

## EXECUTIVE SUMMARY

### 1. Background

*Iron ore is an important commodity transported by Indian Railway (IR). A considerable share of total Iron ore consumed in India and exported from India is transported by IR. It is loaded mainly from 97 loading points over seven Zonal Railways<sup>1</sup>.*

*In IR, rate for charging freight for a commodity is decided on the basis of Goods Classification wherein a class is assigned to each commodity. The freight rate applicable to that class is charged for all commodities included in that particular class. Taking into account the socio-economic and commercial factors<sup>2</sup>, IR also specifies, for the same distance and quantity, higher and lower rates for transport of same or various forms of a particular commodity.*

*With regard to Iron ore IR introduced with effect from 22 May 2008 the Dual Freight Policy (DFP) as per which transportation of Iron ore was categorized in two categories viz. for 'domestic consumption' and 'other than domestic consumption'. The above classes covered various types of Iron ore<sup>3</sup>. The DFP in effect led to freight difference between the above two classes, which was on an average more than three times.*

*The primary objectives of the DFP were to lower the cost of transport of Iron ore for domestic producers and to keep freight charges for export of iron ore in sync with its rising international spot market prices and garner high freight revenues in the event of increase in international price of Iron ore.*

*The allotment of rakes for Iron ore transportation is governed by an allotment policy, assigning priority/preferences laid down by Railway Board and have a bearing on the implementation of the DFP. Manufacturers of Iron and Steel, Cement and Pellets are the authorised customers eligible for booking 'Iron ore' at domestic rate as per the Rate Circulars issued by Railway Board subject to laid down terms and conditions.*

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<sup>1</sup> South Eastern Railway (SER), East Coast Railway (ECoR), South Western Railway (SWR), West Central Railway (WCR), Southern Railway (SR), South East Central Railway (SECR) and Western Railway (WR)

<sup>2</sup> Indian Railway Conference Association Goods Tariff Part I (Volume II)

<sup>3</sup> iron ore lumps, iron ore fines, calibrated iron ore, iron ore pellets etc.

## **2. Highlights of the Report**

*Audit examined records of 83 major loading points (out of 97 loading points) of seven<sup>4</sup> Zonal Railways and of 180 unloading points (out of 198 unloading points) of 15 Zonal Railways. The Audit Report highlights the deficiencies in compliance with laid down rules and procedures in booking and delivery of Iron ore at domestic rate by concerned Railway officials that resulted in a financial loss of expected Goods earnings to the extent of ₹ 29236.78 crore (freight evasion of ₹12722.65 crore and non-imposition of penalty to the tune of ₹11418.16 crore due to partial submission/non-submission of documents/submission of invalid documents besides imposable penalty of ₹5095.97 crore for diversion for trading the iron ore transported at domestic rate).*

*Audit studied the rules framed by IR under the DFP to ensure that these were adequate for effective implementation of the policy and well considered. The effectiveness of checks and balances put in place for correct implementation of the DFP through monitoring, reporting and control were also examined.*

*The Report comprises of four chapters. The issues dealt in these chapters are as under -*

*Chapter I - Background of the Dual Freight Policy, statistical information on the transportation of Iron ore in India, Audit scope, Audit Objectives, Audit Criteria and Audit Methodology and Sample Size.*

*Chapter II - Irregular booking and delivery of Iron Ore at 'Domestic Consumption Rate' and results, utilisation of Iron ore not consumed domestically besides allocation and allotment of rakes for Iron ore transportation.*

*Chapter III - Internal Controls for effective implementation of Policy, Training, Monitoring and Reporting.*

*Chapter IV - Audit Conclusion and Audit Recommendations*

## **3. Major Audit Findings**

*3.1 Evasion of freight or non-imposition of penalty due to Irregular allowing of concessional rate*

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<sup>4</sup> Loading points for Iron ore exist on seven Zones only.

- *Railways accepted indents of 225 consignees without obtaining prescribed documents from them and allotted & booked 'Iron ore' in 2079 rakes charging freight at domestic rates. This led to freight evasion of ₹957.74 crore during the period from May 2008 to September 2013.*

*(Paragraph 2.5.1)*

- *Acceptance of partial documents from 218 consignees and allowing booking of 'Iron ore' charging freight at domestic rates by Railway in respect of 5083 rakes, led to freight evasion of ₹957.76 crore during the period from May 2008 to September 2013.*

*(Paragraph 2.5.2)*

- *Forty nine consignees submitted invalid documents for availing the benefit of charging freight at 'domestic consumption' rate. The booking of 190 rakes resulted in freight evasion of ₹108.42 crore.*

*(Paragraph 2.5.3)*

- *As many as 205 consignees booking 5041 rakes were allowed charging of freight at 'domestic consumption' rate though endorsement in the Forwarding Note and the Affidavit submitted were inaccurate and invalid. Due to this lapse, a penalty of ₹10582.67 crore was also leviable on the defaulting Companies.*

*(Paragraph 2.5.4)*

- *Railways Administration allowed delivery at the unloading points of the consignments despite non submission/partial submission/submission of invalid documents, which was in violation to the stipulated conditions. In view of the inaccuracies in the affidavit, they allowed freight evasion of ₹4508.61 crore. Besides, a penalty of ₹830.04 crore was also leviable due to this lapse.*

*(Paragraph 2.6.1)*

- *Non-submission/partial submission/submission of invalid documents in respect of Steel Authority of India Limited (SAIL) resulted in short charging of freight of ₹4838.80 crore besides a penalty of ₹5.45 crore.*

*(Paragraph 2.7)*

### ***3.2 Iron ore carried at domestic rate not consumed for domestic use***

- In case of 61 Consignees, aggregated quantity of 71.22 lakh MT shown as received in ERs was far less than the quantity transported by Rail, which indicates that the quantities booked and transported at domestic rate were diverted for third party trading/export . This quantity was not eligible for the domestic rate and attracted penalty of ₹5095.97 crore. Of these 61 consignees, 48 consignees failed to submit prescribed documents.***

***(Paragraph 2.8.1)***

- As per clause 8 of Rate Circular No.36 of 2009, the manufacturing units were allowed to remove left over/residual iron ore fines for export out of the iron ore carried at domestic rate in the Plant premises without fixing any ceiling consulting the technical authority. Audit observed that 23 consignees removed Iron ore transported by rail at domestic rate from their Plant premises in excess of 25 per cent with aggregated quantity of 8.79 lakh MT. The removal ranged up to 100 per cent in certain cases.***

***(Paragraph 2.8.2 & 2.8.2(i))***

### ***3.3 Deficiencies in regulating framework***

- The manufacturer having pellet or sinter Plant could use the generated fines in the blast furnace by converting the fines into pellet/sinter. In case of these manufacturers, removal of iron ore fines should not have been allowed to them. But, this was not stipulated in the Rate Circular.***

***(Paragraph 2.8.2 (ii))***

- Although the allotment of rakes to Priority D customers was considerable in size, there was no check of use of iron ore by the consignees for the production of Iron and Steel at their manufacturing units before allocations/allotments of rakes.***

***(Paragraph 2.9.1)***

- *There was scope of manual intervention in allotment through Rake Allotment System, irrespective of the category without complying with the parameters in the system.*

*(Paragraph 2.9.2)*

### *3.4 Effectiveness of Internal Control & Monitoring*

- *In absence of particular format and specific monitoring of submission of feedback to higher level administration, Feedback mechanism could not act as monitoring and control tool.*
- *Railway Board did not assign special checks on these transactions by Travelling Inspectors of Station Accounts and Commercial Inspectors.*
- *Staff deployed at various points to ensure compliance of documentary proof and other pre-requisites were not adequately familiarised/sensitised with the importance of the same. Therefore, they failed to exercise an effective check while performing duties leading to admission of invalid documents/declaration/affidavit for availing domestic rate, non detection of cases of large scale removal of iron ore from manufacturing units and short reporting of iron ore carried by Rail at domestic rate.*

*(Paragraph 3.3.2.1 and 3.3.2.2)*

## **4. Recommendations**

*The review of the subject has revealed critical gap and lack of enforcement of the institutional framework of the Dual Freight Policy, monitoring and implementation of the same, and laxity of Railway administration leading to Freight evasion, non levy of penalties for wilful non compliance and under charge of freight.*

*In view of foregoing, there is need to take effective steps to set right various deficiencies in the existing institutional framework, to ensure effective control & monitoring of implementation of Dual Freight Policy and scrupulously ensure compliance of rules to prevent misuse & leakage of revenue. Major Recommendations under each category are as follows:*

- *Since penalty is only a deterrent after benefit has already been derived by the consignees, there is need to ensure strict compliance of laid down provisions and enforcement of initial scrutiny and check, at all the stages right from assessment of requirement of rakes, allotment of rakes, acceptance of indents to loading and unloading. Effective enforcement would have prevented evasion of freight as brought out in the audit report*
- *While laying down Rate circulars, Railway Board should frame detailed guidelines for Zonal Railways laying down clearly the procedure to be followed to ensure complete check of essential documentation establishing the nature of use of Iron Ore transported by Rail. In this regard, instructions for comparison between Iron Ore transported and monthly/yearly consumption for domestic use with the aid of Excise Returns should be issued & insisted upon. Essential checks need to be prescribed to assess rake requirement before allotment & review use of Iron Ore by consignees transporting it at concessional rates.*
  - *Railways may explore capturing data from the records regarding iron ore transported, consumed and removed by iron and steel manufacturing companies through collection of ER 6 form along with ER 1. A check and control mechanism may be put in place to verify for select companies, the consumption with the production capacity, total receipts with loading figures from CRIS data etc. and end use of iron ore before allowing loading at concessional rates. The purpose of collection of these documents may also be clearly spelt out and communicated to the staff at field level.*
  - *Periodicity of inspection by Commercial Inspectors may be laid down to facilitate complete coverage of all loading/unloading points in a given time frame. Staff at field level may be trained for effective implementation of the policy.*
- *Railways may assess feasibility of the suggestions made by Vigilance and take action to implement them. Railways may also strengthen inspection, monitoring and reporting at various levels of freight operations to ensure effective implementation of the policy of dual freight.*

- *Strict compliance to the commodity codes may be ensured while booking of 'Iron ore' rakes so as to keep track of the commodity wise loading against companies. A unique code may also be allotted to customers, for monitoring and control of all transactions pertaining to them.*