



A Case Study in Railway Audit



Regional Training Institute, Kolkata
Indian Audit & Accounts Department

A CASE STUDY IN RAILWAY AUDIT

LOSS DUE TO INJUDICIOUS IMPLEMENTATION OF TERMINAL INCENTIVE CUM ENGINE ON LOAD SCHEME

**REGIONAL TRAINING INSTITUTE, KOLKATA
INDIAN AUDIT & ACCOUNTS DEPARTMENT**

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Preface

Regional Training Institute, Kolkata was declared as Knowledge Centre for Railway Audit in August 2012. As a part of our pursuit towards excellence in training in our assigned areas of 'Railway Audit', we attempt to bring out series of interesting cases of frauds / deviation from rules and regulation etc. as reported and reflected in the Railway Audit Reports of C&AG / Inspection Reports of individuals Railway Audit Office, in the form of case studies. In preparing the instant case study, the models adopted by INTOSAI and some other business schools have been followed.

The case study "Loss due to injudicious implementation of Terminal Incentive cum Engine on Load Scheme" has been prepared based on the Draft Paragraph issued by Principal Director of Audit, South Eastern Railway, Kolkata.

I hope that the readers would benefit from this .The suggestion, if any, are welcome and would help us in future.

RTI, Kolkata
May 2013

Arabinda Das
Principal Director

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Loss due to injudicious implementation of Terminal Incentive cum Engine on Load Scheme.

1. Background

The Railway Board introduced the Terminal Incentive cum Engine on Load Scheme (TIELS) in April 2006. The objective of the scheme was to achieve better turnaround of the rolling stock which was scarce in supply. The Railways, as per plan of the scheme, in turn, would continue to retain the engine attached to the incoming rakes under Engine on Load (EOL) system without levying any charge on the parties. The idea was to release the rakes immediately after completion of the loading/unloading by the customers within the revised free time out of the terminals/goods sheds. The scheme envisaged an incentive in the form of freight rebate at a fixed percentage to be allowed to the owners/users of the siding/terminals/goods sheds for 10 years. This is because they were considered active partners in the scheme of reducing the aggregate detention period of rolling stock by the way of development of adequate infrastructure in the sidings/terminals owned by them, by providing 24 hours loading and unloading facility as well as by completion of loading/unloading process within the reduced free time.

The Railway Board in March 2006 instructed to GM of all Zonal Railway to work out a cost benefit analysis for evaluation of the scheme and intimate the results in the form of feed back to the Board.

2. Environment

Agreements for ten years were executed between a Zonal Railway and the customers (private siding owners) for implementation of TIEL Scheme and freight rebate (2%) was allowed accordingly. The agreements did not contain any clause to exercise an interim review about the efficacy of the scheme while the agreements were in operation. This ultimately led to the situation where Loaded Rakes were found detained in the sidings/terminals well after completion of loading/unloading by the customers as Zonal Railway Authority, owing to their perennial problems of scarcity of engines, could not provide engines in time for the purpose of clearance of the loaded/unloaded rakes from the spots. Hence, Railway Administration failed to reap the benefits of better turnaround of the wagons by eliminating avoidable detention period, as envisaged in the scheme. There was a loss of earnings of ₹6.04 crore for allowing unnecessary incentive of freight rebate to customers. There was a further notional loss of ₹10.85 crore towards unutilized earning capacity of the loaded wagons detained beyond required time on Railways' account.

3. Opportunity to Prevent irregularity

i) Railway Administration could avoid the loss of earnings by putting the system in operation to ensure releasing the rakes immediately after completion of the loading/unloading by the customers within the revised free time.

ii) As directed by board, had the Zonal Railway worked out a cost benefit analysis for evaluation of the scheme and sent the feed back to the Board in time, the scheme where it was difficult for implementation due to adverse condition might not have been implemented.

iii) Railway Administration could avoid the accumulated loss of earnings had there been any scope for revisiting the obligation arising out of agreement during the validity period of the said agreements.

4. Act of loss of revenue

i) The Railway Administration's injudicious decision for implementation of TIEL Scheme in the prevailing adverse condition had resulted in avoidable loss of earnings of ₹6.04 crore for allowing incentive of freight rebate to customers.

ii) Moreover, failure on the part of the Railway Administration to translate the reduction in earnings by the way of rebate on freight into a productive opportunity by better turn around of the rolling stock added further loss of ₹10.85 crore towards unutilized earning capacity of the loaded wagons detained beyond free time.

5. Opportunity to detect and proving irregularity

Red Flag Indicators

a) In course of checking the Railway. Receipts (RR), it was noticed that TIEL Scheme was in operation in the siding by allowing 2% freight rebate to the siding owners for completion of loading by them within the stipulated free time.

b) It was, however, physically observed that the engines did not remain attached to the rakes which was the necessary condition of the scheme to save the time and to facilitate the better turn-around of the rakes and found that engines engaged for taking out the empty rakes from the sidings were not always necessarily the same engines which had actually brought the rakes into the sidings. Hence, detachment of the engines from the rakes violated and defeated the basic principle of TIEL Scheme.

c) It was further physically observed that loaded rakes were detained in the sidings for hours together after completion of loading by the customers within the free time.

Follow up of Red flag:

Audit Examination and evidence collection.

a) Acting on these red flag indicators, the audit party conducted the scrutiny of RRs and it was re-

vealed that agreements were executed with the customers and freight rebate (2%) was allowed on RR accordingly.

- b) On scrutiny of Detention Register, it was revealed that in 632 cases (during November 2007 to July 2009), loaded rakes were detained after completion of loading by the customers within the free time.
- c) It was assessed by the audit party that Railway Administration had suffered a loss of earnings of ₹ 6.04 crore for allowing incentive of freight rebate to customers during 2007-08 to 2010-11 although no financial benefit was accrued to railway authority out of the scheme.
- d) In course of detailed scrutiny of detention register, it was found that there was an opportunity cost of ₹ 10.85 crore towards earning capacity of the loaded wagons detained beyond free time on Railway account in the same period.

6. Lessons Learnt

a) The Railway Administration's injudicious decision for implementation of TIEL Scheme in the prevailing adverse condition had resulted in avoidable loss of earnings of ₹ 6.04 crore for allowing incentive of freight rebate to customers during 2007-08 to 2010-11.

b) Moreover, failure of the Railway Administration to translate the reduction in earnings into a productive opportunity by better turn around of the rolling stock caused further notional loss of ₹ 10.85 crore towards earning capacity of the loaded wagons detained beyond free time on Railway account in the same period.

c) The Zonal Railway neither worked out the cost benefit analysis for evaluation of the scheme as directed by the Board nor informed the Board about the constraint of the ground realities in implementing the scheme for further advice.

d) There should be a provision to revisit the obligation arising out of agreement during the validity period of the said agreement.

Enclosure for reference

1. Note of objection dated 22.09.2009 issued to the Railway Admn.
2. Copy of reply of Railway Administration on Inspection Report.
3. Copy of the Draft Paragraph issued to Railway Administration.
4. Railway Board's letter dated 06.03.2006 on the guidelines and instructions of TIEL Scheme.

K-6 (ii)

Office of the Principal Director of Audit
South Eastern Railway: Garden Reach
Kolkata - 700 043.

No. TA/SER/ 2-26/Jaroli(G)/ Spl. Lr./ 2009-10/

Dated: -09-2009.

To

1) The Financial Adviser &
Chief Accounts Officer/
South Eastern Railway,
Garden Reach.
Kolkata - 700 043

2) The Chief Commercial Manager,
South Eastern Railway,
14, Strand Road,
Kolkata - 700 001

Sir,

A note of objection regarding "Detention of loaded rakes under 'Terminal Incentive cum Engine on Load Scheme' resulted in consequential loss of Rs.681.18 lakh "by the railway." is enclosed.

It is requested that the remarks of the Railway Admn. as regards the facts and figures given in note of objection may kindly be communicated within four weeks of receipt of this letter.

Enclo: As stated above.

Yours faithfully,

sd/-

Dy. Director/TA

No. TA/SER/ 2-26/Jaroli(G)/ Spl. Lr./ 2009-10/ 350

Dated: 22-09-2009.

Copy forwarded for information and necessary action to:-

- 1) Sr. Audit Officer/Report/S.E.Railway/Garden Reach.
- 2) Sr. Audit Officer/Co-Ord/S.E.Railway/Garden Reach.

Chatterjee
Sr. Audit Officer/TA/SER/GRC.

AA-7097
22/9/09

78
22-09-09
S.K.C. P.
put up in file.
22/9/09.

K-6(ii) contd

(12)

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Note of Objection

Sub: Detention of loaded rakes under "Terminal Incentive cum Engine on Load Scheme" resulted in consequential loss of Rs.681.18 lakh.

In order to improve the utilization of rolling stocks and help the customers in prompt clearance of freight trains from the siding/terminals, a new scheme called "Terminal Incentive cum Engine on Load Scheme (TIELS)" was formulated and introduced by Rly.Bd's vide letter No. 2005/TC (FM)/1/8 dated 6.03.2006 (FREIGHT MARKETING CIRCULAR NO. 9 OF 2006) with effect from 1.04.2006.

According to the scheme, financial incentive would be given to such freight customers who help to reduce terminal detentions through one or more of the following means:-

- (a) Investment in or augmentation of infrastructure for mechanized loading and unloading such as increase in number of pay-loaders, tipplers, in motion weigh bridges, loading chutes etc.
- (b) Invest in yard layout of their sidings.
- (c) Introduce round the clock working in terminals to save detention to wagons.
- (d) Increase in number of labourers.

Direct benefits accruing to freight customers would be as follows:

- (a) Freight rebate as stipulated for a period of 10 years.
- (b) Utilization of railway loco during the duration of free time, without paying engine hire charges.

Customers who agree to switch over to TIELS working and load/unload their rakes within the limits prescribed for EOL timings would be eligible for incentives as detailed below.

- (ii) The incentive would be worked out for all rakes handled at the terminal for the type of traffic which has gone on to TIELS working.
- (iii) It would be given as a percentage rebate in freight charges.
- (iv) The customer would be eligible for the above rebate for a total period of 10 years.

K-6(ii) contd

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The scheme was designed with the view of benefit to both the customers availing the scheme and the railways itself. Customers are benefited with a rebate allowed on freight and the railways in the form of improved turn round of rolling stocks.

The scheme also stipulates a limit for levy of penalty charges and demurrage charges.

It thus follows that lower is the detention of rakes/engine after the loading/unloading higher is the wagon/rakes utilization. As the railways on their part are committed to keep the engine on load during the loading/unloading operations, detention is to be reduced to match the amount of incentive in the form of freight rebate with the railway's benefit in terms of reduced detention of rolling stock.

A review of records in the Goods shed/Jaroli, revealed that in many cases as shown in the statement enclosed the consignors having opted for the scheme, had loaded full rakes within the free time. However, after the loading was complete, the rakes those should have been drawn out without delay, to derive the targeted benefit, were detained for hours, because of the reasons on the part of railways and had suffered a loss of earnings to the tune of Rs.249.88 lakh.

In addition since the consignors completed loading within the stipulated free time, freight rebate to the tune of Rs.431.30 lakh as per the provisions in the scheme and agreements, was allowed to the consignors.

As such due to considerable detention of the rolling stocks from the time of completion of loading to the time of drawn out, Railways failed to derive the benefit of the scheme by improving the turn round of its rolling stocks and suffered a loss of Rs.681.18 lakh by way of loss in earnings and payment of rebate to the consignors.

sd/-
Dy. Director/IA

K-7 (ii)

④ 76

S. E. Railway

Dated 27.10.10.

No: SI/Audit /Pl.I/BSPX/8/09/

871

To
The Sr Audit Officer (TA),
S. E. Railway, GRC.

Sub: Audit Inspection report Pt.I on BSPX is held in Aug'09.

Ref:1) Sr.DOM/CKP's letter No. T/40/Audit/TIELS/BSPX/10
dt.14.9.10 addressed to COM/SERly/GRC.

2) Your letter No. TA/SER/2-25/Pl.I/BSPX(G)/2009-10/345
dt.17.9.2009.

A copy of Sr.DOM/CKP's letter cited under reference (1) is enclosed
herewith for your information which is self explanatory.

In view of the fact explained by Sr.DOM/CKP, you are requested to issue
closure advice on the subject Audit Inspection Report Pt. I.

Encl: As above.

[Signature]
A.F.A/TC
For Dy. C.A.O. (T)/GRC.

*Sri A.K. Mukherjee, Sr. Asst.
Pl. for up only.
2/11/10.*

*TA/ser/RRM-319
dt. 04/11/2010*

SOUTH EASTERN RAILWAY

Office of the
Sr. Divl. Optns. Manager
Chakradharpur
Dated 14.09.2010

No.T.40/Audit./TIELS/35PX/10

To
The Chief Optns. Manager (Spl.),
S.E.Rly., Garden Reach
KOLKATA - 43

Sub: Loss of Rs.22.46 Lakh by the Railway towards freight and rebate on detention of rakes because of detachment of Engine violation of the provisions under the scheme "TIELS".

Ref: Your office letter No. MGP/62/55/Audit. dtd. 05.01.2010.

With reference to the above, the detail remarks on the subject issue are appended below for kind perusal.

- 1.0 As rightly pointed out by Audit, under "TIELS" scheme, the train engine has to remain available during loading/unloading operations in the siding/goods shed and wait on Railway's account to operate the train immediately after a loading/unloading operation is completed.
- 2.0 It may be noted that on an average 60-70 rakes are being originated from CKP division. Similarly, proportionate numbers of empty rake are being supplied to the loading points for the purpose of loading.
- 3.0 In CKP division, maximum no. of sidings/goods sheds are electrified. So, to work out the empty/loaded rakes, electric locos are being ordered out accordingly.
- 4.0 Keeping the increase in originating loading, the loco requirements have not been increased commensurately. The comparative statements of originating rakes-Vis-à-vis loco holding (electric) for the year 2008-09 & 2009-10 (Apr.-Jan.) are appended below.

Months	2008 - 09		2009 - 10	
	Nos. of rake originating	Loco holding	Nos. of rake originating	Loco holding
APRIL	240	46.1	225	72.2
MAY	229	66.5	217	68.5
JUN	232	64.5	221	68.6
JULY	235	68.7	220	71.4
AUGUST	234	66.7	235	72.2
SEPTEMBER	233	66.2	244	68.7
OCTOBER	201	53.7	241	72.4
NOVEMBER	216	57.3	233	67.6
DECEMBER	228	66.2	230	71.0
JANUARY	220	69.3	232	69.8

Contd... P/2

K-7(ii)(contd)

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- From the above statistics, it is clearly reflected that, despite increase in originating loading, loco holding requirements do not increase proportionately. As a result, locos are being ordered out to clear loading/empty rakes as per priority in consultation with Hqr.
- 6.0 Apart from the above, the following factors are also constraints for allowing the train engine to remain available during loading
- (a) Non-availability of locos as per direction/load wise.
 - (b) Location of sidings/loading pints over DPS area where maximum loaded rakes are being originated are at close vicinity.
 - (c) Topography of the division necessitates provision of banking engine at specified sections over the division.
 - (d) Ensuring the availability of locos to clear over lapping loads.
- 7.0 Keeping all the above facts in view, it is not always feasible to keep a loco wait for clearance of a loaded/empty rake under "TIELS" scheme.

As such, the figure of loss of revenue by the Railway towards freight and rebate on detention of rake because of detachment of engine violation of the provisions under "TIELS" scheme is hypothetical and not based on the factual position as stated above.

Malaya
14/9/10
Sr. Divl. Optns. Manager
S.E.Rly./Chakradharpur

SOUTH EASTERN RAILWAY**Loss due to injudicious implementation of Terminal Incentive cum Engine on Load Scheme**

(81)

Railway Administration's injudicious decision to implement TIEL Scheme with deficiencies resulted in avoidable loss of earnings of ₹6.04 crore for allowing freight rebate and loss of earning capacity of the detained wagons to the tune of ₹ 10.85 crore

(The Railway Board introduced the Terminal Incentive cum Engine on Load Scheme (TIELS) in April 2006. The Scheme would be applicable to the existing private sidings and terminals notified for charging freight on 'through distance basis' and the good sheds having facility of handling a block rake in a single placement. (An incentive in the nature of freight rebate at a fixed percentage was to be allowed for 10 years to the owners/users of the siding/terminals/good sheds who would help to reduce detention of rolling stock by development of infrastructure of the sidings/terminals as well as completion of loading/unloading process within the reduced free time.) However, the scheme stipulated a deterrent in the form of levy of penalty, demurrage charges and withdrawal of freight rebate if the customers failed to complete loading/unloading within the stipulated time. The intended beneficiaries were required to execute an agreement valid for 10 years with the Railway for this purpose.

(In order to achieve better turnaround of the rolling stock out of the Scheme, the Railways in turn would continue to retain the engine attached with the incoming rakes under Engine on Load (EOL) system without levying any charge on the parties so that the rakes released immediately after completion of the loading/unloading by the customers within the revised free time would be moved out of the terminals/good sheds.) The zonal railway administration were to provide feedback in implementation of the above scheme to the Railway Board.

(A review of records related to the Scheme at Jaroli, Barbil and Banspani Good Sheds in Chakradharpur Division revealed that agreements were executed with the customers and freight rebate (2%) was allowed accordingly. However, in 632 cases during November 2007 to July 2009, loaded rakes were detained after completion of loading by the customer within the free time that indicated engines bringing the empty rakes were not stable along with the rakes.

Hence, detachment of the engines from the rakes violating EOL system vitiated the cardinal principle of the Scheme, as the Railway Administration failed to capitalize the benefit of better turn round of the wagons, by eliminating avoidable detention, commensurate with the incentive allowed to the customers for completion of loading within the reduced free time.

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The matter of loss of earning capacity to the tune of ₹ 2.68 crore of the loaded wagons detained ranging from 1 hr 25 minutes to 40 hrs beyond free time for detachment of engines, as assessed in audit, despite less earning for simultaneous freight rebate of ₹ 4.48 crore allowed to the customers during the aforesaid period was taken up with the Railway Administration (June, September 2009). (In admitting the fact of detachment of engines from the empty rakes the Railway Administration stated (October 2010) that in Chakradharpur Division, availability of locos was not commensurate with the originating loading and other requirements like provision of banking engine etc. for which locos were ordered to clear the rakes on priority and it was not always feasible to keep a loco waiting for clearance of a rake under TIEL Scheme.) The Railway Administration thus concluded that the loss because of detachment of engines in violation of the provision of the Scheme, as stated in audit, was hypothetical and not based on factual position.

The contention of the Railway Administration is not tenable since the feasibility of the implementation of the Scheme at those good sheds in the interest of the Railways' intended benefits should have been assessed for a judicious decision in the backdrop of unfavourable situation of availability of sufficient locos. The records available to audit did not suggest that the Railway Administration had ever informed the Railway Board about the constraint of the ground realities in implementing the Scheme for further advice. The reply of the Railway Administration also did not indicate any remedial action to improve the situation in the near future.

Thus, the Railway Administration's injudicious decision for implementation of the TIEL Scheme in the prevailing adverse condition had resulted in avoidable loss of earnings of ₹6.04 crore for allowing incentive of freight rebate to the customers during 2007-08 to 2010-11(after updating). Moreover, failure of the Railway Administration to translate the reduction in earnings into a productive ingredient by better turnaround of the rolling stock due to deficiencies in organizing the Scheme added further loss of ₹ 10.85 crore towards earning capacity of the loaded wagons detained beyond free time in the corresponding period. The overall loss would only accumulate during the operation of the Scheme (ten years) since the Railway Administration would have little scope to revisit the agreemental obligation during this period.

K - 1

FREIGHT MARKETING CIRCULAR NO. 9 OF 2006

GOVERNMENT OF INDIA
MINISTRY OF RAILWAYS
(RAILWAY BOARD)

No. 2005/TC(FM)/1/8

Rail Bhavan, New Delhi - 110 001, dated

6.03.2006

The General Managers,

- | | |
|---------------------------------------|---------------------------------------|
| 1. Central Railway, Mumbai (CSTM). | 2. Eastern Railway, Kolkata. |
| 3. East Central Railway, Hazipur. | 4. East Coast Railway, Bhubaneswar |
| 5. Northern Railway, New Delhi. | 6. North Central Rly., Allahabad. |
| 7. North Eastern Railway, Gorakhpur. | 8. Northeast Frontier Rly., Maligaon. |
| 9. North Western Railway, Jaipur. | 10. Southern Railway, Chennai. |
| 11. South Central Rly., Secunderabad. | 12. South Eastern Railway, Kolkata. |
| 13. South East Central Rly. Bilaspur. | 14. South Western Railway/Hubli. |
| 15. Western Railway, Mumbai. | 16. West Central Rly., Jabalpur. |

Sub: Terminal Incentive cum Engine on Load Scheme (TIELS).

A new Terminal Incentive cum Engine on Load Scheme has been formulated, details of which are enclosed herewith. The earlier Engine on Load Scheme issued vide Board's letter No. TC-I/94/214/9/Vol.II dated 18.03.2005 stands superceded.

Implementation of the above scheme should be through a mechanism "EOL Benefit/Terminal Incentive Scheme Benefit Bank" for purposes of keeping an account of payments made as also reduction in wagon detentions in terms of rake-hours so that a cost benefit analysis would be available for evaluation of the scheme. Details of the mechanism are being worked out and will be circulated to zonal railways in due course.

You are requested to give wide publicity to the scheme.

The above instruction will come into effect from 1.04.2006.

Follow up action and feed back of the scheme may be intimated to Board's office.

This issues with the concurrence of Finance Directorate of Ministry of Railways.

Please acknowledge receipt.

D.A. as above.

(Miss. S.R. Sett)
Joint Director freight Marketing

...2/-

