

CHAPTER 4:	STORES	AND	ASSETS
	MANAGEMENT		

4.1 Import

4.1.1 Railway Board: *Extra expenditure on purchase of imported material*

Failure of the Railway Board to procure grease seals directly from the original spare part manufacturers led to extra expenditure of Rs.20.29 crore

Spares required for maintenance and operation of capital assets not indigenously available are being imported by the Zonal Railways/ Production Units. Certain items of spares are not manufactured by the suppliers of capital assets. To safeguard railways' interest the Railway Board in June 1991 instructed that items of spares which are bought-out items for the manufacturer of capital assets should be procured directly from the concerned sub-suppliers. The Railway Board, keeping this aspect in view, directed that suitable clause should be incorporated in tenders which are aimed at (i) obtaining the details of all spare parts bought from outside sources by the prime contractor and the sources of supply; (ii) determining the prices as quoted by the original manufacturers; and (iii) ensuring that the original spare part manufacturer quotes directly to the Railways for all future requirements.

Earlier the Railway Board with a view to safeguarding the Railways' interest decided (November 1982) that in case of purchase of imported goods through agents, quantum of agency commission should be determined carefully with reference to the nature of imported stores, country of origin and should not normally exceed five per cent.

Procurement of Cartridge Tapered Roller Bearings (CTRBs) for freight stocks is done by the Railway Board, who also finalises price agreements for procurement of spares for CTRBs based on which Zonal Railways procure spares. M/s National Engineering Industries (NEI) and M/s Timken India Limited (TIL) were the only two approved sources for CTRBs and its components. All spares/ components with the exception of grease seals were indigenously manufactured by these firms. They imported the grease seals from M/s.BRENCO, USA and M/s.FMC and Timken, USA respectively. The Railway Board finalised rates for grease seals for orders to be placed on both firms for 2000-01 to 2002-03 at Rs.491.92 and for 2003-04 at Rs.451.88 per unit (all inclusive). Orders were also placed on developmental source M/s.C.R. Seals for indigenous manufacture for 2000-01 and 2003-04.

Review by Audit revealed the following:

- Though the Railway Board had obtained information through their CTRB tenders that the two approved firms were importing grease seals, they failed to obtain information regarding the prices quoted by the original manufacturers. They also failed in ensuring direct quotations from the original manufacturers when tenders were floated. The failure is all the more serious in view of the fact that as early as in 1998,

Western Railway became aware of the excessive prices being charged by the approved firms and brought the matter to their knowledge.

An independent review of invoices for the period July 2001 to January 2003 of M/s.NEI revealed that per unit cost of grease seals (all inclusive) ranged between Rs.289.37 and Rs.310.91. In case of M/s.TIL, per unit cost ranged between Rs.278.48 and Rs.308.81 during December 2001 to January 2003. Per unit cost further came down to Rs.252.01 in November 2003. The approved firms were, thus, supplying grease seals at highly inflated prices with profit margin ranging from 58.22 per cent to 79.31 per cent during these years.

Taking into account the above landed cost (worked out on the basis of firms' invoices), extra expenditure incurred worked out to Rs.20.29 crore on procurement of grease seals during 2000-01 to 2003-04. The Railway Board's failure to follow its own instructions to procure directly from the manufacturer resulted in extra expenditure of Rs.20.29 crore.

- After tender for 2003-04 was floated, Western Railway again made information available to the Railway Board (May/ July 2003) regarding the price difference and also proposed that they should take up with the Principals for direct supply. The Railway Board took no determined action in this regard and the TC went ahead and met to deliberate on the quotations received. The TC also drew attention to the Western Railway findings but fell short of at least recommending negotiations with the approved firms on the basis of information available and instead recommended that the approved firms be asked to match the development firm's price. Thus, an opportunity to at least do some damage control and protect railways' interest for the year 2003-04 procurement was also lost.
- Even given a scenario where original manufacturers are reluctant to directly sell to the Railways due to already existing exclusive marketing relations with the approved firms in India, the Railway Board should have gone by its directions of November 1982 and negotiated with the firms and treated the approved firm as agents of original manufacturers, allowing agency commission not exceeding five per cent. The Railways would have avoided at least Rs.18.74 crore of extra expenditure if not Rs.20.29 crore, had they directly procured from the Principals.

The matter was taken up with the Railway Board in June 2004 and their reply has not been received (December 2004).

4.1.2 CLW: *Procurement of loco component of incorrect specifications*

Faulty recommendations of the TC lead to procurement and subsequent rejection of Centre Pivot Rubber Bush Assemblies of incorrect specifications and blocking of capital of Rs.6.78 crore

Centre Pivot Rubber Bush Assembly (CPRB), a component used in the WAG-7 locomotives was being purchased indigenously. However, as indigenous

material was not found reliable in meeting the service condition of these locomotives, the Railway Board directed (June 2001) CLW to arrange for replacement of all the indigenous CPRBs by imported ones.

CLW assessed (February 2002) requirement of the Zonal Railways as 1,410 CPRBs on the basis of indents received and 140 CPRBs for its own use. As there were only two approved foreign suppliers, GM/ CLW approved inviting Special Limited Tender from these two sources only. However, as one of the sources expressed his inability to participate, only one source viz., M/s.Trelleborg Automotive Limited, U.K. was left for bulk procurement of the material. After deliberations and negotiations with the Indian agent (M/s.Ashika Commercial Private Limited), an order for 1,500 CPRBs at the cost of Rs.5.20 crore was placed in April 2002. The order was further enhanced (November 2002) to 1,740 CPRBs at the total cost of Rs.6.78 crore.

The entire quantity was received by CLW in five lots during the period February 2003 to July 2003. On receipt of material, CLW observed that the material received was not as per specification and the entire quantity was rejected (August 2003) and the firm was asked (September 2003) to rectify/replace the rejected material or to refund entire cost of the material received.

In this connection, the following points arise:

- The TC's evaluation and recommendations were faulty and ambiguous, which led to placement of orders on a firm, without providing adequate safeguards and supply of CPRBs of a wrong specification. The imported bushes were four times more expensive than the indigenous ones. The TC justified the higher cost on the basis of longer life cycle but could not insist on guarantee from the supplier for the life cycle period. Since this was not ensured, procurement at a higher cost was not in order. Regarding specifications, throughout their deliberations the TC held that the firm's own drawing was technically not acceptable and that CLW's drawing only should be supplied, yet, while drawing up terms and conditions, they mentioned both the drawings against 'Description of Stores', which lead to the firm and the inspecting agent at Paris interpreting it to mean that the firm's drawing was acceptable.
- In view of rejection of the entire material, CLW resorted to procurement and utilisation of indigenous version of the CPRBs, which are known to be high on maintenance costs due to need for frequent replacements.
- In the meanwhile, the firm is yet (September 2004) to replace the material and an amount of Rs.6.78 crore paid to the firm lies blocked.

When the matter was taken up (February 2004), CLW held that the firm's drawing was identical to CLW's and there was nothing wrong in mentioning both the drawing numbers in the description of the item in purchase order. While accepting that rejected material has not yet been replaced by the firm, they stated that the firm has agreed to supply the entire quantity vide their letter dated 15 November 2003. Final modalities are being worked out. Once the deficiencies are made good by the firm, entire supplies can be used.

These arguments are not tenable because, the very fact that the entire quantity was rejected on grounds that it did not conform to the CLW drawing shows that the two drawings were not identical and that mention of both the drawings in the purchase order description had caused the confusion. Further, a perusal of letter dated 15 November 2003 reveals that the firm has agreed to supply only extra steel bush to make the supply conform to the CLW drawing. This also is yet to be done and, in the meantime, indigenous version of bushes having low life cycle continue to be used.

The matter was taken up with the Railway Board in October 2004 and their reply has not been received (December 2004).

4.1.3 CLW: *Unproductive expenditure on procurement of Laser Cutting Machine*

Poor contract management led to unproductive expenditure of Rs.2.52 crore on procurement of laser cutting machine

An order for a Computer Numerical Controlled (CNC) Laser Cutting Machine at a cost of Rs.1.60 crore was placed by COFMOW on M/s.European Laser Applications System, Belgium on 20 January 2000*. The machine was received in CLW on 15 July 2000 and commissioned on 22 November 2000. The Proving Test Certificate (PTC) was issued on 21 March 2001.

Performance of machine had been un-satisfactory from the outset and this was brought to the notice of the Indian Agent of the firm, under intimation to COFMOW, several times right from the time PTC was issued. The firm's representatives visited CLW three times and its Indian representatives eight times during November 2000 to November 2003. During their visits and in their letter, the firm attributed poor performance of the machine to rats and other rodents eating away the wires, dust, rat droppings and the fact that it was installed at a location directly under the roof opening through which rain water fell directly on it. CLW, however, held that the problem was with 'Y' axis encoder motor (FANUC) which needed replacement. The machine remained under breakdown condition since 24 September 2001.

Audit review of contract management by CLW post procurement revealed that:

- The machine was in breakdown condition from 31 January 2001 to 11 February 2001 and again from 19 March 2001 to 17 April 2001. Despite the fact that the machine was not giving steady trouble-free service since its commissioning, CLW authorities hastily issued PTC, based on which balance 10 per cent payment was released, whereby the hold over the firm for attending to the machine was reduced.
- CLW failed to take any remedial action to improve the shop floor environment, especially with regard to protection against rats and other

* This was an order for replacing a machine procured in December 1997, which was damaged beyond repairs while in transit. A comment about non-availing of abatement of custom duty on the damaged consignment was commented in Para 4.1.3 of Railway Audit Report No.8 of 2003.

rodents, dust and rainwater. The firm referred to this inaction on CLW's part to disengage themselves from their warranty obligations.

- From the site visits of the representatives of the firm and the firm's response to their letters, it was evident that the firm was unable/ unwilling to carry out their warranty obligations. Yet, CLW and COFMOW persisted with their ineffective approach of correspondence, instead of invoking provisions in the warranty clause of the bid document. COFMOW initiated action to encash the Bank Guarantee only in February 2003 and finally encashed the Bank Guarantee in December 2003 i.e. after a lapse of more than two years since the machine was lying idle (24 September 2001). Action to get the machine repaired through other sources, therefore, could be started only in February 2004, results of which are yet to fructify.

When the matter was taken up (April 2004), CLW stated (June 2004) that:

- PTC was issued only after satisfactory performance as per specification.
- The machine has been installed on industrial grade flooring and under covered shed. This is normal shop floor environment. Further, Clause 15.1 of Advance Tender Document (AT) stipulates that 'the ambient temperature at the site at which the machine will be installed may vary from +0° C to +50° C over the year. The relative humidity may be as high as 100 per cent. The atmosphere is expected to be dusty. The machine offered would be suitably tropicalised to work under these atmospheric condition without any adverse effect on their performance.'
- They were not in a position to take any other action for repair of the machine, as it was the responsibility of the firm to attend items, which failed within the warranty period as per AT.

These arguments are not tenable because

- Even before issue of PTC on 21 March 2001, the machine was found to be not in working condition from 31 January 2001 to 11 February 2001 and again from 19 March 2001. Issuing PTC in March 2001 was thus not correct.
- Though Clause 15.1 of AT stipulates certain environment conditions and the need to tropicalise the machine, Para 1.2 of the specification for the machine given in the tender documents provided that the bidder could give the requisite level of temperature and humidity required for optimum performance of the machine based on which suitable environmental conditions would be provided by the purchaser. Accordingly, the supplier had indicated in his offer lower temperature and humidity conditions, which had to be provided by the purchaser. However, CLW failed to provide suitable environmental condition for the smooth and uninterrupted working of the machine.
- By encashing bank guarantee, CLW salvaged only Rs.0.27 crore against Rs.2.52 crore incurred in procurement/ installation of the machine. The action to encash the bank guarantee was also belated. During the period

the machine was lying idle, its conditions were only deteriorating due to poor environmental conditions provided. When even the Original Equipment Manufacturer (OEM) was unable to fix the machine, the possibility of other sources repairing the machine without the OEM spare parts, know-how etc. is remote.

Thus, CLW is yet to have a working CNC Laser Cutting Machine with them though justification was made and felt way back in December 1997. The expenditure of Rs.2.52 crore incurred on the machine has, thus, proved infructuous.

The matter was brought to the notice of the Railway Board in September 2004 and their reply has not been received (December 2004).

4.1.4 COFMOW: Loss due to non-recovery of risk and cost from a defaulting firm

Failure of COFMOW to recover risk and cost amount from a defaulting firm resulted in loss of Rs.0.69 crore
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COFMOW floated a global tender in February 2000 for procurement of one CNC Press Brake (capacity 800 tonne). The tender was opened in May 2000 but advance acceptance of the tender was issued after a year, on 29 June 2001 to M/s.Darley B.V. of Netherlands, a technically suitable firm which had offered the lowest rate.

The firm did not accept (July 2001) the advance acceptance offer on the plea that basic price of the machine quoted by them was exclusive of cost of tooling, which had been quoted separately later after personal discussion with COFMOW. However, COFMOW felt (July 2001) that as per firm's quotation, price per unit was inclusive of the cost of toolings. Meanwhile, validity of the Bid Guarantee Bond of Rs.8 lakh, which was valid upto 30 June 2001 had expired. However, COFMOW reiterated (September 2001) their earlier stand of July 2001 in response to firms' letters of July and September 2001 and cancelled (January 2002) the contract at the risk and cost of the firm and floated another global tender for procurement of the same kind of machine and placed an order (July 2002) on M/s.LVD Co. NV of Belgium.

In September 2002, COFMOW asked M/s Darley B.V to pay the risk and cost amount of EURO 1,61,136.25 (Rs.0.69 crore). The firm refused (October 2002) to honour the claim. COFMOW did not pursue the matter further.

When the matter was taken up (February 2003 and March 2004), COFMOW accepting the audit contention stated (April 2004) that the firm had rejected the claim. They further stated that all the Zonal Railways have been advised to recover/ withhold payment of the firm, if any, pending with them. Legal advice was also being sought for arbitration/ legal action. Reference to the Commercial Attaché of the Embassy of Netherlands was also being proposed.

The reply is not tenable. As per terms and conditions of contract, a suitable action to recover the amount should be initiated within 15 days of issue of notice for payment of risk and cost to the firm. In this case, notice to the firm was issued in September 2002. Action on all possible options proposed now

by COFMOW in their reply should have been initiated in October 2002 itself. Besides, validity period of Bid Guarantee Bond for Rs.8 lakh was also not extended, which could have ensured recovery of at least this amount from the recoverable amount of Rs.0.69 crore.

The matter was taken up with the Railway Board in September 2004 and their reply has not been received (December 2004).

4.2 Rolling stock and related stores

4.2.1 Railway Board: Procurement of HSD oil at higher rates

Failure to counter offer lowest rate, enforce fall clause and amend price variation clause in procurement of HSD oil resulted in extra expenditure of Rs.309.66 crore

Tender for procurement of HSD oil for the period 1 January to 31 December 2003

Till March 2002, Indian Railways procured primary oils like, High Speed Diesel (HSD) oil and Motor spirit (Petrol) through rate contracts concluded with the three oil PSUs namely IOC, BPC and HPC. After dismantling of Administered Pricing Mechanism (APM) from 1 April 2002 for these items, the Railways considered that it would not be in the interest of Railways to extend the existing Rate contracts on the same terms and conditions. To meet its requirement of Petrol and HSD for the period from 1 January 2003 to 31 December 2003, open tenders were invited and opened in August 2002. Three PSUs (IOC, BPC and HPC) and one private firm (Reliance Petroleum) participated in the tender.

The three PSU oil companies quoted identical rates. Basic rate quoted by the private firm for interstate supply from Gujarat was the lowest. PSU oil companies offered to supply at a discount of Rs.200 per KL (inclusive of Excise Duty), if orders were placed on them for supplying at their established Railways Container Depots (RCDs). Besides the basic price difference, there were also differences in quotations on aspects like Sales Tax exemption afforded by Government of Gujarat to the private firm, quality of oil supplied, user charges for the RCDs, etc. The TC worked out the end cost of different locations and concluded that rate for HSD quoted by PSUs would be cheaper in most locations and rate quoted by the private firm would be lowest for supplies within Gujarat.

The TC, therefore, recommended placement of order on the three PSUs for supplies outside Gujarat. For supplies in Gujarat, it was recommended that 50 per cent of requirement (42,000 KL.) could be met through the private firm and remaining 50 per cent through PSU oil companies. For placement of orders on the private firm, TC also identified the supply locations.

Considering the fact that the RCDs in the locations identified by the TC for placing orders on private firm were originally put up by PSUs, Railways decided to place orders for the entire requirement on the three PSUs to avoid any contractual complications.

Scrutiny of the tender revealed the following:

Assessment of reasonableness of price quoted

The quotations received from the three PSUs were identical in every respect. Rates and all other terms offered by the PSUs as regards price variation, quality of oil offered, freight charges etc. were identical, which is a clear indication that the three PSUs had prepared their quotations in consultation with one another. Acceptance of rates and terms and conditions quoted jointly by PSUs defeated the very purpose of invitation of open tender to procure at the market driven rates.

The Railways should have explored the possibility of negotiating a better price especially as they had received a lower rate from a private firm with which they could have compared and arrived at a reasonable price. Financial implications of the Sales Tax exemption, annual user charges leviable on PSUs on RCDs which should have been taken over by the Railways, the probable effect of quality of oil on the increase in fuel efficiency, etc. needed to have been kept in mind and used for the purpose of arriving at a reasonable price. The TC, however did not consider it necessary to examine the reasonableness of rates quoted by the PSUs on the ground that the prices were fixed by the PSUs with the approval of Government.

While it is true that the PSUs fixed the price of HSD oil with the approval of Government, the price fixed was only the maximum price and PSUs were at liberty to charge a lower price, if it was necessary due to competition. The very fact that PSUs made a suo moto offer of an identical discount of Rs.200 per KL. was indicative of the flexibility that they enjoyed in making a downward revision in price fixed. The Railways should have taken note of this and used it to their advantage for negotiating the price.

Failure to counter offer the lower basic rates resulted in extra expenditure of Rs.1,127.39 per KL. exclusive of ED/ ST etc. totalling to Rs.274.73 crore.

Operation of fall clause

The standard fall clause incorporated as part of every contract entered into by the Railways provide that the price charged for the stores supplied under the contract by the contractor shall in no event exceed the lowest price at which the contractor sells the stores or offers to sell stores of identical description to any persons/ organisation including the purchaser. As per this clause, such lower prices would be applicable to supplies made from the date on which such sale or offer to sell was made.

The tender for 2003 was opened on 16 August 2002. All the supplies made by PSUs from 16 August 2002 to 27 February 2003 on the outstanding quantities of earlier contracts, therefore, should have been supplied at a discount of Rs.200 per KL. in view of the fall clause.

Failure to obtain supplies at the discounted rate had resulted in excess payment of Rs.24.37 crore on 10,09,970 KL. HSD oil supplied by PSUs during the aforesaid period.

Tender for HSD oil procurement during 1 January to 31 December 2004

To meet its HSD oil requirements during 1 January 2004 to 31 December 2004, tenders were floated in May 2003 and were opened on 18 September 2003. Offers were received from six firms viz., four PSUs and two private firms and only four of them fulfilled all the requisite conditions.

In this tender also, rates and other terms and conditions quoted by the three PSUs were identical. PSU oil companies also offered a discount of Rs.350 per KL. (inclusive of Excise Duty) from their quoted rates, if orders were placed on them for supplying at their established RCDs. The private firm offered a lower basic rate for supply from its eight supply locations, besides a discount of Rs.600 per KL. Subsequently, the private firm, which was the lowest tenderer made a representation to the MR and asked for an opportunity to match any counter offer made by the Railways.

The TC recommended that discount of Rs.600 per KL. quoted by private firm be counter offered to PSUs as against Rs.350 per KL. initially offered by them. The PSUs accepted the counter offer and orders were placed accordingly. The TC considered the rates offered by the firms and proposed to allot (i) the Railways requirement at three designated RCDs (estimated at 22,000 KL.) to the private firm after taking over the three RCDs from the PSU oil companies and (ii) the remaining quantity to the three PSUs.

As the private firm was not required to invest on providing RCDs, the Railways also decided to impose annual usage charges for using the existing RCDs.

Scrutiny of the tender revealed the following:

Failure to assess reasonable price for counter offer

The TC recommended that PSUs should be asked to match the discount of Rs.600 without considering the fact that even the basic rates quoted by the PSU could be higher than the lowest rate offered by the private firm and that the lowest rate offered by the private firm was also negotiable. Failure to assess the reasonable price before making a counter offer resulted in the Railways losing an opportunity to effect savings in procurement.

Operation of fall clause

As the PSUs have offered to supply HSD oil at a discount of Rs.350 per KL, as discussed above, all the supplies by PSU's between 18 September 2003 and 31 December 2003 on the outstanding quantities of earlier contracts should have been made at a discount of Rs.350 per KL.

Failure to obtain supplies at the discounted rate had resulted in excess payment of approximately Rs.10.56 crore on 5,83,333 KL. HSD oil supplied by the PSUs during the aforesaid period.

The matter was taken up with the Board in July 2004 and October 2004. The Railway Board replied in September/ November 2004. While justifying the procurement at the quoted rates of the PSU oil companies, the Board stated that:

- The private firm had quoted seven different rates, only one of which was lower than the rates quoted by the PSUs. The price variation demanded by the private firm linked with import parity price was conceptually different from that offered by the PSUs. Therefore, the rates quoted by the firm with base date of 16 August 2002 could have at best been considered as indicative only. Moreover, the private firm's offer was not in line with the tender conditions and the private firm was a new bidder without any past experience in supply to the Railway's. As the private firm was not eligible for bulk order, rate of such firm was not considered for offering for established/proven suppliers in terms of present guidelines and practices.
- As the control of Government in fixing the price of oil did not cease even after dismantling of APM, the rates quoted by the PSUs had to be the same. Therefore, it may not be correct to conclude that the PSUs had prepared the quotation in consultation with each other.
- Negotiations were to be made only in exceptional cases. The rates quoted by the PSUs were considered reasonable since they were lower than the rates applicable to other consumers and the DGS&D contract rate. Hence there was no need for negotiations.

The reply of the Board is not tenable in view of the following:

- Though the private firm offered seven different rates of supply from different locations, the Railways had the option to counter offer the lowest of the seven different rates to the other eligible suppliers. Moreover, Railways have, in the past, in several instances counter offered the lower rates quoted by untried/unapproved sources to established suppliers, which were accepted. Even the procurement of HSD oil, in the subsequent year, though the private firm was still an untested firm, Railways counter offered the discount of Rs.600 offered by it to the PSUs, which was readily accepted. Therefore, Railways stand in this case is contradictory to their action in other cases. Further, even the PSUs offers were not exactly as per tender conditions. The Railways argument that the private firm rates could not be counter offered since they had not accepted the other tender conditions, therefore is not a valid one.
- While it is true that the Government even after dismantling of APM indirectly controls the price of the HSD supplied by PSUs, the very fact that all the three PSU oil companies not only quoted identical tender conditions but also offered an identical discount of Rs.200 per KL in the first year and Rs.350 per KL in the second year from the Government approved MPL clearly indicates that the PSUs had prepared their quotations in consultation with each other depriving the Railway of obtaining market driven rates.
- This is a not a sound assumption as Railway Board had obtained a still lower rate from the private firm which should have been counter offered or relied upon for holding negotiations.

Further, on the issue of failure to invoke fall clause, the Board stated that the offer of the PSUs was to supply from a specific date, and therefore the fall clause cannot be invoked for the supplies to be made prior to that date. Their legal branch also endorsed this view.

This argument is also not tenable. In case of a contract for supply of batteries entered into by the Board in August 2001, the Board inserted a fall clause to ensure that the lowest rate, at which the supplier had sold or offered to sell would be applicable from the date of opening of tender for supplies made against this contract. This date was prior to the commencement date of the supply period tendered for. Similar clause could have been included in the HSD oil contracts in the financial interest of the Railways.

4.2.2 Railway Board: *Avoidable expenditure on excess procurement of steel*

Unnecessary provision of buffer stock and delay in finalising wagon production programme lead to excess procurement of steel worth Rs.48.67 crore

Procurement of wagons depends on the level of traffic expected to materialise, availability of funds etc. To make the planning for procurement of wagons and related raw material systematic, Parliamentary Committees recommended that planning for their procurement should be made sufficiently in advance. Consequently, in August 1997 the Railway Board decided that Traffic and Planning Directorate must indicate the type wise requirement of wagons at least 15 months in advance.

Proposal for the procurement of 23,000 wagons for 2001-02 was submitted for the Railway Board's approval in June 2000 so that wagons tender may be opened in September 2000. MR, in view of difficult resource position, tentatively approved (November 2000) procurement of 20,000 wagons instead of 23,000 proposed earlier.

Accordingly, requirement of steel for manufacture of 20,000 wagons was assessed at 30,728 MTs. and was included in the total procurable quantity of steel of 63,911 MTs. required for coach manufacture and re-building of coaches/ wagons etc. The quantity so arrived at also provided for three months buffer stock justified by Director Railway Stores (DRS), Kolkata and accepted by Member, Mechanical on the ground that non-supply of adequate steel to the wagon builders in the past had badly affected wagon production. Actual requirement of wagons was finalised only in April/ June 2001, when it was decided that the Railways would require only 7,175 wagons as against 20,000 approved in November 2000.

In this connection, following observations are made:-

- Buffer stocks for wagon production are not justified for following reasons:

- The contract conditions for procurement of steel stipulate that the supply would commence within one month from the date of contract, which indicates that there was no lead-time involved.
- Any increase in the quantity of steel required for wagon manufacture could be met by operating the 30 per cent option clause.
- The problem of in-adequate supply of steel to the wagon manufacturer was because of failure of DRS to issue release orders in timely and regulated manner. Streamlining the system of issuing release orders by the DRS would help in prompt supply of steel to wagon manufacturers.
- Provision of buffer stock defeated the basic objective of reducing the requirement of wagons from 23,000 to 20,000 by MR. By providing for buffer stock, the Railways in fact has provided steel for 25,000 wagons [20,000 wagons (+) 5,000 wagons being three months buffer stock provision] as against MR's orders of 20,000 wagons.

Excess procurement towards buffer stock for wagon manufacturing alone worked out to 6,145.6 MT. of steel worth Rs.11.54 crore.

- Similarly, against tenders opened on 12 October 2001 and 15 November 2002 for procurement of steel for wagon production for 2002-03 and 2003-04 respectively, the Railways procured 3,546 MTs. (approx.) steel worth Rs.7.57 crore (including taxes) in excess towards buffer stock.
- The Railway Board failed to implement its own directive of finalising wagon procurement plan, well before procurement of steel. Although orders for purchase of 30,728 MTs. of steel required for manufacture of 20,000 wagons were placed in December 2000, wagon requirement was finalised in April 2001 at 7,175, a reduction of almost 64 per cent. This was not followed by corresponding reduction in steel procurement leading to excess procurement of 15,732 MTs. (approx.) of steel worth Rs.29.56 crore. The Railways failed to carry out mid course correction by reducing steel procurement under 30 per cent option clause.

Thus, the unnecessary provision of buffer stock and failure to finalise wagon production programme before initiating procurement of steel resulted in avoidable expenditure to the tune of Rs.48.67 crore.

The matter was brought to the notice of the Railway Board in June 2004 and their reply has not been received (December 2004).

4.2.3 ICF: Incorrect production programme leading to avoidable expenditure

Failure of the Railway Board to change approved production programme in time resulted in manufacturing unwanted Jan Shatabdi coaches and avoidable expenditure of Rs.5.82 crore in converting them as conventional coaches

The Production Programme of Integral Coach Factory for 2003-04 was notified by the Railway Board in October 2002, which included manufacture

of 84 Jan Shatabdi coaches (eight AC Chair Cars, 60 Non-AC Chair Cars and 16 Guard-cum-Passenger Coaches).

In the Budget speech for 2002-03, MR announced introduction of 16 Jan Shatabdi (JS) trains. In view of this, the Railway Board expressed urgency for early completion of production of JS coaches during 2002-03. Presuming that similar urgency might be expressed during 2003-04 also, ICF rushed up and manufactured 48 JS shells (eight AC Chair Cars, 30 Non-AC Chair Cars and ten Guard-cum-Passenger Coaches) by May 2003.

In May 2003, the Railway Board communicated that 84 coaches programmed for 2003-04 would not be required and hence all manufacturing and procurement activities relating to JS coaches were to be stopped. But, ICF had already completed production of 48 JS shells and purchase orders worth Rs.7.05 crore had already been placed for materials for the JS coaches. Therefore, at the request of ICF, the Railway Board approved turn out of 48 JS shells, without JS nomenclature and with the colour scheme same as that followed for the regular lot of coaches.

While completing manufacture and furnishing of these 48 coaches, though some JS features were withdrawn, overall cost of manufacture of these coaches was higher than that of conventional coaches. This has resulted in avoidable additional expenditure of Rs.5.82 crore in manufacture of 38 conventional coaches from JS shells and incurring additional cost in production of 10 guard-cum-passenger coaches, manufactured for JS trains, which could not be assessed by Audit.

This also resulted in unnecessary procurement of JS specific materials worth Rs.7.05 crore, which was offered to other Railways. Even after transferring material to the user Railways, materials worth Rs.0.63 crore are still (July 2004) lying idle with ICF.

When the matter was brought to the notice of the Railway Board in September 2004, they accepted (December 2004) that the Railway Board retraced their orders for production of 84 JS coaches. It was, however, contended that action was initiated by the Board for cancellation of JS production from Production Programme 2003-04 in February 2003. Since the modification of the Production Programme had to cater for both reduction of Jan Shatabdi as well as increase in conventional coaching stock, the issue was considered in totality by the Board, and a decision was taken and communicated in May 2003. Swift action was taken by ICF to minimise any loss in this regard. ICF acted in the most appropriate way possible to minimise additional expenditure by consuming the materials for coach production instead of letting them lie idle.

These arguments are not tenable. It became apparent in February 2003 itself that JS coaches were not required. Unnecessary linking of the decision to stop manufacture with the decisions regarding requirement of other types of coaches led to delay in communicating the decision to cancel the JS coaches production which in turn resulted in unnecessary and avoidable procurement of JS specific materials, which later had to be utilised per force in the conventional coaches.

4.2.4 Railway Board: Avoidable expenditure on procurement of train lighting batteries at higher rates

Failure to counter-offer lower rate resulted in extra expenditure of Rs.2.61 crore on procurement of train lighting batteries. The Railway Board also failed to reduce from the centralised tender, the quantity covered by Zonal Railways against emergency tender which resulted in procurement of batteries worth Rs.2.70 crore in excess of the requirement

Open tenders were invited for train lighting/ air-conditioning batteries for the period from April 2000 to March 2001 by the Railway Board as per revised specifications of RDSO (December 1996). The tender opened on 10 January 2000 was floated for a total quantity of 1,57,322 batteries revised to 1,44,011 batteries of three types (120 AH, 800 AH and 210 AH). Fifteen offers were received.

The TC categorised (March 2000) M/s.Exide, M/s.Kirloskar and M/s.Bharat Batteries as established sources and rest of the suppliers as non-established sources. The established suppliers quoted higher rates in comparison with the last purchase rates as well as updated rates. Rates quoted by the firms categorised as non-established sources were lower than the last purchase rates (LPR). The TC compared rates received against the tender and the rates received against emergency tender processed by the Zonal Railways and recommended the lower rates received against the emergency tender for established suppliers (Rs.3,008, Rs.1,718 and Rs.6,185 for 120 AH, 210 AH and 800 AH batteries respectively) and for non-established firms, their own quoted rates (Rs.2,877, Rs.1,600 and Rs.5,599), being lower than LPR.

Recommendations of the TC were approved by the competent authority in August 2000. Contracts were placed in August 2000 for 1,45,451 batteries. The value of the purchase was Rs.48.54 crore.

In this connection, following observations are made:

- RDSO revised the specifications in December 1996 for 120 AH and 800 AH batteries and supplies to these specifications started from April 1998 and put all the regular suppliers in educational category. Therefore, all the suppliers should have been treated alike while considering rates offered by them. The lower rate of M/s.Celtek for 120 AH (Rs.2,877) and 800 AH (Rs.5,599) batteries should have, therefore, been counter-offered to all other firms. Incidentally, the failure rate in the performance of the batteries, which was known to the TC supports audit contention that giving preferential rates for the established firms was not called for.

Similarly, the TC erred in their evaluation of offers for 210 AH batteries. In an emergency tender of March 2000, M/s.Southern batteries quoted Rs.1,600 for 210 AH battery as against Rs.1,718 finalised by the TC in June 2000. Despite supplying since 1992 and adhering to prompt delivery schedule and quality standards, the firm was not considered as a regular source. In view of their past performance, their rate should have been counter offered.

Failure to counter-offer the lower rates of M/s.Celtek and M/s.Southern batteries resulted in extra expenditure of Rs.2.61 crore.

- It was in the knowledge of the Railway Board that some of the field offices had made emergency purchase of about 9,000 batteries of 120 AH type. Failure to reduce this quantity from the centralised tender resulted in procurement of about 9,000 batteries worth Rs.2.70 crore in excess of requirement.

The matter was brought to the notice of Railway Board in April and September 2004 respectively. The Railway Board stated (May and November 2004) that all the firms, which were established sources prior to revision of specification (120 and 800 AH batteries) were considered as established as no major change in the manufacturing facilities was involved with new specification. Further, the institutional mechanism to consider a source as approved or developmental is RDSO. Southern batteries have been supplying small quantities since 1992; they were approved by RDSO on educational basis only. For excess procurement of 9,000 batteries the Board stated that batteries procured by the Zonal Railways are not excess/ surplus as the item is regularly needed and such stock gets adjusted in next procurements.

These arguments are not tenable. All the regular suppliers were also placed in educational category by RDSO after the specification were changed. Therefore, the TC's decision to treat the regular suppliers as established sources was incorrect. All the firms should have been treated alike and the lower rate of M/s.Celtek should have been counter-offered to all other firms, especially when it was in the financial interest of the Railways. Further, during last three years' contracts, M/s Southern Batteries supplied 10,054 batteries whereas M/s.Exide the approved supplier supplied only 10,029 batteries. Thus, Southern Batteries had not supplied small quantity as stated by Railway Board in their reply. The Railway Board has still not clarified as to why Southern Batteries could not be considered as a regular supplier by RDSO when their past performance over eight years has been satisfactory. The Railway Board's contention that this item is regularly needed and excess procurement gets adjusted is not valid as excess procurement would result in un-necessary blocking up of funds.

4.2.5 Railway Board: *Extra expenditure due to restriction of fall clause for a limited period*

Non-application of the lower rates obtained against an emergency tender by Zonal Railway resulted in avoidable extra expenditure of Rs.1.25 crore

Open tender for procurement of 1,36,818 train lighting batteries covering the requirement during April 2001 to March 2002 was invited and opened in November 2000. The quantity was later revised to 1,36,598 batteries.

Fifteen offers for one or more types of batteries were received. The TC considered (April 2001) lowest rates of regular firms in all three types of batteries reasonable and recommended rates of Rs.2,821.52, Rs.1,658.80 and Rs.5,820.10 for 120 AH, 210 AH and 800 AH batteries respectively for

counter offer. The TC's recommendations were approved by competent authority (MR) in August 2001 and counter offers issued on 14 August 2001.

On 30 August 2001, the Railway Board placed the contracts on the firms with the following clause:

'The price awarded against this contract shall in no event exceed the lowest price(s) at which the contractor has sold/ sells or had offered to sell to any of the Zonal Railways/Production Units of Railways after opening of the tender against this contract, i.e. 30 November 2000 and till issue of counter offer on 14 August 2001. The lower prices will be applicable for the supplies made against this contract.'

In the mean time, Southern Railway with prior approval/ permission of the Railway Board invited emergency purchase tender for meeting their immediate requirements. The tender was opened on 23 August 2001. The lowest rates received in this tender (Rs.2735.95, Rs.1604.21 and Rs.5645.07 for 120 AH, 210 AH and 800 AH respectively) were lower than the rates recommended by the TC in the Railway Board's tender.

Taking note of this, the Railway Board decided to exclude Southern Railway's requirement from the centralised tender and allowed the coverage of the same against the emergency tender.

In this connection, it was observed that rates of orders placed on 30 August 2001 by the Railway Board were higher than those received by Southern Railway against an emergency tender opened on 23 August 2001. Deviating from standard fall clause involving the entire currency of the contract, the Railway Board restricted application of fall clause in this case only to the limited period (30 November 2000 to 14 August 2001). Failure to extend the fall clause to the entire period of the contract resulted in avoidable expenditure of Rs.1.25 crore.

The matter was brought to the notice of Railway Board in May and September 2004. The Board stated (in June and October 2004) that:

- The lower rates obtained in the emergency tender were for a small quantity and do not reflect and prevailing market rate for the bulk quantity. Price quoted by the firm against the emergency tender may be higher or lower due to the factors like utilization of idle capacity and anticipated increase/decrease for the entire period of the contract.
- Fall Clause has been deleted from Indian Railways Standard Conditions of the contracts. However, it still continues to be applicable for the rate contracts and forms a part of Special Conditions of the contracts. Incorporation of fall clause in the contracts may be a special condition.

The arguments of the Board are not tenable because:

- Contrary to the Railways' argument, the unit price for bulk orders are always lower in view of the economies of scale, while price quoted for emergency orders are generally higher.

The firm that quoted a lower price against the emergency tender was M/s Kirlosker, who are regular and bulk suppliers and it is highly unlikely that they quoted a lower rate to use their idle capacity. The factor of anticipated increase/ decrease during the currency of the contract period is also not relevant as the firm was entitled to price correction in the contracts that were concluded with price variation clause.

- The audit contention was regarding non-application of the Fall Clause for the entire period of the contract. Railway Board has not offered any remarks in this regard and the other aspects such as inclusion/ deletion of Fall Clause are not relevant.

4.2.6 Railway Board: Avoidable expenditure due to injudicious finalisation of rates

Failure to reduce outstanding quantity under option clause or make payment at lower rate for outstanding quantity in view of lower rates received against subsequent tender entailed an avoidable expenditure of Rs.2.72 crore approximately

Purchases made by Indian Railways are governed by Special and General Conditions of the contracts. Clause 3800 of the Indian Railways Standard condition of contract provides for the exercise of plus or minus 30 per cent option. In November 1990, the Railway Board issued instructions that in cases where it is decided not to exercise option clause, full facts should be placed on record.

Steel required by the Railways is assessed by the Director, Railway Stores (DRS), Iron & Steel, Kolkata. On the basis of the requirement assessed by the DRS, the Railway Board enters into contracts with different steel plants.

Three consecutive tenders relating to procurement of corten steel for 2000-01, 2001-02 and 2002-03 were reviewed in audit. Summarised position of minimum basic rates received (for different dimensions of steel sheets) against these tenders and the rates finalised is indicated in the succeeding paragraphs:

- Tender No.S-261 for procurement of 40,780 MTs. steel (for 2000-01) in the form of plates and sheets of different dimensions was opened in January 2000. The rates finalised for various plates/sheets of different width and thickness ranged between Rs.18,192 and Rs.22,182. Orders were placed in May 2000 after the TC's recommendations were approved by the competent authority in April 2000.
- Tender No.S-262 for procurement of 70,000 MTs. steel (for 2001-02) was opened in August 2000. Minimum basic rates received for plates/ sheets of different width and thickness ranged between Rs.17,728 and Rs.23,070 per MT. which were lower than rates available in the tender opened in January 2000 for various types of steel. Rates finalised, ranged between Rs.17,728 and Rs.21,977 per MT. and were lower than last purchase rates (LPR) by Rs.205 per MT for steel of 1.6 mm and 2 mm thickness, Rs.870 per MT. for steel of 2.5 mm. thickness and Rs.464 per MT. for 3.15 mm. thickness. Orders were placed in December 2000. A quantity of around

17,800 MTs. was outstanding (as on 21 September 2000) against the previous orders.

- Rates received against tender (No.S-264) opened in October 2001 for procurement of 50,429 MTs. of steel (for 2002-03) were lower than the above two tenders. Minimum basic rates ranged between Rs.16,200 and Rs.21,906 per MT. Rates finalised, were lower than LPR by Rs.71, Rs.170, Rs.2,380 and Rs.1,528 per MT. of steel of 1.6 mm., 2 mm., 2.5 mm. and 3.15 mm. respectively. Orders were placed in April/ May 2002. Quantity of 16,000 MTs. of different types of steel was stated to be outstanding as on 31 January 2002, when the TC met (15 February 2002).

Scrutiny of the above tenders revealed that the TC, which deliberated on the tender S-261 and S-262 was aware of the pending quantities against the previous tenders and the lower rates received in the current tenders. The TC failed to recommend exercising of minus 30 per cent option clause. The TC also failed to record reasons for not recommending the same as required in the Railway Board's orders of November 1990.

- Failure to exercise minus 30 per cent option clause deprived Railways the advantage of lower rates received in the tender S-262 when a balance of 17,800 MTs. was outstanding against Tender S-261. This resulted in avoidable extra expenditure of Rs.0.46 crore in procuring 12,235 MTs of steel (outstanding quantity restricted to 30 per cent of the quantity ordered).
- Omission again to exercise the minus option cause to procure outstanding quantity of 16,000 MTs. (S-262 tender) at lower rates received in the subsequent tender (S-264) resulted in avoidable extra expenditure of Rs.2.26 crore.

Thus, omission on the part of the Railways to exercise financial prudence and to take the advantage of the clause 3800 of Indian Railways Standard Conditions of the Contracts in general and clause 10 of the contracts in question resulted in an extra expenditure of Rs.2.72 crore.

The matter was brought to the notice of the Railway Board in June 2004 and their reply has not been received (December 2004).

4.2.7 South Central Railway: Loss due to non-recovery of risk cost from defaulting firms

Railway Administration's failure to maintain proper records has resulted in non-recovery of risk cost amounting to Rs.2.24 crore from defaulting firms
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When a contractor for supply of stores fails to deliver the goods within the validity period of contract, the Railway Administration is empowered to cancel the contract, initiate action for procurement from other sources and recover the loss of extra expenditure from the defaulting contractor. Such risk purchases should be effected within six months for items easily available and nine months in respect of stores not easily available in the market. Simultaneously, action should be taken to withhold payment, if any, due to the

contractor against other contracts. In case no dues are available for recovery and the contractor fails to make payment, legal action should be taken or matter referred to arbitration.

The Railway Board's instructions require the Railways' to maintain a register for noting all cases, where risk purchases are made and extra amounts incurred that are required to be recovered from the defaulting firms. Accounts Department is also required to effectively monitor all such cases and ensure that risk purchase action is taken on top priority.

Review by Audit revealed that proper records as directed by the Railway Board were not being maintained. Consequently, risk purchase dues to the extent of Rs.2.24 crore were outstanding from defaulting suppliers. Further review revealed that:

- There are 48 firms against whom risk cost amount of more than Rs.one lakh is outstanding in each case.
- Names of the defaulting firms from whom the recovery is to be made was not on record in respect of 60 items. However, after being pointed out by Audit, 55 cases have been identified and posted in the Miscellaneous Advances Revenue (Stores).
- Thirty seven cases comprising of 69 purchase orders where risk purchase orders had been placed were not entered in the purchase registers. Entries were made in Risk Purchase Registers (RPR) only when pointed out by Audit.
- In the case of M/s.Spencon Filtration Pvt. Ltd., risk and cost amount of Rs.0.25 crore is outstanding for more than six years. In this case, evaluation of the tenderer was not made realistically, before accepting the tender, leading to discharge of the tender.

When the matter of non-maintenance of proper records leading to non-recovery of risk cost from the defaulting firms was taken up (April 2004), the Railway Administration in their reply (5 July 2004) and in a meeting (held on 13 July 2004) accepted the Audit contention. However, they argued that:

- As and when bills of defaulting firms are received, recoveries are effected duly making necessary entries in the RPR and Miscellaneous Advances Revenue (Stores). Out of 48 firms, six firms are still alive and recoveries will be effected, as and when the bills of these firms are received. The firms are also being contacted to remit the difference amounts.
- Some of the cases are five years old and some of them are not traceable.
- In the case of M/s.Spencon Filtration India Pvt. Ltd., a high level TC had examined the financial viability. The tender was awarded to this firm in order to develop a second source of supply as only one source was available for this item. An officer was deputed to the office of Registrar of Companies, Bombay to explore the possibility of recovery through legal means.

These arguments are not tenable because:

- A test check of Register of Bills passed subsequent to the issue being taken with the Railway Administration revealed that bills in respect of 66 defaulting firms (including the six firms mentioned by the Railway Administration) were passed, without recovering an amount of Rs.13.22 lakh outstanding against them as risk cost, as recorded in the Miscellaneous Advances Revenue (Stores).
- The cases are not traceable because of the lapse on the part of the Railway Administration to maintain records as per directives existing in the codes and those reiterated in the Railway Board's instructions. The Railway Administration has resurrected records, albeit incomplete, only after the lapse has been pointed out in the draft paragraph.
- Contrary to the Railway Administration's statement that the TC had examined financial viability, review of the TC proceedings in fact revealed that they had not taken into cognizance the fact that the firm had failed to perform on a previous occasion and was incurring loss for two preceding successive years.

The matter was brought to the notice of the Railway Board in September 2004 and their reply has not been received (December 2004).

4.2.8 CLW: *Injudicious procurement of High Voltage Cables*

Injudicious procurement of High Voltage Cables (HVC) valuing Rs.1.37 crore resulted in partial utilisation of deteriorated material and blocking up of capital in respect of bulk of material lying unutilised

The Railway Board (November 1995) set a production target of 41 three-phase locomotives by CLW for the years 1998-99 and 1999-2000.

To meet production requirement of three-phase locomotives, CLW procured 10 sets of transformers without HVC against Purchase Order (PO) placed in October 1996. Besides, 47 sets of main transformers along with HVC were procured between May 1998 and September 1999. Separately, 14 sets of HVC were procured in PO placed in April 1998 and another 30 sets in August 1999.

As it was evident that more than required HVC were procured (44 HVC sets against ten transformers purchased without HVC), Audit reviewed utilisation of 30 sets of HVC procured subsequently. Findings revealed that only six sets were issued to the shop during 10 March 2003 to 9 January 2004, of which only five sets have so far been utilised (August 2004). Thus, 25 sets valuing Rs.1.15 crore are lying idle for more than four years since their receipt.

In this connection, the following comments arise:

- Since 47 sets of main transformer were procured along with HVC to meet the production targets set for manufacture of three-phase locos for 1998-99 and 1999-2000, procurement of 30 sets of HVC separately during this period was unjustified. Injudicious procurement of these cables sets resulted in blocking up of capital of Rs.1.37 crore.

- Warranty period of the material was 24 months from the date of supply of material or 18 months from date of commissioning, whichever is earlier. The cable sets were received during January 2000 to September 2000 and the warranty for all the cables had expired by September 2002. The 30 sets were lying idle in the stores and could not be utilised during the warranty period.
- Performance of the five sets of cables utilised so far is doubtful as even before their utilisation, four cases of failure were reported. Investigation by the representative of BSES Ltd. (the supplier) revealed that failure was on account of deterioration of insulation of cables and bushing as they were lying idle for a long time. The representative also observed that storage of material was not according to the normal practice and had resulted in ingress of moisture, water and dust particles. CLW was advised to test all cables to determine their suitability for use. However, as testing facilities were not available, cables were utilised without being tested before use.
- The balance 25 cable sets valuing Rs.1.15 crore continue to lie idle (August 2004) and the likelihood of their utilisation is doubtful and even if used they are likely to jeopardise the safety of the locomotives.

When the matter was taken up (February 2004), CLW stated (April 2004) that these cables have a long shelf life and will be used in future production from 2004-05 onwards as transformers were now being procured without cables. They also stated that adequate care has been taken to prevent deterioration and there is no chance of safety hazard in the locomotive if proper maintenance practice is followed by sheds and POH shops.

These arguments are not tenable because the fact remains that 30 sets of HVC were lying idle all through their warranty period. Performance of the five sets utilised so far is doubtful and utilisation of balance sets will depend upon actual testing of the cables before use, which will reveal the exact state of damage/ deterioration. Records reveal that only nine transformers were procured in the year 2000 without HVC and 21 transformers procured in 2003/2004 were with HVC. Even after utilising available HVC for the nine transformers procured in 2000, 25 sets are lying idle. Chances of using these 25 sets in the near future also does not arise as 13 such transformers with HVC are yet to be used.

The matter was brought to the notice of the Railway Board in August 2004 and their reply has not been received (December 2004).

4.3 Plant and machinery

4.3.1 Eastern, Northern, East Coast, South Eastern, Western Railways and COFMOW *Delayed commissioning and poor performance of Wheel Lathes*

Non-recovery of LD for delay in commissioning, unjustified waiver of LD of Rs.1.12 crore and the Railway's failure to get supplier to resolve performance problems of lathes procured at a cost of Rs.26.52 crore led to their idling/under utilisation and inconvenience in maintaining the rolling stock

Surface Wheel Lathe (Pratapnagar Workshop)

Delay in commissioning of Surface Wheel Lathe supplied by M/s.Heavy Engineering Corporation Limited (HEC) to Pratapnagar Workshop of Western Railway resulting in unproductive expenditure of Rs.1.30 crore was commented in Para 4.1.6 of the Report of the Comptroller and Auditor General of India - Union Government (Railways) for the year 1993-94. In their ATN, the Railway Board had admitted (1996) the delay in commissioning and informed that the machine has been commissioned in January 1996 and instructions have been issued to all the Zonal Railways and COFMOW to install and commission all valuable assets at the earliest.

Subsequent review of the performance of the wheel lathe by Audit revealed that almost immediately (24 January 1996) after commissioning on 20 January 1996, the wheel lathe broke down. The firm was requested to rectify the defects but there was no response. The lathe was repaired (13 March 1996) departmentally but it worked intermittently only for 142 days up to 14 July 1998 after which it could not be repaired. Since then, the lathe was neither repaired nor any action taken against the firm for not attending to the complaints. Thus, the total investment of Rs.1.30 crore made in 1990-91 remained unproductive.

Surface Wheel Lathes (Dahod and other Workshops)

In April 1997, the Railway Board sanctioned a Surface Wheel Lathe for Dahod Workshop of Western Railway on replacement account. The order for procurement of this wheel lathe was also placed on HEC by COFMOW in July 1999 alongwith five other wheel lathes at a total cost of Rs.12.39 crore. As per terms of the contract, all the wheel lathes were to be supplied within six to nine months from the date of receipt of the order and were required to be installed and commissioned by the supplier within 90 days.

Audit scrutiny of the records of Dahod workshop revealed that the wheel lathe was received in the workshop in June 2000 but was commissioned in December 2001 after delay of 15 months. Despite the fact that the lathe went out of order within 23 days of its commissioning and was not functioning satisfactorily, the Proving Test Certificate (PTC) was issued in March 2002. It was also noticed that 57 per cent of the total work of wheel turning was

managed by using the old wheel lathe and only 43 per cent work was done on the new lathe.

When the matter was taken up with the Railway Administration in May 2004, they merely recounted (August 2004) the difficulties and constraints faced by them. The reply is not tenable. The Railway Administration had no hold over the supplier in respect of wheel lathe supplied in Pratapnagar as all the payments had been made in 1990-91 itself and they failed to draw up any fresh agreement to hold the supplier liable. In respect of the lathe installed at Dahod, it is once again evident that the Railway Administration is reluctant to enforce the contract conditions in the Railway's interest.

Further review of COFMOW's files revealed that:

- Wheel lathes meant for other workshops (Charbagh, New Katni, Jagadhari, Kharagpur and Jamalpur) were also commissioned after delays ranging from five to fourteen months but Liquidated Damages (LD) amounting to Rs.0.14 crore were recovered only in respect of the lathes installed at Jagadhri and Kharagpur workshops.
- The lathes were giving frequent troubles right from the time of commissioning suggesting inherent defects. Despite this, the Administration neither succeeded in getting the supplier to abide by the warranty obligations nor invoked the Bank Guarantees (BG) obtained to safeguard the Railway's interests. The BGs have since expired.

Surface Wheel Lathes (Kanchrapara and other workshops)

COFMOW again placed orders (November 2000) on HEC for procurement of another five Surface Wheel Lathe Machines at a total cost of Rs.10.35 crore for Carriage Repair Workshop Mancheshwar/ Bhubaneshwar (BBS), OEC/ Visakhapatnam (VSKP), Workshop Kanchrapara (KPA), BOXN Depot Andal/ Asansol (ASN) and C&W Depot, Ambala (UMB). In July 2001, an amendment was issued and quantity increased from five to six bringing the total cost of lathes as Rs.12.83 crore. The additional lathe was to be supplied to workshop at Jamalpur (JMP).

A detailed review of the commissioning and performance of lathe meant for workshop at KPA was undertaken by Audit. Owing to urgency of requirement in this workshop, the Railway Board had re-fixed the delivery date as 14 August 2001. The lathe was received on 1 October 2001 after a delay of 48 days. The lathe was to be commissioned within 120 days of its receipt but it could be commissioned only in May 2003 after a delay of 454 days. LD to the tune of Rs.0.08 crore and Rs.0.17 crore were recovered for the delayed supply and commissioning respectively. LD was subsequently waived/ refunded based on 'No loss and No inconvenience Certificate', withholding a token LD of Rs.0.02 crore only. The lathe was giving problems right from installation, which were reported to the supplier and COFMOW, yet PTC was issued on 12 February 2004. The response of the firm towards warranty obligation in rectification of defects was poor. The arising of wheels, in the meantime was met with the help of old lathes and 919 pairs of BOXN wheel sets were

dispatched to different places without turning during the period May 2003 to February 2004.

In this connection, following audit points emerge:

- Though there was an expressed urgency for the machine reflected in the advancing of delivery schedule, the KPA workshop Administration ignored their organisational interest and gave a 'No loss and No inconvenience Certificate' because of which the firm was not penalised for their failure to supply and commission the lathe in time.
- The Railway Administration failed to invoke contract clauses allowing holding back of issue of PTC and withholding release of balance ten per cent even though situation warranted invoking them. Thus, KPA workshop was unable to retain a hold over the firm till satisfactory performance was provided.

Failure of the Railway Administration to take recourse to remedial measures available in the terms and conditions of the Purchase Order was taken up with the Railway Administration in April 2004. It was contended (June 2004) in their reply that:

- HEC a reliable and reputed firm was awarded contract on turnkey basis. Delay in commissioning took place due to factors beyond the control of the Railway Administration.
- The machine gave trouble free service in the month of January 2004 at the time of issue of PTC.
- The BOX'N wheel sets dispatched from KPA Workshop were fit for service and used by divisions as such.
- The new Wheel Lathe is adequately utilised at present. The only other wheel lathe being 34 years old could only be utilised partially.

The reply is not tenable because

- Enabling clauses were available in the contract to have a hold on the supplier, which the Railway Administration did not use. Instead, they issued 'No loss and No inconvenience certificate' to the firm due to which recovered LD was refunded.
- Contrary to the Railway Administration's contention, records revealed that the firm's representative was at KPA in January 2004 to rectify various defects. The actual outturn (287 sets) of the January 2004 (25 days output) was only 24 per cent of the capacity of machine.
- From the reply given to Audit in March 2004, it was clear that BOXN wheel sets were dispatched to divisions without turning and divisions themselves arranged for turning of the wheel sets.
- The machine is still having several defects, which is evident from the letter issued to the firm as late as in June 2004, wherein they expressed

difficulties to the firm in maintaining the accuracy of the turned wheels and to achieve the targeted outturn.

Review of the records pertaining to the receipt, installation, commissioning and performance of the lathes supplied to the other consignees revealed that the lathes were supplied by the firm after delays ranging from 1½ months to 7½ months and commissioned after a delay of nine months to 25 months. Further, out of Rs.1.34 crore recovered for delays in supply and commissioning, Rs.1.12 crore were waived. No amount was recovered in respect of three lathes received at BBS, ASN and JMP.

Poor performance was reported by the consignees at UMB and VSKP and yet, PTC was issued and payment of balance ten per cent of the amount was released. Machine supplied at BBS remained under break down condition for about four months (August 2004) since its commissioning (12 December 2003). There was no output for 89 days (upto 25 August 2004) by the machine supplied at the JMP since its commissioning on 21 February 2004 (187 days) due to developing of various defects in the machine, yet PTC was issued on 25 June 2004. Machine installed at ASN started functioning from 27 June 2004 and remained under repair from 18 July 2004 to 6 August 2004.

The matter was brought to the notice of the Railway Board in September 2004 and their reply has not been received (December 2004).

It is thus evident from the above facts that assurance given in the ATN was merely on paper. COFMOW continued to place orders on HEC, despite their service being unreliable. Even after placement of orders, no serious efforts were made either by COFMOW or the field units to get the suppliers to install and commission the lathes in time and ensure satisfactory performance by effectively using penal/ protective clauses of the contract.

4.3.2 East Central Railway: *Unproductive expenditure on purchase of transformers*

Failure to rectify and use existing Chinese transformer followed by purchase of another transformer for hiring to BSEB without any specific and formal understanding or agreement resulted in unproductive expenditure of Rs.1.58 crore

Consequent upon electrification of Sonenagar – Garhwa line and commissioning of one more line in the feeding zone of Sonenagar Grid Substation (GSS) of Bihar State Electricity Board (BSEB), the Divisional Railway Administration, Mughalsarai raised the CD to 14 MVA. The increase in CD required BSEB to replace the existing transformer of lower capacity of 12.5 MVA by a higher capacity transformer.

To expedite installation of a transformer, Divisional Railway Administration, Mughalsarai/ Eastern Railway (now East Central Railway) offered (December 1995) BSEB to loan on rental basis a higher capacity transformer (Chinese make 21.6/ 30.24 MVA No.940187) procured at a cost of Rs.0.71 crore in March 1995. As per terms and conditions framed by the Railway

Administration, BSEB was to pay monthly rental of Rs.77,942. BSEB did not agree to the conditions (April 1996) and insisted that monthly rental be fixed at Rs.36,000 as had been fixed by the Railway Administration in case of another transformer (of 20 MVA) loaned by the Railway at Karmanasa GSS. No agreement could be reached between the Railway Administration and BSEB till April 1997. The transformer was sent back to Dhatrigram in April 1997 from where it had been brought. Even prior to transfer from Dhatrigram to Sonenagar, it had been reported as defective and deficient since receipt in 1995. It is lying idle till date (October 2004).

In July 1997, the Railway Board placed a purchase order for procurement of another transformer at a cost of Rs.0.87 crore for the same purpose on M/s.Transformers and Electricals Kerala Limited (TELK). In April 1998, monthly rental for this transformer was assessed at Rs.3,22,985 (Rs.38,75,828 annual). Installation of the transformer at Sonenagar GSS did not, however, materialise. The transformer was received in Sonenagar yard in November 1998 and has remained idle there till March 2004.

BSEB made their own arrangement in January 2003 to install a higher type of traction transformer (18.75 MVA) to cater to the augmented load.

In this connection, the following comments arise:

- Chinese make transformer offered to BSEB is one of the four transformers found defective out of 17 Chinese transformers procured in March 1995. A comment regarding procurement of defective transformers was made in Para 5.1.2 of Railway Audit Report No.9 of 2001. In the ATN on this para, the Railway Board stated that the subject transformer along with the other three Chinese transformers found defective since receipt in 1995 would be rectified and cost recovered from the Chinese firm. But the subject transformer is still lying defective and unproductive (July 2004). The Railway has failed to act on the assurance given to Public Accounts Committee.
- When the Railway Administration proposed (December 1995) to loan the subject Chinese transformer on hire basis to BSEB, they were well aware that the transformer was defective and damaged since its receipt in March 1995, yet they transported it to Sonapur from Dhatrigram without rectifying the defects. Later, it had to be sent back unused to Dhatrigram. In this process, the Railway Administration injudiciously incurred avoidable expenditure on its transportation from and back to Dhatrigram. The expenditure could not be quantified in audit.
- It had become quite clear in April 1996 that BSEB would not accept any transformer for rent of more than Rs.36,000 per month. Despite this, another transformer for the same purpose was procured without any prior formal understanding with the BSEB. A still higher monthly rental of Rs.3,22,985 was proposed. As was only to be expected, BSEB refused to accept the transformer. With the result, the investment of Rs.0.87 crore has remained unproductive for a period of about six years.

- Entire process of installation of transformer to enable raising of CD took about 8 years. During this period, the Railways were unable to take full advantage of electrification and to achieve the ROR projected in the electrification of Sonapur-Garhwa line.

The matter was brought to the notice of the Railway Administration and the Railway Board in April 2004 and September 2004 respectively and their reply has not been received (December 2004).

4.4 Permanent way stores and others

4.4.1 Metro Railway, Kolkata: Injudicious procurement of non-stock items of stores

Injudicious procurement of non-stock items resulted in accumulation of Electrical (Rs.25.58 crore) and Engineering Stores (Rs.0.94 crore)

Para 103 of Indian Railway Code for Stores Department Vol. – I envisages that stock of stores on hand, whether with the Stores Department or other Departments of the Railway, represents funds that are not productive. As such, the stock should be built up in a manner so that stores required by the Railway are readily available and losses due to obsolescence/ deterioration should be the minimum practical. This is particularly important in case of Metro Railway, as material procured by them can seldom be utilised elsewhere.

On a review of records, it was observed that Stores Department (Metro Railway) procured as many as 3,693 non-stock items valuing Rs.25.58 crore on the requisition of Electrical Department over last 15 years. It was, however, observed that no detailed accounts showing particulars of quantity ordered, received, issued and balance etc. relating to these non-stock items were maintained. Therefore, accounts relating to these items had not been susceptible to verification by Audit. After repeated enquiries by Audit, the Controller of Stores (COS) stated in April 2004 that bulk of the items remained unutilised since their procurement and that Metro Railway was incurring heavy carrying cost in addition to opportunity cost and other costs.

When the matter of injudicious procurement of non-stock items, non-maintenance of records and non-disposal of stores was taken up (May 2004), Metro Railway stated (June 2004) that:

- After September 2001, rolling stock items have been properly stocked and as a result non-stock procurement has come down drastically.
- Most of the items can be used during third POH of BHEL rakes presently under way and after July 2005, when third POH of NGEF rakes will start.

These contentions are not tenable because:

- This is a tacit acceptance that the accounts were not being maintained prior to September 2001. The detailed accounts of the non-stock items have not yet been made available for Audit verification.

- The first and second POH of BHEL and NGEF rakes have already taken place, yet no significant improvement in the consumption of stores was noticed. Likelihood of the stores now being consumed during third POH is, therefore, highly unlikely. However, as per Metro Railway's own admission, many of the stores were equipment for the prototype which had undergone modification before the series type of rakes were manufactured. Likelihood of the material being consumed is, therefore, remote.

4.4.2 Railway Board: Procurement of GFN-66 Insulating Liners at higher rates resulting in extra expenditure

Allowing an increase of 3.55 per cent for raw material which was not justified resulted in extra expenditure to the tune of Rs.1.27 crore

GFN-66 Insulating Liners is a component of Elastic Rail Fastening system used for fixing of rails on concrete sleepers and it is used in conjunction with Elastic Rail Clips in track circuited portions. The main component viz., Zytel 70G333L BK supplied by the sole manufacturer, M/s.Du Pont India Ltd., constitute 60 per cent of the total cost.

The Railway Board invited open tender for manufacture and supply of 219.12 lakh GFN-66 Insulating Liners for a period of one year. The tender was opened on 17 August 2001. Offers received were from 37 'RDSO approved' firms, 6 firms under development and 34 new firms. The rates received, Last Purchase Rate (LPR) and the updated rates were as follows:

Rates (in rupees per unit)				
Drawing No.	Lowest rate received from a new firm	Lowest rate received from an approved firm	LPR (ex. Works) as arrived at by TC by excluding freight costs worked out by RDSO	Updated rate (ex-works)
T-3702	12.00	17.19	15.09	15.87
T-3706	14.00	17.28	15.09	15.87
T-3707	15.00	20.88	18.17	19.01
T-3708	17.00	24.75	21.72	22.80

The updated last purchase rates were worked out by increasing the LPR by 6.60 per cent as under:

Plastic product (WPI)	3.55 per cent
Fuel, Power, Light & Lubricants	0.76 per cent
Labour (CPI)	2.29 per cent

Lowest rates received from the new firms were not considered as the TC felt that the new firms quote low rates merely with an objective of entering into business with the Railways. The approved firms (37 firms) quoted almost similar rates indicating formation of a cartel. The TC recommended that the updated rates of the previous tender were still workable and could be counter offered. Since 30 per cent option clause had been exercised in the previous tender covering 60 lakh GFN –Liners, quantity in the current tender was reduced to 159.12 lakh. MR, being the competent authority approved the recommendations on 22 January 2002.

In this connection, it was observed in audit that M/s.Du Pont India which was the sole manufacturer and supplier of Zytel 70G333LBK had intimated (5 September 2001) the Railway Board that they maintained the same price for Zytel during the previous tender period and assured that they would maintain the same price till the US Dollar crosses Rs.50/-mark. As US dollar did not cross the Rs.50/- mark at the time of finalisation of this tender, there was no need to update the cost of raw material. The increase in the cost of plastic product with the change in the plastic product index (as published by RBI) has no relevance with this product. Thus an increase of 3.55 per cent for raw material, particularly when the tender was finalised with PVC is not justified. The extra expenditure (for 3.55 per cent increase) incurred by the Railway Board worked out to Rs.1.27 crore.

The matter was brought to the notice of Railway Board in February and September 2004. The Railway Board in their reply (November 2004) has stated that the rates counter-offered in the tender in question were reasonable and workable which were decided after taking into account all relevant factors. Remarks of the Railway Board are not tenable, as no specific reply has been furnished by them in respect of increase of 3.55 per cent for raw material, which was not justified.

4.4.3 Eastern Railway: Short receipt of engineering scrap materials

Non-observance of existing provisions led to short receipt of materials which remained unadjusted thereby causing a loss of Rs.0.95 crore

Stores issued for the services of the Railway and no longer required on a work should be returned to the stores depots. The officer returning engineering stores should prepare Advice Notes (Form NS 11) and send the specified copies along with railway receipts to the stores depot. On receipt, these should be checked with the Advice Notes and discrepancy found, if any, between quantity returned and quantity received, should be reported to the returning officer immediately and not later than 3 days by issuing a Discrepancy Memo. Final acceptance of the stores should be issued within 21 days of receipt of the consignments in the stores depot. The concerned Stores Accounts Office thereafter sends the Advice of Credit to the department concerned (Engineering Department) which after exercising necessary checks takes up the matter with the Accounts Department for necessary adjustment.

A test check of records of Halisahar stores depot for the period from 1998 to 2003 revealed that in 33 cases engineering scrap materials (674.92 MT) costing Rs.0.95 crore were received in short and remained unadjusted. Further, there was undue delay in issue of discrepancy memos, shortcomings in the discrepancy memos resulting in the returning officer's refusal to accept the short receipts and failure to send adjustment advice to the Accounts Office.

Thus non-observance of existing provisions led to a loss of Rs.0.95 crore towards short receipt of materials which remained unadjusted.

When the matter was taken up (May 2004), the Railway Administration stated (August 2004) that necessary instructions have been issued to all concerned to strictly follow codal provisions and extant procedures with regard to accountal of scrap materials. They, however, further contended that loss assessed is notional. Audit has considered the shortage arising out of visually designed weight of scrap sent by various returning officials vis-à-vis actual weight of the scrap materials weighed by duly calibrated weigh bridge at Halisahar Stores Depot. Discrepancy between the above two methods upto 20 per cent is considered to be reasonable limit as per Joint Procedure Order of July 1975. Most of the cases out of the 33 cases are within such limit of discrepancy. The actual weighment of scrap materials in these cases were not done by the returning officials due to non-availability of weighment facility at their end.

This is not tenable. Materials were sent by the returning officer mentioning the quantity in numbers along with approximate weight. Discrepancies existed in the numbers despatched and received. In all cases, number received in depot was less. Therefore, there was difference in actual weight. Further, there were cases where actual weight was taken before despatch of materials by returning officers and in these cases also materials received were short. Hence, shortage of materials shown by Audit was actual and consequently the loss was also actual.

The matter was brought to the notice of the Railway Board in September 2004 and their reply has not been received (December 2004).

4.5 Repairs and Maintenance of Assets

4.5.1 West Central: *Endangering Railway safety by permitting Railway running of defective LPG tank wagons*

Improper handling of quality concerns of LPG tank wagons led to compromising Railways safety and loss of earning capacity of Rs.5.81 crore

As per RDSO's instructions of April 1989, tank wagons should be withdrawn from service when the barrel thickness reaches 12.5 mm. for cylindrical portion and 14 mm. for dished ends. Further as per instructions of December 1999, if lamination defects are noticed in tank wagons during normal examination at the time of Routine overhaul/ POH, such wagons may be permitted for use only if the defects are within the specified limits.

During examination of five BTPGLN/ BTPGLC wagons (received in Kota Workshop during January to March 1999), the thickness of dished end plates and thickness around barrel cradle plates was found below the acceptable limits. Since defects in four out of five wagons were noticed in the very first POH, it was felt that the defects existed since their manufacturing. Workshop authorities, therefore, requested RDSO in April 1999 to depute their staff and also associate the manufacturers for investigation and advising the further course of action. As no corrective action to restore wagons was taken by manufacturers, a meeting of representatives of both manufacturers was held at

RDSO on 14 September 1999 and decision was taken to hold a joint inspection.

In the meantime more wagons with similar defects were received by Kota workshop. Joint inspection was again conducted on 27 September 1999 with the help of D-Meter and Ultrasonic Flaw Detector and defects were confirmed to be present in 12 out of 19 wagons. In view of these findings, RDSO held the manufacturers responsible. They were asked to replace the barrels at their risk and cost. One manufacturer declined to accept responsibility on the ground that wagons manufactured with steel supplied by the Railway were accepted after RDSO's inspection. The defects were so serious that the Railway Administration decided (October 1999) to prematurely condemn all the 14 wagons received till then but later on decided to defer action in view of investigation being undertaken.

Bhilai Steel plant declined (July 2000) to accept the defects in steel plates and confirmed that the defects occurred during manufacture of wagons due to cold working/spinning on the plate. It was, therefore, decided to send the defective wagons to manufacturers for replacement/repair. However, after discussing the issue again with the manufacturers, steel plants and inspecting agencies in August 2000, RDSO directed Kota workshop authorities to get all the 20 wagons tested ultrasonically and accept those which are found fit. Ultrasonic testing was got done and 18 out of 20 wagons were put to traffic use between April 2003 and June 2003. Two wagons were found unfit and were rejected altogether.

In this connection, following audit comments arise:

- All examinations carried out over a period of four years confirmed the thickness of barrel plates far less than the acceptable limits calling for responsibility to be fixed on either the steel manufacturers, wagon manufacturers or inspecting authorities and initiating necessary corrective action. However, RDSO eventually declared all except two wagons fit and closed the matter, which involves safety of the Railway.
- The ultrasonic test reports furnished by M/s. Projects and Developments India Limited were more or less similar for all 20 wagons. RDSO accepted 18 wagons without elaborating as to how defects were found within acceptable limits and also without obtaining clearance of the Chief Controller of Explosives, Nagpur which was felt necessary earlier.
- Though initially it was observed that other wagons manufactured at the same time by the same manufacturers (i.e wagons belonging to same series) may also have similar defects, no action has been taken to get them checked thereby jeopardising Railway safety.
- Keeping in view the shortage of wagons, quick action was required to investigate and conduct the requisite tests for acceptance of the wagons for traffic use. The Railway Administration took inordinately long time which resulted in loss of earning capacity of Rs.5.81 crore.

When the matter was taken up (April 2004) the Railway Administration stated (June 2004) that the delay was unavoidable as it required a lot of technical knowledge and experience to deal with such type of problems. They also stated that since the matter concerned safety and abiding with the law under Explosives Act, it was necessary to consult all agencies to ensure safety of wagons used for transporting highly inflammable LPG under pressure.

The reply is not tenable. Defects were noticed in early 1999 and the Railway Administration had taken inordinately long time to study and decide the issue. So far as safety aspect is concerned, doubts still remain about compromise to Railway safety as after involving several agencies and spending four years, Railways failed to get to the root of the problem as to why and how the defects occurred and what corrective measures were required to be taken to ensure non-occurrence of the same.

The matter was brought to the notice of the Railway Board in September 2004 and their reply has not been received (December 2004).

**4.5.2 Diesel Locomotive: Premature failure of a rebuilt
Modernisation Works locomotive**

Use of an old crank shaft of doubtful reliability during rebuilding of a loco led to its premature failure. Thereafter, avoidable delay in repairing the failed loco resulted in loss of its earning capacity of Rs.2.48 crore
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Diesel Locomotive Modernisation Works (DMW), Patiala is engaged in mid term rebuilding of diesel locomotives which are in the age group of 18-21 years. The guiding principle of rebuilding a loco is that the rebuilt loco completes its residual life with a satisfactory level of reliability similar to that of a newly built loco.

Audit scrutiny of records of DMW, Patiala revealed (December 2003) that a diesel loco rebuilt at a cost of Rs.1.92 crore was sent to Diesel Shed Ludhiana (DSL) in February 2003. The locomotive, however, failed on 10 April 2003 during operation of a train. A preliminary joint investigation of this loco revealed (16 April 2003) that the loco had failed due to breakage of its crank shaft. The loco was sent to DMW in April 2003. A detailed examination of the loco confirmed its failure due to breakage of a 22 year old crank shaft which had been fitted during its rebuilding.

The loco was returned to DSL unrepaired along with a new power pack on 30 December 2003 after a period of over 8 months of its receipt in DMW. The loco fitted with new power pack was commissioned by DSL in January 2004.

Use of an old crank shaft without ensuring its reliability during rebuilding of the loco led to premature failure of the loco within a short period of 45 days whereas it was supposed to complete its remaining life (of about 19 years) at a satisfactory level of reliability after rebuilding. Thereafter, avoidable delay of about nine months in repairing the failed loco resulted in loss of its earning capacity of Rs.2.48 crore for the period May 2003 to 29 January 2004.

On the matter being taken up (March 2004) with the DMW, in their reply (May 2004) and during discussion (June 2004), they stated that:

- The breakage of crank shaft occurred due to cracks in its core area which could have not been detected during its surface checking either visually or by die penetrate test. A more reliable method (a low capacity magnaflux testing) of testing crank shaft has since been introduced.
- Delay in repairing the loco was due to scarcity of crank shafts. One rebuilt power pack available in DMW in April 2003 was issued to Northeast Frontier Railway as per the Railway Board's orders.

The reply is not tenable because:

- Non-availability of reliable method for testing the crank shafts, a safety item, lead DMW to use a 22 year old crank shaft of doubtful reliability in rebuilding a loco. The loco failed within a short period of 45 days of its rebuilding.
- Power packs and a new crank shaft were available in DMW in April and May 2003 even after issue of one power pack to Northeast Frontier Railway. There should have been, therefore, no difficulty in repairing, on top priority, the loco which had failed within 45 days after it was rebuilt at a very high cost of Rs.1.92 crore.

The matter was brought to the notice of the Railway Board in August 2004 and they besides reiterating the reply of Railway Administration added (November 2004) that though crank shaft is a safety item it does not affect operational safety. It has also been stated that no power pack and crank shaft was available due to which outturn of locos also suffered. The reply is not tenable because loco failure in transit due to breakage of crank shaft would result in serious accident. Non-maintenance of sufficient stock of such vital safety items is a cause of concern.

4.5.3 East Coast Railway: Irregular movement of departmental train

Failure to observe the provisions of Operating Manual and Wagon Maintenance Manual caused derailment to a departmental train with consequent loss of Rs.0.79 crore

Provisions of the Operating Manual, Wagon Maintenance Manual and Joint Procedure Order require that freight train should be examined at a nominated examination depot after completion of three round trips. Brake Power Certificate (BPC) issued to the train will be valid for three round trips or 15 days, whichever is less. All freight trains are required to be examined if stabled for more than 24 hours by Junior Engineer (JE/C&W).

Review of records revealed that a departmental train consisting of 16 wagons with 80 per cent BPC arrived at Rajathgarh (RJGR) from Nimpura (NMP) on 16 December 1998. Thereafter on completion of three round trips of loading and unloading between 18 December 1998 and 26 December 1998, the BPC issued earlier at NMP, became invalid. The rake, therefore, required intensive

examination. However, the rake was detained at RJGR upto 13 January 1999. During the course of their joint inspection before leaving RJGR, the Driver and Guard of the train observed (13 January 1999) poor brake power (44 per cent) and 13 wagons with deficient fittings. After the train was attended to by a Fitter (Grade-II) and a Khalasi/helper, it was allowed by the C&W Controller Kurda Road (KUR) to move with a restricted speed of 30 km per hour to the sick line of KUR.

The train having invalid BPC, poor brake power and 13 wagons with deficient components left RJGR on 14 January 1999. The Guard of the train was permitted to travel with driver since train was without brake van. The train met with an accident due to derailment of one wagon, which dragged the train to a distance of 6.5 km inflicting severe damages to Railway track. After holding two inquiries, one fitter (Grade II) who attended and examined the rake was held (August 1999) responsible for his failure to point out the deficiency of brass bearing and key plate. The loss assessed due to derailment was only Rs.0.04 crore.

In this connection, following observations are made:

- The train was detained at RJGR for 19 days and even after reporting of deficient fittings by the driver and guard, the train was not examined by the JE as required under rules. The train was allowed to move without reinforced BPC. The Railway Administration thus failed to take adequate measures and safety aspect was ignored.
- An audit scrutiny of track renewal estimate revealed (February 2004) that DRM, KUR sanctioned (February 1999) an estimate for Rs.1.08 crore in connection with repairs to the track damaged due to accident on 14 January 1999. The net loss suffered by the Railway was thus, Rs.0.59 crore after adjustment of credit for the released materials worth Rs.0.49 crore. It was also noticed that Railway had inserted 1540 new IRS sleepers from Km.440/12-13 to Km.441/11-12 (BRAG-NQR) during 15 January 1999 to 1 March 1999 cost of which was assessed at Rs.0.20 crore. The total loss was thus Rs.0.79 crore. Therefore, the loss assessed by the enquiry Committee whose findings were accepted was very much on the lower side.

When the matter was taken up (April 2004), the Railway Administration stated (June 2004) that:

- Derailment cannot be termed as failure to observe the provisions of Operating Manual and Wagon Maintenance Manual. It may be termed as human failure.
- No rule was violated. Immediate restoration of track was made by undertaking spot renewals of only those sleepers that got broken due to accident. Complete renewal of sleepers was carried out keeping in view life cycle cost as well as Railway's operational cost. Railway suffered no loss as track was due for renewal in the near future.

These arguments are not tenable because:

- It is an accepted fact that the train was having an invalid BPC, poor power brake and wagons with deficient fittings. Allowing it to run was thus clearly against the provisions of Operating Manual, Wagon Maintenance Manual and Joint Procedure Orders.
- The argument of the Railway Administration is indicative of the casual manner in which a serious issue concerning Railway safety has been explained away. It is just a matter of coincidence that the track was due for renewal in the near future. Using this information which came to the notice of the Railway Administration subsequently to underplay the loss caused by negligence in observing rules amounts to not giving the attention that the matter deserved.

The matter was brought to the notice of the Railway Board in September 2004 and their reply has not been received (December 2004).