

Chapter 4

4.1 Conclusion

Although the requirement of mandatory submission of six documents by the consignees prior to avail transport of 'Iron ore' at concessional 'domestic consumption rates' was meant for checking the end use of the 'Iron ore' transported and assessing the veracity of the information on the basis of which concessional rates were claimed and availed, Railways did not use the documents to verify the end use and allowed the manufacturers to transport 'Iron ore' at 'domestic consumption' rates. No checks were prescribed for initial scrutiny of documents submitted due to which Railways failed to ensure submission of complete and valid documents by manufacturers during the period May 2008 to September 2013 resulting in freight evasion of ₹ 12,722.65 crore. In addition, submission of inaccurate/ misleading or false documents attracted a penalty of ₹ 11,418.16 crore that could have been levied on various defaulting Companies. Though Railway Board recognised a limit of 25 *per cent* for the generation of iron ore fines, out of total quantity of Iron ore booked and transported by rail at freight charged at domestic consumption rate, it did not consider these suggestions while framing the Rate Circular 36 of May 2009 and did not lay down any ceiling upper limit for residual/ left over quantity of iron ore fines leaving scope for large scale removal of iron ore for export or sale.

Railways also did not assess the reasonability of removal of 'Iron ore' by manufacturers from Companies premises and did not fix the permissible limit of removal wherever possible. Railways also failed in noting the details of removal given in the ERs of these consignees to trace out the cases where 'Iron ore' transported by rail at 'domestic consumption' rate was not put to domestic use. Audit assessed a penalty of ₹ 5095.97 crore in respect of 61 consignees as a result of short reporting of 'Iron ore' in ERs, which meant that iron ore was diverted before entering the factory premises and thus not put for 'domestic use'.

The actual production/ requirement of rakes for loading 'Iron ore' was not taken into consideration by Railways in respect of some manufacturers who were allotted wagon rakes under Priority D. Further, there was allotment of rakes to Priority C and Priority D customers through RAS by manual intervention, which indicated a risk of misuse of the system.

Railways did not lay down adequate internal controls, check and balances for effective implementation of the DFP. There were no orders of the Railway Board for exercising special checks on the transactions relating to 'Iron ore' by CIs and TIsA. The monitoring mechanism laid down in the form of Appreciation Reports did not provide for suggestions for improvement in the policy and remedial action on irregularities and deficiencies pointed out by various supervising authorities. These reports were not submitted by most of Zonal Railways. Adequate training was not provided for proper implementation of the policy. Effective enforcement of provisions laid down in the rate circulars was not ensured.

Though Vigilance Department/SER suggested to allot each transporter in FOIS a unique identifier and capture Excise Registration number of the consignee to use the data as and when required and to collect details of principal inputs such as

iron ore lumps or iron ore fines and their utilization in manufacturing activity through Monthly Excise Return ER 6 but these suggestions are pending implementation.

The suggestions like sharing electronics data with Excise Department, periodical comparison of cumulative loading with plant capacity, obtaining ER-6 form, and mechanism for keeping watch on the manufacturers loading iron ore fines have been referred to Railway Board in October 2012 for final decision. The decision of Railway Board is still awaited (November 2014).

4.2 Recommendations

Following recommendations are made in Audit-

- *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.*
- *Railways need to introduce checks and measures for verification of end use of iron ore transported at domestic rate. The purpose and significance of submission of prescribed documents may be distinctly recognised and controls introduced to follow the same diligently. The internal control mechanism may be strengthened so that the veracity, legality and enforceability of the documents submitted is verified before allowing concessional tariff rates. Documents submitted by consignors/consignees may be subjected to detailed scrutiny to ensure strict compliance to conditions prescribed before booking and delivering 'Iron ore' at 'domestic consumption rates'.*
- *Railways may assess the reasonability of removal of iron ore fines for various iron and steel manufacturing companies and fix the permissible limit of removal wherever possible after due verification so as to mitigate the risk of misuse of the provision by iron and steel manufacturing companies by removing higher percentages of fines and undertaking third party trading despite availing concessional domestic tariff.*
- *Railways may strengthen the system of rake allotment and resort to manual allotment of rakes only when strictly necessary and after recording the reason/justification. Specific provision may be made for assessment of requirements of rakes for Priority D customers, before allotment of rakes to them. The rationale of the decision to accept indents and allot rakes to Priority C customers under Priority D may be revisited and necessary controls introduced.*
- *Railways may explore capturing data regarding iron ore 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 inspections 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.*



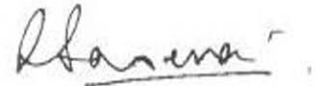
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