AUDIT REPORT
ON
THE ACCOUNTS OF
PAKISTAN RAILWAYS
AUDIT YEAR 2012–13

AUDITOR - GENERAL OF PAKISTAN

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ABBREVIATIONS & ACRONYMS

AEN	Assistant Executive Engineer
AGM	Additional General Manager
C&W	Carriage & Wagon
CCP	Chief Controller of Purchase
CCS	Chief Controller of Stores
CDL Workshop	Central Diesel Locomotive Workshop
Cft	Cubic Feet
CIA	Chief Internal Auditor
CMT	Cubic Meters
CPPO	Chief Project and Planning Officer
CSF	Concrete Sleepers Factory
CSR	Composite Schedule of Rates
DAC	Departmental Accounts Committee
DAEE	Divisional Assistant Electrical Engineer
DAO	Divisional Accounts Officer
DCOS	District Controller of Stores
DCP(I)	District Controller of Purchases (Inspections)
DE Loco	Diesel Electric Locomotive
DG set	Diesel Generating set
DGAR	Director General Audit (Railways)
DGM	Deputy General Manager
DME	Divisional Mechanical Engineer
DS	Divisional Superintendent
DSKP	Depot Store Keeper
FA&CAO	Financial Advisor & Chief Accounts Officer
FIA	Federal Investigation Agency
FST	Federal Services Tribunal
FY	Financial Year
GM (M&S)	General Manager (Manufacturing & Services)
GPF	General Provident Fund
GST	General Sales Tax
HSD	High Speed Diesel
HTXR	Head Train Examiner
IBU	Infrastructure Business Unit
IFRS	International Financial Reporting Standards
IIMCT	Islamic International Medical College Trust

IoW	Inspector of Works
JBIC	Japan Bank of International Corporation
KCR	Karachi Circular Railway
KUTC	Karachi Urban Transport Corporation
LC	Letter of Credit
LD	Liquidated Damages
Loco	Locomotive
LPR	Last Purchase Rate
LPS	Late Payment Surcharge
MD	Managing Director
MFDAC	Memorandum for Departmental Accounts Committee
MGPR	Moghalpura
MoR	Ministry of Railways
NAM	New Accounting Model
NR	Nominated Repairs
OD	Over Draft
P&L	Property & Land
PAC	Public Accounts Committee
PC-I	Planning Commission Proforma-I
PD	Project Director
PLF	Pakistan Locomotive Factory
PNSC	Pakistan National Shipping Corporations
PO	Principal Officer
POH	Periodical Overhauling
PPRA	Public Procurement Regularity Authority
PPRs	Public Procurement Rules
PR	Pakistan Railways
PRACS	Pakistan Railway Advisory and Consultancy Services Limited
PRP	Pakistan Railway Police
PSDP	Public Sector Development Program
PWI	Permanent Way Inspector
Qty	Quantity
RAILCOP	Railway Constructions Pakistan Limited
RCC	Re-enforcement Concrete Cement
REDAMCO	Railway Estate Development and Marketing Company

SBP	State Bank of Pakistan
Sft	Square feet
SOP	Standard Operating Procedure
TC	Transfer Certificate
TLA	Temporary Labour Application
TP	Ticket Printing
TR	Track Rehabilitation
TSD	Track Supply Depot
TSO	Track Supply Officer
WM	Works Manager

Preface

Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan 1973, read with Sections 8 and 12 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 require the Auditor-General of Pakistan to conduct audit of receipts and expenditure of Pakistan Railways and its subsidiaries.

The Report is based on audit of the accounts of Pakistan Railways for the financial year 2011-12. Further, this report also includes observations pertaining to previous years which came to notice during audit. The Directorate General Audit (Railways), Lahore conducted audit during the year 2012-13 on test check basis with a view to reporting significant findings to the relevant stakeholders. The main body of the Audit Report includes only the systemic issues and audit findings carrying value of Rs 1 million or more. Relatively less significant issues are listed in Annexure-1 of the Audit Report. The audit observations listed in the Annexure-1 shall be pursued with the Principle Accounting Officer at the DAC level and in all cases where the PAO does not initiate appropriate action, the audit observations will be brought to the notice of Public Accounts Committee through the next year's Audit Report.

Audit findings indicate need for adherence to the regulatory framework besides instituting and strengthening internal controls to avoid recurrence of similar violations and irregularities.

Most of the observations included in this Report have been finalized in the light of discussions in the DAC meetings.

The Audit Report is submitted to the President of Pakistan in pursuance of Article 171 of the Constitution of the Islamic Republic of Pakistan 1973, for causing it to be laid before both houses of Majlis-e-Shoora [Parliament].

-sd-
(Muhammad Akhtar Buland Rana)
Dated: 05 MAR 2013 **Auditor-General of Pakistan**

EXECUTIVE SUMMARY

The Director General Audit (Railways) has the mandate to conduct audit of receipts and expenditure of Pakistan Railways (PR) and its subsidiaries, viz. Pakistan Railway Advisory & Consultancy Services (PRACS) and Railway Constructions Pakistan Limited (RAILCOP). The audit of receipts and expenditure was carried out on test check basis in accordance with audit methodology envisaged in Financial Audit Manual. The audit was carried out with human resource of 171 officers and staff utilizing 42,579 mandays, with annual budget amounting to Rs 103.68 million. This office is mandated to conduct regularity audit (financial & compliance with authority audit). Four DAC meetings were held to discuss the audit observations for the finalization of this Report.

PR is a state managed commercial organization with a mission "to provide a competitive, safe, reliable, market oriented, efficient and environment-friendly mode of transport". It comprises three functional units:

i). Operations,
ii). Manufacturing & Services, and
iii). Development.

Each unit is headed by a General Manager. Major portion of earnings of PR comes from passenger and freight traffic. Other sources of earnings include leasing of surplus Railways land for commercial and agricultural purposes.

a. Scope of Audit

Out of total expenditure and revenue of Pakistan Railways (including its subsidiary, PRACS and RAILCOP) for the financial year 2011-12 auditable expenditure and revenue under the jurisdiction of DGAR was Rs 53,394.47 million and Rs 17,321.73 million respectively covering one PAO comprising 306 formations. Of this, DGAR planned audit of an expenditure and revenue of Rs 24,673.22 million and Rs 3,571.99 million respectively in the first phase (including audit

of PRACS and RAILCOP) which, in terms of percentage, is 46% of auditable expenditure and 21% of revenue.

b. Recoveries at the instance of Audit

Recovery of Rs 6,823.37 million was pointed out, out of which recovery of Rs 108.21 million was effected during the year 2012-13 at the time of compilation of report. This was not in the notice of the executive before audit.

c. Audit Methodology

During the audit year 2012-13 audit strategy was based on the assessment of materiality, audit risk and control environment. Audit procedures and process were designed after thorough understanding of organization's objectives and performance targets. Computer Assisted Audit Techniques were also used for processing the computerized data.

d. Comment on Internal Control and Internal Audit Department

Internal control system refers to the policies and procedures adopted by the entity to assist in achieving, as far as practicable, the financial management and accountability objectives of the Government. The Principal Accounting Officer in conjunction with the Internal Audit organization is responsible for ensuring that a proper system of internal controls exists within the entity.

There is an elaborate Internal Audit organization headed by a BPS-20 officer working directly under the Secretary, Ministry of Railways. Internal Audit produces an annual report embodying audit observations issued to the offices audited by it. Statutory Audit found that response of the management to the Internal Audit was poor. The follow-up of internal audit reports by the organization was also found inadequate.

e. Key audit findings of the report

i. Part of coaching and goods stock valuing Rs 72.48 million were found missing.[1]

ii. Six cases of fraud / misappropriation valuing Rs 16.10 million were identified during audit.[2]

iii. Loss due to non-recovery of Rs 101.30 million from the contractor of Business Train.[3]

iv. Rent and penalty of Rs 82.71 million was not recovered from Lessee of CSF Kotri.[4]

v. Material valuing of Rs 1,205.24 million was procured in violation of PPR-2004.[5]

vi. Irregular expenditure of Rs 77.85 million on engagement of TLA staff, utilization of staff in excess of sanctioned strength.[6]

vii. Inordinate delay in repair of locomotives caused loss of potential earnings of Rs 12,498.40 million.[7]

viii. Loss of potential earnings of Rs 3,079.85 million due to holding up of Chinese locos.[8]

ix. Wasteful expenditure of Rs 522.19 million due to failure of traction motors.[9]

x. Blockage of capital of Rs 517.75 million due to non-disposal of scrap was identified. [10]

xi. Two instances of wasteful expenditure of Rs 862.53 million due to non-achievement of targets were pointed out.[11]

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[1] Para 2.4.1
[2] Para 2.4.2, 2.4.3, 2.4.4, 2.4.5, 2.4.6, 2.4.7
[3] Para 2.4.8
[4] Para 2.4.9
[5] Para 2.4.11
[6] Para 2.4.13, 2.4.16, 2.4.18
[7] Para 2.4.25
[8] Para 2.4.27
[9] Para 2.4.28
[10] Para 2.4.29
[11] Para 2.4.32, 2.4.33

xii. In two instances advance payment of Rs 109.56 million was not adjusted. [12]

xiii. Non-auction of vending stalls and luggage van contract resulting in loss of potential earnings of Rs 84.37 million.[13]

xiv. Railway dues and rental charges of Rs 1,489.49 million were not recovered.[14]

xv. Railway land valuing Rs 4,794.09 million was encroached.[15]

xvi. Delay in completion of a work resulting in loss of Rs 34.80 million.[16]

xvii. Inaccurate fixation of bonus rate resulting in extra payment of Rs 28.73 million.[17]

Paras involving Rs 1,988.76 million regarding procedural violations including internal control weaknesses and irregularities not considered worth reporting to the PAC were included in MFDAC (Annexure-1).

Recommendations

i. A long term policy be developed for procurement and replacement of locomotives to improve earnings and financial health of PR.

ii. Works Managers of Loco Shops Moghalpura and Central Diesel Locomotive Workshop Rawalpindi are required to turnout locomotives in least possible time so that efficiency in train operations could be improved.

iii. The Chief Engineer Open Line and Chief Controller of Stores Lahore are required to take action for disposal of scrap stacked at different places to avoid its pilferage and to improve liquidity position of PR.

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[12] Para 2.4.36, 2.4.49
[13] Para 2.4.37, 2.4.39
[14] Para 2.4.40, 2.4.43, 2.4.47, 2.4.48, 2.4.51
[15] Para 2.4.54
[16] Para 2.4.57
[17] Para 2.4.59

iv. Each case of theft, pilferage and shortage be investigated at an appropriate level for fixing responsibility and taking remedial measures to avoid recurrence.

v. It is stressed that the appointments be made on merit after fulfilling all procedural requirements.

vi. The Chief Controller of Purchase, Lahore and Director (Procurement), Islamabad are required to ensure compliance of PPRs-2004 for economical procurement of quality material and spare parts to avoid deterioration, unnecessary pile up and pilferage of the material.

vii. The Financial Advisor & Chief Accounts Officer be directed to improve financial management so that cash of releases could be arranged timely to avoid loss on account of demurrage, escalation charges etc. Measures be adopted to avoid excessive expenditure over budget allotment.

viii. Director Property & Land is required to evolve an effective recovery policy so that Railway receipt such as lease/ rental charges of Railway land/shops could be collected timely to improve the financial position of PR. Efforts be diverted towards profitable utilization of surplus Railway land.

ix. The Inspector General Railway Police is required to play his role to remove massive encroachment of Railway Land.

x. The Project Directors must ensure timely completion of Projects so that the envisaged benefits are achieved and time and cost overrun is avoided.

SUMMARY TABLES

Table 1 Audit Work Statistics

(Rs in million)

Sr. No.	Description	No.	Expenditure/Revenue
1	Total Entities (Ministries/PAOs) in Audit Jurisdiction	01	*70,716.20
2	Total formations in Audit Jurisdiction	306	70,716.20
3	Total Entities (Ministries/PAOs) Audited	01	70,716.20
4	Total formations audited	86	28,245.21
5	Audit & Inspection Reports	86	**42,757.31
6	Performance Audit Report	-	-

* It includes expenditure and revenue of PR and its subsidiaries i.e. RAILCOP and PRACS.

** This also includes observations relating to previous years besides observations on items having no budgetary outlay such as land, assets, stores, scrap etc.

Table 2 Audit Observations Regarding Financial Management

(Rs in million)

Sr. No.	Description	Amount Placed Under Audit Observation
1	Unsound Asset Management	10,213.46
2	Weak Financial Management	16,894.30
3	Weak Internal Controls Relating to Financial Management	609.72
4	Others	2,546.09
Total		30,263.57

Table 3 Outcome Statistics

(Rs in million)

Sr. No	Description	Expenditure on Acquiring Physical Assets (Procurement)	Civil Works	Receipts	Others	Total current year	Total last year
1	Outlays Audited	10,351.76	4,988.41	* 3,571.99	9,333.05	28,245.21	43,745.62
2	Amount Placed Under Audit Observations/ Irregularities of Audit	832.68	3,476.67	2,983.32	35,464.64	** 42,757.31	73,648.06
3	Recoveries Pointed Out at the instance of Audit	350.33	1,071.37	791.34	4,610.33	6,823.37	2,889.54
4	Recoveries Accepted/ Established at the instance of Audit	49.04	1.06	134.44	182.77	367.31	106.21
5	Recoveries Realized at the instance of Audit	-	-	99.69	8.52	108.21	125.78

* This represents non-revenue receipts of Pakistan Railways and revenue of RAILCOP and PRACS

****** This also includes observations relating to previous years besides observations on items having no budgetary outlay such as land, assets, stores, scrap etc.

Table 4 Irregularities Pointed Out

(Rs in million)

Sr. No.	Description	Amount placed under Audit observation
1	Violation of Rules and regulations and violation of principle of propriety and probity in public operations.	20,420.07
2	Reported cases of fraud, embezzlement, thefts and misuse of public resource.	89.89
3	Accounting Errors (accounting policy departure from NAM, misclassification, over or understatement of account balances) that are significant but are not material enough to result in the qualification of audit opinions on the financial statements.	33.38
4	If possible quantify weaknesses of internal control systems.	801.50
5	Recoveries and overpayments, representing cases of established overpayment or misappropriations of public monies.	367.31
6	Non-production of record	47.47
7	Others, including cases of accidents, negligence etc.	20,997.69

Table 5 Cost-Benefit

(Rs in million)

Sr. No.	Description	Amount
1	Outlay audited	28,245.21
2	Expenditure on audit	*52.53
3	Recoveries realized at the instance of audit	**108.21
4	Cost-Benefit Ratio	1:2.06

* Expenditure from July to Dec, 2012

** The amount also includes recovery relating to previous Audit Reports which was verified during July to Dec, 2012.

Chapter-1 Public Financial Management Issues

Financial Advisor & Chief Accounts Officer, Pakistan Railways

1.1 Audit Paras

1.1.1 Un-authorized utilization of public money – Rs 5,014.11 million

Risk Categorization: High

Observation:

Para 2 (viii) of General Financial Rules provides that all revenues received by the Federal Government, all loans raised by the Government, and all moneys received by it in repayment of any loan, shall form part of a consolidated fund, to be known as the Federal Consolidated Fund. All other moneys (a) received by or on behalf of the Federal Government; or (b) received by or deposited with the Supreme Court or any other court shall be credited to the Public Account of the Federation.

Pakistan Railway was deducting General Provident Fund on regular basis from the salaries of its employees. This liability at year end was shown as Rs 5014.11 million. During Certification audit for the year 2011-12, it was observed that the said amount was not kept separate in any Public account. The amount had been utilized for the last many years due to financial crunch being faced by Pakistan Railways and in actual, nothing was available under this head. Due to that, PR was unable to pay off its liability of GPF as and when demanded by the employees.

It was further observed that overdraft would had been higher than its current value if this amount was kept separate from Consolidated fund. Resultantly, overdraft remained understated with the said amount.

Implications:

It implied that public money was being used by the Pakistan Railways for operational purposes, which was clear violation of the

rule specified for such accounts.

Management response:

This is a policy matter and is under consideration at appropriate level. Separate account will be opened on approval from the competent authority. The management reply was not acceptable as it was a very serious irregularity to utilize the public money.

Audit Comments:

The existing practice be discontinued immediately and separate account be opened to save this money. This amount may be invested in any interest bearing term deposit account keeping in view its security and profitability. This would facilitate PR in discharging its future liabilities amicably. The needful should be done without further loss of time, as the existing practice was not in line with General Financial Rules.

1.1.2 Non-adjustment of Miscellaneous advance amounting to Rs 2,640.20 million due to less recovery/adjustment of advances for local purchase, utility charges etc.

Risk Categorization: High

Observations:

Section 16.4.2.1 of APPM stipulates that the Suspense Account should be cleared on monthly basis, and finally in commercial accounts.

During certification audit for the year 2011-12, it was noted that an amount of Rs 2,640.20 million was lying under Suspense Account as PR paid electricity, sui gas and telephone charges to its providers on the basis of bulk supply billing and subsequently recovered it partially from employees on the basis of units consumed. Normally the amount paid to utility provider was much higher than actually recovered from employees as PR management had not increased the recovery rate/revised its billing amount. Resultantly, PR was suffering loss for less recovery on account of utilities. The detail is as under:

(Rs in million)

Sr. No.	Suspense Head	Balance outstanding upto 30-06-2012	
	Miscellaneous Advance (Revenue)	Cr	Dr
1.	Advance for Local Purchase	38.29	58.35
2.	Outstanding Electric Charges	47.07	31.49

3.	Outstanding Sui Gas Charges	35.43	1,471.10
4.	Outstanding Telephone Charges	0.02	0.03
5.	Other Items	55.76	1,255.80
	Total	176.57	2,816.77
	Net outstanding balance under Suspense	**2,640.20**	

As the practice for less recovery was prevailing, the amount lying under suspense head was increasing day by day since 1986-87. Furthermore, as the most of amount was recoverable from management, therefore, this issue had never been highlighted and corrected. One of the examples was short collection of sui gas charges from residential consumers and unjustified charging of gas bills to service buildings amounting to Rs 72.33 million for 2011-12.

Implications:

i) Overstatement of Miscellaneous Advances resulting in understatement of expenditure, thus showing favourable picture of PR accounts.
ii) Potential loss to PR due to less recovery of utilities.
iii) Weak financial controls over the funds of Government.

Management response:

The suspense accounts amounting to Rs 2,640.20 million comprise a heavy amount of Sui Gas charges recoverable from the Railway's staff. However, subject audit observation was being referred to all concerned for elaborating the factual position to Audit.

Audit Comments:

Corrective measures be adopted to clear such a heavy amount without further loss of time.

Chapter 2 Pakistan Railways

2.1 Introduction

PR is a state managed commercial organization with a mission "to provide a competitive, safe, reliable, market oriented, efficient and environment-friendly mode of transport". It is managed by the Railway Board. The Secretary, Ministry of Railways is the Principal Accounting Officer and also ex-officio Chairman of the Railway Board. Pakistan Railways comprises three functional units, each headed by a General Manager:

i) Operations,
ii) Manufacturing & Services, and
iii) Development.

Operations unit consists of seven territorial operating divisions, viz. Peshawar, Rawalpindi, Lahore, Multan, Sukkur, Karachi & Quetta, and one Workshops Division at Moghalpura. Each division is headed by a Divisional Superintendent; who is assisted by Civil, Mechanical and Electrical Engineering, Material Procurement, Stores, Commercial & Traffic, Operating, and Personnel Departments, Property & Land, Legal Affairs, and Information Technology. In addition, there is one administrative division at Headquarters, Lahore, headed by Deputy General Manager.

Railway Accounts Department is headed by the Member Finance in the Railway Board who is assisted by three Financial Advisors & Chief Accounts Officers. Moreover, there is a Chief Internal Auditor who heads the Internal Audit Wing and reports directly to the Principal Accounting Officer.

Pakistan Railway Advisory & Consultancy Services (PRACS), Railway Constructions Pakistan Limited (RAILCOP), and Railways Estate Development & Marketing Company (REDAMCO) are three subsidiaries of PR. PRACS was established in 1976 as a public limited company. Its main objectives are to prepare the feasibility reports for new Railway lines and render technical assistance in connection with the designing, modernization and maintenance of Railway installations, workshops, bridges and rolling stock. Presently, its main

activities are sale of Railway tickets and managing certain trains on joint venture basis. RAILCOP was established in 1980 as a public limited company. Its main objective is to develop and upgrade Railway infrastructure. REDAMCO was established in 2012. Its main objective is to develop and market Railways estate.

2.2 Comments on Budget & Accounts

Pakistan Railways prepares two sets of accounts, one on commercial basis and other on the basis of Pakistan Government Railway Code for the Accounts Department.

2.2.1 Comparison of Allocated Budget with Actual Expenditure - Financial Year 2011-12

(Rs in million)

Items	Original Allocation	Supple-mentary Allocation	Residual Modification	Final Allocation	Actual Expenditure	Variation	
						Excess (Saving)	%age
Grant No. 083 Revenue Expenditure							
Charged	9,026.06	-	(5,598.45)	3,427.61	1,234.42	(2,193.19)	(63.99)
Other than Charged	35,973.94	5,598.45	(33.00)	41,539.39	44,210.90	2,671.51	6.43
Total	45,000.00	5,598.45	(5,631.45)	44,967.00	45,445.32	478.32	1.06
Grant No. 137 Capital outlay on Pakistan Railways							
Other than Charged	15,000.00	7,533.15	(1,552.40)	20,980.75	6,185.14	(14,795.61)	(70.52)
Grand Total	60,000.00	13,131.60	(7,183.85)	65,947.75	51,630.46	(14,317.29)	(21.71)

The comparison between allocated budget and actual expenditure clearly showed that the actual expenditure incurred under “charged portion” of Revenue Grant was lesser than the final allocation and there was a saving of Rs 2,193.19 million (63.99%). Besides, original allocation under this head was residually modified by Rs 5598.45 million and irregularly transferred to “other than charged” portion. While the actual expenditure incurred under “other than charged” portion was excess than the budgetary limits i.e. 6.43%. Therefore, overall actual expenditure under Revenue Grant was more

than the final allocation amounting to Rs 478.32 million (1.06%) which is unauthorized.

The actual expenditure under Capital outlay on Pakistan Railways was lesser than the final allocation which resulted into heavy savings of Rs 14,795.61 million (70.52%). The variation under all items mentioned above needs explanation.

This state of affairs indicates a failure on the part of the management of Pakistan Railways as not to incur the expenditure according to the allocated budget despite the fact that many critical operations were badly affected due to non availability of funds.

2.2.2 Comparative Analysis of Accounts of Financial Year 2011-12

Para 4.3.3.1 of the Accounting Code for Self Accounting Entities stipulates that all revenue receipts will be accounted for on cash received basis whereas Pakistan Railways recognises its earning on accrual basis, while all expenses on cash basis.

Profit & Loss Account:

(Rs in million)

Particulars	2011-12	2010-11	2009-10	Variation	Variation (%)
1	**2**	**3**	**4**	**5 (2-3)**	**6**
Gross Earnings	15,444.39	18,612.07	21,886.93	(3,167.68)	(17.02)
Total Working Expenses	43,563.95	40,603.58	36,595.85	2,960.37	7.29
Operating Surplus/ (Loss)	**(28,119.56)**	**(21,991.51)**	**(14,708.92)**	**6,128.05**	**27.87**
Interest on Debt	1,234.42	4,956.74	5,446.06	(3,722.32)	(75.10)
Miscellaneous Receipts	5.44	1.23	2.36	4.21	342.28
Net Profit / (Loss)	(29,348.54)	(26,947.02)	(20,152.62)	2,401.52	8.91
Grant-in-Aid	30,467.00	32,642.40	18,432.02	(2,175.40)	(6.66)
Surplus/(Deficit)	**1,118.46**	**5,695.38**	**(1,720.60)**	**(4,576.92)**	**(80.36)**

The financial statements indicate that:

i) Gross earnings decreased by Rs 3,167.68 million (17.02%) as compared to the previous year. The main cause for decrease in earnings was shortage of locomotives resulting in suspension

of train operations running on profitable routes and for goods traffic.

ii) Operational working expenses increased by Rs 2,960.37 million (7.29%) as compared to previous year which resulted into increase in operational deficit amounting to Rs 28,119.56 million (2010-11: Rs 21,991.51 million). This indicates that Railway administration failed to achieve the target of zero operating deficit.

iii) The interest on debt amounting to Rs 1,234.42 million contained only the internal portion i.e. interest on overdraft with the State Bank of Pakistan. This amount was quite lesser than the amount paid during the previous year (Rs 3,865.74 million internal portion only), although the amount of overdraft almost remained the same. Further, zero amount was paid under the head of external portion i.e. interest on Foreign Loans during the financial year as compared to the previous year (Rs 1,091.00 million). Therefore, less payment of interest on debt both internal and external can attract penalties if not re-scheduled.

iv) Pakistan Railways suffered a net loss of Rs 29,348.54 million (2010-11: Rs 26,947.02 million) There was an increase of Rs 2,401.52 million (8.91%) over the preceding year. The loss increased due to increase in ordinary working expenses of Rs 2,960.37 million and decrease in gross revenue by Rs 3,167.68 million.

v) The Government provided Grant-in-Aid of Rs 30,467.00 million. The actual loss was Rs 29,348.54 million. Surplus of Rs 1,118.46 million was transferred to balance sheet to reduce the cumulative deficit.

Balance Sheet:

(Rs in million)

Particulars	2011-12	2010-11	2009-10	Variation	
				Increase/ (Decrease)	Percentage
1	**2**	**3**	**4**	**5 (2-3)**	**6**
Liabilities					
Capital & Net Worth	51,978.74	41,990.20	32,697.84	9,988.54	23.79
Revenue Reserves	32,569.15	30,391.10	30,922.60	2,178.05	7.17
Long Term Liabilities	16,283.36	15,539.01	17,045.86	744.35	4.79
Current Liabilities	46,062.78	46,105.83	46,659.71	(43.05)	(0.09)
Total Liabilities & Capital	**146,894.03**	**134,026.14**	**127,326.01**	**12,867.89**	**9.60**
Assets					
Fixed Assets	57,001.19	52,736.27	50,598.58	4,264.92	8.09
Deferred Assets	44,524.95	40,568.95	39,996.76	3,956.00	9.75
Current Assets	45,367.89	40,720.92	36,730.67	4,646.97	11.41
Total Assets	**146,894.03**	**134,026.14**	**127,326.01**	**12,867.89**	**9.60**

The figures in balance sheet were reflective of the following:

i) Capital & Net Worth increased by Rs 9,988.54 million (23.79%) over the preceding year. The increase was due to investment by Federal Government through cash development release which was provided in addition to Grant-in-Aid and excessive amount of Grant-in-Aid than Net Loss transferred from Profit & Loss Account.

iii) The Current Liabilities include Sundry Creditors. The Ways & Means Advance which is actually an overdraft (OD) with SBP has been shown under Sundry Creditors. Showing overdraft as Sundry Creditors in the Balance Sheet leads to misclassification. The overdraft of Pakistan Railways has reached Rs 39.94 billion as on 30th June, 2012 (2010-11: Rs 40 billion). The substantial amount of overdraft indicated that Pakistan Railways' Management had not been able to attain

sound financial results in recent years through better financial management and strategic planning.

iii) Out of total bills receivable amounting to Rs 2,155.29 million, an amount of Rs 811.76 million is more than five years old. Therefore, it is imperative to take appropriate measures to realize long outstanding dues through strenuous efforts. Further, the amount shown in the Balance Sheet under this head was Rs 2,312.99 million. There was a difference of Rs 157.70 million due to non reconciliation which needs clarification.

iv) The Current Assets have been overstated by Rs 72.91 million. It includes Rs 0.26 million due to uncertain Bank balance in Iran and Rs 72.65 million due to irrecoverable balances from other Governments. These may also be clarified.

2.2.3 Comments on accounts of Pakistan Railways

Pakistan Railways' accounts for the financial year 2011-12 were certified with the following qualifications:

Appropriation Accounts:

i. The accounting record consisting of paid vouchers and Journal Slips etc. amounting to Rs 2,925.33 million was not provided to Audit. Therefore, Audit remained unable to comment on the said amount due to scope limitation.

ii. Expenditure on account of Other Working Expenses (Operating Expenses, Repair & Maintenance etc.) was overstated by Rs 496.22 million.

iii. An un-authorized expenditure on account of Miscellaneous Advance (Suspense Account) amounting to Rs 609.47 million was incurred without any budget allotment.

iv. Improper control over budget grants coupled with non-reconciliation of expenditure resulted into abnormal Excesses of Rs 2,232.66 million, under certain heads of Appropriation Accounts (Revenue Grant).

Commercial Accounts:

i. Overstatement of Assets and Liabilities due to incorrect accounting policies i.e. double accountal of investment by Government on account of replacement of assets, firstly under the head "Investment" and secondly under "Depreciation Reserve Fund" and booking of the same under "Deferred Assets".

ii. Overstatement of Fixed Assets due to non-booking of depreciation, disposal of assets and accidental losses to Rolling Stock, etc.

iii. Overstatement of Assets and Long Term Liabilities amounting to Rs 22,958 million and Rs 13,900 million respectively due to incorrect accounting treatment of interest on Reserves.

iv. Non-compliance of standing instructions regarding cancellation of un-presented cheques up to closing of the financial year, resulted into overstatement of Current Liabilities amounting to Rs 91.51 million.

v. "Accounts Receivable" was understated by Rs 322.52 million due to less accountal of "Unrealized Traffic Earnings".

vi. Foreign Loans/Credits balances as on 30th June, 2012 are not restated/translated at closing Forex rates; resulting in improper disclosure of liability in the financial statements.

vii. Understatement of Liabilities on account of Foreign Loans/Credits by Rs 9,734.72 million due to difference in figures of Headquarters office and Ministry of Railways, Islamabad.

viii. Due to heavy losses Pakistan Railways' cumulative deficit has reached Rs 36.85 billion and Overdraft has risen to Rs 39.94 billion (2010-11: Rs 40 billion) despite Federal Government's continuous assistance in the form of Grant-in-Aid, without which it cannot run its operations.

ix. Pakistan Railways has merged the Public Account with Consolidated Fund in Account-III. The GPF liability at year end was shown as Rs 5,014.11 million (2010-11: Rs 4,269.65 million). Had this account not merged, the overdraft would have been higher than its current value. It was added that exact

liability of GPF could not be determined due to non-updation of GPF ledgers.

x. Suspense accounts amounting to Rs 2,640.19 million have been accumulated over the years due to non/less recovery from the consumers of utilities (electricity, sui-gas etc.) and its adjustment in proper heads of account.

xi. Coaching Earnings (Passenger and Other than Passenger Earnings) were overstated by Rs 479.54 million and understated by Rs 207.87 million.

2.2.4 Comments on the Financial Statements of PRACS

Profit & Loss Account

(Rs. in million)

Particulars	2011-12	2010-11	Variation	%age
Revenue from all operations	976.31	1,195.93	(219.625)	(18.36)
Less: Direct expenditure	954.69	1,150.41	(195.72)	(17.01)
Gross Profit	21.62	**45.52**	**(23.90)**	**(52.50)**
Less: Admin & General expenses	36.38	38.86	(2.48)	(6.38)
Operating Profit/Loss	**(14.76)**	**6.66**	**(21.42)**	**(321.62)**
Less: Financial Charges	-	0.03	(0.03)	(100)
Add: Other income	45.30	24.39	20.91	85.73
Profit/(Loss) before Tax	**30.55**	**31.02**	**(0.47)**	**(1.51)**
Less: Taxation	13.73	41.51	(27.78)	(66.92)
Profit/(Loss) after Tax	**16.82**	**(10.49)**	**27.31**	**260.34**

i) The Gross profit of the company has decreased by Rs 23.90 million (52.50 %) as compared to the previous year. It was mainly due to incurrence of more direct expenditure than revenue. Resultantly, operating profit converted into loss by Rs 21.42 million (321.62 %) as compared to the previous year.

ii) The PRACS earned a net profit of Rs 16.82 million as compared to the previous year's loss of Rs 10.49 million. The conversion of net loss into net profit was not due to operational

efficiency. It was due to increase in other income and decrease in tax which caused enhancement of net profit.

2.2.5 Comments on the Financial Statements of RAILCOP

Profit & Loss Account

(Rs in million)

Particulars	2011-12	2010-11	Variation	%age
Revenue from Construction Contracts	224.85	312.14	(87.29)	(27.97)
Less Cost	192.43	270.96	(78.53)	(28.98)
Gross Profit / (Loss)	32.42	41.18	(8.76)	(21.27)
Revenue from Other than Construction Contracts	550.88	427.69	123.19	28.80
Less Cost	485.46	357.95	127.51	35.62
Gross Profit / (Loss)	65.42	69.74	(4.32)	(6.19)
Grand Total (Revenue)	775.73	739.83	35.90	4.85
Less: Grand Total (Cost)	677.89	628.91	48.98	7.79
Overall Gross Profit / (Loss)	**97.84**	**110.92**	**(13.08)**	**(11.79)**
Less Administrative Expenses	52.31	69.11	(16.80)	(24.31)
Profit from operating activities	45.53	41.81	3.72	8.90
Less: Finance Cost	0.94	0.78	0.16	20.51
	44.59	41.03	3.56	8.68
Add Other Income	34.46	57.72	(23.26)	(40.30)
Profit before Taxation	79.05	98.75	(19.70)	(19.95)
Less: Taxation	28.07	61.59	(33.52)	(54.42)
Profit after Taxation	**50.98**	**37.16**	**13.82**	**37.19**

The figures depicted in the Profit & Loss Account of RAILCOP indicate the following facts:

i) Revenue from Construction Contracts decreased by Rs 87.29 million (27.97%) as compared to previous year which means that Railcop failed to attain construction contracts during the year. Resultantly gross profit was decreased by Rs 8.76 million (21.27%).

ii) Revenue from Other than Construction Contracts includes “Supplies” (Track Shop and Track Machine Shop) and “Other Sales” (Quarry and Ballast Projects). The revenue from this

head increased by Rs 123.19 million (28.80%) but cost incurred also increased by Rs 127.51 million (35.62%) and resultantly gross profit was decreased by Rs 4.32 million (6.19%).

iii) Due to decrease in gross profit from Construction Contracts and Other than Construction Contracts, overall Gross Profit was decreased by Rs 13.08 million (11.79%) as compared to previous year which be explained.

2.3 Brief comments on the status of compliance with PAC Directives

Sr. No.	Audit Year	Total Paras	Total No. of Actionable Points	Compliance received	Compliance not received	Percentage of compliance
1	1985-86	34	34	21	13	62%
2	1986-87	29	29	25	04	86%
3	1987-88	31	31	18	13	58%
4	1988-89	19	19	10	09	53%
5	1989-90	41	41	25	16	61%
6	1990-91	42	42	38	04	90%
7	1991-92	36	36	19	17	53%
8	1992-93	99	13	02	11	15%
9	1993-94	67	67	57	10	85%
10	1994-95	123	123	66	57	54%
11	1995-96	153	21	12	09	57%
12	1996-97	65	30	19	11	63%
13	1997-98	56	07	05	02	71%
14	1999-00	58	58	37	21	64%
15	2000-01	48	48	28	20	58%
16	2001-02	28	28	10	18	36%
17	2004-05	22	22	14	08	64%
18	2005-06(A)	46	46	24	22	52%
19	2006-07	34	34	11	23	32%
20	2008-09	101	101	43	58	43%
Total:-		**1132**	**830**	**484**	**346**	**58.31%**

The compliance of PAC directives is required to be improved since many of the PAC directives of previous Audit Reports are awaiting compliance.

AUDIT PARAS

2.4 Audit Paras

Misappropriations

2.4.1 Loss due to missing parts in Coaches and Wagons – Rs 72.48 million

Para 1801 of Pakistan Railway General Code provides that means should be devised to ensure that every Railway servant realizes fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part. Besides, Para 1802 provides that any defalcation or loss of stores and other property of serious nature be reported to the General Manager, simultaneously endorsing a copy to the Financial Advisor and Chief Accounts Officer. Every important case should also be brought to the notice of the Railway Board by the General Manager specifying the amount involved. Further, Modified Standard Operating Procedure (SOP) communicated by the Chief Mechanical Engineer vide letter dated 9th Dec, 2010 described the detailed internal controls to be put in place to stop theft/pilferage of material from railway coaches & wagons.

i) Audit of the Divisional Mechanical Engineer-II Lahore revealed that different parts valuing Rs 47.57 million were found missing in coaches and wagons during the period from Jan, 2011 to June, 2012, which showed failure of Railway administration to protect its assets from theft / misappropriation. The amounts of these losses / deficiencies were also not reported in the accounts. This resulted in loss of Rs 47.57 million to the Pakistan Railways.

   Matter was reported to the management in Dec, 2012. It was replied that modified SOP has been issued to minimize theft/pilferage of material in Coaching & Goods stock. The Mechanical Branch is at their toes to arrest the cases of theft/ pilferage of material in coaching and goods stock as per SOP.

ii) Audit of the Chief Mechanical Engineer / C&W revealed that different parts valuing Rs 10.34 million were found missing in the coaches and wagons received in Carriage & Wagon Shops for periodic overhauling / repair during the period from July,

2011 to June, 2012. These components were stolen / misappropriated and resulted in loss of Rs 10.34 million to the Pakistan Railways.

Matter was reported to the management in Dec, 2012. It was replied that there is acute shortage of spares required for maintenance of C&W rolling stock, therefore, the shop staff resorts to cannibalizing essential parts from the rolling stock sent for periodic overhauling. To overcome the theft in C&W stock, a comprehensive SOP has already been issued and being implemented in its true letter and spirit.

iii) Audit of the Chief Mechanical Engineer / C&W revealed that various items of coaching and goods stock valuing Rs 1.05 million were found missing as intimated by different subordinates during the period from July, 2011 to June, 2012. It is the responsibility of every employee of Pakistan Railways including Railway Police to safeguard its assets but such instances show slackness on the part of concerned staff. This resulted in loss of Rs 1.05 million to the PR.

Matter was reported to the management in Nov, 2012. Management stated that cases of theft and pilferage over Railway Divisions are registered with Railway Police, wherever such incidents occur.

iv) Audit of Divisional Mechanical Engineer (DME) Multan revealed that material valuing Rs 13.52 million was found missing in coaches and wagons during the period from July 2010 to July 2012 due to inadequate/ineffective controls. Thus, non-compliance with the rules ibid resulted in loss of Rs 13.52 million.

Matter was reported to the management in Dec, 2012. Management stated that there was substantial reduction in theft/pilferage after implementation of SOPs which is being implemented in true letter and spirit.

DAC in its meetings held on 28th Dec, 2012 directed the POs to provide revised reply showing improvements after implementation of SOP on the subject.

Audit emphasizes that each case of theft / misappropriation be investigated to fix responsibility besides taking appropriate action against the persons responsible for the loss. Amount to the stated extent be recovered.

2.4.2 Theft of locomotive radiators – Rs 5.75 million

Para 1801 of Pakistan Railway General Code provides that means should be devised to ensure that every Railway servant realizes fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part. Besides, Para 1802 provides that any defalcation or loss of stores and other property of serious nature be reported to the General Manager, simultaneously endorsing a copy to the Financial Advisor and Chief Accounts Officer. Every important case should also be brought to the notice of the Railway Board by the General Manager specifying the amount involved.

Audit of the Chief Mechanical Engineer Loco revealed that 11 locomotive radiators valuing Rs 5.75 million were stolen from CDL Shop Rawalpindi. The weight of each radiator was 184 to 283 Kg and could not be lifted without the collaboration of Railway employees.

The matter was reported to the management in Dec, 2012. It was replied that the matter was in court and reply will be submitted in the light of judgment.

DAC in its meeting held on 29th Jan, 2013 directed the PO to provide revised reply explaining the facts of the case.

Audit emphasizes that cost of the stolen material be recovered, besides taking disciplinary action.

2.4.3 Loss due to embezzlement of public money – Rs 4.32 million

Para 986 of Pakistan Government Railway Code for the Accounts Department stipulates that pay clerks should be personally held responsible for all moneys made over to them and or any loss accruing to Railway for want of precautions for the protection of the

Railway money. Under no circumstances should pay clerks keep Railway money at their private residence.

Audit of the Financial Advisor & Chief Accounts Officer Revenue revealed that on 19.09.2012 Mr. Ali Imran, Sectional Pay Master (SPM) was handed over amount of Rs 4.32 million for making payment to staff at Wazirabad and Gujranwala. The SPM disappeared along with cash and did not turn up for payment. FIR was lodged against him on 25.09.2012 and a show cause notice was also served on 10.10.2012. The case was still under investigation with the Police and no recovery from the SPM was effected. This resulted in loss of Rs 4.32 million.

The matter was reported to the management in Dec, 2012. It was replied that Mr. Ali Imran Ex-SPM had been dismissed from service vide orders dated 11.12.2012. He was on pre-arrest bail and the case was under consideration in the Court of Special Central Judge Lahore.

DAC in its meeting held on 28th Jan, 2013 directed the PO to pursue the case at higher level for realization of the amount.

It is emphasized that the matter be pursued at higher level to realize the government money.

2.4.4 Loss due to misappropriation of wood - Rs 1.71 million

Para 1740 of Pakistan Government Railway Code for the Engineering Department stipulates that material released from the work should on displacement, be recorded separately as such and be entered with the date and quantity as "Receipt". When subsequently utilized on the work again it should be shown as "Issued".

Audit of Works Accounts Branch Lahore revealed that 43.75 CMT shisham wood valuing Rs 1.71 million was received/ issued by the Inspector of Works (IOW), Okara but proper record was not available in support of its utilization / consumption. The details are as under:

a) 3.88 CMT Shisham wood was shown as issued for new Cast Iron Leg benches. On inquiry, it was learnt that the wood was sawed and issued for fabrication of the benches. But no record

in support of the issuance of wood was produced. Moreover, there was no record which indicated that the wood was got sawed from the market.

b) 3.88 CMT Shisham wood was shown as received by the IOW Okara from Railway Police Okara on 29th May, 2006 which were not accounted for in the books.

c) 35.98 CMT Shisham wood was received on 29th Mar, 2008 by the IOW Okara loaded in wagon No. 75468 vide receipt no. 082323 dated 27.03.2008, but the same was not accounted for in the books.

In view of the above facts, Audit has reasons to infer that wood valuing Rs 1.71 million had been misappropriated.

Matter was pointed out to the management in Jan, 2012. It was replied that 43.75 CMT Shisham wood was utilized for making 23 new benches for Okara, Raiwind, Pattoki, Kot Lakhpat and Walton stations and repair of benches.

DAC in its meeting held on 22nd June, 2012 showed concerns on carving only 23 benches from Shisham wood and decided to investigate the matter. Compliance of DAC directive is awaited.

It is emphasized to investigate the matter for fixing responsibility for carving only 23 benches from the valuable wood and appropriate action be taken against those found responsible.

2.4.5 Fraudulent drawl of government money - Rs 1.67 million

Para 1801 State Railway General code Volume-I, provides that every public officer should exercise the same vigilance in respect of public expenditure and public funds generally as a person of ordinary prudence would exercise in respect of the expenditure and the custody of his own money.

Audit of the record of Financial Advisor & Chief Accounts Officer revealed that an amount of Rs 1.67 million was drawn fraudulently through various fake and bogus bills with collaboration of

officials/officers of Mechanical and Accounts departments of Karachi Division during Jan 2009 to Mar 2010 as detailed below:-

Sr. No	Particulars	Amount (Rupees)
1	Supplementary bills passed through carbon copy/office copy	253,933
2	Fake/bogus Regular Salary Bills	546,023
3	Supplementary bills where amounts were tempered and passed excessively	236,266
4	Supplementary bills passed with incorrect calculation / incorrect pay fixation and claim passed more than once	621,108
5	Supplementary bill by disbursing the amount to wrong person i.e. other than payee	10,983
	Total	**1,668,313**

Divisional Accounts Officer Karachi constituted an inquiry committee consisting of two Accounts Officers in Nov 2010 to probe in to the matter. Inquiry committee submitted its detailed report in Mar, 2011, wherein 14 officials/officers of Executive and Accounts department were held responsible. No further action seems to have been taken to recover the amount of Rs 1.67 million.

Matter was reported to the management in Jan, 2012. It was replied that (i) the enquiry of the case has been conducted and action yet to be taken; (ii) charge sheet against the person held responsible has been sent to MoR for approval; (iii) charge sheets against other accused staff have been sent to the Director (Legal Affairs) for vetting; (iv) FIR has been registered by PRP Karachi and (v) investigation is under process by FIA.

DAC in its meeting held on 22nd June, 2012 directed the PO that final action be taken against the culprits and intimated to Audit.

It is emphasized that action required as per enquiry report be taken at the earliest.

2.4.6 Misappropriation of material - Rs 1.38 million

Para 1801 of Pakistan Railway General Code provides that "means should be devised to ensure that every Railway servant realizes fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and also for any loss arising from fraud or negligence on the part of any other Railway servant to the extent it may be shown that he contributed to the loss by his own action or negligence".

Scrutiny of the record of Carriage & Wagon Shops Moghalpura, Lahore revealed that 596 Kg Copper Wire and 467 Kg Solder valuing Rs 1.38 million was misappropriated by the employees during the period from Sep, 2007 to Dec, 2010. An inquiry committee held four employees responsible but no disciplinary action was taken against them despite lapse of considerable period of time. This resulted in loss of Rs 1.38 million to Pakistan Railways.

Matter was reported to the management in June, 2012. Management stated that actual cost of material was Rs 0.11 million instead of Rs 1.38 million as calculated by Depot Storekeeper C&W Shops Moghalpura Lahore. Four employees were held responsible for embezzlement of material. One had been terminated from service and cost of material is being recovered from them.

DAC in its meeting held on 6th Dec, 2012 directed the PO to recalculate the cost of material misappropriated. Revised reply showing action taken against the persons held responsible and recoveries made accordingly be provided to Audit for verification. Compliance of DAC directive is awaited.

Audit emphasizes that cost of the stolen material be recovered, besides taking disciplinary action.

2.4.7 Misappropriation of 8600 kg calcium carbide - Rs 1.27 million

Para 1801 of Pakistan Railway General Code provides that means should be devised to ensure that every Railway servant realizes fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part.

Audit of the Store ledger of Pakistan Locomotive Factory (PLF), Risalpur revealed that 16,500 kg of Calcium Carbide was issued to Foreman Welding Shop during the period from Apr, 2009 to June, 2011. Foreman Welding Shop utilized 3,000 kg up to August, 2011. A quantity of 4,900 kg instead of 13,500 kg (16,500 - 3,000) was available with Foreman Welding Shop. It is apprehended that a quantity of 8,600 kg valuing Rs 1.27 million was misappropriated.

Matter was reported to the management in Jan, 2012. It was replied that as per record there was no shortage. The material was stocked and utilized as per requirements of the project/work in hand on need basis. The reply was not justified as there was no project in hand during the period from Mar, 2011 to June, 2011.

DAC in its meeting held on 21st June, 2012 decided to carry out physical verification of differences in quantity of Calcium Carbide.

The decision of the DAC meeting regarding physical verification of the material be complied with at the earliest and remedial action be taken accordingly.

Irregularity & Non-Compliance

2.4.8 Loss due to non-recovery from the contractor of Business Train - Rs 101.30 million

As per clause 6.1 of the contract agreement regarding outsourcing of Business Express train executed between Pakistan Railways and M/s Four Brothers, an amount of Rs 3.20 million was to be recovered from the contractor before commencement of the journey of the train. Any delay after the date will entail an additional penalty of 5% of the amount. If no amount is deposited till the sixth day, Pakistan Railways is entitled to suspend the train operation.

Management of Business Express Train was handed over to M/s Four Brothers on 18.08.2011. The train operations were inaugurated w.e.f. 03.02.2012. The contractor deposited an amount of Rs 165.20 million against due amount of Rs 261.67 million up to 24.04.2012. Thus, an amount of Rs 96.47 million was less deposited by the contractor along with a penalty of Rs 4.82 million accrued thereon. Railway administration neither took any action to ensure timely recovery of dues from the contractor nor was the agreement terminated.

The matter was pointed out to the management in May, 2012. It was stated that value additions committed by the contractor were considered as performance security. Accordingly he has submitted value addition statement of Rs 176 million for verification. The contractor has defaulted an amount of Rs 306.22 million up to 07.11.2012 and was served a final notice to deposit the outstanding amount.

The reply is not acceptable because management failed to include safety clause in the contract in the shape of bank guarantee etc. to safeguard interest of Pakistan Railways in case of default by the contractor. Further, the contractor was required to make value additions of Rs 225.786 million but no mechanism was developed and included in the contract to ensure transparency and authenticity of this investment.

DAC in its meeting held on 6th Dec, 2012 directed the PO to recover all the outstanding dues from the contractor. Compliance of DAC directive is awaited.

Audit emphasizes fulfillment of DAC directive without further delay.

2.4.9 Loss due to non-recovery of rent and penalty – Rs 82.71 million

An agreement for leasing of Concrete Sleeper Factory (CSF), Kotri was executed on 18th Oct, 2006 between Pakistan Railways and M/s H.I.S Industries Karachi, (Lessee) including the following clauses:

i. Clause 3.1 provides that the lessee shall pay an annual lease rent of Rs 3.60 million for premises; payable in twelve equal monthly installments on 1st of each calendar month. In case of failure, surcharge @ 1% per month shall be paid by the lessee.

ii. Clause 3.2 implies that one officer bungalow @ Rs 2,500 and ten staff quarters @ Rs 1,300 each per month will be rented out along with an annual escalation of 6.5% on base rate. In case of failure, surcharge @ 1% per month shall be paid by the lessee.

iii. Clause 20 stipulates that if the lessor fails to purchase 150,000 Mono Block Sleepers and 30,000 meters Long Ties per year, starting from the date of production the lessor will be bound to pay an amount of Rs 500 per sleeper/per meter Long Ties for the balance quantity and vice versa.

Scrutiny of the record of Managing Director Concrete Sleeper Factories revealed that an amount of Rs 5.20 million on account of lease rental charges and penalties for the period from Nov, 2011 to Apr, 2012 was outstanding against the lessee. Moreover, during the period from 23rd August, 2010 to 22nd August, 2011 the lessee could not manufacture even a single sleeper and production remained suspended; whereas the lessee was required to manufacture 150,000 sleepers per annum. Resultantly, the lessee was bound to pay penalty of Rs 77.50 million @ Rs 500 per sleeper for non-production/non-achievement of full capacity. Thus, non-compliance of the agreement clauses in letter and spirit resulted in loss of Rs 82.71 million.

The matter was reported to the management in July, 2012. Management replied that matter has been placed before the Arbitrators, nominated by Ministry of Railways and M/s. HIS Karachi.

DAC in its meeting held on 6th Dec, 2012 directed the PO to intimate progress in the matter to Audit. Compliance of DAC directive is awaited.

Audit emphasizes to fix responsibility for non-implementation of agreement clauses and immediate action for recovery of the stated amount.

2.4.10 i. Irregular award of contract - Rs 61.63 million
ii. Loss due to non-supply of material within delivery period - Rs 72.69 million

Rule 30(1) of the Public Procurement Rules-2004 provides that all bids shall be evaluated in accordance with the evaluation criteria and other terms and conditions set forth in the prescribed bidding documents. Further, Para 131 of Pakistan Government Railway Code for the Store Department provides that every public officer should exercise the same vigilance in respect of expenditure incurred from Government Revenues as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

While examining the Purchase Order, dated 8th Feb, 2008 for the procurement of Steel Spring Round (6 items) at various rates, placed with M/s People Steel Mills, following irregularities were noticed: -

i. There was no provision of price escalation in the bidding documents of the Purchase Order, but the firm's quotations dated 7th Nov, 2007 were with escalation. The quoted rates were accepted by the tender committee. But the firm insisted upon Railway administration to revise/increase the quoted rates. The escalated bid was accepted on 10th Mar, 2008, which resulted in mis-procurement of Rs 61.63 million.

ii. According to the Purchase Order the firm was required to supply the material up to 31st May, 2008. Instead of making the

supplies as per schedule the firm indulged in to correspondence with the management for amendment into the Purchase Order to its advantage. The firm succeeded in enhancement of its rates @ Rs 65,000 per M.ton on 10th Mar, 2008. In spite of massive enhancement in rates the firm failed to complete supply within the stipulated delivery period i.e. up to 31st May, 2008. Instead of penalizing the firm for not fulfilling contractual obligations the Railway Administration awarded another enhancement @ 6.399% on 9th Oct, 2009, beyond the stipulated delivery period.

The above instances of contractual mismanagement resulted into a loss of Rs 72.70 million to the Railway Administration.

The matter was reported to the management in Jan, 2011. It was informed that the firm's accepted quotation was carrying price escalation but same could not be incorporated in the Purchase Order due to omission/over-sight. Subsequently, price escalation was incorporated in the Purchase Order after approval by the General Manager (Operations) on single tender & non-proprietary basis. DAC in its meeting held on 29th Feb, 2011 directed to verify the facts stated in the reply. During verification the reply was found unsatisfactory.

The issue was again discussed in the DAC in its meeting held on 7th Dec, 2012 and the management submitted the same reply.

DAC directed the PO to provide revised reply. Compliance of DAC directive is awaited.

Audit emphasizes to fix responsibility for irregular inclusion of price escalation clause in the agreement after finalization of tendering process.

2.4.11 Irregular procurement of material for maintenance of DPU 20/30 locomotives - Rs 1,205.24 million

Rule 12 (2) of Public Procurement Rules, 2004 provides that all procurement opportunities over two million rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation.

Contrary to above, Pakistan Railway administration directly executed an agreement on 28th Sep, 2009 with M/s DONG FANG Electric Corporation and Dalian Locomotives & Rolling Stock Company Limited China for procurement of 1142 different items of spare parts valuing US$ 12.98 million (PKR 1,086.81 million) for maintenance of DPU-20/30 locomotives. Later on, 25 items valuing US$ 1.38 million (PKR 118.43 million) were again procured from the same agency out of contingency through LC dated 30th June, 2011. As a result, 1167 items of spare parts valuing Rs 1,205.24 million were procured violating the above rules.

The matter was pointed out to the management in Apr, 2012 but no reply was received till the finalization of this report.

It is emphasized that responsibility be fixed for irregular award of the contract in violation of Public Procurement Rules-2004.

2.4.12 Un-justified expenditure on account of supervision/ training charges - Rs 69.57 million

Pakistan Railways (PR) procured 69 Diesel Electric (DE) locomotives (DPU 20/30) through contract dated 8th Nov, 2001 from M/s DONG FANG Electric Corporation (DEC) and Dalian Locomotives & Rolling Stock Works, China. Amounts of US$ 1.68 million, US$ 0.81 million and US$ 0.85 million were charged in the agreement on account of technical supervision, transfer of technology and training for 118 man-months respectively.

Scrutiny of the maintenance contract of 69 DE locomotives (DPU 20/30) dated 28th Sep, 2009 executed between PR and DEC revealed that an amount of US$ 0.81 million (PKR 69.57 million) was charged on account of technical supervision / training. This expenditure was totally un-justified as about 98 officials of different categories of Mechanical Department were already trained when these locomotives were procured. Moreover, 38 DPU-30 and 18 DPU-20 locomotives were assembled in the Locomotive Factory Risalpur, during the year 2004 to 2008. Above state of affairs confirmed that the expenditure incurred again on training was un-justified and against the canons of financial propriety.

This was pointed out to the management in Apr, 2012 but no reply was received till the finalization of this report.

Audit stresses to fix the responsibility for unjustified inclusion of technical supervision / training charges in the maintenance contract when sufficient Railway employees had already obtained the technical training of Chinese locomotives. Furthermore, amount of Rs 69.57 million be recovered from the responsible(s).

2.4.13 Unauthorized expenditure on engagement of TLA against skilled and semi-skilled essential posts - Rs 52.72 million

Para 212 of Pakistan Railways Mechanical Code (Workshops) provides that the persons selected for skilled categories, unless they are promoted from semi-skilled workmen, who have qualified themselves for the trade for which they are selected, or are already possessed of the necessary training for such trade, should be appointed as apprentices and trained accordingly.

Scrutiny of the record of Steel Shops Moghalpura Lahore revealed that 350 to 382 employees of different categories were engaged on Temporary Labour Application (TLA) basis against Skilled and Semi-Skilled essential posts. Employees appointed on temporary basis can not perform their duties efficiently and effectively against the skilled and semi-skilled posts. Their performance would be far less than the permanent trained employees. Thus, irregular expenditure of Rs 52.72 million was incurred on pay and allowances of the TLA staff working against Skilled and Semi-Skilled essential posts during the financial years 2009-10 and 2010-11.

The matter was pointed out to the management in Nov, 2012 It was replied that competent authority engaged 350 to 382 employees of different categories against skilled and semi-skilled essential vacant posts on TLA basis. They performed duties efficiently and effectively with the coordination of regular and trained employees and outturn was achieved. So expenditure incurred on their pay and allowances was justified and their services were regularized by Ministry of Railways.

DAC in its meeting held on 27th& 28th Dec, 2012 directed the PO to intimate why these employees were appointed against skilled

and semi-skilled posts on TLA basis, whether there was ban on regular appointments at that time. Further, provide details along with documentary evidence of qualification required for these posts and actual qualification of each employee.

Audit stresses to fix responsibility for irregular engagement of staff on TLA basis against the essential posts for which proper qualifications/trainings were required.

2.4.14 Unauthorized procurement of HSD Oil - Rs 45.89 million

Rule 12 (2) of Public Procurement Rules-2004 provides that all procurement opportunities over two million rupees should be advertised. Besides, Rule 4.2 (c) (iv) allows a repeat order up to 15% of the original quantity. Further, Para 26.42 of Pakistan Railway Commercial Manual provides that the appropriation of departmental receipts to departmental expenditure or any other purpose is strictly prohibited, except for payment of wages pay and pension to a limited extent and for urgent departmental expenditure necessitated by floods, earthquakes and accidents with the approval of Railway board and consultation of FA & CAO. In any other case prior approval of the President of Pakistan is required.

Audit of the Divisional Mechanical Engineer-II Lahore revealed that 509,890 liters HSD oil valuing Rs 45.89 million was procured from local market during the period from 16.11.2011 to 29.07.2012 instead of purchasing in bulk. Station earnings were irregularly utilized for local purchase of HSD oil. This resulted in unjustified procurement of HSD oil valuing Rs 45.89 million without generating fair competition and irregular utilization of departmental receipts.

The matter was pointed out to the management in Dec, 2012. It was replied that due to financial crunch the outstanding bills of PSO reached Rs 1.28 billion. The cheques of Pakistan Railways were being repeatedly dishonored, resultantly PSO refused to supply the oil. To continue train operation, competent authorities decided to procure the oil from local market at OGRA rates. SOP for the purchase of HSD Oil from local market has been issued on 02.01.2013.

DAC in its meeting held on 28th Jan, 2013 directed the PO to justify procurement of HSD oil from station earnings and explore different options for procurement of HSD oil in case of refusal by the PSO.

It is emphasized that the irregular practice of procurement of HSD oil from local market by utilization of station earnings be stopped immediately besides, fixing the responsibility for the unauthorized procurement. Other avenues be explored to procure oil as per rules and regulations.

2.4.15 Procurement of sub-standard ballast – Rs 35.59 million

Clause 21 & 22 of the agreement dated 16th Apr, 2007 executed between M/s RAILCOP and Pakistan Railways for supplying, stacking & loading of 2" (50mm) nominal size mechanically crushed stone ballast at Shaheenabad/DG Khan in connection with Doubling of Track on Khanewal – Raiwind section, specified the characteristics limits size and gradation of the ballast required to be supplied.

Audit of the Doubling of Track on Khanewal – Raiwind section revealed that ballast supplied by M/s RAILCOP was not according to the specifications resulting in supply of sub-standard ballast of Rs 35.59 million.

The matter was pointed out to the management in Jun. 2012 It was replied that samples of ballast were tested by the AEN Mining Lahore who declared the ballast fit for Railway Track. However, an amount of Rs 0.53 million for 39057 cft ballast towards minor deficiencies was deducted from bills of the contractor.

DAC in its meeting held on 6th Dec, 2012 directed the PO to provide information/record regarding number of batches supplied by contractor, number of samples taken/tested and amount recovered for deficiencies in ballast supplied. Compliance of DAC directive is awaited.

It is required that responsibility be fixed for acceptance of sub-standard ballast and action be taken against the persons found at fault.

2.4.16 Unauthorized expenditure on utilization of staff in excess of sanctioned strength - Rs 18.64 million

Para 111 of Pakistan Railway Establishment Code (Vol-I) provides that the number of posts sanctioned for each grade in a department shall in no case be exceeded without the sanction of the authority competent to create a post, either permanent or temporary, in the grade. Further, Managing Director, RAILCOP vide Office Order dated 14.10.2009 directed to curtail TLA/Daily Wages Staff and keep them on minimum strength.

i) Scrutiny of the record of Track Workshop Raiwind, revealed that 120 employees of different categories were working in excess of sanctioned strength. This resulted in irregular expenditure of Rs 12.35 million during the period from July, 2009 to June, 2010.

   The matter was pointed out to the management in Jun. 2012 It was replied that additional staff was engaged on daily wages / contract basis to cope with the requirements of production. However, the job analysis is carried out regularly and the labour is added / retrenched according to the actual requirements of production. 32 employees were retrenched during the year 2011-12, while no new appointment was made.

   DAC in its meeting held on 6th Dec, 2012 directed the PO to provide documentary evidence that the employees were appointed after complying with all rules and regulations. Comparative statement of demand – production and extra work done by this labour be provided to Audit for verification. Compliance of DAC directive is awaited.

ii) Audit of the Station Superintendent Rawalpindi revealed that staff charged, in salary bills, was in excess over the sanctioned strength. Due to poor management more employees were deployed for work that could be done by less number of staff. This resulted in irregular and excess expenditure of Rs 2.00 million on pay & allowances.

   The matter was pointed out to the management in Apr, 2012. It was stated that no financial loss is incurred to the Railway as

the utilization of staff was made for the best interest of Railways.

DAC in its meeting held on 7th Dec, 2012 decided that similar cases be clubbed and SOP be designed for the effective utilization of staff. Compliance of DAC directive is awaited.

iii) The Audit of Central Diesel Loco Shop Rawalpindi revealed that 16 employees under different categories were being utilized over and above the sanctioned strength and drawing pay and allowances to the extent of Rs 357,000 per month resulting in unauthorized expenditure of Rs 4.29 million per annum.

The matter was taken up with the WM CDL Workshop, in Mar, 2012 who stated that these posts were rationalized in 2001 but the same were essentially required for efficient working of shop. However, efforts would be made to adjust them. The reply was not justified as management did not have any authority to utilize different categories of staff without any sanction.

It is emphasized that staff be engaged after complying with rules, as per actual requirement and comprehensive job analysis be carried out to relinquish the excess staff.

2.4.17 Loss due to irregular/ unjustified payment to Custom Department - Rs 13.52 million

According to the Warranty Certificate of the Purchase Orders, the seller warrants that the stores will be in accordance with the particulars mentioned in the Purchase Order and the stores will be free from defects in material and workmanship. The seller's obligation under the warranties expressed above shall be limited to replacement Cost and Freight Karachi free of cost including all clearance charges of stores which at the time of receipt by the consignee or under normal use, maintenance prove defective in material or workmanship or fail to comply with the required performance in the normal course of service.

An amount of Rs 13.52 million was paid by the District Controller of Stores (Shipping) Karachi, on account of Custom Duty,

Sales Tax and other allied charges on replacement of the warranty claims which is against the contractual obligations and the same was required to be replaced free of cost by the firms/suppliers. In this way Railway management sustained a loss of Rs 13.52 million.

The matter was pointed out to the management in Jan, 2012. It was replied that only meager amount had been recovered while major amount was not recoverable against Contract Agreement of 69 DE locomotives as per its Article-16; and DCOS (Shipping) Karachi, cleared the consignment as per terms & conditions of the contracts and International Commercial Terms' obligations, hence duties/taxes were correctly paid.

DAC in its meeting held on 21st June, 2012 directed the PO to fix responsibility for wrong interpretation of clauses in supplier's favour against 69 DE locomotives Contract Agreement; and recovery of the balance amount be expedited. Compliance of DAC directive is awaited.

Audit requires that the decision of the DAC meeting be implemented at the earliest.

2.4.18 Unauthorized utilization of staff resulted in irregular expenditure on pay & allowances - Rs 6.49 million per annum

As per Chief Personnel Officer letter dated 30th May, 2009, no employee should be utilized on job other than his own category/original posting.

Audit of the Superintendent Railway Police Rawalpindi revealed that 33 constables/head constables had been deputed at different places under the Ministry of Railways Islamabad since June, 2009 irregularly without any sanctioned post and without approval of competent authority. These officials were actually posted at different stations over Rawalpindi Division but they were performing duties under the Ministry of Railways other than their place of posting. Ministry of Railways had its own budget, therefore, expenditure on pay & allowance of police staff during the period from June, 2009 to June, 2012 was irregular. Annual expenditure of Rs 6.49 million is

being incurred on the pay & allowances of police officials being utilized without any authority.

The matter was reported to the management in Oct, 2012. It was replied that due to tense law & order situation in the country, Railways Police Commandos are being utilized / deputed for security duty with VVIP/VIP for their protection. The reply was not tenable as the management did not have any authority to engage these officials other than their designated place of duty.

DAC in its meeting held on 7th Dec, 2012 directed the PO to provide documentary evidence in support of its reply. Compliance of DAC directive is still awaited.

It is emphasized that Police officials of Rawalpindi Division be returned to their actual place of posting. Posts of police officials required to be at Ministry and their expenditure be charged to the budget of Ministry properly.

2.4.19 Irregular payment of TA/DA - Rs 5.00 million

As per Supplementary Rule No. 74 (a) after a continuous halt of ten days duration, the halting place shall be regarded as the Government Servant's temporary headquarters. Further, in terms of General Manager (Personnel) letter dated 31.01.2003, the touring of police officials should be kept under strict check and be restricted to the minimum and their touring during a month should not normally exceed 10 days. Inspector General, Pakistan Railway Police letter dated 03.08.2004 also stipulates that the escort duties should be performed on rotation basis so that everyone should be able to avail TA/DA uniformly. Besides, as per Superintendent of Railway Police, Rawalpindi letters dated 26.08.2010 and 10.11.2010, monthly touring of Police escorting staff was restricted to maximum of 07 days in a month.

Audit of the Superintendent Railway Police Rawalpindi, revealed that Constables/Head Constables deputed with the Federal Minister of Railways, State Minister of Railways and Chairman Railways etc on permanent basis for escorting or security purposes were being paid TA/DA regularly and an amount of Rs 5.00 million was paid during the period from June, 2009 to June, 2012. The staff

being permanently deputed for the last 3 to 4 years, therefore, no TA/DA was admissible to them under the rules. This resulted in irregular payment of TA/DA amounting to Rs 5.00 million.

The matter was pointed out to the management in Oct, 2012. It was replied that payment of TA/DA of actual claimed days to the staff performing duty at Ministry of Railways was being made with the approval of the Ministry. TA/DA of such staff has now been reduced to 20 days instead of full month. The reply was not acceptable as instances were noticed during audit that employees were paid TA/DA up to 30/31 days in a month.

DAC in its meeting held on 7th Dec, 2012 directed the PO to provide documentary evidence in support of reply. Compliance of DAC directive is awaited.

It is emphasized that irregular practice of giving incentive in the shape of TA/DA to the police officials be stopped forthwith and the amount to the stated extent be recovered.

2.4.20 Awarding of contract without competition and non-recovery of rental charges - Rs 4.38 million

Rule 12 (1) of Public Procurement Rules, 2004 stipulates that procurements over forty thousand rupees and upto the limit of one million rupees shall be advertised on the authority's website in the manner and format specified by regulation by the authority from time to time. These procurement opportunities may also be advertised in Print Media, if deemed necessary by the procuring agency. Further, Para 316(a) of Pakistan Government Railway Code for the Accounts Department stipulates that the amount due to Railway for services rendered, supplies made or for any other reason, are correctly and promptly assessed and recovered as soon as they fall due.

Pakistan Railway Academy, Walton authorized a contractor for arranging marriage functions in the ground of the academy without tendering. He was allowed to utilize the ground for a period of six months from 01.11.2005. The unauthorized contract was further extended for one year. The booking of lawns was discontinued as per orders of the Secretary/Chairman Railways. But the contractor had neither vacated the land nor deposited the dues from 01.06.2007 to

01.01.2008 despite the fact that he was utilizing the Railway property. This resulted in loss of Rs 4.38 million due to non-recovery of Railway dues.

The matter was reported to the management in Dec, 2012. It was replied that a notice was served on the contractor for recovery of estimated loss of Rs 4,375,009 for illegal occupation of land for the period from 01.06.2007 to 14.01.2008. A suit for recovery of outstanding amount was also filed against the contractor which is subjudice in Civil Court, Lahore. DG Railway Academy, Walton has nominated an inquiry committee comprising of JD/CE, JD/Mechanical and DD/F to inquire into the matter.

DAC in its meeting held on 28th Jan, 2013 directed the PO to finalize the inquiry report and provide its copy to Audit.

Audit emphasizes that the court case be pursued vigorously to realize the outstanding dues and action be taken for profitable use of the land. Besides, appropriate action be taken against the responsible(s) for this irregular act.

2.4.21 Irregular expenditure due to splitting-up works/contracts – Rs 3.80 million

Rule 9 of Public Procurement Rules-2004 states that a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or re-grouping of the procurements so planned. Further note under Para 1111 of Pakistan Government Railway Code for the Engineering Department stipulates that the primary duty of the Executive Officer is to obtain the best value possible for the money spent and the tender system, in one form or another, is the most effective method of keeping down the rates.

Audit of Assistant Electrical Engineer Headquarters Office Lahore revealed that seven special repair electric works/contracts valuing Rs 3.80 million were awarded to different firms during the period from Nov, 2008 to June, 2010 by splitting up to avoid sanction of the competent authority.

The matter was pointed out to the management in Jan, 2012. Management stated that Assistant Electrical Engineer has been directed to furnish convincing reply. The reply was not justified as expenditure was split to the stated extent without any authority.

DAC in its meeting held on 22nd June, 2012 directed the PO that comprehensive reply duly supported by evidence be provided to Audit. Compliance of DAC directive is awaited.

Audit recommends to fix responsibility and appropriate action be taken against the officer/officials at fault.

2.4.22 Unauthorized maintenance of bank account - Rs 2.15 million

Para 1402 of Pakistan Railway General Code provides that all transactions to which a Railway servant in his official capacity is a party are required to be accounted for and all the money received should be paid in full without undue delay into the Railway treasury for credit to the appropriate Head of Account.

Audit of the Divisional Personnel Officer (DPO) Karachi revealed that an amount of Rs 2.15 million collected from the candidates with application forms was deposited into a personal bank account maintained by the then DPO in the National Bank of Pakistan instead of Railway Treasury during period 2007 to 2009. Subsequently, the account was closed and amount of Rs 1.13 million was deposited into the station earning on 7th Dec, 2010. The balance amount of Rs 1.02 million was withdrawn by the DPO while the detail of expense as well as record was not produced to Audit. The maintenance of personal bank account for deposit of government revenue is unauthorized.

The matter was reported to the management in May, 2012. It was replied that the account has been closed and an amount of Rs 1.13 million has been deposited in station earnings on 07.12.2010. Vouchers/cash receipts amounting to Rs 1.02 million incurred in connection with recruitment are available. The reply was not tenable as the management was not authorized to maintain personal account for deposit of government revenue.

DAC in its meeting held on 7th Dec, 2012 directed the PO to provide documentary evidence in support of reply. Compliance of DAC directive is awaited.

Audit recommends that action be taken against the DPO concerned for unauthorized maintenance of private bank account and for deposit & utilization of government money besides producing the record of expenditure for verification.

2.4.23 Loss due to non-replacement of defective material - Rs 1.96 million

As per Warranty Clause of Purchase Order, the supplier warrant that the material will be in accordance with the specification stipulated in the description and material will be free from all defects in quality and workmanship. The supplier will replace the material free of cost, if it fails to comply with performance laid down in the description/specification within 24 months from the date of receipt of material by Railway or 18 months from the date of placement in service whichever is earlier.

During Audit of the Managing Director, Concrete Sleeper Factories it was observed that a Purchase Order for the supply of 350 M. Tons H.T. Steel Wire was placed on M/s Nizami Wire Industry with the delivery period up to 15.07.2011. The firm supplied 350 M. Tons Wire at Khanewal out of which 16 M. Tons was declared unsuitable. However, the firm did not replace the defective material valuing Rs1.96 million (16 M. Ton @ Rs 122,602).

The matter was pointed out to the management in July, 2012. Management stated that firm has imported raw material and manufacturing is in progress, the rejected quantity will be replaced. Security of Rs 2.16 million is available which will be enchased if rejected material is not replaced.

DAC in its meeting held on 6th Dec, 2012 directed the PO to get replacement of the defective material without further delay otherwise recover its cost from the contractor. Compliance of DAC directive is awaited.

Audit stresses that the matter be taken up at appropriate level to get the replacement of defective material without further delay or recover its cost from the contractor.

2.4.24 Unauthorized purchase of banned items - Rs 1.19 million

In terms of Finance Division's Office Memorandum No.F.4(I) Exp. IV/2008 dated 3rd July, 2008 there was complete ban on purchase of physical Assets e.g. Vehicles, Air- Conditioners, Computers etc. Only critical/unavoidable purchase of physical Assets was to be made subject to prior approval of the Finance Division.

Divisional Electrical Engineer (power) Karachi purchased Air-Conditioners and Electric Water coolers valuing Rs 1.19 million without prior approval of Finance Division resulting in unauthorized expenditure to the stated extent.

The matter was reported to the management in Jan, 2012. It was replied that post facto approval for relaxation of ban on acquisition of physical assets is under process.

DAC in its meeting held on 22nd June, 2012 directed the PO to obtain the approval and intimate to Audit for verification. Compliance of DAC directive is awaited.

It is emphasized that the matter be regularized from the Finance Division at the earliest besides fixing responsibility for incurrence of unauthorized expenditure.

Performance

2.4.25 Loss of potential earnings due to inordinate delay in repair of locomotives - Rs 12,498.40 million

In order to keep the fleet of diesel electric locomotives in a fit condition they are scheduled to undergo repairs periodically. The Maintenance Regulations dated 6th September, 2007 prescribed the following time period for repair of locomotives:

Description	Periodicity	Time Allowed
Class-I Repairs	6 yearly or 1,200,000 kms, whichever is earlier	32 days
Class-II Repairs	3 yearly or 600,000 kms, whichever is earlier	24 days
E-Schedule	Half yearly or 100,000 kms, whichever is earlier	2 days
F-Schedule	Yearly or 200,000 kms, whichever is earlier	7 days

It was noticed that locomotives were repaired/overhauled late or held up, resulting in loss of potential earnings amounting to Rs 12,498.40 million, in the following cases:

i) Audit of Loco Shops Moghalpura Lahore revealed that 33 locomotives were received during the period from July, 2010 to Mar, 2012 for C-I and C-II repairs. Out of these, 20 locomotives were repaired with the delay of period ranging from 11 to 149 days over and above the scheduled time, whereas 13 locomotives were still lying in the shop for repair up to 31st Mar, 2012 despite lapse of period ranging from 49 to 1504 days. Thus, PR suffered loss of potential earnings of Rs 1,019.15 million.

ii) Audit of the Divisional Mechanical Engineer-I Lahore revealed that 73 locomotives were received in Loco Shed Lahore for Class-I & II repairs during the period from Nov, 2009 to May, 2012. 40 locomotives were repaired with delay of 02 to 409 days and 33 locomotives were not repaired upto July, 2012.

This resulted in loss of potential earnings of Rs 1,490.64 million.

iii) Audit of Central Diesel Locomotive Workshop Rawalpindi revealed that the C-I & II repair of 42 locomotives was completed with the delay ranging from 35 to 1474 days during the period from July, 2010 to June, 2011. This resulted in loss of potential earnings of Rs 2,414.96 million. Similarly, ninety locomotives were stabled in shop for scheduled repairs but no efforts had been made for repair of these locomotives. This resulted in further loss of revenues of Rs 7,573.65 million.

The matter was taken up with the management in May, 2012. It was replied that the delay in repair of locomotives was occurred due to non/inadequate supply of spares required. The reply is not tenable because maintenance schedules of locomotives were approved keeping in view all the circumstances.

DAC in its meeting held on 29th Jan, 2013 directed the PO to take immediate remedial measures to arrange the necessary spares for the repair of locomotives to improve the earnings.

It is emphasized that repair of locomotives be given top priority to improve earnings of Pakistan Railways.

2.4.26 Loss of potential earnings due to temporary deletion of locomotives – Rs 3,342.86 million

Para 12 (a) of Chapter VI of Pakistan Railways Mechanical Manual stipulates that as far as possible, materials required for repairs of an engine must be obtained before the engine is stopped, in order that the engine may not be held up longer than necessary.

Audit of the following formations revealed that 81 Diesel Electric and Electric Traction Locomotives were deleted temporarily from books. However, no efforts were made for their repair despite lapse of considerable period of time. This resulted in loss of potential earnings of Rs 3,342.86 million as detailed below:-

(Rs. in million)

Sr. No.	Name of Formation	No. of Locomotives	Period of Deletion	Loss of potential earnings
1.	CME Locos	13	July, 2008 to June, 2010	944.97
		13	Nov, 2005 to June, 2010	779.24
		17	August, 2009 to June, 2010	364.73
2.	DME Kundian	14	July, 2009 to March, 2011	446.86
3.	DME-I Lahore	12	Apr, 2010 to Sep, 2011	807.06
	Total			**3,342.86**

The matter was taken up with the management in May and Dec, 2012. It was replied that delay in repair of locomotives occurred due to non/inadequate supply of spares required. Most of the vital spares could not be procured by the CCP office due to severe financial crunch being faced by Pakistan Railways.

DAC in its meeting held on 29th Jan, 2013 directed the PO to take remedial measures to arrange necessary spares for the repair of locomotives to improve earnings of Pakistan Railways.

It is emphasized that repair of locomotives be given top priority to improve earnings of Pakistan Railways.

2.4.27 Loss of earnings due to holding up of DPU-20/30 locomotives - Rs 3,079.85 million

As per Annexure-X of the PC-I regarding productivity of 69 Diesel Electric (DE) Locomotives (DPU-20/30) procured through contract agreement dated 08.11.2001 from Dong Fang Electric Corporation China, manufactured by Dalian Locomotives & Rolling Stock Works China, total projected earnings of 69 locomotives was Rs 2,822.32 million per annum.

All these locomotives were put into service during the period from Sep, 2003 to June, 2008 but their performance was found below the projected target. Due to serious faults, 57 DPU-20/30 locomotives

went out of service during the period from Apr, 2009 to Nov, 2011, resulting into loss of Rs 3,079.85 million. The present state of affairs gives rise to serious concerns with regard to the performance of Chinese locomotives.

The matter was pointed out to the management in Apr, 2012 but no reply was received till the finalization of this report.

2.4.28 Wasteful Expenditure due to failure of Traction Motors and locomotives - Rs 522.19 million

Para 1801 of Pakistan Railway General Code provides that means should be devised to ensure that every Railway servant realizes fully and clearly that he will be held personally responsible for any loss sustained through fraud or negligence on his part.

i) The audit of Central Diesel Locomotive (CDL) Workshop Rawalpindi revealed that an amount of Rs 46.60 million was incurred on the repair/re-winding of 407 Traction Motors which failed and returned to CDL Workshop within the period ranging from 29 days to 11 months whereas the expected period of performance was 2 to 3 years. As such the expenditure of Rs 46.60 million incurred on the repair and maintenance had gone waste. Similarly an amount of Rs 30 million approximately was incurred on C-I and C-II repairs of the locomotives which were received back within three month without completion of their prescribed tenure.

ii) The audit of Works Manager Loco Shop Moghalpura, Lahore revealed that 725 Traction Motors were repaired/rewound at a cost of Rs 435.00 million during the period from July, 2010 to Feb, 2012. Due to substandard repairs, 78% repaired Traction Motors failed within one year of overhauling.

iii) The audit of Works Manager Diesel Shed Karachi, revealed that traction motors were repaired / overhauled from CDL Workshop Rawalpindi and installed in DE locomotives. However, most of these repaired motors failed within a very short period i.e. ranging from 02 to 68 days. The substandard repair of traction motors resulted into loss of Rs 10.59 million.

The matter was pointed out to the management in Oct, & Nov, 2012. It was replied that overhauling quality is affected due to non-availability of essential material, less availability of locomotives for sufficient time for maintenance and also due to the fact that most of the locomotives are operating with 2 to 4 Traction Motors instead of 6. The reply is not acceptable as department could not carry out up to the mark repair and failed to safeguard its assets for proper operation through periodical service and maintenance.

It is, therefore, emphasized that matter be investigated at an appropriate level for fixing responsibility.

2.4.29 Non-disposal of scrap - Rs 517.75 million

Para 2403 of Pakistan Government Railway Code for the Stores Department provides that the Store Department should arrange for the regular collection of all scrap from consuming departments and for its disposal to the best advantage of the Railway. If the scrap is to be disposed of by public auction, arrangements should be made for its collection at convenient points for the purpose of such sales.

i) Audit of the District Controller of Stores General Stores Moghalpura, Lahore revealed that 6887 M. Ton surveyed scrap valuing Rs 275.48 million (@ Rs 40,000 per M. Ton) is lying in the Depot premises. Revenue collection from the sale of this scrap can be utilized for the repair and maintenance of rolling stock but due to inefficiency and poor management scrap is pilling up. Pakistan Railways can earn an amount of Rs 275.48 million through the sale of this surveyed scrap.

   The matter was pointed out to the management in Dec, 2012. It was replied that attempts were made by floating advertised tenders twice but same were filed due to no response, poor competition and lower rates.

   DAC in its meeting held on 27th& 28th Dec, 2012 directed the PO to provide evidence of efforts made for auction of scrap to Audit for verification.

ii) Audit of the Chief Mechanical Engineer (C&W) revealed that 1029 Broad Gauge goods wagons valuing Rs 205.80 million were declared condemned during the period from Mar, 2011 to May, 2012. Pakistan Railway could have earned a reasonable amount through the sale of these condemned wagons but these wagons were yet awaiting disposal. This resulted in blockage of capital of Rs 205.80 million.

The matter was pointed out to the management in Nov, 2012. It was replied that 714 wagons are lying at Karachi Division. A Survey Committee was nominated to conduct the survey of these wagons so that same could be disposed off. The remaining 264 wagons are lying at Lahore Division and have not yet properly handed over to CCS Office for conducting survey.

DAC in its meeting held on 27th& 28th Dec, 2012 observed delay on the part of executive and directed to develop SOP for early disposal of condemned wagons (giving timeline for each activity). Progress in the matter may also be intimated to Audit.

iii) Audit of Carriage & Wagon Shops Hyderabad revealed that 122 condemned freight wagons were lying in the premises of the Carriage & Wagon Shops and Kotri Yard since long. But no efforts had been made by the management for their disposal which resulted in blockage of capital amounting to Rs 13.54 million.

The matter was pointed out to the management in Jan, 2012. It was replied that the disposal of condemned wagons by the CCS is held up due to NAB cases.

DAC in its meeting held on 21st June, 2012 decided to defer the Para till required action is taken.

iv) Scrutiny of the record of District Controller of Stores General Stores Moghalpura, Lahore revealed that 33 lots of 1349 M. Ton scrap reserved for Railway use valuing Rs 22.93 million were lying in Store. The scrap was not lifted by its consumers i.e. Works Manager Steel Shops & Loco Shops Moghalpura, Lahore despite several requests of District Controller of Stores. The scrap is deteriorating with the passage of time, besides its

misappropriation cannot be ruled out. This resulted in blockage of capital of Rs 22.93 million (@ Rs 17,000 per M. Ton).

The matter was pointed out to the management in Dec, 2012. It was replied that out of 33 lots of scrap, some already sold and will be lifted by the contractors soon. Whereas the lots reserved for Railway use have also been withdrawn by the concerned WMs, for their disposal through auction, as Furnaces of the Foundry Shops are not working due to crises of Sui-Gas / Electricity.

DAC in its meeting held on 27th& 28th Dec, 2012 directed the PO to provide documentary evidence in support of the reply to Audit for verification.

It is emphasized that process of disposal of scrap be finalized without further delay and SOP be developed for early & beneficial clearance to improve the liquidity crunch of PR.

2.4.30 Blockage of capital due to non-disposal of surplus stores – Rs 183.18 million

Para 118 of Pakistan Government Railway Code for the Stores Department provides that moveable surplus stores comprise items which have not been issued for a period of 24 months, but which, it is anticipated, will be used in the near future. Dead surplus stores comprise items which have not been issued for 24 months and which, it is considered, are not likely to be utilized on any Railway within the next two years. Besides, Para 1713 of Pakistan Government Railway Code for the Engineering Department provides that Surplus Stores should be transferred to other works or returned to Stores Depot.

i) Audit of the Works Manager Carriage Factory Islamabad revealed that certain items of stores were lying, in the Main Store Depot, un-utilized from 1 ½ to 20 years. Material was being deteriorated due to climatic and other conditions and caused blockage of capital due to un-necessary procurement and non-disposal of surplus material valuing Rs 12.63 million.

The matter was reported to the management in Nov, 2012. It was replied that material valuing Rs1.38 million has been

issued up to 05.10.2012. The reason for slow utilization of material is non-availability of cash release for procurement of other items required to turnout coaches.

DAC in its meeting held on 27th& 28th Dec, 2012 directed the PO to provide aging of the material available in store and intimate flow of material being issued along with future plans of its use.

ii) Scrutiny of record of the Assistant Controller of Stores/Diesel Karachi revealed that huge quantity of 276 different classes of stores items valuing Rs 16.69 million were kept as surplus in the depot from last 24 months to 365 months but Railway management has not taken any effective steps for their beneficial utilization /disposal. It was further noticed that 41 mechanical items valuing Rs 37.14 million (standard price) were lying un-utilized for a period ranging from 2 to 27 years and more than 95% of these items were not issued /utilized even for a single time. This massive pile up of unused stock of mechanical items indicated that procurement was made without any planning and assessment of requirements. This resulted in blockage of capital Rs 53.84 million due to unnecessary procurement and non-disposal of dead surplus material.

The matter was pointed out to the management in Dec, 2012. It was replied that actual amount mentioned in the Para is Rs16.69 million instead of Rs 53.84 million. Items valuing Rs4.98 million have been cleared and efforts are being made to clear the remaining items.

DAC in its meeting held on 27th& 28th Dec, 2012 directed the PO to reconcile the differences with Audit and make efforts to clear/utilize the material.

iii) Audit of the Diesel Store Depot Rawalpindi revealed that material of different nature (various stock codes) valuing Rs 116.71 million was not issued for the last 24 months to 521 months and was lying in the depot unutilized; which indicated unnecessary procurement of material. No survey was conducted to assess the need and disposal of material. This resulted in blockage of capital amounting to Rs 116.71 million.

The matter was pointed out to the management in Jan, 2012. It was replied that some material had been utilized. The departmental reply was not tenable as it was not substantiated with documentary evidence.

DAC in its meeting held on 21st June, 2012 directed the PO to provide comprehensive reply to Audit for verification. Compliance of DAC directive is awaited.

It is emphasized that responsibility be fixed for unnecessary procurement of stores resulting in blockage of capital and steps be taken to utilize / disposal of surplus material.

2.4.31 Blockage of capital due to un-necessary procurement – Rs 130.61 million

Para 124 of Pakistan Railway Code for Stores Department provides that a maximum and minimum limit should be laid down for the quantity of each "stock item" of stores in a depot at any time below or above which the balances should not ordinarily be allowed to go. Para 128 also stipulates that maximum limit of stores items is required to be fixed carefully as fixation of higher limit would involve blockage of capital, risk of deterioration, extra storage and protection arrangements, increased labour charges and accumulation of surplus by un-necessary advance purchase of stores.

During the scrutiny of the record of Assistant Controller of Stores/Diesel Karachi it was noticed that 113 different store items valuing Rs 130.61 million were lying above the maximum limits in the Depot. Thus, huge pile up of stores above maximum limits indicated that the material was procured unnecessarily which resulted in blockage of capital amounting to Rs 130.61 million.

The matter was pointed out to the management in Dec, 2012. It was replied that standard unit rate of item at S.No.109 i.e. Wire is Rs 685.42 with total value Rs 1.22 million therefore, total amount of the Para is Rs 12.00 million instead of Rs130 million. Items valuing Rs 2.00 million have been cleared and balance are expected to be utilized within due course of time.

DAC in its meeting held on 27th& 28th Dec, 2012 directed the PO to reconcile the differences with Audit and make efforts to clear/utilize the excess material.

Audit emphasizes that responsibility be fixed for un-necessary procurement of material and arrangements be made for beneficial utilization/disposal of the material.

2.4.32 Wasteful expenditure due to non-achievement of targets – Rs 445.84 million

Chief Mechanical Engineer/Carriage &Wagon fixed annual targets for 2010-11 & 2011-12 for Carriage Factory, Islamabad through letters dated 06.08.2010 & 15.8.2011 for Rehabilitation and Nominated Repair of coaches.

Audit of Carriage Factory Islamabad revealed that actual outturn was less than the target fixed during the year 2010-11 & 2011-12 as detailed below: -

	Year	**Target of coaches**	**Actual Outturn**	**Targets Achieved (%)**
Rehabilitation	2010-11	120	05	4
Nominated Repair	2010-11	25	16	64
Rehabilitation	2011-12	120	22	18
Nominated Repair	2011-12	25	02	8

An expenditure of Rs 445.84 million was incurred during the period on Establishment Charges but management failed to achieve targets and no efforts were made for improvement of performance.

The matter was reported to the management in Oct, 2012. Management stated that production targets during the years 2010-11 and 2011-12 could not be achieved due to inadequate funds and cash release. Position was improving with the opening of Account No.18 for PSDP projects by Ministry of Finance.

DAC in its meeting held on 6th Dec, 2012 directed the PO to provide revised reply showing actual work done in the year 2010-11

and 2011-12 and present performance (percentage of targets achieved). Compliance of DAC directive is awaited.

Pakistan Railways is maintaining production facilities like factories and workshops by incurring huge expenditure but they are neither efficient nor effective. Audit emphasizes that management need to focus on these facilities for improving their performance and their administration be made accountable for poor outturn.

2.4.33 Wasteful expenditure due to non-achievement of targets – Rs 416.69 million

The yearly production targets of steel shop, Moghalpura are given in the column 2 of the following table: -

Description	Yearly Production Target (M. Ton)	Out put (M. Ton) 2009-10	Targets Achieved (%)	Output (M. Ton) 2010-11	Targets Achieved (%)
Furnaces	8000	4340.66	54	695.56	9
Rolled Section	6000	1124.10	19	583.10	10
Casting	2000	4116.00	206	1234.80	62

Audit of the Steel Shop Moghalpura revealed that actual outturn was far less than the targets during the years 2009-10 and 2010-11 as detailed in the table above. Expenditure of Rs 210.65 million and Rs 206.04 million on account of Pay and allowance was incurred during 2009-10 and 2010-11, respectively. Overtime and piece-work payments of Rs 25.92 million and Rs 14.16 million for the year 2009-10 and 2010-11, respectively were also included in the pay & allowances. It is evident that the performance was very poor mainly due to mismanagement and bad planning. Despite incurrence of heavy expenditure on the maintenance and operating of steel shop, projected benefits were not being achieved.

The matter was pointed out to the management in Oct, 2012. It was replied that huge shortfall of targets in both financial years was due to electricity load shedding and less supply of vital item / raw material against demand due to less allocation of funds.

DAC in its meeting held on 27th& 28th Dec, 2012 directed the PO to provide documentary evidence to Audit that overtime was paid to the employees of casting section only for doing extra work.

It is emphasized that management responsible for poor performance and making unjustified payment of overtime be taken up suitably. Management of Steel Shops be improved to achieve given targets and make it profitable.

2.4.34 Unjustified expenditure on appointment of TLA staff - Rs 254.29 million

In terms of Annexure XVI of approved PC-I for the project of rehabilitation, up gradation and conversion of 400 passenger coaches at Carriage Factory Islamabad (CFI), recruitment of 750 numbers of additional staff in different categories was approved for conversion & rehabilitation of 40 coaches of different categories in the year 2006-07, 176 coaches in the year 2007-08 and 184 coaches in the year 2008-09.

Scrutiny of the record pertaining to appointment of TLA staff in Carriage Factory Islamabad revealed that on average 800 to 1000 employees were appointed on TLA basis against existing vacancies and for the project of rehabilitation, up-gradation and conversion of 400 passenger coaches but only 264 coaches had been turned out during the period from July, 2007 to Dec, 2011. As per PC-I of the project, additional staff was provided to achieve the target of 400 coaches within three years whereas performance was not as per target and work done could be completed in normal/routine factory hours through regular staff. These appointments were also made without financial concurrence of competent authority. Hence appointment of staff on TLA basis is not only unjustified but also irregular because the CFI could not achieve the desired target and the TLA staff was also appointed without financial concurrence. This resulted in irregular and unjustified expenditure of Rs 254.29 million on pay & allowances of TLA staff.

The matter was pointed out to the management in Apr, 2012. It was replied that 693 TLA staff was engaged in July, 2007 against the Project of “Rehabilitation, Up-gradation & conversion of 400 Passenger Coaches” approved in Mar, 2007 to be completed in 36

months. The project was not completed in time due to paucity of funds and termination of experienced TLA staff is not advisable.

DAC in its meeting held on 6th Dec, 2012 directed the PO to provide year-wise position of work done by the permanent and TLA employees to Audit. Compliance of DAC directive is awaited.

Responsibility is required to be fixed for appointment of TLA without financial concurrence, non-completion of project in time and retention of temporary labour without achieving the prescribed targets. Besides, TLA staff be rationalized as per requirements.

2.4.35 Unjustified payment on account of demurrage, ground rent & storage charges - Rs 97.00 million

As per clause 3 of terms and conditions of agreement regarding clearance of consignment from port, the agency is responsible to ensure that the complete and correct set of shipping documents is received by the District Controller of Stores (DCOS) Shipping at least ten days before the arrival of the vessel so that he may receive the material on direct delivery basis to eliminate any avoidable delay. Further, the DCOS Shipping is responsible to see that the consignment to be cleared are promptly removed from the premises of the port trust in such a manner that no under port demurrage becomes leviable on the consignment.

Audit of the DCOS Shipping Karachi revealed that an amount of Rs 97.00 million was paid on account of demurrage, storage, ground rent and other charges due to late clearance of the consignments during the period from Jan, 2009 to Sep, 2011. The payment on this account was unjustified as the amount was required to be recovered from the firm or officials concerned whoever was responsible for late clearance of the consignments.

The matter was pointed out to the management in August, 2012. It was replied that actual amount paid on account of demurrage, storage, late delivery order, and collection charges was Rs 82.61 million. The said amount had to be paid due to non-availability of cash release from Finance Division.

DAC in its meeting held on 7th Dec, 2012 directed the PO to provide the documentary evidence in support of reply. Compliance of DAC directive is awaited.

It is required that the above mentioned documentary evidence substantiating the reply be produced to Audit and procedures be developed for early clearance of consignments to avoid such unnecessary charges in future.

2.4.36 Blockage of capital due to non-adjustment of advance payment - Rs 84.56 million

As per Para 807(1) of Pakistan Railway General Code, every public officer should exercise the same vigilance in respect of expenditure incurred as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

The scrutiny of record of Financial Advisor & Chief Accounts Officer revealed that advance payment of Rs 84.56 million (75.03 + 9.53 million) was made to a firm for the procurement of 5,000 metric ton Pig Iron Grade-I vide pay orders issued on 11th Feb, 2010. The firm was bound to supply 4000 metric ton of pig iron up to 30th Dec, 2010 and remaining 1000 metric ton up to 31st Dec, 2011. However, no material was supplied by the firm till May, 2011. This resulted in blockage of capital amounting to Rs 84.56 million.

The matter was pointed out to the management in Jan, 2012. It was replied that the CCP had been requested to resolve the matter on top priority.

DAC in its meeting held on 22nd June, 2012 directed the PO that the matter be resolved at the earliest.

It is emphasized that responsibility be fixed for not pursuing the matter for delivery of material or recovery of advance even after lapse of 3 ½ years. The amount along-with interest be recovered from the contractor without further delay besides blacklisting the firm.

2.4.37 Loss of potential earning - Rs 61 million per annum

Para 807(1) of Government of Pakistan Railways General Code Volume-1 provides that "Every public officer should exercise the same vigilance in respect of expenditure incurred from Government revenues as a person of ordinary prudence would exercise in respect of the expenditure of his own money".

Audit of the Station Superintendent Peshawar revealed that Luggage Van Contract of Khyber Mail between Peshawar & Karachi was awarded to M/s ACE Cargo, Lahore from Apr, 2007 @ Rs 61 million (per annum) but the same was terminated in Dec, 2008. No efforts were made by the Railway administration to award the luggage van contract to any party from Jan, 2009 to May, 2011. This resulted into loss of potential earnings of Rs 61 million.

The matter was pointed out to the management in Jan, 2012. It was replied that contract was awarded to M/s Malik Mushtaq Goods Company on 09.06.2009, which was terminated on orders of Lahore High Court on 16.04.2010. Process of auction was started on 19.08.2010 and auction was held on 23.05.2011. M/s Lassani Goods Transport Company was the highest bidder of Rs 59.50 million and still operating.

DAC in its meeting held on 6th Dec, 2012 directed the PO to provide revised reply showing complete details of Luggage Van business of 1-Up/2-Dn Khyber Mail between Peshawar & Karachi during the intervening period when Luggage Van was not run by any private contractor. Compliance of DAC directive is awaited.

Record be provided to Audit to substantiate management's reply otherwise responsibility be fixed for not awarding the luggage van contract during the intervening period i.e. six months in 2009 and one year in 2010-11. The controls regarding the contract management be strengthened.

2.4.38 Loss due to consumption of HSD oil in excess of fixed ration - Rs 30.43 million

Para 1 (a) chapter III of Mechanical Manual provides that fuel being the largest item of expenditure on the railway, it is essential that

accurate account of all fuel received and issued must be kept and strictest economy observed in its use. Any tendency towards waste must be checked and constant attention paid to the prevention of theft.

i) The audit of the fuel consumption of DE locomotives over Karachi Division revealed that huge quantity of 281,265 liters HSD oil was consumed excess over the trip ration of locomotives. This resulted in loss of Rs 22.74 million due to excess use of oil during the period from July, 2009 to Oct, 2010.

The matter was taken up with the management in Apr, 2012. It was replied that non supply of material affected badly the maintenance standards of DE locomotives and is the main cause of excess utilization of HSD oil above the fixed ration. The reply was not satisfactory as the ration was fixed considering the all such factors.

ii) The audit of fuel consumption over Multan Division revealed that 64,865 liters of HSD oil valuing Rs 5.06 million was consumed in excess of the fixed trip ration by the locomotives based in the loco shed from July, 2009 to Sep, 2010. This resulted in loss of Rs 5.06 million to the Railway Administration and reflects poor management controls over maintenance of locomotives.

The matter was taken up with the management in Apr, 2012. It was replied that these locomotives were running with weak power assemblies and turbo. It was also added that the locomotives had rendered more than 30 to 39 years service, whereas the economic life of these locomotives was only 20 years. The reply was not satisfactory as the ration was fixed considering the all such factors.

iii) Audit of the Divisional Mechanical Engineer-II Lahore revealed that drivers of DE locomotives of Lahore Division consumed 15,391 liters HSD Oil in excess of the quota fixed during the period from Jan, 2011 to May, 2012. Thus, Pakistan Railways suffered loss of Rs 1.57 million.

The matter was pointed out to the management in Dec, 2012. It was replied that HSD oil was consumed above 10% permissible limit in 06 out of 45 cases. The drivers who consumed oil in excess of permissible limit are being taken up.

DAC in its meeting held on 28th Jan, 2013 directed the PO to follow up the case and fix responsibility for excess consumption of HSD oil.

iv) Audit of the Divisional Mechanical Engineer, Rawalpindi revealed that HSD oil valuing Rs 1.06 million was consumed more than fixed ration during the period from July, 2010 to June, 2012. But neither the remarks of drivers nor the defects in locomotives causing heavy consumption were recorded. Thus, possibility of misappropriation of HSD oil valuing Rs 1.06 million cannot be ruled out.

The matter was pointed out to the management in Oct, 2012. It was replied that locomotives are old; as such frequent faults were developed in these, which is the main cause of excessive consumption of fuel. Only 2.45% excess fuel was consumed by these locomotives against 10% permissible limit.

DAC in its meeting held on 28th Jan, 2013 directed the PO to provide details/working of ration fixed for locomotives and intimate whether allowance for old locomotives was also included in it.

It is emphasized that responsibility be fixed for consumption of HSD oil in excess of fixed ration.

2.4.39 Loss of potential revenue due to non-auction of vending stalls - Rs 23.37 million

Para 807(1) of Pakistan Railway General Code provides that every public officer should exercise the same vigilance in respect of expenditure incurred from Government revenues as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

Twenty three vending stalls at Rohri Station remained closed for a period ranging from nine months to 2 ¾ years due to non auction by the management resulting in loss of potential earnings of Rs 23.37 million during the period from July, 2009 to Dec, 2011.

The matter was reported to the management in Apr, 2012. It was replied that operation of 10 trains was cancelled, therefore, vending stalls reduced from 54 to 44. Auction of which was postponed as per telephonic orders of the then Secretary / Chairman, Railways, on 14.03.2009. These stalls were again put for auction on 29.01.2011, but bids were offered only for 25 vending stalls for Rs 11.50 million.

DAC in its meeting held on 6th Dec, 2012 directed the PO to provide revised reply along with justification of reduction of number of stalls, details of rent recovered and whether the rental charges were recovered at annual increased rates or otherwise to Audit for verification. Compliance of DAC directive is awaited.

It is emphasized that implementation of the DAC directive be expedited besides fixing responsibility for reduction of number of stalls leading to loss of substantial revenue.

2.4.40 Non-recovery of rental charges from NLC - Rs 15.84 million

Para 807 of Pakistan Government Railway Code for the Engineering Department provides that all Railway land should be managed on commercial lines, and administration should endeavour to develop the resources of, and put to profitable use, any areas in its occupation, which are lying idle and can be put to profitable use. Such land is called “available” land.

Audit of the Lahore Dry Port Moghalpura revealed that Railway land measuring 36,000 sft. including covered area measuring 10,200 sft. was occupied by the NLC since 29.10.2005 without any agreement. A scanner was installed in covered area for checking the items loaded in containers. NLC is running the business on commercial basis and scanning charges of Rs 1,650 per container were received from the parties, but no rental charges were being paid to Railway. The amount of rental charges worked out to Rs 15.84 million for the period from 29th Oct, 2005 to Dec, 2011. This resulted in

irregular utilization of Railway land by NLC and non-recovery of rental charges of land.

The matter was pointed out to the management in May, 2012. It was replied that Pakistan Railways provided land for installation of scanner and all other expenses were being borne by the NLC. NLC was requested for payment of rental charges of land and sharing of scanning receipts but no response was received.

DAC in its meeting held on 6th Dec, 2012 directed the PO to work out and recover the rental charges from NLC. Proper agreement be executed with NLC for handing over of land and collection of rental charges. Compliance of DAC directive is awaited.

It is emphasized that proper agreement be executed with NLC for handing over of land already being utilized by them and collection of rental charges.

2.4.41 Loss due to unjustified payment of overtime - Rs 12.49 million

Management fixed target of 1920 units for periodical overhauling of Goods Stock for the period from July, 2010 to June, 2011 Carriage & Wagon Shops (C&W) Moghalpura, Lahore.

Scrutiny of the record of Carriage & Wagon Shops Moghalpura, Lahore revealed that actual achievement of the shop was 1306 units only, which was only 68% of the given targets. Thus due to slackness of management targets were not achieved. Moreover, it was noticed that in the period mentioned below, overtime amounting to Rs 12.49 million was paid to the staff despite noticeably low outturn or nil outturn:

Sr. #	**Month**	**Target Fixed** (Units)	**Target Achieved** (Units)	**Amount of Overtime (Rs in million)**
1	Mar, 2011	160	126	3.57
2	Apr, 2011	160	148	4.14
3	May, 2011	160	58	4.16
4	July, 2011	162	Nil	0.62
	Total			**12.49**

Thus, payment of overtime without achievement of targets was unjustified and resulted in loss of Rs 12.49 million.

The matter was pointed out to the management in Jun. 2012. It was replied that target outturn of C&W Shops is not being achieved due to non/short supply of material and utilities. Due to non-availability of material, the workload has increased manifold as parts/assemblies are removed from one coach, repaired and then fitted to another coach. Extra work can only be managed by utilizing the staff in overtime.

DAC in its meeting held on 6th Dec, 2012 directed the PO to provide revised reply along with supporting documents to Audit for verification. Compliance of DAC directive is awaited.

Payment of over time without achievement of targets is not justified in any case. Audit emphasizes that this irregular practice of giving undue benefit to the employees be stopped henceforth.

2.4.42 Loss due to damages during manufacturing of RCC sleepers – Rs 7.24 million

Para 1801 of State Railway General Code stipulates that means should be devised to ensure that every railway servant realizes fully and clearly that he or any other railway servant will be held personally responsible for any loss sustained by Government through fraud or negligence to the extent it may be shown that he contributed to the loss by his own action or negligence.

Scrutiny of record of Concrete Sleeper Factory Kohat revealed that 2298 RCC sleepers were damaged during the manufacturing from 01.07.2009 to 29.02.2012. This resulted in loss of Rs 7.24 million (2298 sleepers @ Rs 3,150 each) to the Pakistan Railway.

The matter was reported to the management in August, 2012. It was replied that percentage of damaged sleepers during the period was 1.5% only. This percentage is unavoidable due to certain reasons such as, sudden power shut down.

DAC in its meeting held on 6th Dec, 2012 directed the PO to provide evidence of allowable percentage of damaged sleepers. Compliance of DAC directive is awaited.

It is emphasized that reasons of damages to sleepers during manufacturing process be ascertained to fix responsibility and action be taken to minimize damages.

2.4.43 Non-recovery of lease and rental charges from Education Department Rawalpindi – Rs 3.77 million

Para-316 (a) of Pakistan Government Railway Code for the Accounts Department stipulates that the amounts due to Railway for services rendered, supplies made, or for any other reasons, are correctly and promptly assessed and recovered as soon as they fall due.

During audit of encroachment of Railway Land over Rawalpindi Division it was noticed that Railway land measuring 53.47 marla was occupied by Punjab Education Department for the construction of Degree College for Women at Dhoke Mangtal Rawalpindi. But neither agreement was executed nor lease charges and annual rent amounting to Rs 3.77 million was recovered from the Education Department since Dec, 2005.

The matter was pointed out to the management in Jun. 2012. It was replied that the land was leased out to Punjab Education Department for construction of Degree College in 2005. Efforts were being made for the recovery of said amount from Education department.

DAC in its meeting held on 7th Dec, 2012 directed the PO to provide the copy of agreement and the matter be finalized with Punjab Education Department. Compliance of DAC directive is awaited.

Audit requires that proper agreement for leasing out this land be made and rental charges be recovered without further delay.

2.4.44 Un-justified expenditure due to posting of two Project Directors - Rs 3.10 million

Para 807 of Pakistan Railway General Code stipulates that every public officer should exercise the same vigilance in respect of expenditure incurred from Government revenues as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

Audit of the Project Director RAILCOP revealed that two Project Directors were posted for the project of Track Machines by segregating it into two parts (i) Track Machine Shop (ii) Track Machine Operation. The project was divided into two parts just to accommodate/adjust two officers of BPS-19/20 whereas earlier one BPS-17 officer of Pakistan Railways was used to manage this work. Posting of two BPS-19/20 Officers for one project was not justified and resulted in extra expenditure of Rs 3.10 million during the period from Jan, 2010 to Nov, 2011 on account of their Pay & Allowances.

The matter was pointed out to the management in Jun. 2012. It was replied that field operation and overhauling cannot be considered as one insignificant project. Both the works have quite different purview. Therefore the posting of two Project Directors one in Track Machine Shop and another in Track Machine Operation is quite justified to run the machines and cranes in satisfactory manner.

DAC in its meeting held on 6th Dec, 2012 directed the PO to intimate procedures for creating this kind of posts and explain whether these procedures were performed in this case. Compliance of DAC directive is awaited.

Audit emphasizes that justification and procedures for creating the posts be provided. Posting of two BPS-19/20 Officers for the work of Track Machines needs reconsideration to avoid extra expenditure.

2.4.45 Loss due to unnecessary expenditure on repair of crane and detention of wagons - Rs 1.70 million

Para 131(1) of Pakistan Government Railway Code for the Stores Department provides that every public officer should exercise

the same vigilance in respect of expenditure incurred from Government revenues as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

Audit of the Works Manager Loco shops Moghalpura revealed that periodic overhauling of Diesel Crane was completed with an expenditure of Rs 957,000 in August, 2010. The Divisional Mechanical Engineer-I Karachi refused to take over the charge of the crane as the meter gauge crane was not required at Mirpurkhas. This resulted in wasteful expenditure of Rs 0.96 million. The crane was loaded in 3 wagons which were also detained for the period from August, 2008 to March, 2012. This resulted in loss of potential earnings of Rs 0.74 million.

The matter was reported to the management in May, 2012. It was replied that DME Karachi returned the crane because meter gauge crane was not required for broad gauge Mirpurkhas Section.

DAC in its meeting held on 29th Jan, 2013 directed the PO to fix responsibility for the irrational decision of overhauling the crane.

Audit emphasizes that responsibility be fixed for incurring of unnecessary expenditure on overhauling the crane.

2.4.46 Loss due to unjustified amendment in agreement with IIMCT – Rs 1.03 million

As per clause-24 of agreements of 1998 and 2001 between Pakistan Railways (PR) and Islamic International Medical Collage Trust (IIMCT) the 2nd party was required to deposit one third of the revenue generated by admitting private patients in the Hospital.

Scrutiny of the record of Medical Superintendent, Railway Hospital Rawalpindi revealed that above clause was replaced by clause-16 in the revised agreement of 2004 which provides that "second party will deposit Rs 0.6 million per annum in Railway revenue as share of income generated from private patients". This resulted in decrease of Railways share of revenue amounting to Rs 1.03 million (approximately) during the period from Feb, 2004 to August, 2006 as compared with the similar period before the

amendment. It is clear that while executing new agreement the interest of Pakistan Railways was not kept in view.

The matter was pointed out to the management in Oct, 2012. It was replied that agreement was revised in 2004 and as per Clause-16, IIMCT will admit and treat private patients and out of total income accrued on this account a sum of Rs 0.60 million per annum will be deposited in the Railway Treasury. As per Management Committee meeting dated 9th June, 2008 CNE share of Rs 0.60 million per annum is being adjusted against Sui Gas bills of Railway Hospital, Rawalpindi.

DAC in its meeting held on 27th& 28th Dec, 2012 directed the PO to provide details/workings to Audit showing Railway share on the basis of 1/3 share & bills paid by IIMCT after amendment and concluding that the amendment was in favour of Pakistan Railways.

Audit emphasizes that responsibility be fixed for unjustified amendment in the agreement against the interest of PR and said clause of the agreement be revised to safeguard interest of PR.

Internal Control Weaknesses

2.4.47 Non-recovery of rental charges from various departments - Rs 1,258.44 million

Para 316 (a) of Pakistan Government Railway Code for the Accounts Department stipulates that "the amounts due to the Railway for services rendered, supplies made, or for any other reason, are correctly & promptly assessed and recovered as soon as they fall due".

Audit of the Deputy Director Property & Land Multan revealed that an amount of Rs 1,258.44 million was outstanding against various departments of Multan Division up to 30th June, 2011 as detailed below:-

Sr. No.	Department	Amount (Rs in million)
01	PSO	761.24
02	CALTEX	9.52
03	Burma Shell	19.63
04	NHA	1.21
05	Punjab Forest	109.48
06	Punjab Food	357.36
TOTAL		**1,258.44**

The matter was pointed out to the management in Jan, 2012. It was replied that PSO has deposited Rs 2.44 million. Outstanding amount against Caltex is likely to be recovered soon. Burma Shell has deposited Rs 3.13 million. NHA Islamabad has been requested but the amount has not been remitted so far. There are no outstanding dues against Punjab Forest Department and Food Department has agreed to deposit the Railway dues as early as possible.

DAC in its meeting held on 7th Dec, 2012 directed the PO to provide the evidence of amount recovered for verification, reconcile the outstanding amounts and its recovery be expedited. Compliance of DAC directive is awaited.

All outstanding rental charges be recovered without further delay and management of Accounts Receivable be improved to ensure timely collection of Railway dues.

2.4.48 Non-recovery of outstanding dues - Rs 204.28 million

Para-316(a) of Pakistan Government Railway Code for Accounts Department provides that the amount due to Railway for services rendered, supplies made or any other reasons are correctly and promptly assessed and recovered as soon as they fall due.

Scrutiny of the record of Financial Advisor & Chief Accounts Officer, Lahore revealed that an amount of Rs 204.28 million was lying outstanding against various firms on account of warranty claims, demurrage charges, custom duty & sales tax and forfeiture of security money for the period from 1984 to 2011.

The matter was reported to the management in Jan, 2012. It was replied that less than 01% recovery has been made and remaining amount is still outstanding.

DAC in its meeting held on 22nd June, 2012 directed the PO to expedite recovery.

It is emphasized that recovery of outstanding dues be expedited by taking up the matter at higher level.

2.4.49 Non-recovery of advance payment – Rs 25.00 million

Para-131 Pakistan Railway Store Code provides that every public officer should exercise the same vigilance in respect of expenditure incurred from Government Revenues as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

The scrutiny of record of the Financial Advisor & Chief Accounts Officer revealed that an advance payment of Rs 25.00 million was paid to M/s People Steel Mills against the purchase order for the supply of 5,000 metric ton spring steel flat vide pay order on 9th Sep, 2010 without any provision. Out of which the firm supplied 549.41 metric ton in Nov & Dec, 2010. The payment of Rs 48.62 million (Rs 25.60 million + 23.02 million) was made to the firm. However, the amount of advance was not recovered against these

claims. This resulted in non recovery of advance payment of Rs 25.00 million.

The matter was reported to the management in Jan, 2012. It was replied that the advance payment to M/s Peoples Steel Mills Ltd. was made on advice of the TSO Lahore. The firm has supplied material (1045.80 Metric ton) and recovery is held up for want of recovery advice from TSO Lahore.

DAC in its meeting held on 22nd June, 2012 directed the PO to resolve the matter and recovery/adjustment of the amount be intimated to Audit.

It is emphasized to fix the responsibility for not pursuing the matter for delivery of balance material or adjustment of advance payment even after the lapse of 2 ½ years. Besides, the amount of interest be worked out and recovered from the persons found at fault.

2.4.50 Unjustified expenditure on account of overtime and piece work - Rs 93.78 million

Para 459 (1) of Pakistan Railway Workshop Code provides that where a worker in any factory works for more than sixty hours in any week, or for more than ten hours in any day, he shall be entitled to overtime worked, at the rate of one and-a-half times of his ordinary rate of pay. Further, Para 807 (i) of Pakistan Railway General Code provides that every public officer should exercise the same vigilance in respect of expenditure incurred from the Government revenues as person of ordinary prudence would exercise in respect of expenditure of his own money.

i) The audit of Central Diesel Locomotive (CDL) Workshop Rawalpindi revealed that 484 employees/staff under different categories were continuously engaged on overtime. An amount of Rs 10.34 million was paid during the year 2010-11 on account of overtime allowance. It was also observed that CDL Workshop is running on the basis of double shift working. Therefore, the payment of overtime was unjustified in the presence of double shift working and shortfall of 32% in achievement of targeted outturn.

The matter was pointed out to the management in Nov, 2012. It was replied that due to non-availability of stocked items, heavy power outage, old machinery and equipments the staff have to put in extraordinary efforts even after normal working hours to achieve the target. Besides, sanctioned strength had been reduced from 1429 to 1039. The payment was made with the approval/sanction of the DS Rawalpindi.

DAC in its meeting held on 28th Dec, 2012 directed the PO to discontinue the practice of payment of overtime and piece work as Railway is facing financial crunch.

ii. Audit of the Works Manager Loco Shops Moghalpura revealed that actual production was less than the targets during the years 2010-11 and 2011-12 (up to March, 2012) as detailed below:-

S. #	Description		Target	Outturn	Difference	%age
1	Traction Motors		1260	759	-501	(40 %)
2	Expresser		168	51	-117	(70 %)
3	Locomotives		42	26	-16	(38 %)
4	Cylinder Block		147	108	-39	(26 %)
5	Break Block	(i) V-775	399000	155800	-243200	(61 %)
		(ii) DE-2991	105000	62850	-42150	(40 %)

However, an amount of Rs 83.44 million was paid on account of overtime and piece work. The payment was unjustified due to non-achievement of targets.

The matter was taken up with the management in Dec, 2012. It was replied that due to non-availability of material, discontinuation of Sui-gas and un-scheduled load shading of electricity the quantity of monthly outturn had not been improved. At present, overtime & piece work profit was paid to staff in loco shops within stipulated limits in every month.

DAC in its meeting held on 29th Jan, 2013 directed the PO to discontinue the practice of payment of overtime and piece work as Railway is facing financial crunch.

It is emphasized that the responsibility be fixed for unjustified payment of overtime despite less achievement of targets and this irregular practice be discontinued henceforth.

2.4.51 Non-recovery of rental charges - Rs 7.16 million

Para 316 (a) of Pakistan Government Railway Code for the Accounts Department provides that the amount due to Railway for service rendered, supplies made, or for any other reasons, are correctly and promptly assessed and recovered as soon as they fall due.

Scrutiny of the record of Station Master Peshawar City revealed that an amount of Rs 7.16 million was lying outstanding against various oil companies and different agencies as detailed below:-

(Rs in million)

S. No.	Name of Contractor/Firm	Amount
1	M/s Jamia Oil Company Peshawar	4.414
2	M/s Pashtani Forwarding Agency, Peshawar	2.313
3	Mr. Muhammad Akram	0.432
Total		**7.159**

The matter was pointed out to the management in Jan, 2012. It was replied that notices had been issued to M/s Jamia Oil Company for recovery and Court case is still under trial against Muhammad Akram to recover the outstanding dues.

DAC in its meeting held on 27th& 28th Dec, 2012 directed the PO to provide evidence of amount recovered to Audit for verification and make efforts to recover the outstanding dues without further delay.

Audit emphasizes that all outstanding dues be recovered from the defaulters without further delay and Accounts Receivable Management be improved to avoid recurrence.

2.4.52 Non-recovery of loans & advances - Rs 3.65 million

Para 316(a) of Pakistan Government Railway Code for the Accounts Department provides that "the amounts due to the Railway for services rendered, supplies made, or for any other reason, is correctly and promptly assessed and recovered as soon as that falls due".

The scrutiny of record of Financial Advisor & Chief Accounts Officer revealed that an amount of Rs 3.65 million was not recovered from seven serving and Ex-officers on account of House Building, Motor Car and TA Advances and interest thereon as detailed below:-

Sr. No.	Name and Designation	Description	Amount
1	Javed Mubarak Ali Ex-Chief Personnel Officer	HBA and MCA inclusive of interest	768,860
2	Nazir Ahmad Ex-Chief Personnel Officer	HBA and MCA inclusive of interest	978,034
3	Mirza Muhammad Yasin Ex-Additional Inspector General Police (Railways)	HBA inclusive of interest	479,420
4	Mr. Khalid Raza Butt Ex- Accounts Officer	HBA, MCA and Motor Cycle Advances	481,811
5	Mrs. Yasmin Qureshi Deputy Chief Internal Auditor	House Building Advance	615,057
6	Anjum Pervaiz AGM	T.A. Advance drawn in Oct, 2009	250,000
7	M. Junaid Qureshi AGM Traffic	T.A. Advance drawn in Jan, 2010	73,080
Total			3,646,262

The matter was pointed out to the Management in Jan, 2012. It was replied that an amount of Rs 0.89 million has been recovered on account of HBA/MCA advances and officers have been requested to submit TA adjustment bills.

DAC in its meetings held on 21st & 22nd June, 2012 directed the PO to expedite recovery.

It is emphasized that the remaining amount be recovered besides fixing responsibility for not adjusting outstanding amount from the retired officers.

2.4.53 Non-recovery of loss from insurance company – Rs 1.35 million

Article-21 of the Contract made between Ministry of Railways and M/s China Railway Materials Import & Export Company Limited for procurement of UIC-54 Rails provides that the insurance for goods shall be arranged by the Purchaser through National Insurance Company Limited Islamabad Pakistan, which shall be advised directly by the Seller of particulars of each shipment to enable the said Corporation to issue the insurance policy before each consignment. Any failure by the Seller in this regard resulting in losses etc. of the consignment shall be the responsibility of the seller.

Audit of Doubling of Track on Raiwind-Khanewal Section revealed that 03 bundles of UIC-Rails having weight of 20.411 metric tons were damaged by Stevedore's mishandling on 9th Mar, 2011 but no compensation was claimed from the insurance company. This resulted into loss of Rs 1.35 million.

The matter was pointed out to the management in Jan, 2012. Management stated that on 17.01.2012 claim was lodged with National Insurance Company Ltd. Islamabad. The management's reply was not acceptable because the damage to UIC-Rail occurred in Mar, 2011 whereas the claim was lodged to the insurance company in Jan, 2012, which shows delayed action on the part of management.

DAC in its meeting held on 21st June, 2012 directed the PO that after getting legal opinion, legal notice be served to the insurance company besides expediting the recovery. Compliance of DAC directive is awaited.

Audit emphasized to get the insurance claim cleared at the earliest besides fixing responsibility for delay in taking up the matter with National Insurance.

OTHERS

2.4.54 Encroachment of Railway land - Rs 4,794.09 million

Para 803 of Pakistan Government Railway Code for the Engineering Department stipulates that it is duty of the Railway administration to preserve unimpaired the title to all land in its occupation and to keep it free from encroachment. Para 807 further provides that all Railway land should be managed on commercial lines, and administration should endeavour to develop the resources of, and put to profitable use, any areas in its occupation, which are lying idle and can be put to profitable use. Such land is called "available" land.

i) Railway land measuring 86.57 acres having value of Rs 1,850.62 million was encroached by the outsiders over Rawalpindi Division. Neither strenuous efforts were made to retrieve the Railway land nor its cost was recovered.

The matter was pointed out to the management in Jan, 2012. It was replied that Chief Justice of Pakistan directed to get Railway land vacated in a Suo Motu case. Accordingly a special campaign for removal of encroachments was started which was in progress and will end after removal of all encroachments. Occupation of land measuring 47.87 acre by Pakistan Army will be regularized shortly and Government Departments occupying 34.04 acres land were also approached for regularization / lease of land.

DAC in its meeting held on 7th Dec, 2012 directed the PO to provide the latest position and progress of removal / regularization to the Audit. Compliance of DAC directive is awaited.

ii) Railway land measuring 20,594,418 sft. valuing Rs 2,943.47 million was encroached by the outsiders and Government Departments over Peshawar Division. The value of the encroached land has been calculated according to DC's rate, whereas; market rate is much higher.

The matter was pointed out to the management in Dec, 2012. It was replied that special anti-encroachment campaign was launched in the Peshawar Division w.e.f. February 2012, as a result of which 107 acres land out of 472 acres (20,594,418 sft)

has been retrieved from individuals till December 2012. Provincial Departments are the major occupant in the remaining encroachments which were not vacated due to dispute on the title of the land.

DAC in its meeting held on 28th Jan, 2013 directed the PO to provide documentary evidence of encroachments removed and pursue the matter for retrieval of the remaining land.

It is emphasized that all encroachments be got removed at the earliest. Besides, monitoring of Railway assets and properties also be improved to avoid further encroachments.

2.4.55 Loss due to supply of incorrect / defective material - Rs 57.42 million

According to warranty certificate of the purchase orders the contractor warrants that the stores will be in accordance with the particulars mentioned in the purchase orders and free from defects in material and workmanship. The contractor shall replace the material free of cost which at the time of receipt by the consignee under normal use prove defective in material or workmanship or fail to comply with the required performance. This warranty shall be valid for a period of 24 months from the date of shipment or 18 months from the date of placement in service whichever is earlier.

i) Audit of the Assistant Controller of Stores (Diesel) Rawalpindi revealed that 920 Low Pressure Cylinders valuing Rs 30.08 million were received against item 2 of the purchase order dated 29.10.2010. These Cylinders should have been made of USA whereas, “made in china” was embossed on 100 and nothing was mentioned on remaining 820. The Chief Controller of Purchases was intimated in Dec, 2011 that the material was incorrect and arrange its replacement from its contractor but despite lapse of one year the material was not replaced.

The matter was pointed out to the management in Dec, 2012. It was replied that the CME/Loco has nominated a joint inspection committee comprising of WM/Diesel/RWP and DCOS/S/KC vide letter dated 30.11.2012. Its report is awaited.

ii) Audit of the Assistant Controller of Stores (Diesel) Rawalpindi revealed that all 48 Crank Shaft Air-Compressors valuing Rs 20 million received in Jan and Feb, 2012 were not made of USA instead 40 Crank Shafts were made of Canada and 8 were made of China. The firm was asked to replace the material in August, 2012 but no replacement was received up to Oct, 2012.

The matter was pointed out to the management in Dec, 2012. It was replied that the CME/Loco has nominated a joint inspection committee comprising of WM/Diesel/RWP and DCOS/S/KC vide letter dated 30.11.2012. Its report is awaited.

iii) Audit of the Assistant Controller of Stores (Diesel) Rawalpindi revealed that 158 Connecting Rods valuing Rs 7.34 million were received on 07.04.2012 against the Purchase Order dated 25.06.2011. These rods were declared unsuitable in Apr, 2012 and returned to the District Controller of Stores (Shipping) Karachi in May, 2012 for replacement. The material was not replaced by the contractor till Sep, 2012.

The matter was pointed out to the management in Dec, 2012. It was replied that the Additional General Manager Mechanical has nominated a committee comprising of CME/ Loco, FA & CAO and CCP to resolve the issue.

Thus, supply of material of incorrect specification resulted in loss of Rs 57.42 million.

DAC in its meeting held on 29th Jan, 2013 directed the PO to finalize the inquiry without further delay and provide its report to Audit.

Audit emphasizes that strenuous efforts be made for replacement of defective and incorrect material without further delay.

2.4.56 Loss due to short collection of electricity charges - Rs 45.61 million

Para 807 (I) of Pakistan Railway General Code provides that every public officer should exercise the same vigilance in respect of

expenditure incurred from government revenue as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

Audit of the Lahore Division revealed that an amount of Rs 58.03 million was paid to WAPDA on account of electricity charges in three (03) Zones of Lahore Division from Jan, 2011 to Nov, 2011. The amount was required to be recovered from the consumers. Whereas only an amount of Rs 12.42 million was charged to the residential users and service buildings resulting in shortfall of Rs 45.61 million.

The matter was pointed out to the management in Dec, 2012. It was replied that Railway purchased electricity on bulk supply basis with different tariffs while charged domestic tariff, resulting in increase in the difference of amount paid and recovered. The difference also resulted due to non calculation of load of service buildings i.e. pumping plants, electrical equipment, water coolers etc.

DAC in its meeting held on 28th Jan, 2013 directed the PO to provide details of all bulk meters and comparative statement of units consumed by the residential and commercial buildings.

It is emphasized that separate connections be provided for service and residential buildings to ensure transparent charging of units consumed.

2.4.57 Loss due to delay in rehabilitation work – Rs 34.80 million

Para 1801 of Pakistan Railway General Code provides that means should be devised to ensure that every Railway servant realizes fully and clearly that he will be held personally responsible for any loss sustained through fraud or negligence on his part.

Work/contract of rehabilitation of track from Tando Adam - Rohri section was awarded to M/s RAILCOP at a cost of Rs 79.92 million on 17th Dec, 2008. M/s RAILCOP started work on 11th Nov, 2009. The work was not completed till Oct, 2011 (date of inspection). Due to non-completion of work within one year and 11 months (form 11.11.2009 to 31.10.2011), detention of 52 trains for 30 minutes per

train resulted in loss of Rs 34.80 million due to excess consumption of fuel.

The matter was pointed out to the management in July, 2012. It was replied that the work was not completed in time due to unavoidable reasons and excess fuel was consumed due to Engineering Speed Restrictions.

DAC in its meeting held on 6th Dec, 2012 directed the PO to provide revised reply to Audit showing justification of non-completion of work in time. Compliance of DAC directive is awaited.

It is emphasized that the work be got completed at the earliest by taking up the matter with the contractor besides invoking the penal clause to minimize such instances in future.

2.4.58 Loss due to non-supply of ballast in time - Rs 34.21 million

As per agreement dated 28.02.2007 for Supply, Stacking and Loading of 2" & 1" size Mechanically Crushed Stone Ballast from Shaheenabad quarry No. 1 awarded to M/s RAILCOP, the contractor was required to complete three terms of 2,000,000 cft ballast each provided that supply of each preceding term was made fully and in time resulting in completion of the entire scope of work by 16-01-2010 (i.e. three terms).

Scrutiny of the record of Works Account Branch, Multan revealed that contract was awarded to M/s RAILCOP @ Rs 725 and Rs 40 per %cft for supply, stacking and loading respectively on long-term basis for three years. The contractor was required to complete three terms of 2,000,000 cft. ballast each by 16.01.2010. The contractor started the work on 16.01.2007. However, despite allowing extensions from time to time the contractor failed to complete the first term. The contractor supplied only 1,617,169 cft. ballast up to 31.10.2009. The contractor was not forced for complete supply of ballast, instead Railway administration called fresh tenders and rates offered by M/s RAILCOP (the same contractor who failed to supply ballast against earlier agreement) were accepted vide letter dated 13.08.2010 for supply & stacking and loading of ballast @ Rs 1,320 and Rs 175, respectively. Thus, PR suffered loss of Rs 34.21 million due to non-supply of ballast against the first agreement and supply of

ballast by the same contractor at revised very high rates against new agreement.

The matter was reported to the management in May, 2012. It was replied that as per clause-5 of the agreement, the extension for the next two terms was subject to the mutual consent of both parties. Since one party i.e. M/s Railcop was not willing to extend the contract for next terms, therefore, the contract ceases to operate any further.

DAC in its meeting held on 7th Dec, 2012 directed the PO to provide the copies of agreements to Audit. Compliance of DAC directive is awaited.

It is emphasized that responsibility be fixed against both Railway administration and contractor for causing loss to the Railways and the amount be recovered from the contractor.

2.4.59 Incorrect fixation of bonus rate resulting in excess payment - Rs 28.73 million

According to Para 619 of Mechanical Code, "When large profits (above 25%) are made more or less consistently or by the majority of the piece workers, the causes contributing to the result should be carefully analyzed and if any defects discovered, rectified. If it is found that there has been a mistake in the fixation of the rate, this should be set right."

Ticket Printing Section General Store Moghalpura, Lahore paid 76% to 139% Profit (bonus) to majority of the staff against the permissible limit of 25%. It is pertinent to point out here that the standard outturn of the Ticket Printing staff was fixed in 1980, which was not reviewed. A sum of Rs 28.73 million was paid as profit (bonus) during the period from Jan 2002 to June, 2011. This resulted in excess payment because the rules related to the payment of profit (bonus) were not observed.

In addition to above, the following irregularities were also noticed: -

(i) About 3 to 4 ticket printers remained absent daily without any intimation. Thus 3 to 4 machines were kept idle daily.

(ii) No internal controls were in place to measure the performance of workforce. Supervision of work done by the ticket printers/ticket checkers was not undertaken. Mechanism of reconciliation of tickets issued by the ward keeper to different ticket printers, record of ticket printed in good condition, wastage and ultimate dispatch of such tickets, was also not in place.

(iii) A large number of ticket checkers were deployed in surplus section for counting the returned tickets but their work done was not being reconciled/cross checked at any stage. Instances of making fake entries of tickets to be counted were noticed, to which satisfactory explanation was not provided.

The matter was pointed out to the management in Apr, 2012. It was replied that Bonus to the TP staff is admissible since 1924 for giving outturn over and above prescribed official outturn as per TP Manual. Later on, daily outturn was revised and fixed on 02.9.1980. The need for review of outturn was not felt by the administration. Moreover the payment of bonus has been discontinued.

DAC in its meeting held on 7th Dec, 2012 directed the PO to provide the documentary evidence in support of reply. Compliance of DAC directive is awaited.

It is stressed that matter be investigated to fix responsibility for making extra ordinary high payments of bonus to the employees besides streamlining the system through proper monitoring and revision of the out turn.

2.4.60 Wasteful expenditure of Rs 20.47 million on repair of a Track Machine

Para 807 of Pakistan Railway General Code provides that every public officer should exercise the same vigilance in respect of expenditure incurred from Government revenue as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

Audit of the Project Director RAILCOP Lahore revealed that Track Machine No. PU-1605, which had already completed 32 years of service was got repaired from a Railway workshop in Apr, 2010 at cost of Rs 20 million. The track machine worked only for 159 kilometers during the period from Apr, 2010 to June, 2011. The machine became out of order and again expenditure of Rs 0.47 million was incurred from June, to Aug 2011. The machine worked only 14 kilometers and again became defective on 08.10.2011. This state of affairs indicated that heavy expenditure was incurred on Track Machine that had already completed its economic life. Thus expenditure incurred was gone waste and desired benefits were not achieved.

The matter was pointed out to the management in Jun. 2012. It was replied that track machine had completed 32 years service and further investment on this old machine was not considered advisable.

DAC in its meeting held on 6th Dec, 2012 directed the Chief Engineer Open Line to justify the incurrence of expenditure of Rs 20.47 million on repair of a track machine which had completed its economic life. Compliance of DAC directive is awaited.

It is emphasized that responsibility be fixed for incurring of huge expenditure on a machine that had already completed its economic life.

2.4.61 Wasteful expenditure on overhauling of Diesel Generating Sets - Rs 9.44 million

A Contract Agreement No. 5-Electric/2008-09 had been executed between the Chief Electrical Engineer, Pakistan Railways and M/s UNICAT Engineering Services in June, 2009 for overhauling of 12 Diesel Generating (DG) Sets for power vans. The total cost of the work was Rs 17.60 million. According to the terms & conditions of that Agreement, the Contractor will use genuine/OEM parts which will be got verified by the P.R representative at the time of installation and that the payment will be made for the parts actually replaced/provided. The warranty period was six months.

In violation of the terms and conditions, the contractor did not let the PR staff be present at the site of overhauling process. The

contractor delivered 7 DG Sets from June, 2009 to Dec, 2009 and an amount of Rs 9.44 million was paid. Since putting into service, a lot of complaints regarding unsatisfactory working of these sets had been received from the operating Divisions but the contractor did not solve/answer the problems. Position was brought into the notice of the Chief Electrical Engineer but no action had been initiated. Out of 7 sets delivered by the contractor after major overhauling, 03 sets had been failed within six months while the remaining 04 failed within one year of putting them into service. Thus, the entire amount of Rs 9.44 million paid for the sets had been wasted. Instead of initiating any action against the contractor, the Railway Management had terminated the contract in May, 2011. Despite poor performance as well as failure of all the DG Sets, 10% Security Deposit of Rs 0.94 million deducted from the running payments had been released in June, 2011.

It is apprehended that the spare used by the contractor in overhauling the D.G Sets were not new/original ones or parts/services were not replaced at all.

The matter was pointed out to the management in Apr, 2012. It was replied that the contract was made for overhauling of 12 DG Sets out of which 07 DG Sets were delivered by the firm and their performance remained satisfactory. The contract for the remaining 05 DG Sets was terminated owing to the receipt of the material for overhauling. The departmental reply is not acceptable as all the 07 DG sets repaired by the contractor failed during the warranty period.

DAC in its meeting held on 7th Dec, 2012 directed the PO to provide the documentary evidence in support of reply. Compliance of DAC directive is awaited.

It is stressed that responsibility be fixed for imprudent contract management and release of the security deposit despite unsatisfactory working of the repaired DG sets.

2.4.62 Loss due to procurement of material at higher rate – Rs 8.35 million

Rule 4 of Public Procurement Rules, 2004 stipulates that procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and procurement process is efficient and economical.

Scrutiny of record of Managing Director Concrete Sleeper Factories revealed that tender for the procurement of 400 M. Tons H.T.S. wire was floated on 29.08.2009 and the offered rate of Rs 92,430 per M. Ton was declared suitable. However, the tender was filed by the General Manager M&S due to non-availability of funds. Fresh tender was floated on 17.04.2010 and the offered rate of Rs 120,250 per M. Ton was declared suitable and accepted. This caused loss of Rs 8.35 million due to purchase of material at higher rate.

The matter was pointed out to the management in August, 2012. It was replied that the tender was not finalized in time due to non-receipt of cash release in time.

DAC in its meeting held on 6th Dec, 2012 directed the PO to provide revised reply along with documentary evidence to Audit. Compliance of DAC directive is awaited.

It is emphasized that responsibility be fixed for loss caused to Pakistan Railways due to inefficient financial management.

2.4.63 Loss of Rs 7.97 million due to unjustified maintenance of Railway siding

Para 807 (1) of State Railway General Code provides that every public officer should exercise the same vigilance in respect of expenditure incurred from government revenue as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

Audit of the Divisional Executive Engineer Peshawar revealed that after expiry of lease period of Pai Khel Railway quarry, Railway administration failed to get its renewal from Mining Department. Subsequently, PR made agreements with contractors to supply ballast from their own sources. The Assistant Executive Engineer Mining visited the closed Pai Khel Railway quarry in Jan, 2003 and emphasized to close the Railway siding between Pai Khel Railway Station and quarry on the plea that expenditure on the following accounts would be saved: -

i. Pay and allowances of 14 gangmen,
ii. Annual maintenance cost of the track,
iii. Fuel consumption, and
iv. Cost relating to staff of traffic branch.

A period of more than 9 years had elapsed but Railway administration failed to take any action to save PR from continuous loss. PR incurred unjustified expenditure of Rs 7.97 million during the period from July, 2002 to June, 2010 on the pay and allowances of gangmen working on the siding.

The matter was pointed out to the management in Apr, 2012. It was replied that the siding/track remained operational till Mar, 2011 which was guarded and maintained by the sectional gang having strength of 07. At present, the track of this siding is being maintained and watched with the help of this gang.

DAC in its meeting held on 7th Dec, 2012 directed the PO to provide the revised reply along with evidence that the siding was in operation till Mar, 2011. Compliance of DAC directive is awaited.

Audit emphasizes that the directive of the DAC is required to be complied with at the earliest.

2.4.64 Loss due to non-replacement of defective material – Rs 5.50 million

Para 761 of Pakistan Railway Code for the Stores Department stipulates that stores should be checked with the standard specification or drawing on which the order is based. In the rare cases where orders have been made to a sample, a standard sample shall be held by the

inspection officer, and stores accepted only if they are up to the standard sample.

Audit of Diesel Store Depot Rawalpindi revealed that stock items were purchased, which were tested and found defective during the period from Mar, 1992 to June, 2009. The material was returned to DCOS Karachi and DCP (I) Karachi for its replacement but the said material was not received back up to Oct, 2010, resulting in loss of Rs 5.50 million.

The matter was reported to the management in Jan, 2012. It was replied that an amount of Rs 88,617 has been recovered from the contractor(s); warranty period of 02 contactors valuing Rs 0.22 million has expired; record relating to replacement of O. Ring valuing Rs 106,458 was not traceable; and replacement of remaining material is under process.

DAC in its meeting held on 21st June, 2012 decided to pend the Para till replacement/recovery of the entire material.

It is emphasized that the replacement of the defective material be expedited besides responsibility be fixed for non replacement within the warranty period and non availability of record in some cases. Internal controls on this account also need to be strengthened to avoid recurrence.

2.4.65 Non-supply of material – Rs 3.48 million

Para 762 of Government of Pakistan code for the Stores Department stipulates that rejected stores should be removed (to a place set apart for such stores) from the Receiving Shed immediately the inspection has taken place and before the Inspecting Officer leaves the Receiving Shed. Such stores should be removed from the stores premises by the contractor within 14 days from the date of rejection. Such rejected stores shall be lie at the contractor's risk from the date of such rejection. If the stores are not removed within 14 days of rejection, the Controller of Stores shall have the right to dispose of such stores as he thinks fit at the contractor's risk and on his account.

While reviewing the record of Chief Controller of Purchases, it was noticed that contract for the supply of "Filter Element Assy (Lube

Oil) was awarded on 16.06.2008 costing Rs 12.02 million with delivery period up to 20.10.2008 or earlier. The original delivery period expired which was extended up to 28.02.2011 with LD. However, the material valuing Rs 3.48 million was not supplied by the contractor up-till August, 2011.

The matter was pointed out to the management in Jan, 2012. It was replied that the material could not be supplied within stipulated delivery period because of non-clearance of bills of the contractor against other Purchase Orders due to financial crunch in PR. Payment of outstanding bills had been cleared and remaining supply was expected shortly.

DAC in its meeting held on 21st June, 2012 directed the PO to get the supply of material without further delay and provide evidence to Audit for verification.

Audit emphasizes that directive of the DAC be complied with at the earliest.

2.4.66 Unjustified expenditure of Rs 3.05 million

Para 807 of Pakistan Railway General Code provides that every public officer should exercise the same vigilance in respect of expenditure incurred from government revenue as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

Audit of the Divisional Mechanical Engineer-II Lahore revealed that material valuing Rs 3.05 million was received in Loco Shed Lahore against the Purchase Order dated 08.05.2007 for replacement of existing oil pipeline and installation of dispensing meters. Material valuing Rs 1.81 million was issued for the replacement of pipeline upto July, 2009 but the pipeline was not put into operation uptill August, 2012 despite lapse of more than 3 years. Furthermore, material valuing Rs 1.24 million was received and verified by the Foreman (Running) Lahore against the said purchase order which was lying un-utilized in the store uptill 31.08.2012. Thus the expenditure of Rs 3.05 million was rendered wasteful and no benefits were achieved.

The matter was pointed out to the management in Dec, 2012. It was replied that due to short assessment of material by Lahore Division the work of replacement of seamless steel pipe line was stopped. Payment of the contractor was also stopped due to supply of incorrect material. Subsequently, payment of the contractor was released by some officers with connivance. The matter was inquired and disciplinary action was taken against the officers held responsible. The required material is being purchased to complete the work.

DAC in its meeting held on 28th Jan, 2013 directed the PO to provide copy of the inquiry report and evidence of disciplinary action taken against the officers. The work be completed within three months and completion report provided to Audit.

It is emphasized that the work be completed without further delay.

2.4.67 Loss due to damage of underground cable– Rs 2.69 million

Para 1801 of Pakistan Railway General Code stipulates that means should be devised to ensure that every railway servant realizes fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and also for any loss arising from fraud or negligence on the part of any other railway servant to the extent it may be shown that he contributed to the loss by his own action or negligence.

Scrutiny of the record of Divisional Telecom Engineer Multan revealed that the lessees of Railway land and staff of the project of doubling of track damaged 7,475 meters underground cable valuing Rs 2.69 million in the Multan Division during cultivation and execution of work.

The matter was reported to the management in Apr, 2012. Management informed that cases of theft were reported to Police for investigation and recovery of the material / cost. Matter was also taken up for damages occurring during construction works and estimates were prepared to charge their costs to these projects.

DAC in its meeting held on 6th Dec, 2012 directed the PO to provide revised reply along with documentary evidence to Audit for verification. Compliance of DAC directive is awaited.

It is emphasized that all cases of damages to underground cable be investigated to recover its cost from the persons found at fault and all concerned be instructed to improve monitoring to avoid recurrence.

2.4.68 Inordinate delay in execution of work and wasteful expenditure of Rs 1.76 million

As per terms and conditions of the agreement dated 17.01.2007 the period of completion of the work was 04 months. Further, Para 1801 of Pakistan Railway General Code provides that means should be devised to ensure that every Railway servant realizes fully that he will be personally responsible for any loss sustained by Government through negligence on his part.

Audit of the Works Accounts Branch Multan revealed that two stations were closed for the work "Widening of Railway Girder Bridge No. 176" scheduled to be completed on 27.05.2007. The work was delayed and a number of notices were issued to the contractor to expedite and complete the work failing which the contract agreement would be terminated along with black listing of the firm. The work remained uncompleted but neither contract agreement was terminated nor the firm was blacklisted. The work was completed on 31.01.2010 after three years of completion schedule.

Consequently, the train operation of these stations remained suspended for that period. This resulted not only loss on account of revenue earnings but also the staff posted at both the stations remained idle for that period and could not be utilized for any revenue generating activity. Thus, the expenditure incurred on their pay and allowances of Rs 1.76 million had gone waste.

The matter was pointed out to the management in Jun. 2012. It was replied that during the execution of work pile No.1 was collapsed and similarly one boulder up to 60' depth in the pile No.4 made a hurdle for further execution. The contractor completed the work within extended period i.e. up to 31.1.2010. Train traffic remained suspended in the best interest being less earning section. There was no

justification to transfer staff posted at these stations to other places for a small period of time.

DAC in its meeting held on 7th Dec, 2012 directed the PO to conduct the enquiry to dig out the facts and to fix the responsibility. Compliance of DAC directive is awaited.

Audit emphasizes that action be taken against the contractor for not completing the work in time and amount of loss be recovered from him besides complying with the decision of the DAC.

2.4.69 Non-installation/ wrong utilization of walk through scanning gates - Rs 1.60 million

Five walk through scanning gates were received by the Superintendent Railway Police (SRP) Rawalpindi in the years 2006 and 2007 from the Central Police Office Lahore for installation at major Railway Stations over the Rawalpindi Division.

Scrutiny of record of the Superintendent Railway Police Rawalpindi revealed that out of 5 walk through scanning gates, 2 were installed at the Rawalpindi Railway Station, one was installed at the residence of Railway Minister at Peshawar and two were lying in the store of SRP/Rawalpindi. This resulted in blockage of capital amounting to Rs 1.10 million @ Rs 0.55 million each due to non-utilization of 2 walk through gates and wrong utilization of one walk through gate since 2008.

The matter was pointed out to the management in Oct, 2012. It was replied that 02 walk through gates were being utilized on the arrival of VVIP/VIPs, demonstration of political unions and on arrival of Sikh Yatries etc. However, these were to be issued for their installation / utilization where deemed necessary.

DAC in its meeting held on 7th Dec, 2012 directed the PO to provide the documentary evidence in support of reply. Compliance of DAC directive is awaited.

Audit emphasized that walk through scanning gates be utilized for the purpose and places they were procured and responsibility be

fixed to take action for non/wrong utilization of 3 walk through scanning gates.

2.4.70 Wrong utilization of Railway land - Rs 1.28 million

Clause 8 of the agreement executed between Pakistan Railways and M/s Rashid Ahmed Bhatti for leasing out of Railway land for stacking of fire wood stipulates that "no buying or selling shall be carried on by licensee on this land and the licensee shall use this land for the purpose of business provided in the agreement". Further, Para 803 of Pakistan Government Railway Code for the Engineering Department stipulates that it is duty of Railway administration to preserve unimpaired the title to all land in its occupation and to keep it free from encroachment.

Railway land measuring 16 marlas valuing Rs 1.28 million (@ Rs 80,000 per marla DC rate) was rented out to a timber merchant at Mandi Bahauddin Railway Station through agreement dated 14th July, 1988 for staking of fire wood prior to dispatch by Rail. The lessee constructed shops, shelter and installed sawing wood machine without depositing actual rent. No action was taken by Railways to demolish the structure constructed in violation of the agreement. The lessee filed two writ petitions in the court against Railways which were decided in favor of Pakistan Railways and finally the encroachment was removed with the help of police on 10th Mar, 2010. Subsequently, the land which was got vacated after spending heavy amount on court cases etc. was again encroached by the lessee on 29th August, 2010 where he constructed pucca structures. This shows that Railway management completely failed to protect Railway land in its possession which resulted in loss of Rs 1.28 million.

The matter was pointed out to the management in Jan, 2012. It was replied that rental charges up to Mar, 2012 were recovered from the lessee.

DAC in its meeting held on 7th Dec, 2012 directed the PO to provide the copy of the agreement and evidence of amount deposited. Compliance of DAC directive is awaited.

Management is required to take effective measures to safeguard the assets of Pakistan Railway besides complying with the decision of the DAC meeting at the earliest.

2.4.71 Unjustified procurement of electrical material - Rs 1.16 million

Para 807 (i) of Pakistan Railway General Code provides that every public officer should exercise the same vigilance in respect of expenditure incurred from government revenues as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

Contract agreement for electrification of economy class passengers waiting hall and provision of reservation office at Lahore Railway station was executed at a cost of Rs 3.03 million on 20th Sep, 2007. Subsequently, the cost of the work was increased to Rs 6.86 million. The material valuing Rs 0.13 million was issued to other works during the execution of this work and additional material costing Rs 1.16 million was left unutilized after the completion of the work. This resulted in unnecessary procurement of material valuing Rs 1.16 million. The possibility of misappropriation of material cannot be ruled out as well as overstatement of the cost of the work.

The matter was pointed out to the management in Jan, 2012. It was replied that finding the situation unsatisfactory, the AGM (Infrastructure) had ordered to conduct an enquiry to probe into the discrepancies pointed out by Audit.

DAC in its meeting held on 22nd June, 2012 directed the PO to provide revised reply duly supported by evidence explaining latest status of material; to expedite the enquiry and report be provided to Audit. Compliance of DAC directive is awaited.

It is emphasized that the enquiry be finalized immediately and responsibility for unnecessary procurement be fixed.

2.4.72 Loss due to irrational decision of management - Rs 1.10 million

Para 807 (I) of the Pakistan Railway General Code provides that every public officer should exercise the same vigilance in respect of expenditure incurred from Government revenues as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

Scrutiny of the record of Director Legal Affairs revealed that the issue pertaining to transfer of an officer from Peshawar to Islamabad and subsequent penalization culminated into protracted litigation between the officer and the department. Finally the Federal Service Tribunal (FST), Islamabad disposed off the petition by imposing upon the officer the penalty of stoppage of two annual increments for two years without cumulative effect.

The Railway administration filed an appeal in the Supreme Court of Pakistan and Private Counsel was engaged without the prior approval of the Law Division. The Supreme Court of Pakistan upheld the decision of the FST. Audit views that the decision to file appeal in the Supreme Court was injudicious which resulted in loss of Rs 1.10 million on account of professional fee paid to the Private Counsel.

The matter was pointed out to the management in Apr, 2012. It was replied that the Ministry of Railways engaged Private Counsel after getting Ex-Post facto approval of Law Justice and Parliamentary Affairs to file an appeal in the Supreme Court of Pakistan to get relief against the decision of FST. The reply was not acceptable as to file the appeal was not justified because no interest/operation of Pakistan Railway was at stake due to the decision of the FST.

DAC in its meeting held on 6th Dec, 2012 directed the PO to provide revised reply along with documentary evidence to Audit. In future, no hiring be made without prior approval of the competent authority. Compliance of DAC directive is awaited.

It is emphasized that responsibility be fixed for this irrational decision causing loss to Railways along with recovery of the amount involved from the person(s) at fault.

2.4.73 Irregular expenditure on Health Insurance – Rs 1.07 million

In terms of Job agreements of the contract employees of Karachi Urban Transport Corporation (KUTC) only a lump sum salary was required to be paid. They were not entitled for any other allowance/fringe benefits.

An agreement was executed with M/s New Jubilee Insurance Company Limited for health insurance of 106 employees and their family members. The Corporation has only 5 regular employees including Managing Director (MD). The rest of staff was appointed by the MD on temporary basis for the period of three months. Thus incurrence of heavy expenditure of Rs 1.07 million on the health insurance was not justified.

The matter was pointed out to the management in May, 2012. It was replied that in the meeting of Board of Directors it was decided to provide health insurance facility to the staff and contract employees were also considered eligible. However, on expiry of the Health Insurance Contract in Sep, 2011, no further contract has been made.

DAC in its meeting held on 27th& 28th Dec, 2012 directed the PO to justify provision of health insurance facility to the staff according to their terms & conditions of appointment.

It is emphasized that responsibility be fixed for incurrence of irregular expenditure on health insurance without provision in the contracts of the employees and action be taken against the persons held responsible to make good the loss.

Annexure-1

Detail of Paras included in MFDAC

Sr. #	DP No.	Title of the Para	Amount	Nature of Observation
1.	5165	Loss of Rs 0.28 Million due to non-completing the extended period for six months to Crane contractor @ 50% Railway Share	0.28	Violation of Rules
2.	5507	Irregular expenditure in violation of instructions of Ministry of Railways Rs 112,450.	0.11	Violation of Rules
3.	5561	Irregular expenditure on account of entertainment – Rs 0.27 million	0.27	Violation of Rules
4.	5684	Non deduction of one fifth of sales tax on purchase of taxable goods and services – Rs 6.02 million	6.02	Violation of Rules
5.	5762	Wrong utilization of staff & misclassification of expenditure - Rs 0.84 million p.a.	0.84	Violation of Rules
6.	5771	Irregular purchase of material – Rs 0.17 million	0.17	Violation of Rules
7.	5389	Irregular payment of Rs 1.90 million on account of pay and allowances	1.90	Violation of Rules
8.	5426	Non-adjustment of expenditure to the tune of Rs 83.82 million into depreciation reserve fund as a result of cutting up of coaching/goods stock	83.82	Violation of Rules
9.	5434	Loss of Rs 1.94 million per annum due to irregular temporary transfer/mis-utilization of 06 number of class-iv staff of railways electric department.	1.94	Violation of Rules
10.	5449	Wasteful expenditure of Rs 1.01 million due to irregular utilization staff	1.01	Violation of Rules
11.	5454	Un-justified receipt and issuance of material valuing Rs 0.40 million	0.40	Violation of Rules
12.	5458	Non-recovery of sales tax amounting to Rs1.22 million	1.22	Violation of Rules
13.	5461	Irregular incurrence of expenditure of Rs 123,000	0.12	Violation of Rules

14.	5462	Irregular payment of Rs 0.67 million on account of executive of excess quantities to sanctioned estimate	0.67	Violation of Rules
15.	5481	Loss of Rs 12.08 million due to irregular/excess dispatch and utilization of ballast	12.08	Violation of Rules
16.	5499	Loss of Rs 600,000 per annum to the Railway due to unjustified appointment of assistant drivers	0.60	Violation of Rules
17.	5508	Unjustified expenditure of Rs 0.900 million on engagement of TLA staff	0.90	Violation of Rules
18.	5509	Irregular payment of Rs 1.79 million due to wrong utilization of staff	1.79	Violation of Rules
19.	5511	Mis-procurement - Rs 1.30 million	1.30	Violation of Rules
20.	5518	Excess payment of pay and allowances – Rs 0.56 million	0.56	Violation of Rules
21.	5523	Wrong utilization of staff resulting in wasteful expenditure of Rs 0.62 million	0.62	Violation of Rules
22.	5552	Recurring irregular/ unjustified expenditure on account of pay and allowances of surplus staff of Rs 1.46 million per annum	1.46	Violation of Rules
23.	5634	Unjustified / irregular payment on account of pay and allowances of Rs 2.05 million	2.05	Violation of Rules
24.	5653	Outstanding TA/DA bills- Rs 7.20 million	7.20	Violation of Rules
25.	5654	Irregular splitting of repair works - Rs 135,500	0.14	Violation of Rules
26.	5657	Irregular payment to medical officer working excess over the sanctioned strength - Rs 0.722 million	0.72	Violation of Rules
27.	5480	Irregular expenditure of Rs 847,480 on a work without execution of agreement	0.85	Violation of Rules
28.	5413	Irregular payment of house rent & conveyance allowance - Rs 0.86 million per annum	0.86	Violation of Rules
29.	5652	Loss on account of non-supply of Crushed Stone – Rs 0.83 million	0.83	Violation of Rules
30.	5585	Loss due to irregular award of bonus - Rs 0.46 million	0.46	Violation of Rules

31.	5431	Loss due to irregular expenditure on account of legal expenses– Rs0.41 million	0.41	Violation of Rules
32.	5408	Unjustified and uneconomical execution of works against public procurement rules-2004 – Rs 1.11 million	1.11	Violation of Rules
33.	5587	Mis-procurement - Rs 4.04 million	4.04	Violation of Rules
34.	5412	Irregular recruitment of staff	Amount yet to be ascertained	Violation of Rules
35.	5639	Irregular promotion of skilled staff	Amount yet to be ascertained	Violation of Rules
36.	5397	Loss of million of rupees due to un necessary purchase of material	Amount yet to be ascertained	Violation of Rules
37.	5813	Irregular utilization of staff	Amount yet to be ascertained	Violation of Rules
38.	5386	Non-realization of Rs 22.22 million on account of Wharfage Charges	22.22	Recoverable
39.	5425	Non-recovery of railway dues valuing Rs 6.89 million	6.89	Recoverable
40.	5472	Non-recovery of rental charges amounting to Rs 9.21 million	9.21	Recoverable
41.	5526	Accrued demurrage/storage charges of millions of rupees	Amount yet to be ascertained	Recoverable
42.	5546	Loss of Rs 0.43 million due to non recovery of commercial rent from ex: PWI	0.43	Recoverable
43.	5558	Non-recovery of rental charges from Directorate of Immigration and Passport - Rs 129,195	0.13	Recoverable
44.	5593	Non-recovery of rental charges from Food Department – Rs 29.25 million	29.25	Recoverable
45.	5594	Non-recovery of rental charges - Rs 0.34 million	0.34	Recoverable
46.	5573	Non-recovery of LD Charges - Rs 0.85 million	0.85	Recoverable
47.	5802	Blockage of capital due to defective material valuing Rs 0.56 million	0.56	Negligence

48.	5814	Loss of Rs 1.07 million due to detention of trains en-route	1.07	Negligence
49.	5370	Loss of billions of rupees on account of passenger earnings due to allotment of unrealistic reservation quota	Amount yet to be ascertained	Negligence
50.	5381	Loss due to negligence of power plant operators amounting to Rs 0.93 million.	0.93	Negligence
51.	5402	Loss of Rs 0.15 million due to illegal water crossing	0.15	Negligence
52.	5403	Loss of Rs 40.35 million due to short collection/line losses of sui gas	40.35	Negligence
53.	5432	Non-disposal of un-serviceable power house valuing Rs 0.87 million	0.87	Negligence
54.	5438	Loss of Rs 405.10 million due to enroute detention of trains	405.10	Negligence
55.	5482	Non operation of newly constructed waiting halls due to non-supply/purchase of furniture valuing Rs 600,000	0.60	Negligence
56.	5498	Lapse of funds amounting to Rs 56.62 million during the year 2010-11	56.62	Negligence
57.	5510	Blockage of capital amounting to Rs 0.85 million	0.85	Negligence
58.	5549	Loss due to improper / inadequate Security arrangements	Amount yet to be ascertained	Negligence
59.	5632	Loss of Rs 700,000 due to unnecessary retention of electric transformer of 500 KVA	0.70	Negligence
60.	5535	Unjustified/avoidable expenditure on temporary engagement of staff – Rs 1.68 million	1.68	Negligence
61.	5554	Loss of potential earnings due to non-supply of goods wagons – Rs 953.96 million	953.96	Mismanagement
62.	5559	Non-disposal of obsolete Plant & machinery – Rs 0.62 million	0.62	Mismanagement
63.	5570	Loss due to acceptance of higher rates - Rs 1.56 million	1.56	Mismanagement
64.	5596	Blockage of capital due to non-disposal/non-repair of plants & machinery of Rs 57.80 million	57.80	Mismanagement
65.	5601	Blockage of capital due to un-necessary procurement and non-	5.31	Mismanagement

		disposal of material valuing Rs 5.31 million		
66.	5606	Wasteful expenditure of Rs 16.12 million on pay & allowances of staff due non-achievement of Annual Targets	16.12	Mismanagement
67.	5615	Loss of Potential Earnings of Rs 179.68 million of coaches due to unnecessary/ extra time taken for POH beyond the scheduled time	179.68	Mismanagement
68.	5633	Irregular transfer of vehicle costing Rs 600,000	0.60	Mismanagement
69.	5638	Non-maintenance of Shunting Machine valuing Rs 14.43 million	14.43	Mismanagement
70.	5662	Irregular subletting of Railway Hospital's land by IIMCT resulted in loss of earnings of Rent - Rs 0.94 million	0.94	Mismanagement
71.	5576	Non placement of regular MD of KUTC and wasteful expenditure of Rs 0.62 million	0.62	Mismanagement
72.	5359	Wasteful expenditure on account of pay and allowances of Rs 0.98 million	0.98	Mismanagement
73.	5441	Procurement of substandard material through limited tender valuing Rs 0.96 million	0.96	Mismanagement
74.	5492	Purchase of substandard ticket board - Rs 2.19 million	2.19	Mismanagement
75.	5401	Avoidable/unnecessary expenditure on repair of a bungalow - Rs 1.04 million	1.04	Mismanagement
76.	5529	Loss due to improper evaluation of the tender – Rs 6.25 million	6.25	Mismanagement
77.	5374	Loss due to pilferage of fittings/equipments from rolling stock of Rs 7.91 million.	7.910	Misappropriation
78.	5445	Temporary misappropriation of Rs 1.39 million	1.39	Misappropriation
79.	5451	Loss of Rs 18.10 million due to deficiencies of fitting and equipments	18.10	Misappropriation
80.	5505	Shortage of material valuing Rs 1.63 million	1.63	Misappropriation
81.	5448	Loss due to theft of material Rs 0.67 million	0.67	Misappropriation

82.	5520	Theft of material due to negligence valuing Rs 0.24 million	0.24	Misappropriation
83.	5409	Loss of Rs 0.21 million due to theft of VHF items from locomotives	0.21	Misappropriation
84.	5500	Misappropriation of building material	Amount yet to be ascertained	Misappropriation
85.	5490	Loss of millions of rupees due to illegal occupation of Railway assets	Amount yet to be ascertained	Encroachment of land
86.	5491	Loss due to encroachment of Railway Green-Shop Depot Building, Lahore	Amount yet to be ascertained	Encroachment of land
87.	5503	Loss due to encroachment of 305 Kanals Prime Railway land in Lahore Division	Amount yet to be ascertained	Encroachment of land
Total			1,988.76	

Annexure-2

AUDIT IMPACT SUMMARY

Sr.#	Changes in Rules/System/Procedure	Audit Impact
1	Theft and misappropriation of fittings/equipment from coaching and goods stock was pointed out numerously through Audit Paras. DAC in its meeting directed the Railway management to develop SOP to minimize Theft and misappropriation of fittings / equipment. Railway management issued Modified SOP restricting pilferage of fittings/equipment from coaching and goods stock.	Decrease in pilferage of fittings/equipment from coaching and goods stock.