 2004) an additional amount of Rs.2.07 crore (being the difference between two rates).

Finally, in view of urgent need of coke and finding no other alternative, the Railway deposited (February 2005) the amount of Rs.2.07 crore. As the firm had stopped supply for want of payment, the foundries remained closed for 197 days during 2004. This resulted in production loss (Rs.7.30 crore) besides expenditure of Rs.2.58 crore incurred towards salaries of idle manpower as per Railway's own assessment.

When the matter was taken up (March 2009) with the Railway Administration, they stated (August 2009) that the procurement action was finalised within three and a half months (approximately) from the date of receipt of the demand. Hence, delay cannot be attributed to the procurement process. The reply is not acceptable because firstly there was delay on the part of the

Railway Administration at the stage of placing the indent and then the urgency of requirement was not kept in view during tender finalization. Moreover, delay in making full payment, in view of non-acceptance of firm's demand for PVC contributed to overall delayed receipt of the material, besides additional expenditure on increased cost.

Thus, due to delay in the procurement process the Railway Administration had to suffer a production loss of Rs.7.30 crore apart from an expenditure of Rs.2.58 crore on idle manpower due to closure of the foundries.

4.1.3 South Western: Railway — Unfruitful expenditure due to incorrect specifications and inadequate drawings of a machine

Failure on the part of RWF in supplying correct specifications/adequate drawings of a machine to the supplier resulted in an unfruitful expenditure of Rs.1.95 crore besides a cost over run to the extent of Rs.2.63 crore

Manual sprue washing of newly manufactured wheels in Rail Wheel Factory, Yelahanka (RWF) is time consuming and health hazardous. With an objective to avoid manual operations, minimise grinding time and enhance the aesthetic look of the wheels, RWF entered into an agreement (May 2003) with M/s HYT Engineering Company Ltd., Pune, for designing, manufacturing, supplying, testing and commissioning three of CNC controlled automatic Sprue Grinding Machines at a total cost of Rs.6.55 crore. One machine was to be supplied initially and two after the acceptance of the first.

The firm supplied (September 2003) the first machine which failed to prove the performance capacity. RWF served a notice (September 2004) to the firm threatening to forfeit the security deposit and recover the amount paid if the rejected equipment was not replaced and pending works completed within eight weeks. The firm challenged the rejection and requested (November 2004) Railway Board to intervene. Railway Board directed (March 2005) RWF to procure the second machine if proven thoroughly at the manufacturer's works before taking delivery and get the first machine reconstructed thereafter by the firm to the full satisfaction. However, RWF could not prevail upon the firm to accede to this decision. The firm submitted (July 2006) another proposal, which was examined by a Committee (appointed in August 2006). The Committee observed (December 2006) that specifications and drawings given by the RWF to the supplier were not correct. RWF accepted the Committee's suggestion to accept the first machine with a reduction of 10 percent in the basic price and to procure three machines instead of two with improved specifications and additional features. Accordingly, RWF decided (February 2007) to accept the first machine at a cost of Rs.1.95 crore and to procure three more machines at a total cost of Rs.12.30 crore. One machine received in March 2009 is yet to be commissioned and the remaining two machines are yet to be received (August 2009).

Although Railway Board had directed that the first machine may be got reconstructed from the firm to the full satisfaction of RWF, it was purchased without any modification at a slightly reduced rate. The machine could not be commissioned on line due to its incompatibility with the online production of wheels and has been used offline negligibly. Against the monthly production of 12500 wheels, the monthly average number of wheels processed on the machine was 84, 261 and 287 during 2006-07, 2007-08 and 2008-09 respectively. Against the projected time of 4.5 minutes for the operation, time taken was as high as 18 to 26 minutes. Thus failure of the RWF to give correct specifications and drawings of the machine resulted in an unfruitful expenditure of Rs.1.95 crore besides a cost over run to the extent of Rs.2.63 crore in the complete deal.

When the matter was taken up (May 2008) with the Railway Administration, it was stated (July 2008) that the machine was supposed to be an online machine but it could not perform satisfactorily to meet the operational requirements. However, this was a prototype development. The cost overrun was on account of passage of time, inclusion of an additional machine and revision of specifications and drawings. The reply is not acceptable as this was not a prototype development but an order for three machines and shortcomings in the machine were directly attributable to incorrect specifications/inadequate drawings prepared by RWF leading to their revision. Further, the cost over run pointed out by audit has been assessed by RWF themselves.

4.1.4 Eastern Railway: Irregular execution of work and injudicious procurement of stores

Railways incurred avoidable expenditure of Rs.1.39 crore on construction of Central Panel Buildings and procurement of Axle Counters without ascertaining their necessity

As per extant rules, no liability should be incurred on Material Modification until the proposed modification is approved by the Railway Board.

The sanctioned scope of work of the electrification project of Krishnanagar (KNJ) _ Lalgola (LGL) section provided Multi Aspect Colour Light Signalling (MACLS) and Central Panel (Standard I Relay Based) as well as Relay Battery Equipment (RBE) Room and Diesel Generating (DG) Room for all the 15 stations of the section. The Central Organisation for Railway Electrification (CORE) placed (October 2003) a purchase order for procurement of eight Axle Counter Block Systems (ACBS) for single line to work with panel interlocking which were received (December 2004) along with one maintenance set at a cost of Rs.0.81 crore.

Meanwhile, in September 2004, CORE proposed a Material Modification to the Railway Board for improvement in interlocking (Std.-III) as well as Central Panel Buildings in lieu of RBE Rooms at all stations. It was, however, noticed that CORE had awarded contracts for construction of six Central Panel Buildings at six stations during February 2004 to October 2004 without obtaining sanction of the material modification by the Railway Board.

In June 2005 CORE proposed a revised material modification Panel Interlocking (PI) with relay based interlocking in lieu of PI with Software Embedded Electronic Interlocking System (SSI). The Railway Board, did not agree to the proposed material modification and directed (October 2005) CORE to execute the work with existing standard of interlocking etc. for which Eastern Railway was to propose a separate work for upgrading standard of interlocking on a time frame suitable to them.

Accordingly, Railway took the decision not to construct the Panel Rooms (December 2005) by which time six central panel buildings had either already been constructed or were under construction. Agreements were entered into (June 2006) for RBE rooms along with DG rooms in respect of remaining nine stations in the section. Records revealed that the Railway Administration had incurred an avoidable extra expenditure of Rs.0.78 crore on construction of six CP buildings in lieu of RBE rooms, which could have been built at a cost of Rs.0.39 crore during that period. Out of eight axle counters procured, only two could be used by RE/Ambala project and balance six amounting to Rs.0.61 crore remained unutilised.

When the matter was taken up (September 2009) with the Railway Board, they stated (November 2009) that for installation and commissioning of Panel Interlocking with MACLS, in addition to RBE rooms, Central Panel rooms are required. However, Central Panel rooms were not included in detailed estimate of Civil Engineering portion of the work. Axle Counter Systems were procured as per sanctioned detailed estimate. The reply is not acceptable because Central Panel rooms were not included in detailed estimate of Civil Engineering portion of the work, as accepted by the Railway Board. The Railway Administration should have informed the Railway Board and obtained their approval before awarding the contract for their construction. The confusion regarding the standard of interlocking also arose from Railway Administration's failure to seek clarification from the Railway Board. This resulted in unnecessary construction of CP rooms at higher cost (in lieu of RBE rooms) as well as the procurement of Axle Counters, which became redundant in KNJ-LGL section.

Thus, procurement of materials without ascertaining their necessity and construction of Central Panel rooms without the sanction of competent authority led to an avoidable expenditure of Rs.1.39 crore.

4.2 Unproductive investment due to under/non-utilisation of assets

4.2.1 Northern Railway: Unproductive investment due to under utilization of brake dynamometer equipment

Railways failure to provide complete description of wheels sets in the PO coupled with indecisiveness in procuring the required kits, entailed machinery worth Rs.10.26 crore lying under utilized

Brake Dynamometer Equipment (BDE) is used for analysis of braking characteristics of Brake Blocks as well as analysis of effect of braking on the surface of wheels. Research, Design and Standards Organisation (RDSO), Lucknow (LKO) had a BDE which had deteriorated and also some of its important features had become inoperative.

RDSO placed a Purchase Order (PO) for a BDE on a firm of Germany in March 2003 at a cost of Rs.6.20 crore. The specifications, accompanied with the PO provided that BDE should be able to test brake assemblies on wheels of diameter of 600 mm to 1250 mm. RDSO, however, failed to specify the size of the hubs of these wheels in the specifications. Besides, RDSO was to provide two wagon wheels and two discs assemblies, to the firm for demonstrating the testing of brake systems during inspection of the machine at firm's premises (Germany) and the firm was to supply two adaptation kits for Brake Blocks and two adaptation kits for disc brake pads. Firm had developed the software and adaptation kits and got the same approved (November 2004) by RDSO's representative at their premises.

On receipt of BDE in June 2005, RDSO observed that the adaptation kits and software received with the machine were capable only for mounting wagon wheel for testing on 215 mm hub bore wheel of 1000 mm diameter. RDSO pointed out (July/September 2005) this discrepancy to the firm and requested to supply adaptation kits and software for locomotives (1092 mm diameter and carriages (915 mm diameter). In reply, the firm refused (20 September 2005) to supply the required adaptation kits and apprised RDSO that BDE was capable of testing all specified brake assemblies on wheels of outer diameter between 915 mm to 1092 mm and that the adaptation kits supplied with machine had been prepared as per the decision taken in the meeting with the RDSO's representatives held on 10 May 2004. RDSO finally commissioned the BDE after testing brake block assemblies only on wagon wheels and issued the PTC on 22 September 2005.

Despite the fact that warranty period of the BDE had expired on 22 November 2007, RDSO had yet to prove its usability and suitability for testing brake assemblies on wheels of carriages and locomotives.

In October 2005, RDSO decided to procure four numbers of adaptation kits from the supplier of BDE for testing of brake assemblies on wheels of locomotives and carriage. But the required adaptation kits were procured and put in use (September 2009) after the lapse of about four years since the commissioning of the BDE.

In reply the Railway Board stated (December 2009) that provision for mounting wheels from 600 mm to 1250 mm diameter on the BDE was a compulsory requirement. The contention of Railway Board is not tenable. Had the RDSO provided the complete specifications of wheels of carriage and loco in the PO the procurement of adaptation kits compatible for the same could have been ensured by RDSO's representatives during pre-acceptance inspection.

Thus, RDSO's failure to incorporate complete description of wheels in the PO coupled with indecisiveness in procuring the required kits, entailed machinery worth Rs.10.26 crore lying under utilized for the last more than three years.

4.2.2 North Western Railway: Non utilization of track machine

Failure of the Railway Administration to utilise a costly ballast cleaning machine resulted in blocking of capital worth Rs.6.63 crore

As per codal provisions, the stipulated life (gross unit of work done in km.) of ballast cleaning machine (BCM) is 1500 kms. and the maximum life of machine is 15 years.

A BCM No.KBC-121 was imported from USA against Railway Board's contract of December 1995 at a cost of Rs.6.63 crore. The BCM was consigned to Southern Railway and was commissioned in September 1999. It remained with Southern Railway till March 2003 and was subsequently transferred to Western Railway and remained with them till February 2005 and thereafter it was transferred to North Western Railway in the month of March 2005.

Audit scrutiny revealed that the BCM No.KBC-121 could not be put to any use since its deployment (March 2005) over North Western Railway. The machine was left stabled without due care and watch which resulted in theft and damage to various vital parts, thus rendering it totally non-functional. The Railway Board in June 2006 viewed the matter seriously and stated that track machines being costly assets, their idling for a long duration was not desirable and issued instructions to utilise the machine. However, no progress was made to utilise the machine and even the proper and safe storage of the machine was not ensured. The machine was only used for supplying spares to other machines which were worth only 2.5 per cent of the actual cost of the BCM. The machine had already outlived nearly $2/3^{rd}$ of its normal life with minimal utilization and in its present state the machine would require heavy expenditure (Rs.2.00 crore) for its restoration. Further, the machine was utilized in Southern and Western Railways only for 130.07 kms. during the period September 1999 to March 2005 as against the stipulated 600 kms. on pro-rata basis.

When the matter was taken up with the Railway Administration (January 2009), they accepted (March 2009) that the machine had not been put to any use since its deployment over North Western Railway in March 2005.

Thus, due to utter negligence of the North Western Railway Administration, an asset worth Rs.6.63 crore procured by spending expensive foreign exchange is lying in a non functional state for the last four years with very little scope of its reuse.

4.2.3 Eastern Railway and: COFMOW — Injudicious award of contracts to a firm with poor track record

Injudicious procurement of cranes worth Rs.1.56 crore from a firm with a poor track record, led to their under utilisation due to unsatisfactory performance

Eastern Railway had a bitter experience with the crane supplied by M/s Reva Industries Ltd. for Asansol Electric Loco Shed and the defects found during joint inspection were intimated (30 April 1996) to the Central Organisation for

Modernisation of Workshop (COFMOW). When the requirement of cranes of various capacities was under finalization by COFMOW, the Chief Electrical Engineer, Eastern Railway requested (April 1998) COFMOW that the performance of a particular crane as reported earlier should be given due consideration and if possible, orders should be given to a reputed firm.

Scrutiny of records, however, revealed that despite reporting the poor performance of the cranes supplied by M/s Reva Industries in the past, the following cranes were procured from M/s Reva Industries and received on Eastern Railway.

S.No.	AT No.	Date	Cost	Date of commission
1&2	COFMOW/IR/S-3630/97/OP-871	09.03.1998	0.75 crore	31.03.2001
3.	COFMOW/IR/S-3630/97/OP-870	17.03.1998	0.29 crore	31.03.2001
4.	COFMOW/IR/S-3774/97/2001/P1/OP-1153	25.01.2002	0.38 crore	10.07.2002
5.	COFMOW/IR/S-3808/01/P-I/OP-1198	18.11.2002	0.14 crore	05.12.2003
	Total		**1.56 crore**	

It was noticed that the above cranes continued to give trouble due to inherent defects and suffered frequent breakdown. While three cranes in Howrah Electric Loco Shed were giving service, albeit unsatisfactorily, two cranes in Kanchrapara and Liluah Workshops remained almost totally inoperative.

In view of the above continued poor performance, an effort was made to review the records of COFMOW so as to ascertain the reasons for procurement of the cranes from the same firm despite COFMOW office having been made aware as back as in April 1996 of the poor performance of the cranes purchased in past. The records of purchases made in January 2002 revealed that reports of unsatisfactory performance of the firm's cranes at Chittaranjan Locomotive Workshop (CLW) were recorded in the Technical Evaluation Report. It was further noticed that despite the poor performance of cranes at Asansol and cranes at Sl.No. 1 and 2 above, the performance was mentioned as 'generally satisfactory' in the same report and the offer of the firm was considered to be technically suitable. Hence, it can be concluded that poor performance of the cranes supplied by M/s Reva Industries was not given due consideration and in spite of available adverse reports, the firm was awarded more contracts.

Thus, the Railway Administration failed to take adequate action against the firm for supplying cranes which developed frequent problems subsequently as well as their poor response in rectifying the defects. Due to the poor performance of the Reva make cranes in Kanchrapara and Liluah Workshops, the POH outturn in Kanchrapara Workshop was affected, and the Railways had to depend on other cranes in Liluah Workshop.

When the matter was taken up (March 2009) the Railway Administration admitted (May 2009) the factual position of poor performance of the cranes received as well as the unsatisfactory performance even after their frequent repair by the outside agencies and added that COFMOW was regularly being apprised of the poor performance of the supplied cranes.

Thus, due to injudicious award of contract to the firm with a poor track record, the Railway Administration incurred expenditure to the tune of Rs.1.56 crore for cranes which could not be effectively utilised.

4.2.4 Northern Railway: Unproductive expenditure on procurement of machines

Inefficient management of procurement and work related to the commissioning of machines rendered the expenditure of Rs. 1.23 crore unproductive

Central Organisation for Modernisation of Workshops (COFMOW) has been designated as the nodal agency for procurement of Machinery and Plant (M&P) for the various Zonal Railways/Production Units. It is also responsible for commissioning of M&P and coordinating warranty services with vendors.

Northern Railway purchased two machines i.e. Axle Turning Lathe Machine and Traverser through COFMOW during 2005. A review of case records of these machines by Audit revealed the following:

Axle Turning Lathe Machine

An indent for procurement of Axle Turning Lathe Machine was placed (May 2001) on COFMOW for Charbagh Workshop, Lucknow (WS/CB/LKO). The Purchase Order (PO) for procurement of this machine was placed on M/s HYT, Pune by COFMOW in September 2002 at a cost of Rs.0.37 crore. The machine was received in the WS/CB/LKO on 22 January 2005 and commissioned on 24 March 2005. During commissioning, the machine failed to meet with the parameters provided in the PO. The Workshop Authorities rejected the machine and advised COFMOW accordingly on 17 September 2007. COFMOW invoked (25 June 2008) the Performance Guarantee (PG) Bond of Rs.3,69,000 and en-cashed the same. Thereafter, no action was taken to get the machine replaced.

On this being taken up by Audit (March 2009), the Railway Administration issued a notice (August 2009) to the firm for payment of ground rent till it took back the machine. Railway Board in their reply (December 2009) stated that COFMOW was working on the modalities for getting the machine rectified by M/s HYT. However, the fact remains that the machine costing Rs 0.28 crore procured in January 2005 is yet to be utilized (December 2009).

Traverser

Workshop Jagadhari (JUDW) placed (March 2004) an indent on COFMOW for procurement of one Traverser (70 Tonne capacity). In pursuance, COFMOW placed (December 2004) a PO for the supply of a Traverser on M/s Metal Engineering and Treatment Co. Pvt. Ltd., Calcutta at a cost of Rs.1.09 crore. The machine was received in the Workshop on December 2005, but could not be commissioned during December 2005 to August 2006 due to delay in completing the work on Traverser pit and track by Construction

Organization. For want of removal of defects in the machine by the supplier the machine could not be commissioned until January 2008. Further due to sinkage of newly laid traverser track and delay in completing the rectification work the machine could not be put in use until November 2009. The performance test certificate of the machine is yet to be issued.(December 2009). Thus, the machine lay idle for about four years since the date of its receipt in the Workshop with the Railway Administration incurring an expenditure of Rs.0.95 crore on its procurement.

On this being taken up, the Railway Board stated (December 2009) that the delay in rectifying the work of track is due to abandoning of work by the contractor and the need of executing the work through a new contractor. Nevertheless the fact remains that a delay of four years in using the machine is indicative of inefficient management in procurement and work related to the commissioning of the machines.

Thus inefficient management of procurement and work related to the commissioning of machines rendered the expenditure of Rs. 1.23 crore unproductive for a period of about four years.

4.2.5 Southern Railway: Non-commissioning of a Surface Traverser due to defective planning

Delay in procurement of a Surface Traverser and its commissioning for want of track for movement resulted in idling of the new equipment

Carriage and Wagon Workshop, Perambur undertakes the Periodical Overhauling of coaches and wagons. The movement of coaches from one activity centre to another in the Workshop is carried out through a Surface Traverser (ST).

Workshop Administration decided (2002) to replace the 17 year old existing 75 Ton ST on the ground of bad condition of the old ST. An indent was placed (July 2002) on COFMOW to procure a 100 Ton ST with shrouded type Down Shop Lead (DSL).

When the supplier furnished (April 2004) the General Arrangement Drawing (GAD), Workshop Administration sought for (August / November 2004) angle iron DSL instead of shrouded type DSL. The change was sought for quoting the frequent failures experienced in the shrouded type DSL provided in Paint Shop traverser. COFMOW, however, did not accept (August 2005) the change as the shrouded type DSL was superior to angle iron DSL. GAD was approved (January 2006) and the firm supplied the ST (October/November 2006).

Audit observed that change in DSL was not required as-

- frequent failures of the shrouded type DSL of Paint Shop traverser were due to uneven track condition,
- the new 100 Ton ST was proposed to be run on the twin tracks to be laid afresh with even level span and with proper foundation and
- with such a new track, the maintenance problems faced earlier were not expected in the shrouded type DSL of new ST.

Further, as per specification No.55.3 (ii) (c) of the accepted tender, the runway rails for ST were to be supplied by the consignee and the laying of the track for ST was to be completed, matching with the supply of the ST. However, due to improper planning by the Workshop Administration, the contract for the laying of the twin track was awarded in October 2007. Moreover, due to non-availability of site, the track was laid for a length of 62.5m (March 2009) against the requirement of 250m.

Workshop Administration unnecessarily sought change in the DSL delaying the procurement process by about 20 months. After the receipt of ST in November 2006, ST could not be commissioned (March 2009) due to delay in awarding contract for laying twin track and for want of handing over the site to the contractor. As a result, proposed replacement of an old ST of lower capacity, whose replacement was considered inescapable, could not materialise. Eventually the Workshop Administration had no option except to utilise the old ST with poor reliability in spite of investment on new ST (Rs.1.02 crore).

The matter was taken up with the Railway Administration/Railway Board (March/October 2009). Railway Administration stated (August 2009) that:

(a) The Electrical Department felt that the Angle Iron DSL would meet the requirement better.

(b) The award of contract for laying the twin track was delayed as time was needed to design and prepare the drawing, tie up funds and finalise the tender.

(c) The work for laying the track had to be executed in phases without hindering the existing coach movements.

Railway Board further contended (December 2009) that the delay in placing procurement order was caused because the firm did not raise the issue of increase in the cost of Angle Iron DSL initially and reiterated that the work for the track for traverser could be executed in phases so as not to disturb the normal coach outturn.

Above contention is not acceptable as –

(a) The justification for change sought in the type of DSL of the traverser not apparent as Shrouded type DSL was reported to have given satisfactory performance as compared to Angle Iron DSL. Further, the question of supplier seeking increase in cost would not have arisen if the issue of Angle Iron DSL had not been raised by the Railway. As such, Workshop Administration is ultimately responsible for the delay in procurement of the traverser.

(b) The track for the traverser was to be laid by the Railway matching with the supply of the equipment. However, commissioning of the traverser was delayed due to Workshop Administration's failure in ascertaining the track condition initially. The track should have been completerly laid by the time the equipment was ready for commissioning. However, laying of twin track for a considerable length (75 per cent) was awaited on account of non-availability of site for the execution of work.

4.3 Deficiencies in contract management

4.3.1 Chittaranjan Locomotive Works: Non-inclusion of minus option clause

CLW could not get benefit of the consistently falling price of power converter due to non-inclusion of minus option clause which led to avoidable extra expenditure of Rs.2.37 crore

As per one of the clauses of Additional Special Conditions of the contract, the purchaser is entitled at any time to increase or decrease the total quantities of each description of stores by not more than 30 per cent after reasonable notice in writing of any such increase or decrease to the contractor.

Railway Board approved (December 2006) procurement of 56 sets of "Power Converter with Control Electronics/ Traction Converter for 3-phase Electric Locos" for the production year 2007-08. Accordingly, Chittaranjan Locomotive Works (CLW) placed (January 2007) Purchase Orders (POs) to three firms (M/s BHEL-20 sets, M/s BTIL-20 sets and M/s NELCO-16 sets) at a total unit rate of Rs.2.703 crore. All the 56 sets were received by March 2008, April 2008 and June 2008 respectively as per the extended delivery periods on various administrative grounds viz., reduction in 3-phase loco production programme, shortage of space in godown etc.

Audit scrutiny of relevant records revealed that though the Tender Committee (TC) was aware of the fact of consistently falling rates of the subject item over the years, the minus option clause was not recommended. They opted for only plus 30 per cent option clause in the contract as it would provide safeguard against any increase in rates in future. It was also decided that the option clause was to be invoked depending on the outcome of fresh tender mainly on the ground that as per production plan for 2008-09, the requirement of this item would further increase to 100.

In May 2008, POs were placed (Tender opened on May 2007) for supply of 95 sets of subject item against the requirement of 2008-09 on the above three firms at a total unit rate of Rs.2.555 crore. Audit noticed that the production programme was revised (October 2007) before the delivery periods of the earlier POs and it was brought down to 55 sets (2008-09) whereas 43 sets were yet to be supplied by the three firms in respect of PO placed during 2007-08. Also, 18 sets were supplied after scheduled delivery periods at higher rates (November 2007, December 2007 and March 2008) i.e. by which time CLW was well aware about the revised production programme. Thus, due to non-operation of the minus 30 per cent option clause, CLW could not get the benefit of lower price which could have resulted in saving of Rs.2.37 crore.

When the matter was brought to the notice of Railway Board in September 2009, they stated (December 2009) that TC had taken full care at the time of finalization of TC and they could not judge the future market rate. They further added that the POs placed against tender opened in May 2006 and in May 2007 were with PVC and their updated rates in December 2007 were Rs.2.664 crore and Rs.2.631 crore and hence the difference in rates was only Rs.3.22 lakh.

The reply is not acceptable as it is evident that TC was aware of the facts of falling rates as envisaged in para 3.0 and 4.0 of the minutes of TC meetings (July 2006). It is also relevant to point out that the TC had recommended operation of 30 per cent clause without specifying whether it is to be applied to increase or decrease the quantity.

4.3.2 South Eastern Railway: Improper material management

Failure to properly plan procurement of non-stock material burdened the exchequer with avoidable liability of Rs.1.77 crore

Signal & Telecom Department (Construction) (S&T/CON) had placed requisition for procurement of non-stock item (6 quad cable) for a quantity of 479 Kms (April 2003). Subsequently, two more requisitions were placed for 140 Kms in June 2003 and 273 Kms in October 2003. All these were marked as essential requirement. The tender for the first requisition was processed (October 2003) including the condition to increase/ decrease in quantity (upto 30 per cent) offered by the tenderer within the contractual delivery period (DP). Two Emergency Purchase Orders (POs) were, however, issued (April 2004) without incorporating the option clause for a quantity of 407 Kms and 72 Kms at the rates of Rs.1.43 lakh and Rs.1.40 lakh per Km respectively and the delivery of the material was received by the extended date (21 February 2005).

Scrutiny of records revealed that another tender for the remaining two requisitions offering option for 30 per cent increase/decrease of tendered quantity was processed (May 2004) within the currency of the DP of the aforesaid two POs and two emergency POs for supply of 371.7 km and 41.3 km of cables were issued (December 2004 and January 2005) at a higher rate of Rs.1.85 lakh per km with an option clause for 30 per cent increase/decrease in quantity. It was noticed that out of the total 894.175 kms cable actually received against the four POs, 65.412 Kms cable had been issued to a foreign railway and 102.566 Kms cable still remained unutilized.

In this connection, the following observations are made:

Had the requirement of this high value non-stock item been properly assessed, the emergency POs resorted to could have been avoided and a single requisition placed for an entire consignment without splitting (April, July and October 2003), the Railway Administration could have availed of the financial benefit of procuring the entire consignment through the first tender (October 2003) at lower rates (Rs.1.43 lakh and Rs.1.40 lakh per km) avoiding procurement of 413 Km of cable at a higher rate (Rs.1.85 lakh per km) through a subsequent tender. This has resulted in extra financial liability of Rs.1.77 crore for purchase of a part consignment at a higher rate.

When the matter was taken up (August 2009) with Railway Board, they accepted (December 2009) that the cable procured could not be fully utilised as per target. They further added that procurement of material by Railway Administration was placed much before the sanction of detailed estimates. The reply is not acceptable because Railway Administration's failure to place a single requisition for entire consignment on account of improper assessment of requirement resulted in avoidable expenditure of Rs.1.77 crore for procurement of non-stock item (6 quad cable) at higher rate in excess of requirement.

4.3.3 Railway Board: Extra expenditure due to non-application of option clause

Failure of Railway Board to exercise the plus 30 per cent option clause in the existing contract resulted in extra expenditure of Rs.1.29 crore

Railway Board floated an Open Tender for 13,338 High Tensile Centre Buffer Couplers which was opened on 29 March 2006. Of the fourteen offers received, the lowest was from M/s HEI Kolkata, a Part I RDSO approved, source at the rate of Rs.25,500 each. As the rate was higher than the derived updated last purchase rate (LPR), the TC recommended negotiation with the lowest bidder. After negotiation, the rates were reduced by 10 per cent and TC recommended acceptance of the post negotiated rate of Rs.22,950 each and counter offered the same to other firms also. Keeping in view the pending supplies of the item against earlier orders, purchase orders were placed on the following four firms in November 2006.

Sl. No.	P.O. No. & Date	Name of Firm	Quantity in Nos.
1	2005/RS(I)/174/5(TC) dated 08.11.2006	M/S Jupiter Alloys & Steel (India) Limited	300
2	2005/RS(I)/174/5(TC) dated 20.11.2006	M/S Frontier Alloys Steels	519
3.	2005/RS(I)/174/5(TC) dated 20.11.2006	M/S Texmaco Limited	2800
4.	2005/RS(I)/174/5(TC) dated 08.11.2006	M/S Hindustan Engg. & Industries Limited	2400

A fresh tender for couplers was opened on 10 April 2007, and the lowest rate quoted by M/s HEI was higher than the updated rate of Rs.23,538 for the existing contract. In order to avail the benefit of the existing lower rate, it was proposed to exercise plus 30 per cent Option Clause. This clause was exercised on 24 April 2007 in respect of M/s Jupiter Alloys & Steel (India) Ltd. In respect of M/s Frontier Alloys Steel Ltd, Kanpur the option clause was not exercised on the ground that the firm was banned for 5 years by the Railway Board on 21 February 2007. Audit observed that the ban was stayed by the court on 20 March 2007 and subsequently the order of Railway Board was quashed by the Hon'ble High Court, Allahabad in December 2007 on account of non-observance of proper procedure by them. The proposal to exercise the option clause was initiated in May, 2007 but was not agreed to by

Finance as the delivery period of the contract had already expired in March, 2007. Thus due to delay in processing the case, the benefit of lower rate could not be availed despite the firm's willingness to supply the same. The Railway Board further failed to exercise the option clause in case of the remaining two firms also resulting in total extra expenditure of Rs.1.29 crore.

The matter was taken up with the Railway Board (March, 2008). In reply, they stated that they became aware of the outcome of ban only on 18 April 2007 and since the delivery period expired on 31 March 2007, the option clause could not be operated. It was further stated that due to substantial number of cases of train partings reported by the Zonal Railways, RDSO upgraded specification of couplers in February/March, 2007 and in view of the safety considerations it was not considered prudent to enhance quantity of purchase orders placed with old specifications.

The reply is not tenable. As per available records the Board was aware of the stay order on 22 March 2007, well before the expiry of the delivery period on 31 March 2007. As regards improved specifications by RDSO, orders for additional quantities of old specifications were found placed by the Board in November 2007, contrary to their claim.

4.3.4 South Western Railway: Loss due to non-inclusion of Option Clause in the Purchase Orders

Railway's failure to incorporate the Option Clause for increasing/decreasing the ordered quantity resulted in avoidable loss of Rs.0.85 crore.

Considering the actual requirement and the trend of price during the currency of a contract, Railway can increase/decrease the ordered quantity to the extent of 30 percent by invoking Option Clause of the Purchase Order (PO). The necessity of incorporating Option Clause in stores contracts has been reiterated by the Railway Board from time to time.

Railway Administration invited (August 2007) tender for the supply of Crank Case Lubrication Oil (Oil) for Loco sheds at Hubli and Krishnarajapuram. Although the Railway's right to operate the Option Clause to increase/decrease the ordered quantity to the extent of 30 percent was incorporated in the tender enquiry, the Option Clause was not incorporated in the two POs placed (December 2007) on M/s Indian Oil Corporation Limited (IOC) for the supply of 6,56,457 liters Oil. During the currency of these contracts, when the Railway Administration approached M/s IOC to supply additional quantity of 1,70,000 liters Oil under the existing POs, they expressed their inability on account of the increase in the price of the crude oil. Due to non-incorporation of Option Clause in the POs, Railway Administration could not prevail upon the supplier to supply the required quantity and placed (August 2008) another PO on M/s IOC at a much higher rate involving avoidable loss of Rs.0.85 crore.

The matter was taken up with the Railway Administration (April 2009) that the tender was finalized as per past practice wherein though the Option Clause was being mentioned in the tender enquiry, the same was not being incorporated in the POs. Whenever required, firms were supplying the additional quantities under the Optional Clause in a routine manner.

Railway Board further added (December 2009) that the firm did not submit their offer with the Option Clause. Railway Administration could not have unilaterally incorporated the Option Clause in the PO, though included in the tender enquiry.

The reply is not tenable. Railway Board specifically ordered (1993) that Option Clause must be incorporated in the contracts where the requirement of the material is of continuous nature. Further, Option Clause was included in the tender enquiry as an additional special condition. As such, rates offered by the firm were with reference to that condition. Had the Option Clause been incorporated in the PO by the Railway Administration, the firm could not have refused to supply additional quantity despite substantial increase in the price of crude oil. It is pertinent to mention that in a PO placed in August 2008, when Railway incorporated and invoked the Option Clause, additional quantities were supplied by the firm.

4.3.5 Central Railway Avoidable expenditure due to non-exercising the option clause

The failure of the Railway Administration to procure additional quantities from the existing contractors to the extent permitted under contract conditions has resulted in avoidable expenditure of Rs.0.57 crore

As per clause 12 of the Special Conditions of the Contract, the quantities of the work may vary to the extent of 25 per cent on either side i.e. increase or decrease during the execution of the work according to the need of the Railways and the contractor is bound to carry out these additional quantities at the same rates.

Audit scrutiny of the contracts awarded to supply and stacking of ballast over Bhusaval and Nagpur Divisions of Central Railway revealed that though Railway was aware of the requirement of additional quantities at the same place during the currency of the existing contracts, the option of variation in the quantities as per contract conditions was not applied. Instead of asking the existing contractors to supply more quantities, fresh contracts were awarded at higher rates resulting in avoidable extra expenditure of Rs.0.57 crore in the contracts finalized between March 2006 and December 2007.

When the matter was taken up with the Railway Board (September 2009) they stated (December 2009) that the clause 12 of the contract deals with variations in quantity arising during execution of the works and is governed under the ‘Works contract’. It was added that the ballast contracts are ‘works contracts’ wherein the variation clause caters for variation in quantities of items on either side to complete the work whereas the ballast contracts in question were against specific estimates. They added that the supply of ballast in all the contracts was completed beyond the original completion period and the extension in delivery period was on Railway’s account due to either non-availability of stacking area or non-supply of hopper wagons for running of ballast trains. They admitted that in occasional cases of urgent requirement, the variation clause might have been opted but it was more an exception and not a practice.

The reply is not tenable. The contracts in question were only for supply and stacking of ballast at one depot were at par with 'Stores contracts' and keeping in view the fact the requirement of ballast was known to the Railway, the operation of variation clause to the extent provided in contract conditions might have been considered to save the Railway from paying extra cost.

Thus the failure of the Railway Administration to procure additional quantities from the existing contractors to the extent permitted under contract conditions has resulted in avoidable expenditure of Rs.0.57 crore.

4.4 Miscellaneous irregularities

4.4.1 Central Railway Loss due to non-availing the concession in Value Added Tax

The failure of the Railway Administration to take timely action for availing the concession in VAT as authorized under Maharashtra Value Added Tax Act, 2002 has resulted in excess payment of Rs.37.21 crore on account of VAT

The supply contracts for supply of HSD oil with the oil companies provide that sales tax, if legally leviable on the supplies made to Central Government (at concessional rates) will be to the account of purchaser. These contracts further provide that consignees should check the rates of concessional sales tax and pay the same after obtaining necessary concessional form from the concerned authotities.

As per notification issued by Maharashtra State Government in July 2006, Central Government was exempted from payment of Value Added Tax (VAT) in excess of four per cent on all items purchased between 1 August 2006 and 31December 2006.. These orders were modified from 1 January 2007 and the exemption given to HSD oil was withdrawn. In order to avail of the exemption, the purchaser was required to apply to the Commissioner of Sales Tax and furnish a statement of all purchases effected in the immediate preceding year.

Audit observed that the Store Department of the Central Railway applied for the concession only in January 2007 and the certificate for availing the concession was received in February 2007. Audit noticed that Central Railway had not availed the concession and during the months of August and September 2006 alone, excess payment of Rs.4.49 crore on account of VAT was made.

When the matter was taken up with the Railway Administration (March 2009)**,** they admitted that there was delay of six month in obtaining concession certificate and stated that it was not possible to implement the scheme of availing exemption straightaway because they were not maintaining centralized information of purchases and thus the statement of purchases required to be submitted for availing the concession was not readily available.

They added that the exact amount of extra payment of VAT had now been assessed at Rs.37.36 crore out of which an amount of Rs.0.15 crore had already been recovered. The reply is not tenable because though statement of accounts of purchases was required for obtaining concession, there was no such stipulation to apply for concession certificate. Moreover, when the Railway had approached the Sales Tax Authorities (March 2008) for refund, they had advised them that the firms should file claim for refund of VAT through form 501 along with return and Railway should recover the same from the suppliers. However, Central Railway took more than a year to ask the oil companies to furnish details of the supplies made by them during the period 1 August 2006 to 31 December 2006. It was only in July 2009 and August 2009 that the Store Department worked out the amount of VAT paid in excess of four percent and asked the oil companies to deposit Rs.37.36 crore with the Railway. The chances of recovery of the balance amount of Rs.37.21 crore are, however, very remote as the oil companies have not preferred any claim.

Thus the failure of the Railway Administration to take timely action for availing the concession in VAT as authorized under Maharashtra Value Added Tax Act, 2002 has resulted in excess payment of Rs.37.21 crore on account of VAT.

4.4.2 North Western Railway: Avoidable periodical overhauling of metre gauge coaches

Failure of the Railway Administration to utilise the available fit surplus metre gauge (MG) coaches resulted in avoidable expenditure of Rs.4.34 crore on Periodical Overhauling (POH) of running MG coaches

Due to progressive gauge conversion, a number of Metre Gauge (MG) sections over North Western Railway was closed and converted into Broad Gauge (BG) section. Consequently, the utilization of MG coaches declined and some of these coaches were rendered surplus.

Scrutiny in audit revealed that 175 fit different types of MG coaches with sufficient serviceable life were surplus and stabled over Bikaner Division as of January 2008. Out of these, 29 were transferred to other divisions and the balance 146 coaches were sent to Bikaner Workshop for periodical overhaul (POH). It was noticed in audit that during the period January 2008 to December 2008 Railway Administration had carried out POH of 248 coaches out of which 121 coaches were found to be of the category for which more than sufficient number of serviceable coaches were available as stabled stock. This has resulted in incurrence of avoidable expenditure of Rs.4.34 crore.

When the matter was taken up with the Railway Administration (March 2009); they stated (June 2009) that the POH of all 121 coaches was not avoidable for running train services and besides Railway Board’s instructions on transfer of coaches to other Railways were anticipated. Hence coaches were to be kept in ready condition after POH for transfer. Further, the operating department had asked for transfer of 182 MG coaches to other Railways and out of these, 59 coaches had already been transferred to Western Railway and the remaining 123 coaches were still waiting for dispatch to other

Railways. Moreover, due to stoppage of procurement of material, especially MG wheels, the wheels of stabled coaches were cannibalised to make fit the sick coaches in use and thus a number of stabled coaches could not be used even if not due for POH.

The reply is not tenable. The Railway Administration should have carried out a long term planning for maintenance (POH) and utilization of the MG rolling stock including those coaches rendered surplus in view of the rapid gauge conversion. As regards transfer of 123 coaches to other zones, it is stated that only 8 AC coaches were transferred to Northeast Frontier Railway in July 2009 and for remaining 115 coaches, the Railways concerned have now expressed their unwillingness to receive the coaches.

Thus, the expenditure of Rs.4.34 crore incurred on POH of 121 coaches could have been avoided by using the existing stock of stabled fit coaches. Had the Railway Administration planned and ensured the utilization of available fit MG coaches, the POH and expenditure thereon could have been avoided.

4.4.3 North Western Railway: Wasteful expenditure due to imprudent transfer of track material

Ineffective monitoring of procurement process resulted in incurrence of avoidable expenditure of Rs.2.55 crore towards freight and incidental charges on transfer of track material

As per para 710, 1436, 1438 and 1448 of the Indian Railway Code for the Engineering Department, the procurement of the material should be as per the estimated quantities and there should not be any wide variation resulting in huge surpluses after completion of the project. Procurement of material for specific works should neither be done in excess nor in undue advance of the requirement. Material received for a particular project /work should be initially booked to Material at Site (MAS) Account and eventually adjusted against the work as and when these are used. Further, para 2328 of Indian Railway Code for Stores Department provides levy of freight and incidental charges at the rate of 7 per cent on the cost of stores on its disposal.

The work of gauge conversion of Bandikui-Agra Fort (BKI-AF) project was sanctioned in the year 1995-96 and was completed in two phases i.e. Bandikui to Bharatpur in 2003-04 and Bharatpur to Agra-Fort in 2004-05. These sections were opened for traffic in May 2004 and May 2005 respectively. Apart from this Ajmer-Chittaurgarh-Udaipur-Umra (AII-COR-UDZ-UMRA) project was sanctioned in the year 1996-97 and the converted section of Chittaurgarh-Udaipur and Ajmer-Chittaurgarh were opened for traffic in June 2005 and July 2007 respectively.

It was noticed in audit that procurement and accountal of stores of these projects was not effectively monitored. In Bandikui-Agra Fort project the materials valuing Rs.8.31 crore were obtained from Ajmer-Chittaurgarh project. Later on receipt of the materials procured for this project the materials already obtained became surplus. It also came to notice that even after physical completion/opening of the project, materials valuing Rs.4.85 crore were also procured. This resulted in more accumulation of surplus materials

(Rs.13.70 crore) after completion of the work that necessitated freight and incidental charges of Rs.0.96 crore on its transfer to other ongoing projects.

In Chittaurgarh-Udaipur gauge conversion project, a huge quantity of material was transferred from other ongoing projects in addition to its own indents. The cost of material rendered surplus was Rs.3.08 crore necessitating avoidable expenditure of freight and incidental charges of Rs.0.22 crore on its transfer to other units.

Similarly, in Ajmer-Chittaurgarh gauge conversion project the Railway Administration started procuring material from June 2003 onwards i.e. four years in advance of the actual requirement when the target date of completion of project was not even known. A huge quantity of track material valuing Rs.19.65 crore was transferred to other projects which necessitated freight and incidental charges of Rs.1.37 crore which could have been avoided by planned and direct procurement as per the requirement. Thus, due to unplanned procurement, material valuing Rs.36.43 crore was rendered surplus and their transfer from one project to another resulted in extra expenditure of Rs.2.55 crore by way of freight and incidental charges.

When the matter was taken up with the Railway Administration (March 2009), they stated (June 2009) that freight and incidental charges are applicable on sale of stores and not on material diverted to other units. It was further stated that had the Railway not taken the prudent decision of diverting the already procured material against AII-COR and UDZ-COR gauge conversion projects to targeted AF-BKI gauge conversion project and gone for fresh procurement of material for AF-BKI gauge conversion project, extra capital expenditure would have taken place and it would have also resulted in delay in completion of targeted AF-BKI project to the tune of one to one and half years. By diversion of material, the capital already blocked in procurement of material for AII-COR-UDZ gauge conversion projects had been well utilized.

The remarks of the Railway Administration are not acceptable because freight and incidental charges at the rate of seven per cent is applicable not only on sale of stores but also on transfer of material from one unit to another as is the practice being followed by the Railways on actual transfer of material from one unit to another. Further, they have themselves accepted that material procured for AII-COR and COR-UDZ projects remained blocked due to advance procurement resulting in blocking of capital. The Railway Administration also failed to procure requisite material for AF-BKI project in time and in a planned manner. The diversion of material from AII-COR-UDZ project was necessitated due to this reason. Moreover, the Railway Administration had also not clarified as to why material worth Rs.4.85 crore was procured even after physical completion of the BKI-AF project. The use of material obtained for a specific project in another project also defeats the purpose of keeping the material at site (MAS) account besides loss of budgetary control. Due to lack of effective monitoring in procurement, surplus materials had to be transferred from site to site incurring unnecessary freight and incidental charges.

Had the Railway Administration planned the procurement of material as per the requirement and obtained material for the project concerned directly, the surpluses in the various projects and the consequential wasteful expenditure of Rs.2.55 crore could have been avoided.

4.4.4 Metro Railway: Undue benefit to the supplier of steel items in absence of any provision of levy of interest on advance payment

Absence of any safeguard in the purchase orders for levy of interest on advance payment lying with the suppliers of steel items beyond delivery period led to loss of Rs.1.21 crore towards interest

As per Railway Board's order of December 2001, February 2005 and November 2007, Metro Railway has been continuously purchasing steel items on single tender basis from four steel suppliers (M/s. SAIL, TISCO, IISCO and RINL) and making 100 per cent payment in advance, stipulating specific delivery period in the purchase orders (POs).

During audit check of 31 such POs (amounting Rs.65 crore) for the period from May 2005 to December 2008, it was seen that in 25 cases, delivery period mentioned in the POs was not adhered to by these suppliers. The delay in delivery ranged between six days to 348 days and thus, an amount of Rs.49.46 crore remained with the suppliers for these periods.

As per Indian Railway Standard Condition of Contract two per cent liquidated damages are recoverable for delay in supply where 98 per cent or more payment is made in advance. It was noticed that such a provision was not made in the POs to safeguard the railway interest. As 100 percent advance payment was made, the scope of recovery of liquidated damages is very remote. Further, if supply is not made within specific delivery period, Railway can levy interest at the prevailing lending rate for the period of delay. Non recovery of liquidated damages or interest has resulted in undue benefit of Rs.1.21 crore on account of interest due on advance.

Thus, due to absence of any safeguard in the purchase orders regarding levy of interest on the advance retained by the suppliers beyond delivery period, Railway had to sustain a loss of Rs.1.21 crore.

When the matter was brought to the notice of Railway Board in September 2009, they stated (December 2009) that POs were placed as per the contract between Railway and suppliers on mutually agreed terms and conditions. Steel suppliers have been insisting on 100 per cent advance payment as per their quotations and accordingly POs were placed within the powers delegated by Railway Board. As such, no interest could be levied outside the terms and conditions of contracts. With advance payment, suppliers were also bound to make supplies at the contracted rate even if there was price rise. The reply is not acceptable as the practice does not ensure recovery of liquidated damages in the event of delayed supplies, besides affording undue benefit to suppliers.

4.4.5 Northeast Frontier Railway: Loss due to wasteful consumption of H.S.D oil for non-removal of speed restrictions

Non-removal of permanent speed restrictions resulted in wasteful consumption of High Speed Diesel (H.S.D.) oil and consequential loss of Rs.1.09 crore

In terms of para 916 (i) and (ii) of Indian Railway Permanent Way Manual (IRPWM), the approaches to all unmanned 'C' class level crossings or manned level crossings where the view is not clear on either side for a distance of 600 meters and those which have normal position open to road traffic, without interlocking and protection by signals, bilingual whistle boards as per designs should be erected at 600 meters along the track from the level crossing to enjoin the drivers of approaching trains to give audible warning of the approach of a train to the road users.

Speed restrictions imposed on the running of trains, cause excess consumption of fuel during deceleration and acceleration to negotiate the drop in speed to maintain the permissible speed.

Test check of position of Permanent Speed Restrictions (PSRs) in three divisions of Northeast Frontier Railway (Katihar, Alipurduwar and Lumding) revealed that some of the PSRs of these divisions were non-removable due to sharp curves and other PSRs were planned for removal during gauge conversion.

On two other divisions (Rangiya and Tinsukia) as per the Working Time Table (WTT) effective from 1 July 2008, there are seven PSRs (four in Rangiya and three in Tinsukia divisions) as on February 2009. In respect of four PSRs of Rangiya division, work for removal of only one PSR was proposed in the preliminary works programme (PWP), 2007-08 but the same has not been carried out. For the remaining three PSRs, no action has been taken yet for their removal. Similarly, in Tinsukia division, the matter regarding removal of three PSRs was referred to the State Government in March 2007, but no action has been taken yet. Although the PSRs have been causing recurring loss owing to excess consumption of fuel, yet the Railway Administration failed to take immediate steps to remove these PSRs and allowed those to continue till date. This has resulted in excess consumption of 317 kilolitres (approx) of HSD oil valuing Rs.1.09 crore during the period 2006-07 to 2008-09 (February 2009).

When the matter was taken up with the Railway Administration (March 2009), they stated (August 2009) that PSRs are imposed due to poor visibility at unmanned level crossings, sharp curves, etc.. It was further stated that in Tinsukia division, PSR at FM-65 has already been removed and at FM-63 and FM-67, PSRs have not been removed because these are unmanned level crossings. Further, in Rangiya division, a proposal was initiated for removal of PSR at one location only and for the other three PSRs, no proposal was made as the section is under gauge conversions and the target date of completion was March 2011.

The contention of the Railway Administration is not acceptable because the PSRs in question are continuing for 7 to 13 years which affect the running time of the trains as well as line capacity utilization of the concerned sections. In respect of Tinsukia division, verification of records revealed that PSR at FM-65 has not been removed as yet. Further, as per Para 916 (i) and (ii), the PSRs should have been removed by providing bilingual whistle boards.

Thus, delay in removal of PSRs has caused not only consumption of excess HSD oil worth Rs.1.09 crore but has also caused inconvenience to passengers by not maintaining punctuality of trains.

4.4.6 North Western Railway: Loss due to imprudent award of stores contract

Imprudent decision in awarding a stores contract at unreasonable rates resulted in loss of Rs.0.75 crore

Rules provide that for awarding stores contract, right quality and right quantity of stores should be procured at the right time from the right supplier at the right price. For consideration of tender documents, it should be ensured that the rates quoted for individual items are realistic and not unreasonable/ unworkable in respect of any item of work. Railway Board had also issued instructions from time to time in this regard.

Railway Administration invited tender for procurement of 420.75 kms of PVC insulated cables for various safety related works. The tender opened in November 2005 and was discharged in January 2006 due to high rates. Tender was re-invited for 442.750 kms and opened in April 2006 with a validity of 90 days. M/s. Prew Industries Ltd., New Delhi, a part-I supplier quoted a rate of Rs.60,100 per km in figures but in words the firm un-intentionally mentioned Rs. Sixteen thousand and one hundred per km. Six other firms quoted their rates below Rs.60,100. Though the Tender Committee (TC) had accepted that the mistake in writing was genuine as it was covering the cost of raw material and passed on the offer, the tender accepting authority (Controller of Stores) awarded the contract to M/s. Prew Industries Ltd., New Delhi for full quantity of 442.750 kms. at a cost of Rs.16,100 per km. The firm expressed its inability to accept the order and stated that rate quoted by them was Rs.60,100 per km and not Rs.16,100 per km. They also clarified that the fact was already brought to the notice of the Railway Administration at the time of extending the validity i.e. before the award of the contract and again in October 2006 before the issue of the Purchase Order (PO) and requested the Railway Administration to withdraw the PO which was not agreed to.

It was noticed in audit that in November 2006, the Railway Administration went for risk purchase procurement and issued PO in June 2007 for a quantity of 376.338 kms at Rs.67,979.03 per km to a firm. For the balance quantity of 66.412 km, the Railway Administration issued a PO in November 2008 for 49.810 kms. in favour of another firm at Rs.64,250 per km and the balance quantity of 16.602 kms was ignored. Thus, purchase of cables at a higher cost resulted in loss of Rs.0.75 crore to the Railways.

When the matter was brought to the notice of Railway Board (August 2009), they accepted (October 2009) that that due to complexity of the tender involving different rates in words and figures, there was some delay in holding negotiation/ finalization of the tender. The Tender Committee had observed that there was some typing mistake in quoting the rate in words and figures and recommended for passing over the lower quoted rate and remitting the tender case for further dealing at higher level. They further stated that obtaining post tender clarification on financial matters i.e. offered rates of any tenderer may give undue advantage to the tenderer.

The reply is not acceptable because the tender was initially opened in April 2006 and the validity of offer was for 90 days, yet the Railway Administration did not hold any TC meeting during the period and the first TC meeting was held in September 2006 (well after the expiry of the original validity period). Further, the Railway Administration should have seen the workability of the low rates quoted in words by the contractor which did not even cover the cost of raw material. In this case a single firm had quoted two rates with wide variation in words and figures which required a clarification from the firm which the Railway Administration did not bother to obtain even after a lapse of five months since opening of the tender and then the latter decided to award the contract on the basis of ambiguous rates. It would have been prudent for the Railway Administration either to bypass the offer or to seek clarification rather than proceeding ahead to award a high value contract at unreasonable rates.

Thus, award of a contract at an unrealistic rate against the TC's recommendations, ignoring the repeated clarifications of the vendor has resulted in purchase of cables at a higher cost with consequent loss of Rs.0.75 crore to the Railways.