

# OFFICE OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA

NEW DELHI  
10<sup>th</sup> March, 2017

## CAG COMPLIANCE AUDIT REPORT ON RAILWAY FINANCES PRESENTED IN PARLIAMENT

Union Audit Report of the Comptroller and Auditor General of India No. 37 of 2016 on Railway Finances was tabled in Parliament today and has now become a public document.

This Report provides an analytical review of the Accounts and Finances of the Indian Railways (IR) and is based on the audited accounts for the year ended 31 March 2016. The Report is structured in three chapters. Chapters 1 and 2 of the Report contain observations on matters arising from examination of Finance Accounts and Appropriation Accounts respectively of the IR for the year ended 31 March 2016. Chapter 3 of the Report contains the instances of misclassification in the Accounts of IR, the reasons for their recurrence and follow up action taken to rectify the misclassifications and mistakes in Accounts.

Major points on Financial Management of the IR as contained in the Audit Report No. 37 of 2016-Union Government (Railways)-Railways Finances are given below:

- During 2015-16, Gross Traffic Receipts increased by 4.86 *per cent* which was less than the 12.29 *per cent* growth achieved during 2014-15 due to decrease in growth rate of passenger earnings and freight earnings.

**(Para 1.3.1)**

- The Net Ordinary Working Expenditure grew by 1.64 *per cent* against the previous year.

**(Para 1.3.2)**

- Net Surplus after meeting dividend liability increased to ₹ 10,505.97 crore in 2015-16 as compared to ₹ 7,664.94 crore in 2014-15. It was, however, less than the budget estimates of ₹ 14,265.71 crore.

**(Para 1.3.6)**

- Annual growth rate of freight earnings declined from 12.66 *per cent* to 3.23 *per cent*. The growth in the freight earnings was also below the Compound Annual Growth Rate<sup>1</sup> (CAGR) of 15.01 *per cent* achieved during 2011-15.

**(Para 1.4.1.1)**

- The growth in passenger earnings was 4.96 *per cent* which was below the growth of 15.49 *per cent* over the previous year. The growth in passenger earnings was also below the CAGR of 14.31 *per cent* achieved during 2011-15.

**(Para 1.4.1.2)**

- During 2014-15, there was loss of ₹ 33,821.70 crore on passenger and other coaching services. The freight services earned a profit of ₹ 38,312.59 crore. IR was able to retain 11.72 *per cent* of the profit on freight earnings after subsidizing the loss on passenger services in 2014-15.

**(Para 1.6.1)**

- *All category of passenger services (except AC-3-Tier) incurred losses in 2014-15.*

*(Para 1.6.2)*

- Operating Ratio (percentage of working expenses to traffic earnings) of the CR, ECR, ECoR, NCR, NWR, SCR, SER, SECR, WR and WCR ranged between 50.52 *per cent* and 98.13 *per cent* whereas OR of ER, NR, NER, NEFR, SR, SWR and Metro Rail Kolkata ranged between 102.60 *per cent* and 237.80 *per cent*. OR of IR improved to 90.49 *per cent* in 2015-16 from 91.25 *per cent* in 2014-15.

**(Para 1.9.1)**

- The balance available in the Railway funds increased ₹ 10,806.68 crore at the end of the year 2015-16 from ₹ 6,872.73 crore in 2014-15. The improvement in fund balances was mainly due to not making payment of capital component of lease charges to Indian Railway Finance Corporation (IRFC) amounting to ₹ 12,629.49 crore during the period 2011-12 to 2013-14 from Capital Fund. However, IR started payment of capital component of lease charges to IRFC from Capital Fund from 2014-15. IRFC made payment of ₹ 5,449.24 crore and ₹ 6,324.74 crore in

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<sup>1</sup> Rate of growth over a period of years taking into account the effect of annual compounding

2014-15 and 2015-16 from Capital Fund, respectively. Capital Fund closed at ₹ 907.43 crore at the end of 2015-16. Development Fund, Railway Safety Fund and Pension Fund closed with balances of ₹ 390.39 crore, ₹ 15.52 crore and ₹ 5,657.30 crore in 2015-16, respectively.

**(Para 1.11)**

- *IR maintains Depreciation Reserve Fund (DRF) for replacement and renewal of existing assets. Contribution to DRF was not made on the basis of historical cost, expected useful life and residual life of the assets but was dependent on the amount which the working expenditure could bear. During 2015-16, against budget provision of ₹ 8,100 crore, Ministry of Railways appropriated only ₹ 5,800 crore which was less by ₹ 2,300 crore (i.e. 28.40 per cent) than the budgeted provision. Underprovisioning for depreciation has resulted in piling up of works concerning replacement and renewal of overaged assets. The throwforward value of assets to be replaced from DRF (up to 2015-16) was estimated at ₹ 41,274.49 crore which mainly includes ₹ 24,756 crore on rolling stock, ₹ 10,574 crore on track renewals, ₹ 1,897 crore on bridge works, ₹ 1,354 crore on Signalling and Telecommunication works and ₹ 989 crore on machinery and plants. Thus, there is huge backlog of renewal and replacement of overaged assets in railway system which needs to be replaced timely for safe running of trains. DRF closed with balances of ₹ 32.78 crore at the end of 2015-16.*

*(Para 1.11)*

- IR incurred ₹ 75.87 crore more than the authorization given by the Parliament in one revenue grant and five revenue appropriations.

**(Para 2.2.1)**

- In 13 revenue grants and two segments of capital grant, there were savings of more than ₹ 100 crore wherein savings under Capital, Railway Funds in Capital Grants and Appropriation to Funds, Provident Fund Pension and other retirement benefits in Revenue Grants were significantly high.

**(Para 2.2.2)**

- As on 31 March, 2016, an amount of ₹ 5,338 crore involving 3567 cases was found to be unsanctioned expenditure which included 1941 cases of more than two years for an amount of ₹ 395 crore.

**(Para 2.9)**

- During the year 2011-15, 560 cases of misclassifications and mistakes in accounts worth ₹ 3,548.95 crore were pointed out by Audit which were accepted and included in Printed Detailed Appropriation Accounts - Part II as 'Annexure J' by Ministry of Railways. Scrutiny of records further revealed that out of 560 cases of ₹ 3,548.95 crore, 426 cases amounting to ₹ 3031.36 crore pertained to six Zonal Railways mainly which indicated weakness in the system to prevent recurrence of mis-classifications.

**(Para 3.2)**

- As many as 193 cases involving ₹ 337.75 crore due to misclassification and incorrect exhibition of expenditure between one revenue grant and another revenue grant, revenue grants to capital grant and vice versa, one segment and another segment (Capital, CF, DF, DRF, RSF) of capital grant which could have been avoided by Railway Administration had proper scrutiny of initial documents been done.

**(Para 3.3.2)**

- As many as 66 cases of irregular adjustments involving money value of ₹ 1431.05 crore were pointed out by audit and accepted by Railways.

**(Para 3.3.5)**

- In spite of repeatedly pointing out misclassification and mistakes in the Accounts in the past years the Accounts of 2015-16 further reported 123 cases of Misclassification and Mistakes involving an amount of ₹ 1004.83 crore.

**(Para 2.8)**