REPORT

OF THE

COMPTROLLER AND AUDITOR GENERAL OF INDIA

FOR

THE YEAR 1978-79

UNION GOVERNMENT (RAILWAYS)

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PREFATORY REMARKS

This Report relates mainly to matters arising from the Appropriation Accounts of Indian Railways for 1978-79 together with other points arising from audit of the financial transactions of the Railways.

2. The cases mentioned in this Report are among those which came to notice in the course of test audit during the year 1978-79 as well as those which had come to notice in earlier years but could not be dealt with in previous Reports ; matters relating to the period subsequent to 1978-79 have also been included, wherever considered necessary.

3. The points brought out in this Report are not intended to convey or to be understood as conveying any general reflection on financial administration by the Ministry of Railways.

4. The following abbreviations have been used in this report :

@	for	at the rate of
AC	for	alternate current
BG	for	broad gauge
CBI	for	Central Bureau of Investigation
CLW	for	Chittaranjan Locomotive Works
cum	for	cubic metre
cm	for	centimetre
col	for	column
DGS&D	for	Director General, Supplies and Disposals
DLW	for	Diesel Locomotive Works
e.g.	for	for example
etc.	for	et cetera

FA & CAO	for	Financial Adviser and Chief Accounts Officer
fob	for	free on board
ft	for	feet
F.E.	for	foreign exchange
hp	for	horse power
i.e.	for	that is
IOC	for	Indian Oil Corporation
km	for	kilometre
kg	for	kilogram
MT	for	tonne
m	for	metre
mm	for	millimetre
MG	for	metre gauge
nos.	fcr	numbers
NOC	for	not otherwise classified
RDSO	for	Research, Designs and Standards Organisation
Rs.	for	Rupees
S.No.	for	serial number
SPE	for	Special Police Establishment
Sq	for	square
viz	for	namely

CHAPTER I

COMMENTS ON APPROPRIATION ACCOUNTS 1978-79 AND ANNUAL ACCOUNTS (PROFIT AND LOSS ACCOUNTS, BALANCE SHEETS ETC.)

1. Preamble

1.1 The Railway Convention Committee (1977), in their 5th Report presented to Parliament in February 1979 observed that "the Railway Finances are still in a delicate stage—contrary to what the surpluses earned during the last few years might suggest". Accordingly, the following reliefs from the financial year 1978-79, as recommended by the Railway Convention Committee, were approved by Parliament in March 1979 :

(a) Exemption from payment of dividend on capital cost of :

(i) New lines taken up on or after 1st April 1955 on other than financial considerations so long as these lines continue to be unremunerative.

(ii) Ferries.

(iii) Welfare buildings like hospitals, institutes, schools etc.

(b) Dividend at a reduced rate in respect of residential buildings :

Such buildings to pay dividend at a reduced rate of 3.5% as against current rate of dividend of 6%.

(c) Present system of taking loans from General Revenues to meet shortfalls in dividend payments by Railways to be discontinued. Instead, shortfall in dividend liability to be treated as deferred liability without any interest thereon.

(d) Out of the sum of Rs. 216.14 crores due from the Railways to the General Revenues on 1st April 1978, as accumulated dividend and interest thereon, a sum of Rs. 93.95 crores (equivalent to the interest on the loans taken from General Revenues upto 31st March 1978 for financing this fund for the purpose of discharging dividend liability) would be written off and the balance amount of Rs. 122.19 crores would be treated as deferred dividend liability.

2. **Financial Results**

2.1 The table below compares revenue receipts, expenditure and surplus and loan from General Revenues to the Railways for the year 1978-79 with the actuals for the previous year and the budget anticipations for the year 1978-79 :

(Rs. in crores)

	Actuals 1977-78	Budget 1978-79	Revised Estimates 1978-79	Actuals 1978-79	Variation with referenc to Budget
1. Revenue Receipts	2133.83	2230.33	2175.73	2161.30	—69.03
2. Revenue Expenditure . .	1781.04	1932.08	1917.52	1900.48	—31.60
3. Net Revenue (1—2)	352.79	298.25	258.21	260.82	—37.43
4. Dividend paid to General Revenues	226.56	232.82	230.48	224.16	—8.66
5. Revenue Surplus	126.23	65.43	27.73	36.66	—28.77
6. Loans from General Revenues for					
(*i*) Revenue Reserve Fund	67.44	98.88	94.54	*	—98.88
(*ii*) Development Fund	..	..	5.37	5.37	+5.37

*No loan was taken for payment of dividend liability as per the decision of Parliament on the recommendation of the Convention Committee.

2.2 The surplus was appropriated/proposed to be appropriated further as under :

		(Rs. in crores) Appropriation to	
	Surplus	Revenue Reserve fund	Development fund
Actuals for 1977-78 . . .	126.23	91.62	34.61
Budget Estimates for 1978-79 .	65.43	33.65	31.78
Revised Estimates for 1978-79 .	27.73	..	27.73
Actuals for 1978-79 . . .	*36.66	..	*34.68

*The balance of Rs. 1.98 crores has been adjusted against deferred dividend liability.

2.3 The surplus of Rs. 36.66 crores had accrued after availing of the reliefs of Rs. 8.28 crores granted by Railway Convention Committee in the Railways' dividend liability for the year 1978-79 in respect of the following assets *vide* para 1.1 (a) and (b) above :

	(Rs. in crores)
1. Lines which were undertaken on other than financial considerations	6.29
2. Ferries	0.21
3. Welfare buildings	0.16
4. Residential buildings	1.62
	8.28

2.4 Prior to 1978-79 no reliefs were being allowed in respect of these assets. But for these reliefs the surplus of Rs. 36.66 crores for the year 1978-79 would have been further reduced to the extent of Rs. 8.28 crores ; it would have been Rs. 28.38 crores.

2.5 The surplus during the last three years compared as under :

(Rs. in crores)

Year	Amount
1976-77 . . .	87.24
1977-78 . . .	126.23
1978-79 . . .	36.66 (Rs. 28.38 crores without reliefs)

I. *Revenue Reserve Fund*

2.6 This fund was created out of revenue surplus to ensure payment of dividend to General Revenues. Hitherto it was being financed by making appropriations out of the surplus or/and taking loans from General Revenues. With effect from 1st April 1978 the existing arrangement of taking loans from General Revenues has been discontinued.

2.7 The opening balance of the fund as on 1st April 1978 was Rs. 37.79 crores (cash balance : Rs. 37.47 crores and investments : Rs. 0.32 crore). At the commencement of the year the fund owed Rs. 216.14 crores to General Revenues on account of loans taken in the past for payment of dividend, interest on outstanding loans and re-payment of loans.

The cash balance of Rs. 37.47 crores was transferred to General Revenues by proforma adjustment on 1st April 1978, thereby reducing the liability of Railways to General Revenues to Rs. 178.67 crores. Out of this liability of Rs. 178.67 crores, an amount of Rs. 56.48 crores, stated to be representing interest on the loans taken from General Revenues during the period from 1969-70 (when the first loan was taken from General Revenues) to 1977-78 was written off, as the loans had been treated as interest free *ab initio* as per the recommendations of Railway

Convention Committee (1977). However, interest that had been actually paid during this period amounted to Rs. 61.08 crores. Thus, the adjustment made by the Railways on this account was less to the extent of Rs. 4.60 crores.

Further, an amount of Rs. 1.98 crores left from the surplus of the year 1978-79 after meeting the requirements of the Development Fund, was utilised for discharging the deferred dividend liability for the years 1969-70 to 1977-78. Thus the outstanding liability on account of deferred dividend for these years stood at Rs. 120.21 crores as on 31st March 1979.

The closing balance in Revenue Reserve Fund as on 31st March 1979 was Rs. 0.33 crore (cash balance by way of interest earned on the investment : Rs. 0.01 crore and Investment : Rs. 0.32 crore).

II. *Development Fund*

2.8 This fund is intended to meet expenditure on works relating to amenities for all users of railway transport, labour welfare works and unremunerative operating improvement works. The fund is financed from appropriations out of the surplus or/ and loans taken from General Revenues.

2.9 The opening balance and the closing balance of the Development Fund for the year 1978-79 were Rs. 24.13 lakhs and Rs. 6.06 lakhs respectively.

2.10 The details of the loans taken and the interest paid were as under :

(Rs. in crores)

Period	Loans obtained	Instal-ment paid	Interest paid	Loan outstand-ing
Up to 1971-72 . . .	86.65	..	8.53	86.65
1972-73 . . .	15.72	..	3.71	*85.65
1973-74 . . .	22.65	..	4.69	108.30
1974-75 . . .	21.90	..	5.99	130.20
1975-76 . . .	22.34	..	7.33	152.54
1976-77 . . .	..	..	8.24	152.54
1977-78 . . .	..	..	8.39	152.54
1978-79 . . .	5.37	..	8.74	157.91

*An amount of Rs. 16.72 crores adjusted on proforma basis out of the reliefs granted in payment of dividend as per recommendation of Railway Convention Committee (1971).

2.11 At the end of the year, the fund owed Rs. 157.91 crores to General Revenues on account of loans taken in the past from 1967-68 onwards for financing works of development nature. No payment of loans to General Revenues has been made since 1967-68.

III. *Total indebtedness of Railways*

(a) *Loans*

2.12 The Railways started taking loans from General Revenues for meeting dividend obligation from 1969-70 when the balances in the Revenue Reserve Fund got exhausted due to continuous withdrawals for meeting deficits in the years 1966-67, 1967-68 and 1968-69. The Railways also took loans from General Revenues for meeting expenditure on works charged to Development Fund, from 1967-68 onwards.

2.13 Though the year 1978-79 closed with a surplus of Rs. 36.66 crores, the total undischarged liability at the end of the year in respect of loans obtained from General Revenues for meeting dividend liability and for expenditure on works charged to Development Fund stood at Rs. 278.12 crores, even after allowing for reduction in loan liability to the extent of Rs. 93.95 crores vide paras 1.1(d) and 2.7 above, and reliefs of Rs. 8.28 crores in dividend liability, vide paras 1.1(a), 1.1(b) and 2.3 above, in accordance with the recommendations of the Railway Convention Committee (1977).

(b) *Deferred dividend*

2.14 The deferred dividend on the new lines (*i.e.* dividend accrued but not payable during construction period and the subsequent five years moratorium period, as also the dividend that had become payable at the end of the moratorium period, but could not be paid in the years following this period, as the net income of the new lines was not sufficient to meet this liability) outstanding at the end of 1978-79 was Rs. 71.20 crores of which Rs. 37.87 crores were for new lines which had already completed the moratorium period.

(c) *Abatement of dividend*

2.15 During the year 1978-79 the Railways claimed exemption in payment of dividend to the extent of Rs. 3.19 crores (on capital outlay of 136 unremunerative branch lines : Rs. 57.91 crores), though the number of unremunerative branch lines and the capital outlay in respect thereof are yet to be assessed precisely in accordance with the recommendations of the Uneconomic Branch Lines Committee (1969), Railway Convention Committee (1971) and Railway Convention Committee (1977). The Ministry of Railways (Railway Board) had informed the Railway Convention Committee (1977) that the methodology of evaluating the results of the branch lines by adopting the marginal cost principle would be worked out and the capital cost of uneconomic branch lines would be determined on the basis of such annual review, and that in the meantime the capital cost of uneconomic branch lines as already assessed from time to time might continue to be exempted from dividend liability provisionally. But the unremunerativeness of these branch lines has not so far been determined by adopting the marginal cost principle as recommended by the Railway Convention Committee (1977). Thus the abatement of dividend already claimed for the years 1974-75 to 1978-79 is subject to adjustments as may be found necessary subsequently (also refer to paragraphs 1.8, 1.9, 1.10 and 1.10 of the Reports of the Comptroller and Auditor General of India for the years 1974-75, 1975-76, 1976-77 and 1977-78—Union Government (Railways) respectively, for similar abatement of dividend claimed in those years).

2.16 Pending final assessment, it cannot be known whether abatement of dividend amounting to Rs. 4.88 crores, Rs. 4.58 crores, Rs. 3.47 crores, Rs. 3.47 crores and Rs. 3.19 crores, as already availed of by the Railways provisionally during the years 1974-75, 1975-76, 1976-77, 1977-78 and 1978-79 respectively was actually due to the extent it was claimed. This in turn would affect the magnitude of the liability on account of deferred dividend liability to General Revenues.

IV. *Plan Expenditure*

2.17 The total outlay (net, *i.e.* after deduction of credits or recoveries) on works met from various sources during the year 1978-79 was as under :

(Rs. in crores)

Particulars	Budget	Actuals	Variation
Capital	332.94	345.92	+12.98
Depreciation Reserve Fund	151.43	136.19	—15.24
Development Fund	24.13	25.94	+1.81
Metropolitan Transport Projects	15.00	15.49	+0.49
Accident Compensation, Safety and Passenger Amenities Fund	6.50	6.15	—0.35
Open Line Works (Revenue)	10.30	7.85	—2.45
TOTAL	540.30	537.54	—2.76

There were savings under the heads, Depreciation Reserve Fund, Accident Compensation, Safety and Passenger Amenities Fund, and Open Line Works (Revenue).

3. Revenue Receipts

3.1 The table below compares revenue receipts for the year 1978-79 with the actuals for the previous year and the budget anticipations for the year 1978-79 :

(Rs. in crores)

Particulars	Actuals 1977-78	Budget 1978-79	Actuals 1978-79	Variation with reference to budget
Passenger earnings				
Upper Class	59.67	62.98	66.71	+3.73
Lower Class	561.98	595.00	606.06	+11.06
Total	621.65	657.98	672.77	+14.79
Other Coaching Earnings	90.11	92.63	91.47	—1.16
Goods earnings	1348.45	1430.55	1305.41	—125.14
Sundry earnings	58.72	54.60	69.15	+14.55
Suspense	4.49	—15.90	12.24	+28.14
Gross Traffic receipts	2123.42	2219.86	2151.04	—68.82
Miscellaneous receipts	10.41	10.47	10.26	—0.21
Total revenue receipts	2133.83	2230.33	2161.30	—69.03

3.2 Goods earnings for the year 1978-79 amounted to Rs. 1305.41 crores against budget anticipations of Rs. 1430.55 crores, and thus fell short of the expectations to the extent of

Rs. 125.14 crores. There had been a perceptible fall in goods traffic in the year 1978-79. The goods traffic carried during 1978-79 was 199.6 million tonnes against 222 million tonnes as per budget anticipations. The decrease in the goods traffic was mainly attributable to the following :

(In million tonnes)

Commodity	Budget Estimate	Actuals	Variations
Coal	73.00	64.10	—8.90
Foodgrains	19.50	16.70	—2.80
Raw material to Steel Plants	23.50	21.49	—2.01
Cement	14.00	12.31	—1.69
Pig Iron and finished steel from Steel Plants	9.50	8.26	—1.24
Iron ore for export	11.50	10.34	—1.16
Other Goods	71.00	66.36	—4.64

3.3 The quantum of goods traffic carried during the last three years has registered a continued decline, as indicated below :

Year	(In million tonnes)
1976-77	212.6
1977-78	210.8
1978-79	199.6

4. **Revenue Expenditure**

4.1 The table below compares the revenue expenditure during 1978-79 with the actuals for the previous year and the budget anticipations for the year 1978-79 :

(Rs. in crores)

	Actuals 1977-78	Budget 1978-79	Actuals 1978-79	Variation from budget
1. Ordinary Working Expenses	1570.58	1700.90	1673.17	—27.73
2. Appropriation to Funds	189.36	204.38	204.10	—0.28
(i) Depreciation Reserve Fund				
(*ii*) Pension Fund				
(*iii*) Accident Compensation, Safety and Passenger Amenities Fund				
3. Miscellaneous Expenditure and payments to worked lines etc.	13.46	16.50	15.36	—1.14
4. Open line Works (Revenue)	7.64	10.30	7.85	—2.45
Total Revenue Expenditure	1781.04	1932.08	1900.48	—31.60

(The figures are net, *i.e.* after deduction of credits or recoveries).

4.2 The savings (Rs. 31.60 crores) mainly occurred under ordinary working expenses. A further analysis of ordinary working expenses (Grants Nos. 4 to 10) revealed the following :

(Rs. in crores)

	Budget Estimates	Revised Estimates	Actual Expenditure	Variation between: Budget Estimates and Revised Estimates	Variation between: Revised Estimates and Actual Expenditure
1. Grant No. 4 Administration .	160.36	163.18	162.03	+2.82 (1.8%)	—1.15 (0.7%)
2. Grant No. 5 Repairs and maintenance . .	671.64	656.49	653.65	—15.15 (2.2%)	—2.84 (0.4%)
3. Grant No. 6 Operating staff	348.50	353.00	355.00	+4.50 (1.3%)	+2.00 (0.57%)
4. Grant No. 7 Operation Fuel	312.51	307.76	307.16	—4.75 (1.5%)	—0.60 (0.19%)
5. Grant No. 8 Operation other than staff and fuel . .	91.29	87.95	83.85	—3.34 (3.7%)	—4.10 (4.7%)
6. Grant No. 9 Miscellaneous Expenses . .	58.04	58.73	53.73	+0.69 (1.2%)	—5.00 (8.5%)
7. Grant No. 10 Staff Welfare .	58.56	59.13	57.75	+0.57 (0.97%)	—1.38 (2.2%)
TOTAL	1700.90	1686.24	1673.17	—14.66	—13.07

4.3 There was a shortfall in working expenses to the extent of Rs. 14.66 crores between budget estimates and revised estimates and further saving of Rs. 13.07 crores between revised estimates and actual expenditure. Thus the total decrease in working expenses was to the tune of Rs. 27.73 crores.

5. **Budgetary Control**

5.1 The number of demands voted for the year was 23 aggregating Rs. 3882.95 crores. During the year 9 supplementary grants were obtained for Rs. 38.46 crores.

5.2 The number of charged appropriations for the year was 12 for a total sum of Rs. 5.46 crores. During the year 3 supplementary appropriations for Rs. 0.46 crore were obtained.

5.3 The disbursement during the year showed a saving of Rs. 282.33 crores over the total grants and appropriations as shown below :

(Rs. in crores)

Particulars	Voted	Charged	Total
1. Original	3882.95	5.46	3888.41
2. Supplementary	38.46	0.46	38.92
3. Total	3921.41	5.92	3927.33
4. Total Disbursement	3641.55	3.45	3645.00
5. Saving	279.86	2.47	282.33
6. Percentage of saving to total grants/ appropriations	7.14	41.72	7.19

5.4 The percentage of saving to total grants/appropriations during the last three years has registered a continued increase, as indicated below :

Year	Percentage
1976-77 . . .	0.49
1977-78 . . .	3.34
1978-79 . . .	7.19

5.5 This shows that the estimates of expenditure framed were on the high side.

6. **Savings in Grants and Appropriations**

A. *Voted Grants*

6.1 The net shortfall of Rs. 279.86 crores as mentioned in Paragraph 5 is made up of savings under 17 grants

(Rs. 292.89 crores) and excesses under 4 grants (Rs. 13.03 crores). The details of the savings are given below :

(Rs. in crores)

6.2 Grant	Final Grant	Actual expenditure	Saving	Percentage
Grant No. 15—Open Line Works, Capital, Depreciation Reserve Fund and Development Fund (Original Rs. 1298.99 crores+supplementary Rs. 16.69 crores) .	1315.68	1255.15	60.53	4.60

6.3 A supplementary grant of Rs. 16.69 crores was obtained in November 1978 under Grant No. 15 for making payments to various State Road Transport Corporations (Rs. 16.10 crores) and for undertaking certain works out of turn during 1978-79 (Rs. 0.59 crore). The entire amount of Rs. 16.69 crores obtained through supplementary grant proved to be unnecessary as there was a saving of Rs. 60.53 crores under the grant at the end of the year.

6.4 The saving was mainly due to less production of locos, coaches, power packs and electrical capital spares (Rs. 21.91 crores), non-receipt of machinery, plant items and other material and debits thereof and more credits under Suspense heads etc. (Rs. 38.62 crores).

6.5 Grant No. 9— Working Expenses— Miscellaneous Expenses (Original Rs. 65.51 crores+Supplementary Rs. 0.66 crore) .	66.17	60.75	5.42	8.19

6.6 A supplementary grant of Rs. 0.66 crore was obtained on 29th March 1979. The entire amount obtained through supplementary grant proved to be unnecessary as there was a saving of Rs. 5.42 crores under the grant at the end of the year.

6.7 The saving was mainly under 'Demands Payable' due to adjustment of more revenue liabilities to final heads (Rs. 2.37 crores) and aggregate of minor variations below rupees one crore (Rs. 3.05 crores).

6.8 The details of the savings under other Grants are as under :

(Rs. in crores)

	Final Grant	Actual Expenditure	Saving
1	2	3	4
Grant No.1—			
Railway Board	2.54	2.52	0.02
Grant No. 2—			
Miscellaneous Expenditure—			
(Original Rs. 12.65 crores+Supplementary Rs. 0.09 crore)	12.74	11.89	0.85
Grant No.3—			
Payment to worked lines and others .	0.70	0.40	0.30
Grant No. 4—			
Working Expenses—Administraton (Original Rs. 160.85 crores+Supplementary Rs. 3.18 crores)	164.03	162.43	1.60
Grant No. 5—			
Working Expenses—Repairs and Maintenance	703.96	679.92	24.04
Grant No. 6—			
Working Expenses—Operating Staff (Original Rs. 359.72 crores+Supplementary Rs. 5.36 crores)	365.08	364.61	0.47
Grant No. 7—			
Working Expenses—Operation (Fuel) .	329.70	320.31	9.39
Grant No. 8—			
Working Expenses—Operation other than staff and Fuel	110.80	103.03	7.77
Grant No. 10—			
Working Expenses—Staff Welfare .	59.01	58.17	0.84
Grant No. 12—			
Dividend to General Revenues and contribution for Grants to States in lieu of Passenger Fare Tax	232.82	224.15	8.67
Grant No. 13—			
Open Line Works (Revenue) . . .	10.30	7.85	2.45
Grant No. 19—			
Appropriation to Revenue Reserve Fund	33.64	—	33.64

1	2	3	4
Grant No. 20— Payments towards Amortisation of over-capitalisation, repayment of loans from General Revenues and interest thereon—Revenue Reserve Fund (Original Rs. 136.25 crores+Supplementary Rs. 0.54 crore)	136.79	1.98	134.81
Grant No. 21— Appropriation to Accident Compensation, Safety and Passenger Amenities Fund .	10.18	9.90	0.28
Grant No. 22— Accident Compensation, Safety and Passenger Amenities Fund	8.06	6.25	1.81
TOTAL	2180.35	1953.41	226.94

6.9 A saving of Rs. 46.56 crores occurred under Grant No. 4, Grant No. 5, Grant No. 6, Grant No. 7, Grant No. 8, Grant No. 10 and Grant No. 13. The saving was mainly due to less shed and shop repairs to rolling stock, machinery etc., (Rs. 23.59 crores) less expenditure due to non-materialisation of anticipated traffic, short supply of fuel and less freight and handling charges incurred (Rs. 22.37 crores), less procurement of stores and spares and adjustment of debits thereof (Rs. 18.06 crores), observance of economy measures and non-filling of posts (Rs. 10.39 crores) and aggregate of minor variations below Rs. 5 crores (Rs. 8.87 crores) partly offset by revision in rates of sales tax, excise duty on coal, diesel oil and electricity tariff (Rs. 14.19 crores) and upward revision of dearness allowance rates (Rs. 12.48 crores) and fluctuations in the payment of kilometrage, overtime, night duty allowance and leave salary etc., (Rs. 10.05 crores).

6.10 Grant No. 20 accounted for a saving of Rs. 134.81 crores due to the reliefs granted by the Railway Convention Committee (1977) in respect of repayment of loans taken from General Revenues and interest thereon, *vide* paras 1.1(c), 1.1(d) and 2.7 above.

6.11 A cent per cent saving of Rs. 33.64 crores occurred under Grant No. 19, as no surplus was available for appropriation to Revenue Reserve Fund *vide* para 2.7 above.

6.12 Grant No. 1, Grant No. 2, Grant No. 3, Grant No. 12, Grant No. 21 and Grant No. 22 accounted for a saving of Rs. 11.93 crores made up of variations of minor nature.

B. *Savings in Appropriations*

6.13 A total saving of Rs. 246.63 lakhs occurred in 12 charged appropriations. There was cent per cent saving under Appropriation No. 13—Open Line Works (Revenue) (Rs. 0.50 lakh). A significant saving also occurred under Appropriation No. 6—Working Expenses—Operating Staff (Rs. 50.14 lakhs) due to non-materialisation of certain court cases contrary to anticipations, Appropriation No. 22—Accident Compensation, Safety and Passenger Amenities Fund (Rs. 48.47 lakhs), Appropriation No. 7—Working Expenses—Operation (Fuel) (Rs. 42.75 lakhs), Appropriation No. 8—Working Expenses—Operation other than staff and fuel (Rs. 38.41 lakhs), Appropriation No. 15—Open Line Works—Capital, Depreciation Reserve Fund and Development Fund (Rs. 27.55 lakhs), Appropriation No. 4—Working Expenses—Administration (Rs. 12.28 lakhs), Appropriation No. 14—Construction of New Lines, Capital and Depreciation Reserve Fund (Rs. 9.84 lakhs). The balance of saving was under other 4 appropriations (Rs. 16.69 lakhs).

7. **Excess over grants**

7.1 During the year under report excesses occurred under 4 grants aggregating Rs. 13.03 crores. The details of excesses during 1978-79 which require to be regularised under Article 115 of the Constitution of India are as under :

7.2 Grant	Final Grant	Actual Expenditure	Excess	Percentage
Grant No. 14— Construction of New Lines-Capital and Depreciation Reserve Fund (Original Rs. 65.70 crores+Supplementary Rs. 2.10 crores)	67,80,17,000	70,62,01,660	+2,81,84,660	4.16

7.3 Two supplementary grants of Rs. 2.10 crores were obtained in November 1978 and March 1979. These proved to be inadequate.

7.4 The excess of Rs. 2.82 crores occurred mainly due to accelerated progress on certain works on Southern Railway, and consequently, procurement of more material and more payments to contractors (Rs. 2.90 crores) and aggregate of minor variations (Rs. 0.10 crore) partly off-set by savings due to less receipt of land debits (Rs. 0.18 crore).

7.5 Grant No. 16—

Pensionary Charges—Pension Fund (Original Rs. 46.23 crores+Supplementary Rs. 9.80 crores)	56,03,05,000	63,19,31,776	+7,16,26,776	12.78

7.6 A supplementary grant of Rs 9.80 crores was obtained in March 1979. This proved to be inadequate.

7.7 The excess of Rs. 7.16 crores occurred mainly due to receipt of more debits than anticipated from Civil Accounts Offices (Rs. 6.08 crores), more finalisation of Family Pension and Commuted Pension cases (Rs. 1.15 crores), partly offset by minor variations (Rs. 0.07 crore).

7.8 Grant No.17—

Repayment of loans from General Revenues and interest thereon. Development Fund (Original Rs. 8.54 crores+Supplementary Rs. 0.05 crore) . . .	8,58,79,000	8,73,92,723	+15,13,723	1.76

7.9 A supplementary grant of Rs. 0.05 crore was obtained in March 1979 for meeting increased interest payment to General Revenues on account of more loan required from General Revenues during the current year due to non-materialisation of the budgeted surplus, and increase in the rate of interest from 5.60% to 5.63%. This proved to be inadequate.

7.10 The excess of Rs. 0.15 crore was due to non-provision for payment of interest for half the year in respect of loan obtained in March 1979.

7.11 Grant No. 18— Revenue—Appropriation to Development Fund	31,78,23,000	34,67,68,892	+2,89,45,892	9.11

7.12 In the Budget Estimate an amount of Rs. 31.78 crores was provided for appropriation to the fund out of a total revenue surplus of Rs. 65.43 crores. Due to shortfall in earnings at the revised estimate stage, the anticipated revenue surplus was reduced to Rs. 27.73 crores which was entirely proposed to be appropriated to the Fund. However, the actual revenue surplus was Rs. 36.66 crores including the reliefs granted by the Railway Convention Committee (1977). Consequently, Appropriation to Development Fund was increased to Rs. 34.68 crores, resulting in excess over the grant.

8. *Conclusions*

(Rs. in crores)

8.1	1974-75	1975-76	1976-77	1977-78	1978-79
1. Capital-at-Charge at the end of the year	4105.56	4354.78	4533.69	4797.12	5023.92
2. Total indebtedness at the end of year :					
(a) Loans from General Revenues	379.75	460.04	461.99	368.68	*278.12
(b) Deferred dividend in respect of New Lines	80.44	78.04	76.31	67.80	71.20
3. Revenue Receipts	1415.19	1775.51	2045.69	2133.83	2161.30
4. Revenue Expenditure	1341.55	1638.48	1749.40	1781.04	1900.48
5. Revenue Surplus after payment of dividend	(—)113.83	(—)61.11	+87.24	+126.23	+36.66
6. (a) Earnings from Goods Traffic	917.50	1150.27	1325.91	1348.45	1305.41
(b) Earnings from Passenger Traffic	412.55	514.13	569.29	621.65	672.77
7. Ordinary Working Expenses	1186.28	1470.17	1548.96	1570.58	1673.17
8. Goods Traffic in million tonnes	173.6	196.8	212.6	210.8	199.6
9. Passenger Traffic in million numbers	2429	2945	3300	3504	3719

*After reduction in loan liability to the extent of Rs. 93.95 crores, vide para 2.13.

8.2 The following facts emerge from the figures given in the above table regarding the financial position of the Railways :

(1) There has been an increase in the capital outlay or investment of over Rs. 918 crores during five-year period ending March 1979.

(2) The revenue receipts showed a substantial upward trend during 1975-76 and 1976-77 particularly because of revision of fares, freights and supplementary charge on certain traffic and increase in the volume of goods traffic carried. Even though passenger earnings have also shown a continued upward trend during the last few years, the overall increase in the revenue receipts during 1978-79, as compared to 1977-78 is marginal, being less than Rs. 28 crores only.

(3) Revenue expenditure has also gone up substantially during this period and there has been an increase of Rs. 119.44 crores in 1978-79 over 1977-78.

(4) In consequence there has been a sharp decline in the revenue surplus to Rs. 36.66 crores as compared to 1977-78. The quantum of revenue surplus, however, was substantially better than the deficit in the years 1974-75 and 1975-76.

(5) The total indebtedness of the Railways in 1978-79 is Rs. 349.32 crores which appears to be substantially better than the indebtedness in the previous years. If, however, the total indebtedness is computed without allowing for reduction in loan liability to the extent of Rs. 93.95 crores, vide para 2.13 above, for comparison with the indebtedness in the previous years, the debt liability at the end of 1978-79 would work out to Rs. 443.27 crores.

(6) Out of the total debt of the Railways to General Revenues, the debt of Rs. 158 crores was incurred since 1967-68 on works to be financed from the Development Fund, *viz* Railway users amenities, labour welfare works and operating improvements. These unremunerative works are intended to be financed from the surpluses or internal savings of the Railways and not by way of fresh investments. Considering the fact that a substantial portion (36%) of the Railway debt is such that it would not be remunerative at any time in future, the loans taken for development expenditure would act as a dead weight on Railway finances.

(7) There has been a declining trend in the volume of goods traffic carried during the last 3 years. It came down to 199.6 million tonnes in 1978-79, as compared to the Budget anticipations of 222 million tonnes for this year, and actuals of 212.6 and 210.8 million tonnes for the two previous years, 1976-77 and 1977-78 respectively. The anticipated volume of traffic for the next year, *viz,* 1979-80 is also not encouraging. The goods traffic was anticipated at 222 million tonnes in the Budget Estimates for 1979-80, but was subsequently scaled down to 204 million tonnes in September 1979 on the basis of actual performance during the four months from April to July 1979. Further, based on the latest actuals upto November 1979 (130 million tonnes), the traffic projections for 1979-80 would be about 195 million tonnes.

(8) The fall in goods traffic coupled with substantial increase in the revenue expenditure and the high level of indebtedness are factors which, if not arrested, would affect adversely the financial health of the Railways in the years to come.

9. Productivity of Indian Railways

It has been laid down in the Productivity Linked Bonus formula that productivity of Indian Railways in a year will be determined solely on the basis of the revenue traffic tonne kilometres achieved with reference to the base year 1977-78.

Productivity of the Railways in 1978-79 as compared to the base year 1977-78 is given below :

Year	Revenue traffic tonne kilometres (Millions)			
	Adjusted Passenger revenue net tonne km (non-suburban)	Goods revenue tonne Km	Total revenue traffic tonne km	Index
1977-78	9746	150250	159996	100
1978-79	10615	143870	154485	96.5

The productivity index declined by 3.5 in 1978-79.

It may be added that during the same period the Capital-at-charge increased as under :

Year	Capital-at-charge (in crores of rupees) Amount
1977-78	4797
1978-79	5024 (increase of Rs. 227 crores)

CHAPTER II

RAILWAY BOARD

10. Purchase of roller bearing axle boxes from a single manufacturer

10.1 Indigenous capacity for roller bearing axle boxes (axle bearings) required for wagon manufacture, was first established in the country in 1959. Firm 'A' is the only established indigenous manufacturer and the Railways are the only consumers of the axle bearings.

10.2 Firm 'A' had a licensed capacity of 23,160 axle bearings (installed capacity of 60,000 axle bearings on three-shift basis) per annum. The licensed capacity was later raised to 35,000 nos. per annum in February 1973.

10.3 The Ministry of Railways (Railway Board) had been procuring these axle bearings partly from firm 'A' and partly by import until 1966 and thereafter import was discontinued, as the firm 'A' was able to meet the requirements of Railways. Since there was only one source of supply and only one customer for the axle bearings, their procurement was done by the Ministry of Railways (Railway Board) after obtaining quotations on single tender basis and negotiating a rate with the firm thereafter.

10.4 The table below indicates the various orders for axle bearings (20.3 tonne) placed during 1959-1976, the price quoted by firm 'A', final negotiated price, value of the orders, increase in price over the last purchase price and the percentage thereof :

Month of order	No. of axle bearings ordered	Price per Unit Quoted Rs.	Price per Unit Negotiated Rs.	Value of order (Rs. in crores)	Increase over previous Price Rs.	Percentage increase
October 1959	4,696	795	660	0.31	..	..
February 1961	24,000	700	675	1.62	15	2.3
May 1962	20,000	807	708	1.42	33	4.8
April 1963	30,000	Not available	715	2.15	7	1.0
July 1964	42,000	750.50	715	3.00	..	..
February-March 1966	36,000	733.91	715	2.57	..	..
January 1967	30,000	820	768	2.30	53	7.4
March 1968	16,800	812	780	1.31	12	1.5
July 1969	40,000	1,120	973	3.89	193	25.0
December 1970	22,352	1,265	1,023	2.29	50	5.1
August 1972	(i) 20,000 for delivery upto 3/73	1,300	1,140	2.28	117	11.4
	(ii) 30,054 for delivery after 3/73		1,197	3.60	174	17.0
May 1974	33,000	3,010	2,100	6.93	960	82.5
July 1975	42,000	3,500	2,500	10.50	400	19.0
August 1976	(i) 36,000	2,500	2,475	8.91	(—)25	(—)1.0
	(ii) 9,000 (under option clause)		2,450	2.20	(—)50	(—)2.0

10.5 As would be seen from above, till March 1966 the difference in prices negotiated for successive orders was marginal. However, in the subsequent period *i.e.* since January 1967, after the import of axle bearing was stopped, the increase in price under contracts for the years 1969 and 1974 went up sharply.

10.6 In February 1973 the residual requirements of axle bearings for 1972-73 as well as the full requirements for 1973-74 were assessed at 1,04,422 nos. These were required for wagons to be fabricated upto March 1976.

10.7 Since the indigenous capacity of 35,000 nos. per annum was considerably short of the assessed requirement, in July 1973 the Ministry of Railways (Railway Board) considered it necessary to meet the demand for axle bearings by resorting to import. It was also felt that the global tenders would establish most competitive rates for imports and also provide data for testing the reasonableness of the rates quoted by the sole indigenous manufacturer.

10.8 Consequently, in November 1973 global tenders were floated for procurement of 1,04,422 nos. of axle bearings. The global tenders were opened on 20th December 1973 and the following technically acceptable tenders were received :

S. No.	Tenderer	Rate per unit (Rs.)	Remarks
(1)	Firm 'A', Jaipur	3,010	Fully indigenous offer subject to escalation for wages, raw materials and power.
(2)	Firm 'B', Poland	2,366	Offer subject to negotiation and involved foreign exchange on rupee payment basis.
(3)	Firm 'C', Bombay	2,844	Offer fully imported.
(4)	Firm 'D' Baroda	(i) 2,502 (ii) 2,530 (iii) 3,196	Import with different proportions of indigenous content.
(5)	Firm 'E', Secunderabad	3,034	Import with partial indigenous content.

NOTE 1. Rate against S. No. 1 is ex-Jaipur.

2. Rates against S. Nos. 2 to 5 represent landed cost.

10.9 In February 1974 the requirement of axle bearings was reviewed in the light of the reduced target of wagon production for the years 1974-75 and 1975-76 due to financial constraints. The number of axle bearings required was reduced from 1,04,422 to 66,000 nos. It was, therefore, decided to procure only 66,000 axle bearings against global tender opened in December 1973.

10.10 The Ministry of Railways (Railway Board) also decided (February 1974) that negotiations should be conducted only with firms 'A' and 'B', as preference was to be given for procurement, to the maximum extent, from indigenous and rupee payment sources. As a result of the negotiations held during March-April 1974, the firms quoted revised prices as under :

Tenderer	Rate per Unit (Rs.)	Quantity Offered	Remarks
Firm 'A', Jaipur	2,100	33,000	In its original quotation the firm indicated its ability to meet the entire requirements of the Railway without specifying the quantity offered. During negotiations the firm was asked to quote a firm price at least for 41,000 nos. which was assessed to be capable of being manufactured with the indigenous capacity available upto December 1975.
Firm 'B', Poland	1,824	25,000	The firm agreed to the Railways exercising an option to order additional 10 per cent before November 1975.

NOTE : 1. Rate of firm 'A' is ex-Jaipur.
2. Rate of firm 'B' represents landed cost.

10.11 In April 1974, firm 'A' informed the Ministry of Railways (Railway Board) that they were capable of meeting the entire requirements of the Railways *viz.* 66,000 nos. ; but due to uncertain price situation for raw material it was not possible to give a firm commitment for price for quantities beyond 33,000 nos. to be supplied by March 1975. The firm added that price for the supplies to be made after this date were to be negotiated at a later date.

10.12 On the assurance of firm 'A' to meet the entire requirements, the Ministry of Railways (Railway Board) decided (May 1974) not to make any imports from firm 'B'. Out of the total requirement of 66,000 axle bearings, only 33,000 nos. were ordered on firm 'A' at the negotiated price and for the balance requirements beyond March 1975, the price was left to be negotiated subsequently.

10.13 In May 1975 the Ministry of Railways (Railway Board) floated a single tender enquiry from firm 'A' for 30,000 nos. of 20.3 tonne axle bearings representing the quantity left uncovered for the wagon production requirements upto March 1976 (including 5,000 nos. for maintenance requirements) with the option to order additional 50 per cent.

10.14 As will be seen from the table in para 10.4 above, firm 'A' quoted (June 1975) Rs. 3,500 per axle bearing for an order of 42,000 nos. In negotiations the price was reduced to Rs. 2,500 for an order for a firm quantity of 42,000 nos. Orders were placed at this price in July 1975 for 42,000 nos. of axle bearings *i.e.* in excess of the assessed requirement (30,000 nos.) of the Railways.

10.15 The following points deserve consideration about the orders placed and the price given to firm 'A' from time to time :

(i) The major requirement of the Railways is for axle bearings of 20.3 tonne. The price of other types of axle bearings (*viz* 16 tonne, 22.5 tonne etc.) is derived from the price settled for 20.3 tonne axle bearing taking into account the material content of the other axles. Consequently, determination of the reasonableness of price of 20.3 tonne axle bearings was of paramount importance.

(ii) The price of the first contract for the order in 1959 was settled with firm 'A' by allowing 25 per cent price preference over the landed cost of the imported bearing and price of indigenous axle boxes and mounting charges. The price settled in the first contract was treated as the base price in subsequent contracts and escalation was allowed in the price of raw materials, components, wages, etc. as justified by the firm to the Tender Committee appointed by the Ministry of Railways (Railway Board) to negotiate and settle the price. During negotiations the Tender Committee did not call for break up of the labour and material content and cost of production. In the absence of a cost analysis there was no means of ensuring that the prices settled in negotiations for the various orders were reasonable even after the indigenous production of the axle bearing had been stabilized and stepped up.

According to the Ministry of Railways (Railway Board) (October 1979), the question of cost examination of the records of firm 'A' was taken up (December 1970); but the firm turned down the proposal as unfair and suggested that in the event of cost examination being agreed to, the Railway should pay the higher cost, if justified by the cost examination, and also escalations during the currency of the contract.

(iii) The price negotiated with firm 'A' for the contract of 1974 *viz* Rs. 2,100 per axle bearing was about 15 per cent higher than the revised price of Rs. 1,824 (landed cost) offered by firm 'B' after negotiations. The price of firm 'A' was also unduly excessive keeping in view that the supplies of firm 'B' would have to bear the incidence of ocean freight, insurance and customs duty. The price of Rs. 2,100 allowed to firm 'A' was, therefore, substantially in excess of the established international price and involved price preference computed at Rs. 91.08 lakhs for 33,000 axle bearings ordered on them.

The Ministry of Railways (Railway Board), however, maintained (October 1979) that, as the purchase decision to place orders on firm 'A' was made on the basis of available indigenous capacity, the question of price preference of firm 'A' did not arise. While making such purchase from indigenous source reasonable price was only to be settled.

(iv) While the indigenous manufacturer was allowed the price in excess of established international price for 33,000 axle bearings, 25,000 nos. of axle bearings plus 10 per cent additional quantity which could have been procured from firm 'B' at a lower price, were carried over for procurement from firm 'A' after March 1975, even though the latter had refused to give any commitment regarding the price or agree to a pricing formula for such supplies. The objective of floating global tender for securing competitive rates and judging the reasonableness of the quotation of the sole indigenous manufacturer was thus defeated.

The Ministry of Railways (Railway Board) maintained (October 1979) that the price revealed by the global tender was made use of while negotiating the prices with firm 'A' and hence the objective of floating global tender was fully achieved.

Since firm 'A' had expressed its ability to meet the entire requirements of the Railways and refused to settle the price for the supplies to be made after March 1975, it was not in the financial interest of the Railways not to have imported the requisite no. of axle bearing *viz* 25,000 nos. from firm 'B', considering that its price was lower by Rs. 276 per axle bearing and involved an extra expenditure of Rs. 69 lakhs, if these had been ordered on firm 'A' at that time itself. In this connection it is relevant to mention that the Ministry of Railways (Railway Board) was aware at that time that the price to be paid for any subsequent order on firm 'A' was bound to be higher than the price negotiated in April-May 1974. Consequently, the price to be paid for the supplies to be received after March 1975 was likely to be higher than even Rs. 2,100.

The Ministry of Railways (Railway Board) stated (October 1979) that during negotiations firms often reduce prices taking into account various factors like booking idle capacity etc., to secure orders and hence only the original lowest quotation (Rs. 2,366) of December 1973 of firm 'B' and not its revised price (Rs. 1,824), could be considered as an established international price, compared to which the negotiated price (Rs. 2,100) of firm 'A' was not excessive.

(v) As seen from table above, 42,000 nos. of axle bearings were ordered on firm 'A' in July 1975 @Rs. 2,500. These 42,000 axle bearings included 25,000 nos. which could have been procured in 1974 from firm 'B' @Rs. 1,824, but were reserved for firm 'A' on the assurance that it could meet the entire requirement of the Railways. In the result, this involved an extra expenditure of Rs. 1.69 crores, which would go up to Rs. 1.86 crores, if the commitment of firm 'B' for 10 per cent additional quantity is also taken into account.

The Ministry of Railways (Railway Board) maintained (October 1979) that since the entire requirement of Railways could be met by firm 'A', import was not considered inescapable even though the price for subsequent purchases was expected to be higher.

(vi) The price of Rs. 2,100 allowed for the contract of 1974 could be justified on the basis of escalation over the previous contract price in the cost of material, wages etc., upto Rs. 2,020 only. The extra price of Rs. 80 over and above the escalated price as per the previous contract was accepted by the Ministry of Railways (Railway Board) as being due to "unquantifiable factors". *Prima-facie,* the price paid was excessive with reference to the formula then adopted for price fixation.

According to the Ministry of Railways (Railway Board), the difference (Rs. 80) between the revised offer of firm 'A' and the updated last contract price was attributable to unquantifiable factors other than escalations in steel, brass and wages which were not considered while estimating the price for May 1974 contract.

(vii) The following further distortions were noticed in the price of Rs. 2,100 per axle bearing settled in May 1974 :

(a) The escalation in the price of special class steel was assumed to be Rs. 2,000 per tonne over the previous contracted price. According to the rates of the Mysore Iron and Steel Limited (since renamed Visvesvarayya Iron and Steel Limited—VISL) the rates actually charged by VISL for different specifications of special class steel had increased by a maximum of Rs. 700 per MT since the last contract of August 1972 till May 1974. This could justify an increase of Rs. 31.50 only as against Rs. 90 per axle bearing actually allowed.

According to the Ministry of Railways (Railway Board) (December 1979) the basis on which escalation for special steel price was taken as Rs. 2,000 per MT could not be readily traced. The Ministry of Railways (Railway Board) added that on receipt of the audit para, firm 'A' was asked to indicate the prices paid by it to VISL and it furnished copies of two invoices relating to February 1972 and August 1974 which showed an increase of Rs. 2,600 per MT compared to 1972 price.

The invoice of August 1974 could not obviously have been available (March-April 1974) to the Tender Committee at the time of finalisation of the May 1974 contract. Hence there was no justification to allow an increase of Rs. 90 per axle bearing on account of escalation for special steel price (Rs. 2,000 per MT)

(b) An additional escalation of 10 per cent over the last contract price was admitted without spelling out the items for which this was warranted or otherwise justifying the same.

The Ministry of Railways (Railway Board) stated (October 1979) that though reasons for adopting additional 10 per cent escalation in arriving at price of axle bearing had not been spelt out by the Tender Committee, this was obviously to cater for future escalation in material/ wages.

10.16 Financial implication on account of excess price escalation for special class steel (Rs. 58.50), 10 per cent *ad hoc* escalation for unidentified items (Rs. 96) and the increase attributed to unquantifiable factors (Rs. 80) involved an extra payment of Rs. 77.39 lakhs for 33,000 axle bearings ordered on firm 'A' in May 1974.

10.17 The justification given by the Ministry of Railways (Railway Board) is not tenable for the following reasons :

(i) Examination of cost data : Since it was a case of single tender purchase due to monopoly of the manufacturer and the sole tender formed the basis of price fixation, it was desirable for the Ministry of Railways (Railway Board) to get the break up of the cost data.

(ii) Price paid under the contract of 1974 : It was untenable on the part of the Ministry of Railways (Railway Board) to maintain that the original tender of Rs. 2,366 (landed price) as against the negotiated price of Rs. 1,824 of firm 'B' represented the true international price.

The fob price *i.e.* excluding customs, insurance and freight of firm 'B' works out to Rs. 1,550 as against Rs. 2,366 (landed price) originally tendered by firm 'B' and Rs. 2,100 negotiated in respect of indigenous firm 'A'.

Again, in the absence of cost data and payment of a price higher than the negotiated landed price Rs. 1,824 of firm 'B' it is evident that the reasonableness of the indigenous price of Rs. 2,100 was not established.

(iii) Indigenous price excessive : The fact that the negotiated landed price of firm 'B' *viz* Rs. 1,824 (fob price works out to Rs. 1,180) is Rs. 276 only per axle bearing less than the negotiated price of firm 'A' and which is not loaded with customs, insurance and freight establishes that the price paid to firm 'A' was not reasonable.

(iv) Failure to make firm commitment regarding supplies for 1975-76 : It was inexpedient and imprudent on the part of the Ministry of Railways (Railway Board) not to have insisted on a firm commitment by the indigenous firm 'A' regarding the price of 25,000 axle bearings to be supplied in 1975-76 keeping in view the fact that the manufacturer had the monopoly of production, was not willing for cost examination and the price asked for and eventually given were comparatively high.

In consequence, the supplier had derived an undue benefit at public exchequer estimated at Rs. 1.69 crores to Rs. 1.86 crores ostensibly from the State policy of import substitution.

(v) Financial benefit derived by the indigenous firm : The price benefit allowed to firm 'A' for unjustified and unquantified increases in the cost of production including escalation in the price of steel amounted in all to Rs. 77.39 lakhs.

10.18 The prices for the orders placed in July 1975 and August 1976 for 42,000 and 45,000 axle bearings respectively, being determined with reference to the base price of Rs. 2,100 settled for the contract of May 1974, allowed the escalations for unidentified items (Rs. 96) and unquantifiable factors (Rs. 80). This benefit would work out to about Rs. 1.53 crores for the supplies under the above contracts.

11. Procurement of traction motors, pinions and gears

The Chittaranjan Locomotive Works (CLW) had a capacity to manufacture 360 traction motors per annum for the AC electric loco manufactured by them. In the Fifth Five Year Plan the requirements of locos were assessed as 100 locos per year to meet the increased traffic demand, which in turn required 660 traction motors per annum (requirement per loco being six motors plus 10 per cent spare). During 1971-72, the production of traction motors at CLW had suffered a serious set back due to certain defects in the design of the motor. (The failure in the design of traction motors had been commented in para 10 of the Report of Comptroller and Auditor General of India for the year 1972-73—Union Government (Railways) and dealt with by Public Accounts Committee in their two hundred and twenty fourth Report (Fifth Lok Sabha)). It was then considered adviseable to import a sizeable number of traction motors to keep up loco production and to obtain foreign collaboration for undertaking manufacture of an alternative and more robust traction motor in the country in view of design problems with the existing design of traction motors manufactured by CLW.

In January 1973 the Ministry of Railways (Railway Board) invited a global tender for purchase of complete traction motors as well as for obtaining the technical know-how for production in the country. In June 1973 it was decided that a new factory be set up by the Railways for manufacture of the new electric traction motor with foreign collaboration. As per the project report prepared in August-September 1973 this new factory was to be set up at Nasik at an estimated cost of Rs. 9.38 crores. After considering the various offers received, the lowest offer of a Japanese firm was accepted (November 1973) and an order was placed for 400 nos. of traction motors (Japanese design), 400 sets of gears and pinions, jigs, tools, etc. The fob value of the supply contract was Rs. 5.48 crores approximately. The supply contract was to become effective only on execution of the collaboration agreement with the Japanese firm for the indigenous manufacture of the motors. The collaboration agreement for the indigenous manufacture of the Japanese design of traction motors was signed on 25th January 1974 and accordingly the supply contract became effective with effect from the same date.

The contract provided for shipment of 12 prototype traction motors (later in August 1974 amended to 14) in the first instance for extensive service trials in India, and the balance 388 (later in August 1974 amended to 386) traction motors were to be supplied in a phased manner after approval of the prototype (after extensive service trials in India). The pinions and gears were to be supplied at the rate of 30 to 60 sets per month and to be shipped four (later in August 1974 amended to two) months ahead of traction motors supply.

In July-August 1974, due to financial constraints, the Ministry of Railways (Railway Board) decided to scale down the AC electric loco production from 100 to 50, and correspondingly, the number of traction motors therefor had to be scaled down to 400 per annum. By then (August 1974), the problem faced in the existing design of traction motors was overcome and the production was well established by CLW. It was, therefore, felt that CLW would be able to meet the entire requirement of traction motors for the Railways and the setting up of the new factory at Nasik commenced in 1974-75 with acquisition of land, was, therefore, not progressed.

The Japanese firm could not ship even a single prototype motor by the stipulated date i.e. 25th October 1974, as the prototype did not pass the required tests in their factory owing to poor commutation. As the failure of the Japanese firm in this regard constituted a breach of contract, the Ministry of Railways (Railway Board) could have cancelled the collaboration and supply contracts at this stage (October 1974) in view of the fact that the need for the Japanese motors no longer existed due to the production of the motors of existing design by CLW having been stabilised. However, this was not done and RDSO continued to correspond with the firm on the design changes to overcome the commutation problems. The firm has still (December 1979) to produce a successful prototype.

In the meanwhile the firm on the other hand, supplied 140 sets of pinions and gears during November 1974—April 1975, as against the contract provision for initial supply of 14 sets of pinions and gears required for the 14 prototype traction motors and the balance to be kept ready for shipment pending approval of prototype. The value of the 140 sets of pinions and gears is about Rs. 14.46 lakhs (F.E. : Rs. 9.84 lakhs) against which payment of Rs. 5.61 lakhs being the value of 14 sets of gears and pinions and cost of freight, insurance, and customs duty for the entire consignment of 140 sets had been made (March 1975). Alternative use of these gears and pinions with any other traction motor under production by CLW had been ruled out (February 1977) by RDSO due to compatibility problems.

Legal opinion obtained (January 1978) by the Ministry of Railways (Railway Board) indicated that the supply contract could not be cancelled nor the quantities reduced unilaterally as the contract had been kept alive by the Railways through continued correspondence and discussions with the firm by RDSO on technical modifications for the motor.

Taking into account the legal advice the Ministry of Railways (Railway Board) finally decided (October 1978) to reduce the number of traction motors to be imported from 400 to 50 with an option for additional 92 motors at reduced price (less 9.52 per cent than the original contract price). It was also decided that the final option for dropping the collaboration agreement or availing the same could be taken after the Japanese firm successfully proved the motor in field trials (expected to be completed in about a year and a half). Accordingly, in December 1978, the Ministry of Railways (Railway Board) proposed an amendment to the supply contract of November 1973 with the Japanese firm. The fob value of the contract, when amended for 142 sets of traction motors would work out to Rs. 213 lakhs.

The Japanese firm did not accept (January 1979) the proposed amendment and suggested a number of modifications. In a separate communication on 22nd January 1979, the firm also expressed their willingness for termination of the supply contract without any financial repercussions on either side. No final decision on the firm's proposal has so far (December 1979) been taken by the Ministry of Railways (Railway Board).

In this connection the following points require consideration :

(i) The supply and collaboration contracts with the Japanese firm were concluded due to large scale failures of traction motors manufactured by CLW during 1971-72 and shortfall expected to meet the full requirement of Railways. With the production in CLW, being stabilised since 1974-75 and the requirement of traction motors having been scaled down to 400 which could be met in full by CLW, the Ministry of Railways (Railway Board) decided not to proceed with the setting up of the new unit for production of traction motors at Nasik. In spite of these developments the Ministry of Railways (Railway Board) did not take advantage of the breach of contract in October 1974 to terminate the supply contract due to the failure of Japanese firm to develop successfully the prototype motors within the stipulated period.

(ii) The pinions and gears were required only for the assembly of traction motors to be obtained under the supply contract. The supply of pinions and gears, even before the prototype traction motors had been proven, was premature. These are lying unused pending receipt of matching traction motors. There was no obligation on the part of the Ministry of Railways (Railway Board) to have received the 140 sets of pinions and gears of the value of Rs. 14.46 lakhs. In fact, it is open to the Ministry of Railways (Railway Board) to return these pinions and gears to the supplier, since acceptable traction motors have not been delivered.

(iii) Since CLW has been able to produce traction motors of the requisite design and requirements since 1974-75 and consequently there was no need for manufacturing and importing traction motors of alternative design as envisaged under the collaboration and supply agreements with the Japanese, it is not clear as to why in October 1978 the Ministry of Railways (Railway Board) decided to keep alive the collaboration agreement.

(iv) Since the Japanese prototype traction motors had not been proven even by December 1979, there was no justification nor any obligation on the part of the Ministry of Railways (Railway Board) to have proposed (December 1978) the import of the reduced number of traction motors, *viz* 142.

(v) Despite the reduction of 9.52 per cent in the original fob price now offered, the Japanese traction motor would now cost Rs. 2.33 lakhs against Rs. 2 lakhs for CLW motor (November/December 1978 price).

The Ministry of Railways (Railway Board) stated (December 1979) that the design of the existing motors being manufactured by CLW would not be able to meet the likely requirements of the Railways for a heavy freight locomotive for hauling the increased volume of traffic in future. Though no final decision has yet been taken on the design of the heavy freight locomotive including the motor to be installed therein (keeping in view the recommendation of the Motive Power Plan Committee for a locomotive having more tractive capability and, therefore, equipped with a higher horse power motor), it was considered expedient that Japanese motor which was more robust and had higher horse power capability with 10 per cent more tractive effort than obtainable from the CLW motor, should continue to be available to the Indian Railways against the collaboration-*cum*-supply agreements. It was in that context that the agreements with the Japanese were kept alive.

The justifications furnished by the Ministry of Railways (Railway Board) for keeping the agreements with the Japanese alive are, however, anticipatory in their nature inasmuch as the volume of traffic to be hauled and the design of the freight locomotive required therefor have yet to be finalised by Government. More importantly, no justification was forthcoming from the Ministry of Railways (Railway Board) in keeping the agreements with the Japanese alive from 1974 to 1979 when :

(i) The CLW motor was technically suitable.

(ii) The volume of production of AC motors by CLW was adequate to meet the requirements of the Indian Railways.

(iii) It had been decided in 1974 not to go ahead with the establishment of manufacturing the new type of motor under the collaboration agreement at Nasik. It may be noted that the supply agreement was a *quid pro quo* for the collaboration agreement with the Japanese. In 1974 also, there was no thinking on the part of the Railways for designing a more robust locomotive with a more powerful tractive motor for hauling heavier freight in the eighties to justify keeping these agreements alive.

12. Procurement of centre buffer couplers and clevises

On the basis of the quotations received (October 1973) for procurement of 18,872 (later in March 1974 reassessed as 9,000) light weight centre buffer couplers (coupler), the Tender Committee appointed by the Ministry of Railways (Railway Board) recommended (March 1974) the procurement from two firms 'A' of Bombay and 'B' of Calcutta at a negotiated price of Rs. 4,000 per coupler subject to the condition that the Railways would issue 560 kg of scrap per coupler on payment basis. The committee also recommended the procurement of 50,000 clevises (a component of the coupler) at a negotiated price of Rs. 150—187 per clevis with a similar stipulation of Railways' supplying scrap at the rate of 22 kg per clevis on the same payment terms. The Ministry of Railways (Railway Board) approved the placement of orders in October 1974 and accordingly the following contracts were awarded :

Firm	Quantity		Date of contract
	Couplers	Clevises	
Firm 'A'	3,000	15,000	7th February 1975
Firm 'B'	7,500	35,000	21st January 1975

The contracts stipulated the following condition regarding the issue of scrap by the Railways :

> "Scrap @560 kg per coupler and 22 kg per clevis will be issued in a mix of 60 per cent heavy melting scrap and 40 per cent turnings and borings at the rate of Rs. 600 and Rs. 400 per tonne respectively ex-Railway Scrap Depots Calcutta/Greater Calcutta/Bombay/Greater Bombay and the issue of such scrap will be regulated on a quarterly basis against full payment by the Contractor".

Similar stipulation was being included in the contracts since 1974, in the light of the suppliers expressing difficulty in getting melting scrap from the open market. The intention behind the issue of scrap to these firms on payment of a fixed rate of Rs. 600—Rs. 400 was to delink the contract with any fluctuation in the price of scrap in the open market and accordingly the price of Rs. 4,000 per coupler and Rs. 150—187 per clevis was worked out on the basis of scrap price (Rs. 600 per tonne for heavy melting scrap and Rs. 400 per tonne for turnings and borings) indicated in the contract. Both the firms 'A' and 'B' in their tenders stated that their tender rates were based on the assumption that the scrap would be available to them during the period of contract at the rate of Rs. 600 per tonne for heavy melting scrap and Rs. 400 per tonne for turnings and borings and that the Ministry of Railways (Railway Board) would arrange supply of scrap. This was to be a part of the contract.

The firms supplied the couplers and clevises during the period indicated in brackets below :

Firm	Couplers	Clevises
Firm 'A'	3,000 (April 1975 — November 1975)	15,000 (February 1975 — June 1976)
Firm 'B'	7,500 (March 1975 — October 1976)	35,000 (January 1975 — October 1977)

Firms 'A' & 'B' did not obtain any scrap from the Railways for manufacturing and supplying couplers and clevises.

It was noticed by Audit that there had been a decline in the price of melting scrap during the period 1974-75 to 1975-76 as indicated in the table given below :

(In Rs. per tonne)

Date	Western Region (Bombay)		Eastern Region (Calcutta)	
	Heavy Melting Scrap	Turnings and Borings	Heavy Melting Scrap	Turnings and Borings
1-4-74	1,050	800	not available	not available
1-7-74	970	750—800	875	675—725
1-10-74	815	600—650	815	550—600
1-1-75	540	350—400	600	350—400
1-4-75	425	300—350	475	330—350
1-7-75	455	300—350	470	325—375
1-10-75	455	300—350	465	325—375
1-1-76	415	275—325	415	275—325
1-4-76	550	350—400	550	350—400
1-7-76	625	400—450	640	425—475

The Ministry of Railways (Railway Board) stated (November 1979) that both the firms 'A' & 'B' did not avail of the facility of issue of heavy melting scrap and turnings and borings from the Railways against the contract for couplers/clevises placed in January/February 1975.

The following points need consideration in this case :

(a) Under an earlier contract (May 1974) for supply of couplers, firm 'A' had accepted heavy melting scrap (466 tonnes) and turnings and borings (150 tonnes) from the Railways at the stipulated price of Rs. 600/400 per tonne. Similarly firm 'B' also accepted heavy melting scrap (433 tonnes) at the stipulated price against their earlier contract (April 1974). During that period, the market price of scrap was higher than the price fixed under the contract for Railway supply and had just started declining.

(b) Firms 'A' and 'B' took advantage of the fall in the market price of heavy melting scrap and turnings and borings by not obtaining supply of scrap from the Railways as stipulated in the contracts (January/February 1975). They, however, obtained payment for the supplies of couplers/clevises at the rates stipulated in the contracts which had been fixed taking into account a higher price (than the market price) for the scrap. The benefit derived by them amounted to Rs. 7.71 lakhs.

(c) While the conditions of the contract protected the interest of firms 'A' and 'B' from fluctuations in scrap prices above the level of Rs. 600/400 per tonne, no such safeguard was ensured to protect the interest of the Railways from similar fluctuations bringing scrap prices below the level stipulated in the contract.

CHAPTER III

METRO RAILWAY, CALCUTTA

13. Concessions given to a contractor for construction of sub-way structures

I. *Introduction*

13.1 In the Calcutta Metro Railway the railway line in most of its length (16.43 km from Dum Dum to Tollyganj) is to be laid in rectangular reinforced cement concrete boxes constructed under ground. For the execution of engineering works the Project has been divided into a number of contract sections and the cut and cover method is mainly being adopted. In the cut and cover method a trench is excavated along the proposed alignment and reinforced cement concrete boxes are constructed in the trench at appropriate depth. On completion of the construction of boxes the trench is filled with earth and the surface is restored. The sides of excavation, during excavation and construction of the sub-way structures, are supported either by sheet piles or 'H' piles driven into the ground or by construction of diaphragm walls.

13.2 A review in Audit of the execution of sub-way structure works between Dum Dum and Belgachia stations (Contract Section 2) indicated grant of extra contractual payments and changes in the scope of work and method of construction which are discussed below.

13.3 The changes in the scope of work and construction methodology as well as extra contractual payments sanctioned during the execution of the contract vitiated the comparative evaluation of tenders made initially for purpose of awarding the contract and also involved additional liability of about Rs. 72.28 lakhs. As a result, the work estimated to cost Rs. 175 lakhs at the tender stage and evaluated at 259.92 lakhs under the contract awarded eventually may cost over Rs. 332 lakhs.

II. *Evaluation of tender and award of contract*

13.4 The Railway Administration invited (November 1972) open tenders for construction of sub-way structures (rectangular reinforced cement concrete boxes) to form sub-way tunnels for carrying underground railway lines in Contract Section 2 between Dum Dum and Belgachia stations at an estimated cost of Rs. 175 lakhs. According to the tender, sheet pile and 'H' pile technique and open sloped excavation were to be adopted for the substructure work. The Project Report (October 1971) of the Calcutta Mass Rapid Transit System (MRTS) envisaged extraction of the imported sheet piles and re-using them once, keeping in view the depth to which the sheet piles would have to be driven and the corrosive nature of Calcutta soil.

13.5 The tender documents indicated following quantities of sheet piling to be done with imported sheet piles :

	(Quantity in MT)
(i) Initial driving of sheet piles (Ist use)	1820
(ii) Re-driving of once used sheet piles (2nd use) . . .	1746
(iii) Extraction of sheet piles (driven and re-driven, vide (i) & (ii) above)	3566

Steel material for these works as well as other temporary steel works (like 'H' pile steel strutting and waling were to be supplied by the Railway Administration subject to the recovery of full (100%) cost from the contractor's running bills. On return of the material in good condition, the contractor was to be refunded 90% of the cost.

13.6 Out of seven firms which quoted against the tenders (opened in March 1973) the offer of firm 'A' was in accordance with the tender conditions stipulated by the Railway Administration. Firm 'B', a public sector undertaking, submitted two offers. The first offer was as per Railway's conditions in addition to some special conditions. The second alternative offer was entirely as per its own conditions. The alternative offer of firm 'B' was on the basis that no recovery for cost of material issued for temporary works should be made at the outset; only 10% recovery might be made for each cycle of operation subject to a maximum of 25%.

13.7 The Tender Committee evaluated the tenders taking into account the special conditions. The offers of firms 'A' and 'B' were evaluated as under :

	(Rs. in lakhs)
(i) Firm 'A'	265.19
(ii) Firm 'B' with their own conditions	274.80
(iii) Firm 'B' with Railway conditions and special conditions .	279.23

The Tender Committee in June 1973 recommended for acceptance of the lower offer (Rs. 265.19 lakhs) of firm 'A', who had not stipulated any special conditions. Accordingly, the Railway Administration recommended (June 1973) to the Ministry of Railways (Railway Board) the acceptance of this offer, as this was considered "reasonable taking the tender as a whole".

13.8 In response to various queries from the Ministry of Railways (Railway Board), the Railway Administration clarified (June 1973-September 1973) *inter alia* as under :

(i) If the portion of work to be done by sheet piling was deleted from the scope of the tender, the *inter se* position of the tenderers would change very substantially.

(ii) The condition of work in this particular section was best suitable for trying out the sheet pile method.

(iii) It would not be very difficult to get the required quantities of steel sheet piles from indigenous sources.

13.9 The Ministry of Railways (Railway Board) directed (October 1973) the Railway Administration :

(i) to conduct negotiations with firms 'A' and 'B' with a view to obtaining reduction in rates and withdrawal of unusual conditions stipulated by firm 'B',

(ii) to have a 'hard look' again at the quantities of bulk work (like sheet and 'H' piling etc.) as during execution these quantities may significantly change the overall cost and competitiveness amongst the tenderers,

(iii) to stipulate terms for realising cost of material on the basis of actual depreciation for final adjustment and for initial recovery of specified depreciation from contractors' bills, and

(iv) to make it clear to the tenderers that "full deduction for unextracted piles would be made as per tender conditions".

13.10 Accordingly, the Railway Administration reviewed and revised (October 1973) the quantities for sheet pile work as under :

	(Quantity in MT)	
	Indigenous piles	Imported piles
(i) Initial driving of sheet piles (Ist use) . . .	1595	1000
(ii) Re-driving of once used sheet piles (2nd use) .	1435	600
(iii) Extraction of sheet piles [driven and re-driven, vide (i) and (ii) above].	3030	1600

13. 11 Negotiations were conducted (November 1973) with the two firms 'A' and 'B', taking into account the revised quantities, revised basis of recovery for cost of sheet piles at 50% as against 100% originally proposed in tender documents and possible use of indigenous piles.

After negotiations the Railway Administration recommended (November 1973) for acceptance by the Ministry of Railways (Railway Board) of the revised negotiated offer of firm 'A' at a total value of Rs. 259.92 lakhs indicating that this firm had offered the same rates for sheet piling irrespective of the use of imported or indigenous sheet piles.

13.12 The Ministry of Railways (Railway Board) pointed out (December 1973) that the rates quoted by firm 'A' for various sheet piling work "were not rational as very high rates had been quoted for the first use and very low rates had been quoted for the same work for the second use". It further observed that the intention (of the firm) appeared to recover the entire cost of steel at the first available opportunity. This point assumed great importance inasmuch as that the firm might not have any incentive to execute the second operation (extraction). The Tender Committee was, therefore, asked to go into the analysis of all the rates offered by firm 'A' with a view to judge their reasonableness.

13.13 The Tender Committee after a discussion with firm 'A' in December 1973 indicated that the firm's clarifications on the structure of its rates were of general nature and did not enable the Committee in forming any accurate judgement about the reasonableness of rates. The Tender Committee further reiterated their earlier view that it would not be practicable to establish the reasonableness of each itemised rate in the first few project contracts to be awarded by Metro Railway and that decisions might be taken on the basis of reasonableness of the overall value of the tenders.

13.14 The Ministry of Railways (Railway Board) in January 1974 accepted the negotiated offer of firm 'A' valued at Rs. 259.92 lakhs, based on initial recovery of 50 per cent cost of steel material for temporary work and revised quantities of sheet piling. Accordingly, the letter of acceptance was issued to firm 'A' in March 1974, stipulating that the rates would hold good for both imported and indigenous piles and that the discretion to use either of the two types rested with the Administration. The contract executed stipulated completion of the entire work within 36 months *i.e.* by 5th March 1977. However, the work from km 1.118 to km 1.452 (Phase I) should be given priority and completed in 18 months *i.e.* by 5th September 1975. The time was to be the essence of the contract. The contract was a firm price contract and no escalation was permissible.

13.15 During the execution of the contract, firm 'A' was allowed certain financial concessions not stipulated in the contract. Further the scope of work was modified in that certain items of work required to be performed by firm 'A' were dispensed with. These are as below :

(i) Escalation in rates was allowed to the firm even though it was a firm price contract. The financial implication of the escalation in rates is (as estimated by the Railway Administration) Rs. 15 lakhs (see para 13.25 below).

(ii) Amounts recovered from the firm towards the cost of material for temporary steel works were refunded to the firm prematurely, even before the material was returned to the Railway Administration in contravention of the conditions of contract (see para 13.51 below).

(iii) The Railway Administration decided (4th April 1977) to leave the once driven sheet piles buried in the ground. Accordingly the second and third stages of operation—extraction and second driving of sheet piles by way of re-use (the firm's rates for which had been considered very low as compared to the rates for first driving) were given up (see paras 13.34 and 13.35 below).

(iv) The relaxation in contract conditions mentioned in sub-para (ii) above resulted in the recovery of material being restricted to 10 per cent of their value as against 50 per cent decided upon in negotiations and as stipulated in the contract.

13.16 In the context of concessions shown to firm 'A' *viz*

(i) escalation in rates,

(ii) restricting the recovery for the value of material to 10 per cent as against 50 per cent, and

(iii) non-extraction of sheet piles,

the original offer of firm 'B' (a public sector undertaking) on its own conditions which *inter alia* stipulated 10 per cent recovery by the Railway Administration of the cost of material, would become lower by Rs. 18.92 lakhs than the tender of firm 'A'. In other words, the comparative evaluation of tenders made at the time of negotiation was vitiated by the subsequent modifications made in the contract in favour of firm 'A' as against firm 'B'. The comparative financial implications are indicated below :

(Rs. in lakhs)

	Firm 'A'	Firm 'B'
Value of basic offer modified for use of indigenous sheet piles.	249.29	239.98
Less value of entire quantity of sheet pile work	(–) 24.69	(–) 29.64
Add value of sheet pile work actually done	18.40	17.29
Add value of special conditions of firm 'B' including escalation limited to Rs. 7 lakhs	..	13.85
Add escalation allowed to firm 'A'	15.00	..
		241.48
Less 1% rebate offered by firm 'B' during negotitation.	..	(—) 2.40
	258.00	239.08

Difference Rs. 18.92 lakhs

NOTE :—In making the comparison the rates tendered by firm 'B' with 10% recovery of the cost of material (sheet piles etc.) and the rebate of 1% offered for use of indigenous sheet piles at the negotiation stage have been taken into account.

13.17 The Railway Administration stated (October 1979) that changes in nature and scope of work were dictated by imponderable circumstances which arose during execution of the work and hence *ipso facto* could not have been envisaged before the award of the contract and that any reference to the original offer of an unsuccessful tender for the purpose of a notional comparison with the offer of the existing contractor is a highly theoretical exercise.

13.18 It may be mentioned that the issues of escalation, quantum of recovery of cost of steel material issued to contractors and the reasonableness of itemised rates quoted by firm 'A', the successful tenderer, which had a crucial bearing on the evaluation of tenders were known even at the stage of scrutiny of the tenders. The comparison made by Audit is the actual financial impact of the concessions and modifications introduced after the award of the contract at the cost of additional expenditure to the Railway.

III. *Escalation payment*

13.19 In September 1975 when the progress on the work was 18 per cent, firm 'A' wrote to the Railway Administration asking for increase in rates stating *inter alia* that the prices had increased by more than 40 per cent since the award of the contract and it was a mistake on its part to have quoted firm rates for such a costly venture.

13.20 During November 1976-April 1978 the firm pressed its claim for enhancement of rates through several petitions/ memoranda addressed to the Railway Administration, Ministry of Railways (Railway Board) and the Railway Minister mainly on ground of abnormal and unprecedented price increase. The Railway Administration initially held (April/September 1976) that since the contract was a 'firm price' one, the firm's claim was extra contractual and, therefore, the Railway Administration had no contractual obligation to grant any enhancement in the accepted rates. It further held that the increasing trend of price indices was clearly discernible even at the tender stage and as the firm did not quote any escalation clause in the tender, nor did it insist for its introduction at the stage of negotiations, its rates must have included sufficient cushion to cover market fluctuations.

It appears that having secured the contract on 'firm price' basis, the firm had started pressing for escalation shortly thereafter.

13.21 However, as the firm had been repeatedly representing to the Ministry of Railways (Railway Board) a committee of Heads of Departments of the Railway Administration examined the whole question and recommended (May 1978) grant of price escalation subject to a ceiling limit of 15 per cent of the net value of the contract "to meet the ends of justice", although the firm's claim for escalation was not contractually tenable.

13.22 The Ministry of Railways (Railway Board) approved (April 1979) the payment towards escalation *inter alia* on the following basis :

(i) that no payment for escalation is to be made for work done upto original date of completion *viz* 5th March 1977,

(ii) for the work done after the original date of completion but only for the period necessitated entirely by reasons beyond the contractor's control (which must be gone into thoroughly by General Manager, Metro Railway), escalation may be paid on standard escalation clause with 30 per cent for contractor's material and 25 per cent for labour, keeping the base date as the date of negotiations, *viz* November 1973, and

(iii) that the ceiling for escalation will be 20 per cent on the value of work done (by the contractor) excluding the net cost of railway stores after the original date of completion, *viz* 5th March 1977.

13.23 The Ministry of Railways (Railway Board) authorised payment of Rs. 10 lakhs on *ad hoc* basis, as requested by the contractor, to be adjusted against the extra contractual amount that might be found due to him by way of escalation now decided upon. The Ministry of Railways (Railway Board) estimated the escalation payable on the value of work (less cost of Railway stores issued to the contractor) after 5th March 1977 at Rs. 16—18 lakhs. This *ad hoc* payment was authorised without a specific finding that an amount not less than Rs. 10 lakhs had become due as escalation for reasons beyond the contractor's control. As such, this *ad hoc* payment of Rs. 10 lakhs constituted financial accommodation to the contractor.

13.24 The *ad hoc* payment was made in April 1979. Even till date (December 1979) the amount due by way of escalation for reasons entirely beyond the contractor's control has not been determined.

13.25 The Railway Administration had assessed (October 1979) the total amount payable on account of escalation at Rs. 15 lakhs. With the acceptance of firm 'A's claim for escalation, the value of the contract exceeds the next higher negotiated (November 1973) offer of firm 'B' by Rs. 3.29 lakhs.

13.26 The Railway Administration stated (October 1979) that in view of the abnormal inflation following the global oil price hike, escalation was granted, subject to a ceiling, only for the work done beyond the original contract period and that extensions had so far not been due to any default on the part of the contractor.

13.27 It may be mentioned that extensions for completion of the work were granted mainly on grounds like slow progress of extraction of sheet piles and the resultant delay in starting work in other 'elements' with the use of extracted piles, limited working space in the heavily built up areas, delay in handing over sites etc. It is not clear how the extensions on account of slow progress of extraction and limited working space could be held to be not due to any default on the part of contractor, especially when the contractor was aware right from the tender stage itself of his responsibility for extraction and reuse of sheet piles, the availability of the working sites and their condition etc. These were taken into consideration while stipulating the date of completion of the entire work in the concluded contract.

13.28 According to the Ministry of Railways (Railway Board) it cannot be stated (December 1979) with definiteness whether any financial accommodation was actually involved. This can be determined only after the exact amount payable for escalation under the terms of the Ministry of Railways (Railway Board)'s orders is determined.

IV. *Sheet pile work*

(a) *Non-extraction of sheet piles*

13.29 The rates quoted by firm 'A' for sheet piling in March 1973 (at the tender stage on 100 per cent cost recovery basis for material issued) and in November 1973 (at the negotiation stage on 50 per cent cost recovery basis for material issued) were as under :

(Rs./MT)

	On the basis of 100% cost recovery	On the basis of 50% cost recovery as finally accepted
(*i*) Driving of sheet piles (Ist use)	2450–2650	1400–1500
(*ii*) Extraction of sheet piles	100–175	400–500
(*iii*) Driving of sheet piles (2nd use.)	250–400	600–700

13.30 At the request of firm 'A' in June 1975, the Railway Administration extended (September 1975) the original date of completion of Phase I of Contract Section 2 upto 15th April 1976 without any penalty. Further representations were made by the firm during November 1975—March 1976 on the grounds that it was difficult to indicate how long it would take to complete extraction of sheet piles. The Engineer-in-Charge noting that the method of extraction adopted by the firm was safe and practicable, although it was very slow, recommended extension of the contract without any penalty upto 30th October 1976 and accordingly extension was granted by the Railway Administration.

13.31 The firm again approached the Railway Administration during December 1976-February 1977 seeking extension for completion of work for the entire section upto 31st December 1979 on grounds like slow progress of the work due to limited working space available, delay in handing over site, inability to start work in other elements, sheet piles not being available for reuse as originally envisaged due to technical difficulties consequent on the interlock friction, horizontal force from inside of the cut, twisting effect of the piles etc. On the recommendation of the Engineer-in-Charge that the extension sought for would not cause any loss to the Railway, the Administration granted (April 1977) extension of time upto 31st December 1978 without any penalty. The work has not yet (November 1979) been completed and further extension upto December 1980 was granted (September 1979) without penalty.

13.32 After examining the contractor's repeated submissions (in November 1975, August and December 1976) regarding non-feasibility of extraction of sheet piles, the Chief Engineer of the Railway in March 1977 proposed that "the sheet piles already driven be left in position", on the following technical grounds :

(i) The leader of the Soviet consultants team which visited the country in 1976 stated that in USSR the sheet piles were not extracted. According to him it was not technically possible to extract sheet piles with available means as the clutches got jammed resulting in excessive friction and economically it would not be worthwhile because the sheet piles got distorted during extraction which made their reuse impossible.

(ii) A book on Foundation Engineering by an Engineer "having great experience in foundations in Mexico City where soil conditions are more or less similar to those at Calcutta" mentioned that "in most cases of deep excavations the sheet piles cannot be recovered because of deformations set on them by the horizontal soil displacement".

(iii) During (March-April 1976) extraction of 5 sheet piles (quantity of about 3 MT) in elements 1/1 to 1/4 it was noticed that extraction was very difficult; friction was so excessive that pile tops were getting torn and distorted during extraction. (This had not been mentioned in the observation of the Engineer-in-Charge in March 1976 *vide* para 13.30 above).

(iv) Heavy corrosion was noticed on the piles due to aggressive nature of soil and climatic conditions of Calcutta. This resulted in jamming of clutches of majority of the piles leading to multifold resistance to pulling.

(v) Lateral flattening of piles had occurred due to earth pressure.

(vi) There were indications of soil displacements resulting in setting up of deformations on piles. Extraction of the piles may cause settlement of foundations of buildings and also affect deep sewers.

(vii) The use of indigenous sheet piles (8mm thick) instead of imported sheet piles (22mm thick) also necessitated the non-extraction of sheet piles as indigenous sheet piles were liable to deformation and this would cause soil displacement endangering the safety of adjoining structure.

(viii) Sample studies regarding straightness of the piles exposed on the trench side conducted during December 1976 on six piles selected at random showed that the piles had been deformed and their extraction would not only have been difficult but would have caused displacement of soil, endangering safety of adjoining structures and deep sewers.

13.33 In brief, the Chief Engineer now held that extraction and reuse of sheet piles was impracticable, even though in March 1976, the Engineer-in-Charge had observed that the method of extraction adopted by the contractor, though slow, was practical and safe.

13.34 The proposal was agreed to by the General Manager in April 1977 and accordingly all the sheet piles driven in the entire Contract Section 2 had been left in position, buried in the ground. The actual quantity of sheet piles that will ultimately be left buried has not yet (November 1979) been assessed by the Administration. It is estimated that approximately 1078 MT of sheet piles costing about Rs. 23.72 lakhs would be thus left buried in the ground. Consequently, firm 'A' would not be required to perform the operations of extraction of driven sheet piles and also second driving *i.e.* reuse of sheet piles. It altogether vitiated the comparative evaluation of tenders based on the accepted condition for extraction and reuse of sheet piles.

13.35 The consequences flowing from the non-extraction of sheet piles are :

(i) The Railway Administration had envisaged (June—September 1973) that "if the portion to be done by sheet piling is deleted from the scope of the tender, the *inter se* position of the tenderers would change very substantially". In this connection also see paras 13.8(i) and 13.16 above.

(ii) The rate structure of the sheet piling work in the original contract was such that the contractor derived undue benefit on the abandonment of extraction of sheet piles. In this connection see para 13.48 below.

13.36 Regarding the justification for the adoption of the technique of extraction of sheet piles and its subsequent abandonment, the following points are worth mentioning :

(a) The Project Report of MRTS was prepared in October 1971 by a team consisting of top ranking Engineers of the Railway and the Soviet Consultants. According to the Project Report fairly comprehensive investigation was carried out to determine the subsoil conditions in Calcutta city and while determining the construction methods proposed in the Report the soil conditions had been taken into account. The Project Report also stated that detailed calculations had been made at each bore hole location in respect of the stability of the underground cut under different methods of construction and also to determine the penetration of the support walls of the cuts below the bottom of the excavations. Based on these calculations and after taking into account the proximity of building etc. adoption of cut and cover method with sheet piles had been recommended for this particular stretch.

The Project Report (October 1971) further stated that imported heavy duty sheet piles would be required and that indigenous sheet piles would not be adequate. The Railway Administration reconsidered the suitability of Z piles (indigenous piles) well before the award of the contract and categorically recommended to the Ministry of Railways (Railway Board) in September 1973 that "further checking indicates that indigenously manufactured material may be made to suit our requirement for work under Contract Section 2 taking into consideration that for steel sheet piling the only section that is manufactured in India by M/s. Indian Iron and Steel Company will be slightly overstressed but such overstressing will be within permissible limits for temporary structures". It further added that "for the section proposed to be tackled by sheet piles the Z section sheet piles rolled by M/s. Indian Iron and Steel Company will serve our purpose" and that it would need about 1000 MT of the same assuming it would be possible to reuse these piles at least once (*i.e.* 2 uses).

As regards the sewer and drainage conduits along the alignment of the Metro line the Project Report stated that "the sewers as existing are comparatively small in size and situated in shallow depths". This had helped in locating the subway boxes at comparatively shallow depth.

Thus the aspects of soil conditions, proximity of buildings, sewerage and other services (based on specific studies), had been taken due note of by the Project Report team while coming to its conclusions about use of sheet pile methodology and the extractibility and reuse of sheet piles. But the Chief Engineer's proposal of March 1977 "to leave the sheet piles in position" without extraction did not indicate how the Project authorities had gone wrong in their earlier conclusions ; nor did he adduce any additional data regarding soil conditions, etc., which could materially affect the conclusions drawn by the Project authorities. The only new point raised was about the corroded, twisted condition of 5 sheet piles extracted by the contractor. Even the sample studies conducted on 6 out of more than 1,600 piles *vide* para 13.32(viii) above were restricted to merely the examination of the straightness of the piles. No study on feasibility or otherwise of extraction by actual extraction was conducted.

(b) It may also be mentioned that the Railway Administration sent a large number of Engineers to various foreign countries for studies on Metro Railway Systems. No study team had recorded that the Engineering practices, in the countries visited, in the matter of use of sheet piles, their extraction and reuse were different from those indicated in the Project Report for adoption in the project.

(c) The Engineer-in-Charge had reported in March 1976 that the contractor had to try several types of extraction methods and had finally adopted a method which was safe and practicable though very slow. In September 1976, while considering the question of payment for sheet piles left at the site in this section, elements 1/1 to 1/4, it was held that the condition of the extracted sheet piles "is 'A' class except for certain top portion which was damaged through extraction". Under the terms of the contract, extracted sheet piles classified as class 'A' were capable of being readily reused for subsequent similar construction. In March 1977, while abandoning the extraction of sheet piles it was recorded that pile tops were getting torn and distorted during extraction. The basis on which the 'A' class piles were found to be unusable is not known.

13.37 It may also be mentioned that :

(i) In the context of likely non-availability of imported piles the Ministry of Railways (Railway Board) at the time of consideration of tender had suggested (September 1973) the desirability of taking recourse to diaphragm wall technique but the Railway Administration assured them that "further checking indicates that indigenously manufactured material may be made to suit the requirement of work"; even though the only section manufactured indigenously would be slightly overstressed, such overstressing would be within the permissible limit and it would be possible to reuse these piles.

(ii) The second team (December 1971) of Soviet Consultants advised that "there was, however, the danger of soil loss, at the time of withdrawal of sheet piles. Because of the difficulty in compacting re-fill satisfactorily in the immediate vicinity of sheet piles, there would be tendency for the soil to come off from the re-fill side when piles were removed. This might lead to ground loss and settlement of buildings. Therefore, effective measures have to be taken to prevent soil loss while withdrawing the piles. There was also the void (volume equivalent to the volume of sheet piles) left behind when sheet piles were withdrawn. This also would contribute to some settlement. Therefore, in cases, where sheet piles were driven close to structures and damages to structures were anticipated, it would be wise to leave the sheet piles buried in the ground". The subsequent Soviet team also advised (June 1974) that "driving of sheet piles close to buildings is fraught with some danger. In USSR the practice is generally to leave the sheet piles buried".

(iii) Nothwithstanding the qualified remarks of the Soviet Consultants about the risk involved in extraction of sheet piles, the practice obtaining in USSR of leaving the sheet piles buried instead of extracting them, the information available in technical literature that in the case of deep excavations the sheet piles cannot be recovered due to deformations, absence of any studies by the Railway Administration regarding the feasibility of extraction of the sheet piles under the Calcutta soil conditions and with reference to location of the properties and utilities, the Railway Administration decided on extraction of sheet piles initially. It may be noted that the advice of the Soviet Consultants of June 1974 on this point was available within 3 months after the contract was concluded (March 1974).

(b) *Reasonableness of rate for first driving of sheet piles*

13.38 The Ministry of Railways (Railway Board) had issued (1963) instructions that in the matter of evaluation and consideration of tender documents particular care should be taken to ensure that the rates quoted for individual items are realistic and are not abnormal and unreasonable in respect of any item of work.

13.39 In this tender the Railway Administration had maintained all along that it should be decided on the overall value and not on itemised rates. The Ministry of Railways (Railway Board) was of the view that the rates quoted by the firm could not be considered as rational and that Tender Committee should have gone into the analysis of all the rates offered to arrive at their reasonableness. In reply, the Tender Committee reiterated their view that it would not be practicable to establish the reasonableness of each itemised rate in the first few contracts to be awarded by the Railway and that decisions might be taken on the basis of reasonableness of the overall value of the tenders.

13.40 The reasonableness or otherwise of the rate for an item of work assumes profound significance where the tender is decided on overall value but at post contract stage material modifications are made in the scope of the work and the engineering technique involving loss of valuable steel and affecting an important item of work in the contract.

13.41 In the context of high rate for first driving operation and low rate for second driving operation of firm 'A', the Railway Administration did not review and examine the reasonableness of the rate for first operation when it decided to leave the sheet piles buried underground, thereby dispensing with the extraction of sheet piles and their reuse. This was a material change in the terms and conditions of tender/contract resulting in undue financial advantage to the firm.

13.42 The Railway Administration stated (October 1979) :

(i) The rates for the first and second operations being already provided in the contract, the question of examining the reasonableness of the rates during execution of contract could not be legitimately raised, nor did any occasion arise for negotiation outside the contract which itself envisaged retention of the piles underground in certain circumstances.

(ii) Payment at contractual rates for work done cannot constitute financial advantage.

13.43 It may be mentioned that the rates contracted for sheet piling work were for three operations, *viz* first driving, extraction and redriving of the extracted piles. With the decision to leave the piles buried underground, the second and third operations *viz* extraction and reuse of the piles were dispensed with. This constituted a material change in the scope of the work, which warranted an examination of the reasonableness of the rates which were "joint rates".

13.44 The following facts establish that undue financial advantage was derived by the firm from this change in the terms and conditions of the contract :

(i) During negotiations in November-December 1973, firm 'A' clarified that the rate for the first driving was so quoted as to ensure that the net payments availabe to it from 'on account' bills after deduction of the cost of sheet piles to be supplied by the Railway were sufficient to cover at least a portion of the running expenses. A lower rate had been quoted for the second driving, taking into consideration that it might be possible to get substantital reimbursement of the value for the sheet piles returned after second extraction which would compensate for the lower rate quoted for the second driving.

(ii) Again in December 1973 itself, the Ministry of Railways (Railway Board) had observed while considering the tender that the rates offered by firm 'A' for various items of sheet piling work were not rational, since very high rates (Rs. 1400—1500 per MT) had been quoted (after negotiation) for the first operation while the rates for the same work for the second driving were very low (*viz.* Rs. 600—700 per MT). The Ministry of Railways (Railway Board) had also expressed that perhaps the intention of the firm was to recover the entire cost of material at the first available opportunity. (See para 13.12 also.)

(iii) Again, it is relevant to mention that in March 1977, *i.e.* 3 years after the award of the contract for section 2, the Railway Administration awarded a contract for similar work of sheet pile driving under section 4-A to another firm with free supply of material by the Railways. At this time, reuse of the sheet piles was not envisaged. For single pile driving operation the rate allowed was only Rs. 1000 per MT as compared to Rs. 1400—1500 per MT allowed 3 years earlier to firm 'A'.

13.45 The table below indicates in juxtaposition the rates originally quoted and negotiated for the first and second driving operations :

(Rs. per MT)

Operation	Quoted rate for 100% recovery	Cost of sheet piles included in Col. (2)	Negotiated rate for 50% recovery	Cost of sheet piles included in Col. (4)
(1)	(2)	(3)	(4)	(5)
First driving	2450-2650	2200	1400-1500	1100
Second driving	250-400	Nil	600-700	Nil

Note.—Recovery of the cost of sheet piles was to be made at the rate of Rs. 2200 (100 per cent recovery)/Rs. 1100 (50 per cent recovery) per MT

13.46 There is no difference in the work involved in driving sheet piles whether in the first or in the second (reuse) operations. The substantial difference in the rates for the first and the second driving operations is accounted for by the contractor recovering the cost of the piles in the first driving operation itself. It is significant that, after negotiations, when the recovery of the cost of the sheet piles in the first operation was limited to 50 per cent instead of 100 per cent as originally envisaged the rate for the reuse operation was substantially stepped up.

13.47 The facts given above, *viz* the observation of the Ministry of Railways (Railway Board), the analysis of the rates furnished by the contracting firm itself, the rate allowed 3 years later for similar work in a nearby site in the same project and the substantial difference between the rates for the first and second driving operations, would establish conclusively that the first driving operation rate allowed to the firm was inclusive of the recoverable cost of sheet piles.

13.48 According to the calculations made by Audit (Annexure) after allowing for labour charges for driving and for depreciation of the sheet piles, the extra amount paid to the firm by way of the cost of sheet piles works out to Rs. 580 per MT and total of Rs. 7.45 lakhs for first driving of 1285 MT of sheet piles.

13.49 The Ministry of Railways (Railway Board) stated (December 1979) that in their opinion no undue concession in the rates had been allowed to the contractor and that rates eventually given were comparatively reasonable.

13.50 Consequent on the decision to leave the sheet piles buried, the Railway Administration had to issue additional 285 MT of new sheet piles to be driven at the first driving rate over and above 1,000 MT originally contemplated, involving an extra expenditure of Rs. 6.27 lakhs (cost of sheet piles).

V. *Other financial benefits given to the firm*

(a) *Reimbursement of the cost of material*

13.51 At the request of the firm the Railway Administration reimbursed (December 1978) Rs. 5.85 lakhs on account of the cost of struttings and waling material issued to the firm. This reimbursement was made to the firm prematurely, although the material had not been dismantled and returned to the Railway, on the grounds that had the work been completed as per original schedule (March 1977) the reimbursement as per contract condition would have been made; any further delay would result in hardship to the contractor. Reimbursement of this amount had been made on the strength of an indemnity bond, although legal adviser advised to obtain a bank guarantee to safeguard the interest of the Railways. This reimbursement was contrary to the provisions of the contract, as the material issued to the contractor is yet to be returned. This extra contractual benefit to the firm has been estimated as Rs. 1.40 lakhs (@ 12 per cent interest for the period January 1979 to December 1980 *i.e.* the expected date of completion of work).

(b) *Payment for extra item*

13.52 The schedule of items for work to the tender contemplated driving of sheet piles upto a depth of 20 metres from ground level. The tender documents neither indicated the lengths in which the sheet piles would be supplied nor provided as a separate item of work for splicing (jointing) of sheet piles to make them of the desired length. The contract stipulated only the rates for driving sheet piles.

13.53 The Railway Administration procured and issued sheet piles to the firm in lengths ranging from 5.5 metres to 13.5 metres. During execution the firm raised (February 1975) a dispute stating that its rates for driving of sheet piles were not inclusive of the cost of splicing, for which it should be paid for separately. In October 1975 the dispute was referred to Joint Arbitrators appointed by the General Manager of the Railway. The arbitrators gave an award in December 1975 in favour of paying the firm for splicing as a non-scheduled item of work.

13.54 The firm claimed in December 1975 a rate of Rs. 899.88 per splice (joint). The Railway Administration in March 1976 worked out a rate of Rs. 553.81 per splice, which was considered reasonable on the basis of a work study conducted by the Engineer-in-Charge. The rate was approved by the General Manager in April 1976. The firm had been paid Rs. 8.97 lakhs till March 1979 for splicing of 1,620 joints. However, in the tender subsequently invited for Contract Section 4-A by the Railway Administration splicing was mentioned as a separate item of work and the rate obtained in December 1976 for splicing was only Rs. 180 per joint exclusive of the cost of steel plates to be supplied free by the Railway Administration. Taking into account the cost of material required per joint, the comparable rate for Contract Section 4-A works out to Rs. 214.41 as against Rs. 553.81 per splice paid to firm 'A' for Contract Section 2 by the Railway Administration. Out of the Rs. 553.81, direct cost alone amounts to Rs. 239.05 as against all inclusive rate of Rs. 214.41 obtained in Contract Section 4-A nine months later. The extra benefit thus derived by firm 'A' on this account works out to Rs. 5.50 lakhs.

13.55 The Railway Administration stated (October 1979) :

(i) The rate worked out for Contract Section 2 for splicing thinner indigenous sheet piles cannot be compared with the rate allowed for splicing thicker imported piles for Contract Section 4-A ; thinner the piles, more elaborate the care required for splicing.

(ii) A minor item in a major contract need not necessarily indicate a workable rate structure by itself.

13.56 The Ministry of Railways (Railway Board) stated (December 1979) that the rate for splicing allowed in this case was a non-schedule item and as such could not fairly be compared with the rate obtained in a tender in an adjoining section for splicing imported sheet piles. Besides, the volume of work involved in splicing in the latter section was comparatively small.

VI. *Change in Methodology*

13.57 In 1973, while considering the tenders received for Contract Section 2, the Ministry of Railways (Railway Board) enquired about the advisability of taking recourse to the diaphragm wall method of construction. In reply, the Railway Administration mentioned that there were not many firms which could tackle the diaphragm wall type of construction and that the "condition of work in this particular section is such that this is best suitable for trying out the sheet pile method". Further as mentioned in para 13.36(a) above, the Project Report taking into account the soil conditions, proximity of buildings and sewer lines had proposed adoption of sheet pile methodology for this section. Accordingly as per the contract with firm 'A' a stretch of about 440 metres (*i.e.* a total of 880 metres for up and down side together) was to be constructed by sheet pile method.

13.58 Upto October 1977 the firm had driven sheet piles for a total length of 647 metres consuming 1285.82 MT of indigenous sheet piles in single use only. On 23rd November 1977 the Deputy Chief Engineer proposed that the remaining length of Contract Section 2 where sheet piling had not been done should be constructed with diaphragm walls. The following reasons were indicated therefor :

(i) The sheet piles left pockets sometimes as they could not be driven to full depths.

(ii) There was a tendency of clutches opening out and even otherwise the cut off provided was far from being water proof.

(iii) This situation was further aggravated in this particular section by the existence of a sewer line nearby. The soil around the sewer was mostly surcharged with water due to water seepage through the opening in the sheet piles endangering the cut.

(iv) There were cases of soil loss and considerable surface settlements resulting in collapse of running sewers and some private structures.

(v) The diaphragm wall would overcome all these disadvantages and provide safe working conditions and protection to adjoining buildings.

The Chief Engineer considered the change in methodology essential for safety considerations of adjoining structures and the neighbourhood and also to ensure a safe working condition.

13.59 All the above factors had been duly investigated and taken into account in the Project Report, while recommending the methodology to be adopted for construction in various lengths. Again, the shortcoming of the sheet pile technique was discovered after 73.5 per cent of the sheet piling had been done.

13.60 On 21st November 1977 firm 'A' intimated the Railway Administration that it had been verbally intimated by the Administration that it proposed to have the balance portion done by diaphragm wall method and in that event it would not prefer any claim for reduction in the quantity of work. Firm 'C', who had been awarded (November 1976) work in the adjoining Contract Section 3-A agreed (November 1977) to do this diaphragm wall work in Contract Section 2 as part of its Contract for Section 3-A. The financial implication of this proposal was worked out (November 1977) by the Railway Administration as involving additional expenditure of Rs. 8.96 lakhs as between the sheet pile technique and the diaphragm wall technique of construction.

13.61 In January 1978 the Financial Adviser & Chief Accounts Officer and the Chief Engineer were of the opinion that limited tenders for the work should be invited from "only two firms readily available in the field at Calcutta". These were firms 'C' and 'D'. It was considered that there were no other firms readily in a position to tackle this urgent work to be completed before the monsoon. The proposal was approved by the General Manager in January 1978.

13.62 Limited tenders were invited from the two firms 'C' and 'D' in January 1978. Only firm 'C' quoted and the work was awarded in March 1978 at a cost of Rs. 25 lakhs on single tender basis. The date of completion was stipulated as six months from the date of award of contract (*i.e.* by 17th September 1978). The period of completion was extended to 31st March 1979 without penalty. The contractor did not complete the work within the extended period and asked for further extension upto 15th June 1979. The extra expenditure incurred by the Railway Administration by change of methodology is assessed by Audit at Rs. 19.21 lakhs as against Rs. 8.96 lakhs assessed by the Railway Administration in November 1977.

13.63 This change over from sheet pile method to diaphragm wall work in January 1978 constituted a 'material modification' in terms of paras 1009 and 1010 of Indian Railway Code for the Engineering Department, requiring prior approval of the Ministry of Railways (Railway Board). This was not obtained. A report of the change in methodology of construction was made in April 1978, *i.e.* 3 months later, to the Ministry of Railways (Railway Board).

13.64 The Railway Administration stated (October 1979) :

(i) the reasons for deciding on the change in construction method were due to the incidents that took place during actual execution of sheet piling, which could not have been visualised fully at the Project

Report stage by sample studies forming the basis for preparation of the report,

(ii) the Project Report envisaged use of heavy duty imported sheet piles which would have given better protection against soil loss and leakage and in that case some of the failures could not have probably taken place, and

(iii) the field engineers had to take steps to meet a situation arising during execution by adopting a different methodology.

VII. *To sum up*

(i) The abandonment of the extraction of sheet piles and allowing escalation in the post-contract stage vitiated the comparative evaluation of the tenders ; the tender of firm 'A' turned out to be higher by Rs. 18.92 lakhs (*cf*. para 13.16 above)

(ii) The technique of extraction of sheet piles had been adopted after careful investigation of the soil condition etc., and in the face of the advice of the Soviet experts and the practice obtaining in the USSR and the available technical opinion. (*cf*. para 13.37 above)

(iii) The rates of payment for sheet pile driving were inclusive of the cost of sheet piles and were based on the assumption that the sheet piles would be extracted and re-used. However, when the extraction of sheet piles was abandoned, the rate structure for driving of sheet piles was not reviewed and revised, thereby giving the contractor undue financial benefit amounting to Rs. 7.45 lakhs (*cf*. para 13.49 above)

(iv) Extra contractual concession in the form of escalation was allowed in favour of the contractor. The amount payable by way of escalation is still (December 1979) to be determined.

Financial accommodation to the extent of Rs. 10 lakhs was given to the contractor (*cf.* para 13.23 above) even before the amount payable by way of escalation had been determined.

(v) The extra expenditure to the project on the sheet piles originally intended to be used after extraction and now left buried, is Rs. 23.72 lakhs (*cf.* para 13.34 above).

(vi) The sheet pile method of construction was abandoned in favour of diaphragm wall method, resulting in an extra expenditure of Rs. 19.21 lakhs (*cf.* para 13.62 above)

The concessions given to the contractor are summarised below :

	(Rs. in lakhs)
(*i*) Escalation payment including financial accommodation of Rs. 10 lakhs	15.00
(*ii*) Extra benefit given to the contractor in the rate for first driving of the piles	7.45
(*iii*) Payment for splicing sheet piles at high rate	5.50
(*iv*) Premature refund of the cost of steel material	1.40
	29.35

The extra expenditure incurred by the project as a result of changes in the technique of construction are :

(*a*) the cost of sheet piles not extracted and left buried	Rs. 23.72 lakhs
(*b*) extra expenditure incurred on the diaphragm wall method as against sheet pile method	Rs. 19.21 lakhs
TOTAL	Rs. 42.93 lakhs

Another instance of concession shown to the same firm in this contract is dealt in para 14—"Payment for dewatering" in this report.

14. **Payment for dewatering**

For construction of sub-way structure in Dum Dum-Belgachia section of the Metro Railway, Calcutta, the contract awaded by the Railway Administration to a contractor in March 1974 provided for, *inter alia,* dewatering excavation trenches/lowering hydrostatic pressure by pumps of approved and appropriate capacity to be arranged and installed with necessary equipments, fittings, required standby arrangements etc., by the contractor who was to be remunerated at 30 paise per 'every horse power (hp) hour'.

The contractor installed "5 hp 'WASP' Ejecto pumps" each fitted with 7.5 hp motor as recommended by the manufacturer of the pumps and commenced dewatering work in September 1976. Payments, as claimed by the contractor, on the basis of hp hour of the motor used for running the pumps were being made till January 1977, when the concerned Executive Engineer sought clarification from the Railway Administration as to whether hp of the pump or of the motor was to be the basis for payment.

The Railway Administration clarified (April 1977) that since the accepted schedule of work was for pumping, payments were to be made based on hp hour of the pump only, irrespective of the power of the prime mover (diesel or electric) required to run the pump. This decision was communicated to the contractor on 17th February 1978 *i.e.* 9 months later.

In March 1978 the contractor represented against this decision and claimed that payments were to be made at hp hours of the motor in terms of the contract. Thereupon in June 1978 the Railway Administration reversed its earlier decision

(April 1977) and agreed that hp of the motor and not of the pump should be the basis for payment. In arriving at this decision the Administration took into consideration the following factors :

(i) The pump by itself has no hp because it does not produce power. It absorbs input power from shaft of a prime mover. The mechanical effort by the pump is variable, dependent upon several parameters and, therefore, the pump capacities are reckoned by the hp of the motor with which the pump is coupled.

(ii) Though 5 hp motor could normally be used with the pump (HN-300 type installed by the contractor, the use of 7.5 hp motor was recommended (September 1976) by the manufacturer as a precaution against low voltage, or sudden rise of water in the well or overheating for long continuous run.

The quantum of dewatering work done by the contractor on the basis of hp of the motor used upto August 1979 worked out to 8.83 lakhs hp hours for which payment of Rs. 2.65 lakhs was made. This resulted in extra expenditure of Rs. 0.88 lakh compared to what would have been payable with reference to hp required for the pump ,without corresponding benefit to the Railway Administration by way of higher rate of pumping water.

The Railway Administration stated (October 1979) :

(i) The pumps used by the contractor could be operated by 5. hp motor under normal conditions but the nature of performance expected of the pump *viz* continuous working round the clock for days together under severe adverse conditions like voltage fluctuations etc., dictated the use of 7.5 hp motors as recommended by the manufacturer of the pump.

(ii) The higher capacity motor was not used to get higher water output.

(iii) The hp of the motor actually used for running the pump was considered to be the correct measure of computing the 'hp hour' for payment.

(iv) The earlier decision of April 1977 was based on erroneous concept that the pump (HN-300 type) need be used only with 5 hp motor always.

In this connection the following points deserve to be mentioned :

(1) According to the contract the firm was required to use pumps of appropriate and approved capacity for dewatering. In absence of any reference to the capacity of the motors, use of matching motors for running the pumps of appropriate capacity for regulating discharge of water, was an inherent contractual obligation of the firm. The pump supplier had advised in September 1976 that "generally there would be voltage drop in almost all places and the party may run the pump continuously for 8/10 hours, we suggest 7.5 hp motor in place of 5 hp so that there may not be any defect in the electric motor". Consequently, it would appear that the rate tendered by the firm for dewatering took into account the higher consumption of power due to the use of 7.5 hp motor.

Again the contingency of voltage fluctuation, overheating of the pumps due to continuous long run, etc., could as well be taken care of by providing voltage stabilisers and adequate number of standby pumps to ensure uninterrupted working of

5 hp pumps by motors of identical hp. The provision of such ancillary equipments and requisite standby arrangements at their own cost was incumbent on the contractor as per contract stipulations.

(2) The manufacturer indicated that the pump (HN-300 type) is driven by 5 hp motor when there is no voltage drop and the motor is getting required amperes. The use of 7.5 hp motor was recommended only as a precaution against low voltage. There would be no increase of water output due to 7.5 hp motor.

(3) While dewatering, the Railway Administration is primarily concerned with the adequacy of the pump capacity which alone governs the water pumping output and hence the remuneration to the contractor has necessarily to be related to the quantum of water discharged by the pumps actually used.

(4) Though the interpretation of the contract given by the Administration in June 1978 had substantial financial implications, the Finance Branch was not consulted ; nor was legal advice taken.

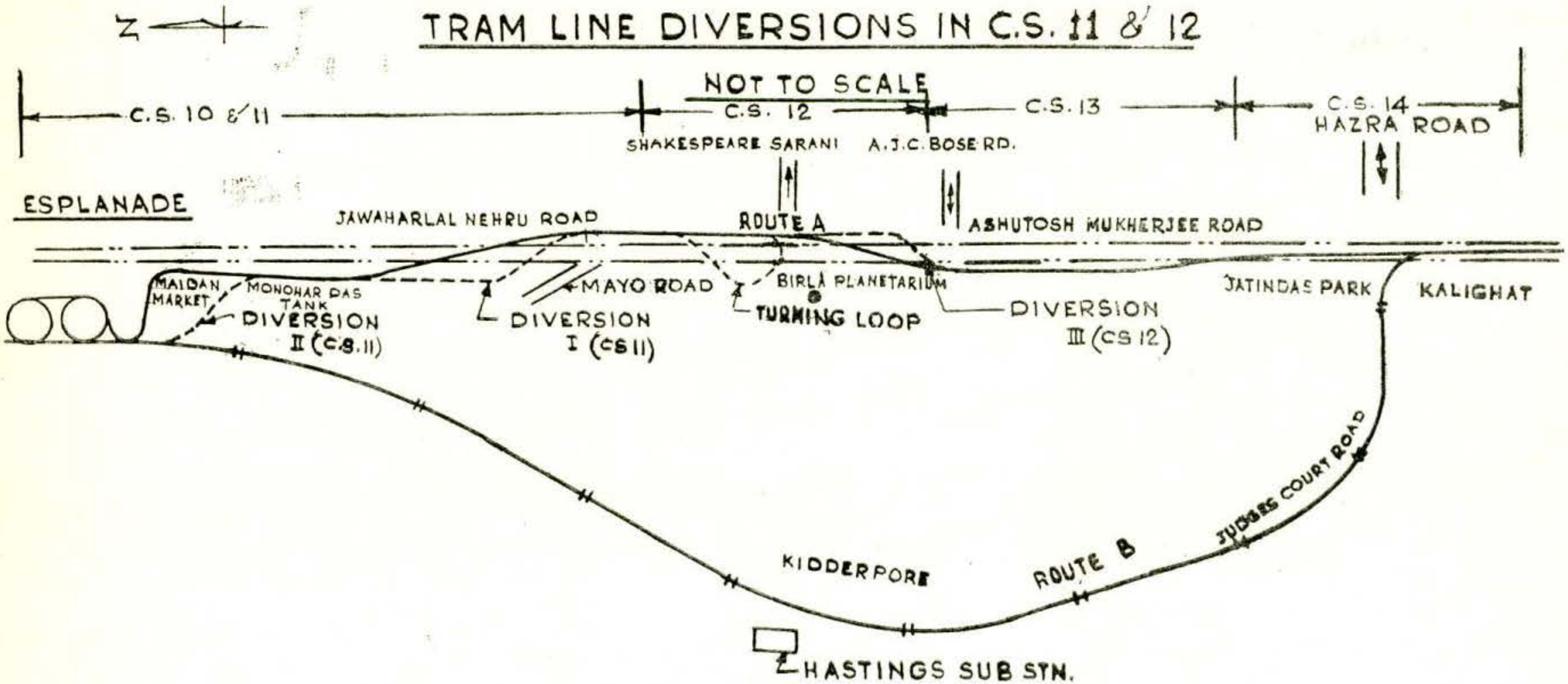
(5) Against a contemporary contract for another section of the Railway, payment for dewatering is being made by the Administration on the basis of the marked hp of the diesel pump used. In subsequent tenders since June 1978, the basis for payment of similar operation has been specified as 'per kilowatt hour' for electric pump and 'per hp hour' for diesel pump.

15. Diversion of tram lines

15.1 The alignment of the Calcutta Metro Railway from Esplanade to Jatindas Park (Hazra Road) passes along/through Jawaharlal Nehru Road and Ashutosh Mukherjee Road,

TRAM LINE DIVERSIONS IN C.S. 11 & 12

NOT TO SCALE



LEGEND.

1. ALIGNMENT OF METRO RAILWAY........ —·—
2. TRAM DIVERSIONS .... - - - - -
3. TRAM LINE .... ———
4. PRESENT ROUTE FOR TRAMS BETWEEN ESPLANADE & HAZRA ROAD .... —+—+—

which is more or less a straight stretch (about 4.82 km) and divided into 5 Contract Sections (CS) *viz* CS 10—14.

(The contract sections, tram line, proposed route diversions and temporary track diversions are indicated in the sketch map on the facing page.)

15.2 For executing metro works in CS 11—14, the tram traffic along the stretch of Ashutosh Mukherjee Road—Hazra Road Crossing to Esplanade had to be suspended. Originally (February 1974) metro works were planned to be undertaken in all the four sections simultaneously. Later (September 1975), however, work was decided to be undertaken in two sections (CS 11 and 12) in the first instance. The tenders for the metro works in CS 11 and 12 were opened in May 1973 and January 1974 respectively.

15.3 The following decisions were taken during February/March 1974 jointly by the Calcutta Tramways Company (CTC) and the Railway Administration :

(i) CTC agreed that the tram traffic (of 84 tram cars) between Ashutosh Mukherjee Road—Hazra Road Crossing and Esplanade (route A) would be diverted *via* Hazra Road, Judges Court Road and Kidderpore (route B). On the latter route tram services (of 48 tram cars) were already plying.

(ii) For maintaining the same level of traffic between Kalighat and Esplanade *via* the diverted route B, construction of a new substation of 1500 kw capacity (at Hastings) would be required to supplement the existing substation ; Railway Administration was to bear the cost of the new substation and the associated distribution net work.

(iii) Land for the new substation should be acquired by the Railway Administration at its cost.

(iv) The Railway Administration would undertake the construction, procurement of necessary equipment and commissioning of the new substation.

(v) Commissioning of new substation was targeted for completion by December 1974 to enable metro works being taken up in CS 11—14 shortly thereafter.

15.4 In accordance with the above decisions for re-routing the tram traffic the following action was to be taken by the Railway Administration :

(a) Acquisition of land.

(b) Construction of substation building.

(c) Procurement of electrical equipments, installation and commissioning of the new substation at Hastings.

15.5 Arrangements for re-routing were an essential prerequisite for undertaking metro works in CS 11—14.

15.6 Even before initiating action for re-routing tram traffic, the Railway Administration awarded (May 1974) the contract for metro works in CS 11 stipulating date of completion by August 1977. Actually the Railway Administration initiated (June 1974) action for re-routing *viz* the transfer of the land of Defence Department required for the substation and invitation of tenders for construction of the substation building on this Defence land in September 1974. The lowest acceptable offer for the substation building was tendered by firm 'A' at Rs. 1.09 lakhs valid upto 31st January 1976 beyond which the offer was subject to enhancement. However, as the Defence land for construction of the substation had not been taken over, the Railway Administration decided (March 1976) to discharge the tender.

15.7 In the meantime, the Railway Administration also invited (October 1975) tenders for supply of electrical equipments, erection, testing and commissioning of the substation required for re-routing the traffic. In January 1976 even before land had been acquired and when the tenders for the construction of substation building were pending acceptance due to the non-availability of land, a letter of intent was issued to firm 'B' for supply, erection and commissioning of the substation. This was followed by formal award (March 1976) of the contract (cost : Rs. 14.65 lakhs) to firm 'B', stipulating completion of the work within 12 months *i.e.* by 3rd March 1977 subject to substation building being made available by July 1976. It may be pointed out that the land on which the substation building was to be built and in which the electrical equipments were to be installed had not by then (3rd March 1976) been obtained from the Defence Department.

15.8 In spite of this commitment to make the building available to the erection contractor (firm 'B') by July 1976, possession of the land was obtained in December 1976. The contract for the substation building was awarded (February 1977), on the basis of fresh tenders (opened in November 1976), to the same firm 'A' (which had tendered in September 1974) at a cost of Rs. 1.37 lakhs, stipulating date of completion as 6 months *i.e.* 15th August 1977. The firm, however, completed the substation building on 30th October 1977. The delay in acquisition of land and the consequent delay in construction of the substation building resulted in delayed commissioning of the substation by about 21 months with reference to the original date of completion *viz* 3rd March 1977 stipulated in the contract with firm 'B' (erection contractor). The new substation was commissioned and handed over to the CTC on 1st December 1978 from which date all trams plying on route A have been re-routed *via* route B.

15.9 Thus the new substation, originally proposed for commissioning by December 1974 for re-routing of tram services to take up works in CS 11—14 was actually commissioned in

December 1978—4 years later—because of delay in acquisition of the land of the Defence Department and consequent delay in finalising the contract for the substation building and for erection of the equipment.

15.10 Meanwhile another contract for metro works in CS 12 was also awarded in September 1975 again even before the land for the substation had been acquired with date of completion stipulated as September 1978.

15.11 In September 1975 the Railway Administration felt it necessary to take up metro works in CS 11 and 12 and if trams were completely suspended because of these two sections, inconvenience caused would be disproportionate with the work carried out. Accordingly the Railway Administration requested (September 1975) CTC to undertake urgently works for temporary diversion of tram lines in certain lengths in CS 11 and 12 (stipulated date of completion being August 1977 and September 1978 respectively) to enable the metro works to be proceeded with.

15.12 Accordingly three track diversion works *viz* diversion I between Monohar Das tank and Mayo Road (330 metres) in CS 11 (Phase I), diversion II between Maidan Market and Monohar Das tank (305 metres) in CS 11 (Phase II) and diversion III between Shakespeare Sarani and Acharya Jagadish Chandra Bose Road (360 metres) in CS 12 were executed and ultimately abandoned as under :

	Diversion I	Diversion II	Diversicn II
Date of commencement	7-2-1977	May 1978	December1977
Date of completion	3-9-1977	16-7-1978	3-5-1978
Date of abandonment consequent to re-routing of trams *via* route B	1-12-1978	1-12-1978	1-12-1978
Period of use of the diversions	15 months	5 months	7 months

15.13 The diversions I and II were subsequently brought back into use from 3rd July, 1979 after providing tram turning terminal ostensibly in the interest of transporting commuters right upto the Birla Planetarium as the Esplanade—Birla Planetarium section serves a busy commercial area.

15.14 In addition to the diversions costing Rs. 19.37 lakhs, tram turning terminal has been provided by the Railway Adminisration at a cost of Rs. 4.3 lakhs (approximately) without the approval of the Ministry of Railways (Railway Board).

15.15 In this connection the following points deserve to be mentioned :

(1) Re-routing of tram traffic *via* route B which was a pre-requisite for undertaking metro works in CS 11—14 involved acquisition of land for siting the new substation building and procurement, erection etc. of electrical equipments for commissioning the substation.

(i) The contracts for metro works in CS 11 and 12 were, however, awarded in May 1974 and September 1975, whereas action for transfer of land was initiated in June 1974 for the substation building.

(ii) Again, while the land had not become available (this was acquired in December 1976 only) and the contract for the substation building awaited finalisation, the Railway Administration awarded not only the contract (September 1975) for metro works in CS 12 but also the contract (March 1976) for supply, erection etc. of electrical equipments and commissioning of the substation.

(2) Due to improper planning and lack of co-ordination in award of contract for various works, metro works on the one hand and tram re-routing works on the other, commissioning of the new substation and

consequently re-routing of tram traffic *via* route B was delayed. This in turn created a compelling situation for undertaking temporary tram track diversions so as to make available work sites for metro works in CS 11 and 12 for which contracts had already been awarded.

(3) No reappraisal of the need for the interim track diversions proposed in September 1975 at a cost of Rs. 19.37 lakhs was made by the Railway Administration either at the time of sanctioning the estimates about 1½ years later in February 1977 or before commencing these works (in February 1977, May 1978 and December 1977) in the context of the actual progress of works relating to the new substation (Cost : Rs. 16.02 lakhs) for regular re-routing of trams and their scheduled dates of completion. Such a re-appraisal was called for, as the temporary track diversions were costlier and were to be abandoned when arrangements for regular re-routing of tram services became available.

(4) Audit has not been able to ascertain from the Railway Administration the precise advantage which accrued to it from the three costly interim diversions which enabled release of the relevant stretches in CS 11 and 12 for a period of 15/5/7 months respectively until the regular re-routing of tram cars could be made. So far as the Railway Administration was concerned, re-routing of the tram traffic was necessary, if the work simultaneously in all the four sections was undertaken. Consequently, there appeared to be no justification for taking up metro works in sections 11 and 12 only in the first instance instead of simultaneously in all the four sections (11—14) as originally envisaged and incur an expenditure of Rs. 19.37 lakhs. Again from the point of view of the Railway Administration, there was

no need to revive the track diversions I and II and to incur expenditure of Rs. 4.3 lakhs (approximate) for making a tramway terminal on these sections.

15.16 The Railway Administration stated (October 1979) :

(i) The acquisition of land could not be pursued because of the ban imposed by the Ministry of Railways (Railway Board) on new commitments during October 1974—April 1975 followed by the Ministry of Railways (Railway Board)'s decision in February 1976 allocating lower priorities to Sections South of Maidan (*viz* CS 13 and onwards)

(ii) Since a letter of intent had been issued to firm 'B' in January 1976 for supply, erection etc., of electrical equipments, formal contract was awarded to it in March 1976. The commissioning of the substation was, however, envisaged to be so planned as to be completed latest by 31st March 1979.

(iii) No definite date could be anticipated for completion and commissioning of the substation and hence the Administration had no other alternative except to pursue the temporary diversion plans under execution to keep the contractor's labour, machinery etc., engaged.

(iv) The specific advantages of the temporary diversion works were :

(a) Metro works in CS 11 and 12 could be proceeded with without cessation.

(b) Avoidance of extra contractual claims, escalation claims for prolongation of works in CS 11 and 12 and other attendant complications in the Administration of contracts.

(c) Immense benefit to the Calcutta Metropolitan community who continued to use the tramway facility during execution of works in Sections 11 and 12 which in turn increased the goodwill towards Metro Railway and its public image.

15.17 It may, however, be mentioned that :

(i) Between lifting the ban on fresh commitment in April 1975 and the decision of the Ministry of Railways (Railway Board) in February 1976 that the southern sections (CS 13 and onwards) should be relegated to second phase, there was a gap of about 10 months during which no action was taken for obtaining possession of land from the Defence Department, particularly in the context of firm 'A' demanding increase in the tendered rates after 31st January 1976. When the land transfer proposal was vigorously pursued by the Railway Administration in November 1976, it was possible to obtain possession of land in December 1976 *i.e.* within one month.

(ii) The plea of the Railway Administration that the Defence land for substation was required for undertaking metro works in Section 13 etc., is not correct. The re-routing of trams *via* route B with commissioning of the new substation at Hastings was intended to make available sites for metro works not only in Section 13 and onwards but also those in 1st phase Sections 11 and 12, which had been accorded higher priority. In this context planning in August 1976 for commissioning of the new substation by March 1979 would appear to be unwarranted. Even for taking up work in two priority sections (11 and 12) it was essential pre-requisite to commission the new substation by the originally scheduled date *viz* March 1977 (later extended to

December 1978). This would have enabled dispensing with the need for undertaking the avoidable costlier temporary track diversions.

The tram turning terminal at the Birla Planetarium was also installed at an expenditure of Rs. 4.3 lakhs without approval of the Ministry of Railways (Railway Board)

(iii) The contractors had sufficient work sites free from tram tracks (45 per cent and 60 per cent in contract sections 11 and 12 respectively) for executing works without cessation.

(iv) The extra contractual claims and other attendent complications, which the Railway Administration apprehended would arise if track diversion was not undertaken, were the direct result of the failure of the Railway Administration to re-route tram services in time.

(v) If it was considered necessary to undertake the temporary track diversion, etc., at an expenditure of over Rs. 23 lakhs for the benefit of the Calcutta public in addition to undertaking route diversion at an expenditure of Rs. 16.02 lakhs as originally envisaged, the temporary track diversion should have been financed by the CTC and not the Railways.

CHAPTER IV

PURCHASES AND STORES

16. Northern Railway—Loss due to advance payment made for supply of steel

On 10th May 1977 an order for 25 tonnes of steel, urgently required for certain construction works, was placed on a firm. The supply order stipulated that the full payment was to be made to the firm against delivery ex-godown after inspection. Accordingly, 100 per cent payment for the value (Rs. 49,515) of the goods was authorised by the Financial Adviser and Chief Accounts Officer (FA&CAO) on 24th May 1977. The cheque was handed over to the firm on 24th May 1977 even before the goods were delivered. The entire supply under this order was completed on 11th June 1977 (*i.e.* 17 days after the handing over of the cheque) in contravention of the conditions laid down in the supply order.

Another supply order for 25 tonnes of steel was placed on the same firm on 11th May 1977. The cheque (Rs. 55,625) covering 100 per cent payment of this order was also handed over to the firm on 24th May 1977 (the same date on which the first cheque was handed over). The firm supplied on 28th June 1977 only 10.115 tonnes out of 25 tonnes of the second supply order, leaving a quantity of 14.885 tonnes outstanding, although payment for the entire quantity of the order (25 tonnes) had already been made. The firm was persuaded to refund Rs. 33,119 (the value of the outstanding quantity of 14.885 tonnes) by a cheque dated 7th July 1977. This was presented to the bankers for collection only on 25th July 1977. This cheque was dishonoured by the firm's bankers on 27th July 1977. Later (October 1978) the dishonoured cheque was reported to have been lost in the Accounts Office. In the meantime two more supply orders were placed on 24th May 1977 and 10th June 1977 for 20 tonnes and 21 tonnes of steel (value : Rs. 39,612 and Rs. 41,483) respectively. The firm completed the supply of the third order for 20 tonnes from 29th June 1977 to August 1977. In this case also the cheque was handed over to the firm on 18th June 1977 *i.e.* before the goods were delivered. Although cheque for full value of Rs. 41,483 for the fourth order was handed over to the firm on 28th June 1977, no supplies were made.

The non-observance of the condition laid down in the supply order *viz* payment by cheque to be made only on receipt of the material from the firm's godown, has resulted in a loss of Rs. 74,602 (Rs. 33,119 of second order + Rs. 41,483 of fourth order).

In spite of the inability of the firm to complete supplies of steel against the above orders, further four orders for 69 tonnes (Value : Rs. 1,50,693) were placed on the same firm on similar terms and conditions during June-July 1977. Out of these four orders the firm delivered by August 1977, steel (25 tonnes valued at Rs. 53,675) in respect of the fifth order only. In this case too, the cheque was handed over to the firm in July 1977, before the entire quantity was delivered by August 1977. No supply was made in respect of remaining three supply orders. In these cases also the FA&CAO prepared the cheques (one on 24th September 1977 and two on 20th August 1977) but these were subsequently cancelled at the instance of the Senior Civil Engineer. The entire position is summarised below in a table :

Order No.	Date	Quantity (tonnes)	Value (Rs.)	Quantity (tonnes)/ Value (Rs.) supplied	Date of supply	Date of payment	Amount of Cheque (Rs.)	Over payment to the firm (Rs.)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
First	10-5-77	25	49,515	25 (49,515)	11-6-77	24-5-77	49,515	..
Second	11-5-77	25	55,625	10.115 (22,506)	28-6-77	24-5-77	55,625	33,119

(1	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Third	24-5-77	20	39,612	20 (39,612)	29-6-77 to August 77	18-6-77	39,612	..
Fourth	10-6-77	21	41,483	..	..	28-6-77	41,483	41,483
Fifth	29-6-77	25	53,675	25 (53,675)	12-8-77	July 77	53,675	..
Sixth	11-7-77	16	37,264	..	..	Cheque Cancelled	..	..
Seventh	11-7-77	8	18,674	..	..	do	..	..
Eighth	11-7-77	20	41,080	..	..	do	..	..
		160	3,36,928	80.115 (1,65,308)				74,602

The Railway Administration stated (March—October 1979) as follows :

(i) According to the stipulation in the supply order the cheques were to be delivered only on inspection and collection of material. Although the cheques had been handed over to the firm before actual delivery, this action needs to be viewed as having been taken in good faith.

(ii) A civil suit to recover an amount of Rs. 33,119 with interest for incomplete supply by the firm against the second supply order had been filed on 10th July 1979. In the case of non-supply against the fourth order the matter is under investigation by CBI (since September 1978).

(iii) The Accounts Office clerk who received the dishonoured cheque of the firm but could not prove its delivery further, was taken up under Discipline and Appeal Rules of the Railway, and a penalty of withholding of one set of passes during the year 1979 was imposed on him.

(iv) A fact finding enquiry at administrative level has been ordered (October 1979) to investigate the matter fully.

In this case the following points deserve mention :

(1) As the supply orders stipulated 100 per cent payment for the supply of material on receipt, it was necessary for the Railway Administration to satisfy themselves regarding the ready availability of steel with the firm before handing over cheques.

(2) The handing over of the cheques to the firm against supply orders without obtaining delivery was in contravention of the terms and conditions of the supply orders and without safeguarding the interests of the Railway.

(3) Even though there was delay in the first supply order and failure to supply the full quantity against the second order, the Railway Administration continued to disregard the specific condition in the subsequent supply orders and handed over cheques for the full value of the material relating to 3rd, 4th and 5th supply orders even before the supplies were made and completed.

(4) After it was known that the firm was unable to deliver the full quantity of the second order, the Railway Administration did not issue 'stop payment' instructions to the bankers against the cheque issued to safeguard the interest of the Railways.

(5) Even when the firm had given a cheque by way of refund of the value of the outstanding quantity of the second supply order, the firm's cheque was not presented immediately for encashment and when presented, this cheque was dishonoured by the bankers and finally this cheque was lost in the Accounts Office.

(6) The Senior Civil Engineer, Special intimated to the Chief Engineer (Construction) (March 1979) that the firm was not working and might go in for liquidation as they had defaulted payment to a number of parties.

The Ministry of Railways (Railway Board) stated (December 1979) that the firm was on approved list and hence there was no room to suspect the bonafides of the firm. This firm had also supplied similar material in earlier years and as the firm had quoted the lowest rate against the limited tender, the orders were placed on it.

It may, however, be pointed out that the serious defaults on the part of the firm, which occurred after the first and the second orders, should have alerted the Railway authorities to safeguard the interest of the Railway. Besides, timely action was not taken to safeguard Railway's interest in the first two orders and there was two years' delay in filing a suit against the firm for recovery of the amount of the dishonoured cheque.

17. Northern Railway—Purchase of brake heads

In May 1973 the Railway Administration (Controller of Stores) placed an order on a firm for supply of 6,850 numbers of brake heads (fabricated) at the rate of Rs. 56 each (exclusive of Central Sales Tax), required for the manufacture of wagons by Amritsar Workshop. The supplies were to be inspected by the Director of Inspection of the Director General, Supplies and Disposals (DGS&D). The delivery was to commence from 29th July 1973 and was to be completed by 28th February 1974. The supplies were to be made in batches of 1,000 pieces per month. The firm was to be paid 90 per cent on proof of despatch after inspection by the designated inspecting authority and balance 10 per cent on receipt of material by the consignee.

No supplies were made by the firm till September 1973. On 9th October 1973 the firm requested the Controller of Stores for an amendment of the existing inspection clause of the order so as to permit inspection by the Research, Designs and Standards Organisation (RDSO) of the Railways, instead of the Director of Inspection of DGS&D, on the ground that the materials offered by the firm for the last one month had not been inspected by the Director of Inspection of DGS&D, and further delay was anticipated, while the Railway required the material urgently. The request of the firm was acceded to by the Controller of Stores on the same date.

The firm completed the supply in 13 batches during the period from 24th October 1973 to 17th October 1974, duly inspected by the Deputy Director (Inspection and Liaison) of RDSO. The entire payment for the total supplies of stores amounting to Rs. 3.84 lakhs (exclusive of Central Sales Tax) was paid by January 1975.

The Deputy Chief Mechanical Engineer, Amritsar Workshop reported to the Assistant Controller of Stores on 3rd December 1975 that the brake heads, while in use, were not found suitable and on check, certain defects in manufacture, welding, alignment and dimensions had been noticed. Out of the total supply of 6,850 numbers of brake heads 1,727 numbers only were found conforming to the specifications. But the remaining 5,123 numbers valued at Rs. 2.87 lakhs were not in accordance with the drawing specified in the order. Accordingly, the Controller of Stores asked the firm on 20th March 1976 to replace the defective material immediately, failing which the terms of the contract would be enforced. The firm, however, replied in April 1976 that the brake heads had been inspected by the RDSO and that the defects were being pointed out after the elapse of 1½ to 2 years. The firm further stated that the brake heads supplied by them had already been used in the workshop and that the defects now being pointed out related to the brake heads supplied by other firms or manufactured in the Railway Workshop itself. On 31st May 1976 the Railway Administration constituted a fact finding committee consisting of Junior Administrative Grade Officers of Stores, Mechanical and Accounts Departments to investigate the case. The findings of the Committee were as under :

(1) The defective brake heads lying in the Stores Depot at Amritsar were those supplied by the firm.

(2) RDSO failed to carry out proper inspection of the material and stamping of the inspected pieces.

(3) The Stores Department accepted unstamped and hence uninspected pieces.

(4) The workshop failed to point out the defects noticed in April 1974 and to take timely remedial action, as major portion of the supplies was received after the defects were noticed.

(5) There was no procedure to ensure that only inspected material was despatched after stamping.

Subsequently, the firm sought arbitration. An arbitrator was appointed by the Railway Administration on 2nd July 1976 to settle the disputes with the firm in this and 4 other cases. In its counter statement of claim submitted to the Arbitrator, the Railway Administration stated that "the suppliers supplied the aforesaid supplies to the Northern Railway in collusion with the RDSO Inspector to cheat the Northern Railway". The Railway Administration further prayed that the firm be directed to :

(i) replace 5,123 numbers of defective brake heads, or

(ii) refund the price of defective material amounting to Rs. 2.87 lakhs plus Central Sales Tax, or

(iii) rectify the defects in 5,123 brake heads and pay Rs. 29,039 as damages, or

(iv) pay Rs. 1.61 lakhs, the estimated cost of rectifying the defective material plus Rs. 29,039 as damages.

The Arbitrator rejected the claim of Northern Railway Administration and did not grant any relief prayed for.

5,123 numbers of defective brake heads valued at Rs. 2.87 lakhs (excluding C.S.T.) are still (May 1979) lying unused in Amritsar Workshop. An additional expenditure of Rs. 1.61 lakhs will have to be incurred on their rectification, before these can be made fit for use.

The Railway Administration stated (June/December 1979) that the Central Vigilance Commission have since advised major penalty action against two Inspectors of RDSO alongwith certain other staff of Northern Railway. However, disciplinary proceedings are yet to be finalized.

The following points deserve consideration :

(1) There was no material available with the Railway Administration to establish the contention of the firm that there had been delay on the part of the Director of Inspection of the DGS&D to inspect the material justifying his replacement by the Inspector of the RDSO.

(2) There have been numerous failures in this case. RDSO failed to carry out proper inspection. The Stores Department accepted unstamped pieces. The Workshop failed to bring to the notice of the Stores Department, the supplying firm and the inspecting officer, the defects noticed in the supplies in April 1974, till December 1975.

18. Northern Railway—Short accountal of stores

Consequent to expansion of production programme of diesel locomotives in Chittaranjan Locomotive Works (CLW) during the Fourth Plan period, the Ministry of Railways (Railway Board) reduced (August 1970) the number of YG steam locomotives to be produced during this period from 100 to 60 locomotives. The Ministry of Railways (Railway Board) further, enjoined on

CLW Administration to ensure that no surplus material was allowed to be generated on account of the reduction in production of YG steam locomotives. Accordingly, the CLW Administration decided (July 1971) to distribute YG loco components available with them as spares to the user Railways on prorata basis.

The spares worth Rs. 6.22 lakhs were despatched by the CLW to the Northern Railway Stores Depot at Bikaner during the period July 1971 to May 1972. These were not accounted for in the books of the Northern Railway on the ground that the materials were not covered by any requisition or order placed by them on the CLW and that price lists numbers/rates had not been quoted against the items. As per extant rules, all materials received by the Stores Depot, after proper check and inspection, are required to be accounted for in the numerical ledgers within 24 hours of the receipt of the vouchers. It is the duty of the Depot Officer to see that there is no avoidable delay between the receipt of the materials in the depot and their accountal in the depot ledgers, and that the materials are not allowed to lie in the receiving shed indefinitely.

In May 1973 the Assistant Controller of Stores, Bikaner proposed to the Controller of Stores, to deliver these spares to the Works Manager, Bikaner for their utilisation by the Mechanical Department during periodical and intermediate overhauls of the locomotives. However, the details of actual transfer of these spares from the Stores Depot to the Workshop are not on record.

The debits raised by the CLW for these spares were accepted (July 1974) by the Works Manager, Bikaner personally (debits are normally accepted by the Progress section of the Workshop) without ensuring physical verification and accountal of the materials in the books of the Railway.

In February 1976, the Works Manager, Bikaner scrutinised the spares received from the CLW and decided to transfer items, which were not required, to the Stores Depot, Bikaner. Consequently, it was noticed in March 1976, that out of a total of 751 items worth Rs. 6.22 lakhs received from the CLW, 466 items (value : Rs. 1.73 lakhs) had been consumed by the shops and 17 items (value : Rs. 1.25 lakhs) had been transferred to and accepted by the Assistant Controller of Stores, Bikaner. As regards remaining 268 items (value : Rs. 3.24 lakhs) it was observed in November 1976 that while 59 items (value : Rs. 55 thousand) were available in the Workshop, 209 items (value : Rs. 2.69 lakhs) were not traceable either in the shops or in the Stores Depot. Neither the Stores Department nor the Workshop was prepared to take the responsibility for these missing items. A committee consisting of Works Manager, Workshop Accounts Officer and Assistant Controller of Stores, Bikaner constituted to enquire into the case, came to the conclusion in November 1976 that all the materials had been received in the Stores Depot, but the Assistant Controller of Stores did not agree with the findings, as his records did not show receipt of these items.

The Railway Administration stated (February 1979) that out of the 13 wagons in which the material was despatched by CLW to Bikaner in 1971, movement of certain wagons upto Ghaziabad and Bhatinda could be traced. It was also stated that since these wagons had moved about eight years back, the detailed checking of their movement was a time consuming process.

In this connection, the following points deserve consideration :

(1) The debits raised by the CLW were accepted by the Works Manager, Bikaner in July 1974 without physical verification and accountal of the spares in the books of the Railway.

(2) The spares costing Rs. 2.69 lakhs were found to be not traceable either in the Workshop or in the Stores Depot in November 1976.

(3) The responsibility of the defaulting staff for non-verification and non-accountal of the spares when received from CLW, is yet to be fixed (November 1979).

19. Northern Railway—Non-utilisation of cast steel knees

In October 1972 the Ministry of Railways (Railway Board) placed on Amritsar Workshop, an order for the manufacture of 575 BRHT wagons. In January 1973 the Deputy Chief Mechanical Engineer, Amritsar Workshop requisitioned 2,320 numbers of knees cast steel (both right and left portions), as per their drawing, from the Stores Department. On the basis of this demand, the Controller of Stores invited tenders in April 1974 and placed an order with a firm in September 1974 for the supply of 400 numbers of knees initially required for the first batch of production, at the rate of Rs. 620 each (plus excise duty and Central Sales Tax). As per terms of delivery laid down in the purchase order, the firm was to commence delivery of the material from 9th March 1975 and complete it by 9th January 1976.

The first consignment of 50 numbers of knees was received in the Stores Depot, Amritsar during May to July 1975. However, the manufacture of BRHT wagons had already been commenced by the Amritsar Workshop in November 1974 and by August 1975 eighty BRHT wagons had already been turned out and the manufacture of 25 more wagons was in progress. The knees for the wagons already manufactured and for those in progress had been fabricated in the Workshop itself.

The knees supplied by the firm were found to be having only right hand side instead of two sides—right and left. This was pointed out to the Assistant Controller of Stores, Amritsar by the Deputy Chief Mechanical Engineer, Amritsar Workshop on 19th January 1976. By this time, 397 knees costing Rs. 2.55 lakhs had been received in the workshop during May 1975—January 1976. The Assistant Controller of Stores requested the firm on 29th January 1976 to supply equal number of right and left knees as the knees already supplied were of one side and could not be used until and unless the other side of the same were also supplied. The firm replied in February 1976 that they had supplied the material as per drawing received with the purchase order wherein there was no mention of corresponding opposite side. The Controller of Stores, New Delhi, directed the Assistant Controller of Stores, Amritsar in August 1976 to accept 397 knees since supplied by the firm as per drawing, and simultaneously advised the firm of cancellation of the order for the balance quantity of 3 knees.

Out of the total quantity of 397 numbers of one sided knees supplied by the firm, only 50 could be used on 25 wagons. This too could be done by fabricating equal number of matching knees of the other side in the Railway Workshop. (Additional cost not ascertainable)

In the meantime, the Ministry of Railways (Railway Board) withdrew the wagon order on Amritsar Workshop in September 1976 after 130 wagons had been manufactured. 347 numbers of one sided knees costing Rs. 2.23 lakhs and lying in the Stores Depot, Amritsar, were declared surplus by the Controller of Stores in November 1976 and offered to the Golden Rock Workshop of Southern Railway, the only other Workshop on Indian Railways, on which similar order for manufacture of BRHT wagons had been placed earlier by the Ministry of Railways (Railway Board) in October 1972. The Southern Railway Administration, however, could not accept the material as manufacture of BRHT wagons had also been withdrawn from them by the Ministry of Railways (Railway Board) in September 1976.

The Railway Administration stated (October 1979) that after retaining 230 numbers of the cast steel knees for Railway's own requirements (200 numbers required for BRHT wagons to be manufactured against Rolling Stock Programme for 1979-80, and 30 numbers required for maintenance purposes)

117 numbers were being made over to a wagon building firm. It may, however, be added that this firm had, after conducting suitability tests on two samples of the knees received from the Railway, indicated (June 1979) that it was not possible for them to utilise these knees.

In this connection the following points deserve consideration :

(1) The Deputy Chief Mechanical Engineer, Amritsar Workshop placed the requisition for supply of knees on the Stores Department in January 1973 but the Controller of Stores invited tenders therefor in April 1974 *i.e.* after more than a year.

(2) The first consignment of 50 numbers of right hand side knees was received in the Stores Depot, Amritsar during May to July 1975, but the Assistant Controller of Stores requested the firm for supply of equal numbers of right and left hand knees on 29th January 1976, *i.e.* over 6 months after the receipt of the supply.

(3) The manufacture of BRHT wagons in which these knees were to be used, commenced in November 1974, while the first consignment of the knees was received during May to July 1975.

(4) In his requisition of January 1973, the Deputy Chief Mechanical Engineer had clearly indicated his requirement for both right and left hand sides of the knees, but the Controller of Stores did not indicate the Railway's requirement correctly in the purchase order placed on the firm in September 1974.

(5) 347 knees (Value : Rs. 2.23 lakhs) procured during May 1975 to January 1976 and declared surplus in November 1976 are still (November 1979) lying unutilized/undisposed of.

20. Northern Railway—Wrong indenting of material

The Deputy Chief Mechanical Engineer, Jagadhri Workshop, placed a requisition on the Controller of Stores in July 1971 for purchase of 1,000 metres of steel wire rope of 56 mm circumference.

In September 1971 the Controller of Stores asked the Foreman (Millwright) Jagadhri Workshop whether wire rope of 57 mm diameter (instead of 56 mm circumference demanded under the requisition) would suit his requirements. In October 1971 the Foreman (Millwright) informed the Controller of Stores that the requirement was for 57 mm circumference and not 57 mm diameter.

In spite of the clarification given by the Foreman, the Controller of Stores placed an indent on the Director General, Supplies and Disposals (DGS&D) in December 1971 for procuring, *inter alia,* 1,000 metres of steel wire rope of 57 mm diameter.

Accordingly, in January 1972 the DGS&D placed an order on a firm for supplying, *inter alia,* 1,000 metres of steel wire rope of 57 mm diameter at the rate of Rs. 7,407 per 100 metres. The wire rope was supplied by the firm in April 1972.

In May 1972 the Assistant Works Manager, Jagadhri Workshop, intimated the Controller of Stores that the wire rope demanded by him was of 56 mm circumference, against which the supply for 57 mm diameter had been arranged. As such, the material was unsuitable for their requirements. The Controller of Stores, however, held (June 1972) that as per trade practice the size of rope was always shown in diameter, and in support referred to the rate contract which mentioned the size in diameter. It was also contended by him that the description and the size of the material should have been checked on receipt of the copy of the indent from the Controller of Stores, and subsequently on receipt of the copy of the supply order from DGS&D, and that the discrepancy should have been pointed out there and then.

As the material could not be used by Jagadhri Workshop, the Controller of Stores offered the same to other users/Railways in June 1972 and again in August 1972, but there was no response. Finally, the wire rope was sent by the Jagadhri Workshop to the Stores Depot at Shakurbasti in November 1972, and has been lying there since then.

In September 1978 the Railway Administration requested the Railway Liaison Officer with the DGS&D to help the Administration in locating the likely consumers so that they could be addressed to help in disposing of the surplus steel wire rope. In October 1978 the Railway Liaison Officer informed the Controller of Stores that the DGS&D had not received any demand for 57 mm diameter wire rope till then.

The wire rope valuing Rs. 67,383 has been lying unused for over seven years since its supply in April 1972. Responsibility for this wrong procurement has not yet (November 1979) been fixed.

The Railway Administration stated (November 1979) as under :

(i) The reply given by the Foreman (Millwright), Jagadhri Workshop in October 1971 that his requirement was for wire rope of 57 mm circumference and not 57 mm diameter was not connected by the Controller of Stores, before placing the indent on DGS&D in December 1971.

(ii) A reference was made (September/October 1979) to some likely users of this item. Simultaneously, the possibility of disposing of this material through open auction is also being considered.

(iii) An enquiry committee has been appointed in November 1979 to fix responsibility of the defaulting staff.

The following points require to be looked into :

(1) Failure of the Controller of Stores to connect the reply of the Foreman (Millwright), Jagadhri Workshop received in response to the former's own enquiries, and to place the indent on DGS&D for the correct size after converting the circumference size into the equivalent diameter size.

(2) Failure to point out the discrepancy to the Controller of Stores by the Deputy Chief Mechanical Engineer, Jagadhri Workshop, on receipt of a copy of the indent placed by the Controller of Stores on the DGS&D in December 1971, and subsequently on receipt of a copy of the supply order placed by DGS&D on the firm in January 1972.

The Ministry of Railways (Railway Board) stated (December 1979) that the wrong purchase was due to a clerical mistake as the significant difference between 'diameter' and 'circumference' had not been properly understood at the lower level.

21. **Chittaranjan Locomotive Works—Provision of cooling water bye-pass governor in WDS-4 locomotives**

'Cooling water bye-pass governor' (an imported component) was provided in the Broad Gauge WDS-4 diesel shunters fitted with 'Mak' engine being manufactured in Chittaranjan Locomotive Works (CLW) under a licence agreement with a West German firm. The operating instructions for the locomotives with 'Mak' engine specify that the engine should not be loaded if the cooling water temperature was below 60°C. The provision of the cooling water bye-pass governor was intended to ensure that after the engine has been started from a low water temperature, the water temperature increased rapidly to 60°C or more.

In April 1973, the West German collaborators stated that the removal of cooling water governor could be recommended when it was ensured that diesel engine cooling water temperature was not below approximately 60°C and outside ambient temperature of loco working is not below 0°C.

During March—September 1973 the Research, Designs and Standards Organisation, Lucknow (RDSO) after conducting tests concluded that "elimination of the bye-pass governor from the cooling water circuit for 'Mak' engine will not make any appreciable difference in the working of the locomotives and will not affect the safety of the diesel engine in any way".

RDSO advised (September 1973) that the cooling water bye-pass governor may be eliminated from all locomotives with 'Mak' engine built in future, provided the locomotives are meant for operation in areas where ambient temperatures do not fall below 0°C and clear instructions are given to the locomotive users that the engine is not to be loaded until the cooling water temperature is higher than 60°C.

As already mentioned this had been agreed to by the collaborators also.

Owing to inherent climatic conditions in India the ambient temperatures in regions where the WDS-4 locomotives operate do not fall below 0°C except on the Northern Railway where there was likelihood of the temperature coming down to 0°C for a couple of days in a year.

Though the advice of RDSO to eliminate the cooling water bye-pass governor was communicated to CLW in September 1973, it was not implemented for more than three years till January 1977.

CLW continued to procure and fit the cooling water bye-pass governors upto January 1977. During October 1973 to December 1976 these governors were fitted in as many as 85 locomotives. The fitment of this component which was redundant and not essential for working of the locomotives entailed avoidable expenditure of about Rs. 3.76 lakhs (foreign exchange : Rs. 2.98 lakhs).

Further the 33 nos. of cooling water bye-pass governors meant for WDS-4 locomotives were procured at a cost of Rs. 1.04 lakhs for which orders were placed in August—November 1976. This expenditure was avoidable.

CLW stated (October 1978/November 1979) that :

(i) actual implementation of the decision took time because the performance of locos without cooling water bye-pass governor was to be kept under observation during winter months (RDSO trials covered summer months only) and due to difference of opinion amongst user Railways about non-provision of governors.

(ii) 33 governors ordered in August—November 1976 will be utilised for ZDM-3 locos (10 nos.) WDS-8 locos (5 nos.) and balance 18 nos. will be used as maintenance spares, and

(iii) the elimination of cooling water bye-pass governors was subject to the condition that the responsibility of automatic system is replaced by individual judgement of the driver to ensure that the engine is not loaded till water temperature is higher than 60°C and ambient temperature is not below 0°C.

It may be stated that the RDSO's decision of September 1973 for the elimination of bye-pass governor was arrived at only after carrying out tests on WDS-4 locomotives. Further monitoring by CLW of performance of locomotives without cooling water bye-pass governors was not necessary and nor is there any evidence of CLW having done so. Only one Zonal Railway (Northern Railway) expressed (October 1973) its requirement for the provision of bye-pass governors in the locos allotted to them. The Northern Railway Administration was informed (October 1973 and November 1976) by CLW that there would not be any WDS-4 loco working in the areas where outside ambient temperature was 0°C or below. Even if the fitment of bye-pass governors was necessary for locos operating in Northern Railway, there was no need to fit these governors in locos meant for other Railways. In any case, there was no justification for procurement of further 33 governors in August—November 1976, after the decision was taken not to instal these governors in WDS-4 locos.

Thus the fitment (October 1973—December 1976) of 85 cooling water bye-pass governors in WDS-4 locos and further procurement (August—November 1976) of 33 cooling water bye-pass governors at an expenditure of Rs. 1.04 lakhs was avoidable.

22. Diesel Locomotive Works—Procurement of Woodward Governors for metre gauge locomotives

Paragraph 12 of the Report of the Comptroller and Auditor General of India for the year 1975-76—Union Government (Railways) commented on additional expenditure incurred by Chittaranjan Locomotive Works (CLW) in procuring turbo chargers through their foreign collaborator even though this item was not manufactured by it and there was no obligation on the part of CLW to procure them through the collaborator as per the agreement with it.

Another instance of additional expenditure incurred by Diesel Locomotive Works (DLW) in purchasing 'Woodward Governors' through the collaborator is mentioned in succeeding paragraphs.

DLW had been manufacturing metre gauge (MG) diesel locomotives fitted with ALCO diesel engines from 1968-69 under a collaboration agreement with Firm 'A' of United States of America. This agreement was for a period of 10 years from February 1962. According to this agreement DLW was obliged to purchase their requirements of 'ALCO components' and 'ALCO special components' for the locos from the collaborator only. DLW, however, was free to buy from other sources any component other than the 'ALCO components' and also 'ALCO special components'. On expiry of the collaboration agreement, DLW concluded (February 1972) another agreement with firm 'A' effective for five years from February 1972 under which there was no restriction for purchases to be made through the collaborator. DLW was thus free to buy from any source the loco components irrespective of whether an item was 'ALCO component', 'ALCO special component' or a commercial component. The 'Woodward Governor' is an important component used for diesel engine control in MG diesel locos.

The 'Woodward Governor' was neither an 'ALCO component' nor an 'ALCO special component' inasmuch as the 'Governor/ Woodward Governor', was not included in the lists of 'ALCO component' and 'ALCO special component' annexed to the collaboration agreement of 1962 and the collaborator had not supplied the manufacturing drawings and material specifications as it did in respect of its own components.

On an enquiry from DLW (October 1970), firm 'B' of United States of America indicated (December 1970/January 1971) its willingness to supply the 'Woodward Governor' at a price of \$ 2,342 ex-American port as against \$ 2,739.68 paid to the collaborator at that time.

Even though DLW became aware in January 1971 that firm 'B', (the manufacturer of 'Woodward Governor') was in a position to supply the 'Governor' at lower rates (less by \$ 397.68 per piece in 1970-71), DLW procured as many as 160 'Woodward Governors' from firm 'A', their collaborators during August 1971 to July 1974 at rates ranging from \$ 2,931.83 to \$ 3,832.17. The extra expenditure incurred by DLW in respect of 160 'Governors' worked out to Rs. 4.77 lakhs (at \$ 397.68 per piece *i.e.* the difference between prices paid to firm 'A' and price quoted by firm 'B' in January 1971).

The DLW Administration maintained (March 1979) that as the 'Governor' was an 'ALCO component'/'ALCO special component', DLW was contractually bound by the agreement of 1962 to purchase all such components from the collaborator upto February 1972 and that for period 1972—74 there was no known alternative source for a fully acceptable supply.

The following points are, however, worth mentioning in this case :

(i) The 'Woodward Governor' was not an 'ALCO component'/'ALCO special component' and as such the DLW Administration was not bound to procure this item from the collaborator, either under the collaboration agreement of 1962 or under the purchase agreement of 1972.

(ii) After having received information in 1970-71 that the manufacturer of this item was firm 'B' other than the collaborator and that firm 'B' was willing to supply this item at lower rates, it is not clear why the DLW Administration did not procure this item from the manufacturer.

The DLW Administration stated (December 1979) that the enquiry made in 1970-71 was of an exploratory nature to locate alternate sources of supply for future contingency of non supply from firm 'A' and also keeping in view the fact that the agreement of 1962 was likely to expire in December 1972. The Administration further added that on getting the quotation, the matter should have been further pursued with them which was, however, not done.

The Ministry of Railways (Railway Board) also stated (December 1979) that there was lack of coordination between the design wing (which initiated the enquiry in 1970-71) and the purchase section of DLW.

23. Central Railway—Purchase of components for four-pipe exhaust manifolds

Prior to 1963, WDM-2 type diesel locomotives imported by Indian Railways were fitted with four-pipe exhaust manifolds made out of alloy cast iron. In view of the unsatisfactory performance of these manifolds, the suppliers progressively introduced stainless steel single pipe exhaust manifolds in the new locomotives since 1963. The firm also recommended that all the locomotives in the Indian Railways should be gradually changed to the stainless steel single pipe manifolds as and when the four-pipe exhaust manifolds required replacement.

In the 10th Meeting of the Diesel Maintenance Group of Indian Railways held at Kharagpur in April 1968, it was decided that Railways should change over to single pipe manifolds from four-pipe manifolds on a programmed basis. This meeting was attended by the Divisional Mechanical Engineer (Diesel), New Katni Junction, representing the Central Railway.

45 out of 70 locomotives held by Central Railway were being maintained by the Diesel Locomotive Shed at New Katni Junction. The Divisional Mechanical Engineer (Diesel), New Katni Junction, placed (January 1970) indent on the Stores Department after assessing his total annual requirements of the five components of the four-pipe exhaust manifolds at 700 pieces as under :

Sl. No.	Description of components	Drawing No.	No. required per loco	No. required for 45 locos	Annual requirement
1.	Tees lower	C.I.EN. 46	5	225	250
2.	Tees lower	C.I.EN. 47	1	45	50
3.	Tees lower	C.I.EN. 48	1	45	50
4.	Tees upper	C.I.EN. 36	3	135	150
5.	Tees upper	C.I.EN. 38	4	180	200
				630	700

While making this assessment in January 1970, the Divisional Mechanical Engineer (Diesel) ignored the policy decision of April 1968 to replace the four-pipe exhaust manifolds by single pipe manifolds and also the fact that 9 single pipe manifolds had already been received in New Katni shed by that time.

In June 1971 (after a period of 17 months of placing indent) the Stores Department placed purchase orders on two firms 'A' and 'B', *inter alia,* for supply of 350 Tees upper and 350 Tees lower by March 1972 and January 1972 respectively. On the basis of the average annual issues of these components (78 nos.) during 1964-1970, the quantities ordered in 1971 were sufficient for nearly 6 to 22 years' consumption. The supplies were completed by firm 'A' on 3rd June 1972 and by firm 'B' on 31st October 1973. Meanwhile in May 1973, the Mechanical Department advised Stores Department that action might be taken to cancel supply order for four-pipe manifolds components, if possible, as they were no longer required. Efforts made by Stores Department in September 1973 to cancel the pending items (225 in number) yet to be supplied, proved fruitless, as the firm 'B' was not prepared to accept the cancellation. Out of 700 pieces of these components procured, only 101 could be consumed by the Diesel Locomotive Shed by March 1975 and 194 pieces were transferred to another Railway. The remaining 405 pieces (value : Rs. 3.50 lakhs) were rendered surplus to requirements. As there were no issues after March 1975, the Administration scrapped these items in March 1978. The scrap value was assessed at Rs. 4 thousand only.

By resorting to purchase of these components for four-pipe exhaust manifolds far in excess of actual requirements when it was already known that four-pipe exhaust manifolds were to be changed over to single pipe design, the Railway Administration incurred a loss of Rs. 3.46 lakhs.

The Railway Administration stated (October 1979) that although a policy decision had been taken in 1968 to change over gradually from four-pipe manifolds to single pipe exhaust manifolds, the dates by which the latter would be available were not definitely known; and judging from the condition of the components of four-pipe manifolds, it was considered essential to obtain spares to prevent the locomotives being grounded on a large scale. The Administration further maintained that since bulking, clearing and distribution of supply of imported items were arranged by Diesel Locomotive Works, Varanasi, the delivery schedule of single pipe manifolds was not known to the Railway in June 1971.

The following points deserve consideration :

(1) In assessing the annual requirements of the five components for four-pipe exhaust manifolds at 700 pieces, the Divisional Mechanical Engineer (Diesel), New Katni Junction, ignored the decision of the Diesel Maintenance Group (in which he represented the Central Railway) to replace the four-pipe exhaust manifolds, by single pipe exhaust manifolds and also the fact that 9 single pipe manifolds had already been received in the shed by that time.

(2) The assessment of annual requirements of the five components of four-pipe exhaust manifolds at 700 pieces in January 1970 was very high, when compared to the past average of annual issues during 1964-1970 *viz* 78 pieces.

(3) Had the Railway Administration drawn a proper programme for change over from four-pipe exhaust manifolds to single pipe exhaust manifolds in consultation with Diesel Locomotive Works who were responsible for bulking, clearing and distribution of imported items, the dates of availability of single pipe manifolds would have been known to them.

24. **Southern Railway—Delay in finalisation of tenders**

On an indent placed by the Deputy Chief Signal and Telecommunication Engineer, Podanur Workshop, on 17th May 1974, open tenders were invited by the Stores Department on 8th July 1974 for the supply of 1.85 lakh numbers of carbon contacts urgently required for manufacture of relays. The due date for submission of tenders was notified as 23rd September 1974. Out of the three valid quotations received, the offer of firm 'A' was for indigenous supplies while those of firms 'B' and 'C' were for imported carbon contacts. Firm 'B' had earlier in August 1973 and February 1975 supplied 96,000 numbers and 64,000 numbers respectively of similar contacts. The offer of firm 'A' (Rs. 270 per 100) was the lowest and that of the firm 'B' (Rs. 244 equivalent of £ 13.06 per 100 fob) was the next higher. These offers were valid upto 6th November 1974 and 21st November 1974 respectively.

On 23rd November 1974 (after the validity period of the offers was over), the Works Manager advised the Stores Department that the know-how for the indigenous manufacture of the carbon contacts was still not established, and suggested that the item be procured from firm 'B', ignoring the indigenous offer of firm 'A'.

As the date of validity of the initial offer of firm 'B' had already expired, the Stores Department addressed (27th November 1974) the firm to keep its offer open for another 5 months. On 18th December 1974 the firm extended the validity of its offer upto 28th February 1975. The firm also advised the Railway Administration on 7th February 1975 that there was every likelihood of a price increase, and a letter of intent could be sent before end of February 1975 for a commitment at the quoted rates. At the request of the Administration, the firm, on 27th February 1975, extended further the validity of their offer (without any price increase) upto 31st March 1975.

The Tender Committee, on 10th March 1975, recommended the offer of firm 'B' at the rate of Rs. 244 (£13.06) per 100 (fob) for 1.80 lakh numbers. The General Manager, on 12th March 1975, accepted the recommendation and thereafter firm 'B' was asked on 2nd April 1975 to keep their offer valid for another 90 days. The firm extended (10th April 1975) the validity of the offer upto 30th June 1975, and at the same time raised the price of the carbon contacts to Rs. 316 (£ 16.93) per 100 numbers (fob). The General Manager accorded sanction to the acceptance of higher price on 9th May 1975. After the release of necessary foreign exchange by the Ministry of Railways (Railway Board) in July 1975, purchase order for 1.80 lakh carbon contacts was placed on the firm on 20th August 1975.

As a result of avoidable delay in finalising the tender, the Railway Administration incurred an extra expenditure of Rs. 2.31 lakhs.

The Railway Administration stated (October 1979) that the various steps in processing a case for importation take a minimum of 5 to 6 months, and as such it was not possible to enter into a commitment before 31st March 1975.

The following points deserve consideration :

(1) The finalisation of tender took one year and three months from the time of placing the indent even though the carbon contacts were urgently required for manufacture of relays.

(2) The last date for the finalisation of tenders originally was 21st November 1974. The Works Manager did not communicate his technical opinion to the Stores Department within the validity period.

(3) The validity period of tender was first extended by the firm from 21st November 1974 to 28th February 1975. No decision could be taken before 28th February 1975. The validity of tender was further extended upto end of March 1975 and a decision was taken by the General Manager to accept the tender of firm 'B' on 12th March 1975. The circumstances in which the order could not be placed on the firm before the expiry of the validity date need to be investigated, especially when in February 1975 the firm had forewarned the department of the likely increase in price.

CHAPTER V

WORKS

25. Wheel and Axle Plant—Extra expenditure due to incorrect assessment of earthwork

The Ministry of Railways (Railway Board) entered (April 1974) into a collaboration agreement with a foreign firm for setting up a factory to manufacture wheels at Yelahanka (Bangalore). The factory was also to manufacture axles for which, however, no collaboration was envisaged. As per the terms of the agreement, the collaborator submitted (August 1974) a preliminary layout of the factory. The Railway Administration prepared a final layout (in East-West direction) for the factory in January 1975. On the basis of this layout, tenders for earthwork, levelling and forming bank etc. on the site (in East-West direction) were invited in March 1975. The work (value : Rs. 28.58 lakhs) was awarded in September 1975 to contractor 'A' at 29 per cent above the basic schedule of rates, with stipulated completion date as 19th August 1976. The contractor was permitted to commence the work on 4th October 1975, before the formal agreement was executed (November 1975).

The contract provided for the following quantities of earthwork :

Description of work	Quantity	Rate
1. Earthwork excavation in all kinds of soils including soft rock (for lead of 400 m with two lifts.)	6.20 lakhs cum	Rs. 45.92 per 10 cum
2. Earthwork excavation in hard rock (for lead of 400 m with two lifts)	600 cum	Rs. 172.86 per 10 cum

The tenderers had been advised in their own interest to inspect the site and ascertain the site conditions etc. before tendering. The contract also provided that the quantities of work indicated were tentative and approximate and were liable to variations and any extra claim from the contractor on this account would not be entertained under any circumstances.

In the meantime in April 1975 (after the tenders were invited in March 1975 but before the work was awarded in September 1975) the Railway Administration decided to change the layout from East-West to North-South direction, as this revised layout had the advantage of better facilities for yard operation and availability of more area for future expansion of the factory. It was also decided that the revised layout in the North-South direction should be got cleared by the collaborator, before field works were started based on the revised layout. It was indicated that the comparative costs of earthwork in levelling between the two layouts were more or less the same. The revised layout in North-South direction was referred to the collaborator in October 1975. However, the Railway Administration did not wait for the formal approval of the collaborator to the revised layout, as no changes of any major character were expected to be made by the collaborator.

The quantity of earthwork as per the revised layout in North-South direction was assessed before awarding the contract in September 1975, as follows :

	As per tender schedule	Revised quantity
Earthwork excavation in all kinds of soils	6.20 lakhs cum	5.80 lakhs cum
Earthwork excavation in hard rock	600 cum	6000 cum

The lead in the revised layout increased from 400 m to 495 m.

The agreement entered into with the contractor in November 1975, did not provide for quantities as assessed above for the revised layout, but as originally assessed and notified in the tender with East-West layout.

In February 1977, the contractor claimed compensation by way of increased rate at 150 per cent over the contracted rates on account of the increase in lead from 400 m to 495 m and also due to taxing conditions and situations not anticipated at the time of tendering, and at 450 per cent over the contracted rate for the increased quantity of earthwork in hard rock beyond the 125 per cent of the tendered quantity.

After negotiations with the contractor, the Railway Administration revised (September 1977) the rates, as follows :

	As per contract	Claimed	Negotiated
1. Earthwork in soil including soft rock	Rs. 45.92 per 10 cum	Rs. 165 per 10 cum	Rs. 45.92 per 10 cum (for 4.4 lakhs cum) and Rs. 130 per 10 cum (for 1.4 lakhs cum beyond the lead 400 m)
2. Earthwork in hard rock	Rs. 172.86 per 10 cum	Rs. 906 per 10 cum	Rs. 172.86 per 10 cum for 750 cum and Rs. 417 per 10 cum for 5250 cum

Consequently, the value of contract increased from Rs. 28.58 lakhs to Rs. 40.72 lakhs. If the quantities had been revised and the increased lead indicated before the award of the contract, the Railway Administration could have saved extra expenditure upto Rs. 8.26 lakhs.

As further excavation was carried out, more rock out-crops were exposed and the earthwork excavation in hard rock was further revised (July 1979) from 6,000 cum to 11,500 cum. The contractor claimed (September 1978) a higher rate of Rs. 990 per 10 cum, as against the negotiated rate of Rs. 417 per 10 cum (September 1977) for the entire excess quantity over and above 6000 cum provided in the revised agreement. This claim is still

(November 1979) under consideration of the Railway Administration.

The Administration stated (July 1978/September 1979) as follows :

(i) The original quantity had been estimated on the basis of out-crops of rocks and their slopes and that a more accurate assessment would have involved heavy expenditure on trial boring.

(ii) Since the contractor was not prepared to extend the validity of his tender beyond 30th September 1975 and further in view of the fact that the most advantageous rates had been received by the Administration from this contractor, it was not considered prudent to wait any longer, and the work was accordingly, awarded to this contractor in September 1975.

(iii) Keeping in view that the difference in the total quantity taken together (the earthwork in hard rock and other than hard rock) was a reduction of 34,600 cum, it was not considered necessary to revise the quantities in the contract.

(iv) Since the contractor's claim in September 1977 for higher rates would have been sustainable in a court of law, it was considered prudent to settle his claim by negotiations.

(v) They had obtained the maximum advantage by restricting the payment at the increased rate to a quantity of 1.4 lakhs cum only, instead of the entire quantity of 5.8 lakhs cum claimed by the contractor.

The following points require consideration :

(1) Even though decision on the change in the layout of the factory had been taken by the Administration

as early as in April 1975, and the quantity of earthwork as per revised layout in North-South direction had also been assessed before the award of the contract in September 1975, the agreement entered into by the Railway Administration with the contractor in November 1975 provided for quantities not as per revised layout, but as originally assessed and notified in the tender in March 1975 with East-West layout.

(2) Even though the area of the site for excavation in hard rock was 15 acres only, the Administration had not made a detailed survey of the soil conditions and instead, framed the estimates on the basis of surface conditions. The original assessment of earthwork in hard rock was not, therefore, properly done. There is no evidence that more realistic assessment was not done due to the likelihood of heavy expenditure on trial boring. This led to the revision of quantity of hard rock excavation from the originally assessed quantity from 600 cum to 6,000 cum (September 1977) and subsequently to 11,500 cum (July 1979) *i.e.* an increase of 1,817 per cent over the original estimate.

(3) There was failure on the part of the Railway Administration to ascertain the increased lead from 400 m to 495 m in the revised layout.

Failure to assess correctly, the earthwork involved, including the extra lead and rocks beneath the soil, resulted in extra expenditure upto Rs. 8.26 lakhs. This will increase further to Rs. 12.75 lakhs if higher rate for earthwork in hard rock has to be paid, as per the contractor's claim of September 1978.

26. Southern Railway—Overpayment made to a contractor

A contract (value : Rs. 19.01 lakhs) was entered into with a firm 'A' by Railway Administration in September 1965 for earthwork in reach V of the Mangalore-Hassan Railway project. The work was to be completed within a period of 18 months *i.e.* by 3rd March 1967. After granting several extensions, extending to nearly 5 years, the Railway Administration finally terminated the contract in March 1972 after issue of the required notice that the left over works (value : Rs. 5.20 lakhs) would be got completed at the contractor's risk and cost. The work was completed through another contractor, firm 'B', in November 1973 and the extra cost of execution worked out to Rs. 1.85 lakhs.

Till April 1971 thirty two 'on account' bills amounting to Rs. 11.45 lakhs had been paid to firm 'A' on the basis of approximate assessment of the percentage of work done, as certified by the respective Assistant Engineers concerned. When the final bill was prepared (March—August 1972) on the basis of detailed measurements recorded in June 1971, it was noticed that an overpayment of Rs. 1.61 lakhs had been made to firm 'A'.

A fact finding committee nominated by the Chief Engineer (Construction) and the Financial Adviser and Chief Accounts Officer (Construction) reported (November 1972) that the overpayments had occurred due to failure on the part of the Assistant Engineers to adhere to the established procedure (1) for maintenance of proper records in the Assistant Engineers' offices and (2) for measurement of earthwork and lead for work done by the contractor. Because of the non-maintenance/posting of earthwork registers in the Assistant Engineers' offices, no cross-checks of quantities measured in the field could be conducted at any stage. It was also noticed by the fact finding committee that no test check by higher officers of earthwork measurements recorded by Assistant Engineers had been made as required by the departmental instructions.

The rules in the Engineering Code provide that in cases where detailed measurements are not recorded and 'on account' payments are made on the basis of certificate granted by the executive officer to the effect that 'not less than the quantity of work paid for has actually been done', the officer granting such certificate will be held personally responsible for any overpayments. Charges for major penalty were framed against the five defaulting Assistant Engineers during November 1972 to December 1974, and action under Discipline and Appeal Rules initiated against them. However, finally, warnings to be recorded were issued to them in May-June 1977.

In May 1975 the firm 'A' was called upon to make good the total loss of Rs. 3.46 lakhs (Rs. 1.85 lakhs on account of risk contract and Rs. 1.61 lakhs on account of overpayment) suffered by the Railway Administration ; but there was no response from them. In November 1977 (*i.e.* after over 5 years of the termination of the contract) a suit was filed against the firm 'A' for recovery of Rs. 2.40 lakhs (after deducting security deposit of Rs. 1.06 lakhs available with the Railway Administration). The suit is still (November 1979) in progress, and an amount of Rs. 19,696 has been incurred towards legal expenses.

The Railway Administration stated (August 1978 and December 1979) that action for recovery could not be taken earlier due to :

(i) the concerned records being with the Special Police Establishment (SPE) upto December 1973, and later on with the Discipline and Appeal Rules Enquiry Committee until May 1975, and

(ii) verification having to be made whether there were any washaways or subsidences of the subsoil under the load of the new bank, on account of heavy rainfall which could have caused loss of earthwork, indicating no lapse on the part of the executive staff concerned.

The following points require consideration in this connection :

(1) The work certified for payment by the Assistant Engineers turned out to be more than that had been actually done. It requires to be examined why earthwork registers were not maintained/posted, resulting in excess certification by the Assistant Engineers.

(2) While the overpayment to the contractor had come to the notice of the Administration in June 1971 and the extra expenditure on account of risk contract had become known in November 1973, and by that time the records seized by the SPE had also been returned, the initial demand on the contractor to make good the loss of Rs. 2.40 lakhs was made only in May 1975. It was again after a further delay of 2½ years that a suit for recovery was filed in November 1977. The requirements of the records by the Discipline and Appeal Rules Enquiry Committee could not stand in the way of making a demand on the contractor and initiating further action for recovery.

27. Southern Railway—Excess earthwork in Mangalore-Hassan Railway Project

The survey report on Mangalore—Hassan metre gauge (MG) Railway Project submitted in December 1963 provided for 16 ft wide banks and 14 ft wide cuttings in accordance with the MG standards. The estimate for the project sanctioned in November 1964 provided for construction of sub-structures of bridges and profiles of tunnels to broad gauge (BG) standards for possible conversion of the line from MG to BG at a later date ; but formation of banks and cuttings was provided for MG standards only, as it was an MG line. The tender schedules were prepared, with the quantity of earthwork assessed, based on MG standards, and contracts were entered into (January 1970) for reaches VIII and IX with firm 'A' and for reach I with firm 'B'.

The work was commenced by contractor 'A' in reaches VIII and IX in January 1970. While the work was in progress, it was decided by the Project Administration during January 1970—February 1972 to carry out regrading and realignment in these reaches. This resulted in reduction of the original quantum of earthwork from 5.78 lakhs cum to 4.88 lakhs cum (15.6 per cent) in reach VIII and from 5.39 lakhs cum to 3.46 lakhs cum (35.8 per cent) in reach IX. No such change was made in reach I.

During execution of the work, banks and cuttings in reaches VIII, IX and I were found (1972) to have been formed beyond MG standards. The formation of banks and cuttings beyond MG standards had not been based on any specific written instructions to the contractor on the basis of any technical considerations. The Chief Engineer (Construction) during his inspection of reach VIII in February 1972, observed that the cutting widths as executed by the contractor varied from 18 ft to 24 ft (as against 14 ft required according to MG standards), and instructed that payment may be made for cutting widths upto 18 ft and bank widths upto 20 ft as per BG standards.

In April 1972 contractor 'A' represented that payment may be made for the actual quantities of earthwork done under banks and cuttings, in view of the following reasons :

(i) The quantities of earthwork had considerably come down as compared to the quantities provided in the contract.

(ii) Heavy earth moving machines for this work were brought to the site, considering the original volume of earthwork to be done. Consequent upon the reduction in the quantities of earthwork to be done, the expenditure incurred for the transport of these machines had become wasteful.

(iii) Banks and cuttings had become wider as a result of the use of the heavy earth moving machines.

Clause 2 of the special conditions of contract (for earthwork in forming bank and cutting) provides that the quantities mentioned in the schedule are only approximate and the contractor can have no claims on account of variations in quantities. Clause 8 of the conditions of contract further provides that the contractor shall make his own arrangements for the required earth moving vehicles at his own cost.

In spite of the above provisions, the Railway Administration agreed (February 1972) to make payments for the earthwork on the basis of widths of BG standards instead of MG standards as provided in the agreement on the plea that the contractor's claims were genuine and would be sustainable in arbitration or in a court of law. The quantity of excess earthwork in reaches VIII, IX and I worked out to 38,578, 21,701 and 2,577 cum, valued at Rs. 1,30,326, Rs. 62,526 and Rs. 7,574 respectively. While payments amounting to Rs. 1.93 lakhs in respect of reaches VIII and IX had been made during February 1972—May 1975, payment of Rs. 7,574 in respect of reach I was disallowed by the Administration in August 1977 after the matter had been taken up by Audit in July 1977.

The Administration stated (June 1978 and October 1979) as under :

(i) Day to day inspections and supervisions at various levels were conducted, and the purpose of these frequent and periodical inspections was to issue suitable instructions on the spot, as and when the work progressed, and as required, based on the site conditions and technical considerations. It would not, therefore, be appropriate to conclude that no specific instructions had been issued to the contractor regarding the standards to which earthwork had to be done in the present case.

(ii) The decision to pay for actual quantities of work done restricted to BG dimensions, helped in persuading the contractor not to press his claims.

The following points require consideration :

(1) While tender schedules had been prepared as for MG standards, the payments for reaches VIII and IX were allowed as for BG standards, resulting in extra expenditure of Rs. 1.93 lakhs, though the same were disallowed for reach I.

(2) Though, as per terms of contract, the contractor could not claim compensation for variation in quantities or for bringing heavy earth moving machines to the site of work, the Railway Administration admitted the extra contractual claims on the plea that they were genuine and might be sustainable in arbitration.

(3) Any oral instructions issued during inspections which materially affected the volume of work, and have financial implications, would have to be justified and recorded. No justification and record were, however, available.

(4) If the extra earthwork had been actually authorised by the Administration on technical considerations, there would have been no need for the contractor to represent for payments of actual quantities, and for the Administration to restrict payments to BG standards instead of actual quantities.

28. Eastern Railway—Avoidable payment of compensation to contractors

The Eastern Railway owns three stone quarries at Bakudih, Taljhari and Barharwa in Bihar State, for which the land had been acquired from the Government of Bihar in 1909 (188 acres), 1917 (14.02 acres), and 1958 (100.02 acres) respectively.

Boulders and ballasts were being extracted from these quarries for track maintenance through labour contractors.

In September 1964, District Mining Officer advised Railway Administration that any acquisition under the Land Acquisition Act of 1894 with reservation as provided by Section 3 of the Land Acquisition (Mines) Act, 1885 did not carry with it rights for the minerals under the land, which remained with the original owner. The Railway Administration was not, therefore, entitled to quarry stone etc. from the land without the prior consent of the original owner and on such terms regarding payment of royalty as might be agreed upon. He, therefore, indicated that the Railway was not exempted from payment of rent and royalty on the minerals extracted from the Railway quarries, unless there was specific exemption in the declarations issued under Section 6 of Land Acquisition Act. The Deputy Commissioner, Santhal Parganas, requested (September 1964) the Railway Administration either to produce a copy of the declaration under which exemption had been granted or arrange to pay the royalty on the minerals quarried so far, by 31st October 1964, failing which the State Government would prosecute the contractors working in the quarries and evict the Railway from the area. As the Railway Administration did not submit the required declaration nor paid the royalty, the Deputy Commissioner, Santhal Parganas, served notices (November 1964) on the Railway to vacate the quarries and also directed the Railway contractors to refrain from quarrying in the Railway Land. However, on representation by the Railway Administration, the Deputy Commissioner restored *status quo* in January 1965, pending final decision on the issue, and requested the Railway Administration to keep necessary account of the ballast quarried etc. so that royalty could be recovered from the Railway Administration in case the question was decided in favour of the State Government. The District Mining Officer intimated in September 1967 that the Railway was not exempted from rent and royalty in respect of the minerals from the three quarries acquired by the Railway Administration. On the basis of the details furnished by Railway Administration, the District Mining Officer, in June 1968, demanded Rs. 4.84 lakhs as royalty for the three quarries at Bakudih, Taljhari and Barharwa for the periods from 3rd December 1952 to 20th March 1963, from 1st January 1954 to 25th March 1968 and from 16th December 1953 to 26th June 1961 respectively.

Without finally settling the question of the Railway's liability for payment of royalty to the State Government, the Railway Administration entered into three contracts in August 1968 (Bakudih), September 1968 (Taljhari) and September 1969 (Barharwa), with three different contractors 'A', 'B' and 'C' for a period of three years for manufacture and supply of stone ballast. The Railway Administration did not settle the dispute with the State Government to ensure uninterrupted operation in the quarries. While the contractors were working in the quarries, the Deputy Commissioner served (March 1970) notices on the Railway Administration and the contractors to stop mining operation in the quarries due to non-payment of royalty by the Railway Administration. The contractors were thus forced to stop the work with effect from March 1970.

On representation by the Railway Administration, the Deputy Commissioner, however, allowed quarrying operation in Barharwa quarry in March 1971 and in the remaining two quarries Bakudih and Taljhari in August 1975. For the enforced stoppage of work during the contractual periods, the three contractors claimed in June 1971 (Taljhari), April 1973 (Barharwa) and February 1974 (Bakudih), Rs. 8.23 lakhs (Rs. 2.32 lakhs, Rs. 2.97 lakhs and Rs. 2.94 lakhs respectively) as compensation and the disputes were referred (Barharwa : November 1973, Bakudih : November 1974 and Taljhari : February 1976) to arbitration in terms of the contract. While the arbitrators awarded (February 1977 and February 1979) Rs. 1.24 lakhs and Rs. 1.90 lakhs to the contractors of Taljhari and Bakudih respectively, the arbitration proceedings in respect of the claim of Rs. 2.97 lakhs of the contractor of Barharwa quarry are still to be finalised (November 1979).

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The Railway Administration invited fresh tenders for supply of ballast from Barharwa quarry and awarded the contract in August 1974 to a contractor 'D' for a period of 3 years. In March 1976 the contractor 'D' informed the Railway Administration of the District Mining Officer's notice (1st March 1976) to him not to work the quarry. The Deputy Commissioner also advised the Railway Administration on 25th March 1976 that the latter were not permitted to continue quarrying operations anywhere in the district, unless all the dues of royalty were paid. The contractor stopped working the quarry with effect from March 1976. The contractor 'D' claimed (August 1977) compensation of Rs. 5.22 lakhs for enforced stoppage of work and sought arbitration (April 1979) as per terms of the contract. A decision regarding the appointment of an arbitrator in this case is yet (November 1979) to be taken by Railway Administration.

The entire position is summarised below :

(Rs. in lakhs)

Name of quarry	Month of Contract	Duration	Period of stoppage	Compensation claim		Award	
				Month & year	Amount	Amount	Month & year
*Bakudih . .	August 1968	3 years	March 1970—July 1971	February 1974	2.94	1.90	February 1979
*Taljhari . .	September 1968	3 years	March 1970—August 1971	June 1971	2.32	1.24	February 1977
**Barharwa . .	(*i*) September 1969	3 years	March 1970—February 1971	April 1973	2.97	Still pending	
	(*ii*) August 1974	3 years	March 1976—July 1977	August 1977	5.22	Decision yet to be taken	
					13.45		

*Ban was lifted in August 1975.

**Ban was lifted in March 1971.

In this case the following points deserve consideration :

(i) The State Authorities had warned the Railway Administration as early as in September 1964 that in case royalty was not paid on all despatches of stone from the quarries, steps would be taken to prosecute the Railway contractors and evict the Railway from the area for working the quarries illegally. Despite this warning, the Railway Administration entered into three contracts in August 1968, September 1968 and September 1969 resulting in Railway's liability for compensation (Rs. 6.11 lakhs) to the contractors on account of stoppage of work.

(ii) The Railway Administration was aware that without settling the dispute regarding royalty to the State Government, operation of the Railway quarries might not be permitted by State Authorities. In spite of the earlier experience of the previous contractors, fresh contract was awarded to contractor 'D' for the Barharwa quarry. This resulted in another claim of compensation of Rs. 5.22 lakhs.

(iii) While disowning liability for payment of royalty amounting to Rs. 4.84 lakhs to the State Government, the Railway Administration incurred liability for payment of compensation amounting to Rs. 11.33 lakhs to the four contractors.

The Railway Administration stated (December 1979) that :

(1) in view of the permission given by the State Authorities to the Railway to continue the operation of the quarries, subject to accountal of the quarry produce being maintained and also considering the fact that ballasting of the track could not be delayed indefinitely without seriously affecting the safety of train, three contracts for supply of ballast were

entered into in August 1968, September 1968 and September 1969,

(2) at the time of awarding the above contracts, there could have been no possibility of advance awareness of future involvement of liability for compensation,

(3) the Ministry of Railways (Railway Board), in consultation with the Department of Mines, had conveyed (March 1973) the view that the Railway was not liable to pay royalty to the State Govrenment for quarrying stones from the land acquired by the Railway for departmental quarries and, if necessary, the Railway should contest the case in all possible ways, and

(4) in the light of the above direction and in the interest of the safety, the award of the fresh contract for Barharwa quarry in August 1974 was considered necessary.

The Railway Administration has taken no steps to obtain a conclusive decision from the appropriate authority regarding the liability of departmental quarries' royalty.

29. Western Railway—Replacement of a pipe line

In June 1971 the Railway Administration sanctioned an estimate amounting to Rs. 9.08 lakhs for replacement of a mild steel pipe line by a cast iron pipe line (length 8.3 km) between Kali Dam and the filter house at Dahod station. (The enstimate was revised to Rs. 13.80 lakhs under a sanction issued by Ministry of Railways (Railway Board) in May 1975). According to the justification for the construction of the new pipe line, the old pipe line had been perforated at about 300 places where collars had been provided to prevent leakages, and in spite of the repairs these perforated points were considered to be a potential source of pollution of drinking water. The work was commenced in November 1972 and the laying of pipes was completed in

March 1974 at a cost of Rs. 11.09 lakhs. The new pipe line was commissioned in March 1975.

Even though the new pipe line had been commissioned at reduced pressure of 3 kg/sq cm as against the maximum pressure of 9 kg/sq cm at the pumping head at Kali Dam, the pipes cracked and burst frequently. During November 1973—December 1976, there were 115 bursts for lengths varying from 2 to 2.5 metres on an average. As a result, the pipe line was put out of commission in December 1976. By this time, an expenditure of Rs. 45,479 had already been incurred on repairs to the pipe line. In September 1977 it was noticed that in a length of 4 km of the pipe line, the ends of the pipes had been damaged and lead removed from the joints by miscreants. The repair and replacement of the broken pipes was taken up in January 1978 with a view to commissioning the pipe line and avoiding further thefts and damages. The work was completed in June 1978 at an additional cost of Rs. 1.13 lakhs. Commissioning trials were conducted two-three times in November 1978, but it was found that when water was let in from Kali Dam, the pipe line developed longitudinal cracks and thus the testing of pipes of the entire line could not be conducted. In December 1978 testing was done for a length of 7.4 km, when cracks were again noticed. Thereafter, further testing was suspended.

The pipes were supplied by two different firms of Calcutta during October-November 1972 against supply order of August 1972. The pipes had been supplied after being inspected by the Director of Inspection, Calcutta.

Two tests were conducted in February and March 1977 by the Institute of Technology, Indore. On the basis of these test reports and the discussions the Assistant Engineer concerned had with the officers of the Institute, he reported in July 1977 that no definite conclusion could be drawn, but there was a sign of weakness in the pipes. He further suggested that chemical composition, longitudinal and bending stresses were some of the other tests which might be conducted to study the overall behaviour of the pipes.

In September 1977 the Senior Divisional Engineer, after discussing the issue of bursting of pipes with other manufacturers of cast iron pipes, reported to the Chief Engineer and the Controller of Stores that the hardness of the pipes was not according to the specifications. However, no further tests as suggested in the Assistant Engineer's report of July 1977, were got carried out by the Railway Administration in order to determine the quality of the pipes. The matter was also not taken up with the suppliers.

The Railway Administration stated (July 1978 and November 1979) as under :

(i) The main reason for bursting of the pipes was breakage of pipes, and theft of lead from the joints by miscreants.

(ii) The pipe line is now 'generally in working order'.

(iii) The Senior Divisional Engineer had probably only doubts (and there was no positive finding) about the hardness and quality of the pipes.

(iv) The pipes had been duly inspected by the Director of Inspection, Calcutta. Therefore, the question of taking up the matter with the supplier did not arise.

(v) Mild steel pipes are very susceptible to corrosion and are likely to cause high maintenance charges. The life of cast iron pipes is more than that of mild steel pipes. That is why it had been decided to replace mild steel pipes by cast iron pipes in the present case.

(vi) Since the old mild steel pipe line which had been replaced by a new cast iron pipe line, is now not being dismantled, but is being continued to be in use, the new cast iron pipe line will be used as and when required.

The following points require consideration :

(1) The pipe line laid at a cost of Rs. 11.09 lakhs in March 1975, and a further expenditure of Rs. 1.58 lakhs on repairs and replacements, has not yet (November 1979) been commissioned, though it is stated to be now 'generally in working order'. On the other hand the old mild steel pipe line which had been replaced by the new cast iron pipe line on age-*cum*-condition basis, is still being used. In the circumstances the need for the new pipe line needs to be justified.

(2) Bursts in the new pipe line were noticed from November 1973 onwards, that is, even before physical completion of the work in March 1974. Again, bursts were noticed after the pipes, stated to have been broken by miscreants for theft of lead, had been repaired and replaced in June 1978. The bursts in these two periods cannot obviously be attributed to theft of lead by miscreants, as contended by the Railway Administration.

The lead in the joints of the new pipe line was subjected to thefts by miscreants, while the old pipe line which too had lead filled in the joints, and ran parallel to the new pipe line, was not subjected to similar thefts by miscreants. According to the Administration the old pipe line being of mild steel was not easy to break.

(3) The circumstances in which pipes not conforming to the hardness specification were accepted in inspection and why no action taken when the sub-standard character of the pipes became known, need to be investigated.

CHAPTER VI

EARNINGS

30. Southern Railway—Undercharges on coal consignments due to non-observance of routing and rating instructions

According to the notification for routing and rating of goods traffic, effective from 1st April 1975, the traffic in coal from Bengal/Bihar and Talchar Coal fields to metre gauge (MG) stations south of Tiruchchirappalli, should be routed and charged *via* Erode and Tiruchchirappalli transhipment point (a longer route) instead of *via* Korukkupet. However, it was noticed (17-18th February 1978) by Audit in the course of their inspection of the accounts of Talaiyuthu station that coal consignments booked from Andal and Asansol stations of Eastern Railway and Talchar and Radhanagar stations of South Eastern Railway to the siding of a cement factory at Talaiyuthu station continued to be charged wrongly. While pointing out undercharges of Rs 1,35,707 for the period from April 1975 to December 1977, Audit also suggested to the Railway Administration to undertake a review of the position at other stations. The Railway Administration stated (March 1978) that the undercharges in respect of coal consignments received at the sidings of 3 cement factories at Talaiyuthu, Sivakasi (Tamil Nadu Cement Factory siding) and Tulukapatti stations from 1st April 1975 to 31st December 1977 amounted to Rs. 3,49,943. The Railway Administration further pointed out that undercharges of Rs. 22,811 in respect of Tulukapatti station had already been detected and debits raised against the station by the Special Duty Travelling Inspector of Accounts on 11th February 1978.

In another case it was noticed (July 1978) by Audit that coal consignments booked to the broad gauge (BG) siding of a Public Sector Undertaking served by Golden Rock station

(Tiruchchirappalli Division) were charged by the shorter route *via* Arkonam transhipment point instead of all BG route *via* Erode by which the consignments were actually carried, even though Arkonam station was not open for coal transhipment. This resulted in undercharges of Rs. 75,902 over the period from April 1974 to March 1978.

The incorrect charging of freight was not detected by the Commercial and the Accounts Inspectors during their periodical visits to the stations over the period from April 1975 to January 1978 in the first case and from April 1974 to June 1978 in the latter case.

Responsibility for the lapses on the part of the defaulting staff at the forwarding and the destination stations, the Commercial and the Accounts Inspectors and the Accounts Office staff of the forwarding Railways who were responsible for the check of invoices on outward basis, is yet to be fixed.

The Railway Administration stated (October 1979) as under :

(i) Action is being taken to realise the undercharges from the parties concerned.

(ii) The aspect of routing and rating of traffic does not ordinarily come under the purview of the inspection staff either of Accounts or Commercial Department. However, in the context of the Ministry of Railways (Railway Board) observations in January 1978 that there had been a number of Audit paras on loss of revenue due to incorrect levy of freight charges, a squad of Travelling Inspectors of Accounts was formed on the Railway for looking into the routing and rating of traffic at important stations selected for check.

(iii) Action has been initiated for fixing responsibility against the staff of the forwarding and destination stations and also against the Accounts staff of the forwarding Railway.

The following points need consideration :

(1) Although the undercharges had been pointed out in February/March/July 1978, no progress has been made in the recovery thereof and the entire amount of Rs. 4.26 lakhs is still outstanding (November 1979).

(2) Action is yet to be finalized against the defaulting staff of the forwarding and the destination stations, the Commercial and the Accounts Inspectors and the Accounts Office staff of the forwarding Railways.

31. **Southern Railway—Short collection of siding charges**

Prior to 1st June 1978, siding charges for wagons handled at private and assisted sidings were leviable for placement/ removal of loaded wagons only. With effect from 1st June 1978, siding charges were required to be levied on the basis of the round trips performed by the engine from the serving station to the siding and back, irrespective of the wagons being hauled loaded or empty.

During a review of the accounts of certain sidings in Madras Division, conducted by Audit in March 1979, it was noticed that siding charges in the case of five sidings had not been recovered in respect of trips performed for placement/removal of empties exclusively. This had resulted in short collection of siding charges to the extent of Rs. 66 thousand during June 1978 to March 1979. While pointing out this irregularity, the Railway Administration was also requested to review the position of other sidings on the Railway and assess the total amount of short collection on this account.

The Railway Administration stated (August 1979) that a review of the accounts of 37 sidings had disclosed a further short collection of siding charges to the extent of Rs. 2.86 lakhs during June 1978 to July 1979 and that the entire amount of Rs. 3.52 lakhs (Rs. 2.86 lakhs+Rs. 0.66 lakh) had been debited against the stations concerned. The Administration, further, stated that the review in respect of 15 sidings was in progress.

The responsibility for the lapses on the part of the station staff, the Travelling Inspectors of Accounts and the Commercial Inspectors for their failure to detect the irregularity in their periodical visits to the stations and of the Accounts Office staff for their failure to detect the irregularity in internal check during June 1978 to July 1979 is yet (November 1979) to be fixed.

32. **Southern Railway—Undercharges of freight due to misclassification of naphthenic oil**

Naphthenic oil imported by Indian Oil Corporation (IOC) was booked in wagon loads from Bombay Port Trust Railway to the siding of a private firm at Tondiarpet on Southern Railway. This was declared by the consignor (IOC) as 'Lubricating oil—naphthenic oil', and accordingly charged as for 'Lubricating oil' at class 65. The classification of lubricating oil in wagon loads was enhanced from class 65 to class 105 with effect from 15th February 1975. After the enhancement of the classification, this commodity was declared by the consignor (IOC) as 'Naphthenic oil as Petroleum and other Hydro Carbon oils, non-dangerous' chargeable at class 62.5 (later revised to class 70 from 1st November 1975). This resulted in undercharges to the extent of Rs. 57,420 (difference between the rates at class 105 and class 62.5/70) during the period from October 1975 to March 1977 and consequently under recovery from the consignee to this extent. No further booking of this commodity was done after March 1977. Penal charges (difference between the rates at double the highest class 150 and class 62.5/70) for improper description of goods work out to Rs. 3.71 lakhs.

On undercharges being pointed out by Audit, the forwarding railway *viz* the Central Railway agreed (October 1978) that naphthenic oil booked in wagon loads was correctly chargeable as 'Lubricating oil NOC' at class 105. It advised the Southern Railway, which is also responsible for checking correctness of classification and recovery of freight before delivery, to recover the undercharges.

The Southern Railway, however, maintained (July 1977 and March 1979) that the commodity was not lubricating oil but solvent oil, and as such, had been correctly classified and charged. In support of its contention the Southern Railway Administration stated as under :

(i) The consignee had informed (July 1977) that naphthenic oil was used by them for the manufacture of white oil and petroleum jellies, and that it was not intended for use as a lubricant or for the manufacture of lubricants in their refinery.

(ii) IOC, Madras had advised (March 1978) that the oil in question was not a lubricating oil.

(iii) Adviser (Refineries), Ministry of Petroleum had conveyed (January 1979) that the main difference of naphthenic oil from ordinary lubricating oil is that it has a very low freezing point.

In this connection it may be pointed out as under :

(a) The Southern Railway Administration had never considered the question of correctness or otherwise of the class of freight being charged for this commodity during the period from October 1975 to March 1977. It started deliberations on the subject only after undercharges had been pointed out by Audit in June 1977.

(b) The information given by the consignee to the effect that naphthenic oil was not being used in their refinery for the manufacture of lubricants, was not correct inasmuch as it was being used for the manufacture of white oil, which in the Railway's Goods Tariff, was classified as a lubricant.

(c) IOC, Bombay had clarified (January 1978) that naphthenic oil was not a solvent, and that it was a base oil being used for certain specialised lubricating oils.

(d) The opinion given by Adviser (Refineries) simply indicated that naphthenic oil was different from ordinary lubricating oil, and thus it implied that naphthenic oil was a special lubricating oil. This opinion cannot be taken to convey that naphthenic oil is not a lubricating oil.

The Central Railway Administration reversed (February 1979) its earlier decision of October 1978, saying that in cases where different decisions were taken by Railways, the decision of the destination Railway should be applied and charges realised accordingly.

The following points require consideration :

(1) The circumstances in which the consignor (IOC) changed the description of the goods from 'Lubricating oil' to 'Petroleum and other hydro-carbon oils non-dangerous' after the enhancement of the freight classification applicable to 'Lubricating oil' in February 1975, are not known.

(2) How the change in description of the goods went un-noticed by the Railway staff both at the forwarding and the destination stations, is also not known.

(3) The improper description of the goods resulted in less recovery of freight charges from the consignee (a private firm) to the extent of Rs. 57 thousand.

The Ministry of Railways (Railway Board) stated (November and December 1979) that naphthenic oil is not a lubricating oil, and, therefore, there have been no undercharges.

It was not, however, clarified how the description of the commodity from 'lubricating oil' could be changed to that of 'non-lubricating oil'. Again, naphthenic oil was being used by the consignees in the manufacture of white oil which in the Railway Tariff, was classified as a lubricant ; as such naphthenic oil was appropriately chargeable as a lubricating oil for the purpose of railway freight. Besides, in case naphthenic oil is a solvent, as contended by Southern Railway Administration, it is not understood how it can be used in the manufacture of a lubricant like white oil.

33. Western Railway--Undercharges of freight in respect of vegetable oil carried in tank wagons

Rules in the Goods Tariff provide that liquid carried in a tank wagon is to be charged on the carrying capacity (in weight) marked on the wagon. The particular liquid/oil, a tank wagon is intended to carry, its loadability by volume and the weight of the particular liquid for the loadable volume, are all marked on each wagon and also notified to all stations through rate circulars. For arriving at the correct chargeable weight, conversion ratios (from litres to tonnes) have also been notified, and in respect of vegetable oil, the conversion ratio is '1109 litres = one tonne'. The freight charges on vegetable oil in tank wagon are to be levied on such converted weight or at the weight as per carrying capacity marked on the tank wagon, whichever is higher.

There is regular traffic of vegetable oil in tank wagons from Indira Dock and Grain Depot stations of Bombay Port Trust Railway. A test audit (October 1977 and May 1978) of the records of these stations disclosed that freight was being charged for vegetable oil on the basis of weight declared by the senders in the forwarding notes instead of on the converted weight/carrying capacity of the wagons in accordance with Goods Tariff, resulting in short realisation of freight. The amount of short recovery for consignments booked during January 1974—July 1977 was assessed at Rs. 1,44,079 out of which Rs. 17,258 pertained to local traffic and Rs. 1,26,821 to foreign traffic.

Although this irregularity had been detected in internal check during the period January 1974 to July 1977, it was found to be continuing at Indira Dock and Grain Depot stations upto September 1979. During review of these two stations conducted by Audit (October 1978 and July 1979) and by Railway Administration (December 1979) undercharges amounting to Rs. 1,91,253 (Rs. 63,126 at Grain Depot and Rs. 1,28,127 at Indira Dock) during August 1977 to September 1979 in respect of foreign traffic were noticed.

Responsibility for the lapses on the part of the defaulting station staff at the forwarding and the destination stations is yet to be fixed.

The Railway Administration stated (December 1979) as under :

(1) Undercharges amounting to Rs. 7,370 out of Rs. 17,258 relating to local traffic had since been recovered.

(2) Undercharges amounting to Rs. 3,02,946 out of Rs. 3,18,074 relating to foreign outward traffic had been detected in internal check.

(3) Foreign Railways had been addressed to effect recoveries of undercharges of Rs. 3,18,074 relating to foreign outward traffic.

(4) Minor penalties had been imposed on the defaulting staff at two destination stations, the staff at two other stations had been severely warned and that disciplinary action against the staff at three destination stations was in progress.

34. Western Railway—Undercharges due to incorrect computation of distance

Freight charges on the consignments tendered for carriage by the Railway are calculated on the basis of the distance between the forwarding and the receiving station, as notified by the Railway Administration.

According to the instructions issued by the Administration in April 1977, all traffic passing over Limkheda-Usra section of

Ratlam Division was required to be charged on the existing distances notified in Through/Local Junction Distance Tables in force plus three km with effect from 1st May 1977. The increase in the distance had been necessitated as a result of change in the alignment of the track. A test check of the records of Vatva, Bajuwa Gujarat Refinery siding/Bajuwa station (Baroda Division), Porbandar station (Bhavnagar Division), Indira Dock, Victoria Dock, Stores Depot, Grain Depot, Manganese Depot, Oil Depot and Cotton Depot stations (Bombay Port Trust Railway) conducted by Audit in February, July, September and October 1978 disclosed that the distances for levy of freight charges in respect of traffic passing over Limkheda-Usra section had been computed incorrectly without taking into account the additional distance of three km chargeable from 1st May 1977 for this section. This resulted in undercharges of freight amounting to Rs. 2.10 lakhs for different periods between May 1977 and September 1978 both in respect of local and foreign traffic.

The Railway Administration stated (July and November 1979) as under :

(i) The staff responsible for the lapses at the stations concerned and in the Traffic Accounts office would be taken up.

(ii) Out of the total undercharges of Rs. 2.10 lakhs, a sum of Rs. 22,353 pertained to local traffic, Rs. 59,089 related to foreign inward traffic and Rs. 1,29,016 pertained to foreign outward traffic.

(iii) Undercharges of Rs. 71,134 had been detected in internal check.

(iv) Undercharges amounting to Rs. 43,749 had since been recovered, and balance amount of Rs. 1,66,709 was still outstanding.

(v) Efforts were being made to recover the undercharges amounting to Rs. 37,693 in respect of local traffic and foreign inward traffic for which debits had been raised against the stations concerned, and that in the case of undercharges amounting to Rs. 1,29,016 in respect of foreign outward traffic, the concerned foreign Railways had been addressed to effect recoveries.

The disciplinary action against the staff at Vatva station (Baroda Division) only has since been finalised and the staff concerned have been severely warned. Responsibility of (i) the other defaulting staff at the forwarding and the destination stations for their failure to levy/recover the correct charges, (ii) the Commercial and the Accounts Inspectors for their failure to detect this irregularity during their periodical visits to the stations, and (iii) the staff of the Traffic Accounts offices of the forwarding Railways for their failure to detect the undercharges during internal check of invoices, is yet to be fixed.

A similar review of the records of other stations by the Railway Administration is in progress (November 1979) in five Divisions.

35. Northern Railway—Loss of revenue due to incorrect levy of freight on salt consignments

Salt intended for human consumption or for use in chemical and other industries was chargeable at the rate applicable to salt 'not otherwise classified' (NOC) at class 40 (for wagon loads) upto October 1973. The Ministry of Railways (Railway Board) decided that with effect from 1st November 1973, salt for chemical industries would be charged at class 45 (for wagon loads). While taking this decision, the Ministry of Railways (Railway Board) stated :

(i) that a list showing the names of chemical industries which used salt as raw material, was being obtained from the Salt Commissioner, and would be notified shortly,

(ii) that this list should not, however, be treated as exhaustive, and that the higher classification would be applicable even if the name of a consignee was not found in the list but was known to be a chemical industry, and

(iii) that the station staff and the inspecting officials should exercise due vigilance and conduct periodical checks to detect and prevent cases of misdeclarations.

In pursuance of this decision, the Ministry of Railways (Railway Board) circulated (October/November 1973), a list of 35 chemical industries which included, besides chemical manufacturers, the names of various textile, sugar, paper and jute mills etc., using salt as a raw material.

There is regular inward traffic of salt at Modi Nagar (Delhi Division). During the course of Audit inspection of this station (November 1977), it was noticed that the salt booked to various industries at Modinagar *e.g.* vanaspati, soap, spinning and weaving and nylon and polyester filament yarn manufacture (Modipon) was being charged at class 40 (40 X with effect from 1st February 1975) instead of at class 45, resulting in short realisation of freight charges to the extent of Rs. 34,560 for the period from April 1976 to July 1977. On this being pointed out, the Railway Administration stated (April 1978) that they had earlier decided on 19th November 1976 that the salt received after that date, by chemical industries like vanaspati, soap, gas and chemicals, paints and varnish, sugar mill and distillary units of Modi Group of Industries would be chargeable at class 45 applicable to salt for chemical industries. As regards salt received by the spinning and weaving mill, the Administration stated that the salt received by them was used only as a water softening agent for processing of cloth manufactured. As such, it was not intended for chemical industry and, therefore, not chargeable at class 45. The Administration further stated that salt booked to Modipon who manufacture nylon and polyester filament yarn, was also being declared as 'not intended for chemical industry' and was, therefore, not chargeable at class 45.

Audit, further, pointed out (June 1979) to the Railway Administration :

(i) that in the case of the units accepted as chemical industries in November 1976, higher freight charges should be recovered from 1st November 1973 itself, when the higher classification was introduced by the Ministry of Railways (Railway Board),

(ii) that salt received by the spinning and weaving mill was being used for chemical processing, and was, therefore, appropriately chargeable for a chemical industry, and

(iii) that numerous manufacturing units (1. Calico, Bombay 2. National Rayon Corporation, Bombay 3. Gwalior Rayon (Silk) & Co., Nagda 4. Standard Mills, Bombay and 5. Calico. Ahmedabad) which were comparable to Modi Spinning and Weaving Mill and Modipon, were already included in the list circulated by the Ministry of Railways (Railway Board) in October/November 1973, and on that basis salt received by these two factories at Modinagar should also be charged at the higher class.

A further review of the salt traffic booked to various units of Modi Industries for the period from November 1973 to March 1979 disclosed short realization of freight charges to the extent of Rs. 96,946.

The Railway Administration stated (November 1979) as under :

(i) In the case of units accepted by the Railway Administration as chemical industries in November 1976, it would not be appropriate to charge freight at the higher rate retrospectively from November 1973.

(ii) Freight charges were levied correctly as the bookings were based on the declarations given by the consignors to the effect that salt booked to Modi Spinning and Weaving Mill and Modipon was not intended for chemical industries.

(iii) The Deputy Superintendent (Salt), Government of India, Phalodi had certified that salt booked from that place to Modi Spinning and Weaving Mill was not intended for chemical industry. (However, no such certificate has been made available to Audit by the Administration).

(iv) On a reference made by the Railway Administration in June/July 1979 in regard to the freight rate to be charged in respect of salt consignments booked to Modi Spinning and Weaving Mill and Modipon, Ministry of Railways (Railway Board) replied in August 1979 that they had no objection to the freight being charged at the lower rate, if on the basis of the certificate issued by the Salt Authority, the Railway Administration was certain that salt booked to Modi Spinning and Weaving Mill was not intended for chemical industry. However, no directive was given in respect of salt consignments booked to Modipon.

The following points need consideration :

(i) Since the higher classification was in force from November 1973, the freight charges on consignments of salt booked to units found to be chemical industries by the Railway Administration in November 1976 were required to be recovered at the higher rate from November 1973 itself.

(ii) While finalising the list of chemical industries notified in 1973 as users of salt as raw material, the Ministry of Railways (Railway Board) had observed that the list would be updated periodically in consultation with the Ministry of Industrial Development. However, no additions have been made since November 1973. Even the industrial units of Modi Group found to be chemical industries by Northern Railway Administration in November 1976 have not been notified by the Ministry of Railways (Railway Board) so far (November 1979).

(iii) Since salt received by the Modi Spinning and Weaving Mill and Modipon was being used for chemical purposes, it should appropriately be charged as that intended for chemical industry. Consequently, an undue benefit has been allowed to a private concern. It may be mentioned that salt despatches consisting of 1936 quintals booked from a station on Western Railway to Modipon during May to June 1978 had been described as intended for chemical industry and charged accordingly, at the higher rate.

CHAPTER VII

LOST PROPERTY OFFICES

36.1 Consignments booked for transportation by rail but lying at the Railway stations beyond the prescribed period as unclaimed, undelivered and unconnected, or any lost or unclaimed property, other than the booked consignments, deposited with Station Masters are required to be sent to the Lost Property Offices of the Zonal Railways for custody and disposal either by delivery to the rightful owners, if the consignments are subsequently claimed or connected, or by periodical auction. A Lost Property Office is generally under the charge of a Superintendent (Senior Subordinate) who is assisted by a number of staff. In all matters affecting commercial and accounts procedures, a Lost Property Office is treated like a Railway station and is inspected by the officers and inspectors of the Commercial Department as well as by the Inspectors of Station Accounts.

36.2 There are 61 Lost Property Offices/Unclaimed Parcels and Goods Offices/Disposal Centres on Indian Railways, as indicated below :

Central	8
Eastern	10
Northern	4
North Eastern	5
Northeast Frontier	5
Southern	11
South Central	5
Sonth Eastern	8
Western	5
Total :	61

36.3 The working of three Lost Property Offices on Northern Railway, as reviewed by Audit for the years 1973-74 and 1974-75, was commented in the Report of Comptroller and Auditor General of India for the year 1975-76—Union Government (Railways). As a result, the Ministry of Railways (Railway Board) issued (March 1977) instructions to the General Managers of the Railways, reiterating the extant rules on the subject, and further enjoining that the working of the Lost Property Offices should be streamlined. However, a review of the working of these offices by Audit with reference to the records for the years 1977-78 and 1978-79 showed that the extant rules were still not being observed. The results of the Audit review are mentioned in the succeeding paragraphs.

I. *Inventories of goods transferred to/received in Lost Property Offices*

36.4 The rules provide that full particulars of consignments transferred to Lost Property Offices should be entered in the prescribed form, and inventory of the contents of each package (after opening) should be shown on the reverse thereof. Two copies of this form are required to be sent to Lost Property Office. The Lost Property Office should again take an inventory of the contents of all packages at the time of their receipt and compare their inventory with that taken by the station booking the consignment to the Lost Property Office. If the two lists do not tally, the matter should be reported to the Chief Commercial Superintendent of the Railway.

36.5 It was noticed during review in Audit that on Northern, North Eastern, Northeast Frontier, Southern, South Central, South Eastern and Western Railways, inventories were neither being taken by stations, while forwarding goods to Lost Property Offices, nor by Lost Property Offices, while receiving goods from the stations. The inventories were generally taken by the Lost Property Offices at the time of auctioning the goods. The failure to follow the instructions by the despatching station and by the Lost Property Office can facilitate serious malpractices.

36.6 On Northern Railway there was delay upto 5 years in some cases in taking inventories of the consignments in the Lost

Property Offices. Further, it was noticed by Audit that 21 consignments in the Lost Property Office at Delhi Kishanganj, 15 consignments in the Lost Property Office at Kanpur, 14 consignments in the Lost Property Office at Amritsar and 14 consignments in the Lost Property Office at Jodhpur when opened, were found to contain bricks, borada, torn gunny bags, stone, dry grass etc., while these had been described as consisting of 'cases', 'vegetable seeds', 'handloom cloth', 'engineering and electrical goods' etc.

36.7 On Western Railway while opening 11 packages (after a delay of 10 days) at the Lost Property Office, Jaipur it was found that these contained bricks, instead of brass wares as booked. Similarly, at Lost Property Office Bhavanagar Para, sand was found in 5 cases described as containing medicine powder and in one case only a stone was found in a parcel described as 'one case'.

36.8 On Southern Railway, it was noticed that in the case of 107 items of parcels opened (after a delay of 3 years at the time of auction in 1979) at Disposal Centre, Bangalore City, these were found to contain torn pieces of gunny bags, cut pieces of cloth instead of blankets. At Disposal Centre, Mysore, 57 cases described as containing plastic goods were found to contain salt. These had been lying without disposal since February 1974 *i.e.* for more than 5 years, and were auctioned in August 1979.

36.9 In Disposal Centre, Kishanganj on Northeast Frontier Railway, 7 packages described as containing cinema films, jarda etc., received in October 1977 and April 1978, when opened at the time of auction in January 1978 and August 1978, were found to contain bricks, stone and firewood.

36.10 The delay in taking inventories on North Eastern Railway ranged upto 178 days, 355 days and 227 days in the case of Lost Property Offices at Gorakhpur, Muzaffarpur and Bareilly City respectively.

36.11 In Lost Property Office, Cuttack on South Eastern Railway inventories of as many as 146 packages received during September 1978 to March 1979 were not taken till June 1979, resulting in delay of three to nine months.

36.12 As the stations transferring consignments to the Lost Property Offices did not take inventories of the contents of the packages, and the Lost Property Offices too delayed taking of inventories, it could not be determined whether the packages found to contain bricks, stones, sand and torn gunny bags etc., had been originally booked as such, or the contents of the packages had been subsequently replaced, and if so, at what stage this replacement had been done. The non-observance of the rules by the forwarding stations as well as by the Lost Property Offices rendered it impossible to identify the source of mischief.

The Ministry of Railways (Railway Board) stated (December 1979) that there have been difficulties in implementation of the existing instructions in regard to opening/closing of packages and taking inventory of the contents at wayside stations at the time of transferring consignments to Lost Property Offices due to non-availability of carpenters.

The Ministry of Railways (Railway Board) further stated (January 1980) that in consideration of these difficulties, the whole matter has been remitted (27th December 1979) to an expert Committee named 'Commercial Committee of the Zonal Railways' to examine and recommend whether the extant rules need to be amended, and if so, in what manner.

The Ministry of Railways (Railway Board) added that in certain cases relating to Western and Southern Railways the consignors had sent fake consignments or fraudulently altered the quantity booked in the railway receipts, and taken advances from the banks against the railway receipts. The investigations by the Police on the complaints filed by the banks on the malpractices indulged in by the consignors, resulted in delayed disposal of the consignments, as it was felt by the Railway Administrations that the goods might be required for production in Courts of Law. However, ultimately it became known that the subject consignments "did not figure in the criminal suits or Police complaints filed by the banks".

II. *Transfer of fragile goods, goods in bulk, dangerous goods and goods of insignificant value*

36.13 Although the extant rules enjoin that goods liable to breakage/damage in transit, goods of insignificant value or of no value, articles such as coal, lime stone etc., which owing to their nature cannot be transferred conveniently, and dangerous, inflammable and explosive goods should not be sent to the Lost Property Offices, it was noticed that such goods had been transferred in the following cases in disregard of the extant rules :

S. No.	Name of the Railway	Particulars of goods as in the Inward Register of the Lost Property Office and Rebooking Invoices	Year	No. of packages/ cases/ consignments
1	2	3	4	5
1.	Northern	(*i*) Empty glass phials, empty vaccum flasks, glass wares, old drums, old unserviceable tyres, sirkis, cotton waste, Multani Mitti, Yellow earth, Stone chips, slate pencils, damaged salt, cotton rags, broken empty baskets, broken empty glass bottles, moonj, brooms.	1977-78 1978-79	84 302
		(*ii*) Patakhas, Crackers, Fire Works and acids	1977-78 1978-79	3 35
2.	Northeast Frontier	Acid, Bangin powder, damaged salt, yellow powder, unserviceable bricks, damaged cement (clotted), dolomite powder, damaged wheat & rice, waste paper, Government forms, calendars, tamarind, shooks.	1977-78 1978-79	2576 3025

1	2	3	4	5
		betels, old warm coats, burnt coal, rotten vegetable, achar, unserviceable cycle, cinema publicity material, Ganga water, news paper.		
	3. Southern	Electrical goods, glass wares, empty bottles, straw, wooden shooks, empty drums, rice bran, jute waste, manure sweepings, paper bundle, old trays, empty baskets, old tyres, old clothes, used chappals, slate pencils, cinema publicity pamphlets, old magazines, tea seeds, metal wares rusted, beedi labels, greeting cards, old gunnies and waste films.	1977-78 1978-79	1514 842
	4. South Central	Urea, mill stone, rice bran, empty gunnies, white earth, sall seeds, empty oil drums, film boxes etc.	1977-78 1978-79	7058 9335
	5. South Eastern	Old news papers, stone chips, old tyres, old books, matting cloth, old crates, old grinding stones, old gramaphone records, silica stone, wheat husk and stone boulders.	1977-78 1978-79	659 215
	6. Western	Chip stone, earth, salt powder, mile stone, lime stone, bamboo chips, slate-pencils empty drums, empty wooden cases, rags, broom, pattal dona, torn papers, bricks, and dry grass.	1977-78 1978-79	1351 1063

36.14 The carriage of these goods to Lost Property Offices involves deployment of revenue earning wagons for unproductive purposes.

III. *Disposal of goods*

36.15 (i) The number of packages/cases/consignments received by the Lost Property Offices during 1977-78 and 1978-79 are given below :

Name of the Railway	Numbers received	
	1977-78	1978-79
Central	3,792 A	4,199 A
Northern	34,581	33,794
North Eastern	11,019	10,407
Northeast Frontier	4,082 B	5,976 B
Southern	6,079	8,193
South Central	14,960 C	18,543 C
South Eastern	13,287	16,705
Western	17,929	18,275
TOTAL	1,05,729	1,16,092

A figures relate to 2 out of 8 units.
B figures relate to 3 out of 5 units.
C figures relate to 3 out of 5 units.

(ii) The number of packages/cases/consignments disposed of by the various Lost Property Offices during 1977-78 and 1978-79 were as under :

Name of the Railway	Numbers disposed of	
	1977-78	1978-79
Central	3,002 A	4,337 A
Northern	38,881	30,193
North Eastern	12,808	10,995
Northeast Frontier	1,651 B	4,551 B
Southern	3,180	6,101
South Central	5,806 C	6,876 C
South Eastern	12,568 D	13,215 D
Western	19,879	19,649
TOTAL	97,775	95,917

A figures relate to 2 out of 8 units.
B figures relate to 3 out of 5 units.
C figures relate to 3 out of 5 units.
D figures relate to 7 out of 8 units.

(iii) The freight and wharfage charges due on consignments auctioned during 1977-78 and 1978-79 and the sale proceeds realised, are indicated below :

(In rupees)

Name of the Railway	Freight and other charges due		Sale proceeds	
	1977-78	1978-79	1977-78	1978-79
Central	19,26,823	14,12,230	6,65,328	8,61,928
Northern . . .	10,08,135	2,23,777	6,06,536	6,23,491
North Eastern . .	8,88,702	7,23,241	4,82,944	3,34,984
Northeast Frontier .	25,179 B	71,127 B	50,236 B	1,66,917 B
Southern . . .	1,64,761	3,75,585	1,40,529	1,52,792
South Central . .	5,60,230 C	6,59,330 C	3,13,995 C	5,06,734 C
South Eastern . .	10,06,959 D	13,39,661 D	4,94,268 D	4,84,754 D
Western . . .	10,54,446	10,34,013	6,86,235	6,90,988
TOTAL . . .	66,35,235	58,38,964	34,40,071	38,22,588

B figures relate to 3 out of 5 units.

C figures relate to 3 out of 5 units.

D figures relate to 7 out of 8 units.

The amount of freight and other charges including wharfage charges exceeded the sale proceeds by Rs. 31.95 lakhs during 1977-78 and by Rs. 20.16 lakhs during 1978-79. In addition, the Railways would have paid compensation to the rightful owners in respect of the goods auctioned in the Lost Property Offices.

36.16 The sale proceeds of the goods auctioned are often far less as compared to the Railway's liability for compensation of the goods thus sold. An illustrative case is given below :

> A consignment of 12 bundles of electrical steel sheets (imported) was booked on 7th November 1974 ex-Carnac Bridge (Western Railway) to Hardwar (Northern Railway) under Invoice No. 5/RR No. 518760 dated

7th November 1974. As the consignment did not reach the destination station, the consignee (a Public Sector Undertaking) lodged a complaint in March 1975, and preferred a claim for Rs. 1.58 lakhs in October 1975. The consignment reached Howrah (Eastern Railway) on 13th December 1974 and was unloaded there on 14th December 1974. It was treated as an unconnected consignment and sold by public auction on 2nd May 1975 for Rs. 25 thousand by Howrah Station (nominated disposal centre). The claim of the consignee was settled for Rs. 1.44 lakhs by Northern Railway in October 1977.

There may be other cases of this type. As such, there is need for investigation.

The Ministry of Railways (Railway Board) stated (January 1980) that wharfage charges are in the nature of penalty for non-removal of consignments within the prescribed period. Further, these are subject to waiver in part or in entirety at the discretion of the competent authority. In the circumstances, the sale proceeds should be compared with railway dues exclusive of wharfage charges. An assessment made by the Ministry in respect of Western and Central Railways showed that the sale proceeds exceeded the Railway dues exclusive of wharfage charges substantially during the years 1977-78 and 1978-79.

In this connection it may be pointed out that wharfage charges are waived only if the parties concerned bring forth extenuating circumstances warranting such waiver. In the cases under consideration the parties had been evading taking delivery of the goods with the result that the same had to be auctioned ultimately. In the meantime the goods had been lying at the stations and occupying the limited space available in the railway sheds. The extant rules provide that if the sale proceeds of an unclaimed consignment are not sufficient to cover freight and other charges inclusive of wharfage charges, the excess of the latter over the former should be formally written off.

IV. *Detention to wagons*

(a) *Northern Railway*

36.17 During the year 1978-79, 44 wagons received at Lost Property Office, Kanpur had been detained for 3522 hours (in the case of 29 wagons the extent of detention per wagon beyond free time of 5 hours ranged from 45 hours to 429 hours). Similarly, 4 wagons received at the Lost Property Office, Delhi-Kishanganj during 1978-79 had been detained for 217 hours. The detention was attributed to the following factors :

(i) Lack of enough space for handling the packages

(ii) Paucity of labour

(iii) Non-placement of wagons in the position of unloading

(iv) Non-availability of Railway Protection Force staff to witness the unloading

(v) Non-availability of cranes for unloading heavy packages

(b) *Western Railway*

36.18 For transferring the consignments from Jaipur goods shed to the Lost Property Office which is located in the same compound at a distance of just 150 feet, average detention worked out to 192 hours per wagon. At Lost Property Office, Bhavnagar Para, wagons were utilised to carry consignments from Bhavnagar Terminus (distance : 4 km) and Bhavnagar Para (distance : 300 feet), even though the number of consignments were at times (88 occasions) as few as 1 to 10, and total weight ranged between 8 kg to 10 quintals. This involved considerable under-utilisation of wagons.

The Ministry of Railways (Railway Board) stated (January 1980) that the Railway Administration had since issued instructions to the Divisional Railway Manager, Jaipur not to utilize wagons for transferring packages from the Goods Shed to the Lost Property Office. At Bhavnagar Para station too the packages are now being taken by hand barrows to the Lost Property Office.

(c) *South Eastern Railway*

36.19 During the years 1977-78 to 1979-80, 49 wagons received at Lost Property Office, Tatanagar and 7 wagons received at Lost Property Office, Shalimar had been detained for 2583 hours and 37272 hours respectively. (Four wagons after suffering detention for 13824 hours till 15th November 1979 had still not been released).

V. *Handling of valuable articles*

(a) *Northern Railway*

36.20 A review of the inventory of valuable articles (like gold and silver ornaments, watches, currency notes etc.) received at the Lost Property Office, Delhi-Kishanganj disclosed that out of 77 items, 4 items were over 4 years old, 12 items were over 3 years old, 9 items were over 2 years old and 19 items were over one year old. The oldest item pertained to the year 1974. Similarly, at the Lost Property Office, Kanpur, out of 25 items, 1 item was over 7 years old, 10 items were over 2 years old and 11 items were over 1 year old. The oldest item pertained to the year 1972.

(b) *Southern Railway*

36.21 A review of the inventory of valuable articles received at the Disposal Centre, Kumbakonam revealed that all the 14 items lying there were over one year old and the oldest item pertained to July 1977. In respect of gold articles received by the Headquarters Commercial branch, 14 out of 17 items received during the period 1976 to 1979 are yet to be disposed of. The oldest item pertained to September 1976.

(c) *Western Railway*

36.22 A review of the inventory of valuable articles lying at Lost Property Office, Churchgate revealed that 83 packages (containing 110 items) of 'yellow metal ornaments' received during 1973 to April 1979 had been lying undisposed of. The yearwise details of these packages are as under :

1973 . . .	5
1974 . . .	13
1975 . . .	8
1976 . . .	6
1977 . . .	12
1978 . . .	29
1979 (Upto April) . . .	10
	83

It was further noticed that these valuable articles were neither weighed by forwarding stations nor by the Lost Property Office, while receiving the same.

The Ministry of Railways (Railway Board) stated (January 1980) that the yellow metal articles were kept in safe custody until sufficient quantity was accumulated, as the Mint authorities to whom these articles were to be made over for valuation, do not accept such articles in small numbers.

VI. *Disposal of intoxicating goods*

36.23 The rules provide that intoxicating liquors, opium including its preparations, hemp drugs etc., the sale of which by unlicensed person is prohibited by law, when left unclaimed, should be made over to the Police or Excise authorities for disposal.

36.24 126 bags of 'poppy head husk' were found (June 1979) lying in Lost Property Office, Shalimar on South Eastern Railway since June 1978. These were not handed over to Excise Department. 149 bags of tobacco were received at the Lost Property Office, Delhi-Kishanganj on Northern Railway during the years 1976 to 1978. While 97 bags were sold by auction in March 1979, 52 bags are still lying. 57 packages of intoxicating material (tobacco country and poppy seeds) received at the Lost Property Office, Kanpur in 1974, 1977, 1978 and 1979 are still lying there. At the Lost Property Office, Jodhpur, 9 bags containing poppy head and 2 consignments of tobacco received during the years 1971 to 1979 are still lying there.

VII. *Fictitious documentation*

36.25 Three wooden cases booked under Railway Receipt No. 175067 dated 13th September 1977 were received at the Lost Property Office, Jodhpur (Northern Railway) on 1st October 1977 from Bikaner station. The consignment was originally booked from Ludhiana (Northern Railway) under Railway Receipt No. 172705 of October 1976. The Station Master, Ludhiana, when asked by Divisional Commercial Superintendent, Jodhpur to intimate the address of the sender and to send the forwarding note, replied (30th March 1978) that no such Railway Receipt was issued from Ludhiana station. The wooden cases were opened in the Lost Property Office, Jodhpur and these were found to contain machine cut iron sheet pieces of small sizes of 3 to 4 inches. Similarly, 3 wooden cases booked from Bikaner station under Railway Receipt No. 175069 dated 13th September 1977 were received at Lost Property Office, Jodhpur on 1st October 1977. These were originally booked from Ludhiana under Railway Receipt No. 172701 of September 1976. These cases also contained iron sheet pieces. On enquiry from the Station Master, Ludhiana, it was found that no such Railway Receipt was issued from Ludhiana station.

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It is not known how Bikaner station indicated (13th September 1977) Ludhiana as the originating station on the re-booking invoices.

VIII. *Congestion in Lost Property Offices*

(a) *Northern Railway*

36.26 3443 bags of urea received at the Lost Property Office, Kanpur during the years 1972 to 1979 are still lying undisposed of. The yearwise details are as under :

1972 . . .	3
1973 . . .	5
1974 . . .	219
1975 . . .	705
1976 . . .	433
1977 . . .	475
1978 . . .	651
1979 . . .	952
TOTAL .	3443

The Ministry of Railways (Railway Board) stated (December 1979) that out of 3443 bags of urea lying in the Lost Property Office at Kanpur over the years 1972 to 1979, 3061 bags have since been auctioned. The delay was on account of restriction on the auction of urea in Uttar Pradesh. The bags were transported to Punjab and auctioned there.

(b) *North Eastern Railway*

36.27 Unclaimed and unconnected goods in transit to Nepal are stored and disposed of by public auction at Raxaul Nepal

Siding Goods Shed. 4345 unclaimed and unconnected packages received during the years 1972 to 1979 are still awaiting disposal (June 1979). The yearwise details are as under :

1972	7
1973	3
1974	..
1975	5
1976	13
1977	14
1978	43
1979	.4260
TOTAL.	4345

The packages contained mostly foreign synthetic cloth, yarn and other 'sensitive goods. The Railway Administration has not yet obtained clearance from the Customs Authorities for their disposal by auction.

The Ministry of Railways (Railway Board) stated (December 1979) that 4345 packages of foreign synthetic cloth and other 'sensitive' goods were lying at Raxaul Nepal Siding Goods Shed over the years 1972 to 1979 as the Customs have not given permission for sale without clearance from the Ministry of Finance. The matter has been under correspondence between the Ministry of Railways and the Ministry of Finance.

36.28 The position of outstanding items (March 1979) at other Lost Property Offices was as under :

Name of the Lost Property Office	Number of items
1. Gorakhpur	1064
2. Varanasi City	403
3. Muzaffarpur	422
4. Bareilly City	179

The oldest items pertained to the year 1965-66 for Gorakhpur, 1976-77 for Muzaffarpur and 1977-78 for Bareilly City Lost Property Offices.

(c) *Western Railway*

36.29 The position of outstanding items (March 1979) in various Lost Property Offices was as follows :

Name of the Lost Property Office	No. of packages/ Consignments
Parcel Depot Grant Road . . .	2403
Carnac Bridge	552
Jaipur	3323
Bhavnagar Para	1038
Churchgate	505

The oldest items pertained to the year 1966-67 for Lost Property Office, Churchgate, 1967-68 for Lost Property Office, Parcel Depot Grant Road, 1970-71 for Lost Property Office, Carnac Bridge and 1973-74 for Lost Property Offices, Bhavnagar Para and Jaipur.

36.30 SUMMARY :

(i) The non-observance of the rules regarding inventories to be taken by the forwarding stations and the Lost Property Offices made it impossible to verify whether the packages found to contain bricks, stones, sand etc., had been originally booked as such, or the contents of the packages had been subsequently replaced, and if so, at what stage this replacement had been done.

(ii) Transfer of fragile goods, goods of insignificant value, loose goods which owing to their nature cannot be transferred conveniently, dangerous, inflammable and explosive goods to the Lost Property Offices in disregard of the rules, resulted in unnecessary deployment of revenue earning vehicles for the carriage of such goods.

(iii) The total sale proceeds collected by the Lost Property Offices fell short of the freight and other charges due to the Railways. In addition, the Railways incurred liability for payment of compensation in respect of the booked consignments sold out in the Lost Property Offices.

(iv) The wagons carrying goods to Lost Property Offices suffered heavy detentions. On South Eastern Railway 7 wagons were detained for 37272 hours during September 1977 to November 1979.

(v) Valuable articles like gold and silver ornaments, watches, currency notes etc., have been lying in the Lost Property Offices for long periods dating as far back as 1972/1973 in some cases.

(vi) Goods like poppy seed husk and tabacco country etc., requiring to be handed over to Excise Department, have been lying in the Lost Property Offices for long periods dating as far back as 1971 in some cases.

(vii) Fictitious documentation had been done in the case of packages found to be containing waste material.

(viii) A number of consignments have been lying in the Lost Property Offices for years dating back to 1965-66 in some cases.

The Ministry of Railways (Railway Board) stated (January 1980) as under :

The number of packages/consignments lying undisposed of at various Lost Property Offices, as have been detected by Audit, forms only a minor part of the total number of packages/ consignments dealt with in the Lost Property Offices. The bidders participating in the public auctions held in the Lost Property Offices, more often than not, form rings and thereby manage to keep the bid at a fairly low level. This practice on the part of the bidders not only results in realisation of low sale proceeds, but, on many occasions, compels the Railways to withdraw the articles from the auction when the highest price quoted, falls short of the reserve price. The articles so withdrawn are put on subsequent auctions leading to further delay in their disposal. In order to obviate the problems created by the formation of rings, it has been proposed to amend the relevant section of the Indian Railways Act so as to enable the Railways to dispose of the unclaimed/undelivered packages/consignments through modes other than public auction, if it is so needed. This has been incorporated in the draft bill of the revised Indian Railways Act.

CHAPTER VIII

OTHER TOPICS OF INTEREST

37. **Outstanding dues against defaulting contractors**

The contracts for the supply of stores provide for purchases being made at the risk and cost of a contractor in the event of his failure to comply with the terms of the contract during the stipulated period. When, under such a provision in the contract, an article is purchased at a rate higher than the one shown in the contract, the extra expenditure on this account is debited to a suspense head "Miscellaneous Advances", and is recoverable from the contractor who failed to supply the article at the rate contracted for. This head is cleared as and when the recovery is effected from the defaulting contractor. The balance under this head represents amounts due from the defaulting contractors, but not recovered and not written off.

A review conducted (October 1978) by Audit on the Zonal Railways and the Production Units showed that an amount of Rs. 2.71 crores was lying outstanding on this account as on 31st March 1978, and some of the dues dated back as early as 1965-66, as indicated below :

(Rs. in lakhs)

Year	Amount
Upto 1965-66	9.87
1966-67 to 1972-73	90.59
1973-74	27.37
1974-75	30.27
1975-76	44.31
1976-77	39.65
1977-78	29.38
TOTAL	271.44

The stores are also procured by the Railways through the central agency of the Director General Supplies and Disposals (DGS&D). The position of outstandings against the defaulting contractors on account of extra expenditure incurred on risk purchases in respect of the contracts entered into by the DGS&D on behalf of the Railways could not be assessed, as no machinery exists on the Railways to watch realisation of the amounts pending against risk purchases made by the DGS&D on behalf of the Railways or made by the Railways themselves in emergent cases due to failure of DGS&D contracts. There is no provision in Railway books to account for the extra expenditure on risk purchases in respect of DGS&D contracts, as in the case of contracts entered into by the Railways themselves. Since the extra expenditure incurred on such risk purchases also has to be borne by the Railways in the event of non-recovery from the defaulting contractors, it is incumbent on the Railways to assess the total amount on this account and pursue its recovery through the DGS&D.

The matter was taken up (April 1974) with the Ministry of Railways (Railway Board) who, however, held (October 1976) that proper system existed in the DGS&D organisation to watch the recoveries pending against risk purchases by the DGS&D on behalf of Railways and that the creation of a parallel machinery on Railways to watch such recoveries was not considered necessary.

It was pointed out (November 1976) to the Ministry of Railways (Railway Board) that the extra expenditure incurred on risk purchases represented outstanding dues against the defaulting contractors and there should be a system either in the Railways or in the DGS&D to keep a watch over the recovery of the expenditure incurred on risk purchase.

The Ministry of Railways (Railway Board) stated (December 1979) as under :

(1) Considering the quantum of total purchases made by the Railways, the total risk purchase amount represents a very small percentage.

(2) Since a proper system exists in DGS&D to watch the recoveries against risk purchases made by the DGS&D on behalf of the Railways, creation of a parallel machinery on the Railways has not been considered necessary.

The following points deserve consideration :

(1) The total outstanding dues as on 31st March 1978 stood at Rs. 2.71 crores, and dated back to the years 1965-66 onwards. Both the quantum and the duration of the outstandings call for a concerted effort for clearance.

(2) On the basis of the system existing in DGS&D's organisation, the Railways cannot at any point of time know the magnitude of the amounts due to them on account of risk purchases made in respect of contracts entered into by DGS&D on behalf of the Railways.

38. **Northern Railway—Heavy detention to wagons** .

Demurrage charges are levied by the Railway Administration for detention of wagons after the expiry of free time allowed for loading or unloading. These charges are levied because wagons so detained remain idle and cannot be utilised elsewhere, resulting in loss of earnings to the Railway.

There is regular traffic of coal and furnace oil to Badarpur Thermal Power Plant siding at Tughlakabad (Delhi Division). The Railway wagons received at the siding suffered heavy detention since May 1973 due to reasons as under :

(i) Failure of wagon tippler provided in the siding for releasing the rolling stock.

(ii) Congestion caused due to heavy placement of wagons.

(iii) Inadequate handling and unloading facilities in the siding.

(iv) Receipt of coal in covered wagons in some cases requiring manual unloading for which the power house siding was not equipped, being designed for tippler unloading.

(v) Receipt of diverted coal wagons containing lump coal instead of slack coal, resulting in hindrance to operations, as this power house was designed for slack coal only.

(vi) Supply of coal in wagons with defective couplings and defective brakes.

(vii) Yard derailments within the siding impeding the movement of wagons.

(viii) Defective valves in oil tank wagons.

An assessment made by Audit revealed that as a result of heavy detention to the rolling stock 27,87,770 wagon hours were lost during the period from May 1973 to January 1979. The total demurrage charges as worked out by Railway Administration for this period amounted to Rs. 3.62 crores.

The yearwise break-up of the wagon hours lost and the demurrage charges accrued was as under :

(Rs. in thousands)

Year	Wagon hours lost	Demurrage charges accrued
1973-74 (from May 1973) . . .	2,713	24
1974-75	6,54,013	80,37
1975-76	9,45,846	1,20,12
1976-77	2,44,127	34,39
1977-78	4,36,056	62,00
1978-79 (upto January 1979) . . .	5,05,015	64,63
TOTAL . .	27,87,770	3,61,75

The Railway Administration waived (May 1973 to January 1979) demurrage charges amounting to Rs. 2.33 crores, and simultaneously pointed out to the Thermal Power Plant Authorities that the Railways had almost gone out of the way to waive the maximum amount of demurrage charges. The payments received from the Plant Authorities during this period amounted to Rs. 13 lakhs only. The balance outstanding dues worked out to Rs. 1.16 crores.

The yearwise break-up of the outstandings was as under :

(Rs. in thousands)

Year	Amount outstanding
1973-74 . .	24
1974-75 . .	1,72
1975-76 . .	4,20
1976-77 . .	15,42
1977-78 . .	29,90
1978-79 . . (Upto January 1979)	64,63
TOTAL	1,16,11

The Railway Administration stated (July and December 1979) that they had been very much alive to the gravity of the problem, and to ensure better turn round of wagons, meetings had been held with Thermal Power Plant Authorities at various levels. As a result, Thermal Power Plant Authorities provided the following additional facilities in April 1978 to cut down the detention :

(i) 2 extra lines were constructed in the siding.

(ii) One more tippler was installed in the siding for releasing coal wagons.

(iii) The number of sumps for decanting tank wagons containing furnace oil was increased from 6 to 50 and the storage capacity of furnace oil was increased substantially.

The Plant Authorities made a payment of Rs. 4.03 lakhs in August 1979 against dues of Rs. 6.16 lakhs recoverable from them upto March 1976. The dues for the period upto January 1979 outstanding (November 1979) are Rs. 1.12 crores.

The following points need consideration in this case :

(1) Although the detention to wagons has been persisting for the last 6 years and certain facilities to cut down the detention were also provided in April 1978, there has not been any improvement in the position of detentions.

(2) Although demurrage charges amounting to Rs. 2.33 crores were waived by the Administration, the balance amount of Rs. 1.12 crores has not yet been paid by the Thermal Power Plant Authorities (December 1979).

39. Central Railway—Unnecessary construction of a railway station

In paragraph 34 of the Report of Comptroller and Auditor General of India for the year 1969-70—Central Government (Railways), the premature construction of Jasai Chirle station on Panvel-Uran section at a cost of Rs. 3.35 lakhs, resulting in non-utilisation of station buildings, equipment and quarters, was commented upon. It was pointed out that though the section had been opened for goods traffic in January 1966, this station was not opened. The Railway Administration explained (October 1970) that it was considered desirable to have a station between Panvel and Uran which were situated 28 km apart. Jasai Chirle was considered the most suitable site for the station, being 17 km from Panvel and 11 km from Uran, and the location of the villages alongside the line. The station was expected to offer passenger, parcel and goods traffic.

However, the station could not be opened for want of an approach road which was expected to be provided by the local authorities by March 1971.

The construction of the approach road to this station was subsequently completed by the State Government in September 1976. However, the station has not still (November 1979) been opened by the Railway Administration. Consequently, assets (Rs. 3.35 lakhs) consisting of station buildings (Rs. 1.15 lakhs), staff quarters (Rs. 1.05 lakhs) machinery and furniture (Rs. 0.13 lakh) and passenger and goods loops (Rs. 1.02 lakhs) had been lying unutilised.

The Railway Administration also incurred an expenditure of Rs. 68,728 towards wages of watchmen engaged to guard the assets during the period from May 1965 to March 1979. Further, loss of rent on account of non-occupation of the staff quarters (19 units of type I and two units of type II) during this period is assessed at Rs. 47,873. Besides, dividend of Rs. 2.41 lakhs on the capital investment had been paid to General Revenues during the years 1967-68 to 1978-79, while the assets created therefrom had not been put to any productive use.

The Railway Administration stated (January, September and October 1979) as under :

(i) These assets could not be left unguarded as the same would be required to be put to use when the importance of this section increases due to its overall development, which is expected to come up in this region in not too distant a future.

(ii) The station would be opened after the section has been opened for passenger traffic as well (the section was originally targeted to be opened for passenger traffic on 31st March 1967).

(iii) The proposal for opening the section for passenger traffic had been examined in the past from time to time but the same was not found financially viable.

(iv) The goods traffic anticipated to be booked from Jasai Chirle station was being moved from Uran station. It was, therefore, not considered desirable to incur additional expenditure on commercial staff by opening Jasai Chirle station for goods traffic.

(v) The station machinery, furniture and loops have since been removed to other stations.

In this case the following points require consideration :

(1) The Railway Administration had stated in October 1970 that the station, Jasai Chirle, could not be opened to traffic for want of an approach road which was expected to be provided by the local authorities by March 1971. The approach road was completed in September 1976, but even thereafter the station has not been opened to traffic.

(2) The section, Panvel-Uran, on which the station, Jasai Chirle, is situated, was opened to goods traffic in January 1966. Considering that the section had been working without this station for over 13 years, there was no justification for constructing this station at a cost of Rs. 3.35 lakhs and the expenditure was avoidable.

(3) The Railway Administration have stated that the station, Jasai Chirle, would be opened only after the section has been opened for passenger traffic for which the section is not yet financially viable. However, no such consideration of financial viability had weighed with the Railway Administration earlier, when the section was opened for goods traffic. In fact the entire Diva-Panvel Uran railway line was at that time held to be unremunerative on

the basis of financial prospects for both goods and passenger traffic, and the construction of the line was undertaken with a view to develop the area.

40. Recoveries at the instance of Audit

During the year 1978-79, Rs. 102.59 lakhs were recovered or noted for recovery at the instance of Audit. As a result of subsequent review made by the Railways, further amount of Rs. 10.22 lakhs more was noted for recovery.

Y. Krishan

NEW DELHI
28th February 1980
Dated the ——
1901
9 Phalguna

(Y. KRISHAN)

Deputy Comptroller and Auditor General of India &
Additional Deputy Comptroller and Auditor General of India (Railways)

Countersigned

Prakash

(GIAN PRAKASH)

NEW DELHI
28th February 1980
Dated the ——
1901
9 Phalguna

Comptroller and Auditor General of India.

Annexure (cf. para 13.48)

Statement showing calculation of extra payment to the firm by way of cost of sheet piles

(Negotiated rate Rs. per MT)

	Upto 10 metres depth	From 10 to 15 metres depth
Item of operation		
(1) Driving of sheet piles (Ist use)	1400	1500
Less depreciation (10%) for sheet piles (Cost : Rs. 2200 per MT) to be borne by the firm. .	220	220
Rate for first driving after allowing for depreciation	1180	1280(A)
(2) Driving of sheet piles (second use) . . .	600	700(B)
(3) Cost of sheet piles provided in first driving operation [difference between (A) and (B)] . .	580	580
(4) Extra payment to the firm by way of cost of sheet piles in first driving of 1285 MT (@ Rs. 580 per MT —item 3)	Rs. 7,45,300 or Rs. 7.45 lakhs	